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EXTENSION OF FARM AND RELATED PROGRAMS

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HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

S. 517

TO EXTEND TITLES I, II, III, IV, V, VI, AND VII OF THE
AGRICULTURAL ACT OF 1970 FOR FIVE YEARS;

AND

RELATED SUBJECTS

PART 6

Huron, South Dakota

APRIL 27, 1973

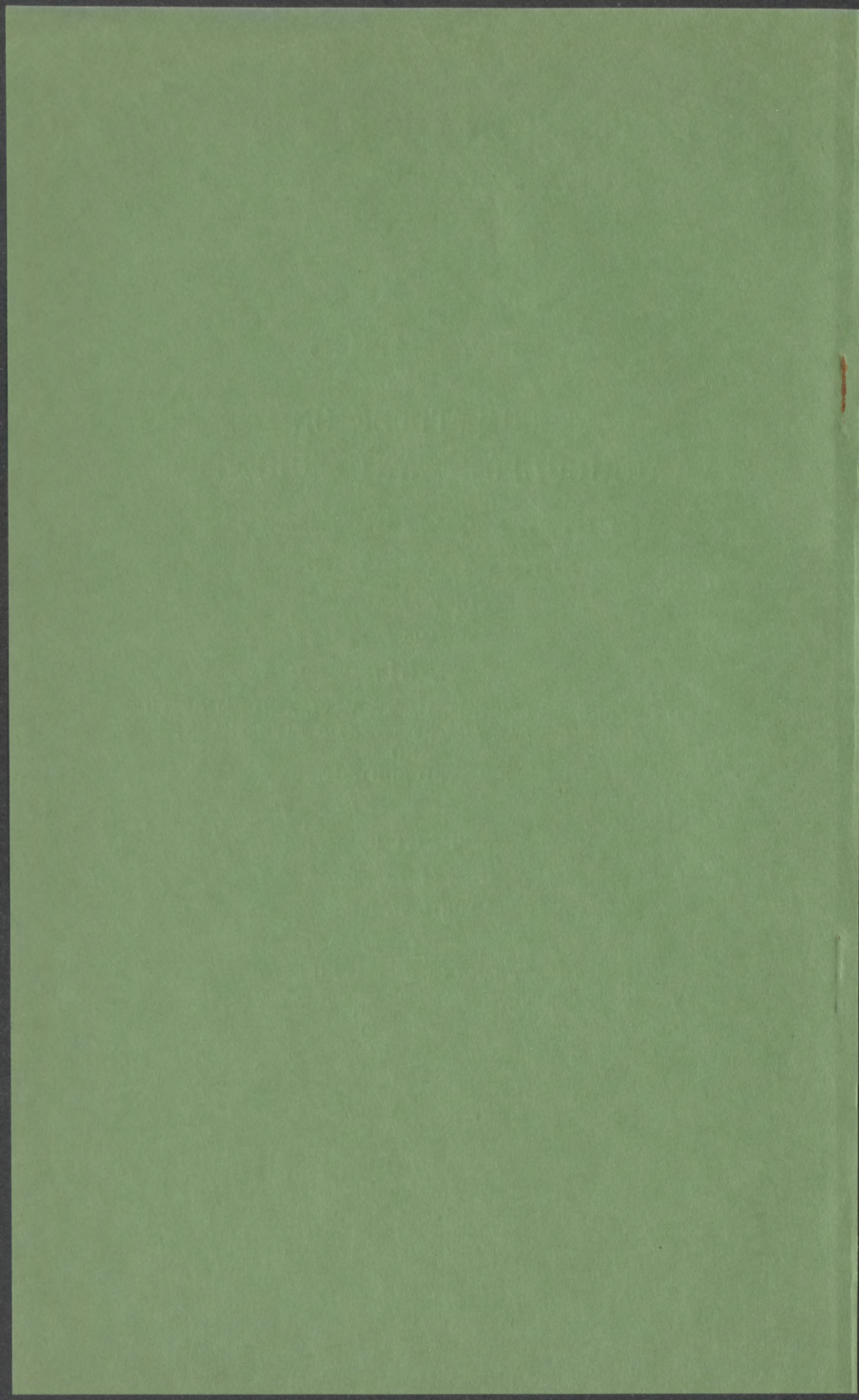
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PART 6

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U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1973

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PART 6

History South Dakota

APRIL 27, 1973

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EXTENSION OF FARM AND RELATED PROGRAMS

FRIDAY, APRIL 27, 1973

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Huron, S. Dak.

The committee met, pursuant to notice, at 9 a.m., in the ballroom, Plains Motel Complex, Hon. George McGovern, presiding.
Present: Senator McGovern.

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator McGovern. Will the hearing please come to order.

We have a number of witnesses who are to be heard this morning. We are going to ask that each individual witness limit his statement to not more than 15 minutes. If you have a longer statement than that, please submit it for the record and just summarize the highlights. Groups of people who are testifying should confine that group statement to not more than 30 minutes. We don't like to impose these time restrictions, but, if everyone who wishes to be heard is to be given that opportunity, we are going to have to put some rather stringent time limitations on each witness.

The purpose of these discussions today is two concerns that are very much on the minds of the members of the Committee on Agriculture.

First of all, we are deeply concerned about the REA and the RTA program which, in effect, was terminated by an administration press release last December. It is true the administration came forward with a substitute proposal in the form of 5 percent rural development loans, but the rural development loan program was not designed to cover the REA and RTA programs and, in effect, we have no ongoing REA program until the Congress acts to meet the vacuum that has existed since last December.

Congressman Denholm introduced legislation in the House that passed the House. This was a good bill. Senator Abourezk, Senator Humphrey, and myself and others sponsored legislation in the Senate that passed the Senate that was very strong. We tried to meet in conference a few days ago before the recess to work out an agreement, only to discover that we were still confronted with very strong administration opposition either to the House bill or the Senate bill, and a probable veto if we accepted either one.

So part of the purpose of this hearing this morning and this afternoon is to get the reactions of REA and RTA leaders as to what

kind of a program you are willing to accept and what kind of considerations are in your minds. I personally could not act, as chairman of the Conference Committee—and I think Congressman Denholm felt the same way—to accept the proposals made by the administration. We thought, in effect, it would gut the whole REA and rural telephone program.

Our second consideration goes to the very heart of our agricultural economy. As you know, the farm program expires in 1973, and we are confronted with an administration proposal to phase out the basic farm price support stabilization program over the next 3 years. A more likely alternative, as far as the Congress is concerned, is the passage of an act that would extend the present program, hopefully for another 5 years. I don't think we ought to kid ourselves. It is going to be very, very tough to hang on to a strong price support and direct payment program, given the present public climate in this country.

Everyone knows about the unfair buildup that is being directed against our farm program, with the false notion that farmers are responsible for the high cost of food. We have asked the staff members of the Agriculture Committee, the economists of the committee, to do a study of what the implications of phasing out our direct payment and price support program would be, as recommended by the Administration, and they have come up with a tentative conclusion that it would cost South Dakota about \$800 million in the lost economic activity and income in this State if we lose this present farm program.

I don't intend to sit still for that. I don't like the proposal that we phase out our price support and direct payment program. Neither do I like the price ceiling on livestock products and the consumer boycott on meat products. Every livestock producer in this State knows that this is a very hazardous undertaking, that in many years there is no profit at all, and when our livestock producers do have a chance to get a decent price, as they have had in 1972 and 1973, it is the most unfair kind of discrimination to single them out for a boycott or to single them out for a price freeze when we do nothing about increased costs of everything else.

Those are some of the concerns that are on the minds of the committee. We know our job is going to be very hard to extend this present farm program in the face of all of the confusion and the consumer resistance.

Even some Senators who are liberal and enlightened on other subjects are in the dark about agriculture. You have Senators such as Senator Ribicoff coming out and saying we ought to end the whole farm program. So we can't count on some of our allies without a lot of hard work in the House and in the Senate to bring these people around, and that is one of the reasons we are holding this hearing today, so that your voices will be heard more clearly in Washington.

We can take this hearing record back to Washington with us. We are going to be marking up the farm bill in the Senate Agriculture Committee next week when we go back into session. Congressman Denholm, Senator Abourezk, and I will be working on the conference report on the REA bill, and we need the information and the views that you people can develop for us.

(The prepared statement of Senator McGovern follows:)

Senator MCGOVERN. Congress today is facing two major decisions

which will have both immediate and long term effects on farmers and the farm-based economy of South Dakota.

We must decide soon after returning to Washington next week on legislation to restore the REA program.

We must decide during the next several months on a new farm program to replace the one which expires this year.

This hearing of the U.S. Senate Committee on Agriculture and Forestry has been called to hear the views of farmers, rural residents, businessmen, rural electric and telephone leaders and their organizations on these two matters of critical importance to our State.

The rural electric and telephone loan program, as we have known it since 1938, was abruptly and unilaterally repealed by the President in an Agriculture Department press release on December 29, 1972.

Although the administration has proposed to substitute Rural Development Act loans at 5 percent for the congressionally funded REA program, until Congress acts, there is, in reality, no loan program for rural electric and telephone cooperatives.

Many loans have been approved under the Rural Development Act but, to my knowledge, not a dime has been advanced to a borrower. Instead, each loan approval is accompanied by a list of "stop orders" which must be cleared away before money can be advanced.

And because Congress did not intend the Rural Development Act to be used as a primary credit source for electric and telephone cooperatives, the procedures required for loans under that Act are wholly different and in many cases not applicable to electric and telephone borrowers.

In essence, we have not had a rural electric and telephone loan program since December 29. The issue facing Congress is how to best restore the program, or any program, to permit us to get on with the job of building rural America.

The Agricultural Act of 1970, the law which authorizes the current farm program, and other legislation, expire this year. Since early in this session, the committee has been holding hearings on a bill which would extend the 1970 act for 5 years. Field hearings such as this already have been held in Alabama, Georgia, and Iowa.

It would be extremely helpful to the committee to have your opinion of how the 1970 Act has worked and what, if any, changes or improvements may be required. Next Tuesday, the committee will begin a daily series of executive sessions to mark up the bill, line by line, before reporting it to the floor for action, perhaps in May or June.

I would like very much to hear your views on how the present Act has been administered. South Dakotans by the dozen have complained to me that the Department of Agriculture acted unfairly in handling the set-aside program. By changing the regulations, after the sign-up deadline, farmers who signed up for the 25 percent set-aside, the Department created inequities for farmers who signed up for zero set-aside. There have been many serious complaints from South Dakotans about the Department of Agriculture's callup of farm-stored grain under Commodity Credit Corporation loan.

RESTORING THE REA PROGRAM

When the administration terminated the 2 percent REA loan program, it announced a substitution—insured and guaranteed loans,

under the Rural Development Act, at 5 percent and higher. In the view of Congress, the administration's action was not acceptable.

Congressman Denholm introduced in the House, and Senators Abourezk, Humphrey and I introduced in the Senate, bills which would restore the 2 percent REA loan program by requiring that the administration lend all the money appropriated each year. In the Senate, we passed that by an overwhelming margin. The House took a different approach. In negotiations with the rural electric and telephone systems, the House Agriculture Committee developed a compromise approach which would establish criteria for borrowers eligible for 2 percent loans, and authorize insured 5 percent loans and guaranteed loans at the market rate.

In addition, it would create a revolving fund to be financed by principal and interest repayments from REA borrowers, eliminating the need for annual appropriations out of the Treasury. The House bill contains mandatory language—requiring the administrator to make loans up to the full amount of the authorization annually set by Congress.

The bill which came out of the House Agriculture Committee, introduced by Congressman Denholm and supported by the electric and telephone cooperative organizations, appeared to us to be an effective piece of legislation.

The House passed the bill by an overwhelming majority. There was appeal in the criteria for eligibility for 2 percent money—limiting its availability to the 181 most needy electric borrowers and a similar proportion of telephone borrowers. The "special rate" of 2 percent would be available to cooperatives with two or fewer customers per mile of line, or with revenue per mile of line \$450 below the national average for electric borrowers, or \$300 below the national average for telephone cooperatives.

Likewise, the creation of a revolving fund has the advantage of establishing a loan account which does not depend on annual, increasing appropriations from Congress.

Although I would have preferred the Senate's approach—which would mandate full restoration of the REA program—I was persuaded that the House version offered better possibilities of attracting enough votes to override a probable veto.

As part of the legislative history in Senate consideration of the bill, we made a firm pledge that the Subcommittee on Agricultural Credit and Rural Electrification, of which I am chairman, would conduct an extensive investigation to develop a new, modern REA program suited to the conditions of the 1970's.

It was in that frame of mind that the Senate conference committee, which I chaired, met a week ago Tuesday with the conferees from the House to iron out differences between the two bills.

But there was a new development. During a breakfast meeting that day, involving Agriculture Secretary Butz, REA Administrator Hamil, a representative of the Office of Management and Budget, and ranking minority members of the House Agriculture Committee, an Administration substitute was proposed, which, in effect, would eliminate both the House and the Senate bill.

The conferees were unable to agree on a response to the administration proposal. Our meeting recessed, therefore, until after the Easter recess.

Soon after Congress resumes on Monday, the conferees must get together to decide whether any, or all, of the administration proposal is acceptable. It is primarily for that reason that representatives of electric and telephone cooperatives have been invited to testify today.

Our committee needs to know what kind of a bill you would like Congress to enact, and what you believe are acceptable conditions for a restored rural electric and telephone program.

1973 FARM LEGISLATION

The other major task facing us next week will be to make up a new farm bill.

The consensus in our committee seems weighted on the side of a 5-year extension of the Agricultural Act of 1970—which includes the feed grain, wheat, dairy, wool, cotton, beekeeper, and dairy indemnity programs—and extending the food stamp program and food for peace.

The difficulty facing those of us in Congress who are committed to enacting a strong farm program is evident to every one of you. At no time in recent years can I recall consumer and urban resistance to farm prices and farm programs as severe as it is today. Faced with that kind of pressure on urban Congressmen, many of whom have been steadfast friends of programs for the family farmer, plus the position of the administration, will make it doubly difficult to enact the kind of bill we need.

Rather than supporting a strong farm program, the administration has recommended that we phase out, over a 3-year period, all farm income supplement payments. They would retain authority for a low loan rate for feed grain and wheat and retain authority for set-aside payments. The administration has also proposed scrapping the individual crop base acreages for farms, and replacing them with a general cropland base.

How would the administration's farm proposals affect South Dakota? At this time, I am releasing a report prepared for me by Henry Casso, staff economist of the Senate Committee on Agriculture and Forestry, which estimates the probable effect on South Dakota if the President's recommendations were adopted. The report will be made a part of the hearing record.

(The document referred to follows:)

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C., April 16, 1973.

To: Senator McGovern.

From: Henry Casso.

Subject: Appraisal of the administration's farm proposal as it affects South Dakota.

This is in response to your request for an economic appraisal of the Administration's farm proposal as it may affect South Dakota.

In his appearance before the Senate Committee on Agriculture and Forestry on March 29, 1973, the Secretary of Agriculture made the following recommendations:

RECOMMENDATIONS

"First, income supplement payments, payments that exceed the amount necessary to achieve set-aside or production adjustment objectives, should be phased out over a 3-year period. The 3-year period would provide an orderly

transition and give farmers a specific time in which to make their long-range plans as they shifted their income dependence to growing market demand.

"Set-aside payments for production adjustment would continue as needed to prevent surplus accumulations. However, the mandatory requirement for making payments regardless of the amount of land set-aside, should be modified.

"Second, as the income supplement payments are being phased out at the end of three years, we recommend a shift in the fourth year from the present outdated allotments and bases to a new cropland base. This would broaden the set-aside concept by basing production adjustment, as needed, on total crop acreage rather than limiting the adjustment to historical acreages of certain crops.

"The set-aside requirement in a given year would be a percentage of the cropland base established for each farm. The payment rate per acre would be set at a level needed to get the total set-aside acreage required to meet the production adjustment goal.

"Third, the basic payment limitation of \$55,000 should apply to income supplement payments only during the 3-year phase out. The payment limit . . . as it applies to income supplements . . . should be reduced over the 3-year period in proportion to the reduction in income supplement payments.

"To function, set-aside payments for production adjustment should be excluded from the \$55,000 limitation. In the effort to rent land to adjust production, a payment limit would be counter productive in that acreage where payments are above the \$55,000 level would be arbitrarily forced into production and excluded from the set-aside. We intend that this would be included in the legislation for set-aside production adjustment payment even during the 3-year phase out of income supplements.

"Fourth, with respect to the dairy program, we recommend that the 75 percent of parity minimum price support level be removed to give greater ability to respond to changing conditions. We also recommend that the 1970 Act provisions, which temporarily suspended the requirement for direct support on butterfat, be made permanent. However, we do not believe that a comparable case can be made for a permanent Class I Base Plan.

"Fifth, the Secretary should have discretionary authority to set payments for wool and mohair at levels he determines necessary to meet income and other program objectives.

"There are other provisions of the Act that can be improved from the standpoint of the future of agriculture and in the best interests of the program's operations.

"Though not included in the 1970 Act, the peanut, rice, extra long staple cotton and possibly the tobacco programs, are in need of careful review. These programs should be more in line with the other major commodity programs by allowing adjustments to meet changing conditions and by permitting farmers to capitalize on expanding markets. We are exploring alternatives to the present programs and hope to work with farmers and with this Committee in working out acceptable program changes."

The Secretary also indicated that rigid payments and price guarantees prevent the programs from being as effective as they should be to meet changing conditions and that these guarantees lessen the ability of farmers to make decisions based on changing markets.

Whether these price guarantees refer to loan levels is not made clear in the statement.

However, under existing law in the case of wheat, the loan level cannot be less than \$1.25 per bushel; in the case of corn; not less than \$1.00 per bushel and other feed grains in relation to corn; the support price for shorn wool shall be 72 cents per pound, grease basis; the support price for mohair shall be 80.2 cents per pound, grease basis; and price supports for the dairy program shall not be less than 75 percent of the parity.

It is apparent, therefore, if the Administration's proposal was accepted that loan levels for commodities covered by the Agricultural Act of 1970 would be at existing levels or lower and that allotments and bases, as well as income supplement payments for feed grains, wheat, and cotton would be phased out completely after three years. It appears further that price support levels for dairy products would be lowered below the minimum 75 percent of parity now in law.

SOUTH DAKOTA AGRICULTURE

According to the United States Department of Agriculture, South Dakota in 1973 had a total of 44,000 farms with an average size of about 1,034 acres per farm (Table 1).

A breakdown of census data shows that about 72 percent of the farms in South Dakota were more than 260 acres in size and about 45 percent were more than 500 acres in size. Census data also show that 96.5 percent of the total land in farms in South Dakota were on those farms of more than 260 acres and that 86 percent of the total land in farms were on those farms in excess of 500 acres in size. The 27.8 percent of the farms in South Dakota of 259 acres or less in size had only 3.48 percent of the total land in farms (Table 2).

Census data also show that 50.8 percent of the farms in South Dakota had gross sales of between \$10 and \$40 thousand per farm. Thirty-nine percent had sales of less than \$10,000 and only 10 percent had sales in excess of \$40,000 per farm (Table 3).

From the census we also find that the 50.8 percent of the farms with sales of between \$10 and \$40 thousand accounted for 49.2 percent of the total value of agricultural products sold in South Dakota. The 39 percent of the farms with sales of less than \$10,000 per farm accounted for only 8.6 percent of the total value of agricultural products sold. On the other hand, the 10 percent of the farms with sales in excess of \$40,000 per farm accounted for 42.1 percent of the total value of agricultural products sold in South Dakota (Table 4).

South Dakota can be characterized as predominately a livestock state. Of total farm cash receipts from sales of farm products in 1972, all livestock and products accounted for about 81 percent while crops accounted for only about 19 percent. Cattle and calves are the principal commodities with sales in 1972 of about \$693 million. Hogs accounted for about \$188 million and dairy products for about \$74 million.

Total cash receipts from sales of crops in 1972 amounted to \$241.5 million. Of this, feed grains and wheat accounted for about 69 percent of the total, with feed grain sales receipts amounting to \$83.5 million and wheat \$82.5 million. The feed grains referred to here are corn, grain sorghum, and barley, the crops covered by the Act of 1970. Other crops accounting for a substantial portion of sales receipts are oats at \$24.1 million, soybeans \$15.2 million, and flaxseed \$13.3 million (Table 5).

In 1972, about 5.1 million acres of feed grains covered by the Act of 1970 and wheat were harvested in South Dakota. Of these, feed grains, that is corn, grain sorghum and barley, accounted for about 3.2 million acres and wheat 1.9 million acres. The acreage planted to the crops covered by the 1970 Act accounted for about 63 percent of the total acreage planted to all principal crops, excluding hay (Table 5-A).

According to the Statistical Reporting Service of the United States Department of Agriculture, there are now 44,000 farms in South Dakota. Utilizing data available from the Agricultural Stabilization and Conservation Service of the Department, we find that in 1971 43,828 farms participated in the feed grain program and 30,567 farms participated in the wheat program. The 1971 program did not include barley but the 1972 and 1973 programs did. In 1972 about 16,800 farms with barley bases, totaling about 627,000 acres did participate in the program. These are the crops covered by the Agricultural Act of 1970.

Of those farms participating in the program in 1971, about 75 percent had feed grain bases of from 30 to 200 acres, while less than 1 percent had feed grain bases in excess of 500 acres. In the case of wheat, only 31 percent had wheat allotments of from 30 to 200 acres and less than 1/10 of 1 percent had wheat allotments in excess of 500 acres. On the other hand, about 68 percent of the wheat farms had allotments of less than 30 acres (Table 6).

IMPACT OF ADMINISTRATION'S PROPOSAL ON SOUTH DAKOTA'S FARMERS

In 1972 total payments to South Dakota's producers under the feed grains and wheat programs amounted to \$98.4 million. Of this feed grains accounted for \$57.7 million and wheat for \$40.7 million (Table 7).

It is evident, therefore, that the payment requirements of the 1970 Act are extremely important to South Dakota farmers and the loss of this income would have a very severe adverse impact.

FEED GRAINS

The impact of the phase out of program payments and bases for feed grains would have a very severe impact on the almost 44,000 producers who participated in the program. Last year South Dakota produced about 186 million bushels of the feed grains included in the 1970 Act. Although only part of this was marketed as grain, cash receipts from the sale of feed grains amounted to \$83.5 million, and government payments amounted to \$57.7 million. As a result, government payments to producers accounted for about 41 percent of the total cash income from sales of these feed grain crops.

It is evident that the present feed grain program is of substantial benefit to the farmers of South Dakota and the loss of this payment income would have a substantial adverse effect on corn, sorghum grain, and barley producers.

WHEAT

Wheat is a major crop in South Dakota. Last year almost 1.9 million acres were planted to wheat and production amounted to 53.7 million bushels. Cash receipts from the sale of wheat amounted to \$82.5 million, and payments to wheat producers who participated in the program accounted for \$40.7 million or 33 percent of the total cash income from sales of wheat. Loss of this payment income to the producers of wheat in South Dakota would also be especially difficult to overcome.

SIZE OF PAYMENTS PER FARM

Almost 98 percent of the farms in South Dakota participating in the 1972 feed grain program received payments of less than \$5,000 per farm and over 61 percent received payments of less than \$1,000 per farm.

In wheat, 95 percent of the farms received payments of less than \$5,000 per farm and almost 70 percent received payments of less than \$1,000 per farm (Table 8).

It is evident that South Dakota bases and allotments upon which payments are made are predominately small, but it should also be noted that loss of the payment income to producers in South Dakota on even the largest farms would be extremely difficult to overcome under the existing cost-price relationships. For example, the average price received by farmers for corn in South Dakota in 1972 averaged \$1.10 per bushel, for grain sorghum \$1.05 per bushel, for barley 85 cents per bushel, and for wheat \$1.59 per bushel. It should also be pointed out that with the exception of corn prices in the year of the 1970 corn blight, the 1972 prices are higher for any of the commodities mentioned than in any recent year (Table 9).

DAIRYING

The dairy industry is very important in South Dakota and in 1972 accounted for cash receipts of about \$74.2 million. Existing price support programs for milk provide for a minimum of 75 percent of parity for manufacturing milk. This year 75 percent of parity amounts to \$5.29 per hundredweight. If the dairy price support laws were changed to lower the level as recommended by the Secretary of Agriculture, it could have an adverse impact on the dairy industry in South Dakota. While at the present time market prices are higher than in recent years, the fact remains that production costs in dairying have increased materially. Last year South Dakota produced about 1.6 billion pounds of milk about 80 percent of which goes into manufacturing purposes. Without some reasonable assurance of nationwide price guarantees, severe dislocations could occur in the dairy industry in South Dakota.

GENERAL

The phasing out of payments for feed grains and wheat and undesirable changes in the dairy program would have a very severe adverse effect on the producers of these commodities. Most, if not all, of the farms in South Dakota can be characterized as a family type farm. The economic dislocations and resource adjustments that necessarily would have to take place on these family farms would be of a major magnitude. Farm programs do provide some price and income protection to farmers. In addition, they also generate substantial

economic activity in local communities. Therefore, the loss of payments and other assurances now provided farmers would also have a very severe adverse impact on the many local communities which depend very heavily on agriculture for their economic activity.

Furthermore, the phasing out of bases and allotments would have an adverse impact on land values. Farmers have been able to use the increasing value of land as collateral for additional credit which is so sorely needed in today's farm operations. For example, on a nationwide basis in just the last decade the use of credit by farmers has increased by over 250 percent.

There are many estimates of the multiplier effect of farm income. If a multiplier effect of 5 is used, the loss of payments in South Dakota alone could amount to losses of about \$800 million in economic activity.

TABLE 1.—SOUTH DAKOTA, 1973

Number of farms.....	44,000
Land in farms.....	45,500,000
Average size of farms.....	1,034
	do.

Source: SRS, USDA.

TABLE 2.—SOUTH DAKOTA, PERCENTAGE OF FARMS AND PERCENTAGE OF TOTAL LAND IN FARMS IN EACH SIZE CLASS OF FARMS ¹

Size of farms (acres)	Percentage of farms	Percentage of total land in farms ²
1 to 9.....	4.1	(³)
10 to 49.....	3.1	0.08
50 to 69.....	.8	.04
70 to 99.....	2.4	.19
100 to 139.....	2.0	.23
140 to 179.....	7.9	1.26
180 to 219.....	2.8	.55
220 to 259.....	4.7	1.13
260 to 499.....	27.1	10.20
500 to 999.....	23.0	16.37
1,000 to 1,999.....	13.0	17.85
2,000 and over.....	9.1	52.09
Total.....	100.0	99.99

¹ Census percentage applied to 1973 numbers.

² Does not add to 100 because of rounding.

³ Less than 0.01.

TABLE 3.—SOUTH DAKOTA,¹ PERCENTAGE OF FARMS BY VALUE OF PRODUCTS SOLD

Value of sales:	Percentage of farms ²
Under \$2,500.....	12.1
2,500 to 4,999.....	9.2
5,000 to 9,999.....	17.7
10,000 to 19,999.....	28.5
20,000 to 39,999.....	22.3
40,000 to 99,999.....	8.7
100,000 and over.....	1.3

¹ From Census of Agriculture, 1969.

² Does not add to 100 because of rounding.

TABLE 4.—SOUTH DAKOTA,¹ PERCENTAGE OF TOTAL VALUE OF AGRICULTURAL PRODUCTION SOLD BY FARMS BY CATEGORY

Category	Percentage ²
Value of agricultural products sold by farms having sale of:	
Under \$2,500.....	0.7
2,500 to 4,999.....	1.6
5,000 to 9,999.....	6.3
10,000 to 19,999.....	19.7
20,000 to 39,999.....	29.5
40,000 to 99,999.....	23.0
100,000 and over.....	19.1

¹ From Census of Agriculture, 1969.² Does not add to 100 because of rounding.

TABLE 5.—SOUTH DAKOTA, FARM CASH RECEIPTS FROM SALES OF PRINCIPAL FARM PRODUCTS, 1972

[Millions of dollars]

	Cash receipts
Crops:	
Included in the 1970 act:	
Feed grains.....	83.5
Wheat.....	82.5
Other principal crops:	
Oats.....	24.1
Soybeans.....	15.2
Flaxseed.....	13.3
Hay.....	10.3
Rye.....	7.1
Livestock and products:	
Cattle and calves.....	692.9
Hogs.....	188.3
Dairy products.....	74.2
Sheep and lambs.....	20.7
Eggs.....	13.4
Turkeys.....	5.5
All crops.....	241.5
All livestock and products.....	1,002.5

Source: Unpublished data, USDA.

TABLE 5-A.—SOUTH DAKOTA, ACREAGE HARVESTED AND PRODUCTION OF PRINCIPAL CROPS, 1972

Crops	Acres harvested	Production
Corn (for grain)..... bushels..	2,388,000	152,832,000
Barley..... do.....	576,000	20,736,000
Sorghum grain..... do.....	259,000	12,432,000
Oats..... do.....	2,038,000	99,862,000
Rye..... do.....	290,000	7,570,000
Wheat..... do.....	1,878,000	53,619,000
Soybeans..... do.....	253,000	7,337,000
Flaxseed..... do.....	360,000	4,500,000
All hay..... tons.....	4,597,000	7,082,000

TABLE 6.—SOUTH DAKOTA, PERCENTAGE OF FARMS PARTICIPATING IN THE 1971 FEED GRAIN AND WHEAT PROGRAMS BY SIZE OF ALLOTMENT OR BASES¹

Size (acres)	Percentage of farms	
	Feed grains	Wheat ²
0.1 to 10.....	2.5	38.8
10 to 15.....	2.3	10.6
15 to 30.....	9.8	18.5
30 to 50.....	15.9	14.2
50 to 200.....	58.9	16.8
200 to 500.....	9.8	1.1
500 to 1,000.....	.7	(³)
1,000 and over.....	.1	(³)
Number of farms participating.....	43,828	30,567

¹ The 1971 program did not include barley while the 1972 and 1973 programs do. In 1972 about 16,800 farms with barley bases totaling about 627,000 acres participated. No frequency distribution as to base sizes available.

² Add to more than 100% because of rounding.

³ Less than 0.1.

TABLE 7.—SOUTH DAKOTA, GOVERNMENT PAYMENTS ON PROGRAMS CROPS, 1972

	Dollars
Commodity:	
Feed Grains ¹	57,718,300
Wheat.....	40,721,590
Total.....	98,439,890

¹ Includes corn, sorghum grain, and barley.

TABLE 8.—SOUTH DAKOTA PROGRAM PAYMENTS 1972, PERCENTAGE OF FARMS RECEIVING PAYMENTS BY SIZE OF PAYMENTS

Size of payment class and dollars	Percentage of farms in each class	
	Feed grains	Wheat
0 to 100.....	7.37	22.49
100 to 500.....	32.18	32.63
500 to 1,000.....	21.94	14.44
1,000 to 2,000.....	22.40	13.48
2,000 to 5,000.....	14.07	12.01
5,000 to 7,500.....	1.39	2.65
7,500 to 10,000.....	0.41	1.06
10,000 to 15,000.....	0.17	0.79
15,000 to 20,000.....	0.05	0.23
20,000 to 30,000.....	0.02	0.15
30,000 to 35,000.....	(¹)	0.02
35,000 to 40,000.....	None	0.01
40,000 to 45,000.....	None	0.01
45,000 to 50,000.....	(¹)	0.03
50,000 to 55,000.....	None	None
55,000 to 55,000.01.....	None	None
55,000.01 and over.....	None	None

¹ Less than 0.005.

TABLE 9.—SOUTH DAKOTA, AVERAGE PRICES RECEIVED BY FARMERS

[Dollars per bushel]

Crop	Year				
	1968	1969	1970	1971	1972
Corn.....	1.05	1.03	1.21	1.05	1.10
Grain sorghum.....	.86	.91	1.03	.90	1.05
Barley.....	.81	.79	.84	.80	.85
Wheat (all).....	1.26	1.36	1.44	1.31	1.59
Oats.....	.54	.55	.57	.54	.61
Soybeans.....	2.40	2.26	2.72	3.04	3.40
Flaxseed.....	2.80	2.68	2.44	2.43	2.80
Rye.....	.87	.92	.92	.81	.80

Source: SRS, USDA.

Senator McGOVERN. Using conservative measurements, the study concludes that "the loss of payments in South Dakota alone could amount to losses of about \$800 million in economic activity."

I will not stand still for any proposal, of any President of either party, which would gouge \$800 million out of South Dakota's economy. Nor do I like the discrimination being demonstrated against the farmer in the livestock industry in the recent boycott and the price ceilings on meat. At a time when all other costs are allowed to rise, it is unfair to single out the livestock industry for special controls. How quickly we forget the years our livestock producers were in trouble. It is unfair to jump on them when their prices begin to catch up with the rest of the economy. And I can assure you that other members of the committee, including our distinguished chairman, Senator Talmadge, of Georgia, will not stand still for it either.

Let me summarize some of the other findings in the committee staff study on South Dakota:

South Dakota can be characterized as predominately a livestock state. Of total farm cash receipts from sales of farm products in 1972, all livestock and products accounted for about 81 per cent while crops accounted for only about 19 per cent. Cattle and calves are the principal commodities with sales in 1972 of about \$693 million. Hogs account for about \$188 million and dairy products for about \$74 million.

Total cash receipts from sales of crops in 1972 amounted to \$241.5 million. Of this, feed grains and wheat accounted for about 69 per cent of the total, with feed grain sales receipts amounting to \$83.5 million and wheat \$82.5 million.

Overall Impact

Total 1972 Federal farm payments in South Dakota on wheat and feed grains amounted to \$98.4 million. Feed grains accounted for \$57.7 million and wheat \$40.7 million. It is evident, therefore, that the payment requirements of the 1970 Act are extremely important to South Dakota farmers and the loss of this income would have a very severe adverse impact.

Feed Grains

Cash receipts from feed grains sold in 1972 amounted to \$83.5 million, and Government payments amounted to \$57.7 million. Feed grain programs provided 41 percent of the total income from sales of feed grains in South Dakota.

Wheat

Last year's 1.9 million acres of wheat yielded 53.7 million bushels, which brought \$82.5 million in cash receipts and \$40.7 million in payments, or 33 percent of total wheat income. Loss of this payment income to the producers of wheat in South Dakota would be especially difficult to overcome.

Dairy

Elimination of dairy price support, now established at a minimum of 75 percent of parity for manufacturing milk, is especially important in that about 80 percent of the 1.6 billion pounds of milk produced in the State last year went for manufacturing milk. The current support is \$5.29 per hundredweight. Without some reasonable assurance of nationwide price guarantees, severe dislocations could occur in the dairy industry in South Dakota.

The report concludes that the proposal to phase out individual crop bases and supplant them with a general cropland base would have an adverse impact on land values. "Farmers have been able to use the increasing value of land as collateral for additional credit which is sorely needed in today's farm operations," the report says.

In addition to the economic hardship which the President's proposal would work on farmers, the staff report points out that it would also hurt communities and businesses in South Dakota:

Farm programs do provide some price and income protection to farmers. In addition, they also generate substantial economic activity in local communities. Therefore, the loss of payments and other assurances now provided farmers would also have a very severe adverse impact on the many local communities which depend very heavily on agriculture for their economic activity.

In addition to the pressures created by consumer resistance to food prices and the administration's naive desire for an unsupported "free market" in agriculture, other pressures are facing our effort to enact a farm bill.

There is unprecedented agitation to eliminate the wheat certificate program, which I authored in Congress nearly 10 years ago. That program has been the salvation of thousands of family size wheat farmers, and to eliminate it today would force thousands of them to sell out and move to the cities.

You will not have to convince me of the need for a strong farm program. I have been convinced of that from the day that I entered Congress 16 years ago.

The next few months may be difficult, but with your continued help and support I have every reason to believe that we can retain those programs which have been so helpful to South Dakota and to the maintenance of the family agriculture which has provided adequate food and fiber for our Nation's people at the most reasonable cost in the history of the world.

Thank you.

Our first witness is Congressman Denholm.

We are very happy to have you with us this morning, Frank. We look forward to your statement.

STATEMENT OF HON. FRANK E. DENHOLM, REPRESENTATIVE IN
CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF SOUTH
DAKOTA

Mr. DENHOLM. Thank you very much, Mr. Chairman and my friend, George.

I regret that I do not have a prepared statement for the record this morning to hand to the many people who are attending your hearings in Huron today. I received notice of the hearings here on Tuesday and I left Washington Tuesday afternoon and enjoyed a drive across the country coming here.

I'd like to report to the people that in coming by car from Washington to here, I saw only six tractors in the fields between Washington, D.C., and Council Bluffs where you turn north on the highway at Council Bluffs to come up on I-29. So in South Dakota it appears to me that you are way ahead of the rest of the Nation east of you as far as your spring plantings are concerned. The fact is things look about as good here as they do anywhere. I saw much of the area that is under water, millions of acres of land that probably won't be timely seeded in this spring's planting along the Mississippi, Iowa, and Illinois Rivers. All of them are flooded.

I am pleased to have an opportunity to appear here because I know that our senior senator from South Dakota is very interested in the policies of agriculture. In fact, he has mentioned about the REA. I would like to use what time I have available this morning, in keeping with the time limit, to talk primarily about agriculture.

Most of you here, I think, understand the efforts that we have made, your delegation in Washington, to try to save the REA and the RTA programs. That matter is in conference. As far as I am concerned, I want to report to you that I have conceded everything that I am about to concede in attempting to restore that program.

We talk about compromising legislation. That has been a series of concessions. It is pretty difficult to compromise with people who won't even talk or open dialogue with you. We have experienced that problem more on the House side than they did on the Senate side, because they passed their bill early in the session on the Senate side and we have been in negotiation for weeks and months on the House side.

I saw the executive director of the National Rural Electrical people, Mr. Partridge, here this morning. He knows something about the time that has gone into the drafting of the legislation that we finally passed in the House.

Let me say to you as briefly as I can that, in my judgment this Nation stands at the crossroads of decisions—and I say this in my opening statement—on hundreds of programs, not just a few, but on hundreds of programs that the Congress has enacted and the President has signed and that Presidents heretofore have executed in good faith.

I was on the east steps of the Capitol building when this President was sworn in in 1973. I saw him take his oath and raise his hand and say that he would defend and uphold the laws of this land and the Constitution of this land, and that he would execute in good faith the laws of this land. It is for the people to decide whether that has been done or not. Many of us think that it has not been done.

What has happened is the Congress and the President have come to a head-on struggle on whether some of these programs or all of them should be continued or terminated. We recognize that some of the programs should be reviewed. We recognize that with changing times some programs should be changed. We recognize that with changing times some programs should be terminated. There is no question about it. But the fact that you admit that you are incapable of administering any programs by terminating all of them is an admission of failure.

I think that, if the administration would come to the Congress and sit down and, say, through the committee sources, through the hearings, make recommendations and say that this should be struck out or we suggest this as an alternative, they would find that the Congress is receptive to suggestions and leadership. Unfortunately, we stand at the crossroads of this terrible time of decision because we haven't been able to get any dialogue.

I initiated some reforms as soon as I got back in January. The first proposed change I introduced was on January 9 to restore our land and water program, and we did pass that out. It wasn't my bill that came out, it was our chairman's bill, Bob Poage's bill, that came out of our committee. It did go to the House and it did pass the House.

Let me summarize just three or four points here on what happens. H.R. 2107, the rural environmental assistance program, known as REAP, passed the House February 7, 1973, on a vote of 241 to 142. It passed the Senate on March 1, 1973, on a vote of 71 to 10. The conference report was filed on April 2, 1973, and we are standing by with it. The reason for that is that we are trying to pick out best cases first. We thought that was our best case to send to the President; hopefully, it would not be vetoed, and that we could reinstate our land and water conservation programs. There is hardly anything that is less nonpolitical than land and water conservation. We spend very little money on it and most of the farmers know that it is the only public program that this Nation has ever pursued where the farmers pay from one half to two thirds of the cost of the program and do all of the work and yet we have the administration tell us that this is a public program that can be terminated because it is of low priority.

Now, I have stood on the Nile in Sudan, Khartoum, Sudan, where Mr. Moore and his associates were recently killed by the terrorists, and that is where the Blue and the White Nile come together and flow into Egypt. I saw what happens to a nation and to a people when there is no land and water conservation practices. When you erode the topsoil, you starve the people and you deplete the nation in its entirety.

So we felt that land and water conservation was one of the most important things that we could reinstate at the outset. Well, it still hasn't been signed into law by the President.

We went on to the rural water and sewer program. Let me now give you the statistics on that to show you what happened. It passed the House on March 1, 1973, on a vote of 297 to 54, to reinstate the rural water and sewer program. It passed the Senate on March 22 on a vote of 66 to 22. It was vetoed on April 4, 1973, by the President of the United States. The veto was sustained in the House on April 10, 1973, by a vote of 225 to 189.

Now, let me say to you that a Democratic Congress which has a majority of the votes in the Congress cannot develop a two thirds vote sufficient to override the Presidential veto. We have tested him on cases where they came through the first time, where my colleagues, my associates, the members of the Congress, have demonstrated with absolute preciseness their overwhelming support for the legislation. It passed the House the first time 297 to 54. It came back after the President vetoed it and we lost it on a 225 to 189 vote. We couldn't get the two-thirds vote.

I am not talking politically, I am simply saying to you that these are the facts, that when the White House calls and says to somebody, "We want you to support our President and sustain the veto," it puts the member of that party, the President's party, in a very precarious position, and the statistics show that the vote shifts. The Democratic Congress can't come up with enough votes to override that veto, so we are still holding the REAP program, because we are afraid we can't override the veto.

Yet you take a look at the emergency farm loan program which is on the President's desk now, and I haven't had any word up to this morning to know whether he signed it, but I want to say here again to the people of South Dakota, to those farmers who were given appointments by this administration through the county FHA offices, to come back in and make application for those farm loans where you had bona fide losses as a result of a national disaster. You watch the news, I will try to inform you, I know the Senators will try to inform you, that you have 18 days, and that is an amendment that Bob Bergland from Minnesota and I put in that bill, you have 18 days in which to get in and qualify on your applications for the Emergency Farm-FHA farm loans under the old act, after the President signs it.

Senator McGOVERN. Congressman, can I interrupt you there.

Mr. DENHOLM. Yes.

Senator McGOVERN. The President did sign that bill and, curiously enough, didn't announce it.

Mr. DENHOLM. When did he sign it?

Senator McGOVERN. He signed it on the 20th, and no announcement was made. We were watching it as closely as you were, and it is very mysterious to me that a bill involving the public business was signed without any White House announcement at all. We had to almost do a detective act to find out if the bill had been signed.

I think our people ought to know that the 18-day period begins with the hour of the signing, so we only have until May 8 now for those 17 counties in South Dakota that qualify under the program to take advantage of the more generous terms that were under the old bill.

It doesn't surprise me that you weren't aware of it, because I think it was kept quiet deliberately by the administration to let this time run out. I regret that that's the case, but the 17 counties that are in this disaster-designated area are going to have to move quickly, and every farmer who lives in that 17 county area ought to know that the time expires on May 8. Beginning at midnight the 8th of May you go to the less generous terms, the 5-percent rate, rather than the 1 percent, and without the \$5,000 forgiveness feature.

Mr. DENHOLM. I certainly appreciate that information, because I didn't have it when I left Washington. I have been on the road the last couple of days.

The point I wanted to make is that everybody should be on notice, and I hope that the media will carry your statement in full, because that time is very important to those people who were cut off because they had been set up on appointments, and then the news release came out in the interim and cut them off. What a serious inequity that was to the people.

The last one I wanted to mention to show the frustration is the Rural Electrification Act, which passed the House on April 4, 1973, on a vote of 317 to 92. The Humphrey bill, sponsored by Mr. Humphrey and others in the Senate, passed the Senate February 21 on a vote of 69 to 20. That is the one that Senator McGovern has said is still in conference. We have met twice on it with no success in conference at this point in time. I frankly want to say that I think we have conceded all that we can possibly concede to the administration on that issue, and I think that, if it is not going to be signed by the President, it will not be because we haven't given away enough yet, it will be because of the mandatory language in the proposal which says that they have to carry out the program. Nobody likes to strait-jacket legislation, but that legislation is straitjacketed and it is mandatory. It says that the Secretary is authorized and directed to carry out a program.

I want to say now that the way we have structured that legislation, I think you will recognize that I drew this on a blackboard at Sioux Valley Empire Electric some 6 years ago when I was still legal counsel for Sioux Valley, the very system that we have worked out in this bill.

I want to say that Chairman Poage has done a great job of carrying the ball on this bill, the Chairman of our House Committee on Agriculture, and, if you don't think he fights for you, you ought to sit in on some of the battles that Bob Partridge and I were with him in when he was talking to the Secretary of Agriculture. I don't think there is any question but what we will try to keep that program intact.

We have eliminated it from the appropriations and set up a revolving fund whereby it involves your own equities, where it involves the properties and the rights of the people who own the REA, and it does not take a 2-percent appropriation to fund it each year.

Let me talk just briefly about agriculture. There is nothing more close to me, with which I am more closely associated, in heritage, in knowledge, in experience, and about which I have a strong desire to do something. While we are told that farmers have it so good, let me give you some facts and figures that you might well know, but I think should be in the record.

In 1950—and this is based on testimony that is coming before our committee on hearings on the general farm bill—farmers had a debt ratio of 96 cents for every dollar of income. In 1970 farmers had a debt ratio of \$2.16 for every dollar of income. In 1970 farmers had a debt ratio of \$3.53 for every dollar of income. In 1972 farmers had, at the beginning of 1973, a total farm debt of \$72 billion, and you are told that you have it good.

In fact, after we had revised and updated the statutes on the farm credit systems in 1972, on which our committee went through long, extended hearings and in which I participated at great length, we had many people from South Dakota, members of the farm credit systems, come in and testify before our committee. The farm credit

system loaned more money, in fact, they loaned twice as much money in the last 6 months of 1972 to farmers than the Federal Government has loaned to the REA program since its inception in 1935, and farmers are said to have it good coming into 1973.

Today we stand at the situation of about 90 to 120 days of prosperity in agricultural prices, even though without trucks and without an international system of interstate highways you couldn't have marketed anything because our railroad transportation facilities have almost collapsed in trying to meet the demand of the satisfying of the Russians. We have found ourselves with reasonably good prices, and this 120 days has done something to farm people.

I am going to be bitterly frank about some of these things. I have told lobbyists of farm groups in Washington that when they come to our committee they come in with their hat in hand, almost apologizing because farmers have it so good. We have not had one single new idea come before our committee. We have had them come in and ask if we couldn't please have an extension of the present 1970 Agricultural Act, and many of you know what my feeling is about that act.

It wouldn't save you from economic disaster, and it certainly isn't what has caused you to get any increase in prices.

There is nothing in the 1970 Agricultural Act that could possibly save you with wheat prices fixed at a floor of \$1.25 to \$1.28, far below the cost of production; oats at about 47 cents. It has nothing to do with the livestock prices. We have never had a program that has had anything to do directly with the price of livestock, so you can't blame farm programs for the high prices of beef, pork, and lamb which the President is trying to drive down.

When farmers have \$72 billion worth of debt—and I broke this down and you might run it through your own calculators, I did it with a pencil here during the committee hearings—if we presume that they are paying on the average of 7 percent interest on that, plus about 5 to 10 percent on the principal they'd be paying back on the mortgagee \$8,640 million each year out of that \$19.2 billion alltime agricultural income that our Secretary of Agriculture tells you about. \$19.2 billion; \$1 billion of that, or almost \$1 billion of it, involves the sale to Russia, which I have never found any farmers to share, at least I don't know of any farmers who shared in that sale to Russia, but it is counted in as agricultural income for 1972. There is \$750 million worth of credit, extending credit plus almost \$300 million in export subsidies, for a sum of over a billion dollars that is added to agricultural income in 1972.

Giving it all the credibility that we possibly can, we start with a \$19.2 billion income for 1972 for farm income. If you'd figure 7 percent interest and a modest amount of principal payment, the farmer would have to pay against that indebtedness \$8,640 million a year. In 1972, he paid it. If he said he had the highest degree of efficiency and operation in management of a farm—I have farmed long enough to know that if you can cheat everybody and work the heck out of the wife and all the kids and everybody in the whole family works on it, you possibly can keep your cost of production around a third, and even the best of managers probably couldn't get it below that—but the average man might spend around 40 percent of his gross income for production costs for overhead. So you take off an-

other 40 percent of the \$19.2 billion and you have about \$7,680 million attracted. That along with his debt payments come to \$16,320 million, which leaves the farmers \$2,880 million to spread among about 200 million farmers for a net — now these are statistics and you always have to be careful with statistics — but the net, the average farm family income in the United States is \$1,440, before he pays his personal property taxes and anything for the family. And you are told that you have it good.

I am saddened and sickened by your lobbyists in Washington who came before our committee with their hat in hand, afraid to ask for something. I told them they are coming in too low, they are going to touch down before you reach the runway, and you are going to crash and you aren't going to get anything.

We are confronted with the situation of what we have or nothing, and your lobbyists just haven't asked for very much. I can say to you that if you pursue that program you aren't going to get very much.

I want to commend our Senator McGovern for having these hearings here. I know in his press releases and in his opening remarks he said the Senate is going to start marking up the farm bill next week. I want to say to my friend, our distinguished Senator from South Dakota, that I think that that would be the biggest single mistake this Congress could possibly make, to start marking up farm bills next week. I know that I don't have any influence with the Senate, particularly. I think that that would be a serious error. If we can possibly put off marking up a farm bill until fall and give this administration a little bit of time with their scientific approach to farm problems, I think we will get entirely different reactions from the lobbyists who represent farm groups in Washington.

I am very concerned about it, George. We are up against it in the House side on the same thing. We also have this paradox, that the food stamp bill expires on June 30, 1973. The farm bill doesn't expire until December 31, 1973.

Senator McGOVERN. Congressman, if I could break in there on that very point. I think what you are driving at is that we don't have a climate of opinion in the Congress now that is favorable to a markup of a strong bill.

Mr. DENHOLM. I am very concerned about that and I am very concerned about the way the hearings are being conducted in Washington on your side as well as on our side. I watched them early. Senator Talmadge is going along and bringing in one commodity group at a time. They are making the same mistakes that they are making on our side. I say it is a mistake, in my judgment, with all respect. I saw what people come in and ask, if we could just get 50 percent of parity, we think we could accept that.

Senator McGOVERN. I think Chairman Talmadge of the Senate Agricultural Committee, who as you know, Congressman, is devoted to the farmers of this country, is a very strong chairman. His decision to move ahead on these hearings is based on the fact that we apparently have a bipartisan agreement on the Senate committee that is an informal understanding, but I think there is rather a strong consensus on that committee in support of the present farm program.

We'd like to have a stronger program; we'd like to lift the program above where it is today, but at least there is a feeling that we can report out a bill, perhaps with some improvements, to extend the present program for several years, and the feeling of the chairman, if I can speak for him, is that, if we move now to at least take that step, that does not foreclose a decision on the part of the House leaders to hold off until there is a more favorable climate in the country and in the House for final action.

In other words, the Senate might proceed now with the assumption that we are a more agriculture-oriented body, and I think it is fair to say the Senate is. We have two Senators from South Dakota the same as New York. You don't have that situation in the House, where you have 45 Congressmen from New York and only two from South Dakota.

The theory there is that perhaps we can get out a bill which is at least as strong as the present program and then give the House a little more time to wait for a climate of opinion that is somewhat more favorable over on that side of the Capitol.

Mr. DENHOLM. It is difficult to say what is the best strategy. I certainly yield to your years of experience there.

Senator MCGOVERN. I didn't set the timing of the hearing, you understand. I am not the chairman. I rank fairly high on that committee, but I am still not the chairman.

Mr. DENHOLM. I think it is well to discuss these matters, but I want to say to Senator McGovern, who is a well-recognized authority on agriculture in this committee, I admire your position very much and your strength there, but I might say to you, Senator, that I happen to know that the House is waiting for the Senate to take the action so they can concur therein. If I never get a chance to visit with you again, I want you to be aware of the fact that everybody is looking for an escape this year because it is embarrassing to argue for the farmers when prices are high and consumers are also high, in a different way.

Senator MCGOVERN. I was listening to your comment about farmers paying \$8 billion in interest charges every year. I think that helps explain why, when you go into Chicago or New York or Minneapolis, and you see a plush, new skyscraper, it usually turns out either to be a bank or an insurance company.

I was over at the Corsica Livestock Sale yesterday. They didn't have a new building. It was the same old building they had when I was there 10 years ago. People were dressed about the same; the cars looked about the same to me. The prices were a little better, but I didn't see anybody getting rich over there.

I think if we are going to have a boycott we ought to go and stand in front of the Chase Manhattan Bank instead of standing in front of these livestock growers who are finally making a little money. I think all that has happened is that livestock prices have begun to catch up with where everything else has been for quite a few years. We have spoiled consumers into thinking that when they pay a fair price for the food on the table something is wrong.

Mr. DENHOLM. If I might interrupt you just a minute. I had some experience in New York about a week ago Monday. We had some farmers from South Dakota, Stanley Gentry and Don Henges were

there, and they did an excellent job, by the way of, I think, telling the consuming public of New York and the greater metropolitan area in the Eastern States the farmers' side of the story. We met in Tishman Hall at New York University that night, with a sizable consumer audience. I had a chance to address that audience, and I would say that the consumers, the consumer boycott against beef, I don't think was necessarily directed at the farmer.

I told them on that occasion that for them to boycott our beef made about as much sense as it would for us to boycott their shoes, their shirts, and their suits, and everything else that they do, and they stood up and applauded it.

I had the feeling, coming away from New York, that our consumers were registering their frustration against many other things, a total spectrum of the economic situation in the country, and they simply used beef as a rallying point to demonstrate the consumers' hostility toward a whole gamut of economic policy of this Nation, and it was not particularly directed at the farm people.

I think the consumers of New York understand the farmers. I disagree with the Secretary of Agriculture in trying to drive that wedge between consumers and producers, in trying to drive the wedge between labor and farmers. I think it is time that we admit that we are in the same boat and we are using the same kind of paddles to get through the same rocky sea. I think that Congressmen Wolff and O'Neill, both of whom I have had specials with on the House side, have come into South Dakota and seen how hard our people have to work for what little they grub out. I say \$1,440 per farm family is certainly not acceptable in this society when you break it down on that basis, and they pay something like \$8 billion of principal and interest payments a year against \$19.2 of income, plus taking off your cost of production.

These are serious times, and it is time for some new ideas and some changes. I would say that in our committee in the House—and I can't say what is going on in the Senate. I don't know—we haven't had any new ideas come to our committee. We haven't heard anything but extension of the 1970 Agricultural Act, and I have asked almost every one of the witnesses there what in that act would save them from economic disaster, and they don't know. There is nothing in it that would save them from economic disaster. It hasn't in the past; it won't in the future. So we ought to admit to ourselves that, if we are going to have some kind of a program for the future, we ought to have something that would stabilize the income to farm families, not increase the cost to consumers at the same time and, if we can't write that kind of a bill, then we haven't justified our real position as legislators in the public interest.

I think it can be done. I think we should address ourselves to that task and you can't do it, and this is why I say, I hope and I am sure, Senator McGovern will do his best to represent our interests over there, but, if Talmadge and Poage have their way, I think we will probably get an extension of this Agricultural Act of 1970 for 5 years, which will put it over the next Presidential campaign, get it out of politics.

I am not going to criticize the judgment of those good men, but I think that in the meantime we are going to have some really hard

times for farmers. I would predict that, based on my knowledge of economic indicators, by fall we will see consumer prices going through the ceilings at a time when we see farm prices going through the floor, and that's the time we ought to be writing the farm bill and not now.

I think this administration needs some more time. The problem we have is timing it because of the Food Stamp Act that expires on June 30, the hot lunch program, and other things, and we have to have those votes from the consumer-oriented Congressmen, particularly the labor organization group, to pass farm legislation. We don't have any way to bring them together. I see that as a real problem.

Many of you know that I have advanced a farm program that I am introducing again for hearings, and we will have hearings on it. I am satisfied that Bob Poage will not shut off the hearings on the House side until some of us have a chance to be heard on our programs. I have submitted a bill, and I want to say here for the record that my bill is different from anything we have had in the past, and it is almost opposite. Let me touch on the highlights.

What it proposes to do is to assure a maximum national nutrition, food and fiber act; to provide the maximum national nutrition with the highest quality and greatest quantity of food and fiber at the lowest possible cost to consumers. Now, farmers get excited about that kind of language when you say that we are going to do this as a matter of national policy. If we are going to act in the public interest, we have to take consumers into mind when we write farm legislation, because we don't have the horsepower in the Congress nor the numbers nor the votes to pass legislation down there against the consumers' interest.

How do you propose to do it? I simply propose to do it by turning the thing around. Instead of having a payments limitation of so many thousand dollars per person, as we now have, which we are going to lose—we won it with one or two votes in the House the last two times—it is going to be very difficult to hold it. I think the limitation of payment is going to be on the firing line again. If nowhere else, it will come up on the appropriations bill as an amendment and we may very well lose it.

I suggest we turn the thing around and take a positive, affirmative approach to a farm program and we pay farmers the difference between the average price received by farmers and not less than 90 percent of parity on the first \$25,000 of the annual production of each farm family unit.

Now, right away farmers say with cost of operation that is not enough. You certainly are not getting enough under the 1970 Agricultural Act with wheat at \$1.25 or \$1.28 as a floor base. Of course you have your wheat certificate on top of that which is under fire as far as driving the bakers out of business. We have had long testimony on that and I know Senator McGovern is fully aware of it. In fact, he did that for farmers.

Senator, McGovern, I believe you were author of the wheat certificate bill.

Senator McGOVERN. That's right.

Mr. DENHOLM. But what we hear down on our side is that this is a bread tax and it is going to raise the price of bread 2 cents a loaf and

it is under tremendous fire at the present time before our committee on the House side. They say you are driving out the independent bakery competition, and once you drive out the independents then you have the conglomerates left and they will raise the price of bread as they want to. So the whole problem is coming up with new ideas, not an extension of something that didn't help you in 1970 and didn't help you in 1971. It wasn't much help in 1972 until the world demand caught up with you, and the world demand has always been out there.

We have an administration that wanted to go into extended credit with Communist countries. It has always been there, but beyond that there has been a drought situation in the world around us so the world supply of food is down when the demand is up. Consequently, this has had influence on prices at home.

I think we should compensate people. A farm program that should be written for the future should be based on people and not based on acres and bins and bushels. It is people about whom we are concerned; the farm family unit is what we should talk about, and we should compensate them and give them a stability of income that will preserve the community of rural America. We should compensate them for performance and for production if they do something, not for not doing something.

You can argue about this all you want. I know, I had a farm, the last time I took a farm out of production was in 1956, and it was out of production for 10 years, at a time when they paid me for draining a slough to bring in 70 acres of ground that had never been plowed. Those kind of programs are cross purposes and we, if we are going to be serious about solving the problem of America, have to look at it in the interest of people, both the producers and the consumers.

I think this is the only way that we can attack the national inflationary problem, to reduce the cost of living. To the laboring man there are two ways that he can make it. He can come in and ask for a higher minimum wage, or you can reduce his cost of living. If we have an abundance of food and fiber going through the market at a competitive market price and you are paying one direct payment to the producer, the difference between the average prices he receives and not less than 90 percent of parity on any commodity, this is a stability of income to him at a time that you are not increasing cost of living to those people, your cousins who live in the towns and the working people who have to raise a family and pay for their home and educate their children so that they can buy a surplus of commodities at the most reasonable cost.

Another advantage of this program is this, that everybody is equal. It is very much like the REA, so that the guy on the end of the line pays the same rate as the guy closest to the station. At the present time farmers in South Dakota are discriminated against under the 1970 Agricultural Act, and every one of you know it, because you are based upon the closest terminal market. Even on your idle acres or your set-aside acres your rates are computed less freight, even though you never shipped anything, because you are further from the market. This is an inequitable matter of law that has been there for some 25 years that has always discriminated against our people here in South Dakota and from all of the outlying points.

In my proposal, the suggestion I am talking about, and I don't say it is a panacea or that it is the last word, it is simply a new idea that is worthy of being heard, being commented on, being criticized, and hopefully will be more advantageous to the people.

All I propose is that every farmer should be treated alike, notwithstanding where his farm is located, whether he is at the end of the line or closest to the market. At the present time a set-aside acre in Iowa and Illinois is worth more money than it is in South Dakota and Nebraska because it is closer to Chicago, the terminal market. You are charged freight on your set-aside acres whether you market or not, whether you ship anything. The way it has been with the railroads, we haven't been able to ship much of anything, anyway. There is a lot that can be said about that area.

In addition to the base plan that I am talking about, I think we need to look at land and water conservation and we need to put emphasis upon the farm family participating in it. Here the farm family unit is the crux of the whole thing. My program that I have suggested would give each farm family an opportunity, in addition to the \$25,000 annual base, and this is no guaranteed annual income, and don't misunderstand it, the farmer has to produce something before he gets anything. In other words, no matter what he goes to market with he is going to share in that program. In land and water conservation he should be entitled to earn up to \$3,000 a year in land and water conservation, the preservation of wildlife habitat, and the development of rural recreational facilities.

There are two hundred some more million people in America who want to come out to the country. There is no place to fish and hunt for them, no rural recreational facilities. Every county ought to have a park. Our people ought to participate in the construction of it. We ought to look at this country, and I drove across it in the last 2 days looking at it and seeing the devastation that is taking place. We don't just have vacant farms in South Dakota. I was amazed to see them in Ohio, in Indiana, in Illinois, not so much in Iowa. But we are not the only place there has been abandonment.

What has happened in this country is because we have pursued the national policies that we have the last 20, 25, 30 years—we have too many people in too few places. We have caused an abnormal shift of the population of this whole land and we have to come back to give young people the incentive.

I lastly provide in this proposal that I have submitted for hearings a long-term low-cost credit policy, 40 years, 4 percent loans, and use your local bank as the economic nerve center of your community. That is where you all put your money when you earn money. You put it in there, then your neighbor borrows it out or somebody borrows it out and there is an exchange. Recognize the local bank and guarantee and insure loans, very much like what I have proposed and we have submitted under the REA thing. We go into this thing and have federally guaranteed and insured loans and let the local bank do the business and put them on a 40-year basis and 4 percent to the borrowers. All we would have to appropriate in the Congress would be the difference between the level rate of interest of 4 percent and the money market rate of interest, whether it was 7 percent, that

would mean it would cost the Federal Government, we'd have to appropriate an interest subsidy payment directly to the bank of 3 percent, but for the administration and supervision of that loan, and let them look after it. They are the community, they are the ones that you are doing business with now. You say, OK, you are subsidizing the banks. I want service out of that bank for subsidy.

Now, what else does that do? It keeps your money at home. At the present time the banks are investing in Government securities. The Government is paying over 5 percent to get that money in now so we can loan it back to you through the alphabetic bureaucracies, any number of them that you want to set up, so it is a savings to the Government, it is a savings to the borrower, and it keeps the money at home to build the economy in the community where it belongs.

You have to start with the premise the Government doesn't have any money; the money is with the people. The Government cannot keep the people. The people must keep this Government. We must start analyzing future programs, future economic development of this country, based on those theories. The only way we can have anything to spend in Washington, is to devise methods of taxing it from the people. The money is with the people, particularly in a democracy where private ownership is with the people.

So I say to you the only reason I haven't submitted this bill for hearings at this time is that I am playing it against time. Time is a very important element in legislation. I think that if we submit a farm bill at the wrong time we can expect it to be killed.

Now, I am putting in another title in my proposal, and it is going to include food stamps because it is known as a national nutrition, food, and fiber act. I am going to tie it together with food stamps. I am going to tie it together with the hot lunch program. Hopefully, we can pass them together. If we don't do that, we are going to come out on the short end of the stick because, if we extend the Food Stamp Act by June 30, 1973, and then try to write farm legislation, we are going to be in trouble. If we extend the hot lunch program before we write farm legislation, we are going to be in trouble. We have to approach the Congress, since we represent a minority of the people—less than 5 percent of the total population of this country—with some bargaining power. We have to tie our programs together.

So I have said to Bob Poage, as I have said to my friend and senior Senator from South Dakota this morning, I think one of the most serious errors that the 93d Congress could possibly do would be to panic over a farm bill, in behalf of an administration that is telling you you aren't going to get anything, and we start bargaining between something we don't want and nothing; you start bargaining from that position and I can only say that I can't see much of a future for a farm bill if we are going to take that position.

I think we have to challenge this administration; we have to challenge ourselves in this Congress with new ideas for the future for agriculture, and I think we have to base it upon protecting the income of producers at a time that we don't increase the cost of living to consumers.

George, I have taken more time than I wanted to here. I am sorry for that, but I would stand for some questions if you'd care to inquire.

Senator McGOVERN. Thank you very much, Congressman. I think I have broken in enough on you to get the questions out I wanted to raise, but we do appreciate your testimony and your views on the agricultural program. They will be an important part of the hearing record.

We thank you for taking time to testify here this morning.

Mr. DENHOLM. I'd like to reserve the right, if I may, to submit a full written statement.

Senator McGOVERN. The record will stay open for several days, so if there are additional views or if you want to elaborate on your views that will be available to you. We say that to everyone here.

Our next witness is Steve Bloemke, who is a field representative for Senator Abourezk. Steve has advised us he is going to submit his statement, and just make a 2- or 3-minute summary here.

We would be glad to hear from you, Mr. Bloemke, at this time.

While Mr. Bloemke is taking the witness stand, I'd like to introduce three other people. The committee staffmember who flew out from Washington for these hearings is known to many of us here in South Dakota, the former Assistant Secretary of Agriculture on Rural Development and Conservation has been with the Senate committee staff for some time now, Mr. John Baker.

Mr. Jim Webster is a member of my staff in Washington and for many years was connected with rural electric and agricultural programs and with the news services here in South Dakota. I think you all know Jim.

Also our field representative in the Huron area is Mr. Curt Wallum of De Smet, and he is floating around the room here somewhere. If you have problems that you want to bring to the attention of our office, Curt will be glad to help you. He is here full time in the Huron office.

Then I'd like to introduce the one member of the McGovern family who knows how to do things like milk a cow. She grew up on a farm south of Woonsocket—my wife Eleanor.

STATEMENT OF STEVE BLOEMKE, FIELD REPRESENTATIVE, REPRESENTING HON. JAMES ABOUREZK, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. BLOEMKE. I am with Senator Abourezk's office. He regrets he can't be here, and I will summarize.

First of all, I would like to commend Senator McGovern for holding these field hearings here in South Dakota. I have always been an advocate of the principle that Government works best when it takes the time to go to the people and learn what it is that they want and need. In a matter that is as important to the well-being of South Dakota as the general farm legislation, it is especially vital to assess the thinking of the South Dakota farm community.

I know that Senator McGovern shares these views. We in South Dakota are fortunate that he has achieved the position of influence with the Senate Agriculture Committee which has enabled him to bring these hearings to Huron. Senator McGovern is the second ranking member of the committee. His voice will play no small part in

the shape of any agricultural legislation to be passed by the 93d Congress.

In terms of the general farm legislation, Mr. Chairman, I favor an extension of the Agricultural Act of 1970. I do not feel that the current high prices that farmers are receiving or the fact that the current farm program has not solved all of our farm problems are reasons for discontinuing Federal involvement in agriculture. In fact, I feel it is about time that the farmers and ranchers of America start receiving a fair return for their labors.

Certainly, we would all decry excessive Federal intervention in any program. But it is not a sound policy to establish a farm program for the next 5 years on the events of 1 year. To remove the Federal Government from the agricultural picture with undue haste would be to leave the farmer and rancher defenseless in the face of uncertain world markets, a business structure that is increasingly dominated by faceless giant conglomerates.

Those of us who are deeply concerned with the establishment of a sound and viable agricultural economy for rural America can only be distressed when they see the cynical effort to play one segment of American society against the other. We must be cautious that any changes in agricultural policy are not done precipitously in a manner designed to take advantage of immediate circumstances rather than the long-range interests of the Nation and the American farm community.

As I indicated, I do support the extension of the Agriculture Act of 1970. I would like to suggest some areas in which I feel the Agriculture Committee might consider changes. These are in the areas of conservation, natural resources, and especially land and wildlife.

As an initial recommendation, Mr. Chairman, I would like to suggest the establishment of a reserve supply of major food-feed commodities to be isolated from the market until short supply causes prices to rise to a predetermined "trigger" level. This suggestion should be of particular interest to consumers. If such a consumer reserve were in existence, it would serve as ceiling on the price of agricultural products at the trigger level. Determining what the proper trigger level should be will not, of course, be easy. The level must be high enough to assure a fair return to the farmer while, at the same time, low enough to assure meaningful protection to the consumer.

It seems to me that a triggering level of 100 percent of the parity price of the commodity would be a reasonable approach. These are the commodities, soybeans, that I feel should be included in such a reserve, and they should be included in adequate quantity to equal at least 25 percent of the annual yield of each commodity. The bulk of each commodity should be stored on farms with CCC warehouses holding only the minimum amounts necessary to allow timely disposition when release is triggered.

Such a reserve would also be useful during times of unusual export needs as well. Huge sales abroad would not disrupt market patterns, result in windfall profits to speculators, or tie up distribution systems if it were known that a reserve were available to assure orderly supply management.

Minimum loan rates are, of course, comparable to labor's minimum wages. Farmers are entitled to this kind of protection against oversupply and low-price pressures. Increases in loan rates will also help encourage the administration to follow a policy of sound supply management in light of the unpredictability of export levels over the years ahead. Increases in the loan rate of 35 to 40 percent should be considered minimal in light of the current wide spread between average prices received by farmers and the loan rate.

With that in mind, I promise my full support in your efforts to come up with a conference report that will protect the interests of South Dakota and rural America. Again, I regret that the administration is not more responsive to these needs. Nonetheless, I know that you will do all that is possible to come up with the best bill that can be achieved.

Thank you.

Senator MCGOVERN. Thank you very much, Steve. We appreciate your testimony, and that entire statement will be made a part of the record.

[The prepared statement of Senator Abourezk follows:]

Senator ABOUREZK. First of all, I would like to commend Senator McGovern for holding these field hearings here in South Dakota. I have always been an advocate of the principle that government works best when it takes the time to go to the people and learn what it is that they want and need. In a matter that is as important to the well-being of South Dakota as the general farm legislation, it is especially vital to assess the thinking of the South Dakota farm community.

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In terms of the general farm legislation, Mr. Chairman, I favor an extension of the Agricultural Act of 1970. I do not feel that the current high prices that farmers are receiving or the fact that the current farm program has not solved all of our farm problems are reasons for discontinuing Federal involvement in agriculture. In fact, I feel it is about time that the farmers and ranchers of America start receiving a fair return for their labors.

Certainly we would all decry excessive Federal intervention in any program. But it is not a sound policy to establish a farm program for the next 5 years on the events of 1 year. To remove the Federal Government from the agricultural picture with undue haste would be to leave the farmer and rancher defenseless in the face of uncertain world markets, a business structure that is increasingly dominated by faceless giant conglomerates, and changing trade patterns whose consequences are not yet known.

I am sure that there are many people here who remember the mid-sixties. At that time it was grandly announced that the United States would unleash its agricultural might to feed the starving world.

India was facing famine and other importing nations were facing huge demands for American foodstuffs.

But the bubble burst. Growing conditions improved in India and a "Green Revolution" came up with new hybrid seeds which vastly expanded production throughout the underdeveloped world. America found its wheat and corn supplies skyrocketing. Surplus wheat stocks doubled between 1967 and 1970 while corn increased by a monstrous 40 percent in just 1 year—1967–68.

Hopefully, this experience has taught us two lessons: Foreign markets are a fragile base on which to build American agricultural policy and long-term farm policy should not be determined by short-range factors.

Despite these lessons, the administration seems adamant in pursuing a farm policy designed to exploit what it sees as the fortunate combination of short-range circumstances that will enable it to remove the Federal Government from any role in American agriculture. These circumstances are: Record high aggregate farm incomes, an increasingly urbanized Congress brought about by the reapportionment from the 1970 census, and consumer distress over high food prices.

Those of us, Mr. Chairman, who are deeply concerned with the establishment of a sound and viable agricultural economy for rural America can only be distressed when they see this cynical effort to play one segment of American society against another. We must be cautious that any changes in agricultural policy are not done precipitously in a manner designed to take advantage of immediate circumstances rather than serve the long-range interests of the Nation and the American farm community.

As I indicated, Mr. Chairman, I do support an extension of the Agriculture Act of 1970. I would, however, like to suggest some areas in which I feel the Agriculture Committee might consider changes. These would be changes in keeping with the general tone of the existing act and designed both to provide the farmers, ranchers and consumers of America with more protection against uncertain markets and to provide additional emphasis on conservation of our natural resources, especially land and wildlife.

As an initial recommendation, Mr. Chairman, I would like to suggest the establishment of a reserve supply of major food-feed commodities to be isolated from the market until short supply causes prices to rise to a predetermined trigger level. This suggestion should be of particular interest to consumers. If such a consumer reserve were in existence, it would serve as ceiling on the price of agricultural products at the trigger level. Determining what the proper trigger level should be, will not, of course, be easy. The level must be high enough to assure a fair return to the farmer while, at the same time, low enough to assure meaningful protection to the consumer.

It seems to me that a triggering level of 100 percent of the parity price of the commodity would be a reasonable approach. This level would not have triggered any release of wheat, corn, or sorghum grain during 1973 although it would have triggered release of soybeans.

These are the commodities that I feel should be included in such a reserve and they should be included in adequate quantity to equal at least 25 percent of the annual yield of each commodity. The bulk of each commodity should be stored on farms with CCC warehouses holding only the minimum amounts necessary to allow timely disposition when release is triggered.

Such a reserve would also be useful during times of unusual export needs as well. Huge sales abroad would not disrupt market patterns, result in windfall profits to speculators, or tie up distribution systems if it were known that a reserve were available to assure orderly supply management.

Next, I would recommend a substantial increase in minimum loan rates required in statutory law. The administration seems intent on risking farm income on continued strong export markets. As long as this is the case, the Government should be prepared to share the risk of overproduction and price-depressing surpluses. If the export market does remain strong, higher support levels will not cost anything. If, however, the gamble on exports is wrong, farmers should not have to pay the price for a bad guess by the administration.

Minimum loan rates are, of course, comparable to labor's minimum wages. Farmers are entitled to this kind of protection against oversupply and low-price pressures. Increases in loan rates will also help encourage the administration to follow a policy of sound supply management in light of the unpredictability of export levels over the years ahead. Increases in the loan rate of 35-40 percent should be considered minimal in light of the current wide spread between average prices received by farmers and the loan rate.

These two features, a strategic reserve and increased loan rates, were important ingredients in the Smith-Melcher-Abourezk bill which passed the House of Representatives in December 1971. This was a good proposal then, and it remains a good proposal today.

I would also recommend that the committee look carefully at the direct payments provided for various commodities under the 1970 Agricultural Act. I recognize that these payments are particularly distressing to the administration. Nonetheless, I do not feel that it would be sound policy to do anything less than maintain the present level of payments on all commodities. If anything, the level should be increased, particularly in feed grains.

Finally, in regard to the general farm legislation, I would like to make a few recommendations regarding conservation practices designed to protect our land and natural resources. I know that you fully share my anger over the arbitrary termination of the rural environmental assistance program by the President last December. Congress has passed legislation to restore this program, but the legislation is tied up in conference. Further, in light of the Presidential veto of several programs of importance to rural America, it is questionable that this program will survive Presidential scrutiny. Therefore, it is important that the general farm bill give additional emphasis to important conservation matters.

In the past, anywhere from 30 million to 60 million acres have been diverted from agricultural production. About 55 percent of this land is located in the Midwest. In 1971, nearly 1.6 million acres were

diverted from production in South Dakota alone. Although increased emphasis on production will lower the number of acres diverted, it is evident that much of this land could be potential prime habitat for pheasant, quail, migratory water fowl, and other game birds and animals. These set-aside acres should be utilized to a greater degree by seeding cover crops.

We should come to recognize that farm wildlife and good agricultural practices can easily go hand in hand. Wildlife can even provide a form of supplemental income. After all, hunters spent over \$2 billion on their sport in 1970.

In addition to the increased tourist income that this would bring to South Dakota from our urban brothers in other States, most South Dakotans would also benefit directly. There are few South Dakota families who do not harbor a huntsman who would be pleased to see his sport improved.

I recognize that hunters also bring problems. The South Dakota State legislature addressed this problem with a number of recent bills. That was a proper action that should help curb some of the abuses. A strong enforcement of hunting laws and the rights of farm property should help see that increased hunting opportunities do not become a mixed blessing.

With that in mind, I would recommend that the 1973 Agriculture Act include provisions for cost-sharing incentives for farm operators to establish perennial cover for wildlife in set-aside acres. This should be done in a manner to provide for both annual and long-term agreements. In fact, it should be required that set-aside acres have some sort of cover crop. This would not only enhance wildlife but also be essential in providing soil conservation as well. We cannot afford to risk dust bowl conditions ever again.

In addition, an advisory board should be appointed at both national and State levels to assist the ASCS in defining approved conservation uses to protect the set-aside acres from wind and water erosion as well as to encourage improvement of wildlife habitat. The board should include individuals knowledgeable in wildlife and agriculture as well as representatives from State and local government.

Finally, Mr. Chairman, I would like to comment very briefly on the legislation to restore the REA program which I understand is also a subject of this hearing. You, from your position as chairman of the subcommittee dealing with REA matters and your position as leader of the Senate conferees dealing with this bill, are in a far better position than I to analyze the present situation and to suggest any probable developments.

I would, however, like to say that I would consider the bill passed by the House of Representatives to be a minimally acceptable program. I consider it tragic that the administration does not have the kind of commitment to the development of rural America that he has to the reconstruction of North Vietnam.

It may indeed be time the rural electrification program was reexamined. But a reexamination should be equated with a termination. Perhaps in some areas loans should be a higher rate. But the fact is, in highly rural States like South Dakota the basic need for assistance remains. The rural electric coops that serve South Dakota have

some of the lowest line densities of any utilities in the country. This means that they simply cannot afford to provide electrical service to our rural areas without some kind of help.

I am committed to the idea that the people of South Dakota are as entitled to a high standard of living as anybody in the United States. Electricity is an important part of that standard. Further, much of the secret of the vast expansion in farm productivity is based on the ability to use electrical equipment. Electricity is essential to rural life today, and without low cost REA loans, much of South Dakota would not enjoy the benefits which electricity brings.

With that in mind, I promise my full support in your efforts to come up with a conference report that will protect the interests of South Dakota and rural America. Again, I regret that the administration is not more responsive to these needs. Nonetheless, I know that you will do all that is possible to come up with the best bill that can be achieved.

Thank you.

Senator McGOVERN. Our next witness is Mr. Robert Partridge, who is the executive vice president of the National Rural Electric Cooperative Association in Washington, and one of the best informed men in America on the whole subject of rural electrification.

We are very grateful to you, Mr. Partridge, and to your associates for being here with us for this hearing. We are grateful to you for flying from Washington to be present this morning.

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. PARTRIDGE. Thank you, Mr. Chairman. It is always a pleasure to come to South Dakota and, in particular, to appear before any committee that you chair. You have a long and outstanding record as a spokesman in support of rural America generally and rural electrification in particular. You are one of the people who have a 100 percent record throughout all of your years in support of the rural electrification program and so many other rural programs, as well, and we are most grateful to have the opportunity to appear here.

I brought with me Mr. Dick Pence, who is a member of our legislative staff, and the gentleman at the end of the table is Mr. Al Hauffe, from Leola, our national board member from South Dakota, and a past president of the National Rural Electric Cooperative Association.

Senator McGOVERN. Mr. Partridge, I think everyone in South Dakota and many other REA people across the country are familiar with Al Hauffe and the contributions he has made to the program over the years, so we are glad he is with you this morning, and we appreciate Mr. Pence being here.

Mr. PARTRIDGE. He is also a South Dakotan and I know he is glad to come back here, too, to home country.

Mr. Chairman, I have a prepared statement. I realize the committee has many witnesses this morning, and if I may have my prepared statement included in full in the record, I will be as brief as I can.

Mr. Chairman and Congressman Denholm summarized quite well the chronology of what has happened with respect to the rural electrification program which brings us to the point where we now stand, with legislation pending in the conference between the two committees of the Congress—legislation which, hopefully, would carry forward a program of rural electrification.

Very briefly, the crisis with which we are faced in the rural electrification program is not the making of the Congress nor of the systems themselves who are the borrowers from REA, but rather the administration which, on December 29, without a word to the Congress or to us, terminated the rural electrification program and substituted for that direct loans program under the authority of the Rural Electrification Act, a program of insured and guaranteed loans under the Rural Development Act, an Act which, good as it is, was intended for other purposes. It was never intended by the Congress, of course, to be used for the purpose of financing rural electrification.

So for that reason, the fact that remedial legislation is pending in conference, with bills having been passed by both the Senate and the House, this hearing is both important and timely.

I know that as chairman you are fully familiar with all of the issues involved. I think I can sum it up rather quickly by saying these things. In coming to the point that we now stand with the bills pending before the conference, we in the rural electrification program have made some very important concessions. In order to get the bill which passed the House, we agree that we would, first of all, forfeit the \$367 million appropriated by Congress and signed into law by the President which would have been available to the rural electrification program for the balance of this year. That money would not be used under the terms of the bill to which we agreed on the House side.

Additionally, we agreed that the criteria for access to 2 percent loans would include really only the needy systems, the systems needing that kind of an interest rate, because of very low density, because of very low revenue per mile of line, and because of other special circumstances. In fact, about 80 percent of the rural electric systems under the terms of the bill passed by the House of Representatives would turn to 5 percent insured loans for part of their money and the balance of their money would be at rates of 7 percent and more, from the Cooperative Finance Corp., banks, and other private lenders.

Additionally, of course, we agreed to a program of insuring guaranteed loans which means that the program comes totally out from under the budget, that it would, in fact, be money which would be raised in the open money market. Not 1 percent of the money to be loaned by REA under the terms of the bill passed in the House and now pending in the conference would come from the U.S. Treasury. The loan funds would be totally raised, by the sale of insured paper and by guarantees on the paper, and the money would be raised by private lenders.

Those are, indeed, very important concessions. The bill passed by your body on the Senate side, of course, if enacted, would have made it mandatory that the administration carry out the law and carry forward the rural electrification program under the Rural Electrifi-

cation Act of 1936, as amended, and would have prohibited the utilization of the Rural Development Act authorities as a substitute for the Rural Electrification Act. That, of course, is a matter now at conference between the two bodies.

As is noted in your statement prepared for this hearing, Mr. Chairman, at the time the conferees met a week ago there was a new development, and the administration came forward again with a proposal which they had submitted to the House Agriculture Committee which was defeated in that committee; they submitted it on the House floor in the form of an amendment and it was there defeated; now they are back to the conferees again asking that that proposal, which is not acceptable to us or to the Congress, be adopted by the conferees.

Senator MCGOVERN. May I break in, Mr. Partridge? The situation, as I understand it, is that the Senate passed a very strong bill, probably the bill you would have much preferred, but your view was that, in view of the administration opposition to the present program, probably the House bill was as good as we were going to do this year.

Is that a fair statement of your position?

Mr. PARTRIDGE. Yes, it is, Mr. Chairman. You state it quite accurately. The bill passed by the Senate is the stronger of the two bills, it is unequivocal, and the House bill does represent a very substantial compromise on the part of the House and on the part of the National Rural Electric Cooperative Association.

Senator MCGOVERN. I know you, and Mr. Pence, and Mr. Hauffe have been following these conference committees over the years. Have you ever seen a situation in which the Senate and House went into conference, and the conference had no sooner begun, than we were invited by the administration to move away from both bills? The usual procedure is to have the Senate on one side and the House on another side, and you move toward a compromise position. This time we have the Senate here and the House there and we are asked to move another direction. We are asked to move away from both bills to something weaker than either one of them, where you don't have a compromise, you have actually a surrender of the bill that had passed the Senate as well as the one that passed the House.

Have you ever seen that happen before in a conference committee?

Mr. PARTRIDGE. Never in my life, Mr. Chairman, have I known of such a tactic and, of course, that has been accompanied by renewed and repeated threats that either of the two bills in conference will, if sent to the White House, be vetoed. It is our feeling that the Congress and we, the users of the Rural Electrification Administration's programs, have made all of the concessions, that not one single concession of any consequence has been made by the administration, and that we have, indeed, made about all of the concessions of any consequence that we can make. We really have given the administration all that the administration said it wanted when, on December 29, they took the unilateral and precipitous action of terminating this program. Having acceded to those objectives, we find it very difficult to understand, much less to accept, what the administration now insists they must have.

Of course the question at this point is what kind of a bill will emerge from the conference, as you have pointed out.

We feel that the legitimate objectives of the administration have been met. It is very difficult to see what purpose is served by the further insistence.

As far as we are able to now determine, the only thing that is really important further to the administration is the obligation written into both bills, the bill passed by the Senate and the House, that the administration carry out the law, that is, the so-called mandatory language. We believe that on this principle we cannot compromise, and we do not believe that the majority of the Congress is willing to compromise on that point, for it is the refusal of the administration to carry out the Rural Electrification Act of 1936 that has precipitated this crisis.

During hearings before the House Agriculture Committee, Secretary of Agriculture Earl Butz was asked by Chairman Poage about the matter, where he got his authority to abandon the rural electrification program, and his answer was, and I quote, "The law does not require me to make loans; it only authorizes me to make loans."

Now we and the Congress have again been asked to authorize the administration to undertake a new and much more costly and less useful program under the terms of this legislation. Under this new program 83 percent of the rural electricians would be paying interest rates $2\frac{1}{2}$ times what they have paid, they would be asked to pay this higher interest rate without any assurance that the program would be funded at levels consistent with their capital needs, or even that the program will be funded at all.

We can only assume from the stance taken by the administration that that is exactly what it wants. It wants to be able to discontinue this program, both the electric and the telephone loans program, whenever it unilaterally decides to do so, and, if anyone thinks that that motive is far-fetched, as I have described it, I think you have only to listen to the words of some of the high officials of this administration.

On the 31st of January the President held a press conference in which he said that rural electric loans were no longer needed because, and I quote again, "80 percent of this 2 percent money goes for country clubs and dilettantes and others who can afford living in the country."

Secretary of the Treasury George Shultz said on January 30, on national network TV, that "80 percent of the money goes in nonrural areas; some of it to help country clubs and things like that."

Roy Ash, director of OMB, told a Senate subcommittee soon thereafter that "eighty-one percent of the expenditures under the REA program do not go any more to farmers or rural areas, but instead go to suburban, sometimes even to industrial locations."

John Ehrlichman, the assistant to the President, has referred to the REA loan program as a program of grants, and most recently Casper Weinberger, former director of OMB and now Secretary of Health, Education, and Welfare, on "Meet the Press" said that rural electric loans weren't needed because "eighty percent of this money goes into nonrural applications."

Those are, in most instances, direct quotes of what has been said by officials of this administration.

So, Mr. Chairman, in summary, by word and by deed this administration has made as clear as it can make it that they have no support to propose for rural electrification, and that they do not think this program merits continued support and carrying out, as the Congress and we would feel is necessary and needed.

This, in fact, I might say parenthetically, comes at a time when we are faced with a national energy crisis which ought to mean that the Federal Government, in every way that it can, should be getting on with putting electric facilities on the line. I think it is abundantly clear that all of the statements that I have recited this morning coming out of the administration are patently false, and they are nothing more than a deliberate effort to discredit one of the most successful programs ever created by our Federal Government.

I think, Mr. Chairman, you can readily see why rural electric leaders throughout this country are not willing to entrust their future to the whims of officials who make statements like these, and who continue to insist on having a means afforded them by law to continue to do the same thing, namely, to turn on and off the program as they and not the Congress decides. We are not willing to make the new program one which the administration can turn on and off whenever it wants to. We think that it is the responsibility of the Congress, now as it always has been, to determine what funds ought to be made available for the REA loans program. We don't think it should be the responsibility of the OMB in view of their track record to date.

We have been told that the legislation, as it is now under consideration by the conference, either bill would be vetoed. We don't know whether that's true. We do know that it merits the signature of the President. It accomplishes the policy objectives that he had in mind when he made his decision on December 29, and we hope that the President will see the light of day and recognize the merit of this bill as it will come out of the conference committee.

We hope the conference committee will agree to legislation substantially in accord with that which has been passed by the House. I think, had you proceeded to step 2 within the Senate committee, you would have emerged with something of a similar nature and, of course, it was intended, having passed the bill which you helped sponsor over on that side, when it was enacted you would then turn attention to the longer range program.

We do hope that the legislation coming out of the conference will contain the one principle that is common to both bills, and that is that the law must be faithfully executed by the executive branch. If that means that the bill is vetoed, then we have to face that eventuality.

I do believe that the rural people in this room and throughout this country with their typical dedication and determination will not allow that kind of a decision to stand.

Mr. Chairman, I will be glad to respond to any questions that you may have for me, sir.

[The prepared statement of Mr. Partridge follows:]

Mr. PARTRIDGE. I am Robert D. Partridge, executive vice president and general manager of the National Rural Electric Cooperative Association. NRECA is the national service association of the nearly 1,000 rural electric systems which provide electric service in the rural areas of some 2,600 of the Nation's 3,100 counties.

Mr. Chairman, I am here today because this hearing is an extremely useful public forum and a timely one. It gives us an opportunity to make our position clear on legislation that is currently before a House-Senate conference committee.

Since you are chairman of that conference committee I know that you are entirely familiar with the issues that are before it. However, it may be helpful to review for the record the events of the past few months in order to bring us all up to date.

On December 29, 1972, the administration announced by a Department of Agriculture news release that it was terminating the REA direct-loan program and replacing it with an insured-loan program under provisions of the Rural Development Act of 1972.

We believe that the administration's December 29 action clearly conflicts with the intent of Congress with respect to both the Rural Electrification Act and the Rural Development Act. We are also advised by competent legal counsel that the administration's action is illegal and unconstitutional. In addition, we believe the announced program is unworkable for several reasons, including the fact that loan applicants must show they cannot get credit elsewhere at prevailing interest rates and terms, must repay the loans if credit elsewhere becomes available and must submit their loan applications to a myriad of State, local and regional planning agencies for review and approval.

Because of these and other factors, we asked the Congress to consider legislation which would make clear that the administration is obligated to carry out the law as it relates to rural electrification.

This legislation was considered by this committee and promptly reported to the Senate, where it passed on February 21 by a vote of 69-20.

The bill, S. 394, introduced by Senators Humphrey and Aiken and cosponsored by more than 50 more members of the Senate, including the chairman of this session, amends the Rural Electrification Act of 1936. Instead of authorizing the REA Administrator to make loans, it directs him to make loans to the full extent of appropriations by Congress.

Similar legislation was introduced in the House of Representatives by Congressman Frank Denholm of South Dakota. His bill was cosponsored by about 120 of his colleagues.

When this legislation reached the House Agriculture Committee late in February, there were concerted efforts on the part of some House members—notably Chairman Poage and former REA Administrator Ancher Nelsen—to come up with compromise legislation acceptable not only to the rural electricians but to Congress and the administration.

The product of their first efforts at such a compromise were unacceptable to the rural electric systems for several important reasons

which we reported to the committee at the time. However, on March 10 we received a major revision of this draft legislation. After careful review, we found that this revision was the kind of a bill that the rural electricians could support and that it was consistent with the principles of the Humphrey-Aiken and Denholm bills, which require the executive branch to carry out the law.

Accordingly, we testified before the House Agriculture Committee on March 13 that we would support the legislation and the committee requested Congressman Denholm, with his consent, to introduce this new bill. On March 20, the House Agriculture Committee reported it by a 29 to 6 vote, after rejecting 23 to 12 proposals put forward by the administration.

On April 4 this legislation passed the House by a vote of 317 to 92. Again, proposals put forward by the administration were rejected during consideration of the bill.

The new Denholm bill contains these main points:

It directs the REA Administrator to make insured loans under the Rural Electrification Act and authorizes him to guarantee other loans.

It establishes a rural electrification and telephone revolving fund from which insured loans would be made at either 5 percent or 2 percent.

Criteria contained in the bill determine which systems would be eligible for loans at 2 percent and which would pay 5 percent. Approximately 180 systems—about 20 percent of the active REA borrowers—meet the specific nondiscretionary criteria for 2 percent loans. Additionally, discretion is given the REA Administrator to make 2 percent loans in special circumstances requiring that interest rate.

The amounts of money to be loaned and guaranteed from the revolving fund would be established annually by the Congress.

The Senate and House have, as you know, appointed conferees and these conferees met last week without reaching agreement. The question before all of us today is what kind of a bill will emerge from the conference.

We were somewhat surprised, as were some members of the conference committee, to once again find the administration proposing amendments to the legislation, the same amendments which have been rejected by both houses of Congress and which are still opposed by our rural electric systems.

We, and the Congress, find ourselves in a strange situation. The Senate and the House have overwhelmingly passed bills. We have supported both of these pieces of legislation. The Congress has rejected amendments to these bills, amendments which we have opposed. But these same amendments are being offered again.

Thus we find ourselves facing the possibility, however slight, that two bills which we supported will be amended in conference to a degree that the resulting child will be unrecognizable and unwanted.

As I indicated earlier, the Denholm bill in its present form is the result of compromise. Unfortunately, it has been only the rural electric systems and the Congress which have compromised. So far

as we know, the administration has refused to compromise on any major point at any stage of the legislative process.

The administration did not want to use the funds appropriated for REA direct loans, funds which it has impounded. Under the bill, these funds will not be used.

The administration wanted to raise the interest rate on REA loans. The legislation does this for all but a small number of hardship cases.

The administration wanted the loan program taken out of the Federal budget and the money to come from private sources. The legislation does this, not 1 cent of REA loan funds under the program this legislation would create would come from the U.S. Treasury.

In spite of these major concessions, the minority members of the conference committee have not presented a new "compromise." They have given the conferees a six-point list and have offered these as an indication of the willingness of the administration to compromise.

But we can find nothing new in these six points. Nor do we find any concessions.

The administration still wants to make loans out of the rural development insurance fund, with its attendant restrictions.

The administration still wants to cut to a handful the number of rural electrics that would be eligible for 2 percent insured loans.

The administration still wants to make sure that no power supply loan is made at the 2 percent rate. In fact, the administration wants these loans to be made at the market rate of interest under the guaranteed loans program.

And the administration still wants to remove those provisions of the bill which would require it to execute the law.

Besides that, the administration now apparently wants to delete all of the telephone bank amendments in the legislation, and add a quarter of a percent surcharge to guaranteed loans for both electric and telephone loans.

In spite of these alleged "concessions," and in spite of the smoke-screen that has been laid down, we believe that the major point the administration still opposes is the provision of the legislation that directs it to execute the law.

And this is a principle we cannot compromise, nor do I believe the Congress is willing to compromise it.

For it is the refusal of the administration to carry out the Rural Electrification Act of 1936 that has precipitated this crisis. During hearings before the House Agriculture Committee, Secretary Earl Butz was asked by Chairman Bob Poage where he got his authority to abandon the existing REA program. His answer: "The law does not require me to make loans; it only authorizes me to make loans."

Now we and the Congress are again being asked to "authorize" the administration to undertake a new program. Under this new program, 83 percent of the rural electrics would be paying an interest rate $2\frac{1}{2}$ times what they have paid. They would be asked to pay this higher interest rate without any assurance that this program would be funded at levels consistent with their capital needs. In fact, they have no assurance that it will even be funded at all.

We can only assume from the stance taken by the administration that this is exactly what it wants—it wants to be able to discontinue the rural electric and telephone loan programs whenever it decides to do so.

If anyone thinks this ascribed motive is farfetched, he only has to listen to the words of high administration officials.

The President told a press conference on January 31 that rural electric loans were no longer needed because “now 80 percent of this 2 percent money goes for country clubs and dilettantes and others who can afford living in the country.”

Secretary of the Treasury George Shultz said on January 30 on network TV that 80 percent of the money goes in nonrural areas; some of it to help country clubs and things like that.

Roy Ash, Director of the Office of Management and Budget, told a Senate subcommittee that 81 percent of the expenditures under the REA program do not go any more to farmers or rural areas, but instead go to suburban, sometimes even to industrial locations.

John D. Ehrlichman, assistant to the President for domestic affairs, called rural electrification loans grants in an interview in U.S. News and World Report, February 26.

Carper Weinberger, Secretary of Health, Education, and Welfare, told “Meet the Press” recently that rural electric loans weren’t needed because 80 percent of this money goes into nonrural applications.

Since December 29, 1972, the White House and its Office of Management and Budget have been replying to letters of protest concerning the REA action by declaring that this program is among those selected for consideration for termination, reduction, or reform as part of the continuing review of Federal programs to identify those that are no longer needed, are relatively ineffective, are excessively costly in terms of their results, are of relatively low priority, or are unnecessary as direct Federal activities because their objectives can be well served by private or State/local action. Other letters imply that the rural electric program is among those no longer needed.

Mr. Chairman, each and every one of these statements is false. They are nothing more than a deliberate effort to discredit one of the most successful programs ever created by our Federal Government.

You may recall that Secretary Earl Butz admitted before the Agriculture Committee that the President’s statement was wrong. Yet these statements persist.

You can readily see why rural electric leaders throughout the Nation are not willing to entrust their future to the whims of officials who make statements such as those.

We believe that any close analysis of this legislation and surrounding circumstances clearly demonstrates that NRECA and its members have acted responsively and responsibly in this legislative crisis, and that we have been fully mindful of and responsive to the budgetary goals of the administration.

But we are not willing to make the new program one which the administration can turn off and on whenever it chooses. We believe it is the responsibility of the Congress to determine what funds should

be made available for the loan program. We do not believe it should be the responsibility of a faceless and nameless employee in the Office of Management and Budget who does not have to answer directly to the people.

We have been told that if the legislation contains provisions which require the execution of the law that it will be vetoed. We do not know if this is true or not, but we do believe that the House-passed bill is sound legislation and that it merits the signature of the President. It meets his objectives of increasing the interest rate on REA loans and removing the loan program from outlays of the Federal Government, including the \$367 million appropriated by the Congress and impounded by the administration on December 29, 1972.

Senator, we hope the conference committee will agree to legislation substantially in accord with that passed by the House. And we hope that this legislation will contain the one principle that is common to both bills: The principle that the law must be faithfully executed by the executive branch.

If this means that the bill will be vetoed, then we must face that eventuality. I believe that the rural people in this room and throughout America, with their typical dedication and determination, will not allow such a decision to stand.

Senator McGOVERN. Mr. Partridge, one of the purposes of these hearings, in addition to getting information that we need for the hearing record as we proceed with the conference on the REA proposals, and also proceeding with the markup of the farm bill, is to try to acquaint people across the country with the fact that we are in deep trouble on the REA program, as well as any hope we have of extending the existing farm bill. Now, given the administration's action in December, simply announcing by press release that the REA loan program was ended, and considering also their previous impoundment of funds that the Congress had appropriated, is it going too far to say that what they seem to be trying to do is to just kill off the REA loan program as we have known it over the years?

Mr. PARTRIDGE. No; I think that's a very accurate statement, Mr. Chairman. It seems to us that, indeed, the program is being killed off. Under the program announced on December 29, that is, the program under the Rural Development Act, a number of loans have been made, but significantly enough, not 1 cent of money has actually been advanced under any of those loans to date.

Now, ultimately I am sure some money will be advanced, but I think you state it very accurately. I think the administration again, by the words and deeds of its leading spokesmen, makes it abundantly clear that they have no intention of supporting this program, that they want to phase it down and out as rapidly as possible.

Senator McGOVERN. I think both you and I would have preferred that it wasn't necessary to put mandatory language into legislation. I think our system always works best when there is a certain amount of flexibility, and we don't like to be put in the position where we say to administrators, you have to spend every penny that we have authorized and appropriated. But, given the history of the present administration—not only with the REA program, but as Congressman Denholm said, the REAP program which was killed by im-

poundment, the water bank program, the emergency loan program that was temporarily halted by a refusal to release the funds—do we really have any other practical alternative, except to write into law a requirement that when the Congress authorizes and appropriates a certain amount of money for a particular program the administrator of that program is obligated to carry out the law?

Mr. PARTRIDGE. I know of no other alternative, Mr. Chairman, and we have given very serious and careful thought to this, because it apparently is a crunch point, if you will, with the administration. I know Congress doesn't like to write legislation this way, but, when you are faced with the fact in being of an administration unwilling to carry out the law, I know of no other alternative than to make it so mandatory that it cannot be interpreted in any other way than the way the Congress intended it.

Senator McGOVERN. As you know, I am the chairman of the House-Senate conference on the REA program, and I want to do what is right in terms of the REA cooperatives, our REA program and our rural telephone program. I think we are going to be confronted with an administration offer in which they say, "Well, we don't want the mandatory language, but we will write you a letter, we will write you a private letter saying that we will spend the money." They don't want Congress to legislate that they have to release the funds, but there may be an alternative offered in the form of a written assurance that the money will be spent.

How do you and your members for whom you speak react to that kind of an alternative?

Mr. PARTRIDGE. We have only recently heard of that possibility, and I have not really had much feedback from my members on this. We have reported to them that that is one of the possibilities.

I think, Mr. Chairman, that how we would react on that depends, in very large measure, on from whom that commitment comes.

Senator McGOVERN. Who signs the letter?

Mr. PARTRIDGE. Yes, sir. To be quite candid about it, I would have no confidence in such a commitment on the part of an official of the OMB, which made the decision and enforced it, terminating the program, duly authorized and funded by the Congress, on December 29. I think in view of their performance they are indeed due a vote of no confidence by one and all concerned.

Now, on the other hand, I think that a commitment from the President of the United States would have meaning, and I think it would make a great deal of difference whether the commitment is one that comes from a responsible individual or whether it comes from someone that we have good reason to consider not responsible or, alternatively, not in a position to make good on the commitment.

That would certainly be the case, let's say, for example, the REA administrator. I'm sure that he sincerely hopes that the program will be carried out, but he is not in a position to make that commitment and make good on it.

Senator McGOVERN. I think the point is well taken; without in any way criticizing the existing administrator of the program, he gets his orders the same as other people do in the administration from the man at the top.

I just want to say for myself that I couldn't even consider yielding the mandatory language that is now in the Senate bill unless we have a letter from the President himself saying that the money authorized and appropriated by the Congress for rural electrification purposes is going to be spent according to law, and we haven't had such a letter.

I think without objection I'd like to have included in the record a letter from the committee received under date of April 25 from the Undersecretary of Agriculture, Mr. Phil Campbell. It was in response to an inquiry from the general counsel and staff director of our committee.

[The document referred to follows:]

DEPARTMENT OF AGRICULTURE,
Washington, D.C., April 25, 1973.

HON. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate

DEAR MR. CHAIRMAN: This is in response to an inquiry from the General Counsel and Staff Director of the Agriculture and Forestry Committee of the United States Senate concerning the plans of this Department to submit for the information of the conferees a substitute for S. 394, a bill "To amend the Rural Electrification Act of 1936, as amended, to reaffirm that such funds made available for each fiscal year to carry out the programs provided for in such Act be fully obligated in said year, and for other purposes."

The inquiry was prompted by the recent furnishing of a list containing six criteria for the Administration's acceptance of a bill amending the Rural Electrification Act of 1936 to the Associate Counsel of the Agriculture Committee of the House of Representatives. A bill (revised Nelsen substitute) which meets the six criteria referred to in the inquiry was offered by Congressman Nelsen on the floor of the House as a substitute for H.R. 5683 and appears at pages H2420 and H2421 of the Congressional Record for April 4, 1973. The revised Nelsen substitute, a copy of which is enclosed, is acceptable to the Administration.

I would hope that prior to filing of the Conference Report our respective staffs would get together to make the indicated technical suggestions.

The Office of Management and Budget advises that there is no objection to the presentation of this information and that enactment of the revised Nelsen substitute would be consistent with the Administration's objectives.

Sincerely,

J. PHIL CAMPBELL, *Under Secretary.*

Enclosure:

Page 1, line 3, strike out all after the enacting clause and insert in lieu thereof the following:

That it is hereby declared to be the policy of the Congress that adequate funds should be made available to rural electric and telephone systems through insured or guaranteed loans at interest rates which will allow them to achieve the objectives of the Rural Electrification Act of 1936, as amended, and that such rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives. The Rural Electrification Act of 1936, as amended (7 U.S.C. 901-950(b)), is, therefore, further amended as hereinafter provided.

Sec. 2. Title III of the Rural Electrification Act of 1936 is amended by adding at the end thereof the following new sections:

"SEC. 303. INSURED LOANS.

"All loans made pursuant to title I and title II of this Act (hereinafter referred to as 'insured loans') shall be made from and insured through the Rural Development Insurance Fund (hereinafter referred to as the 'fund')

established by section 309A of the Consolidated Farm and Rural Development Act (hereinafter referred to as the 'Development Act') and shall be deemed rural development loans for purposes of section 309A of the Development Act. An insured loan is one which is originated, held, and serviced by the Secretary, and ultimately sold and insured in the same manner as provided for rural development loans under the Development Act.

"SEC. 304. GUARANTEED LOANS.

"The Secretary may guarantee loans in the full amount thereof, and use the fund therefor, made by the National Rural Utilities Cooperative Finance Corporation. Banks for Cooperatives, or any legally organized lending institution or agency for purposes for which loans may be made under title I and title II of this Act. The borrower shall pay to the fund as a fee for such guaranteed loan an amount equal to one-quarter of 1 per centum of the loan for the costs of administration and for losses. A guaranteed loan is one which is originated, held, and serviced by a private financial agency or other lender approved by the Secretary.

"SEC. 305. INTEREST RATES ON LOANS.

"(a) Except as provided in subsection (b) of this Section, insured loans for electric and telephone facilities shall bear the rate of interest prescribed by the Secretary equal to the highest rate compatible with the borrower's ability to achieve the objectives of this Act. All loans made under this Section shall bear a rate of interest not in excess of the market rate or less than 3 per centum.

(b) If an applicant for a loan referred to in section 305(a) demonstrates that it has consumer or subscriber density of three or less per mile and (i) its earnings or margin coverage of interest is less than 1.50 or (ii) such coverage of debt service is less than 1.25, each determined on the basis of the average of the two highest of the preceding three calendar years, the interest rate shall be 2 per centum: *Provided, however,* That the Secretary may, in his sole discretion, on a case-by-case basis, establish a 2 per centum per annum rate of interest for any loan pursuant to title I or title II, including electric generation and transmission loans, on a finding of extreme hardship or extenuating circumstances in connection with a particular loan.

"(c) Guaranteed loans shall bear interest at such rate as may be agreed upon by the borrower and the lender.

"SEC. 306. COLLECTIONS.

"Notwithstanding section 3(f) of title I and subject to the provisions of section 301 of this title, all collections representing payments of principal and interest on loans, and proceeds from the sale of security for such loans, heretofore or hereafter made pursuant to title I and title II or insured pursuant to this title, shall become part of the fund and may be used for all purposes relating to rural electrification and telephone loans and for the payment to the Secretary of the Treasury of loans made to the Secretary or the Administrator pursuant to section 3(a) of title I of this Act. Notwithstanding any other provision of law, the Secretary of Agriculture shall segregate and keep in two separate accounts all moneys in the fund devoted to all rural electric and telephone programs and (ii) rural development.

"SEC. 307. REFINANCING OF DEVELOPMENT ACT AND ELECTRIFICATION AND TELEPHONE LOANS

"On request of the borrower, the Secretary is authorized and directed to refinance with loans which may be insured under this Act, any loans made for rural electric and telephone facilities under any provision of the Consolidated Farm and Rural Development Act.

"SEC. 408. FULL FAITH AND CREDIT OF UNITED STATES.

"Any contract of insurance or guarantee of a loan executed by the Secretary under this title shall be an obligation supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder has actual knowledge. The Secretary is authorized to make agreements with respect to the servicing of loans insured or guaranteed under

this title and to purchase such loans on such terms and conditions as he may prescribe."

SEC. 3. This shall take effect upon enactment.

Senator McGOVERN. Are you by any chance familiar with that letter, Mr. Partridge?

Mr. PARTRIDGE. Yes, sir, Mr. Chairman. I became aware of it last evening for the first time.

Senator McGOVERN. What is your reaction to that? Maybe we are pressing you prematurely.

Mr. PARTRIDGE. I think I can respond, because we have had the issues before us of the kind of a program that this letter proposes, that is, this letter from Undersecretary Phil Campbell to Chairman Talmadge, which proposes or says that the so-called Nelsen substitute is acceptable to the administration.

Senator McGOVERN. This is Congressman Ancher Nelsen?

Mr. PARTRIDGE. Yes, sir, of Minnesota, who at the time the legislation was pending before the House Agriculture Committee proposed essentially this same legislation, and then again offered it as an amendment to the Denholm bill on the House floor, the Denholm bill being the bill now passed by the House and before the conference committee.

This legislation has a number of important defects, I suppose the most serious of which is that it would continue the rural electrification program, the rural telephone program, as well, under the authority of the Rural Development Act, that is, the funds would be loaned under the Rural Development insurance fund. This is one of the very important matters that needs to be cleared up by the legislation. The program ought not to operate under that fund, ought not to operate under that authority.

Senator McGOVERN. That Act was never designed for rural electric loans, was it?

Mr. PARTRIDGE. It certainly was not, sir, and we have experienced considerable difficulty since REA began trying to implement a loans program under it. It is not designed for electric and telephone systems, obviously. It is designed for other purposes, and the impediments that we find so difficult are a part of that legislation for very good reasons, with respect to the purposes the Congress had in mind when they enacted the law.

There are other important defects of the bill. It would reduce to a mere handful of systems the systems eligible for financing at the 2 percent interest rate when, in fact, there are a substantially greater number of systems than are covered by that bill who are going to have to have financing at that rate because of the very difficult circumstances, financial and otherwise, that they operate in.

The bill is not a good bill, and we certainly would not endorse it or support it.

Senator McGOVERN. Thank you very much, Mr. Partridge. I wish we had more time. If you have any additional material you would like to file with the committee, the record will be open.

Mr. PARTRIDGE. I appreciate your courtesy, Mr. Chairman, and the opportunity to appear here before you this morning.

Senator McGOVERN. Our next witness is Mr. Loren Zingmark, general manager, East River Electric Power Cooperative, Madison, S. Dak.

**STATEMENT OF LOREN A. ZINGMARK, GENERAL MANAGER, EAST
RIVER ELECTRIC POWER COOPERATIVE, MADISON, S. DAK.**

Mr. ZINGMARK. Thank you, Mr. Chairman. I, too, would like to just briefly go through my report and I will submit it in total for the record.

We believe very deeply in constitutional government. We never dreamed the President of the United States would arbitrarily abolish an act that had been adopted by the Congress and signed by the President of the United States.

We believe and have been advised, by what we feel to be confident and knowledgeable counsel, that the termination by executive action of the statutory program is clearly beyond the constitution and delegated powers of the executive branch of the Government.

The legal opinion, dated February 2, 1973, submitted by the Department's assistant general counsel for Rural Development Conservation, recognizes that there are serious difficulties in making rural electrification loans under the Rural Development Act, and thereby confirms the substantial apprehension of many REA borrowers that the proposed Rural Development Act lending program is completely unworkable when applied to the electric utility type enterprise.

Mr. Chairman, I would like to give one example as far as East River is concerned. The administration counsel points out that all loan applications must be submitted for review and comment to the local multijurisdictional planning agencies and to the unit of local government having jurisdiction over the area in which the proposed project is to be located. The potential for delay, irrelevant and frivolous controversy and added burdens upon the borrowers in these requirements is incalculable. East River, for example, may have to go to as many as eight of these planning agencies to get approval for just one loan.

In addition to multicounty districts, there is also a matter of municipal planning and zoning commissions, boards of county commissioners and state planning agencies. Any one or a combination of these may cause excessive delays or possibly the veto of needed construction. There has already been one instance, in the case of our southwest Aberdeen tap and substation where a city zoning commission attempted to exercise authority over a 3-mile wide corridor around the city of Aberdeen. Since this was strictly rural area, it resulted in an overlapping of alleged authority over the same area, thereby causing considerable delay.

We are also aware of instances where our member distribution systems, in planning their construction programs and obtaining loan funds, would have to deal with as many as two or three planning districts that overlap the distribution cooperative's service area.

We hasten to add that we have established working relationships with some of the multicounty planning directors and personnel, and we have found that their range of responsibility covers a wide area such as reviewing sewer and water projects, housing projects, police and fire protection proposals, law enforcement projects, health and medical care project reviews, and a whole myriad of social welfare programs which utilize Federal funds in one way or another. We feel

that these multicounty staffs would be hard pressed to take on the additional work of reviewing and assisting with the planning of all the generation and transmission and distribution construction that goes on each year throughout our service area.

Our organization has long been on record supporting the traditional 2 percent 35-year REA loan program. This has been our position and this position still remains.

However, at their regular meeting on April 5 the board of directors of East River unanimously passed a resolution supporting the Denholm bill. The directors deliberated long and hard on this resolution and concluded that the Congress of the United States has not taken it upon themselves to regain the authority which the people have vested in them and in their judgment the Denholm bill is the only way the rural electrification program can be restored under the Rural Electrification Act of 1936 as amended.

Both the Senate and the House, since reconvening last January, have passed several pieces of legislation. I would like to refer to two specific bills. First the Vocational Rehabilitation Act passed by the House and the Senate by overwhelming margins, and yet when it reached the President's desk and was vetoed, the Senate failed to override that veto. The other was entitled "Rural Water and Waste Disposal Act," which again was passed by an overwhelming majority in both Houses, was vetoed by the President, and again the House of Representatives failed to come up with the necessary two-thirds vote to override the veto.

We all know the old story about the lady who cornered Ben Franklin as he emerged from the Constitutional Convention at Philadelphia. "What do we have, sir, a monarchy or a republic?" she asked. "A republic," replied Dr. Franklin, "if you can keep it."

We have heard, along with many others, the conversation between Mr. Ehrlichman of the White House Staff and a news reporter when Mr. Ehrlichman was questioned as to his statement of "one-man rule." Mr. Ehrlichman answered, "That's what the President of the United States is. He's the only elected officer elected by all the people of the United States, unlike the Senators or Congressmen."

Senator McGOVERN. Mr. Zingmark, may I interrupt you for a moment? I wonder if our people felt the full import of that statement. When Mr. Ehrlichman, the President's top man, says that he agrees that the President is one-man rule, he doesn't object to that term. Is that what he's saying?

Mr. ZINGMARK. That's the way it is reported and that's also the way it appears in the Congressional Record, Mr. Chairman.

Senator McGOVERN. A couple of months ago I made a speech that provoked some controversy when I said we were drifting toward one-man rule in this country. Some people said, "That's too harsh to say that about the President of the United States," but here's Mr. Ehrlichman saying that's what he is. He's proud of the fact.

Mr. ZINGMARK. Correct.

Senator McGOVERN. He's proud of the fact that he works for a system that is one-man rule. I don't think that's what the Constitution has in mind, do you?

Mr. ZINGMARK. I certainly don't, Mr. Chairman, and that's why I say I respectfully disagree with Mr. Ehrlichman. However, we believe, Mr. Chairman, that at least at this time more than a third of the Members of the U.S. Senate and House of Representatives support that statement.

As we understand the objections of the administration, anything that is appropriated above and beyond its recommendation becomes a nonresponsive government, and that it would be inflationary and therefore mandatory that the President veto same. It is for this reason that we believe the objections of the administration to the Denholm bill will be lessened because of the revolving fund that has been developed in this legislation. Very little, if any, new appropriations would have to be made by the Congress.

The criteria has also been established in the bill for those cooperatives eligible for 2-percent money. In South Dakota, under the criteria as it appears in the Denholm bill, approximately 25 rural electric distribution cooperatives would be entitled to 2-percent, 35-year loans.

Mr. Chairman, I have been to many electric cooperative meetings where it has appeared to me that the cost of money is of little concern to many of those present. We do not share that viewpoint. It appears to us that under the Denholm bill, G. & T. cooperatives would be handled in the same manner as they were prior to December 29, 1972. So, in our opinion, it would be possible that some loans could be made for G. & T.'s such as East River at the 2-percent interest rate.

As a member of the conference committee, I sincerely hope that an agreement can be reached on the compromise between the Humphrey-Aiken and the Denholm bills. I understand that during the last two sessions of this conference committee, and you have already alluded to this, Mr. Chairman, the administration was attempting to amend the Denholm bill, which they failed to do both in the House Agricultural Committee and on the House floor. We urge your opposition to any damaging amendments that might be proposed. It is inconceivable to us that amendments that have already failed twice would be attempted a third time in a conference committee, as we are led to believe that when a difference exists between a Senate and a House version of bills, it is those two and those only that would be compromised into a position of agreement by both sides.

Again, Mr. Chairman, we deeply appreciate what you have done on our behalf and express our sincere appreciation for having the opportunity to be here this morning.

[The prepared statement of Mr. Zingmark follows:]

Mr. ZINGMARK. Mr. Chairman and members of the committee, my name is Loren Zingmark. I am the general manager of East River Electric Power Cooperative headquartered in Madison, S. Dak. I am indeed pleased to have the opportunity to present this testimony before you today.

East River Electric Power Cooperative is a transmission cooperative serving wholesale power to 23 member distribution systems in rural areas of eastern South Dakota and western Minnesota. These same systems in turn serve approximately 50,000 rural consumers.

East River Electric Power Cooperative purchases approximately 65 percent of its wholesale power from the U.S. Bureau of Reclamation.

The other 35 percent comes from Basin Electric Power Cooperative at Bismarck, N. Dak.

I only mention the above to you so that you will have a better idea of East River's system and the problems that we face by the action taken by this administration to abolish the Rural Electrification Act of 1936 as amended.

We who believe very deeply in constitutional government never dreamed that the President of the United States would arbitrarily abolish an act that had been adopted by the Congress and signed by a former President. This has been done, as we all know, and we are now faced with a grave crisis in the rural electrification program.

We believe and have been advised, by what we feel to be confident and knowledgeable counsel, that the termination by Executive action of the statutory program is clearly beyond the constitution and delegated powers of the executive branch of Government.

Also, notwithstanding the U.S.D.A. press release of December 29, 1972, the February 22, 1973, opinion of the Department's assistant general counsel makes it abundantly clear that the new program of 5-percent guaranteed and insured loans will in all probability not be coexistent with the 2-percent statutory program which it proposes to replace.

Finally, in our opinion, the Rural Development Act of 1972 is not structured or adapted to be and was never intended by the Congress to be a substitute or a replacement of the REA Act and includes several cumbersome restrictions on loan procedures. Interest rates are also much higher than under the REA Act. Its use in rural electrification loans would, therefore, immeasurably impair the ability of many rural electric systems to maintain and achieve their objectives and would unquestionably weaken their vital role in providing adequate, reliable, reasonably-priced area coverage electric service to the rural people of this Nation.

In support of these objections to the proposed new loan program, we call your attention to the following facts:

On January 22, 1973, the law firm of Arnold & Porter submitted to our national association, NRECA, a comprehensive and thoroughly researched memorandum on the Department's termination of the REA program under the REA Act. This opinion concludes that there is "no constitutional basis for the Department's action" and that it "cannot be justified either as an assertion of constitutional prerogative or as an exercise in discriminatory authority delegated by Congress."

The legal opinion, dated February 2, 1973, submitted by the Department's assistant general counsel for Rural Development Conservation, recognizes that there are serious difficulties in making rural electrification loans under the Rural Development Act, and thereby confirms the substantial apprehension of many REA borrowers that the proposed Rural Development Act lending program is completely unworkable when applied to the electric utility type enterprise.

The counsel's opinion points out that before a loan under the Rural Development Act may be made, the Secretary must determine that an applicant is unable to obtain credit elsewhere "from private lenders at prevailing interest rates and terms * * * manifestly, also the prevailing interest rate is not limited to 5 percent." This appears largely to nullify the Department's December 29, 1972, announcement that all

REA loans would therefore be made at 5 percent under an increased loan ceiling. It now seems more likely that many rural electric systems could in fact be deprived of any Federal loan assistance by this "no credit elsewhere" restriction. Moreover, the counsel's reference to a borrower's ability to pay these prevailing interest rates from private lenders indicates that such ability may be evaluated without regard to any of the criteria which have historically been regarded as a valid test of the borrower's need for Federal financing. By the administration's own counsel's opinion, this limits the terms "ability to pay" to the question of whether the applicant can repay the alternative private loan without injuring the project for which the Federal loan is considered. Apparently, even the overall operations of a system and its future needs for additional capital are not to be taken into account.

A second major and most serious problem is emphasized by their own counsel. Even if a loan should come after satisfaction of the "credit elsewhere" test is made, it would be subject to the contingency that at any time over a loan period the borrower would be compelled to refinance and repay the Government loan if the Secretary should determine (1) That private credit is available to the borrower at then prevailing rates and terms and (2) that the borrower is reasonably able to repay such loans without seriously impairing the operation for which the loans were initially made.

In other words, financing under this statute is not really permanent long term financing. The borrowers would be completely uncertain about (1) The duration of the financing, (2) the extent of possible increases in costs which might be imposed at any time by compulsory refinancing. Their own counsel states that it would be "legally impermissible" to set any maximum interest rate beyond which future refinancing would not be required. A burden of such proportions is totally incompatible with good utility planning and management.

Finally, the administration's counsel points out that all loan applications must be submitted for review and comment to local multi-jurisdictional planning agencies and to the unit of local government having jurisdiction over the area in which the proposed project is to be located; and the Secretary must in each case make a determination "That the loan project is not inconsistent with area development planning." The potential for delay, irrelevant, and frivolous controversy and added burdens upon the borrowers in these requirements is incalculable. East River, for example, may have to go to as many as eight of these planning agencies to get approval for just one loan.

In addition to multicounty districts, there is also the matter of municipal planning and zoning commissions, boards of county commissioners, and State planning agencies. Any one or a combination of these may cause excessive delays or possibly the veto of needed construction. There has already been one instance, in the case of our southwest Aberdeen tap and substation where a city zoning commission attempted to exercise authority over a 3-mile wide corridor around the city of Aberdeen. Since this was strictly rural area, it resulted in an over-lapping of alleged authority the same area, thereby causing considerable delay.

We are also aware of instances where our member distribution systems, in planning their construction programs and obtaining loan funds, would have to deal with as many as two or three planning dis-

tricts that overlay the distribution cooperative's servicing area. Here again, the possibilities for delay and misunderstanding would add to the "lead time" that we must have in order to plan and program construction schedules.

We hasten to add that we have established working relationships with some of the multicounty planning directors and personnel, and we have found that their range of responsibility covers a wide area such as reviewing sewer and water projects, housing projects, police and fire protection proposals, law enforcement projects, health and medical care project reviews, and a whole myriad of social welfare programs which utilize Federal funds in one way or another. We feel that these multicounty staffs would be hard pressed to take on the additional work of reviewing and assisting with the planning of all the generation and transmission and distribution construction that goes on each year throughout our service area.

In summary, Mr. Chairman, the changes proposed in the rural electric loan program will entangle REA and its borrowers in untested, uncharted, and cumbersome procedures under a statute not designed for this kind of application (the Rural Development Act).

We are here, Mr. Chairman, in support of either the Humphrey-Aiken or Denholm bills. Our organization has long been on record supporting the traditional 2 percent, 35-year REA loan program. This has been our position and this position still remains.

However, at their regular meeting on April 5, the board of directors of East River Electric Power Cooperative unanimously passed a resolution supporting the Denholm bill, H.R. 5683. The directors deliberated long and hard on this resolution and concluded that the Congress of the United States has not taken it upon themselves to regain the authority which the people have vested in them and in their judgment the Denholm bill is the only way the rural electrification program can be restored under the Rural Electrification Act of 1936 as amended.

Both the Senate and the House, since reconvening this past January, have passed several pieces of legislation. I would like to refer to two specific bills. First the Vocational Rehabilitation Act passed the House and the Senate by overwhelming margins, and yet when it reached the President's desk and was vetoed, the Senate failed to override that veto. The other was entitled "Rural Water and Waste Disposal Act" which again was passed by an overwhelming majority in both Houses, was vetoed by the President, and again the House of Representatives failed to come up with the necessary two-thirds vote to override the veto.

We all know the old story about the lady who cornered Ben Franklin as he emerged from the Constitutional Convention in Philadelphia. "What do we have, sir, a monarchy or a republic?" she asked. "A republic," replied Dr. Franklin, "if you can keep it."

We have heard, along with many others, the conversation between Mr. Ehrlichman of the White House staff and a news reporter when Mr. Ehrlichman was questioned as to his statement of "one-man rule." Mr. Ehrlichman answered, "That's what the President of the United States is. He's the only elected officer elected by all the people of the United States, unlike the Senators or Congressmen." I respectfully disagree with Mr. Ehrlichman. However, we believe that at least to

this time more than a third of the Members of the U.S. Senate and House of Representatives support that statement.

As we understand the objections of the administration, anything that is appropriated above and beyond its recommendation becomes a "nonresponsive" Government and that it would be inflationary and therefore mandatory that the President veto same. It is for this reason that we believe the objections of the administration to the Denholm bill would be lessened because of the revolving fund that has been developed in this legislation. Very little, if any, new appropriations would have to be made by the Congress.

The criteria has also been established in this bill for those cooperatives eligible for 2-percent money. In South Dakota, under the criteria as it appears in the Denholm bill, approximately 25 rural electric distribution cooperatives would be entitled to 2-percent, 35-year loans.

Mr. Chairman, I have been to many electric cooperative meetings where it has appeared to me that the cost of money is of little concern to many of those present. We do not share that viewpoint. It appears to us that under the Denholm bill, G&T cooperatives would be handled in the same manner as they were prior to December 29, 1972. So, in our opinion, it would be possible that some loans could be made for G&T's such as East River at the 2-percent interest rate.

As a member of the conference committee, I sincerely hope that an agreement can be reached on the compromise between the Humphry-Aiken and Denholm bills. I understand that during the last two sessions of this conference committee, the administration was attempting to amend the Denholm bill which they failed to do in both the House Agricultural Committee and on the House floor. We urge your opposition to any damaging amendments that might be proposed. It is inconceivable to us that amendments that have already failed twice would be attempted a third time in a conference committee, as we are led to believe that when a difference exists between a Senate and a House version of bills, it is those two and those only that would be compromised into a position of agreement by both sides.

We deeply appreciate the effort which you have put forth on our behalf and want to express our sincere appreciation for giving us the opportunity to present our views to you today.

Senator McGOVERN. Thank you very much, Mr. Zingmark.

Referring to your statement, you say:

It is for this reason that we believe the objections of the Administration to the Denholm Bill would be lessened because of the revolving fund that has been developed in this legislation.

It was also the conviction of the Senate conferees that we might have better luck with the administration if we went to the House bill, and I want to tell you we were prepared to do that. We went into that conference thinking that while the Senate bill was a better one, and there is no question about that, we would have a better chance of getting it by an administration veto if we simply yielded and accepted the House bill. But to our surprise, we were confronted with a memorandum that came up from the executive branch saying they wouldn't accept the House bill, even if the Senate yielded everything in our bill and adopted the House bill 100 percent. So we're in a position now where we can't get either bill without the threat of an administration veto.

Now, do you think in view of the experience we had in failing to override the veto of the water and sewer facilities bill, which is a very popular program, our failure to override the veto of the bill to help rehabilitate the vocationally handicapped, do you think we've got much chance of overriding a veto on a REA bill?

Mr. ZINGMARK. I just have to give you my own opinion, Mr. Chairman. I read the President's veto message to the House on the Water, Rural Water, and Waste Disposal Act, and in it, of course, he pointed out that the main reason, the first main reason he vetoed it was because it would raise taxes for the taxpayer because there was an appropriation with it and as we know very little, but he used that as one of the excuses, and the other one, of course, was the constitutional question that he raised.

At least this would be, in my opinion, one of the areas that would be raised that he could not use as having to raise taxes, because there would be very little appropriations made, and whether or not that is strong enough for the President to sign, I'm not sure, Mr. Chairman, and I haven't read the one that came back to the Senate on the Rehabilitation Act, but perhaps that language appeared also in that veto message.

Senator McGOVERN. Well, I hope you're right about that. I do want to remind you that that water and waste disposal bill was authored by Senator Aiken, the most senior Republican in the Senate. This is not a partisan matter. It's really a contest as to whether we can preserve constitutional government. I think Republican members of the House and Senate are as disturbed as many of the Democrats. Senator Aiken had 94 cosponsors on that bill in the Senate. Since I have been there I have never seen a bill that had 94 Senators cosponsoring it. That was before we ever voted on it. And yet that bill was vetoed, and the House was unable to override the veto. So I do think we ought to think very soberly about the position we are in here before we decide what our strategy ought to be. I'm deeply troubled about the future of the REA program at a time when there is such stubborn opposition to it in the executive branch. I don't want to go to anything weaker than the House bill. I didn't even want to concede that much, but I'm very worried about the predicament we're in, in view of our track record to date in trying to override vetoes. I am going to vote to override a veto, but whether we can get two-thirds of the House and Senate to go along I think is a very serious question that we are going to have to make a very careful judgment about.

Mr. ZINGMARK. Well, I have a very difficult time, Mr. Chairman, in trying to analyze in my own mind why a bill that is good enough to vote on the first time, all of a sudden becomes bad enough to eliminate the second time it comes back. I have a hard time justifying this in my mind.

Senator McGOVERN. I can tell you what happens. It doesn't take very many changes, and somebody gets a telephone call from the White House saying we'd sure like to approve that Federal judgeship you want but we think we are going to have to hold that up until after this veto vote is in. We'd like to approve that project in Ohio, but we better just hold off for a few days and see how the vote comes out on the veto override. That's the way it's done.

Again I say this is not a partisan matter. It has been done by Presidents for a great many years. If they want to use the power of that office, it's enormously powerful. And here you have Mr. Ehrlichman saying that's the way it's supposed to be, that the President is supposed to be a one-man rule institution. So I hope our people are coming to see that we are up against a very serious constitutional crisis in this country.

Mr. ZINGMARK. We certainly are, Mr. Chairman, and when we talk about having to hold the line on expenditures because of the tax situation, and then we have a request for billions of dollars for more defense money—I just heard on the news coming here this morning, Mr. Chairman, where the President will be dedicating a new navy facility in Mississippi today, while just a few days ago they announced the closing of one in Massachusetts. To this farm boy it doesn't add up.

Senator MCGOVERN. Maybe he prefers the way they vote in Mississippi over the way they vote in Massachusetts.

I think your point is well taken. Every time I hear this talk about us not being able to afford the REA program, or we can't afford the rural environmental assistance program, we can't afford to build adequate water facilities in our small towns, I can't help but think about the way our tax dollars are being eaten up by these continued bombardment missions over Cambodia, and the continued expenditure on more and more new military gadgets of one kind or another at a time when we already have the capacity to destroy the entire world 10 or 12 times over.

But those are the problems that we're faced with. Those are the big questions we are going to have to grapple with.

Mr. ZINGMARK. Mr. Chairman, you mentioned that impoundment of funds on the water program. I believe they were also planning to impound the information on the Watergate program.

Senator MCGOVERN. I agree with you.

Thank you so much, Mr. Zingmark, for your testimony.

Senator MCGOVERN. We'd now like to hear from Mr. Arthur Jones from Britton, S. Dak., who is familiar to everybody in this room. Mr. Jones is president of the Basin Electric Power Cooperative, which has its office in Bismarck, N. Dak.

Art, I have to tell you that partly through my fault as chairman here we have been running behind our schedule today, so if you can hit the highlights of your statement we'll see that your entire prepared statement is made a part of the record.

STATEMENT OF ARTHUR JONES, PRESIDENT, BASIN ELECTRIC POWER COOPERATIVE, BRITTON, S. DAK.

Mr. JONES. All right, Senator McGovern. Thank you for that. I do appreciate the fact that you are under a tight schedule and I will do my best. Out of necessity I am going to have to deal closely with a part of the statement if you will permit me to do so, but I will cut it short in other areas.

First, before I begin on my own statement, may I ask that another statement be filed for the record. I picked, up only this morning as I came in, a statement that was prepared by Mr. Joe Matthews who is

the president of the Lake Region Electric Association at Webster, S. Dak., which is my home cooperative. I think that you have a statement there. However, here is a copy.

Senator McGovern. Without objection it will be made part of the record.

[The document referred to follows:]

WEBSTER, S. DAK., April 24, 1973.

Statement to: Senate Committee on Agriculture and Forestry.

I am Joe Matthews, a grain and livestock farmer from Lily, South Dakota. I am also President of Lake Region Electric Association with headquarters in Webster, South Dakota. Lake Region Electric serves the counties of Day, Marshall, and part of Roberts Counties, all in northeastern South Dakota.

The Lake Region Electric Association serving 2590 rural consumers with 1876 miles of line has authorized me to present to you this statement: The committee will note that on the basis of the miles of line of Lake Region Electric Association and the number of consumers served, the average density would be 1.38 consumers per mile.

In the regular Board Meeting on April 24, 1973, the Board took note of the fact that we also have 435 idle services in our service area. I would want the committee to know that over the years we have taken down a great number of idle services and yet there are this many remaining in the project. The purpose of these figures are only to indicate to the committee something of the continuing change in farm ownership, that is a part of the farm changes that are taking place in the area which we serve.

Our membership has always endorsed the 2% loan program under which the loan program has been made possible for some 37 years and they pretty well understand that rural electrification in our part of Rural America has been and is only possible because of that 2% loan program.

In regular Board Meeting this 24th day of April, the Board of Directors of Lake Region are in agreement that the Congressman Frank Denholm bill will provide the best rural electric program in 1973 and in future years.

The Board would want me to tell you of their keen disappointment because of the loss of the 2% program on December 29, 1972 when it was ended by order of the President. We think it was a mistake to end that program but we believe that the Denholm bill presents a substitute for that program.

We have the strong conviction that it is important that the Congress enact a good program, and particularly I will emphasize that this Board feels the criteria of the Denholm bill would make possible a 2% program for sparsely settled areas.

In view of what happened on December 29, 1972 to the 2% program, it seems to us most important that there be a mandate in the law for the administrator of the program to make use of loans to the extent of moneys available and not within guidelines of agencies of government that may know little or nothing of the needs of the program. The language of the Denholm bill would seem to do just this.

We do believe too, that the revolving fund composed of the assets of the program as provided for in the Denholm bill authorized by the Congress can be made workable.

I would want the committee to know that the Board of Directors of Lake Region Electric Ass'n., Inc. and indeed the member consumers of the Cooperative are most grateful to the Congress and previous Congresses have shown such great interest in making available funds to bring electric service to all rural consumers, and finally that we have tried our best to comply with the total area coverage principle which has always been a part of the program to provide electric service to every rural person who has desired it.

JOE MATTHEWS,
President,

Lake Region Electric Association, Inc.

Mr. JONES. My name is Arthur Jones, Mr. Chairman. I am a family member residing at Britton, S. Dak., and a farmer. I am also a consumer member and officer of the Lake Region Electric Associa-

tion, which is a distribution cooperative. My responsibility is in the field of power supply, and it includes serving as president of East River Electric Power Cooperative at Madison, S. Dak., and the Basin Electric in North Dakota, and my statement here today deals with the problems of the program generally.

We are grateful, Senator McGovern, that you saw fit to come here to your home State and our home State. We think it's a proper place and we thank you for appearing here at this hearing.

By way of introduction, Basin Electric is a wholesale power supplier for more than 100 rural electric systems in the Upper Missouri Basin. All but one of South Dakota's rural electrics receive bulk power from Basin Electric. In addition to the Bureau of Reclamation, Basin Electric is the only other major power supplier for South Dakota's rural electric cooperatives.

I might just depart from the statement here to say that the major source of our power supply is the Bureau of Reclamation at the present time, but Basin Electric carries all of the other utility responsibility, including picking up all of the additional load growth of all of these members, and so our demands for power and power generation are high.

The Senate, and particularly the members of this committee are to be highly commended for the passage of the Humphrey-Aiken bill. We are most hopeful that these two resounding victories will within—incidentally, we are endorsing the Denholm bill in its present form, House Resolution 5683. We have had resounding victories in both cases, and we have thought at least that this was extremely hopeful. We recognize, of course, the problem that faces the Congress now.

We believe that the language and provisions now of the Denholm bill, if enacted, will have a good effect. Administration action, and this I'd like to emphasize, administration action in recent months has clearly demonstrated that any new legislation must compel and must direct. You have spoken of it earlier in your hearing here this morning.

Senator McGovern. You wouldn't be willing to accept a written pledge from the administration that the money would be spent, Mr. Jones, in lieu of mandatory language by the Congress?

Mr. JONES. Well, I recognize that finally in dealing with legislation you have to accept some compromises. It seems to me we have gone a long ways at the present time with compromises.

Senator McGovern. I agree with that.

Mr. JONES. But your question deals specifically in what we might accept. I would feel that there is still a question, even if it was the President signing it. Does this become binding then upon future Presidents? Future Presidents, too, will be closer than anyone else, any one of the Congress to the offices of OMB which no doubt will continue into future administrations, and will just a letter as spoken of earlier here have the effect of making it binding over the years to come? This, too, I think is important, and I raise this question, I guess, by way of answer to your direct question, Senator. I would have some doubts about it even with the President's signature on it. For the immediate time, yes, it would be acceptable.

Senator McGOVERN. I appreciate that.

Mr. JONES. We recognize the house resolution, the Denholm bill does not contain specific language with respect to loan authority for power supply borrowers and that the making of 2-percent loans to such borrowers will largely remain under the discretion of the REA Administrator.

This is not to say that we think the language is weak in this respect particularly, but this is getting into an area where the administrations over the years are different, and administrators over the years have differed, in how much money should be allotted and used by the power supply cooperatives. We think that the Denholm bill in its present form at least as far as we know will do much for distribution co-ops and it's got some very desirable criteria for areas that are sparsely settled, I think, where lack of density is a problem, and even though it may be weak in respect to the power supply, it certainly would be a strong legislation for the distribution co-ops.

Senator McGOVERN. Just for the record, Mr. Jones, could you just explain why we need this 2-percent money for areas of sparse population? I know there are some people here that understand it, but for our hearing record I think we ought to have an explanation from somebody who has worked with this program over the years and who is himself a farmer, as to why we need to retain the 2-percent loan money at least for some of the cooperatives in the more sparsely settled areas like many of our cooperatives here in South Dakota.

Mr. JONES. Well, in the very beginning, Senator McGovern, of course, there was set up by the Congress an agreement, we referred to it as a covenant with the rural co-ops, they would serve everybody, they wouldn't just pick the cream of the crop. When we began to construct lines, we could have selected lines that would have been pretty good payout lines, but when you add everybody that finally wanted electricity, and it turned out that everybody did want electricity, and you built extra distribution mileage to get that job done. That's still the situation today. There is a change, too, taking place in farming. In our own distribution cooperative at the present time, I was amazed only this week that we still had about 400 idle services. These are services on farms that have been vacated. We have pulled out a lot of them. But they are still idle services. Now we're hoping that some of them will return, but the land is all being farmed, but there is no farmstead, no people living on some of these. These have been built, they have to be paid for and in the meantime we have to build new services, extend new services. The costs are double and more what we started out with, considerably more than double I think, and I believe this basically is the reason if we are going to provide area coverage, and I haven't noted that anybody has abandoned the area coverage concept—I'm sure the Congress still desires that we serve everybody that wants electric service; yes, even the country club and probably the dilettante if he is living out there, though I truthfully will have to admit I don't know exactly who he is or what he is. Incidentally, we serve one country club and we served it back in the beginning. That's the only one on our lines. I guess we haven't had normal growth, Senator.

Senator McGOVERN. I think it's a slight exaggeration, though, isn't

it, to say that 80 percent of the users are country clubs and dilettantes who can afford to live in the country?

Mr. JONES. I think that the Missouri Basin States should have been excluded from that statement. It may be possible that something like that is possible in other areas, but I'm sure this is really not the case. There has been industrial growth, and I'm sure that all of the co-ops, as expected by the Congress, and I think all administrations of the past have expected any rural electric to serve every load that comes their way in rural areas and not to select and discard some because they are too wealthy or something of the kind. You don't discard anybody because they are too poor to have electricity, you serve them.

Senator MCGOVERN. If there is a club out in the country and the REA line goes by, there is no reason not to serve it, is there?

Mr. JONES. It seems not and especially in view of the fact that nobody else particularly wants to go out and pick up such a load.

Basin Electric is particularly pleased that the Denholm bill provides that the administrator is authorized and directed at the request of the borrower to refinance loans previously made under provisions of the Consolidated Farm and Rural Development Act of 1972.

And I get now into the thing I want to tell you particularly. As you perhaps know, Basin Electric, because of compelling circumstances, was forced to apply for a supplemental loan in the amount of more than \$51.8 million. We are presently building a second unit at the Stanton, N. Dak., site. This loan was made in 1968, and there has been an overrun over the original approximately \$118 million set up for the loan. It comes about this way. In the first place, we have contracts with the Bureau of Reclamation. We build some transmission in their system, we have contracts with them. They wanted an option to determine the date of the coupling of the plant onto the line. This seemed reasonable. We granted this option, and it gave them the opportunity to set a date 1 year later for completion of the plant than we had expected. Now, this in itself, and they did invoke the option, this gave us a year in the very heart of the most difficult time of inflation, I think. Maybe it's going to be more difficult from here on, but there was a time pre-phase I—price controls—and pre-phase II when construction costs particularly just simply doubled and quadrupled, so we came into this period and inflationary costs were working havoc with us.

A secondary reason was that there were environmental changes needed on unit No. 1 to the tune of about \$6.5 million. These were provided for and had to be built concurrent with the building of the second unit. We were granted a loan of approximately \$3 million for one of our members in Montana, and this came out of our loan, original loan allocation. Consequently, we are having an overrun, and I want to speak of that, and I particularly want to speak of this because I want you and your committee to be informed of the reason why we made application now for the R. & D. loan, as they call it. This is one under the new program, under the Rural Development Act, and I think it's important that you understand that it was not our choice to do so, although we had to make the final determination that we must go this route.

Now, the consequences of not going were just these. We had reached our contracting authority. Let me say here that the original loan called for supplemental financing, and the administrator has spoken of it thus, on the part of members, in the form of pledges. Our own members were putting in \$18.5 million of construction costs out of approximately \$118 million, but the overrun is over and beyond this, to cover these items that I have mentioned.

Now, this has been determined in a total amount, and we were in need of \$51.8 million additional to cover these items. The administrator of REA has promised this loan from the 2-percent loan program consistently over the past couple of years. At one time I and my associates were in his office for the purpose of visiting with him about the question as to whether we ought to go look for additional supplemental funds. The administrator said no, you have put in your supplemental funds, your members have complied with the request for the \$18.5 million, this is a good loan and we are going to loan it out of the 2-percent program.

Well, it wasn't done. It was to have been done the day after the 29th of December. The first day of January we had been promised money from that 2-percent loan. It wasn't done.

Now, then, in the meantime, we are being pressed to keep that plant on schedule by two agencies, as well as our own needs, and our own needs are uppermost. But REA has been anxious for us to keep on schedule, honestly anxious I want to emphasize here, and the Bureau of Reclamation has now asked us if we can't move the scheduled completion date up from October 1 into at least the summer of 1975.

Senator McGOVERN. In that connection, when you are forced to move from a 2 percent loan to 5 percent, what does that do to the increased cost of producing power? Could you give us some rough idea of what that means?

Mr. JONES. Well, the best figure I can give you at the moment is that over the 35-year period, on this amount of money, it would cost about \$27 million extra. The member consumers would be loaded with a \$27 million extra item of cost.

Senator McGOVERN. Presumably they are going to pass that on in the form of higher rates to their customers?

Mr. JONES. Oh, yes, we'd have to.

Senator McGOVERN. Do you know what that does to the rate structure?

Mr. JONES. No; I couldn't say exactly.

Senator McGOVERN. But it's fair to say it will be a substantially higher rate?

Mr. JONES. Oh, yes.

Senator McGOVERN. Somebody has to pick up \$27 million in the form of higher rate costs?

Mr. JONES. Surely. We can supply that for you very quickly, but I'd rather not put it in terms of mills per kilowatt, or fractional mills at the present time.

Now, we needed to keep the plant on schedule because we found out—incidentally, we wrote the President a couple of times. The Administrator apparently was powerless after December 29, 1972. We

wrote to the President two different times. We finally got to visit with an assistant to the Secretary of Agriculture and with an assistant in the Office of Budget and Management. We came away feeling that OMB was not the slightest concerned.

Senator McGOVERN. Hadn't they previously promised you that that loan would be made?

Mr. JONES. Oh, yes, indeed.

Senator McGOVERN. Who made that commitment?

Mr. JONES. Mr. Hamil.

Senator McGOVERN. Maybe that's one of the reasons you said a while ago you wanted to know who was going to sign the letter before you accepted the commitment. You even expressed some skepticism about accepting anybody's word on it.

Mr. JONES. Well, I suppose, Senator, it is because I feel that we have dealt with—after the Congress sets this up as you so well know—we deal with the executive officers of government, in this instance Mr. Hamil, who is an appointee of the President, and in the handling of these loans this is as close as we get, and we didn't get any closer to the President except the Office of Budget and Management. So, yes, the commitment was made by someone employed directly by the President.

Senator McGOVERN. My impression is that when Mr. Hamil made that commitment he made it in good faith.

Mr. JONES. Oh, I think so. I'm sure of this.

Senator McGOVERN. Somebody overruled him.

Mr. JONES. Oh, no question about that. I'd like to emphasize that. I'm certain that this is right.

So we came to the conclusion that the gun was really aimed at our head. If these two agencies of Government, REA and the Bureau of Reclamation, then you get the Department of Agriculture and the Department of Interior who are directly under the President, and the OMB had no concern, apparently not concern enough to see that money was put in here to keep this plan on schedule.

Senator McGOVERN. Well, Art, supposing you ultimately don't get the \$52 million loan. I hope that won't be the case, but let's say that you can't break through this stop order and all the red tape. I understand you have to clear it with some 43 different local planning agencies, and even then you're not sure that it is going to be approved. What are the effects of the denial of this loan?

Mr. JONES. Well, first of all, we made application, on a given date in March, about March 20 for the R. & D. loan, and it has been made. We have assurances, whatever they are worth, of \$51.8 million. This loan has been made, and this is why I'm dealing with this, Senator, because I want you to know that we felt we were under the gun and had to do something. There was a nonconcern up there. Now I'll go back and answer your question.

Senator McGOVERN. You're convinced now you are going to get the \$52 million loan, even though it is under the 5-percent rate. You at least think you have that in the bag?

Mr. JONES. You are asking a difficult question, Senator. I feel sure that we've got contracting authority now to go ahead and contract for this plant, and if the administrator will put his name with ours

on these contracting documents, which I think he will, then we'll go ahead and complete this plant, and we're not going to be left stranded out here. We had some contracts that have to be let in May and June, a very sizable one in early June because it deals with the whole superstructure over the plant, and if that isn't gone before winter closes in, we can get behind exactly 1 year. Let me go back over that.

Senator MCGOVERN. I just want to remind you May is only 4 days away.

Mr. JONES. That's right. But when these loan documents are signed, we think we have contracting authority. Whether the money is forthcoming is another thing, because we don't need the money actually until a later date. What we need is the authority to contract. Without it on the line somewhere allocated for this purpose, we couldn't even contract; we can't complete our contracts. We would have no authority when we sign the contracts. If we did we'd be totally on our own because we haven't any funds to back it up.

In the prepared statement I go over some of the changes that I think were given to you in the last several days. You referred to them, and you have referred to them with Mr. Partridge here this morning, and while they are in here, I'm not conversant with them.

Senator MCGOVERN. Why don't we keep this record open for any additional comments you'd like to file later, Art. We are running short on time here, and I think you have hit the highlights of what we needed to know about the Basin Electric problem.

Mr. JONES. Just let me say finally that I'm anxious that you understand the reasons why we felt we had to make application for this loan. No one else had the concern, nobody but us, nobody but Basin to keep that plant on schedule, and if it wasn't on schedule everybody would be condemned. But I think there are people higher up than we are who could shed off that condemnation and we'd have to ride out the storm of being late. Maybe this is a part of our thinking.

Let me say finally that this R.D. loan, which we apparently have in hand, is not a good loan for an REA. For one thing, it is a demand loan. The Secretary of Agriculture, as we understand it, can come in here and tell us now I want you to refinance this. So I say, well, look, Mr. Secretary, we don't know where we can turn to refinance this loan. Oh, he will say, I have a list right here. So he'll give us a list of some New York bankers who perhaps will refinance it. Nobody, Basin or any other G. & T. or any distribution co-op can write loans on that basis, 35-year loans. It just doesn't fit this kind of a program. It's as simple as that, and yet they are trying to make it work, and we are just worried to death about that phase of the loan and some other phase of it, but that's the most violent one, I think.

I've taken more time than you hoped I would, Senator.

[The prepared statement of Mr. Jones follows:]

Mr. JONES. Chairman McGovern and members of the committee, my name is Arthur Jones; I am a family farmer residing near Britton, S. Dak. I am also a consumer member and officer of the Lake Region Electric Association which is our local distribution cooperative in the Britton and Webster area. My responsibilities in the field

of power supply include serving as president of the East River Electric Cooperative, Madison, S. Dak., and as president of Basin Electric Power Cooperative, which is headquartered in Bismarck, N. Dak. My statement here today is presented on behalf of Basin Electric.

We are most grateful that our State was selected as the site for this important hearing, and I join with the thousands of other rural electric consumers, farmers and ranchers in thanking you, Senator McGovern, for bringing this hearing to South Dakota which as a native son you know to be a highly important food-producing State.

By way of introduction, Basin Electric is the wholesale power supplier for more than 100 rural electric systems in the Upper Missouri Basin Region. All but one of South Dakota's rural electrics receive bulk power from Basin Electric. In addition to the U.S. Bureau of Reclamation, Basin Electric is the only other major power supplier for South Dakota's rural electric cooperatives. Within a very few years Basin Electric as the incremental supplier will provide more than half of all bulk power and will therefore be the principal supplier.

I am pleased for this opportunity to appear today in support of the Denholm bill [H.R. 5683] which so victoriously passed the House of Representatives by a vote of 317 to 92 on April 4.

The Senate and particularly the members of this committee are to be highly commended for passage of the Humphrey-Aiken bill (S. 394) by a 69 to 20 vote earlier this year. We are most hopeful that these two resounding victories will within a few weeks result in final action and enactment into law of new REA legislation which will direct and compel the administration to carry out the will of Congress and administer a viable and ongoing rural electric loan program. We believe that the language and provisions of the Denholm bill, if enacted, will have that effect. Administration action in recent months has clearly demonstrated that any new legislation must compel and must direct.

We recognize that H.R. 5683 does not contain specific language with respect to loan authority for power supply borrowers and that the making of 2 percent loans to such borrowers will largely remain under the discretion of the REA Administrator. At the same time we recognize that this bill does not in any way reduce or restrict the authority of the administrator to make loans to power supply borrowers. Every authority to make power supply loans that was ever contained in the original act will still be a part of the REA law.

Basin Electric is particularly pleased that the Denholm bill provides that the Administrator is authorized and directed at the request of the borrower to refinance loans previously made under provisions of the Consolidated Farm and Rural Development Act of 1972. As you know, Basin Electric, because of compelling circumstances, was forced to apply for such a supplemental loan in the amount of more than \$51.8 million.

The request for this loan, while dated March 19, was actually not mailed until March 22. On April 11, 20 days later, REA announced publicly that this supplemental 5 percent loan to Basin Electric had

been approved. In sharp contrast to this, Basin Electric had for more than 2 years previously sought this supplemental loan under the 2 percent REA program. On numerous occasions, both verbally and in writing, REA assured us that it would provide this additional financing with 2 percent loan funds. Unfortunately on the very day that Basin Electric was to have received additional financing, the administration terminated the REA loan program.

Let me explain briefly why Basin Electric needed this \$51.8 million of additional financing. In 1965, more than 7 years ago, Basin Electric undertook studies to determine the best alternative for supplying the member cooperatives' growing power supply needs after the mid-1970's when all other generating facilities in the region would be loaded. These cooperatives provide electric service to about 300,000 rural farms, homes and small businesses representing over 1 million people.

Through these studies we determined the best alternative was to add a 460,000 kilowatt lignite-fired second unit to our Stanton, N. Dak., plant. This unit will be twice the size of the present plant and will triple the total generating capacity of Basin Electric. This will make the Basin Electric plant the largest single power station in North and South Dakota.

Plans for this unit were carefully developed as a part of a large joint program with the U.S. Bureau of Reclamation, the Nebraska Public Power District and the Iowa Power & Light Co. REA agreed that these plans represented the most economic use of REA loan funds. Studies demonstrated that this unit will produce some of the lowest cost power available anywhere in the nation.

In 1968 REA provided \$98.8 million of 2 percent loan funds to Basin Electric for this project. This was conditional upon the member cooperatives of Basin Electric agreeing to provide another \$18.4 million out of their own limited cash reserves. This provided a total of about \$117.2 million which at that time was estimated to be adequate to cover all costs of this project.

Unfortunately, the period during which this power supply program was planned, and development was begun, has been a time of unprecedented inflation. By 1970 it was clear that escalating costs due to inflation and the huge sums of money that had to be budgeted to cover costs associated with purchase and installation of equipment to meet environmental protection standards would mean sizable overruns. The total cost of this program was now estimated to be approximately \$51 million higher than initially anticipated.

On several occasions in 1971 and 1972, REA firmly promised Basin Electric privately and publicly that it would provide this completion financing out of REA 2-percent loan funds. The actual making of the loan was postponed a number of times but finally firmly promised to be made on or about January 1, 1973. Unfortunately, without warning and without regard to outstanding commitments the administration killed the REA loan program on December 29.

During our discussions with REA, we specifically raised the question, should Basin Electric be about the business of attempting to secure this \$51 million from sources outside of REA. REA advised us

not to explore other sources of financing and confidently advised that this supplemental loan would be made out of 2 percent loan funds.

Still Basin Electric tried in every way that it could to persuade the administration to honor its commitment. We left no stone unturned. We held meetings with the assistant director of the Office of Management and Budget, the Assistant Secretary of Agriculture for Rural Development, the REA Administrator and others. We received no help and absolutely no assurance that the supplemental loan would be made out of 2 percent loan funds. The administration by this time publicly took the position that power supply loans should be at no less than the market rate which is somewhere between 7 and 9 percent. This left Basin Electric with three alternatives.

1. Continue to insist on a percent loan even after the administration killed the program, which would have involved a costly delay in completion of the project and risking a major power shortage for which Basin Electric would have to shoulder the blame.

2. Apply for a 5 percent loan under the Consolidated Farm and Rural Development Act of 1972, suggested by the administration, or

3. Seek Wall Street financing at even higher interest rates.

Basin Electric had obligated all of the financing obtained up to that time from REA and from the member cooperatives. We were truly under the gun and Basin Electric was forced to request this additional financing through the 5 percent rural development program.

This was an extremely difficult decision for our board since this alternative represents increased interest costs of 150 percent, or an added amount of \$27 million to the people of this region. Even worse, under the terms and conditions of this loan, Basin Electric could be forced to refinance the outstanding balance at a higher rate of interest at any time.

Our experience with this supplemental loan has convinced us that we must have new legislation and that such new legislation must direct and compel the administration to execute the will of Congress. If enacted without amendment, beyond the very minor clarifying amendment sought by NRECA, we believe that the Denholm bill will accomplish this objective.

I understand that on Tuesday of last week the administration revealed a compromise proposal and asked that the Senate-House conferees substitute this proposal for the Denholm bill. While we have not had an opportunity to see this proposal in writing or study any details associated with it, we understand that in general the proposal provides:

1. The administration would agree to establishing a separate rural electric account in the U.S. Treasury but would leave the program under the Consolidated Farm and Rural Development Act.

2. The administration insists that the mandatory language be deleted and that the program be reinstated under the conventional budget process.

3. That the new act should contain the administration's own criteria to determine which borrowers shall be eligible for 2-percent interest loans. This would mean that only 59 of the more than 1,000 rural electric borrowers would be eligible for 2-percent financing.

4. The administration would be willing to treat generation and transmission loans like telephone and electric distribution cooperative loans. This would appear to mean that power supply loans could be made only in the case where such borrowers serve the power needs of the 59 eligible distribution borrowers. What this appears to mean is that there would be no G. & T. loan program which seems to have been the traditional position of this administration.

5. All amendments to the rural telephone bank proposed under the Denholm bill would have to be deleted.

6. One-fourth of 1 percent interest would be added as a service charge on all guaranteed loans.

It is immediately evident from the first three points that this administration compromise is really no compromise at all. The rural electrics and the people have already compromised. The administration now has 95 percent of what it initially asked for, including the \$357 million of impounded loan funds.

We believe that the sixth point which would add one-fourth of 1 percent interest as a service charge on all guaranteed loans would certainly need additional study. The big and unanswered question in this case is what would the funds realized under this service charge be used for?

We understand that under the so-called compromise proposal offered by the administration only eight South Dakota and eight North Dakota rural electric cooperatives would be eligible for 2-percent financing.

Basin Electric was particularly reluctant to make the decision to seek a 5-percent supplemental loan because it could impair the efforts of our friends in Congress who are fighting for the reestablishment of a viable 2-percent REA loan program. Please understand that it was and is our intention to avoid any possible embarrassment to those Senators and Congressmen.

We respectfully urge this committee, the House and Senate conferees and the Congress to reject this administration compromise proposal. We urge that instead the Denholm bill be enacted with all haste and essentially in its present form. I recognize that the threat of a Presidential veto darkens the way ahead. We believe, however, that Congress should not and will not consider such threats as a sound basis for Congressional action.

Again, Senator McGovern, we thank you for bringing this hearing to South Dakota and for the opportunity to present our views.

Senator McGOVERN. We appreciate your testimony. Thank you so much for appearing.

Our next witness is Mr. John Olson, executive manager of the South Dakota Rural Electric Association at Pierre.

Congressman James Abdnor has asked me to express his regrets that he was unable to be present this morning. He had previously made a number of commitments in the Black Hills, but his representative in the Mitchell-Huron area, Sid Davison, is here today, and he will see that the Congressman gets a copy of all of the testimony that is submitted.

Just so you can make your plans, after Mr. Olson we have two more witnesses to be heard this morning, and then we'll break for lunch. This afternoon we will hear the witnesses who will testify on

general farm legislation. We will complete our REA and RTA testimony this morning.

We are happy to have you with us, Mr. Olson.

Mr. OLSON. Thank you, Senator. We appreciate your giving us this opportunity to visit with you and to make this a part of the record that you can return to your subcommittee and through them to the entire committee.

STATEMENT OF JOHN E. OLSON, EXECUTIVE MANAGER, SOUTH DAKOTA RURAL ELECTRIC ASSOCIATION, PIERRE, S. DAK.

Mr. JOHN OLSON. First, of course, we as the South Dakota Rural Electric Association would like to emphasize that we support fully the NREC position as outlined by Bob Partridge and, as one of the members of that national organization, we want to be on record as saying that and making it a part of your hearings today.

In addition, we want to go on record as thanking you and the other members of the South Dakota delegation for the job you have done in reopening this thing and getting it off dead center and starting it down the road toward completion and, hopefully, enactment into law so that we are once again making loans in the rural electric program.

My name is John Olson and I am the executive manager of the Rural Electric Association. Briefly I'd want to summarize what I have here to say, that we are wholeheartedly endorsing and supporting the substance of S. 934, which of course is more familiarly known to us in South Dakota as the Denholm bill. We have three basic reasons why we want to be on record in support of this.

In the first instance, the Denholm bill once again places the loans program of the Nation's rural electric cooperatives under the Rural Electrification Administration where we think it quite properly belongs.

A remarkable memorandum from the U.S. Department of Agriculture Office of General Counsel to REA Administrator Hamil, prepared at the Administrator's request, is clear evidence of the extremely complicated legal problems which REA faces in instituting loans under the Rural Development Act. And you have gone into that earlier in your visit with Mr. Jones just prior to my arriving on the scene, so I won't belabor that.

We do of course support the position of Senator Talmadge when he has made his statements in support of this act and appreciate the job he has done in our behalf.

Second, we endorse and urge ultimate passage of the Denholm bill by both Houses of Congress in its original form because at long last it provides the Nation's rural electric systems with a revolving fund from which loans may be made to finance rural electric cooperatives without further appropriations by the Congress for direct loans to the systems from the U.S. Treasury. The bill, in effect, removes the rural electrification loans program from the Federal budget, and this is a goal which our national organization and our State organization have long thought would be desirable.

As Congressman Denholm has stated:

"The revolving fund concept will result in a secure source and ample supply of funds to all cooperatives upon the terms and at a rate of interest that all can pay according to need."

Third, we endorse and support the Denholm bill because it would provide low cost financing to a majority of South Dakota's rural electric cooperatives, and there I would like to just inject the fact that we are the rural people in the United States, contrary to what many press releases and many statements from the administration have brought out. In South Dakota rural electric loans still go to farm families and to rural areas. Low density, low revenue per mile of line and exposure to extremely adverse weather conditions and terrain, place some of this State's rural electrics in the position of needing and needing badly low cost financing if they are to continue to provide low cost, dependable power to the rural population.

In concluding, we would again most respectfully urge you and the other members of your committee to have the Congress enact and the President sign into law this legislation that will enable the Nation's rural electric cooperatives to get on with the job of providing rural America, and especially rural South Dakota in our instance with an abundant and dependable supply of electrical energy at a fair and equitable price.

Again I'd like to say we are extremely grateful to you and the other members of the South Dakota Congressional delegation for the support you have given us in our cause and we are confident that you will continue to support and defend one of the greatest programs ever enacted by the Congress of the United States. We appreciate your keeping the record open because a number of our individual systems throughout the State have indicated that they would like to present testimony, but were not able to get it ready by this time, so we will ask them to submit it to you directly to your office or the committee, and you will be hearing directly from them. Thank you.

Senator McGOVERN. Thank you very much, Mr. Olson. We appreciate the views of your association. It is important to the committee to have the official statement of the South Dakota Rural Electric Association, and at your request, we will see that the record is kept open for any of your members or officers who want to file additional statements.

Mr. JOHN OLSON. Thank you, Senator.

Senator McGOVERN. Thank you for appearing here this morning.

Our next scheduled witnesses are Mr. Chester Gullickson, president, and Mr. Robert Johnson, vice president, of the Northern Electric Cooperative, at Bath, S. Dak. Mr. Gullickson is the president of that cooperative, Mr. Johnson is the vice president.

Mr. Johnson is not here so we'll hear just from Mr. Gullickson.

STATEMENT OF CHESTER GULLICKSON, PRESIDENT, NORTHERN ELECTRIC COOPERATIVE, BATH, S. DAK.

Mr. GULLICKSON. Ladies and gentlemen, sometimes it's important to judge where we're going by where we started from, and so I have before you the place that we started from, as indicated by this kerosene lantern.

Senator George McGovern, I am Chester Gullickson, president of Northern Electric, Aberdeen and Bath, S. Dak.

We are gathered together again today to protect, defend, and stir support for the program that has brought modern living and social advancement to areas outside urban developments. The farm, the ranch, the lake cottage, those that choose to live on the land outside an urban area, and to industries that choose to locate in rural areas. These are the segments of our economy that again are catching the blast and the crucifixion of the present administration.

This is the Easter season, and with it hope springs eternal. So let us fight for the revised Denholm bill, No. S. 394, so it will pass the Congress and be signed into law by the President. True, it is a departure from the old, but times change, situations change, and attitudes change.

Let us be sure that our loan applications do not have to pass through the hands of any council of local government. Let us be sure that with the provisions of this bill, that those who qualify for the 2 percent money can resubmit their loan if they have received one at 5 percent.

Several years ago, as president of Northern Electric, I gave a Gettysburg address for rural electrification at the annual meeting. I read it by the light of a kerosene lantern—this very lantern—because it signified the era that we had been in. Thirty-three years ago, since the Rural Electrification Act was passed, this is the position we started from.

More than 100 years ago one of the greatest presidents in history, Abraham Lincoln, wrote the Gettysburg Address. Today it seems quite appropriate that a similar dedication be written for rural electrification. In this interest I have written the following, which was read by the light of a kerosene lantern at an annual meeting.

Over three decades ago our fathers brought forth upon this rural land of darkness, a light called electricity. With determined effort by many, and great work by a few, this great white light came into our fathers' and mothers' homes to brighten life, lift drudgery, and revolutionize rural living.

A great darkness was lifted by a people who banded themselves together, to harness a law, passed by a sympathetic Congress, and signed by a warm, humane president, that made possible a new vehicle given to a grateful people that they have the mechanics to help themselves. This new implement was known then, as now, as the Rural Electrification Act. It was nurtured and stimulated and guided to grow by the Rural Electrification Administration.

Now, nearly 38 years after it was passed, over 99 percent of rural America has light and power, and in the darkness of the night, the countryside is dotted with beautiful lights.

This Nation may forget what we have wrought here in rural America and how it was accomplished. But never let your children forget, lest this kerosene lantern return as past generations knew it, to blight the spirit and dull the senses of a great rural people.

This kerosene lantern was a symbol of rural America for over the past more than 100 years. Let us retire it to the fold of the antiques, never to try to light our path again. It was a dark shroud around

our lives, but lest we guard our new-gained ground, it may return to haunt our land some future date.

Thank you.

Senator McGOVERN. I think that's a very eloquent statement, Mr. Gullickson, and we are glad to have that.

In your opening statement here you say, "Let us be sure that our loan applications do not have to pass through the hands of any council of local government." Could you elaborate on the significance of the dangers of a procedure that would require these loan applications to go through several layers of local government before they finally get to the Federal agency in Washington?

Mr. GULLICKSON. Well, Senator McGovern, I think it would be one of the most entangled processes of government to try and get a loan through for a particular cooperative if we have to pass through several local councils of government before we can have a loan approved. The REA program, as it affects all parts of the Nation, and probably more so this State, is a hard thing to get people to appreciate what rural electrification has done. It is hard to impress upon them the needed changes that must take place as you go along in your project. It is somewhat like buying a set of machinery to operate a farm. You may buy a new set of machinery this year, and in 5 years or less you have to start to replace this machinery. So in order to keep a program and our projects viable, we cannot afford, I don't think, to have to go through the entanglements of more local governments.

Senator McGOVERN. I was told that before the Basin Electric loan can be approved, it has to clear some 43 local planning agencies, that all have to sign off on it with their approval before it gets to the final clearance in Washington. Are you familiar with that?

Mr. GULLICKSON. Well, what I have read and what I have understood, I'm sure that electrification will come to a grinding halt if such proposals are left in the law.

Senator McGOVERN. Of course, this is what happened as a by-product of substituting the Rural Development Act as a vehicle for the approval of loans, rather than the original REA Act.

I think your point is well taken, and we do appreciate your testimony. Thank you for being with us today.

Mr. GULLICKSON. Thank you.

Senator McGOVERN. Our final witness before we break for lunch is Mr. Ralph Schreurs of Garretson, S. Dak., and Mr. Don Paulson of Wall, S. Dak., representing the South Dakota Telephone Cooperative Association.

Mr. SCHREURS. Senator McGovern and committee, I'm substituting Jim Olson for Don Paulson.

STATEMENT OF RALPH SCHREURS, SOUTH DAKOTA RURAL TELEPHONE COOPERATIVE ASSOCIATION, GARRETSON, S. DAK.

Mr. SCHREURS. I am Ralph Schreurs, manager of the South Dakota Rural Telephone Association. We represent all 14 co-ops in the State.

I just have a short message here and then I will let Jim read his statement which shows the situation basically in the State of what has happened.

Our co-ops range in size from 400, up to about 4,500. They have densities that vary from less than 1 per mile up to just slightly over four. The national average is four and a half, so all of our co-ops in South Dakota are below the national average.

Our investment per subscriber ranges from \$870 to \$2,630, and I might add these figures are as of December 31, 1971.

The revenue of mile per line varies from only \$123 up to \$560, and if the loan criteria that is spoken of in the Denholm Bill was used, there would possibly be four co-ops that couldn't meet the 2 per cent criteria.

The national average is, at the end of 1972 I think, \$717.

Now, about 5 years ago, all co-ops started to progress toward upgrading their systems to storm proofing and one party service for all people. This naturally started in the more dense areas in the eastern part of the State and has been working west.

Senator MCGOVERN. Does that include some effort to put the lines underground, Mr. Schreurs?

Mr. SCHREURS. Right. Most all the lines were going underground in the rural area, avoiding the problem of sleet storms and lightning and so forth.

Well, at this date in time, or I should say as of December 31, all but four co-ops in the State were basically underground and basically one party. The four that were not are the most sparse co-ops in the State and the reason for this is the rates were going to have to go quite high and the investment per station is going quite high.

I mention here \$2,630 for the highest one in the State. Well, this isn't as high as they will be once everybody gets upgraded, because investment, for instance, out at Bison, S. Dak., they were going to acquire the Buffalo and Camp Crook Exchange. In the feasibility study, the investment per main station was going to be around \$3,000. Well, you just take the difference between 2 and 5 percent interest on that particular situation. Three percent on \$3,000 is \$90 a year per subscriber just additional interest.

Senator MCGOVERN. That's at what interest rate?

Mr. SCHREURS. The difference between 2 and 5 percent up at West River, at Bison, S. Dak. They were looking at the feasibility of putting in one-party service up to Camp Crook and Buffalo.

Senator MCGOVERN. And that adds \$90 a year to the subscriber's bill?

Mr. SCHREURS. Three thousand dollars times 3 percent is \$90 no matter how you cut it and that doesn't include any principal.

So this is what has happened in the State of South Dakota. We have our most sparse systems yet to upgrade, and we are faced with the situation where we are either looking at 5 percent money or no money, and they just virtually halted it; just stopped.

Up in Roberts County, they accepted a loan of something like the Basin Electric because they had to pay some bills and they had no choice.

Basically what we are interested in now is legislation which will provide funds to the rural co-ops in South Dakota, rural telephone co-ops on a basis that we can live with, and we can live with the Denholm bill.

Senator McGOVERN. Even that will result in some increase in cost for you, won't it?

Mr. SCHREURS. Right.

Senator McGOVERN. But you think the systems are strong enough to live under that formula?

Mr. SCHREURS. Those particular systems are all upgraded and I think they can. I think most of them feel they can themselves. It isn't what they like. They will probably have an increase in rates as a result of it. No doubt they will.

Senator McGOVERN. How do your rates compare with what people pay in the towns and cities?

Mr. SCHREURS. It varies all over the State. The way rates are set in the Bell System in the State of South Dakota, the more people you can call, the higher your rate is. Ours are based on investment. So what happens is you go out in a small town in rural South Dakota, it can be very sparse, and the rates won't be very high because they can't sell very many people. You go to Sioux Falls and the rates are high. So it kind of works backwards, really, in comparison to the rates that co-ops would charge, because the bigger area and more density we have, the lower our rates would be because we have lower investment per station. So in some instances the rates in co-ops are lower, but most of them are higher.

Senator McGOVERN. Most of them are higher than what subscribers pay in the cities?

Mr. SCHREURS. Yes, The rates in South Dakota for rural telephone cooperatives I think range from \$5.75 up to \$13.75 or something like that.

Senator McGOVERN. But a farmer north of Garretson will pay more than somebody living in Sioux Falls?

Mr. SCHREURS. No, he won't; not in this particular case.

Senator McGOVERN. What about other parts of the State? What about out around Highmore, up around Lemmon and Mobridge?

Mr. SCHREURS. Generally speaking, in the areas, and you don't have to go very far away from Sioux Falls, just the opposite is true. You have to look into the individual situations to be exact, because they do vary.

That's basically all I wanted to say. We appreciate the efforts our congressional delegation has made in Washington, and we know that you will do the best you can from here on out, and thank you.

Senator McGOVERN. Thank you, Mr. Schreurs.

Mr. Olson.

STATEMENT OF JAMES T. OLSON, MANAGER, SULLY BUTTES TELEPHONE COOPERATIVE, HIGHMORE, S. DAK.

Mr. JAMES OLSON. Thank you, Senator McGovern.

I'm not related to John Olson with SDREA, but I reiterate his opening statement.

My name is James T. Olson. I am manager of the Sully Buttes Telephone Cooperative with headquarters in Highmore, S. Dak. We serve 3,700 subscribers in 15 exchanges east of the Missouri River.

Our upgrading program began in February 1972 with the cutover

of our Highmore exchange to all buried private-line service. We have four more exchanges under contract in the 2-percent loan program which should be cut over late summer of this year.

Under the 2-percent loan criteria, we have surveyed four additional exchanges for private-line service last year, and have received member approval to proceed. The engineering estimate was some \$2 million to complete these four exchanges.

This money, however, has not been loaned because of the impoundment of funds in December.

The balance of our seven exchanges were scheduled for upgrading in 1974 or 1975 at an additional cost of \$1.5 million. Needless to say, the additional burden placed on our members of 5 percent versus 2 percent money for the needed \$3.5 million to complete our system will result in an additional cost of approximately \$30 per year to every subscriber in our system. This cost will be in addition to the necessary rate increase for all private-line service, which a lot of us know or most of us know could mean the end of telephone service for the aged on Social Security in some of our towns.

Senator McGOVERN. How does that increased cost of money affect your plans to put your lines underground and to provide additional benefits to your members? Is that going to slow that down?

Mr. JAMES OLSON. Right now we really don't know where we're at. We have, on the four exchanges that I mentioned last, we have presently submitted a feasibility study to REA based on 5 percent money. We have deleted everything possible that we could to use our own internally generated funds to cut down on the amount of money needed at 5 percent, but right now we don't have any idea what the rates are. Personally, I somewhat suspect that somebody is telling the REA personnel in Washington to push out all the 5 percent loans that they can, to say, well, these people, they can live with 5 percent out here, but my board and I feel that we are in no hurry to accept 5 percent money. If we have to we might, depending on what our members would have to say also as far as the rates.

Senator McGOVERN. Are those telephone lines harder to bug when you put them underground?

Mr. JAMES OLSON. Well, yes, I kind of think they are. Personally, if you want my personal opinion, I really think that if something is going to be done as far as getting the Denholm bill through and without a veto or overriding a veto, with the news that I heard this morning on the television when I got up, the state of turmoil that the administration is in because of the Watergate situation, boy, that looks to me like now is the time for the iron to strike, but I'm not a politician, so I don't know.

Sully Buttes generates only about \$200,000 per year over and above operating expenses, replacements, additions, and debt service. At this rate it would take upwards to 20 years to generate the funds internally to complete our upgrading program.

Sully Buttes has never been in arrears on its debt service and in fact has been making advance payments to the REA for the past 2 years.

There are areas in the United States, especially in the south and southeast where 5 percent money is no problem. These telephone cooperatives are growing by leaps and bounds in industrial areas and need capital almost at any price.

This is not the situation in South Dakota. Two percent money is desperately needed to complete our telephone systems. And as Mr. Schreurs stated, there are several of us in this same situation. I will give examples of Sully Buttes only.

Subscriber density of REA telephone borrowers per mile of line nationally is 4.52; in other words, there are about four and a half subscribers per mile of line nationally. Sully Buttes has 1.47 subscribers per mile of line.

Investment per subscriber nationally of REA borrowers is \$850. Sully Buttes is \$1,480 per subscriber at the present time.

We believe that the repayment record and the integrity of the program merits serious reconsideration. In addition, severe hardships have been created for those of us who have received interim approvals from REA, and who have committed funds for engineering and equipment and no longer have these funds available.

At the very least, these cooperatives who have received interim construction approval should be allowed to complete these loans with 2 percent money. Even if the 5 percent money should be the only method available, with the turmoil of the present criteria under the Rural Development Act and the misunderstanding and everything else, it could be at least a year or more before money might be made available. I personally have favored the revolving fund concept of REA. I cannot understand why the money that is loaned to us, and loaned is the word, should be an expense to the operation of the Government. Yet nowhere do I find where that money is being returned to the Treasury, shown as receipts in the budget put out by the administration.

Thank you, sir.

Senator McGOVERN. Thank you very much, Mr. Olson. We appreciate your testimony.

At this point, if there are no objections, I will insert a statement from Mr. Leroy Schecher, manager of Grand Electric Cooperative, Inc., Bison, S. Dak.

STATEMENT OF LEROY D. SCHECHER, MANAGER, GRAND ELECTRIC COOPERATIVE, INC., BISON, S. DAK.

My name is Leroy D. Schecher. I am manager of Grand Electric Cooperative, Inc. at Bison, South Dakota.

Our electric cooperative serves an area of about 9500 square miles in the very northwest corner of South Dakota. We have a density of .95 consumers per mile of line.

The abrupt and arbitrary termination of the REA 2% direct loan program by the Administration on December 29, 1972, has brought a hardship on the nation's rural electric systems. The job of rural electrification must continue and to do this we need a loan program that all borrowers can depend on.

For this reason we support S. 394 as it is being considered by the House-Senate Conference Committee.

This legislation when compared to the REA loan program prior to December 29 and the Administration's proposal goes the "extra mile" in meeting the Administration's demands. As an example, over 80% of the systems nationwide are giving up their eligibility to borrow any more funds at a 2% interest rate. Instead they are agreeing to pay a 5% rate or 2 and ½ times as much. They are also agreeing to give up \$367 million that was appropriated by the Congress and signed into law by the President for fiscal 1973. These concessions represent compromise in the truest sense of the word.

The provision of S. 394 that makes it mandatory that loans be made accord-

ing to levels set by the Congress is essential. This will give borrowers a loan program they can depend on. They must have this if they are going to plan and provide for the needs of their members in the years ahead. It is also necessary as protection against arbitrary cuts by the Office of Management and Budget and the political pressures of unfriendly administrations.

We support the concept of S. 394 in providing a "revolving fund." Up to now loans made by REA have been accounted for as an expense to the Federal budget. This is not practical and we are glad to see this change, which also meets one of the requests of the Administration. We further support S. 394 because the criteria for borrower eligibility is such that it will provide a continuation of the 2% direct loan program to the systems that need it the worst. Our system with low density (.95 consumers per mile of line), low revenue per mile of line (\$268 per mile) and rates that are high in comparison to what those in communities of over 2500 pay is an example of this.

There was never any intent by the authors of the Rural Development Act that it would in any way replace the Rural Electrification Act of 1936. According to a legal evaluation of the Rural Development Act by the Office of the General Counsel, REA loans under it would face difficult legal requirements. Apparent evidence of this is the fact that a number of loans have been approved under the Rural Development Act, but to date not one system has received any funds.

The REA Act was conceived to solve a special problem—that of providing rural people with electricity. It has served that need well and its continuation is not less important today than was providing electric service initially. It is of such importance to production and equality of living for rural people that it should be continued as a separate government loaning agency.

In summary, we strongly support S. 394 as is. The Administration's demands for further compromise should be rejected. We urge Congress to support this effort and to vote to override a Presidential veto if that becomes necessary.

We also want to express our appreciation to the South Dakota Congressional Delegation for their sponsoring or cosponsoring legislation to reinstate the REA loan program. You have our full support in this effort.

Senator McGOVERN. We will break now for lunch. Our next witness to be heard on the general farm legislation is Ben Radcliffe, president of the South Dakota Farmers Union. Mr. Radcliffe, you will be on right after lunch, and we will reassemble here at 1:15, or hopefully maybe a few minutes ahead of that, depending on how long lunch takes.

Thank you for your presence here this morning. We will recess.

[Whereupon, the committee recessed to reconvene at 1:15 p.m.]

AFTERNOON SESSION

Senator McGOVERN. The hearing room will come to order.

The next witness is Mr. Ben Radcliffe, president of the South Dakota Farmers Union. He is accompanied by David Olson of Hayes; Clifford Gascoigne of Hitchcock, and Rick Tollefson of Hitchcock.

STATEMENT OF BEN RADCLIFFE, PRESIDENT, SOUTH DAKOTA FARMERS UNION, HURON, S. DAK.

Mr. RADCLIFFE. We are extremely pleased to be here this afternoon, and have this opportunity to appear before your committee. We particularly appreciate the fact that our Senator from South Dakota is the next to the top ranking member of the Senate Agricultural Committee.

I have with me three South Dakota farmers who this morning did chores on their farms and came in from their farm work today to be

here to talk to you and to get their statements in the record. I trust that you will take the opportunity to ask questions of these farmers so that we can have a grassroot presentation here at this meeting.

We in the Farmers Union are respectful of the fact that you are the second ranking member of the Agricultural Committee.

I am not going to discuss at length developments affecting the 2-percent loan program for rural electric cooperatives here today, because such outstanding leaders as Robert Partridge of the National Rural Electric Cooperative Association have testified earlier in the day.

The Farmers Union has traditionally supported rural electric co-ops and maintains that stance today. We believe reinstatement of the 2-percent loans is vitally important for those cooperatives because of the amount of their investment per customer.

We are convinced that the rural electric program should remain strong to provide a competitive challenge in an otherwise totally monopolized electric power industry.

I do want to discuss family farm agriculture here today, and with me to testify are the three gentlemen that I mentioned, Clifford Gascoigne, David Olson, and Rick Tollefson, and these men will deal with their specific concerns about Federal farm legislation.

It is my feeling that family farm agriculture is at the crossroads today. The Nixon administration has eliminated or cut back dozens of programs that have been benefiting farmers and ranchers. These brutal budget cuts are a crisis in themselves. If we were to be successful in merely reinstating these programs, farmers would have won a major victory, but we are talking about more than the cutbacks today. We are talking about the development of a new Federal farm program because the 1970 Farm Act expires this year.

Again, it is the Nixon administration that is advocating getting the Government out of farming and placing agriculture at the mercy of an unpredictable and volatile marketplace dominated by the private grain trade, exploited by U.S. foreign policymakers, and flooded by commodities produced by American farmers.

When we say family farm agriculture is at the crossroads today, we mean that what the Congress and the administration do with the Federal farm program this year will directly determine how many family farmers, if any, are left in the 1980's, for the policies of 1973 will either place a more firm foundation under the family owned and operated farms and ranches of America, or will pull out the props and drive people off the land and into the congested cities to look for work. So it is in 1973 that America must take action through a new Federal farm program to preserve her family farms.

All statistics available show that the number of family farms is decreasing at a steady rate. According to the U.S. agricultural census, South Dakota loses 1,000 farms every year. That is proof that the present farm program is not adequate, and that few new people are entering into farming.

The Farmers Union strongly supports a farm program geared to family-sized farms to assure income for rural America. I hope that the Agriculture Committee will recognize the importance this year

of turning away from bigness in agriculture. Whatever farm program is written, it will be the determining factor in the direction that agriculture will take in the rest of the 20th century, and the choice is corporate control of the land and food production prices, or family farm agriculture. I think America can save her family-owned farms by adopting these policies, and these are broad policy suggestions.

One; for the benefit of both consumers and food producers, our country needs income supplement payments for family farmers to protect them from low prices caused by surplus production and from loss of sales because of climatic conditions. This approach would be a significant aid to young farmers and would stabilize income for established farmers and prevent the fluctuations often seen in the rural economy. At the same time, consumers would be provided with a more stable supply of agricultural commodities, and small business men would not be forced to suffer in bad years. We believe this program should be limited to family farmers only.

Two; for the security of our Nation, we should have a national food reserve to guarantee that we have a steady supply of food for domestic use and for export to other countries. Our export program is placed in jeopardy when we have a shortage of commodities because of climatic conditions. A reserve would be available to provide a steady supply for our regular customers, such as Japan. We believe such reserves adequately insulated from market should be stored on the farms whenever possible.

Three; because our country has a tremendous ability to produce, we also need an effective supply management program. Expanded exports and the national food reserve would help in this effort, but to firm up the entire farm program, an effective supply management system should be available when needed.

Four; along with these other steps, I believe our country should breathe new life into the food-for-peace programs to get food to the hungry peoples of the world and to utilize American food surpluses.

Five; we in the Farmers Union believe the rural environmental assistance program, or a similar program, should be reinstated and adequately funded. New pollution control laws are being passed, and family farmers are not in an economic position to be spending the thousands of dollars required to meet the regulations, even though farmers are as concerned as anyone about pollution.

Further, REAP can be part of a new effort to improve conservation practices more rapidly for the benefit of all Americans since we are all affected by the conditions of the soil.

Six; obviously, the Farmers Union wants all of the rural programs callously canceled by the President to be restored and revitalized. We need REAP, water bank, 2 percent REA loans, the Commodity Credit Corp. grain storage program, rural housing loans, and water and sewer funds.

I do want to point out here that those who advocate eliminating the Federal farm programs are talking about \$98 million contribution to the economy in South Dakota annually. Without this income, our State would lose thousands more farmers, more small towns, more business places, and more people. It is time for America to

switch from emphasis on technology that generates more production to emphasis on the people who produce the food and fiber.

When Government policies have caused farms to be abandoned, too often we have forgotten that it is people who must pay the price; it is people who are forced to move to the cities to compete for jobs; it is people who have seen their life's ambition go sour on the farm; it is people who are being forced into a near feudal system by giant conglomerate corporations that dominate agriculture from the seedling to the supermarket; and it is people who suffer when we have food shortages or when surpluses clog the market and drive prices down.

The Farmers Union wants a Federal farm program that will guarantee the preservation of the family farm system and bolster our rural economy for the betterment of all Americans.

Mr. Chairman, I'd be happy to answer any questions, but I'd like now to pass the mike to the gentlemen sitting beside me. First, I'd like to call on David Olson from Hayes, S. Dak.

Senator McGOVERN. Thank you.

We had the privilege of having Mr. Olson before our committee in Washington several weeks ago when we first started hearings on the agricultural bill, and it is good to see you again, Mr. Olson.

STATEMENT OF DAVID OLSON, PRESIDENT, STANLEY COUNTY FARMERS UNION, HAYES, S. DAK.

Mr. DAVID OLSON. Thank you, Mr. Chairman.

I am David Olson. I am a farmer in Stanley County, mostly wheat and livestock.

We are a member of the Farmers Union, in fact, I am the Stanley County Farmers Union president, and being very concerned about farm legislation I'd like to express my views and those of some of my neighbors.

First of all, we feel we need legislation to keep the farm economy stable. We believe we need a Government-support program on the basic commodities of at least 75 percent of parity, and I believe we need a storage program so that our country will have at least a year's supply of wheat and feed grains on hand so we won't be in the same shape as some of the foreign nations are at present, with their cost of food rising because of the shortages. I believe this should be stored on the farms, because the farmer will then be held responsible for damage or loss at less expense to the Government.

I also believe and our community believes that we need an incentive program rather than a certificate program on the grains.

Senator McGOVERN. What do you mean by that, Mr. Olson?

Mr. DAVID OLSON. Well, an incentive program to plant the types of grain or the commodities that seem to be in shortage, you know, at a certain period. I believe this is at the discretion of the Department of Agriculture a lot of times, and set the support prices on the basic commodities at a high enough level so that they can be raised at a reasonable profit to the farmer.

Right now we have a problem of moving several years' crops of wheat and feed grains to the market. We can't sell it because we can't

move it. I feel it would have been much better to have called the grain in at a moderate rate and given the farmer, the elevator and the railroads a chance to move it. In my case I have only sold about half the wheat I had on hand. I would like to sell the rest of it but I can't find a market for it. The wheat is worth \$2 a bushel. If I could get that price I'd make about 50 cents—

Senator MCGOVERN. Wouldn't it be better for the Secretary to withdraw that callup order for at least 1971 and 1972 crops so that we don't have all this grain coming in at once, at a time when we can't move it, anyway, because of the boxcar shortage?

Mr. DAVID OLSON. Well, the only reason I'd agree with that is that I think we were encouraged to build storage for these crops and now they want it all called in, and in my case—I'm paying interest all the time if I redeem it, you understand, it's a loan just like any other loan you get, but I'm going to have to start paying interest as of May 1 or June 1 and not get any storage in return for holding the grain because I can't move it.

Senator MCGOVERN. I think several farmers are in a position where they can't redeem the loan. In any event, they don't have the resources to do that, and their only alternative is to deliver the grain at a time when they are virtually forfeiting it to the CC because it can't be moved. There are no facilities to move it in some parts of the State, and in other parts of the country. It just strikes me that it would make more sense if the Secretary would at least postpone that callup order until we resolve the boxcar shortage. Then if they have to have the grain to meet these commitments made in the overseas sales they could call the grain up as it's needed. Wouldn't that make sense?

Mr. DAVID OLSON. Well, it would help in our area, I'm sure of that.

Senator MCGOVERN. I was told that they are calling in some 9 million bushels of grain in the Watertown area alone. I don't think we have the facilities to move it.

Mr. DAVID OLSON. I know we don't in our area, and they are moving it in open top cars now to get rid of it as fast as they can.

Some have opposed the support programs on commodities, but all they amount to is a loan to the farmer so that he can keep the commodities on hand until the price either gets better or it can be moved, in most cases.

I believe the basis on your feed grain and wheat grain commodities, on our basic commodities are out of date because of changing farm operations. We need to come up with new histories on farm operations especially west of the river, so that new entries or young people getting into the farm business a lot of times, breaking up new ground, can get a base to work from, a grain base or wheat base.

Our support program can be tied to these bases and bring about the needed supplies for a strategic reserve.

Senator MCGOVERN. Thank you very much, Mr. Olson.

Mr. RADCLIFFE. Next we have Clifford Gascoigne who is a dairy farmer in Beadle County and president of the Beadle County Farmers Union.

**STATEMENT OF CLIFFORD GASCOIGNE, PRESIDENT, BEADLE
COUNTY FARMERS UNION, HITCHCOCK, S. DAK.**

Mr. GASCOIGNE. Mr. Chairman, my name is Clifford Gascoigne. I own 80 acres and rent 700 acres in Beadle County near Hitchcock. My farm includes a dairy operation, and I raise wheat and feed grains. Mine is a family farm, and my wife and I have four children.

I am a member of the farmers union and currently serve as Beadle County president and as president of the farmers union county counselors, which includes county officers. I am also vice president of District 7 Farmers Union.

President Radcliffe has covered the farm program issues in his presentation. I would like to share my personal experiences as a family farmer and expand on some of Mr. Radcliffe's points.

I have been a dairyman for 6 years now. I have a 30-cow dairy herd. I spend about 4 hours a day milking and feeding these cows. This means that I start my day at 6 a.m. and my family and I finish milking about 8 p.m.

It is my feeling that a person should be entitled to a fair return on his labor and investment. The milk support price is now 75 percent of parity or, in other words, at 75 percent of the return other industries are getting for labor and investment. I don't know of any wage earner or salaried person who would work for 75 percent of a fair salary. It is my feeling that the dairy price support floor should be raised to 85 percent of parity to help provide a more reasonable and adequate income.

But I think the importance of raising the milk support level goes far beyond my own return on investment. An adequate support level helps assure an abundant supply of milk and other dairy products.

Senator McGOVERN. Mr. Gascoigne, in that connection, when Mr. Butz came to our committee to testify on March 29, just about a month ago, this is what he had to say, and I wish you'd comment on this. He was outlining a number of recommendations. When he came to the dairy program he said, "With respect to the dairy program, we recommend that the 75 percent of parity minimum price support level be removed to give greater ability to respond to changing conditions."

Do you think you'd be in a better position to respond to changing conditions if you didn't have a price support program?

Mr. GASCOIGNE. Well, I think if we didn't have a price support program, a floor on it, with the increase of the imports that have been allowed lately, that you'd probably find a lot of dairy farmers that wouldn't be able to survive.

Senator McGOVERN. So you'd be strenuously opposed to the recommendation of the Secretary to terminate the dairy price support program?

Mr. GASCOIGNE. Very much so.

Senator McGOVERN. I was surprised with the bluntness of the Secretary's recommendation on that. It's a virtually unqualified statement, saying that we ought to end the program so far as price supports on dairy products are concerned.

Mr. GASCOIGNE. I hope that our congressmen and representatives don't allow that to happen.

Low prices have forced many dairymen to either go out of business or convert their farms to the production of other commodities. I want to emphasize that it is much easier to switch from, than to, a dairy operation.

I am saying that it is important to consumers that dairymen receive a fair return on their investment so that consumers have an abundant supply of reasonably priced dairy products. This is why I think we should talk in terms of a national food program, rather than calling it a farm program, since consumers are the ultimate benefactors.

To get back to my own situation, I want to discuss the importance of the Farmers Home Administration to family farmers and the need for adequate credit for farmers. For about the last 4 years I have been attempting to buy a farm, but because of the farm home debt limitation, which is now \$100,000, and because land prices exceed appraised value, I have been unable to buy an adequate farm.

I believe raising the farm home loan limitation would enable many family farmers to own their farms or to make their farms more viable units. This would be a way to encourage family farmers to stay on the land, and would in the end be of great benefit to all Americans.

Thank you.

Senator MCGOVERN. Thank you very much, Mr. Gascoigne.

Mr. Tollefson, perhaps you could come down here and take the seat by the microphone.

Mr. RADCLIFFE. Rick Tollefson is a young man who has had the courage to attempt to get into farming, a graduate from State University just this last spring, and now he's going to tell you something about how tough it is to try to start farming.

STATEMENT OF RICK TOLLEFSON, HITCHCOCK, S. DAK.

Mr. TOLLEFSON. Mr. Chairman, my name is Rick Tollefson. I am engaged in farming with my father in Beadle County, S. Dak., on the farm where I was born and raised. Ours is a family farm, and we are engaged in the so-called obsolete practice of diversified farming.

I am just starting in the business after graduating with a degree in animal science from South Dakota State University last May. I took a short break from farming in May as I had the honor of serving as an alternate delegate from South Dakota to the Democratic National Convention, pledged to our distinguished senior Senator.

I have come to present the problems a young person faces once he is determined to engage in farming.

The only way I am able to pursue my desired career in that I am getting a great chance handed to me in that my father is presently farming and is taking me into the business. I am very thankful for this because I realize that another family living off the income generated by the same farming unit as before I entered halves my father's income.

My wife and I have had to seek off-farm employment as a supplement to our income. My wife will work as a bookkeeper for the Beadle County Treasurer until late summer when our baby is due. I worked at a local sale barn last fall and for East River Electric during the winter until the fields were tillable.

I did this plus the routine chores of livestock feeding after my 8-to-5 job.

Other family farmers in my area, who are feeling the pinch of higher costs with incomes which seem to be dependent upon the amount of snow lying on the wheat fields in Russia, have also turned to off-farm jobs.

For example, one of my high school classmates works at a sale barn. Another is a carpenter's assistant. Other farmers drive school buses, pump gas and do many other jobs. We are all determined to make a living, and if we can't make it entirely on the farm we must look elsewhere to survive.

In the area where I farm, there are very few new people entering farming. The only people starting are those who can farm with their fathers or who have inherited their farms. Many of my college friends wanted to farm but didn't have access to land which they could take over.

The investment required to start farming is so high that it is impossible to obtain enough funds to start an economically self-sustaining operation.

One friend became a Government meat grader, one works for a frozen foods company, and others work in agribusiness, but none are now farming, and I know I wouldn't be if it were not for the headstart provided by my parents.

I feel that the introduction of new farmers into agriculture is vital for the preservation of the family farm as we know it today. The average age of South Dakota farmers has risen from 47.4 in 1959 when I was a third grader to over 50 now.

In my short lifetime I have seen many family farms absorbed by other farms as the farmer either realized he could make a better living by moving to the city or retired or died. Farm houses became vacant while the cities grew more congested.

Our rural population has declined every year, with South Dakota losing about 1,000 farms a year, according to the U.S. Agricultural census.

I believe that a farm is an excellent place for children to grow up, and it saddens me to see the out-migration of farmers and young people to the cities and larger towns.

I would like to see it easier for people to enter farming, which is why I favor the establishment of a young farmer investment program under the Farmers Home Administration, as proposed by the National Farmers Union. Under this program, the Farmers Home Administration would insure commercial loans made available to young farmers for entry into farming or expansion of the capacity of their farming units. The agency could pay the difference between 3 percent interest rates and the cost of the money to the Treasury.

I agree with Mr. Gascoigne that the Farmers Home Administra-

tion's limit on farm ownership loans of \$100,000 should be increased to enable a farmer to buy a viable unit.

It is very important to a farmer who is just starting out that he be protected from disastrous income fluctuations which can occur so easily in farming. For a young farmer, the danger of a crop in the market price which he receives for his product is just as bad as the danger of financial ruination from a crop failure.

When a farmer is just starting out, he is usually heavily in debt, and a bad year without enough income to cover debts and expenses could spell the end of his farm.

Therefore, I feel that for the protection of myself, my neighbors and consumers in this country, that we need an income supplement payment to offset variations in farmers' incomes caused by low prices or crop failures. This would protect me with my small equity and other more established farmers by preventing large variations in their income. This would also be of benefit to the businessmen here in Huron where I shop as it would give me more disposable income to spend in bad years. More money spent here in Huron by the farmers would also create more jobs and help prevent the economic stagnation so common in rural communities.

However, I feel that there should be a limit to this supplemental payment so that we are helping family farmers and not the large corporations and conglomerates which have infiltrated into farming.

At a time when we are seeing the Government creep deeper and deeper into our lives through more controls, more codes and regulations, more bureaucrats, surveillance of private citizens by the F.B.I. to detect "potential troublemakers," and rejection of the concept of constitutional freedoms by the present administration, we are seeing that administration trying desperately to get the Government out of farming.

In the process of getting Government out of agriculture, they are also getting farmers out of farming. I say that Government belongs in agriculture just like farming belongs to farmers.

Thank you.

Senator McGOVERN. Thank you very much, Mr. Tollefson.

Would you mind telling us how old you are?

Mr. TOLLEFSON. I'm 22 now.

Senator McGOVERN. And you're actually going into farming in partnership with your father?

Mr. TOLLEFSON. Yes; we've worked out an agreement so that we share the receipts from our farmland now and in order for us to go on we have to have a part-time job because it's just not a big enough farm right now, but if we were to expand that means we'd be putting some other family farmer out of business, too, if we buy somebody else's farm. There are less farmers coming into farming all the time.

Senator McGOVERN. Would you say that it's very hard for a young farmer to get started in agriculture without some kind of family partnership arrangement?

Mr. TOLLEFSON. It's not only hard, it would be impossible because there is no way to get the credit to finance, a large farm like you seem to have to have nowadays in order to become efficient.

Senator McGOVERN. Senator Nelson of Wisconsin and I have co-sponsored for some time a bill that we call the Young Farmers Act.

It's designed to provide long-term, low-interest money to young people who want to get into agriculture.

Do you think something of that kind would be an important piece of legislation for us to act on?

Mr. TOLLEFSON. I think it would be very helpful in helping young farmers. I know some that wanted to get into farming, yet they just can't, but if they had the money available to them so that they could start farming I think it would be very helpful, indeed.

Senator McGOVERN. Mr. Radcliffe, I wanted to ask you one question about an amendment that I have been giving some thought to offering to the farm bill. This amendment would raise the price support level on feed grains from 70 percent of parity to 77 percent of parity.

I think in order for that to be seriously considered, we'd have to have some kind of trade-off the minimum 32-cent-a-bushel payment would probably have to be postponed, or at least part of it; perhaps we'd have to forego the 32-cent guarantee, but if corn stayed at its present market price the 77 percent of parity price support guarantee would still give you a 31-cent-a-bushel payment, and if the market price should fall you'd get even more than the 32-cents that farmers now get in the way of a direct payment.

In return for a higher price support guarantee, looking toward say the period of the next 5 years, would you think an amendment of that kind would make sense?

Mr. RADCLIFFE. Well, Senator, first I think we need to bring into focus the fact that all farm prices aren't high now, as you know. Meat prices are reasonably priced, feed grains are at 62 percent of parity, wheat is 63 percent or some similar figure, and it seems to me that at this time in the legislative processes, any program or any amendment that would increase the guaranteed base support of a farm commodity would be a good thing to shoot at. I think we should bear in mind, too, that somebody has said that legislation is the art of compromise, and you don't always ask for where you expect to end, you ask for more, ask for as much or a little more than you can hope to get, so you have some compromising room.

So my advice is that we ask for the 77 percent, plus the income payment. Let's go all the way and see what we can end up with, but I think your suggestion of the 77 percent base would be something that we would support.

Senator McGOVERN. I was impressed with what you and other witnesses said about the strategic reserve. It seems to me that at a time when we're going into these big sales to the Soviet Union, and apparently now to China, with also India in the background with some 500 million people—and I understand they are faced with a short crop again this year—we're going to have to be in a position at all times to respond to rather large surges in demand for feed grains and wheat.

On the other hand, if we reach a situation where we urge our farmers to go into increased production, and these markets in any given year don't materialize, then we've got that overhang on the market that could destroy the price. Both of those factors, both the danger of a shortage and also the danger of a surplus seem to

me to argue for the concept of a strategic reserve, where we could syphon off grain in times of surplus, and yet have a reserve to draw on when we're faced with the kind of situation we have had in 1972 and 1973, when these large sales required a large amount of additional grain on very short notice.

Mr. RADCLIFFE. That's very true, and the corn blight, leaf corn blight incidence a couple of years ago demonstrated the value of a reserve. Had we had the reserve we wouldn't have needed to take the chance of planting more or not enough corn to meet our needs, because we'd have a supply on hand to level off the need, both domestically and foreign.

Senator McGOVERN. I never really understood the resistance to the strategy-reserve concept. We have to have a food supply. If we are confronted some year with a situation where there is a short crop in Russia and a short crop in China and India and in the United States all at the same time, it's going to be a very critical situation, not only for us but for the entire world. There is no real assurance that that won't happen. We haven't yet learned to control the weather absolutely. I think these are considerations we ought to be thinking about very seriously.

We'd like to go into some more questions, but I think with the large number of witnesses still waiting to be heard we'll thank you for your testimony. We appreciate your being here.

Mr. RADCLIFFE. Thank you, Senator.

Senator McGOVERN. Our next witness is Mr. Keith Brock of the Farm Bureau.

Mr. Brock, we'll be glad to hear from you now.

STATEMENT OF KEITH BROCK, SOUTH DAKOTA FARM BUREAU FEDERATION, WOLSEY, S. DAK.

Mr. BROCK. I'm Keith Brock, Mr. Chairman. I live at Wolsey, S. Dak., and I farm a diversified farm with my family.

We feed livestock, raise feed grain, and I wish to thank you for this opportunity of appearing here today.

I speak on behalf of South Dakota Farm Bureau and want to express their views with respect to the Government's farm program legislation.

In the interest of time we shall deal primarily with the modifications which we believe the Congress should include in legislation extending the Agricultural Act of 1970 for a temporary period.

Farm Bureau consistently has sought to achieve a fair price level in the marketplace to give agriculture security and to direct our production. For over 40 years we have tried to achieve that price level with the aid of Government farm program legislation. The resulting programs have been more effective in providing cheap food and fiber to consumers than in providing returns to farmers.

In the past year three influences have combined to move the supplies and prices of major farm commodities into a wholesome position. These influences are: (1) The opening of new markets in Russia and China plus the expansion of opportunities in markets previously served; (2) an unfavorable production year almost worldwide; and

(3) a dynamic expanding economy worldwide. As a result of these developments, agricultural exports are expected to reach \$11 billion in the fiscal year ending June 30, 1973. This is an increase of \$3 billion above last year, and this increase has been in the form of commercial sales.

The effect of increased demand on farm prices and income has been very helpful. We are now receiving strong support from the marketplace. The index of all farm prices increased 20 percent from January 1972 to January 1973, which was badly needed because of continuing increases in the costs of everything farmers buy.

We are the closest we have been for many years to a market-oriented system, and the market continues to work well.

If the factors responsible for our present situation were to change radically, our presently expanding markets could become saturated and over-supplied in a year or two. Legislation extending the Agricultural Act of 1970 should empower the Secretary of Agriculture to put an acreage set-aside program into operation under such circumstances, to help adjust production to effective market demand.

We need a program that would be geared into operation when adjustment is needed and geared out when the demand is sufficient to provide satisfactory prices in the marketplace. The Congress should provide legislative guidelines that will determine when the program is to be geared in and when it is to be geared out. Such guidelines should be based on general agricultural conditions and not on individual commodity situations. For example, the guidelines for determining whether a set-aside is needed might be based on the relative level of an average of the prices of possibly the 15 largest value agricultural commodities. If we can maintain the general health of agriculture, farmers will adjust their production to produce what consumers want as reflected in the market.

The set-aside program should be shifted to a cropland basis. Most farmers believe that base acreages and base allotments, which currently are used to determine set-aside requirements and the distribution of payments, are badly out of date. More importantly, historic bases restrict a farmer's freedom to adjust to changing conditions in a market-oriented agriculture. We recommend that the set-aside be redesigned to take out of production a percentage of the cooperator's cropland, as determined by the Secretary of Agriculture under guidelines prescribed by the Congress, instead of a percentage of a historic base acreage. Under this approach the cropland base used for determining the amount of the set-aside could, and probably should, be adjusted by subtracting the acreage devoted to crops produced under special programs such as the tobacco, peanut, rice, and sugar programs as long as these programs are maintained on their present basis.

After complying with the set-aside, a farmer should have the privilege of producing the products that are best adapted to his resources without regard to past history. This will permit the users of farm commodities to guide production through the marketplace. As an interim stop, pending the shift of the set-aside program to a cropland basis, it may be desirable to base the set-aside temporarily on the total acreage actually planted to feed grains, soybeans, wheat, and cotton.

Under the program we are proposing, Government payments would be performance payments, based on agriculture's need for adjustment and the individual farmer's contribution to that adjustment through participation in the set-aside.

We recognize that the payments now being made under the Agricultural Act of 1970 are designed to supplement farm income as well as compensate farmers for contributing to the set-aside. We believe the transition to a program of basing payments solely on adjustment performance should be made over a period of years, if current market prices do not justify going directly to this system.

The program outlined above is designed to move to a market-oriented agriculture. Farmers may need a mechanism to assist in making adjustments when market demand falls below our capacity to produce at reasonable prices. If circumstances indicate an actual or threatened overproduction, the Department of Agriculture would have the authority to help farmers make needed adjustments through a set-aside program. Coupled with a trade policy that will continue to expand exports, this program will work and will serve the best interest of farmers, consumers, and taxpayers.

Senator McGOVERN. Mr. Brock, I want to make sure I understand your position and the Farm Bureau's position.

Are you saying, in effect, that we ought to rely purely on the set-aside concept to give farmers a fair price; that in effect we do away with the old price support structure and try to maintain a fair market price simply by set-aside?

Mr. BROCK. No. If you notice, we said they may need some assisting to shifting to this.

Senator McGOVERN. Yes, but once they are in it you'd abandon the price support? In other words, you are suggesting that we really phase out the price support program, aren't you?

Mr. BROCK. If at a certain time we say that production becomes too high, then we should gear the production lower so that it will take care of itself.

Senator McGOVERN. Well, if we did that, suppose that after 3 or 4 years we phased out the price support mechanism, the direct payments and the price support guarantees, and relied only on estimates of what the market is going to be and we tailored our production to that; suppose you get a sudden shift in crop conditions where you've miscalculated on what the market is going to be, what protection do you have then?

I'm not a farmer, but I have lived with farmers all of my life, and it seems to me it's very difficult to forecast what the demand is going to be. We don't even know what our own demand is, let alone what's going to happen with changing crop conditions in the Soviet Union and China and India and elsewhere around the world. If you miscalculate on the demand and you don't have a price support mechanism there to protect the farmer, what does he do, just go through the wringer, or what happens?

Mr. BROCK. Well, probably the same thing that's happening right now to a lot of fellows. The programs, the way we feel about it, they haven't produced any real substantial guarantee of an income. We do have such a minute floor, if we have the facilities to store

these products, so that we can get a price support, but they haven't worked either for 40 years. We haven't had anywhere near a parity production and I suppose that we would have a year of problems such as we have just now.

Senator McGOVERN. Well, I agree, of course, that the present program has not worked as well as we would have liked. But one of our staff economists on the Agricultural Committee has made an analysis of what would happen here in South Dakota if we didn't have the present program. If we did away with the feed grain payments and the wheat certificates and the dairy price support program and other price support mechanisms it is forecast that it would cost South Dakota \$800 million.

Now, while we're not doing as well as we would like, if the staff economist is anywhere near right, that's a very serious projection. He's a very prudent and conservative economist, and his best judgment is that if we follow the course you're recommending—and I know you do it sincerely, this is what you believe—he projects a loss in income here in South Dakota, not just a loss to the farmers, but the impact of their lost purchasing power on the businesses and our total economy as somewhere around \$800 million. That's an enormous blow to the economy of a State like ours if he's anywhere near right in his predictions.

So, I'm wondering if the Farm Bureau has really thought through the implications of what might happen if we cancel out this whole direct payment system and the price support mechanisms that go with it. I think there's a place for set-aside and for soil conservation and these other things that tend to take part of our cropland out of production. I think we have to be very careful about relying on that as the only device we have to maintain a fair return to the farmer. We have had some experience with that in the past, as you know.

Mr. BROCK. Well, if the Agricultural Department, this would be included in the transition period for the 5 years that we have, then they should be able to figure these things out in that length of time, wouldn't they?

Senator McGOVERN. Well, I don't know. Sometimes their figures don't come out right. I think all they can do is make predictions. You would know better than I would as a farmer that you can't really control. We never really know what production is going to be. We get certain estimates on it, but there are crop conditions that change, for example, the corn blight that we have experienced and the disaster going on right now in the Mississippi and Missouri Valleys from flood conditions. You can get wet weather at the wrong time and lose much of the production. You know all these things that can happen to farmers—insect invasions, international crises, trade problems that develop.

It just seems to me that while many of our farmers may feel somewhat more comfortable now than they did a few years back, that those that have watched the farm economy over the years know that it is a very uncertain matter, and if you pull out some of these guarantees such as our wheat certificates and our feed grain payments and dairy price support program, I think we're setting ourselves up for great risk in terms of lost income.

Now, it may very well be that the market demand overseas will be such for the next few years that we'll do pretty well even without a strong farm program, but that's just a guess. That's a very shaky foundation on which to put these family farms, don't you think?

Mr. BROCK. Well, in my own instance, the way the program is set up now I'm not involved in it at all because I have such little acreage that I can put into feed grain and wheat in my own operation, that it doesn't give me anything to rely on, so I have to go on production the way it is.

Senator MCGOVERN. What do you think would be the reaction of the Farm Bureau, recognizing that no one organization is going to get everything they want out of the Agricultural Committees of the Congress, if we simply extended the present program as it is for another 5 years? Could you live with that?

Mr. BROCK. Well, it's a matter of economics. We'd have to if we wanted to stay farmers, this is true.

Senator MCGOVERN. Do you think it would be generally acceptable to your members if instead of moving in the direction that you recommend of gradually phasing out the income payments and the price support programs, we stayed with the present system for another 5 years? Do you think that your members would be unhappy with that?

Mr. BROCK. Well, I would say like this, that we're reasonable people and we try to get along the best we can. We have to go along with the programs. We realize that there might have to be some modifications made in our program, but we believe in more market-oriented programs. This is our belief and this is what we work toward. But as far as if you put the act in, why, I'm sure they aren't going to all quit farming.

Senator MCGOVERN. Well, I'm sure you won't. In any event, we appreciate your testimony, Mr. Brock.

You have heard other witnesses call on us to do more in the way of improving the price support levels and strengthening the program. The administration is pressing the other direction, but we appreciate your appearing here and giving us your views.

Mr. BROCK. If I might say one thing more. I had the opportunity of going to the city of Cleveland, Ohio, several weeks ago to speak to the mayor and his councilmen on this meat boycott thing, and I believe that farmers as a whole are so busy producing this cheap food product that they forgot to tell the people about how much work they are doing. These people are totally misunderstanding agriculture. They think that agriculture is like electricity, coming when you turn the switch on, the water coming out of the faucet when you turn it on.

I think that the farmers as a whole themselves should do more to promote things like this, and the people, they don't think food is any higher than anything else. This is what the people said that we talked to, the ordinary people in the grocery market, so why can't people do this. Now, boycotting the food because it's high, or anything, bread because it's high, it isn't high in the total aspect of the commodity. When people are getting food, their food dollar is costing them between 15 or 18 percent of their income, which-

ever economies you want to say, why, I think this is where people have to be informed, that food isn't high priced, it's cheap.

Senator McGOVERN. Well, I agree with you. I think that's one job that all the farm organizations and those of us in farm States have to do, and particularly in the great cities. We have to do some educating and make clear to our urban fellow citizens that food is still a good buy in this country. While the price of food has gone up in the last few years, the price of everything else has gone up at least as fast, in some cases faster. There is nothing more unfair, in my judgment, than singling out the meat industry, the livestock industry for a boycott or a freeze when everything else is allowed to go without controls. It doesn't make any sense at all.

I do want to say to his credit that Secretary Butz in testifying before a Congressional Committee said a few weeks ago that anybody who would freeze meat prices alone is a damned fool. That's his phrase. I'm not putting words in his mouth, and, of course, a few days later somebody rather close to him froze meat prices.

In any event I think the point is well taken, that you can't single out one commodity, whether it's meat or any other commodity, and put a freeze on it and then let everything else go uncontrolled without demonstrating the kind of discrimination that we can't afford in this country. I agree with you on that.

Mr. BROCK. Thank you.

Senator McGOVERN. Our next witness now is Mr. J. D. Lynd, Executive Secretary of the South Dakota Association of Cooperatives at Huron.

Without objection, I'd like to have printed in the record an article from the Business Week Magazine of April 14 entitled, "The Impact of the Huge Freightcar Shortage," and also a letter on this same subject dated April 26, which comes from some farmers in the northern part of the State, Mr. Dale Engelhart of Barnard, S. Dak.; Mr. Eldon Eberline of Briton; Allen Secus of Hecla, Dennis Denard of Westport; Bob Hanson of Stratford; Kenny Eckman of Iroquois; Merle Heman of Watauga; Dean Elzinger of Britton; Harvey Schlauser of Frederick; and Bill Strand, Jr., of Ellendale, N. Dak.

We will ask that those two documents be printed in the record.
[The above-mentioned material follows:]

Huron, S. Dak.

April 26, 1973.

DEAR SENATOR McGOVERN: Due to the Box-car Shortage, we the undersigned farmers find it necessary to ask for your help.

The railroad is giving us the run around as we try to move our grain. No one will give us an answer. It seems that everyone is passing the buck. The Burlington Northern People told us that they wanted our business last winter. Now they tell us they will not provide us with cars.

This lack of decision-making makes us believe that there is a plan to deprive the farmer of his rights to do business. The railroads, along with the grain companies and the government, seem to be saying that they don't want farmers taking advantage of a favorable supply and demand situation. The government has allowed the large grain companies to use their big-ness to put the individual farmer in an unfair competitive situation. For the first time in recent years, farmers have the opportunity to move grain prices higher and now can't get box cars.

We have also been told that local agents have much discretion in local distribution of cars. Possible payoffs and favoritism are coming into play over

the limited supply of boxcars. The ICC must be made to treat everyone fairly.

As a public official, we are asking you to demand the ICC to represent the public interest and force the railroads to serve us with boxcars. We can't move our grain at will, but must turn it over to Commodity Credit and thence to the grain companies. Competition is fine if everyone plays by the same rules. Under the present situation, farmers are playing at someone else's rules.

We understand that there is an order that 50% of the rail cars must be loaded with CCC grain after May 1. If this order is correct, this discriminates against the free movement of farmers grain. CCC grain would move freely into the large grain companies while the farmer would have no alternative but to turn his grain over to them. We feel that cars must be distributed to CCC grain on a space available basis. Any other basis causes farmers to have an unfair roadblock placed before them in attempting to move their grain.

Your help in this situation will help people be treated equally.

Sincerely,

Dale Engelhart, Barnard, S. Dak.; Eldon Eberline, Britton, S. Dak.; Allen Siekas, Hecla, S. Dak.; Dennis Dennert, Westport, S. Dak.; Bob Hanson, Stratford, S. Dak.; Kenny Eckman, Iroquois, S. Dak.; Merrill Hemen, Wetonka, S. Dak.; Dean Elsinger, Britton, S. Dak.; Harvey Schlosser, Fredrick, S. Dak.; Bill Strand, Jr., Ellendale, N. Dak.

[Reprint From Business Week, Apr. 14, 1973]

THE IMPACT OF THE HUGE FREIGHT CAR SHORTAGE

Last week, the Brenner elevator at Worthing, S. D., was loading 63,000 bushels of government-owned corn in open-top hopper cars normally used for coal and ore. But the elevator manager, Francis McDermott, was happy to get anything in which to move the grain. "We've got an awful work load here," he exclaimed, "and five cars were all we could get."

At least McDermott had some cars. And he had cars that, when loaded, would not destroy the track alongside which his elevator was located. Other elevators throughout the Midwest are packed with grain and no way to move it. Most operators are being financially squeezed, and some are on the verge of bankruptcy.

The nation is suffering one of its most serious freight car shortages, with more things to be carried by rail than there are cars available. Aside from inconveniencing thousands of shippers, the car shortage is adding serious inflationary pressures and putting new force behind proposals for government intervention. In fact, this week agricultural officials from 14 states met in Chicago in a crisis atmosphere to draw up a plan of action.

U.S. railroads are struggling to get huge amounts of wheat to Eastern and Gulf ports as a result of the massive export deal with the Soviet Union. This has caused a major shortage of railroad covered hopper and box cars, the two types normally used in hauling grain. And because so many standard box cars are now used to move grain, large quantities of general commodities that normally travel in this equipment are waiting at shippers' docks. Compounding the problem, record floods and unusually severe spring snow storms have crippled much of the nation's bulk transportation capability (page 30). Particular concern about the inflationary impact of shipping delays is emanating from the Council on Economic Policy and the Cost of Living Council. Says a CLC source: "The three critical areas right now are: moving grain, the ability to move lumber, and the ability to move fertilizer."

There is the problem of completing grain export shipments by May 31. After that date, contract holders could become eligible for penalties unless their grain is in "exportable" condition.

Farmers must receive shipments of fertilizer to complete spring planting. Because more acreage is being planted this year, fertilizer requirements are much higher. The next eight weeks are crucial, and farmers are concerned that the current heavy grain shipments will prevent freight cars from hauling adequate fertilizer supplies in time.

Finally, skyrocketing lumber prices spur the fear that supply lags will

further increase prices. "If you can't find freight cars to move commodities, whatever they may be," says the CLC source, "then you tighten up the supply and the price goes up."

And other problems loom. The wheat harvest in Texas begins late next month and extends through early June. If the wheat for Russia has not cleared by then, the spillover may cause new problems, both in shipping fertilizer and moving the backlogs that have piled up at smaller elevators. Many elevators have defaulted on contracts to deliver grain at a specified time because they cannot find transportation for it. Even the Commodity Credit Corp., which is selling most of the grain it has in storage at elevators—even small ones such as at Worthing—cannot deliver its grain on time. In many cases, late penalties are piling up. Interest charges on loans financing elevator operations are mounting, too.

Dissatisfaction over the Russian grain sale is spreading rapidly. Says an Interstate Commerce Commission spokesman: "We won't have a wheat crop for ourselves next year if we don't move fertilizer out to our farmers. We can't destroy our own economy to have the large grain companies move Russian wheat just because some people got greedy and contracted for more than could be handled."

And that's where the current crunch comes. "If transportation were available, grain prices wouldn't be so high," says Robert Scheve, Omaha-based grain dealer for Farmarco, a large Midwest cooperative. Scheve, who is responsible for shipments from five of the company's terminal elevators, says he has more than 2,000 cars back-ordered since September from the Burlington Northern. At the current rate the BN is filling his car orders, he estimates it will take him until May, 1974, just to move the grain he has already sold. Because he can't move his grain, he is not buying more.

Other shippers agree that the Nebraska situation is bad. But the Burlington Northern, with dense trackage in the state, says proudly that it handled 54.7-million bushels of grain, or 21,395 cars, from Nebraska alone in the first three months of 1973, a 63% increase from the same period in 1972.

NOT ENOUGH

For the shippers, this is not enough. Many farmers have simply been locked out of brim-full elevators. To compound their problems, farmers have been unable to get enough fuel—much of it hauled by rail—to dry their grain after an unusually wet fall. A good deal of that grain is rotting in the open.

Farms across the Midwest are dotted with "snow-fence silos," piles of corn encircled by snow fences. This grain is deteriorating and last week was bringing only 60¢ to 75¢ a bushel at Worthing. Undamaged corn was worth about \$1.20. Jack Carpenter, who farms 500 acres near Worthing says: "Some people around here were getting as little as 40¢ for their damaged corn." When corn gets moldy or begins to ferment, it is risky to feed it to livestock. And the price drops.

At a time of phenomenally high prices, farmers scattered throughout Iowa, Nebraska, Illinois, and South Dakota are nevertheless hurting. "Sure they're quoting good prices in Chicago, but we ain't in Chicago," a South Dakota farmer complains. "But the price don't matter if you can't sell it or it's going bad on you."

Even shipping in open cars can be a chancy thing, although the railroads attempt to cover the grain with canvas or plastic. Cargill, Inc., the Minneapolis-based international grain company that sold 2-million tons of wheat to Russia for export by May 31, experimented with moving wheat in open hopper cars—to its regret. The cars frequently arrived at Gulf ports coverless with the soaked contents solidified and unmanageable and the quality obviously impaired. "We have stopped that," Cargill vice-president James V. Springrose says ruefully.

Farmarco's Scheve also complains that open hoppers and boxcars seem to have lower priority than covered hoppers and get lost more easily, particularly in busy switching points. His company-owned cars have been taking as much as 45 days to make the round trip from Omaha to the Gulf, he says. This situation has been improving considerably, the railroads contend. "Turnaround time had been as much as three weeks," a BN man says. "Now it is down to nine days." An early opening of Great Lakes ports may also help out.

PROPHET

David Henderson, grain marketing manager for the Illinois Central Gulf RR, an early prophet of the coming car shortage, says that things have not been quite so bad for the ICG as he had expected. "We're moving more grain in a shorter period of time than we've ever moved before." And he adds: "I think we'll be operating at capacity right up to 1974."

RENT-A-TRAIN

Cargill's Springrose stresses that the problem is not just a shortage of cars. It is the way in which the existing capacity is used. He would like to see more use of unit trains and the ICG rent-a-train concept. But smaller dealers, who cannot ship in big, efficient volumes, oppose this. They claim the big ones like Cargill would then end up with all the current capacity and they already have major competitive problems.

A substantial number of country elevators are situated on old branch lines, many dating from the last century. The tracks cannot safely accommodate the bigger, heavier cars. So these elevators must depend either on box cars or trucks. And the number of lighter 40-ft. box cars has fallen by two-thirds since 1960. And looming on the horizon is wholesale abandonment of railroad branches.

Even though Washington and many railroads feel that the worst of the export grain rush is over, no one thinks the long-term problem will disappear. "Essentially, it is a regulatory problem," says John W. Ingram, the Federal Railroad Administrator. "You don't hear of any barge shortages or any truck shortages," he says. "The reason is they raise their rates when they have to and lower them when they have to. I wonder if we can ever expect the railroads to move grain just in peak harvest seasons. The stuff is grown all year long so why can't you store it where you need it and not where you grow it? Why can't railroads have lower rates in off seasons like other carriers? What we're really talking about is changes in economic regulation."

The Transportation Dept. wants to ease regulatory constraints on all carriers to give them more flexibility with rates and will seek legislative authority for this. "The main thrust will be to set railroad regulation in tune with the 1970s instead of the 1940s," Ingram says. The Administration will also push for legislation to increase car utilization by creating a \$35-million national car control system.

Such plans will certainly help, but, as *Railway Age* notes in its forthcoming issue: "Perhaps there has been too much reliance on off-track hardware and software. There has to be a certain supply of cars for the computer to control." *Railway Age* expects the car shortage to continue for at least 50 to 60 days.

W. H. Van Slyke of the Assn. of American Railroads reports that AAR expeditor teams are in the field trying to ease bottlenecks and that car embargoes are being issued to congested areas to prevent massive tieups. "We have purchased about 7,000 more grain cars and have moved 73.6% of the export grain as of Feb. 23," he says.

By dint of enormous effort, the U.S. railroad industry has turned in a record first quarter this year of 204-billion ton miles, more than 9% ahead of the first quarter a year ago. In grain alone, the railroads have carried 40% more. Agriculture Dept. officials expect the total grain export to all countries for the fiscal year ending June 30 to reach a record 2.85-billion bushels. Grain exports in fiscal 1972 totalled approximately 1.9-billion bushels.

GOOD THING

For the railroads, a little car shortage is generally considered a good thing, since it means they are operating at close to capacity. And it is hard to argue with railroad economists who insist there is no way that railroads can afford to build enough cars to meet every peak demand. Nevertheless there is strong pressure on Congress and the Administration to bring the current car shortage down to manageable size and keep it that way.

Representative Brock Adams (D-Wash.), who brought together a coalition of shippers, suppliers, and carriers last year to support his surface transportation bill, feels that sweeping regulatory revisions will be necessary

to deal with the car shortage. Adams' bill, which has been reintroduced, calls for \$3-billion in federally insured loans to allow financially ailing roads to buy new rolling stock. "This is a cyclical problem," he says, "but temporary solutions like the issuance of Interstate Commerce Commission service orders can't cope with a massive change in the pattern, like the Russian grain deal."

Adams insists that the U.S. needs an over-all freight car utilization plan. "Whenever the grain harvest comes in, there is a freight car shortage," he says. "The same goes for lumber. It's a chronic condition. . . . The problem will only be solved when we get all of the special interests—shippers, operators, the Administration—to cooperate. We've got to get a solution or we'll face the alternative of a collapse of some part of the transportation system, with all the discomfort that entails, or the government stepping in . . . by nationalizing the entire rail net."

Senator McGOVERN. Mr. Lynd, we are glad to have your testimony.

STATEMENT OF J. D. LYND, EXECUTIVE SECRETARY, SOUTH DAKOTA ASSOCIATION OF COOPERATIVES, HURON, S. DAK.

Mr. LYND. Mr. Chairman, my name is J. D. Lynd, and I am executive secretary of the South Dakota Association of Cooperatives, the trade association of Cooperatives in South Dakota.

SDAC and its members recognize the trend toward less direct aid to farmers through price support programs. The trend in weaker farm programs has brought producers to realize they need to foster long-range policy. We ask this committee in addition to formulation of farm program legislation to work for improved marketing climate for producers through their cooperatives.

For over 30 years the price of most major farm commodities has been determined in Washington through the price support programs on a temporary and extended basis. As the government reduces its influence in behalf of farmers in this area it is evident that producers must move with their own programs to do the job or allow agri-business interests, the processors and handlers to assume the pricing function. If producers are to gain the privilege of pricing their commodity, it can only be done through the cooperative approach.

For these reasons SDAC feels the need to maintain, improve and expand the climate for producers to project themselves in the markets through their self-help cooperatives. SDAC and its members endorse and support the substance of H.R. 5683. We recognize the need for feasible and adequate capital in order to meet the power needs of producing agriculture in the rural areas.

We are grateful to the entire South Dakota congressional delegation for their support they have given, and we are confident that it will continue. We also appreciate this opportunity. Thank you.

Senator McGOVERN. Thank you very much, Mr. Lynd. I won't question you today, but we do appreciate your testimony and your interest in these hearings.

Our next witness is the president of the South Dakota Stockgrowers Association, Mr. John Glaus of Chamberlain, S. Dak.

Is Mr. Glaus here? Mr. Glaus, we're glad to have you as a witness. I think we all know that livestock is the biggest single money earner to the economy of South Dakota, and we're glad to get your views on these general farm matters.

STATEMENT OF JOHN GLAUS, PRESIDENT, SOUTH DAKOTA STOCK- GROWERS ASSOCIATION, CHAMBERLAIN, S. DAK.

Mr. GLAUS. Thank you, Senator McGovern.

Members of the committee, ladies and gentlemen, I am John Glaus, president of the South Dakota Stockgrowers, and it is our pleasure to be here today.

You might think that the farm program does not affect the ranchers as much as it would general farmers—and I'll have to admit before I start, Senator, that I don't know all the details of the proposed farm act or the plans that have gone into it—but I would like to give you some of our thinking as far as it affects livestock and the ranching of today.

Agriculture, the farmers and ranchers involved, has many fair weather friends. When we are producing record yield crops and tremendous supplies of meat and produce at below cost, the consumer is happy, apparently ignorant and friendly. When we have to go to the bank and borrow large sums of money to just keep producing, as untold numbers of farmers and ranchers have been forced to do, the consumer does not care, just so the price of food is low. When our production costs have increased astronomically because of inflation, the consumer does not care, just so the price of food does not rise. At least, these things we have learned from the meat boycotters.

We in agriculture have subsidized the consumer for 25 years to the point where the so-called luxuries have become of uppermost importance with the necessities, food, clothing, shelter, coming in a distant second. We have subsidized them through the tremendous efficiency of American agriculture and the desire to keep our heads above water economically.

In the late 1940's and perhaps earlier than that, in the 1930's, when Congress saw the plight and specialized need of the farmer and rancher, it attempted by farm agricultural acts, which actually have varied little with different administrations, to correct this. The actual result of their efforts was merely to delay the day of reckoning until now. There is increasing resentment by urban areas and States toward agricultural subsidies at a time when their prices for groceries have risen higher. There is also resentment because sales have been made to foreign countries who desperately need our feed grains and products to help prevent hunger and starvation. There is apparently resentment because farmers and ranchers are receiving a more equitable price for their product, enabling them to pay off some of their debts.

Some seem to resent seeing our families well dressed. This is evidenced by some calling our spokesmen who have been talking to boycotters, fat cats, or saying, "If you are so bad off, why are you wearing such nice clothes?" This is a statement of a boycotter to one of our South Dakota representatives to Cleveland.

The ceilings placed on meat by President Nixon and the action of the boycotters have woke up everybody from the lethargy which was so widespread. Hopefully, we will all learn from it.

Ranchers and the livestock industry steadfastly fought livestock subsidies during the period of extremely low prices, knowing a

better day was coming. However, we are not free of controls, because congressional control on the number of acres planted and corn grown, or soybeans produced, had a direct effect on livestock. Diverted acres opened for grazing has a direct effect, as will the complete elimination of diethylstilbestrol and many of the pesticides.

What I am trying to emphasize is that we really are directly affected by the farm program. I do not feel that any one individual or group is intelligent enough to be able to predict the side effects of a farm program. Soon too much or too little wheat is produced; too much or too little corn, or soybeans, or cotton, or livestock. Then the emphasis is shifted with the pendulum swinging the other way.

We believe in a free market, unencumbered by government or congressional manipulation. We believe in an economy free of subsidies to any of our industries. American industry has the ingenuity to cope with any problem it is forced to overcome. It has become, unfortunately, too easy to run to Congress and the government for help, and like a parent who has spoiled their child, has received it.

We, therefore, ask you to work in the direction of freeing us from as much intervention as possible. We ask you to free other industries in the same way, using the same basic ground rule for all. We don't ask for any special help, just the opportunity to use our desire and know how to do our best without being batted down by too much and too many regulations.

We think the consumer and the American public should know there is a choice; completely tying agriculture into little knots, choking off incentives by cutting out profit, or allowing us to go forward, produce to meet a demand we know is present, and give them a plentiful supply of a wholesome product at a price in line with other segments of our economy. We know that inflation is the real culprit. Help us to hold prices in line, and the American people will be the benefactor. What is good for agriculture is good for America.

Thank you, Senator.

Senator McGOVERN. Thank you, Mr. Glaus.

I think one thing that many of our people in the cities don't understand is the hazards involved in the production of livestock. They see prices go up in 1972 and hold pretty well, but in 1973 perhaps they have forgotten, if they ever knew, what has happened in previous years.

Could you give us just a rough idea of what happens in a 10-year cycle in livestock production, how many good years you have, what the typical producer might expect? How many of those 10 years is the rancher sure that he's going to make good money in the production of livestock?

Mr. GLAUS. According to information that I have, probably 8 of the last 25 have really been profitable years, when we'd be on the way up.

Now, I think I should point out one other thing; there has been no other industry besides the livestock industry and the cattle industry which has increased production so much in an effort to meet demand. In 1948 there were about 15 million beef cows in the

United States; today there are 41 million. That's over two and a half times as many. The American public was eating 56 pounds of beef per year; today they're eating 115, and hopefully they will after the boycott and the ceilings and everything.

At the same time, 40 percent of our beef was fed beef at that time; today it's over 80 percent. I don't think there is any other industry that can say they have increased quantity as well as quality as much as has the beef cattle industry.

Senator MCGOVERN. Do you happen to know how our meat prices compare with what you'd pay for the same thing in Paris or London or some of the other capitals around the world?

Mr. GLAUS. It's much more over there. Cull cows over there would sell for 65 cents. If you go in a restaurant in Paris, meals are \$12 or more. If you go to one in Japan it would be \$17 to \$25 for a steak dinner of American beef.

Senator MCGOVERN. Even more now that we have devalued the dollar?

Mr. GLAUS. Right, yes, sir.

Senator MCGOVERN. You have heard the talk about rolling back meat prices to an earlier period. What would be the impact of that on your members?

Mr. GLAUS. It would be disastrous.

Senator MCGOVERN. And the impact on farmers and livestock growers in general?

Mr. GLAUS. It would be disastrous.

Senator MCGOVERN. Can you explain that?

Mr. GLAUS. So many people have—first of all, I should say that at the present time the beef cattle industry and the prices received are probably in the spotlight because they have risen quite rapidly. At the same time, they are not in any way out of line with retail prices or any other prices, cars, boats, TVs, clothing, anything else. I'm not trying to knock them, but they are getting so they are in line.

To say that it would prove disastrous, as you know, livestock requires a tremendous amount of money, borrowed money, capital. Many people have bought high priced feeder cattle. If it were rolled back, say from \$46 top to a \$40 top, instead of making \$25 to \$30, \$40 on a calf that they have purchased for \$60, they would be losing an equal amount. I think it's essential for our economy, I think it's essential for the consumer, for the housewife, that beef prices stay this way.

Senator MCGOVERN. Mr. Glaus, you probably heard the discussion I had with Mr. Radcliffe and others about the strategic reserve of feed grains. Can you see a place for a safety reserve of that kind, of feed grains, as a means of stabilizing or helping to stabilize the livestock industry so that we would have a valve that eases off the surplus when we have produced more than we need, and yet would hold a reserve when there is a shortage? Do you think that would be a good thing for agriculture and the livestock industry?

Mr. GLAUS. I really don't, and I don't think we'll see it because of the demand, because of the pressure that's going to be put on from overseas, people that are hungry in China, India, many of these places that are absolutely facing starvation if they don't

receive some of this food. I just question whether we could stockpile that much grain. I think efforts have been made in the past, and we haven't seen evidence that it was really successful.

Senator McGOVERN. Well, I'm not really talking about piling up enough to take care of the whole world, but about a modest reserve, perhaps several hundred million bushels in wheat and feed grains and soybeans that could be held as a strategic reserve and isolated from the market. That's really what I had in mind. I don't want to see us go back to where we were 10 years ago.

Mr. GLAUS. I think that left a bad taste in everybody's mouth.

Senator McGOVERN. But that really wasn't a strategic reserve. That has allowed to overhang the market in such a way that it depressed prices all down the line. It wasn't properly isolated from the market.

Just one more question. You made an appeal near the end of your statement that the Congress free agriculture and the livestock industry.

You wouldn't want to carry that to the point, would you, where we opened up the door on imports without any kind of restrictions at all on what would come into this country from abroad?

Mr. GLAUS. Well, of course, we have seen imports lifted. No, I would not.

Senator McGOVERN. You'd like to see some controls?

Mr. GLAUS. That's right. We did see imports lifted and, as a result, there was a slight increase in the amount of meat brought in, but I think the thing we are facing right now is a worldwide shortage of meat. There really is not enough of this that will come in at this present time. However, in the future there could be times that it might be necessary. I'd like to see an agriculture that will help keep our American people well fed with the very best, most wholesome product that we can produce, and we do have that. There is no other country, for example, that has the inspection of beef that we do. There are 16 inspectors inspecting all the beef that's overseas. We have more than that in one plant in many plants in the United States.

Senator McGOVERN. Thank you, Mr. Glaus, for your testimony. We appreciate it.

Our next witnesses are here representing the Associated Milk Producers, Mr. Keith Squires and Mr. Elmer Bergan, and they are accompanied by Lawrence Weaver and Maynard Bietz.

STATEMENT OF KEITH SQUIRES, ASSOCIATED MILK PRODUCERS, INC., BRANDT, S. DAK.

Mr. SQUIRES. We want to thank you. We didn't know about this program soon enough to get on your agenda. We found out about it yesterday. This is the first time that we have attended such a hearing, so we probably aren't as well prepared as we really should be.

Senator McGOVERN. We're glad to have you here, Mr. Squires, and we look forward to your statement.

Mr. SQUIRES. We all have a few words to say.

I'm Keith Squires, Deuel County, S. Dak., a dairy farmer producing Grade A. I'm milking 70 cows at the present time with a goal of 100 in the future if dairy has a future in this country of ours.

In our family operation, which includes two sons, a daughter, my wife and myself, we have diversified farming along with the dairy.

The problem with farming today is the high cost of production and the lack of profit, more so at present than in the past. At the present time the 36-percent protein supplement we buy for our cows has about doubled. The supplement we used last year cost \$110 a ton; today it is \$197 a ton. Besides feed, minerals, chemicals, veterinarian bills, taxes, electricity and all things connected with dairying and farming have kept going up in price.

Last March I read an article entitled, "Can Agriculture Save the Dollar?" in the Forbes magazine. The author of this article had studied the Nixon administration's proposals and thought the administration will try to trade agricultural products for the oil to relieve fuel shortages in our country.

In the Peter M. Flanigan report it estimates that by 1980 the United States could be exporting \$18 billion worth of agricultural products, soybeans being the main item, but, in turn, we would have to take some imports, and the Flanigan Report feels we could take about \$9 billion worth of dairy imports, earning a \$9 billion net on agriculture for the United States.

This article plus Mr. Nixon signing an order letting 65 million pounds of cheese come into the United States by July will really jeopardize dairying.

Senator McGOVERN. Mr. Squires, where did that article appear?

Mr. SQUIRES. In the Forbes magazine.

Senator McGOVERN. Do you think it would be a good idea if we reprinted that entire article in the record so that we have the whole text?

Mr. SQUIRES. I think so.

Senator McGOVERN. Without objection, that will be done, together with the text of the Flanigan report.

[The above-mentioned articles follow:]

THE FLANIGAN REPORT ON AGRICULTURAL TRADE POLICY

Mr. HUMPHREY. Mr. President, I said to the Senate yesterday, that today I would address myself briefly to the Flanigan report on agricultural trade policy. I call the attention of the Senate to the importance of the report.

Mr. President, I ask unanimous consent to have printed in the RECORD, following the completion of my remarks, the so-called Flanigan report on agricultural trade policy, which was prepared at the request of Peter J. Flanigan, Assistant to the President for International Economic Affairs.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HUMPHREY. Mr. President, the development of this report was under the direction of the Foreign Agricultural Service of the U.S. Department of Agriculture, with several other USDA agencies participating, including the Economic Research Service of the Agricultural Stabilization and Conservation Service. The director of this effort was Mr. Howard L. Worthington, now serving as a Special Assistant for International Trade to Secretary of the Treasury Shultz.

While neither Mr. Flanigan nor USDA wish to claim "parenthood" concerning this report, the report was, in fact, developed by USDA at the specific

request of Mr. Flanigan. To remove any doubt as to who requested this study and who conducted it, I ask unanimous consent, Mr. President, that a memorandum which was prepared in October 1972 by Mr. Carmen O. Nohre, assistant study coordinator for this project, be printed at this point in the Record.

There being no objection, the memorandum was ordered to be printed in the Record, as follows:

FLANIGAN TRADE STUDY TASK FORCE

(By Carmen O. Nohre)

The Flanigan Study was an attempt to bring together the skills of a large number of people in USDA to analyze within a very short time period the implications of policy alternatives in agricultural trade. The study was requested by Peter J. Flanigan, Assistant to the President for International Economic Affairs. It was under the overall direction of the Foreign Agricultural Service. Representatives of several USDA agencies participated in the study and especially the Economic Research Service and the Agricultural Stabilization and Conservation Service. While no formal titles were assigned, the following may be used for purposes of exposition: Study Director, H. L. Worthington; Study Coordinator, K. E. Ogren; and Assistant Study Coordinator, C. O. Nohre.

Mr. Worthington had final responsibility for the study. Mr. Ogren had the major operational role in assigning responsibility and in working with personnel in identifying tasks and attempting to assure that satisfactory progress was made. Mr. Nohre assisted Mr. Ogren, particularly in arranging for participation of ERS personnel and in coordinating the work of these personnel.

Before the study was initiated, a detailed outline (prepared mainly by the Study Coordinator) was circulated to and discussed with representatives of the following staff offices of the President—the Special Trade Representative, Council of Economic Advisers, and the Council of International Economic Policy. These offices gave their general approval to the objectives, content and procedures proposed in the outline, but they did not participate directly in the study or the writing of the report.

Preliminary discussions on substantive matters and procedures to be followed got underway about mid-March 1972 and the study outline was approved in early April. The target date for completion was June 1, 1972. The study was actually completed and submitted on July 4.

The study outline states that "the basic purpose (of the study) is to develop, with respect to agricultural trade, a U.S. strategy for the proposed round of multilateral negotiations." It called for a preliminary report to be completed by June 1, based on whatever analyses were available or could be completed within this time deadline. The study was supposed to identify additional analyses that could provide information for the negotiations proper as well as preparations for the negotiations. It was recognized that in some instances, the report would contain preliminary estimates subject to further study and analyses.

The outline provided for a report containing sections on: (1) overall U.S. goals for international trade in agricultural products, (2) problems and barriers to achieving these goals, (3) how to achieve these goals, and (4) recommendations on a particular strategy (or strategies) to be adopted. Part of the section on how to achieve the goals was concerned with commodity studies. The rationale for these studies was that a selection of an approach or combination of approaches must be made with respect to situations on trade barriers, domestic policies, etc., for specific commodity groups.

Rather early in the planning, it was decided that a good deal of emphasis should be placed on studies of a few selected commodities. This decision was made by the Study Director after meetings with several participants. Ideally, that should have been completed first to serve as major inputs to the general report. However, due to the limited time available, work on all parts went forward concurrently with the intention of making the necessary revisions in the general report as late as possible.

Groups were set up for the following commodities: grains, beef, dairy products, sugar and tobacco. FAS personnel were designated as committee chairman. Two were division directors, two were branch chiefs and one was an assistant to an assistant administrator. Personnel from FAS, ERS, and ASCS were assigned to each committee. There were five to seven members on each committee with, generally, two to four from FAS, one from ASCS, and two from

ERS. The norm for ERS representation was one person from FDCD and one from ESAD, MED, or FPED. Major sections in the commodity reports were to be (1) historical data on production, utilization, and trade for major countries, (2) a description of the domestic and trade policies of these countries, (3) alternative sets of assumptions of different levels of trade liberalization and (4) projections of production, utilization, and trade of the major countries under the different sets of policy assumptions.

In general, work got underway in early April 1972. Existing U.S. agricultural export and import projections for 1980 were reviewed and adjusted. In addition, a set of projections of "liberalized" trade were developed under the leadership of the Study Coordinator in discussions with commodity experts in FAS and ERS. These served as a basis for estimating the potential impact of trade liberalization on U.S. farm income, government costs, and the balance of payments. Assignments were made by the Study Coordinators for drafting sections in the report. Most of these drafts ended up as annexes to the overall report. The commodity groups started by developing historical data and policy descriptions. The sugar and tobacco groups were able to proceed into the remaining phases of the commodity studies more or less independently except for continuing liaison and coordination with the study coordinators. It was decided that the grain, beef and dairy products studies should be combined for the sections concerned with policy alternatives and projections because of the interrelationships among the commodities. These sections were developed largely by the chairmen of the three committees involved. Because of the importance of the grain-livestock products in the export trade of the U.S., this portion of the study received the most emphasis in the report prepared by the Study Director.

October, 1972.

Mr. HUMPHREY. Mr. President, I have had a copy of the "Flanigan Report" for several weeks. I withheld release of it until today, because I was hopeful that the administration would officially release it. I also was concerned about releasing certain parts of it for fear that the public release of these parts might unduly expose our Nation's negotiating strategy with respect to upcoming multilateral agricultural trade negotiations with other nations.

However, several factors and developments have occurred that make it imperative that the report now be made public—not only to some newspapers, or certain selected people, but to the Congress and the entire country.

First, copies of this report have been circulated not only to members of the national press, but also it is now in the hands of foreign embassy officials, a few farm and business groups, and numerous individuals throughout this country and the world. Details of the report are now common talk at most Washington cocktail parties, and are grist for most national newspaper columns. Many having an interest in international agricultural trade policy today either has a copy, or has seen a copy of the report—that is, of course, with the exception of Congress. No report has been sent here. There has been some editorial opinion on it in selected newspapers. It is in the hands of certain columnists. It is in the possession of certain embassies. But no report has been made available to the elected representatives in Congress.

Should you be wondering, Mr. President, why the administration has withheld this particular report from Congress, let the words of the report speak to that.

On page 72 of the report, it reads:

We should not approach Congress until after the negotiations have been concluded. . . . It has been traditional under the trade agreement program to seek legislation before beginning negotiations and to implement the results by Executive Order. This procedure has been the strength of the program. . . .

Going to the Congress in advance, however, would require spelling out the kind of authority we need to complete the negotiation. This is reasonably easy when all that is proposed is reduction or elimination of import duties, but when changes in support systems become involved, matters become more complicated. . . . Legislation could thus attract crippling amendments on points which subsequently may become critical. Also we may find ourselves battling strongly on, and paying dearly for, points which may drop by the wayside in negotiations. Moreover, in the negotiations, matters may take a direction unforeseen when legislation is sought, and for which no authority has been gotten. The remedy for this, of course, is to get authority from the Congress for the broadest possible changes, but it is inconceivable that the agricultural com-

mittees of the Congress would give this kind of authority, and it is quite possible that it would be unconstitutional for them to do so. On the other hand, it is possible that some of the changes in program, or policy, which we might wish to make could be made without recourse to Congress.

Mr. President, as I study this report, I feel that I may have been remiss for not releasing it sooner. Already much has been done behind the back of Congress and out of sight of the public. While the Secretary of Agriculture has been patting the farmer on the back and telling him how great things are, the Secretary and other high officials of this administration have been hard at work carrying out their secret strategy.

Included in this report, Mr. President, is a step-by-step chronology of actions to be taken with respect to revealing the contents and implementing the recommendations of this report. For example, at one point in the report, it states:

(1) The report and our proposal should be placed before a group of eminent agriculturalists for review, discussion and recommendation. This review would be confidential. Some of the people we might want to call in are Gale Johnson, Dale Hathaway, Vernon Sorenson, Hendrick Houthakker and Lawrence Krause (July-September, 1972).

Mr. President, I understand that something of this sort has already been done on a highly selected basis and was the subject of a leaked story to the press. The report continues:

(2) If it stands this test, the report should then be considered in a restricted interagency CIEP review (October-December, 1972) and additional supporting studies should be begun.

Mr. President, I don not know what a restricted interagency CIEP review may be. But I doubt whether it should have been taken in a manner which excluded Congress from knowing what is going on. I continue now with the strategy outlined in the report:

At the turn of the year (1973) we could convene an Advisory Committee of farm and commodity groups to review and comment upon the proposal. Alternatively, we could publish the proposal and call for public hearings either by the Department or by the Trade Information Committee. This move should be considered at the time we decide how to handle other parts of our liberalization program.

I hope my colleagues all noted that nothing was said here about consultation with any Member of Congress or any of our committees. Also, to the best of my knowledge, no farm advisory committee either has been formed or convened to review this report.

Mr. President, when I consider the limitless funds which the executive branch is provided to hire talent, I am surprised at the naivete of some of the remarks in this report. For example, one sentence in the report would seem to undermine and explode the entire Flanigan strategy to disregard Congress until after an international agreement is already signed, sealed and delivered. It says:

Other countries, and particularly the Europeans, have made it clear that they will take us seriously only when we have obtained legislation which will allow us to impement the results of negotiation without returning to Congress.

Listen to this:

A shift away from high price supports and downward adjustments in supply to meet market demand is not easy to achieve politically—in the United States as well as in other countries. Farmers are deeply suspicious of any moves to reduce prices and shift them to dependence on payments from national treasuries. A rapid decline in farm numbers is taking place generally in all countries; it alarms farmers, and their political representatives in national legislatures.

Nevertheless, farm people in all of the developing countries continue to have strong political influence.

Mr. President, I would add here, thank God they do. Let me continue with the report:

While the number of farm voters continue to decline in the U.S., farm organizations still pack legislative power increasingly through commodity organizations which can rally support for specific issues because of a unity of goals among the membership.

The general farm organizations—the American Farm Bureau Federation, the Grange, the Farmers Union, and the National Farmers Organization—are less effective because of a diversity of member views and of viewpoints between the organizations.

Now let me read what the report has to say about a farm bill this year:

In this connection, new farm legislation will be up for consideration in 1973. We could seek in our own new farm program to move farther toward the kind of system we wish to see in the world and to build into the new program as much flexibility as possible to adapt to a negotiated situation without further recourse to Congress.

For agriculture, therefore, from these standpoints it appears to make more sense to negotiate before we approach the Congress.

How do you like them apples?

Mr. President, seen in the light of the Flanigan report language I have just read, the President's recent farm message is right on time and on target with the strategy outlined in the report.

President Nixon, as Senators know, has called for the abolishment of our Nation's farm commodity programs and wants to substitute in lieu thereof a general cropland retirement program, a proposal one of his top agricultural economists, Dr. Don Paarlberg, suggests will not work.

Let us examine once again a few of the things that President Nixon had to say about all this in his recent message to Congress on Natural Resources:

AMERICAN AGRICULTURE—A BASIC NATURAL RESOURCE

Government influence in the farm commodity market place must be reduced. Old fashioned Federal intrusion is as inappropriate to today's farm economy as the McCormick reaper would be on a highly sophisticated modern farm.

We must allow farmers the opportunity to produce for expanding domestic demands and to continue our vigorous competition in export markets. We will not accomplish that goal by telling the farmer how much he can grow or the rancher how much livestock he can raise. Fidelity to this principle will have the welcome effect of encouraging both fair food prices for consumers and growing income from the marketplace for farmers.

We must reduce the farmers' dependence on Government payments through increased returns from sales of farm products at home and abroad. Because some of our current methods of handling farm problems are outmoded, the farmer has been unfairly saddled with the unflattering image of drinking primarily at the Federal well. Let us remember that more than 93 percent of gross farm income comes directly through the marketplace. Farmers and ranchers are strong and independent businessmen; we should expand their opportunity to exercise their strength and independence.

Finally, we need a program that will put the United States in a good posture and forthcoming trade negotiations.

Even a most cursory review of the contents of the Flanigan report and the actions taken these past several months by the President and Secretary Butz should leave little or no doubt in anyone's mind as to what the administration is up to concerning the development and implementation of this Nation's future domestic and foreign agricultural policy.

In reviewing these matters, it is most obvious that this administration is orchestrating all aspects of this policy without consultation with Congress.

Mr. President, while I have many questions and serious concerns about many of the premises, proposals and recommendations contained in this "fatherless" report, I want to make it clear that I am not condemning either the contributors to this report or the right of the Executive to request its agencies or experts to develop and submit recommendations of this type to it for consideration. However, when such studies and research are undertaken, I believe that both the Congress and the public are entitled to share and review the basic analysis underlining such efforts. In short, why was not the basic economic analysis released to the Congress and to the public, omitting the sections of this report on strategy? Is the Congress and the public expected as a matter of course to finance research in the Department of Agriculture for the exclusive use of the White House? What plans does Secretary Butz or Secretary Shultz have for releasing this basic analysis of trends in export markets in the absence of a liberalization of existing policies and estimated effect of liberalization through full market orientation?

Analyses such as provided in the Flanigan Report are expected of USDA researchers—but Congress, farm leaders and others also are the clientele of that Department—not just the White House.

The procedure that has been followed by the White House in this instance, is

but another example of the attitude that the President and his associates in the White House have for the Congress and the people of this Nation—an attitude characterized by lack of trust, confidence or respect for the legislative process. Yes, the attitude of only “they” know what is best and therefore only “they” should be permitted to make all of the important decisions relating to the future policies of this Nation.

In making the Flanigan report available today, I hope Congress and others interested or who have a stake in our Nation's agricultural policies will take the time to carefully study and comment on its contents. It is time for all the cards to be laid on the table for everyone to see and assess for themselves.

What this report reveals, in other words, is a strategy for the administration to follow in terms of trade, particularly in the agricultural area, without having any agreement, without having any legislation in advance, to get all the details of negotiation tied down, to make commitments, and then come to Congress and say, “Here is what we have agreed to. Now we want you to pass a bill that will certify the legality of what has been done?”

I am not saying that all the factors of this report are in error or represent policy with which I do not concur. As a matter of fact, I think many areas of the report are sound and commendable. My purpose today is not merely to endorse or condemn the contents of this report, but to call attention to secrecy with which surrounds it and the actual manner in which many of the report's recommendations either have or are being carried out beyond public view.

For instance, one set of recommendations contained in this report that disturbs me in particular are those relating to our Nation's dairy industry. The report offers dismantlement of our dairy industry as one of our Nation's gifts to the world at the international bargaining table. The report states:

On the import side there would be an increase of a billion dollars, entirely accounted for by dairy products.

	1970	Base	1980 situation III
Production (billion pounds, milk equivalent).....	117.4	112.5	104.0
Production value (billions of dollars).....	6.7	8.4	7.8
Consumption (billion pounds, milk equivalent).....	117.4	113.5	116.0
Net trade quality (billion pounds, milk equivalent).....		-1.0	12.0
Net trade value (millions of dollars).....		-15	-944
Farm prices (hundredweight, milk equivalent).....	\$5.70	\$7.50	\$7.50

The above table indicates that dairy production in the United States will drop more in a fully liberalized situation than if current policies and programs are continued. The projections show milk production dropping from 117.4 billion pounds in 1970 to 112.5 billion pounds in base 1980, and to 104.0 billion pounds in case III 1980. The fact that dairy production would decline even without liberalization suggests that liberalization would not mean a reverse of existing trends in dairy production. Rather it would intensify those already in motion.

The trend in dairy for some time has been to convert grassland from milk cows to beef cattle. The increased profitability of beef relative to milk would pull more resources out of dairy in Case III than in base 1980, even though the price of milk would not be significantly different in either situation. Net income to the dairy industry would be less under free trade than under a continuation of present policies, but it would still be greater than in 1970. Furthermore, the presence of alternative employment opportunities in agriculture under free trade would mean that some farmers going out of dairy could improve their income position without leaving agriculture altogether, while the per capita income of those farmers remaining in dairy could increase because the aggregate would be shared among a smaller number.

Tobacco farmers in States like North Carolina, Virginia, Kentucky, Tennessee, and Georgia are also being set up for eventual elimination of their price support program. The report says:

For this report tobacco leaf trade and consumption have been projected by the major world trading partners to 1980 under three sets of assumptions. Generally speaking, these sets of assumptions provide for:

I. No trade liberalization and a continuation of present domestic and foreign policies.

II. Certain liberalized trade policies, including lower U.S. price support levels.

III. Maximum liberalization resulting in a reasonably free and competitive world market for tobacco.

The countries involved in liberalization in Cases II and III would be the United States, the European Community and Australia.

Assuming improvement in the U.S. balance of payments position to be the principal objective of trade negotiations, the study group concluded that some liberalization along the lines of Case II would produce the most balanced package of results. The potential gains would be about \$200 million. However, it is recognized that this would be an awkward package to negotiate. Furthermore, the lower prices would result in income losses to U.S. tobacco farmers.

The study group therefore felt that a better alternative to general trade liberalization in tobacco would be to subsidize tobacco exports as necessary to keep them flowing into world markets at approximately 1970 levels. This is a useful possibility whether or not the tobacco support program is continued in its present form. In the latter event, the cost of export subsidies would be substantially less but there would probably be a drop in farm income in the tobacco sector.

As you see, the report acknowledges that many of America's dairy and tobacco farmers would be injured. But the report also tries to make a case for claiming that America's wheat, feed grain, soybean, pork, poultry and beef producers would be greatly aided.

Personally I do not believe that this report's projections in this regard will be as bullish as indicated. But here is what the report recommends be done with respect to these products:

A Negotiating Strategy.

The potential gains from negotiating a policy Alternative III liberalization in the grain-feed-livestock sector as set out in the percent every two years. For variable levies, a ceiling would be calculated and this ceiling would be reduced by 20 percent each two year period. For import quotas a liberalization schedule involving increased quantities over the five year period before full liberalization would have to be agreed upon. Wheat boards and state trading agencies present a more difficult problem. They may have to progressively relinquish their import function allowing the international trading companies to take over this function.

(2) Agree that internal support systems will be adjusted on a similar schedule or schedule designed to allow the progressive liberalization to proceed unhindered.

(3) Agree that report subsidies will be progressively reduced.

(4) Establish a coordinating council to oversee the operation of the new system. Such a council would be absolutely necessary to keep track of changes that were taking place and to make necessary adjustments in commitments if the course and burden of adjustments did not go as anticipated. It is conceivable that the present IWA structure—the Council and Secretariat—could be the nucleus of such a coordinating council. The council could, but need not be, within the GATT framework.

What we are proposing, therefore, is a commodities agreement, but not one of the traditional kind limited to a single commodity which seeks to rig international prices at artificially high levels. The commodities agreement we foresee would cover a family of commodities. It would be a liberalizing agreement removing restrictions from trade, permitting supply and demand to have free reign within this economic family of commodities, and allow prices to seek their own natural levels.

Mr. President, this surely put a new twist on the International Wheat Agreement. In fact, it is such a twist that it is a 180-degree turn. As further explanation of this recommendation, the report states on page 65:

As our analysis shows there is an element of balance in the grain-feed-livestock negotiations for the developed countries, except Japan, even though the major trade benefit accrues to the United States. Europe will export considerably larger quantities of dairy products inasmuch as she will be efficient in dairy products, a point which she has made to us consistently for a considerable period of time.

This report is the base for our Nation's future agricultural trade policy and it has been under implementation for the past several months by this Government. It has been talked about; it has been circulated; it has been commented upon in the foreign press; it has been commented upon generously and with actual quotations in what we call the business and commodity press;

its contents are known all over the world. Yet, a copy of this report has not been shared officially with appropriate committee of Congress. It was only by some very good fortune on my part that I was able to obtain a copy of this report. Today, I have made it part of the Record.

Nothing in this report is damaging to our country. It is merely a matter of recommended policy and strategy to be pursued. I hope it will be reviewed carefully by Members of Congress.

The Senate Subcommittee on Foreign Agricultural Policy plans to thoroughly review and study this report, along with the President's proposed Trade Reform Act of 1973.

EXHIBIT 1

AGRICULTURE TRADE AND THE PROPOSED ROUND OF MULTILATERAL NEGOTIATIONS

PREFACE

This report was prepared at the request of Peter Flanigan, Assistant to the President for International Economic Affairs, for use by the Council on International Economic Policy. Many people in the Department of Agriculture helped produce it, and they all deserve my sincere thanks for the help they have been. It isn't possible to list all who have participated, but I have given the names of a number of those who worked on the report and its annexes immediately following this preface. This has a dual purpose. It gives credit where it is due and it enables readers to go directly to those who know what they are talking about as questions arise. Questions are bound to come up, because in this report we have tried an unusual approach to the problem of assessing the results of trade negotiation—the commodities sector approach. We think it makes good sense, but with it we are striking out into areas which are at best imperfectly charted.

Before the study was initiated, an outline of our studies was circulated to and discussed with representatives of the Special Trade Representative, the Council of Economic Advisers, and the Council on International Economic Policy. These offices gave their general approval to the objectives, content, and procedures proposed in the outline, but they did not participate directly in the study or the writing of this report. I hope we have not disappointed them.

HOWARD WORTHINGTON.

JULY 4, 1972.

PERSONS—PARTICIPATING IN THE STUDY

Overall Direction:

Howard L. Worthington, Associate Administrator, FAS, 44-75691.

Kenneth E. Ogren, Deputy Assistant Administrator, Commodity Programs, FAS, 44-77053.

Carmen O. Nohre, Deputy Director, Foreign Demand and Competition Division, ERS, 44-79100.

Howard C. Williams, Staff Assistant, Program Evaluation and Appraisal Staff, ASCS, 44-76375.

Report:

Howard L. Worthington, Associate Administrator, FAS, 44-75691.

Kenneth E. Ogren, Deputy Assistant Administrator, Commodity Programs, FAS, 44-77053.

Philip L. Mackle, Assistant to the Assistant Administrator, Commodity Programs, FAS, 44-77645.

Barbara H. Sharkey, International Economist, Trade Policy Division, FAS, 44-77709.

Edward Karpoff, Assistant to the Assistant Administrator, Commodity Programs, FAS, 44-77820.

Annex I:

Joseph E. Barse, Economist, Trade Branch, Foreign Demand and Competition Division, ERS, 44-78327.

John F. Hudson, International Economist, Trade Policy Division, FAS, 44-77677.

Annex II:

John F. Hudson, International Economist, Trade Policy Division, FAS, 44-77677.

Annex III:

Robert L. Tontz, Economist, Trade Branch, Foreign Demand and Competition Division, ERS, 44-78237.

Annex IV:

Richard E. Bell, Director, Grain and Feed Division, FAS, 44-776885.

Donald J. Novotny, Deputy Director, Grain and Feed Division, FAS, 44-76219.

William R. Askew, Chief, Procurement Adjustment Branch, Grain Division, ASCS.

Annex V:

Philip L. Mackle, Assistant to the Assistant Administrator, Commodity Programs, FAS, 44-77645.

Larry E. Stenswick, Economist, Livestock and Meat Division, FAS.

Thomas A. Twomey, Agricultural Economist, Foreign Demand and Competition Division, ERS.

Annex VI:

Samuel L. Crockett, Chief, Commodity Analysis Branch, Dairy and Poultry Division, FAS, (retired).

William F. Deering, Assistant to the Assistant Administrator, International Trade, FAS, 44-72688.

Anthony S. Rojko, Chief, Commodities Branch, Foreign Demand and Competition Division, ERS.

Floyd A. Lasley, Leader, Dairy Group, Marketing Economics Division, ERS.

Sidney Cohen, Chief, Program Development Branch, Livestock and Dairy Division, ASCS.

Annex VII:

Donald J. Novotny, Deputy Director, Grain and Feed Division, FAS, 44-76219.

Philip L. Mackle, Assistant to the Assistant Administrator, Commodity Programs, FAS, 44-77645.

Samuel L. Crockett, Chief, Commodity Analysis Branch, Dairy and Poultry Division, FAS.

James Vermeer, Assistant Director, Farm Production Economics Division, ERS.

Anthony S. Rojko, Chief, Commodities Branch, Foreign Demand and Competition Division, ERS.

Annex VIII:

Hugh C. Kiger, Chief, Tobacco Division, FAS, 44-73000.

B. G. Andrews, Chief, Commodity Analysis Branch, Tobacco Division, FAS.

Barbara H. Sharkey, Economist, Trade Policy Division, FAS.

Robert H. Miller, Head, Tobacco and Specialty Crops Section, Economic and Statistical Analysis Division, ERS.

Thomas A. Von Garlem, Economist, Tobacco Division, ASCS.

Annex IX:

Leslie C. Hurt, Acting Director, Sugar and Tropical Products Division, FAS, 44-72916.

Robert R. Stansberry, Jr., Assistant to the Director, Sugar Division, ASCS.

Hans G. Hirsch, Economist, Commodities Branch, Foreign Demand and Competition Division, ERS.

Annex I: Policies Affecting Agriculture and Agricultural Trade: Review of Policies of the United States, Western European Countries, Japan, Canada, Australia, and New Zealand.

Annex II: The "Uri Report."

Annex III: Costs and Benefits of Trade Policies: European Community and Japan.

Annex IV: Commodity Report on Grains.

Annex V: World Beef Production and Trade: Background and Projections.

Annex VI: World Dairy Production and Trade: Recent Trends and Projections.

Annex VII: Analysis of the Impact of Trade Liberalization in the Grain-Feed-Livestock Sectors of U.S., E.C., Japanese and Canadian Agriculture.

Annex VIII: Analysis of the Impact of Trade Liberalization on World Trade in Tobacco.

Annex IX: Sugar Trade Study.

1. ISSUES IN AGRICULTURAL AND TRADE POLICIES

A. Some perspectives

In the Kennedy Round, U.S. negotiators sought from the beginning to include agriculture as a full partner. The U.S. chief negotiator Christian A. Herter emphasized in addressing the opening session of the Agricultural Ministers of

the Kennedy Round negotiations, as well as in talks given in the United States, that it was the firm position of the U.S. Government that negotiations must include agricultural products. . . . And, further that the U.S. Government would not be prepared to conclude the negotiations until equitable tariff and trade arrangements had been developed for agricultural products. EC Commissioner Mansholt, speaking to the GATT for the Community, also stressed the importance of a successful negotiation on agriculture and committed the European Community unequivocally to a negotiation on domestic agricultural policies. The Agricultural Ministers subsequently adopted a resolution which became a part of the charter for the Kennedy Round. It stated: "That, in view of the importance of agriculture in world trade, the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products."

The results from 4 years of protected negotiations, as is well known, were most disappointing. Results in agriculture fell far short of those in the industrial sector. Some minor concessions on U.S. export products were negotiated, and the U.S. gave a valuable duty binding on canned hams. In the final hours of the Kennedy Round an International Grains Arrangement (IGA) was concluded that provided for food aid by major developed countries and for world wheat prices at levels believed favorable to both exporting and importing countries (in the context of a worldwide wheat shortage). The price stabilization part of this agreement collapsed in 1969, and the International Wheat Agreement which replaced the IGA in 1970 does not contain price provisions at all (although it provides for negotiating them at some future time).

Since the conclusion of the Kennedy Round, U.S. negotiators have continued to press for liberalization of agricultural trade arrangements in bilateral negotiations with many countries, but especially the EC Countries, as well as in GATT and other multilateral forums, with many of the same frustrations and lack of results that characterized the Kennedy Round. Japan has liberalized its quotas on a number of items and U.S. sales have responded. In the EC, however, the situation has steadily worsened as internal prices on grains, and thus, variable leveies at the border, have risen and as more products have been placed under the restrictive CAP's.

In spite of the commitment made in early 1972 to begin preparation for a new negotiation, the EC appears most reluctant to contemplate liberalization of agricultural trade. For example, the High Level Trade Group of the OECD is now in its final stages of preparing its report on recommendations for improvements in the international economic environment in the 1970's. The group has found the agricultural trade issue among the thorniest of all issues, and it appears doubtful that they can reach any meaningful agreement. Many of the group's members apparently believe that agriculture must be put aside as a special problem that cannot be dealt with in parallel fashion to the issues of industrial products and can be dealt with only in the time span of a generation. Also, the EC is being exceedingly difficult in the GATT article XXIV: 5 examination, even to the point of claiming that the common agricultural policy must fall outside the scope of this examination.

B. Domestic agricultural policies: Barriers to trade liberalization

Why has so little progress been made on agricultural problems in previous multilateral and bilateral trade negotiations? Part of the answer can be found in the conflict between freer trade and the domestic farm policies of all countries, part in the continued political potency of farm people and part in the extreme concern on the part of EC countries, most notably the French, to protect the common agricultural policy, which is seen as the most tangible manifestation of European regionalism.

Incomes of farmers in all industrialized countries lag behind those of non-farm groups. A prime objective of national agricultural policies is raising the level of farm incomes both in absolute and in relative terms. Policies adopted which are intended to meet this objective often conflict with the objectives of liberalization of trade in agricultural products. In the opening three paragraphs of its chapter on agriculture, the report of the Williams Commission summarized succinctly the consequences of this interrelationship of domestic agricultural and trade policies as follows:¹

Footnotes at end of article.

"In no sector of the economy are domestic and international policies more closely related than in agriculture. Their interdependence is almost always a consequence of government policies, especially in many industrial countries which seek to improve farm income primarily by means of price supports. These support prices are in many cases determined with too little regard to market conditions or to changes in agriculture itself; rapid technological progress, increases in labor productivity, reductions in the number of farms, and increases in the number and importance of larger, highly mechanized farms.

"High price supports have stimulated major expansions of uneconomic production in many countries. To find outlets for this expanded production, these countries have increasingly curtailed foreign access to their home markets, and have disposed of surpluses by means of export subsidization.

"Particularly adverse have been the trade effects of the Common Agricultural Policy developed by the European Community during the 1960's. The high prices fixed under this policy—supported primarily by means of variable import levies—have prevented effective price competition and forced third countries into the position of residual suppliers. Furthermore, the Community has used export subsidies aggressively to dispose of surpluses produced under the stimulus of its high support prices."

In Annex I of this report we have summarized the major features of the agricultural policies of the countries of Western Europe, Japan, Australia, and New Zealand, Canada and the United States—with emphasis on the policies affecting trade.² Attention is also given to significant changes or trends in farm policy in recent years.

High price supports, it can be readily seen from these country policy reviews, have been and continue to be the essential features of the agricultural policies in Japan and the European Community. In the EC and several other countries these price supports are guaranteed to producers without any limitations on production.

These high price supports while intended to remedy the income problem, have been largely unsuccessful for many reasons. In the first place, a small proportion of producers—the large farmers—get by far the largest benefits from price supports or other programs based on volume of production; for example, in the United States 60% of direct government payments in 1970 went to 20% of the farmers, those with gross sales over \$20,000. In most countries there are many farmers with low incomes. They have a small volume of marketings and they cannot get any substantial income benefits from high price supports. These farms are too small to be different economic units and can survive in competition with productive farmers in their own country or abroad only by accepting very low returns for their efforts. In effect, chronic low incomes from farming stem from having too many of the "wrong" resources in farming—too many farmers and too many outmoded farm skills and methods, too many crops not in great demand by consumers on too much land—plus too few of the "right" resources in farming—not enough capital per farm, too small an acreage per farm although too much land in farming overall, and too little of the right kinds of farm skills. There is an unsatisfactory use of existing resources, and not enough of needed resources.

High price supports stimulate production that leads directly to agricultural surpluses, import barriers, and subsidized exports of high cost commodities. Farm prices for most products and in most countries cannot be substantially increased without creating excessively large commodity inventories as long as price guarantees are given without limitation.

Rising consumer incomes in most developed countries do not lead to greater total food consumption per person, only to changes in the mixture of foods consumed to more expensive, better quality foods more desired by consumers.³ A rigid system of high price supports, however, does not provide the necessary signals to farmers through the marketplace to adjust their production decisions in the direction of changing consumer demands.

Also, it has become clear that the benefits of high price supports are capitalized into high land prices which are of future benefit only to the present owners of land. In practically all countries the increase in prices of land during recent years has been markedly greater than in agricultural incomes.⁴ Thus, the benefits of high price supports accrue to present owners not as much in increased current incomes as in higher capital values—a gain which they

Footnotes at end of article.

can reap at time of sale, but it represents an added capital cost to the new buyer and a further deterrent to needed adjustments in farm policies.

Other misallocations of resources are induced indirectly through the influence of present agricultural policies. Under the assurance of high prices farmers apply larger quantities of fertilizer, herbicides and other non-farm inputs than would otherwise be used. In the case of the United States, an artificial scarcity of land is created through the supply adjustment programs. In Western Europe and Japan where grain and rice prices are supported at levels from 100 to 300 percent above world price levels, uneconomic investments of a long-term nature are the result as well as over-use of fertilizers and other production inputs on an aggregate basis. In addition to inefficiencies in use of resources these added inputs pose environmental problems.

Not only are present policies inefficient in serving the chronic problems of low incomes for rural people, but they are costly to consumers and taxpayers in the form of higher food prices and government costs of programs. According to Professor Johnson of the University of Chicago, the annual world cost of the "combination of barriers at the border and domestic price supports and subsidies" may approach \$40 billion including about \$13 billion in the EC and almost \$10 billion in the United States.⁴ A significant part of this cost estimate for the United States is the cost of programs to remove acres from production—supply adjustment problems thrust upon the United States the world's largest producer and exporter of grain (a) because of restricted access to markets closed by high price supports and import barriers and (b) because other countries with few exceptions make no attempt to restrict production or control marketings.

Our conclusion on how to deal with the conflict between farm policies and expanded international trade is that a solution policies move away from high price supports. To the extent this conflicts with farm income objectives, payments should be made which will be as nearly production neutral as possible. This will help reduce income disparities within agriculture, promote a greater flexibility in prices, and prices can assume more of their role in adjusting supply and demand. At the same time this change would permit a liberalization of trade barriers and help insure that the national costs of farm income support will be borne directly by the societies which deem them necessary rather than by the world as a whole.

A shift away from high price supports and downward adjustments in supply to meet market demand is not easy to achieve politically—in the United States as well as in other countries. Farmers are deeply suspicious of any moves to reduce prices and shift them to dependence on payments from national treasuries. A rapid decline in farm countries; it alarms farmers, and their political representatives in national legislatures.

Nevertheless, farm people in all of the developed countries continue to have strong political influence.

While the number of farm voters continues to decline in the U.S., farm organizations still pack legislative power increasingly through commodity organizations which can rally support for specific issues because of a unity of goals among the membership.

The general farm organizations—the American Farm Bureau Federation, the Grange, the Farmers Union, and the National Farmers Organization—are less effective because of a diversity of member views and of viewpoints between organizations.

The commodity organizations, on the other hand, can zero in on legislation, and they are taking over legislative functions once performed by the general organizations.

They are more sophisticated, they are better organized, and they have better access to power than many other special interest groups. Dairy farmers in particular are well-organized, well-financed, and politically articulate! Dairy farms in considerable numbers are still found in almost every political district.

Representative George Mahon, as another example, led the floor fight last week when the House beat back (192-189) an attempt to reduce the farm program payment limitation to \$20,000 from \$55,000. Working hardest behind the scenes were the National Cotton Council, the National Association of Wheat Growers, and the Grain Sorghum Producers.

There are many regional groups such as the tobacco associations, the Peanut

Footnotes at end of article.

Council, and the Rice Council that can bring pressure to bear in the interests of their members. The American National Cattlemen's Association remains a potent force.

The National Council of Farmer Cooperatives is also effective, particularly on tax policy and other things that concern a cooperative membership that ranges from small supply and purchasing co-ops to the huge Sunkist and Goldkist operations.

The farm sector in Japan is a highly organized, politically active factor. Probably the most politically active and effective organ in the agricultural area is the Central Union of Agricultural Cooperatives, which has local cooperatives in virtually every rural area in Japan. Japanese agriculture can wield great political influence since, in the first place, it is overrepresented in the Diet as compared to the urban areas and, secondly, it is a large supporter of the ruling Liberal Democratic Party and undoubtedly is the greatest factor in their maintaining a majority in the Diet.

In the EC, the powerful farm organizations influence the determination of agricultural policies in the EC member states and also the positions these states take in determining Community policy on agricultural issues. One of the most effective is the 1.2 million member German *Bauernverband*, a consistent supporter of high farm prices and opponent of the German government's efforts to induce small farmers to leave agriculture. The *Assemblée Permanente des Chambres d'Agriculture* and *La Fédération Nationale des Syndicats d'Exploitants Agricoles* are the leading organizations in France, although the social and political importance of individual landowners is also very significant in determining French policy. In Italy, the *Conferenza Nazionale dei Coltivatori Diretti*, which emphasizes social welfare measures for its small-farm members, has led a decisive voice in the selection of Italian agriculture ministers since the late 1940's. The Belgian *Boerenbond* and the Dutch *Landbouwschap* also exert pressure on their respective governments. These and other organizations are members of the Committee of Professional Agriculture Organizations (COPA), which is, in effect, the farmers union of the Six.

The power of such organizations was demonstrated last December after the meeting between Presidents Pompidou and Nixon concerning monetary and trade questions. Following his return to Paris and meetings with farm organization representatives, Mr. Pompidou made several public statements supportive of the common agricultural policies and critical of the United States that were much harsher in tone than those he made in the days immediately following his meeting with Mr. Nixon.

The well-organized and well-publicized efforts of the German *Bauernverband* to stiffen the position of the German government with regard to the EC Commission's 1972-73 farm support price proposals is another example. Freiherr von Heereman, the president of the organization, stated in a letter to Chancellor Brandt that the proposals were absolutely unsatisfactory for German agriculture, and that he was summoning German farmers to take part in a nationwide warning demonstration, which he did. Whether the *Bauernverband's* efforts moved the German government or were merely used by it to promote the government's position in Brussels, these efforts were a factor in the final settlement.

Moreover, the Europeans view the Common Agricultural Policy (CAP) as the only significant political accomplishment of the European Community. For each, it is a symbol of political unity. Some—more particularly the French—seem genuinely to believe that the United States aims to destroy the CAP.

In the case of France, the CAP is the mechanism for enormous economic benefits that accrue to the large, efficient landholders. President Pompidou in recent months has repeatedly warned that France would be unyielding in opposing American efforts to "destroy" the Common Market's agricultural pricing system. Early this year, when the U.S. and the EC were negotiating a trade agreement, Pompidou reportedly took personal jurisdiction over French policy toward the CAP. In the French view the CAP is not negotiable as a trade matter because of its political and social objectives.

C. Prospects for change in the 1970's

Are the prospects for changes in agricultural trade policies any brighter for the 1970's? In a number of respects they seem to be. There are changed situations from the 1960's which include those peculiar to the major negotiating countries as well as changes common to all.

1. Demand for Livestock Products. There is widespread appreciation that present agricultural policies are not meeting the demand for livestock products which consumers want. World prices for beef, for example, have climbed markedly in 1971 and 1972, in spite of an increase in production in the 1960's of some 40 percent. Since the beginning of 1972 the European Community and the United Kingdom have removed all duties and charges on beef imports. In June 1972 the United States, too, set aside all import quota provisions for the balance of the year. In 1971 the Soviet Union, under pressure to provide more livestock products for its people, imported sizeable quantities of beef from Australia, and has been importing feed-grains to boost livestock production. This is expected to continue.

2. The Community at the start of the Kennedy Round was in the beginning stages of developing a Common Agricultural Policy (CAP). Now it is a full-blown "policy," although still developing and being extended to more products. But disenchantments and disillusionments are setting in from many quarters including the EC Commission itself.⁶ Many farmers are unhappy with the CAP (e.g., the March 1971 demonstrations in Brussels) because, in their view, prices and incomes are too low--80 percent of the farmers in the EC have incomes no more than two-thirds those of industrial workers. Sharp conflicts have risen among member countries over CAP policies and especially over the implementation of the principle of joint financial responsibility for CAP costs. Commissioner Mansholt has proposed a costly plan for structural reform that has aroused spirited controversy but only limited adoption thus far. An "outside" factor to agriculture, the adjustments in exchange rates within the Six, has put the common agricultural price policy under continuing and immediate internal pressures ever since 1969.

3. EC Enlargement. The EC is now about to add four countries, the U.K. is a large importer of farm products with a low food price policy. A deficiency-payment system has been used until recently⁷ on a selective basis to raise farm returns and stimulate domestic production; the financial burden of such a system is on taxpayers rather than on consumers through higher food prices. Farm prices in all accession countries, except for Norway, are generally below EC-CAP levels, especially prices of feedstuffs. Also, those entering countries, at least the principal producers of farm products--the U.K. and Denmark--have agricultures more efficiently organized than exist in many areas of the Community. In comparison with most of the Six, these countries are larger users of feed for livestock production and less important grain producers; under the EC-CAP, prices of grain will rise relative to livestock-product prices.

4. Japanese food consumption patterns are changing in the direction of those of the U.S. and Western Europe. Nevertheless, Japanese consumption of livestock products is still much below that of most other developed countries; this situation plus sharply-rising consumer incomes makes for a promising market for import in the 1970's and beyond. Important liberalization of import quotas has already occurred, although the pace has been slow.⁸ The production of rice is now being cut by a new acreage diversion program in line with a policy to shift production out of rice into other crops and other livestock products.

5. The United States, policy-wise, is in a markedly changed position from the early 1960's, moving toward further market orientation. Large government stocks had accumulated under the stimulus of high price supports well above world prices in the 1950's and early sixties. To remedy the situation, payments to farmers have been made to withhold cropland voluntarily from production. Acres withheld from production have reached one-fourth to one-fifth of total cropland and payments to farmers the range of \$3 to \$4 billion. Price supports of major crops have been reduced sharply, moving market prices near world price levels. Total export subsidies dropped from a high of over \$800 million in the early 1960's to a range of less than \$100 million to \$200 million in recent years. The set-aside feature of the Agricultural Act of 1970 has increased the options of the U.S. farmer to respond to market forces; once the farmer who chooses to participate in the program has taken a certain acreage out of production, there are no further restrictions on his planting decisions. In effect, the U.S. commitment to policies based on market forces has increased markedly since the early 1960's--although in the absence of other major countries taking similar action the costs of the program in government payments are proving to be costly.

Footnotes at end of article.

6. Consumer incomes are much higher in all countries, with the largest rate of increase in Japan and next in the EC. Continued gains are expected in the 1970's. With these higher incomes have come shifts in food consumption patterns away from cereals to animal products. Given available supplies at "right" prices, there is great potential for further shifts.

7. Rapid structural changes in agriculture in all countries have brought sharp decreases in both number of farms and employment. Between 1960 and 1970 the drop in the number of persons employed in agriculture in most OECD countries was in the range of 25 to 40 percent (44 percent in Italy). Also, the proportion of production inputs from nonfarm sources has risen sharply in most countries. Crop yields and output per worker on farms have risen accordingly.

8. Nonfarm income is of increased importance to farmers in most countries, but especially the United States and Japan. For example, in the U.S., the income of small farmers (those with sales of products under \$10,000) in the 1960's doubled and all of this increase came from nonfarm earnings, while their numbers declined from over 3 million to less than 2 million. Thus, all of the increases in income from farm sources went to the larger farmers. In Japan the income to farm households coming from nonfarm sources increased fourfold during the 1960's. As a result, the proportion of their income from farm sources declined from 55 percent in 1960 to 40 percent in 1969.⁹

In comparison with a decade earlier, however, there are many unchanged elements. Incomes to workers in agriculture still lag behind those in nonfarm pursuits. There is still general overcapacity despite the rapid structural changes. Unfortunately, high price incentives have led to sharp increases in prices of land as well as to overinvestments in machinery, fertilizers, and other non-farm inputs so the problems of needed disinvestment in agricultural production have been accentuated.

Most significant of all perhaps among the unchanged elements is that the political pressures against changes in present policies are still formidable. Even though the numbers of farm people in all countries have declined sharply, their influence seems little diminished. In Germany, the balance of political power is now based on a small political party that draws an important base of its support from farmers in low-income areas; Japan's ruling political party depends on rural people for a vital base of its support—and a similar story could be detailed for most industrial countries. It is possible that these farm groups are not really as politically powerful as believed, but it is the politicians' perceptions of their power that counts.

In summary, there are some definite changes in the environment that could make shifts in domestic agricultural policies more attainable in the 1970's than previously.

The only hope for fruitful negotiations on agriculture, however, is to move in a direction that would minimize "casts" of policy changes to all countries. Moving toward a general expansion in agricultural production could have benefits to all countries. Livestock products and poultry offer the greatest possibility for expansion. The U.S. experience of the last two decades, with a doubling of beef and poultry consumptions per capita, is a notable example. The prospects of rising consumer incomes and a continued industrialization in Western Europe and Japan offer similar possibilities in those countries.

II. GOALS AND BENEFITS

A. Potential benefits to the United States from general liberalization of agricultural trade

As a starting point in this study, we decided to test as specifically as possible the significance of our alleged comparative advantage in agriculture and to arrive at quantitative estimates of the balance of benefits and costs. A combined study was made for the entire grain-feed-livestock sector because of the strong interrelationships among these products. To our knowledge, this is the first time this kind of study has been attempted. Underlying this combined study were special studies on grains, beef, and dairy products. Special studies were also made for tobacco and sugar, which are of potential importance in the United States and elsewhere. For other commodities, projections are based on consensus judgments made with the aid of commodity specialists in the Foreign Agricultural Service and Economic Research Service.

Footnotes at end of article.

Projections for all U.S. agricultural exports in 1980, with and without liberalization, were prepared. Results are shown in Table 1. The degree of liberalization, assumed for the 1980 "liberalized projection" in this section of Part II, varies by products and commodity groups. In the feed-livestock sector, exports and imports were projected under an assumption that countries adopt fully market-oriented policies; varying degrees of trade liberalization were assumed for other products.¹⁰

In no sense should any of the projections be regarded as predictions. Countries have interfered with the operations of the market place in agriculture for so long that it becomes difficult to project the results in a situation where market restraints are absent. The purpose of this exercise was not so much to come up with the most reasonable estimates of the actual numbers as it was to contrast the effects of trade liberalization under this set of assumptions.

Based on these projections, the benefits to the United States from trade liberalization are substantial. The potential gains are threefold: a substantial improvement in the balance of payments; an important reduction in government expenditure; and a significant increase in net farm income.

U.S. agricultural exports would rise sharply from the estimated \$8.9 billion in 1980 (with no change in policies) to \$18.4 billion; imports would rise from \$7.7 billion to \$9.0 billion. The net balance of trade would thus be improved by about \$8 billion.

However, if present agricultural trade policies are continued, only a small increase in exports is projected for the year 1980 and the net balance of trade from agriculture would drop by nearly a billion dollars from fiscal year 1971. These large gains in U.S. exports and in the net balance of trade come almost exclusively from the feed-livestock sector. (Figures 1, 2, and 5).

Although some shifts in government expenditure and net farm income would take place in other commodity sectors, the major effects of trade liberalization would be felt by grain and livestock producers.

In this sector, government commodity program expenditures could be eliminated with a saving estimated to be almost \$4 billion in wheat and feedgrain commodity program costs.¹¹ Producer returns from marketings would increase by \$8 billion, amounting to a net increase in farm income of \$4 billion after allowing for the end of government payments.¹² (Figures 3 and 4.)

There are other important sources of benefits to the U.S. economy, although they are more difficult to quantify. The added gross income to farmers represents up to \$12 billion available for buying the additional inputs required to produce the added volume, and for family living. Rural communities would especially benefit.

It is important to reemphasize at this point that these projected benefits do not represent our estimates of what the agricultural picture would actually be in 1980 if trade were liberalized as assumed. For one thing, the projections are based on estimates of the plausible changes in demand and the supply adjustments possible over a 10-year period beginning 1970. Very substantial increases in consumption of animal products in Western Europe and Japan are projected for 1980. These estimates are based on a situation where incomes would be increasing at present rates, prices would be at world levels, and trade barriers (other than health regulations) to the flow of grains and other feed-stuffs as well as animal products would be absent. Since the policy changes necessary to bring about this situation may themselves require a period of gradual change of up to 10 years, probably beginning not earlier than 1975, the time at which we would arrive at free market supply/demand equilibrium for grains and livestock has obviously been foreshortened in our projections.

More realistic estimates could probably be made by revising the projections to 1985, and taking into account the effects of the transitional measures which would be required to alter the trading environment for agriculture from its present condition to one of substantially free trade, at least for grains and livestock. For the purpose of this study, however, it was decided to adopt 1980 rather than 1985 as the target year for projections because of the availability of several other studies giving projections for 1980 which could be used as a starting point.¹³

1970 was chosen as the base year for projections because nearly complete statistical data was available. Since our purpose was to predict trends rather than results, we felt that the time compression problem was not serious enough to warrant changing our approach for this study.

What these projections do indicate is the likely trend of developments if multilateral negotiations lead to substantial trade liberalization, particularly in the grain-livestock sector. We think that the magnitude of the benefits when full liberalization is assumed in that sector is so great as compared to the base 1980 situation (or the other partial liberalization situations discussed below) that it is reasonable to rely on these results as an indicator of trends even though the actual gains may differ from those projected in this admittedly ideal situation.

TABLE 1.—U.S. AGRICULTURAL TRADE, 1971 AND 1980 UNDER 2 ALTERNATIVES

[In billions of dollars]

Products	1971	1980	
		Base	Liberalized
EXPORTS			
Feed livestock:			
Grains and feeds.....	2.9	2.8	6.8
Oilseeds and products.....	2.1	2.9	4.8
Dairy and poultry.....	.3	.3	.7
Livestock and products.....	.7	.9	3.9
Subtotal.....	6.0	6.9	16.2
Cotton.....	.5	.5	.5
Tobacco.....	.5	.5	.6
Fruits and vegetables.....	.6	.7	.8
Sugar and tropical products.....	.2	.3	.3
Total, all products.....	7.8	8.9	18.4
IMPORTS			
Feed-livestock:			
Grains and feeds.....	.2	.2	.2
Oilseeds and products.....	.2	.3	.3
Dairy and poultry.....	.1	.2	1.1
Livestock and products.....	1.4	1.9	1.9
Subtotal.....	1.9	2.6	3.5
Cotton.....	(1)	(1)	(1)
Tobacco.....	.1	.2	.2
Fruits and vegetables.....	.9	1.3	1.5
Sugar and tropical products.....	2.7	3.6	3.8
Total, all products.....	5.8	7.7	9.0
Balance of trade.....	+2.0	+1.2	+9.4

¹ Less than \$50,000,000.

NOTES

Subtotals for the feed-livestock sector differ from those shown in the grains-livestock study because of the inclusion in this table of certain feeds, oilseeds, and livestock products of peripheral importance for the specialized commodity-study projections.

Although 1970 was used as the base year for the purpose of developing projections, 1971 data are shown in this table for purposes of comparison because they were the latest available.

B. Potential benefits to the United States from liberalization of trade in specific commodity sectors

*Grain-Feed-Livestock*¹⁴

In the grain-feed-livestock sector three sets of policy alternatives were considered—each set progressively more liberal—to appraise their impact on production, consumption and trade as compared with the continuation of current policies in the United States and other major exporting and importing countries. Briefly the policy alternatives are:

1. A modest liberalization of existing policies—A standstill of price incentives in the EC, combined with an increase in beef and dairy import quotas in the U.S. and Japan, and elimination of the Canadian feed-freight assistance program.

2. Liberalization through partial market orientation—In addition to the above, a reduction in EC price incentives equivalent to a \$15/m.t. reduction in grain prices, combined with conversion from variable levies to fixed duties;

also, a complete conversion of the Japanese import control system for livestock products to an ad valorem duty basis—but with rather high duties.

3. Liberalization through substantially full market orientation—Essentially free trade along with consistent internal agricultural policies, with the grain-feed-livestock complex supported if necessary by a set-aside of U.S. acreage sufficient to maintain prices to U.S. farmers at 1972 levels.

In the absence of any liberalization, i.e. a continuation of current policies, the number of excess acres in the United States would increase. If present U.S. Government programs were in effect and there were no limitation on total costs, the program costs for the wheat and feedgrains program would rise to almost \$4 billion, compared with an average cost of \$2 billion in 1968-71. This result is the consequence of projected yields rising at a faster rate than the rate of increase in domestic utilization of feedstuffs, coupled with less demand for exports. U.S. exports of feedgrains are projected to decline somewhat from 1970-71 levels. Increases expected for Eastern Europe and Japan would be more than offset by a virtual disappearance of our markets in Western Europe. Further increases in exports are projected for soybeans and products—but not nearly what could be realized under trade liberalization.

The overall benefits to the United States¹⁰—in terms of increased trade and improved balance of payments, reductions in costs of government programs, and improvements in net income to farmers—are substantially greater under policy alternative no. 3 than under alternative no. 1 and no. 2 (table 2). In fact, under policy alternative 1—a modest liberalization of existing policies—the results on practically all counts are less favorable than under a continuation of existing policies. Exports increase by \$1.1 billion but imports increase by \$1.2 billion, so there is no improvement in the balance of trade. Costs of government wheat and feedgrain programs are reduced by almost \$0.5 billion as compared with the “base,” but net income to farmers from marketings drops by \$1.6 billion.

Alternative 2, a liberalization through partial market orientation, does achieve net trade gains of about \$4 billion. Government program costs are down by more than \$2 billion. Farmers’ net income from marketings are higher by \$1.6 billion. However, total net income to farmers is lower under alternative 2 because the increased net income from marketings does not offset the loss in government payments.

It is only under alternative 3—substantially full market orientation—that there is a substantial net gain to farm income even with a discontinuance of government payments. Under this alternative all “set-aside” U.S. cropland would be needed to meet the increased demands for foodstuffs (figure 6), and prices received by farmers for most foodstuffs and meats would rise in response to increased demand in foreign countries.

The potential benefits from an adoption of market-orientation policies by all countries were estimated as follows: (1) In its Indicative World Plan, the FAO made projections of consumption of animal products for 1980. These projections, with some adjustments, were used as a starting point for this study. Then estimates were made of the consumption of beef, pork, poultry, and dairy products that could result in various countries based on a situation where the principal determinants of consumption would be per capita incomes and prices at world market levels (figure 7). No trade barriers (other than health regulations) would impede the flow of products.¹⁰

In most countries of Western Europe, rising incomes and the shift in the grain/meat price relationship implicit in the liberalization assumption would lead to moderate increases in beef consumption. In Japan there would be a sharp increase in consumption of beef (and also pork, poultry and dairy products) over the “base” projection for 1980 because of the continued increase in consumer incomes and the great drop in prices of meat and milk products which would result from removal of trade barriers. Correspondingly, the high rates of consumption in exporting countries such as Argentina, Australia, and New Zealand would decrease—since internal prices would rise due to increased demand for exports.

Next, the production of livestock products and total feed availabilities were estimated based on a common set of world prices. A large part of the increased domestic and foreign demand for beef would be met by beef produced with grain grown in the U.S. The increased demand for beef combined with larger

Footnotes at end of article.

foreign demand for other livestock products also would require a substantial increase in use of feed concentrates. As a result, grain and pasture requirements would increase to the point where all of the now idle cropland in the United States would be brought into production. With the increased demand, U.S. price levels would rise moderately for wheat and feedgrains as well as for all livestock products except dairy products. Prices at which commodities in the grain-feed-livestock complex are traded in the world market would increase, but internal prices in the EC and Japan would drop substantially.

In comparison with the "base" projections, U.S. exports would increase by about \$9 billion. Most of this increase would be due to increased quantities but higher prices would account for roughly a quarter of the increase. Almost two-thirds of the total increase would be in grains and soybeans—53 million additional metric tons of feedgrains and 285 million bushels of soybeans. The remainder is from animal products; increased exports of beef are the principal factor although modest increases are projected for other animal products except dairy.

On the import side, there would be an increase of a billion dollars, entirely accounted for by dairy products. It is assumed that the United States would continue to import processing-type beef even though our net balance of trade in beef would shift sharply to an export position. The price of those beef imports rises because of higher world price levels for beef, in contrast to those for the "base" projections.

The large projected gains in U.S. exports of feedstuffs may seem unattainable to some readers of this report. Thus, we offer some substantiation of the potential that does exist. The use of feedstuffs in the United States has increased by 60 million short tons in the last 15 years in a situation of market-orientation similar to that proposed for other countries in the feed-livestock sector. A recent study for the U.K. Trade Policy Research Centre concludes that for the year 1968, if consumption and production in the EC Six were at world prices (world grain price of \$70 per metric ton versus an EC price of \$98 per metric ton), production of grain in Europe would have been lower by 23 million metric tons and consumption higher by 49 million metric tons—a net import requirement of 72 million metric tons for the year 1968, *not* 1980, and for the Six, *not* the enlarged EC.¹⁷

*Tobacco*¹⁸

For this report tobacco leaf trade and consumption have been projected by the major world trading partners to 1980 under three sets of assumptions. Generally speaking these sets of assumptions provide for:

I. No trade liberalization and a continuation of present domestic and foreign policies.

II. Certain liberalized trade policies, including lower U.S. price support levels.

III. Maximum liberalization resulting in a reasonably free and competitive world market for tobacco.

The countries involved in liberalization in Cases II and III would be the United States, the European Community, and Australia.

Assuming improvement in the U.S. balance of payments position to be the principal objective of trade negotiations, the study group concluded that some liberalization along the lines of Case II would produce the most balanced package of results. The potential gains would be about \$200 million. However, it was recognized that this would be an awkward package to negotiate. Furthermore, the lower prices would result in income losses to U.S. tobacco farmers.

The study group therefore felt that a better alternative to general trade liberalization in tobacco would be to subsidize tobacco exports as necessary to keep them flowing into world markets at approximately 1970 levels. This is a useful possibility whether or not the tobacco support program is continued in its present form. In the latter event, the cost of export subsidies would be substantially less but there would probably be a drop in farm income in the tobacco sector.

Sugar

World trade in sugar is perhaps the most highly regulated of all commodities and therefore the most unlikely in which to hypothesize a free trade situation or even any significant moves toward freer trade.

From the standpoint of the U.S. gaining useful concessions in multilateral

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negotiations from the principal importers of farm products—Western Europe and Japan sugar has a low priority for inclusion in the negotiations. The study group also found it difficult to foresee any benefits from a major move to liberalize the world sugar trade. Other countries are not likely to be interested in such moves. Nevertheless, in the event that sugar is included in negotiations they suggested several possible trade-offs with the EC and Japan in moves toward some liberalization. One of these involves shifting 7½ percent of total U.S. sugar requirements from domestic to foreign suppliers. Further details on the results of the special study on sugar, are in Annex IX.

*Peanuts*¹⁹

The United States maintains import duties on peanuts and peanut products and also restricts entry through import quotas. Peanuts for human consumption have a low priority for inclusion in the multilateral negotiations. (Peanuts and peanut meal for feeding, of course, are caught up in the grain-feed-livestock complex.) There would not appear to be any major gains to major importers of U.S. agricultural products through U.S. concessions on peanut duties or quotas.

The production of peanuts in the United States is limited by acreage allotments and marketing quotas designed to provide an adequate supply for food use. Production is highly efficient and further gains in efficiency are being made. Producer prices are protected by means of a price support program at levels related to price use—about twice the value of peanuts for crushing into oil and meal.

The acreage allotment, marketing quota and price support programs doubtless would be modified sharply or discontinued if the import quota for peanuts were removed and the import duty were reduced. U.S. production of peanuts likely would vary widely from year to year, but on the average would be unlikely to fall below U.S. requirements. Prices would fluctuate sharply and move toward the world price level. U.S. producers would receive a smaller net income per acre of peanuts than they now receive. U.S. producers would receive a smaller net income per acre of peanuts than they now receive. U.S. peanut production, however, would be ample on the average to supply the domestic market. In some years, substantial quantities of peanuts would move into the export markets. Any significant increase in imports of peanuts or peanut oil under these circumstances appear improbable.

*Rice*²⁰

Rice also has a low priority for negotiation, although the liberalization estimates assume some liberalization in the EC rice import system. There would appear to be no major gains to the United States that would result from concessions of other countries as a result of U.S. concessions on rice.

The developed countries involved in the proposed multilateral negotiations do not produce the types of rice desired in the United States (except possibly broken rice), so there would be limited interest in obtaining concessions on U.S. rice duties.

Removing the present U.S. support price, thereby allowing farmers to export all the rice they are willing to produce at world prices, would depress world prices. Other major exporters, especially developed countries such as Italy, would need to reduce their prices through larger subsidies or remove their support prices in order to remain competitive.

Under this type of program the income level of U.S. rice farmers would be lowered so certificates or direct payments would be needed to help maintain farmers' income. Developing countries, especially those importing rice, would be the main beneficiaries due to lower food costs.

If all present export programs were abolished and the U.S. were to become a residual supplier of rice, U.S. rice producers would probably be required to cut back acreages considerably and experience a loss in income. The U.S. or other long grain producers would continue to serve only those limited markets where grades and quality are critical. Italy or Far East exporters would be free to service many of the large Asian markets.

Other Commodities

Exports of some commodities, such as seeds, would be helped indirectly by liberalization and increased foreign production in the grain feed-livestock complex; while others, such as animal byproducts and vegetable oils would

face increased competition. Some commodities, such as cotton, tree nuts, and seasonal fresh vegetables already have good access to the markets of the EC and Japan. For these products, increased trade depends more on market development than on reducing tariffs or quotas. Other commodities, particularly fresh citrus and processed fruits and vegetables, however, could benefit significantly from trade liberalization.

The projections used in developing Table I, were based on only a moderate degree of trade liberalization, if any, for commodities other than those included in the special studies. The prospects for increased trade through liberalization for some of these—particularly citrus where the political need for liberalization is acute—warrant further study.

TABLE 2.—CHANGES IN GRAIN-FEED-LIVESTOCK SECTOR UNDER DIFFERENT POLICY ALTERNATIVES¹

[In millions of dollars]

Item	1980 base	1980 policy alternative		
		1	2	3
Exports.....	4,463	5,554	8,649	13,517
Imports.....	1,876	3,055	2,102	+ 2,664
Net trade.....	+2,587	+2,499	+6,547	+10,853
Change from base.....		-88	+3,960	+8,266
Net returns to farmers from marketings.....	23,220	21,640	24,915	31,083
Change from base.....		-1,580	+1,695	+7,863
Government payments to farmers ²	3,754	3,303	1,687	0
Change from base.....		-451	-2,067	-3,754

¹ Includes beef, pork, poultry meat, eggs, milk, wheat, feed-grains, and soybeans. Note that there are various miscellaneous items in the data for the feed-livestock subsector in table 1 not included in this table.

² Under wheat and feed grain programs.

C. Comparison of potential benefits and costs to the United States, the enlarged European Community, and Japan from liberalization of trade in the feed-livestock sector

Although the United States, Argentina, Australia, and New Zealand would be the principal beneficiaries from liberalization in the grain-feed-livestock sector in balance of payments terms, overall economic benefits would accrue to all major exporters and importers.

1. Balance of Payments Effects—According to our projections, the United States could experience an improvement of as much as \$8 billion in its balance of payments position over a 10 year period, if all trading countries were to move to virtually free trade in the the grains-feed-livestock sector. Argentina, Australia and New Zealand would gain \$2.3 billion, \$2.0 billion, and \$1.2 billion respectively. Japan would incur an additional balance of payments deficit of approximately \$14 billion, while the European Community would gain by about \$0.5 billion (table 3). Whatever error there may be in the projections would, we believe, tend to exaggerate the deficit which Japan would experience and the improvement which the U.S. would obtain, but would not modify the general trend in balance of payments relationships among the principal countries concerned.²¹

2. Costs to Governments—The current level of government cost for support programs and set aside payments in the grain-livestock sector will be an estimated \$2.9 billion for the United States in 1972, \$1.5 billion for the EC Six and \$2 billion for Japan. Although we have no estimates for the increase in cost to governments by 1980 for the EC and Japan under a continuation of current price support programs, we anticipate that costs in both cases would rise at a substantially faster rate than in the United States, because of the necessity to take more and more surplus grains into intervention at artificially high prices. In the United States, the projected cost to government would rise to \$3.8 billion in 1980 if current programs were continued without change.

Footnotes at end of article.

Under liberalization, all of these costs to government would drop away. If Europe and Japan were to make up the full drop in net income to farmers projected for the liberalized 1980 situation, however, they would each be faced with costs on the order of \$4 or 4.5 billion. The EC would also be faced with a loss of revenue from the elimination of the variable levy, but presumably this could be made up by increasing the value added tax slightly. An increase of less than half of 1 percent would be required to offset the loss.

The member countries of the EC also bear farm program costs relating to the encouragement of certain kinds of agricultural production. To a lesser extent the United States and Japan also bear certain costs for agricultural research, training programs, and other aids to farmers. It is assumed that the value of these costs would not differ significantly whether or not there was liberalization, although the purposes for which such funds were spent would shift. There are already indications in both Europe and Japan that relatively more funds will be spent on encouraging livestock production in coming years. No specific estimates were made for the probable value of those costs in 1980.

3. Returns to Producers—In the aggregate, the United States would obtain a net increase in returns to producers from liberalization, while the European Community and Japan would both experience a decline. When the benefits of structural reform in agriculture which the EC and Japan would obtain are taken into account, however, it is not clear that this aggregate drop would create as many income employment problems for either economy as would a continuation of present agricultural support policies. The gain in net returns to U.S. farmers would be about \$4 billion, while the aggregate loss in net returns to agriculture would be very roughly \$4.5 billion in the EC and probably at least \$4 billion in Japan.²²

4. Effects on Consumers—There would be a very substantial reduction in prices of meat, dairy products, eggs, and food grains to consumers in both the enlarged EC and Japan, making possible a greatly increased intake of protein. The possible improvement in consumer welfare is equivalent to as much as \$33 billion in Japan and \$10 billion in the EC. Also pensioners and low income groups in the United Kingdom will bear a disproportionate share of higher food costs in the enlarged EC if policies are not changed. The cost of food in the U.K. is expected to increase by at least 10 percent.

In the United States, where meat production has already expanded sufficiently to bring the price down to a level where mass consumption has become not only possible but normal, the effect of liberalization may cause meat prices to be slightly higher, but the long term decline in real food prices will continue.

5. Gains in Economic Efficiency—A move to the market-orientation policies in the feed-livestock sector would have possible benefits to much of European and Japanese agriculture as well as to that of the United States. Total resources used in agricultural production would very likely increase as the additional resources needed for livestock production would more than offset the reductions in crop production. Furthermore, the shift from grain to livestock production is a shift from production of lowest labor use to one of higher labor use. It can thus slow up somewhat the pressures for movement of labor out of agriculture, especially in Europe.²³

As for the United States, other analysts have pointed out that in the years ahead the principal advantages of the U.S. in trade in goods will be in certain agricultural products in which we have special climate and resource advantages (e.g., the Corn Belt) and high-technology, capital intensive industrial goods.²⁴ The projected large benefits to the U.S. balance of trade that could come from liberalization of the feed-livestock sector bears out this hypothesis. Interestingly, however, the capital associated with each agricultural worker in the production of grains and soybeans is among the highest of any U.S. industry. And the level of technology associated with this production is by no means modest.

D. Adjustments implied for the United States by liberalization of trade in the grain-feed-livestock sector

Structure of U.S. Agriculture

It is customary in discussing U.S. agriculture to talk as if American farmers could be neatly classified according to the kind of commodity which they prin-

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cipally produce, i.e., dairy farmers, cattlemen, wheat growers, poultrymen, and so forth. In reality, however, many farms in the grain-feed-livestock sector do not produce only one crop or animal product. In many parts of the country wheat, feedgrains, and soybeans can be and often are grown interchangeably. Livestock people too may well grow grain as well as hogs, or use available pasture land for beef cattle as well as dairy cows.

The Agricultural Act of 1970 is designed to encourage shifts in production as market conditions change. This Act recognized that there are parts of the country with relative efficiencies in one or another kind of agricultural production which should be capitalized on. When we speak of the adjustments which fuller market orientation would require from American farmers, we are not speaking of adjustments which would demand wholesale changes in farming practices. In many cases the shifts in the structure of American agriculture projected under a market-oriented situation could be accomplished relatively smoothly without a loss of income to farmers producing those commodities which are not likely to benefit from liberalization.

The aggregate improvement in net income to farmers in the liberalized 1980 situation as compared to the base 1980 situation is such that the United States could probably continue to employ in agriculture all those now engaged in farming and improve their individual incomes in the process.

The tables and discussion which follow lay out in more detail some of the adjustments liberalization would imply in American agriculture.

Beef	1970	1980 base	1980 situation III
Production (billions of pounds).....	22.3	29.0	33.4
Production value (billions of dollars).....	6.5	11.6	14.7
Consumption (billions of pounds).....	24.0	31.1	31.2
Net trade quantity (billions of pounds).....	-1.7	-2.1	+2.2
Net trade value (millions of dollars).....	-655	-967	+1,955
Farm price (hundredweight).....	\$29	\$40	\$44

As the above table shows, U.S. beef production is projected to increase from 22.3 billion pounds in 1970 to 29.0 billion pounds if current policies and programs are continued; by contrast, it will rise to 33.4 billion pounds in a fully liberalized situation.

In order to achieve the additional increase in beef production projected for 1980 under free trade, the United States would have to make additional land resources available for cattle. Some grassland now being used for dairy would be converted to beef and some idle cropland would be used for cattle. The increase in cattle production in non-traditional areas such as the southeast would accelerate.

The opening up of the Japanese and the EC markets to beef imports would result in a substantial increase in U.S. exports, due to the magnitude of the increase in demand foreseen in comparison with the limited capacity of traditional suppliers to fill that market without substantial changes in production practices, which we do not foresee.

	1970	1980 base	1980 situation III
Production (billion pounds, milk equivalent).....	117.4	112.5	104.0
Production value (billions of dollars).....	6.7	8.4	7.8
Consumption (billion pounds, milk equivalent).....	117.4	113.5	116.0
Net trade quantity (billion pounds, milk equivalent).....		-1.0	12.0
Net trade value (millions of dollars).....		-15	-944
Farm prices (hundredweight, milk equivalent).....	\$5.70	\$7.50	\$7.50

The above table indicates that dairy production in the United States will drop more in a fully liberalized situation than if current policies and programs are continued. The projections show milk production dropping from 117.4 billion pounds in 1970 to 112.5 billion pounds in base 1980, and to 104.0 billion pounds in Case III 1980. The fact that dairy production would decline even without liberalization suggests that liberalization would not mean a reversal of existing trends in dairy production. Rather, it would simply intensify those already in motion.

The trend in dairy for some time has been to convert grassland from milk cows to beef cattle. The increased profitability of beef relative to milk would pull more resources out of dairy in Case III than in base 1980, even though the price of milk would not be significantly different in either situation. Net income to the dairy industry would be less under free trade than under a continuation of present policies, but it would still be greater than in 1970. Furthermore, the presence of alternative employment opportunities in agriculture under freer trade would mean that some farmers going out of dairy could improve their income position without leaving agriculture altogether, while the per capita income of those farmers remaining in dairy could be increased because the aggregate would be shared among a smaller number.

Pork	1970	1980 base	1980 situation III
Production (billions of pounds)	13.4	13.6	13.0
Production value (billions of dollars)	3.0	3.2	3.4
Consumption (billions of pounds)	13.5	14.0	12.8
Net trade quantity (billions of pounds)	.1	.4	+ 2
Net trade value (billions of dollars)	-246	-280	-82
Farm price (hundredweight)	\$22.70	\$23.50	\$26

The figures for pork given above do not reveal significant differences in the level of production from one trading situation to another. Production would be slightly lower—13.0 billion pounds in Case III 1980 than in base 1980—13.6 billion pounds.

Domestic consumption would fall off moderately under liberalization due to increased foreign demand for exports and slightly higher prices. An increase in hog prices would more than offset the higher feed costs.

Poultry	1970	1980 base	1980 situation III
Production (billion of pounds)	10.1	19.1	21.1
Production value (billions of dollars)	1.4	2.7	3.4
Consumption (billions of pounds)	10.0	19.0	20.1
Net trade quantity (billions of pounds)	+1	+1	+ 8
Net trade value (millions of dollars)	+39	+33	+359
Farm price (hundredweight)	\$13.60	\$14	\$16.30

Poultry meat production will expand significantly by 1980 regardless of whether trade is liberalized. The above table shows production almost doubling from 10.1 billion pounds in 1970 to 19.1 billion pounds in base 1980 and 21.1 billion pounds in Case III 1980. The 2-billion pounds difference between base 1980 and the freer trade situation is divided equally between domestic and foreign consumption. Under freer trade, the additional domestic consumption would come about because of the tighter market situation for pork; the foreign market will be created by the increased demand for poultry imports by Canada, as a result of the removal of the feed freight assistance program. The increased quantity of poultry meat production will improve net for income in a liberalized situation as compared to a continuation of current policies.

Wheat and feedgrains	1970	1980 base	1980 situation III
Wheat:			
Production (million mt)	41.5	37.2	54.5
Production value (billions of dollars)	2.0	1.7	3.1
Consumption (million mt)	21.7	21.2	36.0
Net trade quantity (million mt)	19.8	16.0	18.5
Net trade value (billions of dollars)	1.0	1.0	1.4
Farm price (mt)	\$47.77	\$47.77	\$56.94
Feedgrains:			
Production (million mt)	157.8	189.0	232.1
Production value (billions of dollars)	6.7	8.0	12.1
Consumption (million mt)	139.4	171.7	161.8
Net trade quantity (million mt)	19.4	17.3	70.3
Net trade value (billions of dollars)	1.0	.9	4.4
Farm price (mt)	\$42.45	\$42.33	\$52.13

1 Production levels adjusted to level needed for no change in stocks.

The above table shows a substantial increase in wheat production under freer trade when compared to a continuation of present policies—54.6 million metric tons as compared to 37.2 million metric tons. This increase would be primarily feed wheat for domestic consumption. Prices would also go up. Variable costs would increase somewhat as marginal land was brought into production, but net returns from wheat sales would nevertheless increase substantially. This increase however would not be quite enough to offset the loss of government set-aside payments, so that net income derived from wheat would drop slightly in Case III as compared to base 1980.

The feedgrains table shows a sharp increase in production under the liberalized trade situation, and an increase in prices. Net income derived from feedgrains, therefore, would be higher under liberalization than in base 1980 despite the loss of government set-aside payments. Production would go from 157.8 million metric tons in 1970 to 189.0 million metric tons in base 1980 and to 232.1 million metric tons in Case III.

An important reason for the rise in prices for both wheat and feedgrains is the pressure on supply which would result as the increased demand for both domestic and foreign livestock producers pulled more and more available cropland into production. The projections show all land currently being held out of production under government programs being drawn into use by 1980 if trade is liberalized. Subsequent increases in production in later years would have to come primarily from technological improvements resulting in higher yields per acre.

Soybeans	1970	1980 base	1980 situation III
Production (millions of bushels).....	1,255	1,500	1,841
Production value (billions of dollars).....	4.5	4.5	7.1
Consumption (millions of bushels).....	822	875	931
Net trade quantity (millions of bushels).....	+433	+625	+910
Net trade value (billions of dollars).....	1.2	1.8	3.6
Farm price (millions of tons).....	\$110.23	\$110.23	\$141.45

¹ Production levels adjusted to level needed for no change in stocks.

The situation for soybeans shown in the above table reflects the impact of liberalized trade for livestock products on a feed commodity already traded freely in world markets. Production would go from 1,255 million bushels in 1970 to 1,500 million bushels under a continuation of present policies and to 1,841 million bushels under freer trade. Prices would rise only in the freer trade situation and then substantially, resulting in a similarly large increase in net income.

E. Goals for the 1970's

Based on the special commodity studies made for this report, as well as other analyses, we suggest a selective goal in agricultural trade liberalization rather than a "traditional" approach of trade liberalization across-the-board for most if not all agricultural products. The goal should be to move to substantially full market orientation in the grain-feed-livestock sector. The overall potential benefits to the U.S. are so large that the benefits in any other area of agriculture are small in comparison. It is consistent with an objective of moving toward trade policies based on comparative advantage. All analysts agree that the U.S. has an unquestioned comparative advantage in the production of feedgrains and soybeans, one that is not likely to be changed in the foreseeable future. This is the one area of liberalization that would appear to have substantial benefits to all countries—farmers as well as consumers.

While the feed-livestock sector would be the major objective for agriculture in negotiations—the one necessary to make a negotiation on agricultural trade worthwhile to include in the multilateral negotiations—other products cannot be excluded. For some products, such as tobacco, citrus, and some other fruits and vegetables, we will want to negotiate to protect our markets against further encroachment and to expand market access. Foreign markets for these are important to our producers and concessions will bring export gains, even if not on the scale of those in the grain-feed-livestock sector. Moreover, negotiations on their behalf will keep them in the ranks of supporters of trade legislation and this is important—possibly even critical.

Moreover, we won't be able to avoid negotiating on some products of interest to other countries. At the same time it appears clear from our considerations of trade liberalization for such products such as rice, peanuts for human consumption, and sugar that there are limited gains in reciprocal concessions and either added costs in present government programs or lower incomes to U.S. producers of these crops. Thus, the possible gains to us do not appear to be sufficient justification for giving these any priority in negotiations.

III. STRATEGY AND TACTICS FOR ACHIEVING GOALS

A. Negotiating Strategy

The potential gains from negotiating a policy alternative III liberalization in the grain-feed-livestock sector as set out in the earlier section make it worthwhile to try to negotiate this type of arrangement. But how do we go about it? The most sensible way seems as follows:

1. For grain-feed-livestock: We would be negotiating an agreement in which the United States support system provides the underpinning for world grain-feed-livestock trade. An alternative III negotiation assumes that the U.S. will continue to operate its support program so that the support prices for wheat and feedgrains do not fall below 1972 levels. This will be done through programs similar to those we have now, although we will be able to put increasing quantities of our set-aside acreage back into production as demand increases elsewhere in the world.

It also assumes that our import restrictions on wheat and dairy products, our import duties on wheat, oilseeds and meals, feedgrains and livestock products will be removed gradually over a period of time.

An alternative III negotiation assumes also that the same process of adjustment to a full liberalization situation will take place in the other major countries. In the case of the EC, for grain this would mean elimination over a period of time of the variable levy and concurrent reduction of the internal support price with a possible shift to income payments. At the end of the transition period we would see a situation in which there would be standby support systems in all major countries at levels equivalent to the present U.S. support price level or slightly above (because of freight differentials) but with market prices riding at or above these levels. Export subsidies would not be permitted. To reach the goal of full liberalization we would:

- (1) Establish a plan and schedule for the removal of import restrictions. Let us say for example, they would be removed over a 10-year period in 5 steps. Import duties would be reduced by 20 percent every two years. For variable levies, a ceiling would be calculated and this ceiling would be reduced by 20 percent each 2-year period. For import quotas a liberalization schedule involving increased quantities over the 5-year period before full liberalization would have to be agreed upon. Wheat boards and state trading agencies present a more difficult problem. They may have to progressively relinquish their import function allowing the international trading companies to take over this function.

- (2) Agree that internal support systems will be adjusted on a similar schedule or schedule designed to allow the progressive liberalization to proceed unhindered.

- (3) Agree that export subsidies will be progressively reduced.

- (4) Establish a coordinating council to oversee the operation of the new system. Such a council would be absolutely necessary to keep track of changes that were taking place and to make necessary adjustments in commitments if the course and burden of adjustment did not go as anticipated. It is conceivable that the present IWA structure—the Council and Secretariat—could be the nucleus of such a coordinating council. The council could, but need not be, within the GATT framework.

What we are proposing, therefore, is a commodities agreement, but not one of the traditional kind limited to a single commodity which seeks to rig international prices at artificially high levels. The commodities agreement we foresee would cover a family of commodities. It would be a liberalizing agreement removing restrictions from trade, permitting supply and demand to have free reign within this economic family of commodities, and would allow prices to seek their own natural levels.

2. Other Commodities: We would lay down no fixed rules for negotiating other agricultural commodities. It is not possible to do so, as the situation varies greatly from product to product. For some, such as fruits and vegetables, where the principal form of international trade is the tariff or import quota, it may be sufficient to remove tariffs over a period of time, to reduce them as has been the case in previous negotiations or to liberalize or remove quotas. For others such as tobacco where support, taxation and preferential duty systems in some countries are an impediment to trade as they are in the Economic Community, it will be necessary to negotiate changes in these systems as well as changes in restrictions at the border. Rather than try to find general rules, we would suggest that countries notify the GATT of the product and the type of concession they are seeking. In a pre-negotiation examination, then the GATT contracting parties could sort through these commodities, group them according to the type of treatment necessary and the countries likely to be involved. If necessary, negotiating groups could be set up at that time.

Several other negotiating plans have been put forward from time to time. None of these seems acceptable. They are explored below:

First, a Traditional GATT Negotiation. In this negotiation, countries would agree to eliminate their import duties or other restrictions at the border and enter these concessions in the GATT schedules of tariff concessions as is customary. The reduction would be staged over a period of years and the staging schedule also would be spelled out. Coordination and adjustment decisions would be left to the normal GATT Council/Working Party structure and the necessary adjustments in support systems would be enforced in accordance with the GATT interpretation to Article XVI which says that internal prices and income programs should not nullify or impair the value of tariff concessions.

The problems with this approach are:

(1) The existing GATT mechanisms for this kind of coordination are not adequate. Neither the GATT Secretariat nor the GATT Council is geared to this sort of operation.

(2) It will not be enough to rely upon the old GATT interpretation for enforcing adjustments in support programs. For a variety of reasons, this interpretation has not been much used. There is no strong practice built up around it. While understandings about the operation of support systems must allow flexibility, they would necessarily have to be considerably more detailed than the present GATT interpretation is.

(3) This concept of negotiation is so far removed from the EC's idea of negotiating commodity agreements in agriculture as to be completely unacceptable to the EC.

Second, the EC's classic Montant de Soutien (MDS) method. As this was articulated in the Kennedy Round of negotiations it suggested that the level of support to the producer be calculated on individual products and bound against increase for a period of 3 years, at which time the situation would be reassessed and necessary changes in the support level agreed upon. The EC stated that its price levels would be the common levels established at the end of the transition period to the Common Market. Even this rather limited binding was subject to a number of escapes including for political necessity and inflationary offsets.

Under the MDS countries would be free to use at the border whatever restrictive systems they chose just so long as the application of these border restrictions do not increase the level of support to the producer.

The EC proposed also that reference prices for international marketings be negotiated and that participating countries agree to respect these international prices by not pricing below them. There would be no bar to subsidizing exports down to reference price levels. While the EC did not specify reference levels for most commodities, it was clear they wished to see the prices of grains and oilseeds raised in international markets.

This was the classic MDS negotiating method proposed initially by the EC for all agricultural commodities. For grains, as negotiations progressed the EC added the concept of self-sufficiency ratios. That is, certain adjustments in domestic policies would be made if domestic production exceeded a certain ratio of self-sufficiency. The self-sufficiency formula, however, was not a clean one in that it involved the concept of world supply-balance. The problems with the MDS approach are:

(1) It does not anticipate the reduction or removal of border protection or the reduction of support prices. Thus, there is no real liberalization.

(2) Reference prices on a wide range of commodities would be impossible to negotiate. It is inconceivable that the many countries involved could put together a schedule of prices and differentials for the many meats, dairy products, grains, oilseeds and meals and other feeds involved.

(3) Increasing international prices by negotiation would introduce additional distortions into international trade, not remove them. It would stimulate production of commodities already in oversupply, and not do a thing to encourage demand for livestock products.

Third, the Wittedeem Compromise. In the high level trade group, Mr. Witte-deem, the Dutch representative, proposed a negotiating method which was a variation of the MDS. A fundamental difference between his proposal and the MDS, however, was that he contemplated the eventual reduction of grain prices in the major producing countries to the level of the most efficient supplier. He proposed this for the same reasons we do, to make it possible to expand production of livestock products for which there is a demand. He would establish the level of price of the most efficient supplier by negotiating international reference prices. Negotiated reference prices were required, he said, because in many instances international market prices today reflect elements of subsidy and thus are not true equilibrium levels. Governments would agree to reduce internal support prices by stages to the reference price levels and not to subsidize on the world market below these reference prices. Producers would get income support if this were needed through income payments.

This approach is a significant improvement over the original MDS idea. (That is why it was unacceptable to the French and Commission representatives in the high level trade group.) Its problems for us lie in the idea of negotiated reference prices. It is impossible to see how the countries involved could negotiate a set of equilibrium prices for livestock products, grains and feeds, to take effect say 10 years from now. The negotiation would be hopelessly bogged down and the very concept is alien to that of giving more play to economic forces to allocate resources in a way which will produce for the consumer those products the consumer wants. The EC is the best example of how prices can be disoriented through international negotiation. EC internal prices for grains and livestock products have been set through negotiation among the 6 countries from the inception of the Community over 10 years ago, and the price relationships between grains and livestock products discourage the production of livestock products and encourage production of grains.

Relations to Industrial Negotiations

As our analysis shows there is an element of balance in the grainfeed-livestock negotiation for the developed countries, except Japan even though the major trade benefit accrues to the United States. Europe will export considerably larger quantities of dairy products inasmuch as she will be efficient in dairy products, a point which she has made to us consistently for a considerable period of time. Moreover, the United States will as a part of this negotiation relinquish the grain rights which it holds in the EC and the United Kingdom. And Japan will be giving up quotas which are illegal under the GATT. Further the rationalization of this commodities sector carries with it benefits for the consumers and the industrial structure of each party.

Finally, the moves which we will be suggesting are those toward which the countries will inevitably be pushed by force of circumstance. Japan may delay liberalizing the import of livestock products for some time to come but she cannot avoid it entirely. The EC will find itself under increasing pressure to reform its grain price structure over the coming decade. Finally, a good argument can be made that Japan owes us this kind of liberalization because her restrictions, which are inconsistent with GATT obligations, have been preventing the kinds of adjustment in the grain-feed-livestock sector which we propose, and thus have been aggravating the monetary imbalance with which we are grappling. Had Japan removed her quotas on beef some years ago, she would now be a sizable importer of beef and an even larger importer of feed-grains and she would not be running the very large surplus she now enjoys.

Nevertheless, neither Japan nor the Economic Community, we are sure, will consider the balance in this commodities sector or in agricultural as a whole reciprocal. Our agricultural exports to Western Europe amounted to \$2.2 bil-

lion in calendar year 1969, for example, whereas our imports of agricultural commodities amounted to only \$.9 billion. Similarly our exports to Japan amounted to \$.9 billion, whereas our imports of agricultural products from them amounted only to \$40 million. The agricultural commodities which Europe sends the U.S. are primarily wines, canned hams, beer and some dairy products. Apart from dairy, our restrictions are no real barrier to the products which Europe has to sell us. The import regimes of the U.S. for canned hams, and wines are already liberal. The duty on canned hams is only 3¢ per lb. There are no other restrictions.

We will be able to negotiate in agriculture only in the context of a very broad negotiation. What is needed in our view is a negotiation of sufficient scope and magnitude to warrant the overriding by presidents and heads of states of the objections of their agriculture and finance ministers and to provide members of legislatures with the rationale for overcoming the protectionist pressures of their constituencies. In our judgment, a negotiation of proper magnitude would be one involving both money and trade. We do not think that a negotiation involving trade only is adequate.

Reciprocity

In spite of the probable concerns of Europe and Japan over the possibility of the United States becoming protectionist, we do not see any sense of urgency in dealing with the U.S. trade problems. On the contrary, all the evidence from the high level trade group and the GATT article 24:5 and 6 examination efforts indicates a truly remarkable lack of interest in trade negotiations on a world-wide scale. In order to negotiate an improvement in agricultural trade of the kind which appears justified and necessary the U.S. should be prepared in the field of trade to offer the Europeans and Japan two choices: (1) an alternative III commodities agreement with appropriate additional settlements in such sensitive commodities as tobacco and citrus, along with suitable liberalization in the industrial sector, or (2) the withdrawal of the United States from the GATT and the return of its import duties to much more protective levels. On this point, in his recommendations to the Williams Commission, Secretary of Agriculture Clifford Hardin said in respect of a major trade negotiation:

"This kind of negotiation cannot be conducted in the agricultural sector alone. Recall the trade flows in Chart I. They show the imbalance in agricultural trade. The industrial sector must be involved. But further duty reductions in industry may not give us enough bargaining power either. What seems to be needed is a system of rewards and penalties. We might all agree on a schedule of change in agricultural support policies to implement the ideas I have mentioned above. If these changes were made on schedule, industrial duties would be reduced. If they were not made on schedule, industrial duties would increase—even beyond previously negotiated levels. If countries cannot agree to changing their agricultural systems, we should reassess whether it is in our interest to continue to be bound by the GATT. This is strong medicine, but it seems needed."

International Tactics to support a U.S. type of negotiation:

We have already prepared some of the ground for a negotiation of this type. In the proposals we put before the Community in the October 15 negotiations we stressed the need for reduction in the EC grain prices to world market levels in order to stimulate the consumption of livestock products in the EC.

In our negotiations with Japan we have also stressed the need for liberalizing animal product imports and the desirability of building a beef industry in Japan. Our feedlot demonstration in Korea has attracted some Japanese interest. Also, Ambassador Eberle's work with the high level trade group in Paris has stressed the need for restructuring the grain-feed-livestock sector. That this has been understood is demonstrated by the proposal of Mr. Witte-deem in the high level group and the work of the OECD agricultural staff. Moreover, in our requests to the enlarged Community for information to enable us to examine the enlarged Community's agricultural policies under Article XIV:5, we have emphasized the need for information in the grain-feed-livestock sector. The USIA program for moving U.S. academic leaders through Europe to lecture and participate in seminars is also being used in this direction. Dr. D. Gale Johnson has stressed the need and the potential benefits of a reform in this area. That we are being heard in the EC is demonstrated by the stream of German and other EC parliamentarians through Washington telling us to reduce the pressures.

We should intensify our efforts in each of these areas and begin them in others. For example, as we have pointed out, both the EC and the UK have in recent weeks removed their import duties on beef and the U.S. has just removed all quantitative limitations on beef imports. (The U.S. duty is negligible.) Japan is the only major developed country still restricting the import of beef. All three liberalizing countries have stressed that their liberalization is temporary. It need not be. If we can convince the Japanese to liberalize beef imports, it may be possible to maintain this liberalization, with Japan becoming the escape valve in the event of a sharp build-up of supplies.

We should, therefore, seize the opportunity we have to call a meeting of a beef group, either under GATT auspices or elsewhere (we may wish to involve the Russians) to press Japan to hasten its liberalization of beef. What better time exists than when supplies are short! In this group we should seek to work out a shared liberalization plan to keep the open market we now have.

In the Article XIV.5 examination also we could consciously and deliberately stress the adverse impact of raising U.K. prices for grains to EC levels and stress the benefit which would result to all concerned should the EC choose to lower its prices to the U.K. level. In this effort we would seek the cooperation of the other suppliers of grain and livestock, namely, Canada, Argentina, Australia, New Zealand, and South Africa.

At the same time in the GATT Agriculture Committee, particularly in light of the beef situation, we could call for an intensive examination during the next few months of the kind of commodities agreement we have in mind. We could also in the OECD call for an immediate examination of the impact this proposal would have on the agricultural economies of the several nations involved. This OECD examination would not duplicate that of the GAA but would be concentrated on the more specific aspects of adjustments in support policies and shifts between commodities.

We would also give notice of our intention to enter into negotiations with the EC and U.K. on the grain rights which are now in suspense. The negotiations, however, would for the time being be a pro forma matter because we would inform the U.K. and the EC that we wish to suspend equivalent concessions on the part of the United States which would be restored upon the conclusion of an adequate grain-feed-livestock agreement.

Domestic Tactics to support a U.S. type of negotiation:

(1) The report and our proposal should be placed before a group of eminent agriculturalists for review, discussion and recommendation. This review would be confidential. Some of the people we might want to call in are Gale Johnson, Dale Hathaway, Vernon Sorrenson, Hendrick Houthakker and Lawrence Krause (July-September?).

(2) If it stands this test, the report should then be considered in a restricted interagency CIEP review (October-December), and additional supporting studies should be begun.

(3) At the turn of the year we could convene an Advisory Committee of farm and commodity groups to review and comment upon the proposal. Alternatively, we could publish the proposal and call for public hearings either by the Department or by the Trade Information Committee. This move should be considered at the time we decide how to handle other parts of our liberalization program.

(4) We should not approach the Congress until after the negotiation has been concluded. In deciding when to approach the Congress we have three options: 1) to seek legislation before beginning negotiations as we have in the past, 2) to seek a general authorization by the Congress which will specify that the results of the negotiation must be authorized by Congress before being implemented by the President, and then to negotiate, and 3) to negotiate and then to seek implementation by the treaty route (or by legislation).

It has been traditional under the trade agreements program to seek legislation before beginning negotiations and to implement the results by Executive order. This procedure has been the strength of the program. The Tariff Commission has pointed out that prior to 1934, a number of trade agreements requiring Congressional action were negotiated by the President, "but most of these failed to receive the necessary legislative approval and thus never came into effect." The most recent example of the kind of problem we run into when we don't follow this procedure is the American Selling Price (ASP) Agreement in which the Executive Branch negotiated away ASP, as a part of a chemicals tariff agreement, only to have the Congress refuse to implement it. Other countries, and particularly the Europeans, have made clear that they will take

us seriously only when we have obtained legislation which will allow us to implement the results of negotiation without returning to Congress.

Going to the Congress, in advance, however, would require spelling out the kind of authority we need to complete the negotiation. This is reasonably easy when all that is proposed is reduction or elimination of import duties, but when changes in support systems become involved, matters become more complicated. Several committees of Congress are involved. Lengthy hearings may be contemplated at which each interested pressure group will seek to protect its interest by writing exceptions into the legislative history. It is most unlikely that we will know enough about what can be negotiated at that time to satisfy the Congress or the groups involved that their interests will be protected. Legislation could thus attract crippling amendments on points which may subsequently become critical. Also, we may find ourselves battling strongly on, and paying dearly for, points which may drop by the wayside in negotiations. Moreover, in the negotiations, matters may take a direction unforeseen when legislation is sought, and for which no authority has been gotten. The remedy for this, of course, is to get authority from the Congress for the broadest possible changes, but it is inconceivable that the agricultural committees of the Congress would give this kind of authority, and it is quite possible that it would be unconstitutional for them to do so. On the other hand, it is possible that some of the changes in program, or policy, which we might wish to make could be made without recourse to the Congress.

In this connection, new farm legislation will be up for consideration in 1973. We could seek in our new farm program to move further toward the kind of system we wish to see in the world and to build into the new program as much flexibility as possible to adapt to a negotiated situation without further recourse to the Congress.

For agriculture, therefore, from these standpoints it appears to make more sense to negotiate before we approach the Congress.

IV. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

1. Liberalization of one sector of agricultural trade would result in substantial export gains for the United States. This is the grain-feed-livestock sector. Although there would also be export gains in certain other commodities, they would be minor compared to those obtainable from freer world market conditions for grains and livestock.

2. The U.S. balance of trade position in agriculture might be improved so that ten years from the beginning of fullscale movement toward liberalization in the grain-feed-livestock sector it would be around \$6 billion better annually than would otherwise be the case.

3. Other benefits to the United States from this full liberalization in the grain-feed-livestock sector would include an improvement of at least \$4 billion in net farm income and a reduction of \$3.6 billion in government support costs for wheat and feedgrains.

4. Compared to the potential balance of trade benefits in the grain-feed-livestock sector, the trade gains possible from liberalization of markets for other individual commodities such as tobacco and citrus seem small. But these gains, which could amount to around \$200 million for each commodity, are significant from the standpoint of the commodity sectors involved, and could have important economic benefits for certain regions of the country and political benefits for trade legislation.

5. Full liberalization in the grain-feed-livestock sector would provide benefits to other countries as well as to the United States. Argentina, Australia, and New Zealand would obtain balance of trade benefits, while consumers in the major importing countries—Western Europe and Japan—would benefit both from lower food prices and from increased availability of animal products.

6. For all countries concerned, partial liberalization in the grain-feed-livestock sector would provide much more modest benefits than full liberalization, although it would probably be equally difficult to negotiate.

7. The difficulties which stand in the way of achieving full liberalization in the grain-feed-livestock are great because influential farm groups in all countries of the world are deeply suspicious of any moves to reduce price supports, or otherwise threaten the level and stability of their income expectations, and because the CAP is politically sensitive in the EC.

B. Recommendations

1. The potential benefits from liberalization of agricultural trade are so great that agriculture definitely warrants inclusion in any future round of multi-lateral trade negotiations.
2. Such negotiations should be broadly-based, involving both agricultural and industrial trade and monetary reform.
3. In agriculture, the negotiations should concentrate on the grain-feed livestock sector, in which we would seek to eliminate barriers to international trade in the entire sector through negotiating a commodities agreement.
4. Product-by-product negotiations for other politically or economically sensitive commodities should be entered into for the purpose of obtaining whatever specific concessions would be meaningful for the commodities involved.
5. We should make clear to our trading partners right from the start that we are seriously prepared to withdraw from GATT protective levels if we cannot arrive at a satisfactory trade and monetary settlement, including liberalization of the grain-feed-livestock sector along with appropriate additional settlements for other agricultural commodities.

FOOTNOTES

¹ *United States International Economic Policy in an Interdependent World Report to the President Submitted by the Commission on International Trade and Investment Policy*, July 1971, p. 141.

² See Annex I, "Policies Affecting Agriculture and Agricultural Trade."

³ Japan is an exception. Caloric intake is low in comparison with other countries at similar income levels. Consumption of livestock products is so low that increases in consumption of meats (given lower prices and adequate supplies) would not be fully offset by declines in consumption of other foods.

⁴ Based on data available for OECD countries, the average annual rate of growth in value of farm real estate (primarily land) has been about 7 percent during 1956-60 and 9 percent during 1960-65. ("Capital and Finance in Agriculture", Volume I, General Report, OECD, 1970, pp. 46-47.)

⁵ D. Gale Johnson, "Free Trade in Agricultural Products: Possible Effects on Total Output, Prices and the International Distribution of Output," Office of Agricultural Economics Research, University of Chicago, Paper No. 71-9, July 15, 1971.

⁶ See Annex II, "The Uri Report" and Annex III, "Costs and Benefits of Trade Policies: European Community and Japan."

⁷ The change to a minimum import price system was made for at least two reasons: (a) as a transitional move to the EC-CAP system that the U.K. must adopt on joining the Community, and (b) because of a stated policy of the Conservative Party to reduce budget outlays.

⁸ An interesting example of the effects of trade liberalization is given by the Japanese liberalization of grapefruit, which has even exceeded U.S. expectations. With all import bars removed June 30, 1971, our exports for the first 10 months of FY 1972 total almost \$10 million compared with less than \$0.5 million in the same period.

⁹ Michael Tracy, *Japanese Agriculture at the Crossroads*, Trade Policy Research Centre, 1972, p. 8.

¹⁰ For a detailed explanation of methodology and results, see Annexes IV-IX. The commodity studies, especially those for grains, beef, and dairy products, provide the critical numbers for the overall projections. Major countries considered include the United States, the enlarged European Community, Japan, Canada, Australia, New Zealand, and Argentina.

¹¹ The base 1980 projection assumes that the set-aside program would expand as necessary to maintain supply adjustment. Acreage set aside in the wheat and feedgrain programs thus rises from the 57 million acres estimated for 1972 to 76 million acres in 1980. The costs rise from an estimated \$2.9 billion to \$3.8 billion in 1980.

¹² The assumption concerning the level of government program costs is a crucial one in estimating possible direct gains in net income to farmers from expansion in exports. If a ceiling were imposed on total costs of the set-aside program (such as suggested in the report of the House Agriculture Committee on the Agricultural Act of 1970), then the improvement in net income to farmers from liberalization would be greater.

¹³ The FAO-IWP report, an ERS study of U.S. agriculture in 1980 (David W. Culver and J. C. Chai, "A View of Food and Agriculture in 1980," *Agricultural Economic Research*, Vol. 22, No. 3, July 1970) and a study by Michigan State University on the impact of enlargement of the EC that gives projections for 1980, "The Impact on U.S. Agricultural Trade of the Accession of the United Kingdom, Ireland, Denmark and Norway, to the European Economic Community."

¹⁴ For further details on the results of the special studies on grains, beef, and dairy products, see Annexes IV-VII.

¹⁵ These are measured by comparison to the results of a continuation of current policies.

¹⁶ We adopted a uniform procedure for estimating consumption rates at projected levels using the U.S. consumption pattern as the norm. Countries with lower incomes would have lower consumption rates for beef and poultry and slightly higher for pork. While this procedure gave results that appeared generally reasonable, there are some that are open to question. For example: the estimated consumption of dairy products per person in Japan for 1980 is higher than the current rate in the U.S. For various reasons the U.S. had a higher per capita consumption of dairy products in the past when income levels were lower. At comparable income levels, the Japanese would not necessarily follow this pattern.

¹⁷ Unpublished manuscript "The Common Agricultural Policy of the EEC", by Tim Josling, London School of Economics.

¹⁸ For further details on the results of the special study on tobacco see Annex VIII.

¹⁹ No separate commodity study was made on peanuts. However, an internal USDA report prepared by a Task Force on Peanuts was useful for drawing the conclusions given.

²⁰ No separate commodity study was made on rice. However, an internal USDA report prepared by a Task Force on Rice and an article in its *Agricultural Economic Research*, July, 1967, "A Model for Estimating Cost of Government Export Programs for Rice," were useful for drawing the conclusions given here.

²¹ All figures are based on nominal prices, assuming an inflation factor of a little less than 4 percent per year.

²² The estimates for the EC and Japan are based on rough approximations of the changes in variable costs to producers applied to the changes in gross returns shown in Table 5 of Annex VII.

²³ It is assumed that both the Europeans and the Japanese may wish to use a system of direct payments to supplement the income of farmers affected by the lowering of prices to world levels.

²⁴ Lawrence Krause of the Brookings Institution has predicted that in the future the United States "might well become more specialized in service exports, possible management service which is a combination of education and capital imports—both factors of relative abundance in the United States." But he believes that in agriculture, in contrast to the situation for most other goods, we have an "enduring comparative advantage" which comes from three sources" (a) an abundance of fertile land which has no significant alternative use, (b) desirable climatic conditions which are not expended by use, and (c) scientific inputs which are a function of educational sources. Therefore, Krause suggests that agriculture should get much attention in trade matters in the future. (Lawrence Krause, "Trade Policy in the Atlantic World," Brookings Institution, October 1970.)

CAN AGRICULTURE SAVE THE DOLLAR?

[Reprint, *Forbes Magazine*, Mar. 15, 1973]

The Nixon Administration is betting heavily that wheat, corn and soybeans can go a long way toward it.

You are furious about mounting food prices and perplexed about Nixon's new farm policy, but the answer is very simple—oil.

How do oil and food mix? Bear with us for a moment while we explain. The U.S. has lost, probably forever, its edge over Western Europe and Japan in manufacturing efficiency and technology. At the same time, it is burning imported oil at an ever-mounting rate. Question: How do you pay for the oil if you can't export enough manufactured goods?

That's where farming comes in. The U.S. is fast exhausting its once-plentiful natural resources. But there is one natural resource that, if cared for, never becomes exhausted: farmland. The U.S. has the acreage, the climate and the potential surplus over its own needs to become the granary of the world—a world where both population and ability to pay are rising fast.

Thus do the facts fall into place. The Nixon Administration is betting on agriculture to save the dollar. For if oil is essential for industrial civilization, food is necessary for life itself. Food is, potentially at least, the most priceless of all natural resources.

The U.S. last year ran a balance-of-trade deficit of \$6.8 billion. On top of the current woeful situation, the future seems impossibly bleak: By 1980, under not overly pessimistic projections, the U.S. could be laying out \$18 billion to pay for imported oil, compared with a \$4.2-billion payout in 1972. If things were to stay the same, this would imply a potential trade deficit of \$20 billion and international bankruptcy for the U.S.

Agricultural exports already are one of the few bright spots in the U.S. trade picture. In fiscal 1973 (the year that ends June 30), the U.S. will export \$11.1 billion worth of agricultural products. It will import, estimates the Department of Agriculture, \$6.8 billion. After subtracting \$1 billion of foreign-aid-type food-stuffs from the export total, that still leaves a healthy \$3.3-billion cash trade surplus in agriculture—largely balancing the deficit in oil.

STEADY CLIMB

Of course, the current fiscal year is extraordinary because of the shipments of over \$1 billion worth of grain to the Soviet Union. But the fact remains that agricultural exports have been rising steadily in recent years: from \$5.7 billion in fiscal 1969 to \$6.7 billion in 1970, \$7.8 billion in 1971, \$8.1 billion in 1972. This gain was in cash sales; government program sales have remained at the \$1-billion level throughout.

Carroll G. Brunthaver, Assistant Secretary of Agriculture for International Affairs, says the trend will continue. "I won't predict 1980, that's too far ahead," says Brunthaver, "but I think we can get to \$15 billion fairly quickly." To *Forbes'* central question: Can U.S. agriculture save the dollar? Brunthaver responds matter-of-factly: "Not all by itself, but it can go a long way."

The Japanese can manufacture as well as we can. They cannot farm as well as we can. The American farmer is not a lone man standing in the field. It would be more accurate to describe him as the human operative of a system of industry, technology, and capital that has taken the natural resource of the abundant land and made it yield a hundredfold. "Our advantages go back 100 years," says Brunthaver, a 40-year-old Ph.D. in agricultural economics from Ohio State. "They center in our educational system. Our farmers are educated. The infrastructure—the roads, railroads, irrigation systems—all are there. We have an organized market and an industrial complex that supports the farmer."

These investments may now be at the payoff stage. Growing income over seas means meat in the diet: That is the bright hope of the U.S. balance of payments.

Meat, that is, shipped as grain. Just as the U.S. raises more meat animals than anyone else, it also raises more of the feed grains that fatten these animals. Who can raise corn like the U.S.? For the protein supplement soybeans, the U.S. soil and climate are ideally suited, and the U.S. grows 70% of the world's supply. Wheat, which we think of as a food grain, is also a feed grain around the world, and the U.S. stands ready even now to export up to 1 billion bushels a year of it. In short, it is foodstuffs for meat animals that is the U.S. long suit in international trade. Remember, it takes eight pounds of feed to produce one pound of beef, seven to produce one pound of pork.

All this places in perspective several major recent actions of the Nixon Administration. Among them: parlaying with Russia or China; preparing for negotiations with Japan and the European Economic Community; fending off irate consumers about high food prices; devaluing the dollar. Agriculture is at the heart of every Administration major move of late.

Last year Presidential Assistant for International Economic Policy Peter M. Flanigan commissioned a report from the Department of Agriculture. That confidential report, entitled *Agricultural Trade and the Proposed Round of Multilateral Negotiations*, is now circulating in Washington and among agricultural businesses in the Midwest. The report examines the potential benefits to the U.S. from a general liberalization of agricultural trade and concludes at its most optimistic that the U.S. could achieve agricultural exports of \$18 billion in 1980—with grains and soybeans comprising almost \$12 billion of that—if all favorable factors came into play. In this scenario imports, led by dairy products, grow to \$9 billion. But the nation would still be earning \$9 billion net on agriculture.

Last month the President committed the Administration to ending direct crop subsidy payments for U.S. agriculture over the next four- or five-year period. Ended also will be the allotment program under which acreage was set aside to prevent price-ruinous surpluses. The U.S., which has some 340 million acres growing crops, has 60 million more acres in the set-aside program. This spring 40 million of those set-aside acres come into productive use—half will be producing more soybeans, corn, wheat, grain sorghums and other crops. The other half of the acreage will be used for grazing animals, thus effectively freeing more grain to the market.

Isn't this risky? Won't disastrous surpluses result? The Nixon Administration displays a blithe confidence that they will not. As Secretary of Agriculture Earl Butz put it last month: "We are gambling on the side of too much, rather than not enough."

The gamble is interesting, as it solves two problems at once for Nixon. By announcing the phasing-out of crop subsidies, and allowing expanded crop production, he can say at home that he is moving gradually to bring down food prices. By knocking out the U.S. subsidies to farmers, the Nixon Administration can approach the negotiations this fall with the Europeans with clean hands, as it were, and demand that they loosen their own protective subsidies to farmers. Those subsidies are now effective barriers to U.S. grain exports.

Furthermore, expanded production of U.S. grain will bring today's high market prices down to more reasonable levels. This will make all the more ridiculous the spectacle of the Europeans holding out low-priced U.S. grain while feeding their meat animals on home-grown, subsidized, high-priced feed—and feed comprises 75% or more of the cost of raising an animal. It will also keep American grain and soybeans attractive to the Japanese, with whom price has been a problem recently. The expanded production holds little danger of a ruinous U.S. surplus in the crop year beginning this spring. Extraordinary export demand last year depleted U.S. grain reserves, and those stocks must be replenished. So Nixon has until the summer of 1974 to persuade the foreigners to buy more of the U.S. agricultural abundance.

Significantly perhaps, the U.S. was most reasonable in February's devaluation of the dollar. The whole thing was carried off relatively painlessly for Europe. No European country had to change its currency value, and thus Europe's internal balance of exchange rates was preserved. The feeling in the Administration is that Europe owes the U.S. something, preferably in agriculture.

The barriers are formidable. The only significant achievement of the European Economic Community to date has been the Common Agricultural Policy, which sets a high price level for crops grown inside the EEC and, through the use of a variable agricultural levy, holds out selected foreign crops—most particularly U.S. feed grains such as corn. Since this came fully into effect around 1966, the U.S. has lost \$200 million to \$300 million a year in feed grain exports to Western Europe—a market in which consumption of meat has expanded over 20%. On top of that, Britain, Ireland and Denmark, customers for \$550 million worth of U.S. agricultural exports a year, have just entered the EEC, imperiling that steady export demand. The Administration feels that in the forthcoming negotiations, the U.S. had better recover that lost business and get a clear shot at future growth markets. The alternative? Fewer Volkswagens and French wines coming into the U.S.

Japan, on the other hand, is a good customer. U.S. agricultural exports to Japan this year will total \$1.7 billion. And Japan is fast becoming a meat-eating nation, producing now 2.5 billion pounds of meat, compared with half a billion ten years ago. Meat consumption is expected to double again in this decade. The U.S. problem here is economic: It must keep the price of its grains competitive to hold the market and to lessen the attraction for Japanese investment in growing soybeans and feed grains on Australian and Brazilian soil.

With the newly opened giant markets for U.S. grains in the Communist countries, the problem is going to be how to arrange hard currency purchases over the long term. The signs that the Russians, though, are serious about building up their livestock herds are growing. Russia has a five-year-plan objective of a 25% increase in meat production; in spite of a terrible crop year in 1972, it did not slaughter the livestock herds as it has done previously in crop-disaster years. The potential market for U.S. feed grains and soybeans in Russia and Eastern Europe is estimated by the Department of Agriculture, and independently by Minneapolis' giant grain dealer Cargill, Inc., at 35 million to 40 million tons annually—easily a \$2.5-billion annual market. The People's Republic of China imports annually 4 million to 5 million tons of grain, mostly wheat. Initially a market for 1 million to 2 million tons annually, reckons Agriculture's Brunthaver.

India, even with the Green Revolution, is figured for frequent if not chronic shortfalls in wheat production. This year the shortfall is in the nature of 10 million tons, and the hardpressed Indians are buying U.S. grain at current inflated market prices.

Of course, there are pitfalls to watch out for in these admittedly rosy projections of world demand for foodstuffs. Good weather conditions around the world would diminish U.S. wheat exports for a start. The Common Market nations are not going to cower meekly under U.S. table-pounding in negotiations; Japan, with its Brazilian plans, could become a competitor in agriculture. Russia normally grows more wheat than even the U.S., and is a grain exporter itself. It also grows barley and can fatten its calves and hogs on that. So while demand for grains will grow, it will remain highly cyclical. But for all that, the U.S. does hold the trump cards, and chief among them is the soybean.

There are no trade barriers to soybeans in any country in the world; the problem is supply, not demand. The reason is simple: The soybean has a protein content of 40% compared with 8% for corn, 10% to 12% for wheat and about the same for oats and barley. The U.S. this year will export some \$2.7 billion worth of soybeans and soybean meal and oil; it will export 475 million bushels out of a crop of 1.3 billion bushels. And, says the Department of Agriculture, to no one's disagreement: If we had 200 million bushels more, we could sell every one of them. That alone would make a \$1-billion dent in our payments deficit.

The rest of the world has a hard time growing soybeans. The soil and climate of Iowa and Illinois are particularly favorable to the bean. But that's corn country. Why doesn't the farmer simply switch from corn to soybeans? Because there is a wealth of technology behind corn; the yields get to 150 bushels an acre and above. Soybeans are now up to 28 bushels an acre in good-times, and soybeans are not yet free of natural hazards that no longer bedevil corn, like proliferating weeds and difficulty in harvesting.

But the situation is changing. Soybeans, because of their higher price, are now the U.S.' No. One cash crop—totaling \$4 billion in calendar 1972 compared with \$3.3 billion for corn. The Administration is paying farmers out in the corn belt 15 cents a bushel—straight payout—just to plant beans on land that might be used for corn.

And the acreage is opening up for everything. Soybeans will be planted on from 7 million to 10 million previously idle acres this spring, bringing total soybean acreage up to 54 million-57 million acres. Corn will be expanded to 74 million acres, wheat to over 60 million. The production potential of this could be astounding. Hence the universal optimism of businessmen involved in agriculture.

Thomas Roberts Jr. is president of DeKalb AgResearch Co. in DeKalb, Ill. DeKalb is a corn seed supplier, developer of those hybrid seeds that make possible the incredible yields the U.S. gets in corn. Roberts expresses some fear that maybe things are going too far, too fast with the corn crop, but concludes: "This world demand thing is real. We are the lowest-cost suppliers. There are positive implications for American farmers in this. The productive potential of this country is just enormous." And Robert Perritt, vice president of Central Soya, the soybean processor and seller of feedstuffs, adds: "There is no part of the world that can begin to compete with us in this area. We are very effective." Chairman Dwayne Andreas of Archer-Daniels-Midland, the largest soybean processing firm, goes all out. "The soybean will be the savior of the dollar," he says. "The opening of trade with China and Russia is the greatest thing of the century; it has taken the farm economy out of jail."

DEFENSE TO OFFENSE

What do the Administration's new farm policies, hopes and expectations really mean for the rest of the business world? Who's helped? Who's hurt? For the answer, one must step back a bit and consider the profound changes in American agriculture contemplated by the new policies.

First of all, they are the reversal of approaches to farm policy dating at least to the 1930s and the Roosevelt Administration. Acreage was allotted then to prevent surpluses. Later during World War II, and again somewhat during the Korean War, it was opened up to get maximum production. But in the 1950s the open policies of Eisenhower's Secretary of Agriculture, Ezra Taft Benson, produced huge surpluses and ruinously low prices. The Democrats in the 1960s tried first to hold down the explosive productive potential of the U.S., then in 1966-67 to release it to prevent world hunger. But that release came just at the wrong time—at the onset of Asia's Green Revolution—and it was based on the prospects of the U.S. charitably feeding the world's developing nations.

The new policy is more realistic: It is based on selling for cash to those who have the money. Russia and China are in. India is out.

But an even more basic change is involved. This time we would not be so much selling grain as meat—in the sense that the grain would be converted into meat—for countries with a rising standard of living. For those who can't yet afford meat but need protein, there are soybeans.

The food business will, of course, always be cyclical. What this means is that if the U.S. wants to encourage agricultural expansion as a means of earning foreign exchange, it will have to protect the farmers against undue price fluctuation. As granary to the world, too, the U.S. will have to protect its customers against shortages and wild price escalations. One way to do this would be by government stockpiling in off years. Another way might be to try working out long-term supply contracts by which major customers might agree to take regular amounts—in return for being assured of a regular supply. Either way, the Government is in the business of holding reserves of the major commodities. As Senator Hubert H. Humphrey from the farming state of Minnesota puts it: "The Government must share with the farmer the risks associated with these market uncertainties."

WHO IS HELPED?

The prospects arising from all this for fertilizer, herbicide, pesticide and farm machinery are glittering. Dean McKee, economist at Deere & Co., points out that farm machinery now takes 40% of the farmer's gross dollar *vs.* 30% formerly; with the farmer's dollar growing fast, the leverage can be considerable. Hence the recent full market in farm machinery stocks.

Another profound change will be in the shipping of the grain. With expanded crop production, and expanded export shipments, the movement of grain from the Midwest out to the ports will tend more to be a year-round affair than the peak-and-valley business it is now. The grain dealers are shouting at the railroads now to buy more grain-holding hopper cars, and the railroads are beginning to respond. Reports Elwin T. Ahnquist, president of Pullman-Standard: "For us, the covered hopper market looks good. We expect not only that greater amounts of grain will be shipped, but that an increasing percentage of it will travel in covered hopper cars."

Ralph Avery, head of grain marketing for the Burlington Northern, which is laying out \$18 million above its previously planned capital budget for 1,000 covered hoppers, explains some of the economics. "The return on investment on jumbo covered hoppers can be over 30% annually. If we could run them anything close to 12 months a year, that's Utopia". As it is, grain cars work only about six months a year, which is hard on profits; in the grain shipment rush, owing to the Russian purchases, the port tie-ups have hurt the railroads, too.

What about the American consumer? With food prices up some 30% in five years and meat prices up 15% in the last two, he really is hurting. And he's mad. At everybody. The Government. The supermarket. The food processor. But the fact is this: Food prices can't respond to demand the way cars and clothing do. This is especially true of meat prices, the cause of most consumer wrath. The meat bought at the supermarket today started its production cycle 19 months or more ago—when corn was sky-high because of the 1970 corn blight. The farmer kept his herds down and paid for those animals he did feed; the meat-eater pays now. In grain, reserve bins must be filled and export demand met before prices fall enough to yield lower retail prices. In fruits and vegetables, the better conditions for farm workers that many city folk support also mean higher prices.

But then, does the city-dweller really want a migrant worker's poverty subsidizing his breakfast grapefruit? So it looks like wait 'til next year, if ever, for lower food prices. On major items like meat and grains, the Administration is gambling that prices will start down as the new acreage comes in, attracted by high prices.

Perhaps the rise in prices will level off, but if the Nixon gamble works, the American people will never again know food as cheap as they have had in recent decades. Again, because the Government will have to see to it that prices stay reasonably steady. Consumers may be angry at high food prices, until they get used to them. But farmers would never forgive a party that encouraged them to expand and then let their market collapse.

INTO THE ACT

In fact, the farmer is not going to be a passive element in all this. "There's nervousness on their part," concedes Carroll Brunthaver of Agriculture. Senator Humphrey says: "The Department is essentially right in asking for more production, but the Department is wrong in being unwilling to insure that farmer against risks. Now we insure practically everybody else—companies investing in Latin America, cost-plus contracts here at home. Then they come to the poor old farmer and they say, 'You play the marketplace.' He isn't big enough."

But what FORBES found among farmers in Bloomington, Ill. (*see p. 32*) was less nervousness than combativeness. Listen to Richard Rayburn, farmer: "Agriculture is the nation's largest business. And it is the largest single user of steel. Any business as large as that deserves more consideration than the tinkering being done to it. A management decision to change corn or livestock population by 5% is a major management decision. This new farm program isn't making minor changes. We have the world's lowest cost of food. I don't think anyone would consider such a strong turnaround in any other industry. It would be like taking all the tariffs off automobiles, or all the restraints off longshoremen." He's saying: Sure, we're itching to expand, but don't try pushing us around.

Mr. SQUIRES. There seems to be plenty of hard dairy products that can be brought into the United States, but they cannot bring fresh milk on account of being a perishable product, so what will happen

if they continue to hold milk at 75 percent of parity or below? I believe with cull cows being the price they are, and I'm not saying that they are too high, the old cows will be sold far sooner than ordinarily. I'm sure by fall or early winter our country will be experiencing a fresh milk shortage.

We are directors in Associated Milk Producers, Inc., with about 42,000 members. We are in the North Central region, which comprises Wisconsin, Minnesota, South Dakota, Iowa, and Nebraska, with 15,000 plus members in this region. We have been experiencing an average of 103 dairy sellouts per month over the past year. In the Midwest, milk production has dropped 2 percent because farmers have found easier ways to make a living rather than watching over bossie 365 days a year.

Senator McGOVERN. What was that figure on the number of dairy farms being forced out?

Mr. SQUIRES. We are losing 103 members each month in our North Central region.

Senator McGOVERN. That's over a thousand a year, more than 1,200 dairy farms a year that are going under.

Mr. SQUIRES. That's in just these four or five States. It comprises Wisconsin, Minnesota, Iowa, South Dakota, and Nebraska.

Senator McGOVERN. It comes out to about one farm per day in each of the five States.

Mr. SQUIRES. Right.

You know that dairying has had many bad knocks over the years. It wasn't long ago that scientists claimed cows were picking up radio activity from nuclear explosions. Then some doctors got on the kick about cholesterol. A group of scientists and doctors running many tests have righted many of these wrongs. Through dairymen's promotion and the industry's research and development, milk consumption has increased 3 percent over the last year.

Senator, I hope you can convince enough Senators to pass Senate bill 548 or 85 percent of parity for milk to give the dairymen a little protection against imports. I also hope with all my heart that Congress will take back some of their rights to help govern this great country of ours. Thank you.

Senator McGOVERN. Thank you very much, Mr. Squires.

Did any of you other gentlemen have statements?

STATEMENT OF ELMER BERGAN, ASSOCIATED MILK PRODUCERS, INC., LAKE PRESTON, S. DAK.

Mr. BERGAN. I'm Elmer Bergan from Lake Preston, S. Dak. I'm a regional board member of the Associated Milk Producers, Inc. AMPI is a relatively new co-op with a dedication to improving the financial status of the dairy farmer, through an increase in the bargaining power and the elimination of the overlapping services. AMPI realizes the importance of Governmental policies as relates to the dairy industry.

At a time when the efforts of self help through our new efficiencies and effective advertising have increased the prices above the support level, and the supplies to nonsurplus, we feel that the Government policy of unlimited imports to be very unfair.

The support level of 75 percent of parity tends to become less as costs continue to increase. We urge a support level of 85 percent of parity. We do not feel nor want the Government to be our best customer, but a support level of 85 percent would become a floor from which to bargain in an effort to plus the market, the price in the marketplace. The dairy industry is in a situation where supplies could become inadequate unless prices received by farmers keep up with the costs.

Many of the smaller and some of the larger dairy farmers are selling their cows. As the other areas of farming such as beef raising, hop production, and grain farming seem to be coming more profitable, the tendency is away from the twice-a-day, 7 days a week tie-down of the dairy herd. Costs of starting a dairy operation, long hours, low profit, the outlook tends to discourage people from starting.

As the older farmers retire, it becomes more important than ever to have a support price of at least 85 percent of parity, and a policy on imports that will protect the dairy industry from unfair competition from subsidized imports from foreign countries. That's all I have, sir.

Senator McGOVERN. Thank you very much, Mr. Bergan.

Do either of you gentlemen have additional statements?

STATEMENT OF MAYNARD BIETZ, TRIPP, S. DAK.

Mr. BIETZ. Mr. Chairman, I am Maynard Bietz, my address is Tripp, S. Dak. I am a small dairy farmer.

Senator McGovern, one thing I'd like to say that these gentlemen forgot to tell you that the average age of the dairy farmer is 55 years old, so it goes to show that there is not too many young men going into dairying for the simple reason it's too expensive and too many long hours of hard work. Now, this past winter I had an electrician and a plumber hired. They charged me \$6 an hour. The dairy farmers would sure love to even get half that, but we don't.

At today's milk prices I find it very hard to make ends meet. With higher taxes, gas, diesel fuel, and feed costs have risen a lot over last years prices. Every time we get a little better price for our commodities the Government tries to find ways of lowering them again. The dairy farmers are being threatened with cheese imports now. We believe this cheese already is in our country. I don't know if it is true or not, that's what we heard.

Another thing I feel is that we must encourage young people to go into dairying because our management of AMPI assures us we are going to be short on grade A milk this fall.

That's about all I have to say.

Senator McGOVERN. Thank you very much, Mr. Bietz. We appreciate your testimony.

Mr. Weaver.

STATEMENT OF LAWRENCE WEAVER, BRIDGEWATER, S. DAK.

Mr. WEAVER. My name is Lawrence Weaver, Bridgewater, S. Dak.

I just have one point, Senator, that I'd like to bring out. It pertains to my own dairy operation, and this is something that you

brought out earlier about financing young people. In my own instance, I'm in the process of trying to buy a farm, and as brought out earlier by a gentleman here that testified, it's not easy to borrow money at a rate of interest that is feasible. Just within the last few days I have been working on this, and well, FHA won't carry a loan because the land is worth as much as the loan and it has to go through another agency, like the Federal Land Bank or something like that. I think this puts an extra load on us as dairymen, which we can't already carry.

I have a young son wanting to come into the business of dairying, desperately wanting in, but as of right now we see a big hurdle in the way of financing this, in trying to build a large dairy operation. Thank you.

Senator MCGOVERN. Thank you very much, Mr. Weaver and the other gentlemen from the Milk Producers.

I have one question; I want to get your reaction on the recommendations we have from the Secretary of Agriculture that we end the 75 percent price support on milk. I think you know I'm a cosponsor of the bill that calls for increasing it to 85 percent, but we are under some pressure from the Administration to end the whole price support program for milk, as you know.

What do you think would be the impact of that on your members?

Mr. WEAVER. I think if we dropped our milk support, I think the floor could fall out very easily by imports. Actually, in the milk business it only takes one carload of cheese, say, to break the milk or to break the cheese price, and this would undoubtedly be brought to bear somewhere along the way if we didn't have support price, and I think we definitely need 85 percent of parity to stay in this business and just be able to compete.

Senator MCGOVERN. Just for the record, Mr. Weaver, you made reference to the difficulties of young people getting into agriculture. What do you regard as the principal barriers to a young family going into agriculture? Let's limit that to dairy farming since that's the thing you know best.

Mr. WEAVER. Well, to set up a decent modern dairy farm, not including the land, just to put up a dairy building and to stock it with, say, 60 head of cattle, it would probably take in the neighborhood of \$150,000 to \$200,000, and there's no way that a young person can lay his hands on this kind of money, and very few older people that can really lay their hands on it. We just don't have enough equity and there is no one willing to risk that kind of money outside of probably FHA, and they are limited. They will only go so far. These are the elements we run into.

Senator MCGOVERN. Do any of you other gentlemen have anything you would like to add to what has already been said?

Mr. SQUIRES. Senator, as I understand it, our Government cannot import products and sell them below the parity price, is that right?

Senator MCGOVERN. That's my understanding.

Mr. SQUIRES. Well, our Secretary of Agriculture by announcing 75 percent of parity or 76 percent of parity for dairy products, it would make it much easier for our Government to import dairy products, and that's why I believe that the 85 percent is a must in order to hold out these imports all we can, because I'm thoroughly convinced

that this Administration is after cheap food and he has more or less tried importing meat and didn't get too much success out of that, and as long as there is plenty of dairy products available in foreign countries that can come into this country, I think this will be the next attempt to lower food costs in the United States.

Senator McGovern. Well, thank you very much, gentlemen. We appreciate your willingness to come on such short notice.

Our next two witnesses represent the National Farmers Organization, Mr. Erhard Pfingsten, assistant to the president of the National Farmers Organization, and Jerry Bown, president of the South Dakota National Farmers Organization.

If you gentlemen want to just hit the highlights of your statements, you may, and we'll have the entire statement printed in the record. If you want to read it, that's fine. We'll let you proceed as you see fit, in the way you think will be most effective.

STATEMENT OF JERRY BOWN, PRESIDENT, SOUTH DAKOTA NATIONAL FARMERS ORGANIZATION, ONIDA, S. DAK.

Mr. Bown. Thank you, Senator. I am Jerry Bown, I live in Hyde County, S. Dak., and my address is Onida. I am president of the South Dakota National Farmers Organization, and when your office contacted me about this, they said I might bring along one or two working farmers, we'd like to hear from the actual working farmers as well as the people that are at the head of the organizations and things, and I tried to contact all the working farmers I knew and they were all working. Anyway, I half way consider myself to be a working farmer too. I have over 300 cows, I sell calves, raise a little corn, feed grains, with the help of only one full-time hired man who also happens to be my cook and babysitter and typist.

With that, my testimony will be brief because you do have written testimony.

There are several things that do concern me this year in particular. We have a series of events that have happened to agriculture through, in some cases, things that have been done by the administration, some things that have been done by the weather, the winter in some areas and the spring, the floods and all of this that concern me. We have immediate needs in agriculture as well as long-range needs for farm legislation.

Now, generally speaking, in the field of long-term legislation, the program we have been operating under the last 3 years or so is, I would say, is generally acceptable, depending upon how it is administered. Now, we have found in recent months that it can be administered to the advantage of consumers and to the expense of farmers rather than the way I think that it was intended to be.

Concerning this long-range testimony, or long-range farm legislation, I'd say there are several musts that we must have in the nature of grain programs, feed grain, wheat programs, which I am familiar with in this area.

We do, I would say, have to have some type of commodity loan program like we have now so that the farmers do not have to sell at harvest time at a greatly reduced price, which I'm sure would be the

case. It would help them to make their sales over the year. They've got operating expenses that have to get paid off just like everybody else, and so they've got to sell grain or else get a loan of some sort in order to make those payments, so we definitely need this commodity credit program, and if the government is going to insist upon telling farmers what crop to plant and how many acres to plant, then they also should add to that some sort of a support price for the grains that they insist that we produce under these conditions.

In what I would call almost desperate attempts this year to get an overproduction in grains, and also in the process of doing this, with eliminating all the programs, I see a current situation happening in the area that I know of in central South Dakota and I don't know what the answer is going to be. For example, I talked to one of our members who handles grain sales in an adjoining county just the other day. He said the local price of wheat was a \$1.85 but nobody would buy. The elevators were full. Now, I checked the price in Minneapolis on about that same day, I wouldn't say it was exactly the same day, and it was selling from 60 to 80 cents above that quoted price.

Senator McGOVERN. That's the market price on wheat?

Mr. BOWN. Yes, the difference—60 to 80 cents over the price that was quoted out there, and they wouldn't even buy at that price.

Senator McGOVERN. That would be about \$2.50 a bushel. Wheat isn't that high, is it?

Mr. BOWN. The price in Minneapolis, and that was in the neighborhood of \$2.40 at the top side, depending on protein levels and things like this. But anyway, the normal differential is in the neighborhood of 30 cents, so someone has knocked the price 30 cents there even if they would buy. This leads me to believe, and I'm sure there are a lot of other people think that the prices that the farmers are supposed to be getting that are so tremendous, when it gets right out into here where the farmers actually are, these prices are not there.

Senator McGOVERN. It doesn't do any good to have the price there if you can't deliver the wheat.

Mr. BOWN. Right. You can't pay off gasoline debts and taxes and things with \$5 a bushel wheat if you can't get the money.

Then, adding to this same problem this summer as I see it, is the calling in of all the grain. I wrote a letter to the Secretary of Agriculture about 6 weeks ago concerning the transportation problems and asked that the 1971 and 1972 grain be resealed. I got a letter back from one of the people who I imagine specialize in the transportation area there, saying that within approximately 6 weeks, this problem would be solved. So this is about 6 weeks and we still can't ship grain to any large extent out in our area. Farmers cannot plan, make any plans for this summer.

For example, they've got the choice of buying the grain back, which they'd have to borrow money to buy it back and of course get no storage from it, or they could deliver it to the Government, and I don't know what the Government is going to do because they have to have elevators take the grain and if the elevators are full I don't know how they are going to take it, or they can sell it on some sort of a contract way ahead to an elevator where they don't know whether they'll be able to take delivery even then. I know in my area

several months ago they were trying to buy wheat or were buying wheat on next September's delivery. We are going to have another crop by then, and so I see problems there that I don't see any solutions coming out from.

Senator McGOVERN. Are the elevators in the Onida area full now?

Mr. BOWN. Yes.

Senator McGOVERN. And they aren't buying wheat then?

Mr. BOWN. Oh, they'll get in a few cars, and then they'll be able to buy that much grain again. And a lot of these loans are going to be coming due, May 31, 60 days from now we are going to have loans, coming due and I think there are some that come due before that.

Senator McGOVERN. If it were not for the boxcar shortage, do you think farmers would have any objection to meeting this call-up order? Would they be willing to deliver the grain at the present price if they weren't confronted with filled elevators and the absence of boxcars?

Mr. BOWN. Well, I'm sure that the price in most instances is better than it has been recently. Now, this isn't to say that it's necessarily still adequate, but it is better than it has been. I am sure that farmers would sell quite a bit of grain if they had the chance.

Senator McGOVERN. The problem really is that we can't handle it.

Mr. BOWN. That is one of the big problems, yes.

And then along with this, this elimination of conservation practices bothers me. At a time when we are finding that our natural resources are not unlimited, we're finding pollution an ever-increasing problem, and then we in turn eliminate a program that helps us in conservation practices and in reducing pollution control. Actions like this are hard for me to understand.

[The prepared statement of Mr. Bown follows:]

Mr. BOWN. I appear before you today when agriculture is being assailed as never before in my memory. On one hand we have the sincere, although misguided and misinformed housewife attempting to reduce food prices and meat in particular by boycotting. On the other hand, we have inflation which relentlessly drives the farmers' expense even higher. Then we have the President's unfair price ceiling and the almost desperate attempts by the Administration to force the farmer into overproduction. Finally we have the continued presence of corporate agriculture with its market manipulation and tax advantages.

When we put all of these things together we find the much talked about family farmer in a dangerous position. A position that might not be able to stand another severe jolt. The next farm program could provide that jolt unless we all work to get acceptable farm legislation.

The National Farmers Organization has always felt that farmers should get their income from the market rather than from the government larder. However, this does not mean that we advocate the elimination of farm programs. If farming and farm management were left to farmers I think we could eliminate or simplify farm legislation. But since the Federal Government insists upon telling farmers how many acres of each crop to plant, then the farmer had better have some basic price guarantees or supports to counteract judgment errors by admin-

istrative officials. These support prices should be higher than they are today; I would suggest 80 percent to 90 percent of parity. If the Government feels it is important to plant additional acres of grain this year, then this grain should be supported at a price that makes growing it worthwhile.

The Commodity Credit Corporation is basic and essential to any agricultural legislation. We must have government commodity loans to avert economic disaster in rural America. Farmers have financial obligations to meet just like other people. Without the CCC he would be forced to sell a major portion of his crop at harvest time at what would almost surely be a greatly reduced price if he could sell at all. Just this week I was talking to a fellow farmer. I asked what the price of wheat was in the local elevator. He said \$1.85 a bushel but they wouldn't buy any because they were completely filled. Gentlemen, the price of wheat in Minneapolis was sixty to eighty cents above that figure where normally there is a price differential of about thirty cents. This is one more indication that the prices farmers are receiving in many instances are substantially less than many people think. We are now eight months past harvest. What will it be like come next August and September. You cannot pay your bills even if the price of wheat is \$5.00 a bushel if no one will buy it. We must have a loan program to provide year around sales and delivery of grain. We also need to apply legislative pressure to get a resale program on 1971 and 1972 grain.

We need a conservation program such as REAP, I resent the idea that the cost-sharing conservation programs we've had in the past serves only the farmer. I've seen numerous nonfarm people fishing and duck hunting in dams and dugouts throughout central South Dakota. The white tail deer hunting in eastern South Dakota was brought about primarily by the planting of many acres of shelter belts. Many farmers I know say that if they have to bear the total cost of these conservation practices, then the public is going to have to pay to hunt and fish.

Because of a disasterous winter in many areas and an equally bad spring in other areas, tens of thousands of farmers are on the brink of economic disaster. Instead of acting like the farmer has become a two-headed, greedy monster, this nation had better become concerned that the cheap food we've had, may change to a food shortage with the resulting national economic crisis that could follow.

With that, that is all I have.

Senator McGOVERN. Thank you very much, Mr. Bown. I will hold any further questions until we have heard from Mr. Pfingsten, if you could just stay at the table here.

Senator McGOVERN. I want to thank you for coming out for this meeting, Mr. Pfingsten. I know you are in great demand around the country, and we appreciate your being here.

STATEMENT OF ERHARD PFINGSTEN. ASSISTANT TO THE PRESIDENT, NATIONAL FARMERS ORGANIZATION, CORNING, IOWA

MR. PFINGSTEN. Thank you, Senator. I appreciate this opportunity to come to Huron and to discuss with you certain developments in relation to farm programs which have arisen since the hearings on the extension of the Agricultural Act of 1970 got underway.

First let me say that our members and a lot of other farmers appreciate the role that you have played in agricultural legislation in the past and, like the rest of the electorate, contemplate what you might be able to do for us tomorrow.

The voluntary wheat certificate plan which you proposed and successfully got through Congress in 1964 has meant hundreds of millions of dollars in income for agriculture in the wheat country for a decade now, and it has since been copied in the feed grain programs. You were also nonpartisan enough a year later to smother a low farm price support policy developing within your own party with your 100 percent of parity resolution. The NFO has long supported your proposal for a farm stored emergency reserve for wheat, feed grains, and soybeans, and hope that you will make the fight for it again.

We are alarmed by liquidation of Government binsites and their storage capacity which increases need for farm stored reserves. If farmers are to bargain for prices for their products, they have to keep them within their control. They can't sell all their wheat to the grain trade at harvest time for lack of storage and do any bargaining for better prices later on. Farmers need effective representation in Congress now as seldom before.

We were all shocked when the young executive's plan for a phase out of farm programs came to light. It was disclaimed as not representing official policy after I made it public in Sioux City last summer. Today, with the election out of the way, it is embraced by the Administration as the policy for new directions in agriculture. It also is the cornerstone of new Administration trade policy designed to close our trade gap and balance the flow of dollars out of the United States by having our farmers produce cheap grain for all the rest of the world.

Although the Department of Agriculture now admits in its official estimates that agricultural exports will be down in the coming wheat and feed grain crop years, acreage restrictions have been removed. About 45 million acres are being brought back into production, and Secretary Butz is urging Congress to approve a 3-year phaseout of farm income supplement payments.

At that time he also wants acreage controls, kept only on a standby basis, to be shifted from allotments by crops to a percentage of all cropland basis. Under that system, economists from Iowa State and other universities and the Library of Congress tell us it will be necessary to retire 70 million acres before the major crops, wheat and feed grains, are affected. The least productive cropland and the least remunerative crops will, of course, be the first to go under such a plan.

The Secretary also has called for lower price supports, including authority to drop dairy supports below 75 percent of parity, and for review of our programs for such crops as tobacco, rice, peanuts, and sugar.

The Flanigan report on international trade negotiations, which John Phialca of the Washington Star brought out of its classified status after finding it being passed around in big business circles, reveals that the Administration not only wants low farm prices in the United States but also hopes to spread low price blight around

the world. This would be accomplished by persuading the European Community and Japan to end their farm price support programs and buy cheap American grain instead.

Interestingly, the report recommends that Congress not be advised about what our trade negotiators are up to until after the negotiations with the European Community and parties to the general agreement on trade and tariffs have been completed. Equally interesting is the list of U.S. economists that it recommends to consult with and advise our negotiators. These include D. Gale Johnson, who helped Presidential Assistant Peter Flanigan prepare the original report, and Dr. Hendrik Houthakker, long-time proponent of phasing out farm programs. Houthakker first proposed these disastrous policies for American agriculture in a brochure for the CED, Committee for Economic Development, a big business front organization.

Senator McGOVERN. Mr. Pfingsten, in that connection, don't you think it is regrettable that during the last 8 or 10 years we haven't had an agricultural economist on the Council of Economic Advisors? Here we have a major White House report that apparently is recommending that we depend on agriculture to bail us out of our balance of payments crisis, and to correct our trade balance. Yet neither now nor in the last 10 years have we had anybody on that Council of Economic Advisors who knew anything about agriculture.

Mr. PFINGSTEN. That's right. You sweat one of them out as we did. Hendrik Houthakker who told me personally in the presence of two other of our members, that by 1975 the very top price on corn had to be 75 cents a bushel, wheat a \$1.27, cattle, \$18, hogs, \$11, soybeans a \$1.30, and so forth, and these are the guys that are going to go over to the common market and negotiate the general agreement trades and tariffs. This is the reason I went to this particular subject for this report, because all of their recommendations, Flanigan's, Houthakker's, and Butz's, were on a subject that was discussed here this morning in connection with the REA bill to put nothing in it that is mandatory and this is exactly what they are recommending in the farm programs, that there be nothing mandatory, that everything be left up to the discretion of the Secretary of Agriculture.

As I will cover later in this report here, when Butz made a speech to the Commissioners of Agriculture in Paris, I believe it was on the 11th of this month, just a couple of weeks ago, he told them in that speech that we were going to eliminate our supports and our controls. He threatened and promised them at the same time. He threatened them that if they did not remove their high supports, as he called them, that we would retaliate in the negotiation on industrial goods.

At the same time he promised, that we would take their dairy surplus over here if they did it, but again if they did not remove those supports, then we were going to retaliate, and all of this is going to be done without Congress supposedly knowing about it.

I do have a copy of this speech and to me it is horrifying. I will turn it in to you.

Senator McGOVERN. That's how we learn what is going on, by reading the newspapers.

Mr. PFINGSTEN. Isn't it a shame that's where we have to get them.

Senator McGovern. You have to read the press releases to find out what's going to happen to these programs.

Mr. PFINGSTEN. Maybe we need more bugging like in Watergate to find out what is really going on, what they have got in store for us.

The Flanigan report does not concern itself with the consequences of destroying family farming in America, Europe, Japan, and the rest of the free world. Nor does it estimate the economic and social costs of doing that. It simply recommends that we make full use of technological developments and mechanization, the decline in the number of farms, and the rise of larger and more important agricultural production units to, in effect, clean out all remnants of family farming in the developed nations of the world.

It is a little surprising to find Dr. D. Gale Johnson of the University of Chicago associated with such a report. He apparently is unfamiliar with a study of 5,000-acre farms conducted by the nearby University of Illinois and intended to prove superior efficiency of large farming units. This study did conclude that the large farming units were most efficient, but not in production of crops. They cut costs, the Illinois study found, in, first, borrowing capital cheaper in large quantities; second, by avoiding local suppliers and businessmen; third, avoiding local marketing facilities; and, fourth, by avoiding taxes.

It is clear now why a mission was sent to Europe last September by the Chamber of Commerce of the United States and why its members pressed so urgently to persuade their European counterparts to get their governments to put agricultural policies on the trade negotiating table this year. They obviously had been briefed on the Flanigan plan.

Premature exposure of the Flanigan report also makes it clear why the President has asked Congress to give him authority, without approval or subsequent ratification by Congress, to adjust tariffs and trade barriers. And why Secretary Butz went to Paris a week ago to urge the agricultural ministers of the European Community to face up to a reassessment of farm price support programs in their countries. He was engaged in peddling the American poverty-for-agriculture line in his speech at that time.

The Administration and the Chamber of Commerce line is to close our trade gap and dollar gap by putting agriculture through the wringer both here and abroad.

For years big business and big bankers in America have succeeded in making farmers the goats of inflation by rolling back farm prices while industrial goods, prices, and interest rates were going up. Now they have a scheme to cover our international trade deficit by picking the farmers' pockets.

If you read the Flanigan report carefully, you will note that the bait held out to Europe and Japan for deflating their farmers and letting us supply cheap grain is a possible \$33 billion in savings to Japanese consumers and \$10 billion in savings to the European consumers. That's an estimate of the sums that can be wrung out of farmers. Instead of being a plan to help farmers, this is a plan to fleece them of billions of dollars, marks, francs, and yen.

The Flanigan report tells of the possibility of increasing U.S. farm

exports \$10 billion in the next 10 years, and increasing this Nation's net income from such exports by \$8 billion. It also predicts a \$2 billion rise in farm imports, including \$1.1 billion in dairy products.

I would urge you to look closely at its references to increased net income. A careful reading shows it fails to distinguish between net increases in gross income and increases in real net income. It is actually talking about net increases in gross income from agricultural trade when it refers to increases in net income.

Senator McGOVERN. Mr. Pfingsten, what do you think the impact would be on the dairy farmers of this country if that prediction were carried out and we increased the number of dairy imports by over a billion dollars in imports coming into this country?

Mr. PFINGSTEN. I think it's very obvious to ruin the price of milk, to drop the price of milk.

Senator McGOVERN. That's why, then, in your judgment, that the Secretary is asking for authority to knock out that 75 percent price support?

Mr. PFINGSTEN. Sure; sure. That's what he's doing all along the line. You see, the dollar-loan limit that you had in the Senate bill in the act of 1970 on corn, I believe a \$1.25, a \$1.27 on wheat, he wants all of them knocked out, so does Houthakker and so does Flanagan. They want it knocked out and left to the discretion of the Secretary of Agriculture, and evidently he feels that he is going to get that from Congress because this is why he's over there now, or has been over there and promised them that we were going to do it, and he told them they didn't have to be a bit afraid of the U.S. Congress, so I think he's real sure he can dupe them. This is the reason I went to this report. I think it needs to be brought out, and I think you need to very, very closely read this speech because, I'll tell you to me it was horrifying the things that he said in there, and what amazes me is that these same people who deride what the big complex units of Russia and so forth because it leaves no incentive and so forth, are now doing exactly the same thing, trying to remove the incentive of producing. He contradicts himself over and over. On one hand he points out there that if they lower their support prices, it will drop production. On the other side, he says over here that we need to increase production, and if we increase supports he says that brings about surpluses. So he's talking out of both sides of his mouth.

Senator McGOVERN. Was that a prepared text?

Mr. PFINGSTEN. Yes, I have a copy here.

Senator McGOVERN. Without objection I'd like to have the text of Secretary Butz's speech in Paris printed, then, as a part of this hearing record.

Mr. PFINGSTEN. I have the whole thing. So I don't forget it, here it is.

[The document referred to follows:]

STATEMENT BY SECRETARY OF AGRICULTURE EARL L. BUTZ AT MINISTERIAL MEETING OF THE AGRICULTURAL COMMITTEE OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, PARIS, FRANCE, APRIL 11, 1973

Some 400 years ago, the philosopher Montaigne wrote an inscription for his personal library in Bordeaux with these words: "I do not understand; I pause, I examine."

As I review events of the past 2 years, I think we might well follow Mon-

taign's example. I welcome the opportunity to meet with my fellow agriculture ministers—to pause and examine some of the questions that affect our nations and our joint efforts within the Organization for Economic Cooperation and Development.

Montaigne lived in a turbulent era—a time of reformation and counter-reformation. But we are in a period of some tumult ourselves. We are living through a historic transition in Europe, the full emergence of Asia as an economic force, a rebirth of trade between East and West, and a time of searching by underdeveloped areas for full membership in the world economy. This is all complicated by a long overdue adjustment in the world monetary system. It is made more difficult by world inflation produced by a demand that is burgeoning and supplies that, for now at least, are limited.

But the changes we are seeing are by no means temporary or superficial—they are fundamental and far-reaching. If we are to manage these changes—and benefit from the new systems created—we must move now to question the old verities and the old shibboleths. We feel that we are doing this in the United States. We are making policy changes that respond directly to new forces. I would like to discuss some of the changes we are making—to satisfy domestic demand, to respond to current world needs, and to foster trade.

WE ARE EXPANDING SUPPLIES

In the last few months, we have taken a number of strong actions to expand U.S. production of soybeans and grains and to move into use those commodity stocks carried over from past crops.

In order to meet current needs, we have returned to the market grain stocks controlled by government. Between government-held stocks and farmer stocks stored under price support loan, we have moved into the market more than 600 million bushels of wheat and 1200 million bushels of feed grains.

In order to meet our future needs, we have freed agriculture from acreage restraints. This will result in the largest one-year acreage increase in modern history—an increase of at least 25 million acres in 1973 plantings.

We have terminated all export subsidy programs so that today we have no current program to sell commodities abroad at prices below the purchase price at home.

We have acted to expand livestock supplies. The voluntary restraint program on beef imports is no longer in effect. We announced that grazing and forage harvesting would be permitted on land set aside under the wheat and feed grain programs this year. The government is moving to obtain authorization to remove the modest import duties on meat.

TOWARD A MARKET-DIRECTED AGRICULTURE

These actions, taken within a period of 6 months, are part of a longer-term movement away from controls and toward a greater reliance on market forces in U.S. agriculture. The Agricultural Act of 1970 eliminated commodity-by-commodity acreage restrictions on wheat, feedgrains, and cotton—giving our producers greater freedom to respond to market demand. And they are responding.

In 1971—the first crop year under the current Act—about 90 percent of U.S. farmers were farming in ways that would not have been possible under the tighter regulations of the old law. By 1972, we estimate that 95 percent of U.S. farmers had made such adjustments, responding to market demand by shifting to those commodities they produce most efficiently.

The result is that in 1971 farmers shifted about 60 million acres. In 1972 they shifted more than 70 million acres, an amount equivalent to almost one-fourth of the acres cropped that year. These shifts have resulted from farmers responding to the signals of the marketplace—and were possible because of the freedom provided in the 1970 farm act.

Soybeans are a good example. The program changes of 1971 and 1972—plus the recent changes announced for 1973—have brought a substantial rise in the number of acres planted to soybeans. Last year, plantings were increased by 3 million acres over the preceding year. This year, we are likely to see an additional 7-million acre increase in soybean plantings.

This year's expansion from 47 million acres of soybeans up to 54 million acres should result in a dramatic one-year increase in protein production by the United States. It represents a response to demand, and is encouraged by legislative and executive actions to clear away certain restrictions.

The Agricultural Act of 1970 expires at the end of this calendar year. We are looking to the Congress for new legislation that will contain the objectives of the current Act, but with certain changes. Essentially, we have recommended that Congress:

(1) Discontinue, over a 3-year phase-out period, the program of income supplement payments—payments used to make up the difference between market price and a higher price objective.

(2) Continue adjustment payments for the set-aside of acreage, but establish a new cropland base. The set-aside requirement each year, when needed, would be a percentage of the cropland base for each farm, rather than a requirement based on a complicated and outdated system of allotments and bases for each crop.

CERTAIN PRINCIPLES ARE INVOLVED

I think you will recognize that when the United States moves so strongly to expand production, as we are doing this year, we are making a substantial commitment to the future. We do this in the knowledge that certain national and international forces are at work—forces that will inevitably influence the breaking down of archaic production and trade systems.

We do this in the belief that certain principles are valid and can be relied upon to guide us in producing for future markets in the United States and around the world.

I would enumerate these principles as follows:

(1) The market provides a better basis for production and marketing decisions than a system of government guarantees that distort farming patterns geographically and hinder agriculture's ability to respond to consumer needs.

(2) Individual farmers, acting freely in their own interest, will adjust production in ways that maximize their incomes and improve the ability of agriculture to compete at home and abroad.

(3) National economies benefit from a liberal trading system that permits producers to respond to growth in global demand—and to the changing appetites of the world's consumers.

(4) It is inevitable that government costs for supporting agriculture will be under political pressure to be reduced in countries where populations are becoming more urban and less rural.

We see a basic consistency between our approach to domestic agriculture and goals in international trade. The idea of freeing American agriculture to produce is entirely consistent with our desire for a liberal trade system that permits American agriculture to compete. We believe that these goals are in harmony with the pressures for improved living levels around the world—and the desires of nations to combat inflation. We believe that these forces are much in evidence in this particular year, as nations reach out to each other for help in supplying the needs of people.

INCREASING INTERCHANGE AMONG NATIONS

Never before have we in the United States been so impressed with the increased reliance of nations on each other; there is growing economic interchange as nations seek to meet the needs and desires of their people. Never have so many nations come to the United States to tell us that they are counting on us for agricultural commodities—for wheat, for feed grains, for soybeans, for cotton.

Many of these are old customers, and some are old customers who at times have acted to keep our commodities out of their countries. Some of our friends who a short time ago were seeking trade restrictions have now reversed themselves and are looking for assurances of supply.

But not all this increasing interchange is with traditional customers. In recent months, the Soviet Union and the People's Republic of China have come to the West for surprising quantities of grains, soybeans and cotton. Even in the light of weather problems, it is highly significant that nations have found it advisable to take such strong measures to satisfy consumer demand for better living, especially in terms of more animal protein in the diet.

We are seeking a continued and rapid growth of the Far East as a commercial market for agricultural products. In fact, we in the United States find it hard to realize that a market as rich as Western Europe—along with America the most prosperous in the world—is no longer our leading growth market. It

is on the verge of falling behind the Far East as a market for U.S. farm products. This is something to contemplate after 350 years in which Europe was our most important trading partner in agriculture.

All in all, this year will see a record level of world trade in agricultural products—close to \$55 billion compared with only \$45 billion as recently as two years ago. Moreover, the overall growth in world demand is quite apart from the temporary needs created by last year's bad weather in Eurasia. Economic growth and rising personal incomes around the world are being translated into effective demand at a rate that is difficult to comprehend and impossible to predict. To a considerable degree, these forces are reflected in an increased demand for livestock and poultry products—a demand that the world is currently not able to satisfy. As a result, we see strong upward pressures on the prices of livestock and poultry and on the grain and protein feedstuffs that are basic to expansion in the animal sector. Dairy is an exception, as my Europeans colleagues well know.

OUR COMMON PROBLEMS

As ministers of agriculture, we face a number of common problems.

To begin with, inflation is a factor in most industrialized countries and in some developing ones. At the same time, there is an extremely strong demand for food as economies boom and personal incomes rise. The result is that consumers are bidding up the price of food—especially certain of the most popular items.

In the United States, for example, we are eating more meat than ever before. We are eating almost twice as much beef per person as 20 years ago. And we are bidding up the price—in stores and in eating places. This rise in beef prices has occurred despite the fact that beef supplies in the first quarter of this year were above what they were in the same period a year before. Moreover, our beef producers are once again responding to demand. After more than doubling production between 1952 and 1972, they are expanding their cow herds again this year to meet the desires of consumers for more beef in their diets.

Consumer power is real. Never before have we seen and felt the power of the consumer as we do today. We feel those pressures every day, and I am sure that you as agriculture ministers know what I am talking about. I am aware of some of the actions taken by the European Community, and by non-Community nations as well, to encourage imports of beef and other livestock products, and even to limit exports. This is the power of the consumer at work.

On the other hand, there is a worldwide decline in the number of farmers—most apparent in the developed countries. My colleagues tell me that in years past the agriculture ministers of the OECD nations have made much of the number of people they have on farms and the resulting need to maintain old systems that protect those farmers. But let me point out that the trends in developed countries are making that argument obsolete.

In the United States we had 5.5 million people in the agricultural labor force in 1960—out of a total civilian employment of almost 70 million people. But by 1970 our agricultural employment had fallen to about 3.5 million.

This is not just a U.S. phenomenon—far from it. It is apparent in virtually every member country of the OECD. In the 10 years between 1960 and 1970 the agricultural labor force in France declined from 4.2 million to 2.9 million. In Germany the number declined from 3.6 million to 2.4 million and in Greece from 1.9 million to 1.7 million. In Italy, the agricultural labor force fell from 6.6 million to 3.7 million, in Spain from 4.9 million to 3.7 million, and in Japan from 13.4 million to 8.9 million. I am citing OECD figures.

It is apparent then that in most countries agriculture as a direct numerical political force is declining in strength. This does not mean that farmers will continue to exercise a voice. They will continue to be influential; they will continue to draw the support of many non-farm interests and many non-farm legislators who realize the importance of stability and fair incomes for agriculture. Nevertheless, the downward trend in farmer numbers casts a serious question on any policy designed to preserve old forms and old patterns in the agricultural structure.

LET US EXAMINE THESE SYSTEMS

We need to examine these systems, yours and ours. Why should any protective system be sacred in a world that is moving closer together? Why should

we regard our Section 22 controls as inviolate? Why should the European Community insist on sanctity for its system of variable import levies? These are questions that should be raised—for many reasons.

We have learned that protection fosters the uneconomic use of land. In many parts of the world, farm real estate values are much higher than they are in the United States—even in the American Midwest. These high values increase production costs; moreover they are evidence that much of this property is no longer valued as agricultural real estate, but rather for its potential in other uses. Average values in West European countries range from 2 to 10 times the American average. Japanese real estate values are 14 times what they are in the United States. In 1971, cultivable land in France was reported to average 8050 francs per hectare, which was almost four times the average value of U.S. farm real estate.

We have learned that such devices as minimum import prices and trade preferences are costly to consumers and limiting to demand growth. We continue to be concerned about trade distortions resulting from EC policies on grain, tobacco, citrus and certain other commodities.

We have learned that protection at the border creates a desire for protection within borders. We have learned that protective measures tend to prolong themselves. It is strange to us that, at the very time that the world is short of feed-grains, the European Community's import levies are just as high on corn as they were one or two years ago. It is strange, too, that in a world of growing demand, consideration would be given exporting grains at prices far below the exporter's cost.

I have always been concerned about export subsidies—and the tendency for countries to justify their use on grounds that others are doing the same thing. As I mentioned earlier, we in the United States are now free of export payments, and in a recommendation to Congress we have proposed a phase-out of our income supplement payments. For some years, my colleagues in Europe have argued that producer payments used within the United States are in effect export subsidies. Without arguing that question, I can assure you that on both counts we are moving strongly in favor of the market system.

In my country we are impressed by the fact that—after 40 years of support and adjustment programs for the field crops—the animal sector of our agriculture, largely free of price supports, is the biggest income earner. Year after year, livestock products account for well over half of cash receipts from farm marketings in the United States. Last year, the proportion was 59 percent. In Europe, livestock prices are higher than they are in the United States, which reflects a strong demand for livestock products in European countries. We face that kind of demand, too, and we are adjusting our system to meet it. Some of the actions enumerated in the beginning of my paper are moves in this direction. In some countries and areas, however, such adjustments are inhibited by price and trade disincentives.

We do not question the right of nations to support their own farmers in their own way. We cannot dictate to each other the programs by which governments choose to assist disadvantaged groups. We cannot expect changes to come overnight. But we should question the wisdom of programs that distort trade advantage. We should not insist on devices that say: I have to have quotas; I have to raise levies.

THE FUTURE COURSE

I might say to you that in the United States our course is set. We are committed to a policy of expanding production to meet a demand that is real and will continue to grow. We are responding to the pressures of a world that wants to live better—and do so within a realistic cost framework. I believe that you are feeling pressures that are similar although perhaps not as intense. And I submit that these economic forces are just as important to you as they are to me—or they soon will be.

How can we fail to respond to the increasing interchange between nations that is so evident this year?

How can we fail to take account of the importance of consumer desires that are so evident this year?

How can we fail to heed the pressures for elimination of import restrictions wherever they occur?

What better evidence could we have of the potency of these forces than we are seeing this year? The booming trade. The entrance of new customers into

the world market. The high commodity prices. The extraordinary demand for beef. The crumbling of import controls for many of these items.

It would be a tragedy for the world to lose the gains it has made. It would be a tragedy for the United States to return to rigid programs of acreage control. It would be a tragedy for other nations to reverse the changes they have begun in response to the desires of their peoples.

Inevitably, I believe, those systems that artificially frustrate those desires will bend and crumble. This may take some time, but consumers will have a stronger voice in what they want and need. This will happen more rapidly than we realize, because the world has historically underestimated the growth in people's needs and desires—and their determination to satisfy those needs and desires.

If systems of protection are really vulnerable, which is my argument, then the only question remaining is: Why not alter those systems ourselves—before they come down around us? Let us manage this change ourselves, in ways that promote an orderly expansion in world trade.

WHY LIBERALIZATION?

Some of you may ask the question: Why do you continue to push for liberalization of trade and agriculture when your own exports have grown so remarkably. My first answer is a philosophical one—that this is the right thing to do. Just as mankind yearns for peace in the world, he also yearns for closer personal and economic relations—a closer communication in the advancement of nations and cultures. The French philosopher whom I quoted in the beginning of this paper wrote that he looked upon all men as compatriots . . . “making less account of the national than of the universal and common bond.” I believe there is a common spirit among the world's peoples, and that trade in the products of man's labor and initiative is essential to full communication.

Secondly, we in the United States recognize that although our export base has grown, a part of that gain has been due to unusual weather conditions. When we deflate our current \$11 billion agricultural export total by weather and associated value factors, the base figure is about \$9 billion. We are going to do everything we can to hold the trade gains we have made in the areas that are new markets for us, but we recognize that we cannot hold the weather gains. Further, we know that those areas cannot for long sustain the heavy foreign exchange expenditures which are involved. They are going to have to expand their export earning bases sharply, if we are to hold these markets.

Speaking frankly of Western Europe, it is a large market for us, but it should be larger. I say that because European populations have an income base unequalled anywhere in the world except in my own country. Thus Europe has the ability to buy more of our agricultural goods than she is purchasing today. The fact that this is so is indicated by the waves of revaluation which have generally depreciated the American dollar in relation to the strong European currencies. That, to me, is a most clear-cut signal that not only has Europe had the ability to buy more, but it would have been good for Europe to do so.

I would say the same thing about Japan. It too is a very large market for us, but it could be larger.

LIVING WITH REALITIES

In my country, a minister of agriculture lives and functions within a great many realities, and these include inflation, consumer desires, and the need to control Federal expenditures. I dare say that, in my 16 months as Secretary of Agriculture, I have been exposed to these forces in a variety and with an intensity that few agricultural officers in the United States have ever experienced.

As a result, we have taken actions that we normally would not have undertaken at the particular time we took them. We have made changes in import policies that, quite frankly, would not have been equally possible at some other time in history. We have made greater changes in domestic farm programs than we would have done under normal circumstances. But we have taken these actions—made these changes—because we came along at a time in history when such decisions were required. I think that you, as ministers of agriculture, are up against the same historical necessity.

In the United States, we know that in order to find success in this process of freeing the market and encouraging farmers to produce for demand, we must

look for a world market that is allowed to develop—that is allowed to expand naturally and steadily in response to people's needs and desires. We are assuming, in the United States, that the world's trading nations and institutions are equal to the task of providing a liberalization and enlargement of the world economic system.

We, as agriculture ministers, have the opportunity to exercise leadership in this cause, and I believe that the time is here. At this moment, a conference in Geneva, under the General Agreement on Tariffs and Trade, is trying to deal with trade maladjustments created by the enlargement of the European Community. A general negotiation has been scheduled this coming autumn. If we fail to take advantage of these opportunities I fear we will discover in time that we have poorly served our countries and our peoples.

By now, each of you may be aware of the proposed trade legislation submitted by President Nixon this week, and the accompanying message to Congress. The President has asked for legislation to give him more flexible authority to conduct trade relations—and to negotiate toward an open trading world based on fairness and non-discrimination. The President believes that agricultural trade questions will respond to negotiation based on a real understanding of the problems involved.

I might say that in the forthcoming negotiation, we are determined that agriculture not be treated in isolation. Agriculture must be viewed as part of the total trade package. We see no reason why it should not be considered together with other American industries, and negotiated as such. It follows that nations looking for access to industrial markets will be asked to negotiate in terms of access for agricultural products, and vice versa.

Doesn't it make sense to join together now—in efforts to negotiate changes that will help demand grow, that will help each of us to serve that demand, that will give our populations the opportunity to buy what they want from the suppliers who best satisfy their needs. These are thoughts that come to me, as I pause and examine, according to Montaigne's example. The obligations placed upon us are peculiar and difficult, but we are meeting at a time—in a year—when action and decisions can make an enormous contribution to the future well-being of the world economic system. I look forward to working with you toward that end.

Mr. PFINGSTEN. I also have Flanigan's speech in St. Paul.

Senator MCGOVERN. We have the Flanigan text here printed in the Record.

Mr. PFINGSTEN. That's the Flanigan report but Flanigan also delivered a speech I believe on the 22d of March at St. Paul, where in a little bit more subtle manner than Butz here, pointed out that we are going to close the gap of the balance in trade at the farmers' expense.

Senator MCGOVERN. Then I think that text should be printed in the hearing record here too. I have been traveling around the State the last 40 days and I didn't see the Butz speech in Paris. It apparently didn't get much play in the press here.

Mr. PFINGSTEN. No, it didn't and I don't think it was supposed to. See, there's always one of them kind of guys around that throws a monkey wrench into the works.

[The document referred to follows:]

SPEECH BY PETER FLANIGAN, FARM FORUM 1973, MINNEAPOLIS, MINN.

I am delighted to be a part of this 27th Farm Forum, and particularly to have this opportunity to talk on my own chosen subject, a new international economic era.

Some of you may have heard about a mysterious document that has been called "The Flanigan Report" and were perhaps instead expecting me to talk about that. Now this so-called Flanigan Report happens to be one opinion of the position of American agriculture in our world economy. The trouble is the only thing that Flanigan had to do with the Flanigan Report was to ask a member of the Agriculture Department to prepare it in the first place.

If every report I have asked for since I went to Washington was put in one place—Flanigan reports would fill the Minneapolis Library.

It is not often that we get a chance to see a hard and fast dividing line between one period of history and another. But sometimes, looking back, we *are* able to select an event that marks a sharp departure from the past—in politics, in economics, in human progress, or in the delicate balance of international relationships.

Perhaps some of you were sitting in front of your television sets on the evening of August 15, 1971. If you were, you had a chance to see history in the making. That was the evening that President Nixon appeared on the screen to announce that he was slamming the gold window and imposing special temporary import duties.

It was also almost 26 years to the day since we had accepted Japan's surrender in World War II and started on the long road to help that nation and others rebuild their war shattered economies. And, in a sense, President Nixon was then asking some of those same nations to assume greater responsibility for bringing order to the world's economy.

We can now say that the postwar era has come to an end. In place of confrontation, we have entered an era of negotiation, both with allies and former adversaries. It is an era of greatly enhanced prospects for world peace. But peace, we have all learned, is something we must continue to work at—and one of the surest ways to achieve it is to build greater world understanding and cooperation.

Cooperation among equals, that is. The United States is no longer so much more equal than other nations that it can afford to hand out monetary and trading advantages indulgently to the rest of the world. In some ways we have become even less equal than others and lately we have been feeling the pinch of this inequality.

If that sounds like a simplistic picture of our international economic troubles, let me assure you that the situation, far from being simple, is exceedingly complex. It was to help deal with these complexities that the Administration established the Council on International Economic Policy of which I am the Director. Not only must we deal with the full range of international economic issues that face this country, such as trade, monetary matters, and investment. We must seek to harmonize international economic policy with domestic economic policy and overall foreign policy. And we need to deal with these matters in the context of a host of special interests and of the politics that permeate all government action.

Let's start with the problem of our balance of payments. Let's first make the optimistic assumption that the growth of investments in this country by Europe and Japan will balance the investments we make there. Then let us say that we make a net investment of \$1 billion in other developed countries and another \$1 billion in the underdeveloped countries, for raw materials and for other purposes. Against this outflow of \$2 billion, we can place a net inflow of something like \$7 billion in dividends, interest and royalties, from our investments abroad. That gives us an overall \$5 billion surplus from the private investment account. But when we consider the \$7 billion of outlays for development, military and other aid abroad, that \$5 billion plus turns into a \$2 billion minus. Add to that a \$2 billion net deficit in tourism, and assuming that all other items in our basic accounts wash out, we are \$4 billion in the red on international payments before we consider our trade figures. For almost 80 straight years this country had favorable balances of international trade, which many times helped turn payments into surpluses. In 1970 we had a \$2 billion surplus in our trade account. But in 1971 our trade balance went \$2 billion into the minus column and the deficit increased last year to more than \$6 billion. That, together with the \$4 billion deficit before trade gives us a deficit in our basic balance of some \$10 billion.

Now it is generally agreed in international financial circles that all major countries, including the U.S., should be in overall equilibrium in their basic balance. Last September at the meeting of the International Monetary Fund, almost every speaker subscribed to that goal. The question, of course, is how we reach this equilibrium?

One salutary way of going about it in terms both of sound economics and of serving the best interests of all concerned would be to improve our trade balance from the \$6 billion deficit position to one of \$4 billion surplus. And since it would

be costly to the welfare of each of us to import less, the difference should come in exporting more—fully 25 percent more than our present level of exports.

Our trading partners are often appalled at this suggestion. But they forgot that in the past two years our imports grew 40%, while our exports grew only 15%. We need only reverse that record, not so difficult a task, to reach a balance.

The point has often been made that we seem to be making an awful lot of fuss for something—foreign trade—that amounts to no more than 4 percent of our gross national product. What we are looking at here, however, is only the tip of the iceberg, and there is a lot more solid stuff down below.

There is, for example, about \$90 billion in book value of American direct investment overseas, and about \$15 billion in book value of foreigners' direct investments in American business, with both totals increasing significantly each year; American transportation companies earned more than \$3 billion outside the United States last year, almost 6 million American travellers last year spent nearly \$7 billion; over 100 American banking institutions carry on business in nearly 600 branch offices overseas; and exports account for one-seventh—more than 14 percent—of our total output of manufactured goods and raw materials. Think, of what this means in terms of jobs. Almost 3,000,000 Americans were at work in 1971 producing our exports.

But simple numbers and simple percentages can sometimes lead to excessively simple thinking. I have in mind some other numbers that you may find closer to home. When this nation was very young, some 95 percent of its workers were engaged in farming. Now, as the result of one of the greatest technological triumphs the world has ever known, those percentages have been turned around. Only 5 percent of our work force is engaged in farming.

Does this make farming of only marginal importance to this country? Of course not. Not only does farming help feed and help clothe 100 percent of our population—more than 200 million people—but it provides necessities of life for other millions all around the world. But beyond all that, many of us in Washington today see agriculture as a key to solving our problems of international trade.

To place this in perspective, we might think back to the recent history of agriculture's involvement in trade agreements. Christian Herter, the chief US negotiator in the Kennedy Round of the early 1960s, emphasized right from the start that the agreements had to include equitable tariff and trade arrangements for agricultural products. After four years of protracted negotiations, the results were most disappointing. The last hours of the Kennedy Round did produce an International Grains Arrangement that provided for world wheat prices at levels thought favorable for both exporting and importing countries. But the price stabilization part of this agreement collapsed in 1969, and the International Wheat Agreement that replaced the entire arrangement in 1970 has no price provisions at all. What all this added up to was less, rather than more, of our agricultural production being sold abroad.

In spite of its commitment early last year to prepare for new negotiations, the European Community seems to be dragging its feet on the matter of liberalizing agricultural trade. Many of their spokesmen appear to believe that agriculture has to be put aside as a special problem. We, of course, see it as a matter of much greater immediacy and as part and parcel of the whole problem of world trade.

It is also part of a larger complex of social problems the world is facing. One of the important objectives of national agricultural policies is to raise the level of farm income, both in absolute and relative terms. How this is done often creates more problems, since some national policies run head-on into the equally desirable objective of liberalizing trade in agricultural products.

This has been especially true of the Common Agricultural Policy developed during the 1960s by the European Community. The support of prices through variable import duties has had the effect of preventing price competition and of making countries outside the Common Market no more than residual suppliers. On top of that, the Community has been guilty of first creating surpluses through the use of artificially high support prices and then granting export subsidies in order to price their surpluses lower on world markets.

Disruptive as these policies have been to the international economy, they have not proved effective in remedying domestic incomes problems.

And, the lower level of farm incomes cannot be dismissed, either as a matter of equity or one of practical politics. Although the number of farm voters continues to drop in this country and elsewhere, their great commonality of interest

makes the farm group a potent political force. Furthermore, a great many non-farmers identify their economic interests with those of the farmer, and commodity organizations, with much political know-how and sophistication, can focus these interests effectively.

The same thing is even truer in other countries, where farm productivity is lower and a higher percentage of the labor force works the soil. Rural people provide a vital base of support for Japan's ruling political party, and a small party that is heavily represented in Germany's low-income farm areas can hold the balance of political power there.

Yet these are old considerations, growing more outmoded with time. In the new era we are entering, it appears highly likely that more common ground can be found for farmers and non-farmers, for developed and underdeveloped regions, for nations in surplus and nations in deficit. In a world of equals, there are new alternatives that we dared not attempt before, but that now make better sense for everyone.

Here are a few of the more significant factors that are helping create the new international era:

- Rising incomes and living standards have resulted in important changes in consumption patterns. Even though world beef production increased about 40 percent in the 1960s, demand has been outrunning supply and world prices rose sharply in 1971 and 1972. Perhaps as a harbinger of things to come, the European Community and the United Kingdom removed all duties and charges on beef imports, and, in this country we have set aside import quota provisions.
- Because of their own low incomes, European farmers aren't very happy with the Common Agricultural Policy. Fully 80 percent of the farmers in the EC have incomes no more than two-thirds those of industrial workers.
- The United States has been moving away from supports toward greater market orientation. Price supports of major crops have been reduced sharply, so that market prices have approached world price levels.
- Crop yields and output per farm workers have been climbing in most countries participating in the OECD. The number of people employed on farms in those countries dropped from 25 to 40 percent—and as much as 44 percent for Italy—during the 1960s.
- In most countries nonfarm income is of growing importance to farmers. The income of U.S. farmers with product sales of less than \$10,000 doubled in the 1960s, all of the gain coming from nonfarm sources. In Japan the proportion of farmers' income coming from agricultural pursuits dropped from 55 percent in 1960 to 40 percent in 1969.

What these factors add up to is that more and more people everywhere are living better and better. Greater industrialization, higher consumer incomes, and the prospect for expanded agricultural production are providing a climate for negotiations from which all countries could benefit and distortions and disruptions could be minimized.

We have begun to move in that direction. Europe, Japan, and Canada have agreed that broad multilateral trade negotiations will begin this coming fall. From our point of view, it is especially important that these negotiations include trade in agricultural as well as in industrial products. And our goal needs to be the fullest possible liberalization of policies with regard to agricultural trade.

A good deal of work has been done in the Council on International Economic Policy to provide us with the background we will need in preparing for the forthcoming trade negotiations, and I would like to review with you some of the thoughts we have had.

First and foremost is the very clear impression that all the participating countries and all the groups within those countries can indeed benefit from greater liberalization of agricultural trade. Appropriate provisions, of course, must be made in all agricultural sectors, but growing world affluence focussed our attention on the grain-feed-livestock group of products.

We have made a set of assumptions on what might happen in agricultural trade, based on the adoption by all countries of fully market-oriented policies. We estimated the production of livestock products and total feed availabilities on the basis of a common set of world prices. We assumed that a large part of the increased demand for feed grains would be met by U.S. production, which would mean that all of the present idle cropland in this country would be brought into production. We chose 1970 as the base year for our projections,

so that 1980 became our ten-year target—although in actuality any ten-year program still to be adopted would necessarily end at a later date.

Here is what our study showed:

First, with simply a continuation of present agricultural trade policies, US agricultural exports could be expected to climb in the decade from \$8 billion in 1971 by almost $\frac{1}{4}$ billion a year. Agricultural imports in the same period would climb at about the same rate, from \$6 billion to \$8 billion, so that there would be no net increase in our agricultural balance of trade.

But based on a complete liberalization of agricultural trade policies, our projections showed exports climbing to over \$18 billion and imports to over \$9 billion, for a net improvement of \$7 billion in the balance of trade.

At the same time, net farm income in this country would rise significantly, even while government expenditures dropped sharply. Because the gains would come almost exclusively from the feed-livestock sector, expenditures for government commodity programs would decrease by almost \$4 billion.

Other governments would be similarly affected. The current costs for support programs and set-aside payments in the grain-livestock sector are estimated at \$1.5 billion for the Common Market Six and \$2 billion for Japan, and it is anticipated that these costs might well double under a continuation of present policies, since it will be necessary to store more and more grains at artificially high prices. Even if these countries were to make up the full drop in net income to their farmers, the costs would not be much higher—on the order of \$4 billion each for Europe and Japan.

But the greatest benefits would accrue to the consumers in the European Community and Japan, since they would experience very substantial reductions in the prices of meat, dairy products, eggs, and food grains. The possible gain in consumer welfare is estimated at \$33 billion in Japan and \$10 billion in the European Community. And this would be particularly helpful to the United Kingdom, where the cost of food is expected to climb at least 10 percent if present policies are not changed in the enlarged Community.

Now projections like these are subject to all the drawbacks of any effort to look into the future. All sorts of unforeseen events can come along to monkey up the works. But surely one of the conclusions to be drawn from our studies is that they suggest the direction we must take in our negotiating efforts and the size of the benefits available from the greater liberalization of agricultural trade. Any alternative to such a policy would be both short-side and self-defeating.

That is not to say that there isn't a lot of short-sightedness in national approaches to world trade. European nations, for example, intent on reaping the benefits of their new-found economic cooperation, tend to lose sight of the greater benefits that could still flow from the larger Atlantic and world trading systems.

In time, this parochial syndrome will surely fade away, just as our own onetime tendency toward isolationism has dissipated, and just as Russia and China have recently displayed their desire for greater commercial cooperation. Let us hope the time has already come. Neither we nor the other nations of the world can afford the narrowness of an old era in the broad-gauged world of the new. Taking all existing trade barriers together—both ours and those of other countries that affect us—the annual cost to our economy is almost \$8 billion.

Fundamentally, none of the individual problems can be solved unless they are viewed as one large problem. The gains that we may make in industrial trade negotiations may be defeated by plain old-fashioned stubbornness over agricultural trade; overall trade improvement can fall victim to the failure to rationalize monetary matters; both money and trade arrangements can be sabotaged by inadequate provision for international investment. None of these can stand alone.

What took place during to August 1971 was little more than a series of fingers in the dike—floats, massive currency interventions, and minor adjustments and concessions in matters affecting trade and investment. What we must now set about to do is build a new dike—one that can withstand the storms and vicissitude of a fast changing world.

To do that requires a large measure of cooperation and understanding, on the part of other nations in the developed and underdeveloped worlds, of our own national administration, of our Congress, and of our people. Not least among those are you who stand in the front lines of providing tomorrow's abundance.

Mr. PFINGSTEN. The reporters are very seriously failing to honestly set out the effect of low prices on the net income of agriculture. It suggests that Europe and Japan might offset their farmers' losses at a cost of \$4 billion each annually but it makes no suggestion of how the losses of American farmers will be covered. And it misrepresents the situation when it declares that an increase in total gross income in agriculture will be good for the rural communities. It will wipe them out. Nothing short of that.

Admittedly the only farms that will have a chance to survive under the Flanigan plan are the farms so big that they can go completely around all local banking, all local supply, and marketing establishments and then rook the local and Federal governments out of substantial amounts of tax revenues as the Illinois corn farm study reveals. That study shows that big farms are no more efficient as actual producers than family farms.

It is difficult to understand how the American business community, which derided the efficiency of Russia's big state farms because of their lack of individual opportunity and incentive, can now take the position that the managers of big corporations like Litton Industries and the Penn Central Railroad or some other big U.S. Chamber member can produce corn, soybeans, or other foods and fiber more efficiently than a South Dakota State University graduate managing his own family farm enterprise.

The only thing they can do that the family farmers can't is charge off their losses to the U.S. Treasury, which is a tax loophole that ought to be closed. So should the front window at the treasury where Penn Central gets its money when it gets in trouble.

The key to puncturing the dream of international financial solvency by exploiting farmers is the enactment of minimum price support levels in the farm law, which you are now considering, to a point high enough to keep family farmers solvent.

Corn at \$1 a bushel and wheat at \$1.25 is not high enough. Dairy-men are entitled to much more than 75 percent for their milk, too, not less than that as Secretary Butz urges. These prices do not even represent the cost of production.

Minimum price support levels in the Agricultural Act of 1970 should be raised at least 40 percent as requested by the National Farmers Organization so farmers can survive economically. It also would provide some assurance that when we sell agricultural products abroad, the result will be an increase in net income, not in gross income at the expense of the net.

There is a school of economic thought that believes that the only real new wealth produced in the world comes from agriculture, lumbering, fishing, and the minerals industry, and that all the paper debts that are being piled up in this Nation must ultimately either be paid off by the returns from the real new wealth or by wiping it out in another economic debacle like the Great Depression of the thirties.

A great many Americans fear that we are skirting that economic crisis right now. Certainly we are not serving our country or the world well to adopt programs that deflate the value of the real new wealth in order to bolster up a house of cards built and usurious interest rates, 20-to 50-percent corporate profit margins, inflated

security values, wildly expanding consumer credit, and unrealistic property values made possible by unrealistic, high-interest mortgage credit. It is time we adopted farm policies that assure producers of real wealth, a fair return both here and abroad.

Senator MCGOVERN. Thank you very much, Mr. Pflingsten. That was a very impressive statement, and it helps us relate the whole agricultural policy here at home to these portrayed negotiations that are now getting under way abroad.

I am curious about one thing. You referred to Secretary Butz' speech urging the Europeans and apparently the Japanese to take large increases in their imports of U.S. farm products. What's the payoff from them? What is supposed to be the reciprocal benefit on the other side that would make that an attractive offer to the Europeans and the Japanese?

Mr. PFLINGSTEN. Well, according to Butz, according to his speech there, they would reduce the cost that it takes to support those programs in their countries. For instance, corn is I believe now at about \$2.40 a bushel in France or in the Common Market. That's one way, and then that we will supply it cheaper. That combination is supposed to give their total economy a savings of about \$4 billion each, Japan and the European community.

Senator MCGOVERN. Well, if somebody is supplying cheap food, whose hide is that coming out of?

Mr. PFLINGSTEN. Out of the American farmer and also the European farmer. This is why I pointed out he's spreading the low price blight all over the world now.

I mentioned a point here, Senator, that I would like to expand a little bit on. I pointed out there is a school of thought that believes that all economies of any nation in the world are based on raw materials, and I am of that school. In other words, it is only the God-given things that really add to the economy. Money from any other source has to be repaid. There is just no way out of it, and this is what we have been exploiting.

Now, isn't it rather odd that the European Community, which we so much derided when de Gaulle was premier of France, we ridiculed his policies when we had the 90 percent of parity supports in our Nation here which succeeded in giving the American farmer just about exactly 100 percent of parity, and I believe in the Truman administration took us up as high as 107 percent of parity, we had the most prosperous Nation in the world, and we had almost unlimited gold reserves and silver in our treasury. But we exploited the raw materials, the farm products. De Gaulle was the nut at that time. He held up raw materials and he ended up with our gold. We've got a worthless coin now. Our money has moved down because we have exploited the God-given things, the only thing that can add to the economy, and the only thing that can take us out of the situation that we're in is to restore those values and come to our senses. It doesn't make any difference what segment of the economy you exploit, it's going to work like an infection, spread through the entire body, and certainly we have done that with agriculture just about long enough. So I am also one of those that believes we are at the moment of that crisis right now, and how many more times do we devalue the dollar and have anything left, and then after that comes

the crash. It's got to come, and we are going to have to face up to it; failing we'll have to pay through the nose by probably the worst disaster that the Nation has ever known.

Senator McGOVERN. I also wanted to ask you about your reference to the University of Illinois study on the relative efficiency of large farms in excess of 5,000 acres as compared with the smaller farms. When was that study made?

Mr. PFINGSTEN. That's a very recent study. That was completed within the last year. It was begun several years ago. The study doesn't reveal any efficiency at all, but it does reveal a cut in the cost, and that is by circumventing the businesses that we have now. In other words, if you had 5,000-acre farms here around Huron, they wouldn't buy their fertilizer from the man on Main Street, or their gas and oil, as Tenaco is doing now, they have their own fertilizer plants, they have their own oil wells, and I guess they own the major part of one of the major implement companies. So that idea that they use their—together with borrowing huge sums of money that they could get cheaper because of the size, by avoiding the local business community completely, going direct, effecting a saving there, and then the other, jabbing the other taxpayers by avoiding their own. This is where they picked up their gains in these 5,000-acre units. So anybody that wants to condone that has to condone the elimination or the destruction of every town in the United States like Huron, S. Dak., or my home town of Sergeant Bluff.

So it is recommending not only the destruction of 2,800,000-family farm units, it is recommending the destruction of every business that is now supplying them.

Senator McGOVERN. Well, thank you very much, Mr. Pfingsten; you have been very helpful. And Mr. Bown, we appreciate your testimony.

I would like to ask the committee staff to get a copy of this University of Illinois study and see that either the full study or at least a synopsis of it is made a part of the hearing record.

Mr. PFINGSTEN. I will have it delivered to your office.

Senator McGOVERN. How long is the report?

Mr. PFINGSTEN. It is pretty long.

[The document referred to follows:]

MIDWESTERN CORN FARMS: ECONOMIC STATUS AND THE POTENTIAL FOR LARGE AND FAMILY-SIZED UNITS

AGRICULTURAL ECONOMIC REPORT NO. 216, ECONOMIC RESEARCH SERVICE,
U.S. DEPARTMENT OF AGRICULTURE

By Kenneth R. Krause and Leonard R. Kyle (Dr. Krause is an agricultural economist, Farm Production Economics Division, ERS; Dr. Kyle is professor, Department of Agricultural Economics, Michigan State University.)

Highlights

Large Midwestern corn farms can obtain economics advantages that are generally not available to family-sized corn farms in the region. The large farms use greater financial leverage. They can employ various measures to reduce or eliminate Federal income tax costs. Generally, they choose a form of business organization that allow fullest use of cost-saving advantages. Further benefits are lower interest costs per unit of output on credit and equity and a higher rate of return on investment, which can be competitive with the rate for industrial investment.

Buying and selling advantages include obtaining discounts on inputs purchased in large volume and performing functions normally handled by local marketing firms. Based on synthesized budgets, a large 5,000-acre Midwestern corn farm obtained a discount on purchased inputs, such as petroleum products, machinery, crop chemicals, fertilizer, and seed, that was 20 percent greater than that obtained by a 500-acre family-sized corn farm. And, by drying and storing the corn and assuming some marketing functions, the 5,000-acre unit should net a selling advantage of 5 cents a bushel over that possible for the 500-acre unit.

An offsetting factor for entrepreneurs attempting to form new large units or to enlarge existing smaller ones is the possible difficulty in getting control of enough high-quality land to purchase inputs and produce and sell corn at the advantages available to large units. Unless sufficient land can be put together in an operating unit in a short time, development of the large unit is not financially attractive.

When farm real estate values and operating costs were considered, large corn farms were able to obtain higher net returns than those achieved by family-sized corn farms. In the cost and income models set up for analysis, the large farms achieved a higher rate of net return than the family-sized farms did—whether real estate was considered to increase or decrease 5 percent. (U.S. farm real estate values increased about 6 percent a year during the 1960's.) After an opportunity cost on labor and management and a cost for income tax were considered, and with the equity level at 60 percent, the 5,000-acre farm had a 13.4-percent rate of return and the 500-acre farm a 12.2 percent rate—when farm real estate valued at \$500 an acre was increased 5 percent. When farm real estate at the same value was decreased 5 percent, the rates were -0.1 percent for the 1,000- and 5,000-acre units and -0.2 percent for the 500- and 2,000-acre units.

When all costs except an opportunity cost on all investment were considered, net returns per acre were \$54.31 for the 5,000-acre farm, compared with \$39.35 for the 500-acre farm. Costs per bushel were \$0.69 for the 5,000-acre unit and \$0.74 for the 500-acre unit.

When the opportunity cost (a competitive market rate of interest) on all investment was considered, net returns per acre were \$11.43 for the large corn farm and -\$4.51 for the family-sized corn farm. Costs per bushel were \$1.04 for the large unit and \$1.14 for the family-sized unit. The latter could be considered successful if the operator accepts a rate for investment, labor, or management slightly below the market rate.

Of 10 large Midwestern corn farms selected for more intensive analysis, nine were successful and showed growth during the 1960's. The unsuccessful unit, formed from several small tracts of farmland, operated 4 years before liquidation. It failed primarily because projected results were not obtained in yields, selling price of the corn, and other areas. Five of the nine units—group A—were classified as owned by financially affluent people with extensive nonfarm business interests. The other four units—group B—were owned by people in financial positions that were moderate, compared with those in group A, and with limited nonfarm business interests.

Group A units were owned and operated under a corporate form of business organization. Three of the group B units were owned and operated under a father-son partnership and one was a corporation. Group B units were all family owned and operated; group A units had hired managers.

Corn yields increased on the nine units during the 1960's. Group B units increased their crop acreage 80 to over 500 percent during the 1960's; the other five units showed essentially no growth in crop acreage. Group B units had little increase in livestock production; group A units concentrated much of their growth on beef cattle production and associated activities.

Owners and managers of group A units appeared to move more rapidly in adopting new innovations with profit opportunities. They were able to draw on financial and management resources from other farm and nonfarm segments of their businesses as opportunities developed on the units. Similarly, they transferred resources from the corn units to other farm and nonfarm business interests as opportunities developed in these.

All 10 units had longterm growth plans. Group B owners planned their growth activities around their basic corn production units and essentially limited these plans to farming activities. Group A unit managers and owners had developed alternative growth plans for their corn production units and for

other farm and nonfarm business interests. Thus, future growth of these corn farms appears to depend on the outlook not only in the farming sector but in other economic sectors as well.

Despite the economic advantages and incentives existing for the large Midwestern corn farms studied, family farms involving two or more workers have considerable staying power in the region. Based on numbers of such farms with ongoing operations, the continued importance of this size of corn farm seems assured. These farms also produce most of the Midwest's corn and will probably maintain their large share.

Senator McGOVERN. We are moving along very well, although a little bit behind schedule, and I want us to take a recess, a little breather here. I mean that, not more than about 5 minutes, and then we will come back. We have about five witnesses who will make brief statements, so we will just take a very brief recess here and then reconvene.

[There followed a short recess.]

Senator McGOVERN. The committee will now reconvene so that we can continue with the witnesses.

If everybody would please take their seats, we'd like to proceed with the hearing.

Our next witness is Dr. Duane Acker, Dean of Agriculture of South Dakota State University at Brookings.

Dean Acker, we'd be happy to hear from you at the present time.

STATEMENT OF DR. DUANE ACKER, DEAN, DIVISION OF AGRICULTURAL PROGRAMS, SOUTH DAKOTA STATE UNIVERSITY, BROOKINGS, S. DAK.

Dr. ACKER. Thank you, Senator. I appreciate the opportunity to appear with farm and ranch leaders with whom we work regularly and whom we respect very much, in offering suggestions for congressional action.

I also appreciated the opportunity to listen to one of the graduates of whom we are very proud, Rick Tollefson, and I appreciate the comments made about him by Mr. Pfingsten in the last presentation.

My responsibilities in South Dakota State University include agricultural research and agricultural research teaching in extension programs. South Dakota is one of the most rural States in our Nation, and I happen to be one of the fifty such coordinators of teaching research and extension programs in agriculture among the States of the United States, centering in a land-grant university.

My comments will represent, perhaps, Senator, a departure from the main thrust of the presentations made earlier this afternoon. I want to talk about two things:

No. 1, improving the distribution of our population in the United States, and No. 2, the nature of the farms and ranches in South Dakota.

The main thrust of my remarks will be on improving the distribution of our population. I am not implying force or pressure movement of people from the centers of concentration to the rural areas of the United States. What I am talking about is a long-time voluntary redistribution that leads those involved into a high degree of living satisfaction in their living environment.

To save you time and the time of those assembled here, I will paraphrase and skip certain sections of the presentation.

Population redistribution has occurred for centuries. Previously, it more or less took care of itself. People could board a ship and move to the new world, though it wasn't easy. Horace Greeley said: "Go West, young man, go West", and there was always a place West to go until about 50 years ago. Now that frontier is gone. Our West has ended with the shores of the Pacific, and new lands are selling at an extremely high price. But we have not yet lost opportunity for a desirable population distribution.

Right now we have numerous illustrations of very tarnished living environments. We have in our urban centers problems that overwhelm us. We have anonymity, animosity, lack of social responsibility, traffic congestion, frustration, smog, all of the products of intensive population concentration.

These and many more characteristics of the urban centers of Minneapolis, Detroit, Chicago, Boston, New York, erode the quality of life for millions of Americans, perhaps our cousins, perhaps our aunts and uncles, perhaps for some of us eventually our sons and daughters.

But there is a paradox, as well. We have at the same time in South Dakota felt some of the impacts of a declining population. At the same time as people move to the centers of population, they, of course, leave rural America. We see results in dying communities in which businesses lose customers and they risk failure; where the tax base is reduced, while fixed costs for goods and services cannot be cut in proportion; where the necessary community services, the schools, the hospitals, fire and police protection, as well as the churches wither, stagnate, and, in some cases, die.

The paradox is that at the same time as our problems accentuate because of a declining population in South Dakota, North Dakota, rural Nebraska, rural Iowa, urban problems accentuate because of heavy population concentrations, pollution, rampant crime, and the faceless characteristic of an individual alone in a crowd.

Now, where do we start? You can't take people from overcrowded cities and transplant them to a sparsely populated place. You'd probably reap resentment from all parties concerned. You can't push them. But I do believe that a dependable, long range, versatile action program on the heels of a national public policy might lead people eventually to something that they consider shining new opportunities in a living environment.

I specifically propose, Senator, that Congress and the Executive branch of our Government grit their teeth, so to speak, and establish a national policy leading to a reasonable population distribution. I also propose that strong programs be established and financed to support this policy.

Plugged into the framework of a national population policy would be present and future planning that deals with the diverse factors that contribute to the unwieldy and unfavorable population concentrations of the cities, and to the unfavorable sparsity of rural America.

Our present national policy, if it is a policy, exists almost by de-

fault and it fosters certainly population concentration. There are many Federal programs and policies that do foster continued population concentration, and I would cite only one or two to illustrate the point. I imagine a list of more than 100 could be compiled.

No. 1, freight rate structures. Less than 10 years ago changes in freight rate policies by the ICC encouraged, in fact, almost dictated the closure of milling, flour mills, in the production areas of America, to a point more near to the centers of population. Those of you acquainted with transportation rates could speak more in detail about this.

Second, the tremendous investment of money in urban freeways, permitting people to move about in the urban centers.

No. 3, heavy investments in urban housing. I do not say that we should not have good housing. I do not say that we should not have good transportation in the urban centers. But every dollar that is invested, every million dollars that is invested, every billion dollars that is invested in the urban centers to make them at least tolerable opens one more door for one more family to move into the center of population, and to bring with it an increased incidence of the anonymity, the lack of social responsibility that results from population concentration.

In contrast, I would suggest that we spend a much higher proportion of the Federal budget on amenities for rural America, for farmers, yes, but other present and potential residents of rural America, suitable transportation, good highways; No. 2, rural housing; No. 3, improved rural communication, and I include in this educational television for all to see, I include in this radio facilities, I include in this grants to State humanities councils such as have been made in South Dakota.

I suggest other alternatives and other ideas that might be evolved. A personal income tax graduated with lower percentages or inducements for people living in communities of, say, less than 10,000 to 50,000 population. I suggest faster depreciation on businesses, factory buildings, and equipment in communities under 50,000 population distribution, and many, many other illustrations might be provided.

If we can build into the U.S. economy incentives for locating, living, existing in rural America, and corresponding penalties, if you please, for continuing to reside in urban America, I think we can achieve a population redistribution.

May I suggest there are several kinds of industries, kinds of businesses and kinds of profession that could be, at relatively low cost to the Federal budget, stimulated and encouraged to center in rural America.

We tend to attract industries in Huron and Howard and Brookings that are high value, low volume, that produce high value, low volume products, electronics, et cetera, rather than automobile manufacturing. This is a good illustration. There are other kinds of high value, low volume products that could move and could operate successfully in the rural United States: Book publishers, magazine publishers, just as we might edit the Wall Street Journal in New York, but publish a good bit of it, print a good many of the copies in Los Angeles,

so might we edit *Farm Journal* or *Better Homes and Gardens* in Brookings and print it in various parts of the country.

Record-keeping and computer systems, self-employed consultants and other marketers of high value, low volume products, goods and services.

I don't think we ever will get to the place where there is a steel mill in every congressional district, nor do we want it that way. But I would suggest to you that movement of nonfarm people into rural America, or to the retention of nonfarm professional people, businessmen, into rural America can provide several benefits to those who are engaged in farming and ranching.

No. 1, part-time employment, nonfarm employment for the wife, or for the small operator who does not perhaps have the investment for a commercial type unit. At the same time provide population so that we can have a meaningful number of customers for our schools, for our churches, for our grocery stores, et cetera, et cetera.

The second topic I would like to discuss is the land-grant university system which, in our opinion, will continue to work in the years ahead with three kinds of farmers and ranchers. One type will be the extremely large units, some exist today, many exist today, either family owned or operated with outside capital. Some will do their own research. Our role with this type will be minor.

The second type of farmer and the major one in South Dakota will be the family-operated units with somewhat smaller acreages than the type I described before. In these cases the family provides most of the management and a major part of the labor. They may be individual ownerships, they may be partnerships. Some may choose to use the corporate structure for tax advantage or to permit the transmittal of assets from one generation to the next. It will be a unit probably involving seventy-five thousand to a half million dollars of capital. It will continue to be the bulwark of South Dakota's economy, though much different than the family farm of 40 years ago. Our extension, educational, and research activities will continue to be of significant use to this group. They will be the major users of agricultural experiment stations and extension services. Their success will depend in part on application of new knowledge. These farmers, many will be university and vocational school graduates who in South Dakota will have the major job of providing food for the Nation.

I would like to underline a third portion of the South Dakota farmers and ranchers, one which we are dealing with to an increasing degree. There are a relatively large number of small units in South Dakota and in other States. Many are part-time farmers and ranchers, some are semiretired. In some cases both the husband and the wife may be employed part time or full time off the farm to augment farm income. In some cases they are part-time farmers because they want to augment urban income. Others simply enjoy life in the countryside. Some may be unable to make the investment that is needed for a full-time, full-sized farm operation. They have small cow herds or limited acreage of corn or soybeans.

This type of farmer needs rather specially designed educational programs, and we are attempting to supply them. Full funding, Sen-

ator, of title V of the Rural Development Act of 1972, could aid us considerably in serving these small farms and ranchers and their operators.

I might point out that about 40 percent of the South Dakota farms and ranches are in this category. They produce, though, only about 9 percent of the South Dakota agricultural produce. Yet they are people. They are 40 percent of the people who call themselves farmers and ranchers and whom we respect.

Though their total sales may be less than \$10,000 gross sales, they are citizens, they are hard workers, and they contribute to the population distribution which I started this presentation with. I think it is extremely important that we aid them in any way possible to continue to enjoy their life in rural America.

You might be interested, these small farms and ranches are not concentrated solely around the large cities in the State. They are pretty evenly distributed on a percentage basis. You will find as many in Stanley County or in Harding County as you will in Union County.

Each of these three types of farmers has a niche in our food production system. But, more important, the second and third type are an important part of the desirable population distribution to which I referred. Each is operating at a pace, and in a highly competitive business in which the margin for error is constantly being narrowed. Hence our desire to aid each of them.

This is one whole segment of society, the farms and ranches of South Dakota and the United States, which is betting, despite the odds of weather and markets, that its ability, its productiveness and also its continual improvement will provide sufficient products to feed and clothe the United States and our friends as well.

In summary, my appeal, Senator, is for a national policy and programs to support it, leading to a desirable population distribution so that each of us may retain human dignity, accountability for our actions, and the feeling of an individual; second, that we recognize that three kinds of farms and ranches exist in South Dakota, as well as the total United States, and that we gear our educational research programs adequately financed to support and aid each of these three types.

Thank you very much.

Senator McGOVERN. Thank you very much, Dean Acker.

You made reference to the Rural Development Act, particularly title V. Can you give us just a brief synopsis of what the university is doing to implement that title of the act?

Dr. ACKER. Yes, sir. We have taken two significant steps. No. 1 is to define and identify the small farm in South Dakota, generally a unit of \$75,000 investment or less, \$10,000 gross sales or less. As indicated, about 40 percent of the farmers and ranchers in South Dakota are in that category.

Second, we are in the process of identifying 15 South Dakotans who, as the Act would require, would serve as a policy committee to supervise the investment of the Federal research and extension funds directed rural development work and to this portion of the farm population.

Third, we have asked our communications persons and other staff to aid us in learning how we can get at these people.

Let me illustrate. A part-time farmer or rancher may not be able to or choose to attend a full-day symposium on crossbreeding. He may be more receptive to an educational program offered during the lunch hour at the plant where he works or at a night session restricted to part-time cow-calf producers. We are dealing with a different kind of population, with different kinds of commitments, Senator.

Senator McGOVERN. I notice in your statement, Dean Acker, that you refer to the research, extension, and teaching that is carried on at the university, and you say that you are going to divide your efforts between the large units, the family-farm units, and the third category, part-time farmers and ranchers. Could you give us some idea roughly of how your budget breaks down with reference to those three categories of farming units? How many, roughly, man-years or units of money and time and effort are you going to put into each of those? How do they break down percentage-wise?

You may not have the exact statistics, but roughly where is the emphasis, if any, among those three categories?

Dr. ACKER. You are correct, I do not have figures that I could present. It would be simply a human judgment. I would expect that somewhere in the neighborhood of 60 to 65 percent of our energies, both in research and extension, have had their application or their payoff in the minds and operations of the family-type units which I have described.

I would expect that most of the balance, Senator, historically has been utilized by the larger units. When I say larger units, many of these are family owned and operated, some of them are owned by outside interests. We have not had the relationship with the part-time operator and the extremely small operator that we would like to have.

Senator McGOVERN. Thank you very much, Dean Acker. We appreciate that.

I wonder if you could send the committee, at your convenience sometime within the next 10 days, a statement outlining your proposed legislation to establish the population distribution policy that you advocate, and also the programs that are needed to activate the population distribution policy. If you have that readily available, I think it would be helpful.

Dr. ACKER. I would be pleased to, and recognize that it will not be a complete document.

Senator McGOVERN. Yes, and I think that some suggested guidelines on this would be helpful, and that perhaps we ought to consider some legislation in this field.

Senator Mundt and I once teamed up on a proposal some years ago to try to encourage a better distribution of the population by providing certain incentives to people to locate in areas of sparse population. The appeal of that to me is that it is not only needed for the development of the agricultural States, but that it also takes some of the pressure off the cities. I think it is a two-way proposition, and broadens the appeal of our agricultural programs.

Dr. ACKER. I agree, sir.

Senator McGOVERN. Thank you very much for your testimony.

I think we will try to work in a brief statement from our State Secretary of Agriculture from Pierre, Mr. William Schroeder. He

has been here all day and, while he is not listed on the agenda, I don't want these hearings to conclude without a brief statement from Mr. Schroeder.

We have three other witnesses who will follow him, and then we will be finished for today.

Mr. Schroeder, if you could just give us the highlights of what you think is important. Any longer statement we will be glad to have included in the record either now or at a later time.

STATEMENT OF WILLIAM SCHROEDER, SECRETARY OF AGRICULTURE, STATE OF SOUTH DAKOTA, PIERRE, S. DAK.

Mr. SCHROEDER. Thank you, Senator.

I will make these statements very brief, and I appreciate the time that you have allotted so that I can make a few statements regarding the agriculture program.

First of all, I would for the record state that I am William Schroeder, the South Dakota Secretary of Agriculture. I welcome you to the State of South Dakota where hospitality abounds and agriculture is a way of life. We appreciate the concern that is shown by your committee for the people of South Dakota by setting aside a day in your busy schedule to hear the opinions and the expressed views of our people on pending legislation which deals with farms and rural America.

Agriculture is the No. 1 industry in South Dakota, so to us it is extremely important that we have some input into the drafting of farm legislation.

The attitude of the present Administration indicates that they are bent on abolishing long-existent and well-established farm programs. To phase out existing programs, acreage adjustment and price support programs would have a devastating effect on the people residing in states where agriculture is the major industry. Such a policy would cause a marked decline in farm income and would compound the economic, social, and cultural problems we now have.

The basic structure of the current Agriculture Act of 1970, including price support loans and set-aside acreage features, should be continued. The results of farm programs during the past two decades have obviously left much to be desired. Those administering the programs, rather than the programs, are responsible for the results. With the programs, the Secretaries of Agriculture have failed to support price levels allowed by provisions of the program. The low support prices, plus the dumping of surplus commodities to depress prices when they start to respond to demand has run counter to the intent and purpose of farm programs. Farm programs have failed because provisions for supporting prices at profitable levels have not been carried out.

The Federal Farm Board was established in 1929. Its main purpose was to place agriculture on a basis of economic equality with other industries. This program was the beginning of farm programs. Others, much more successful, have come since that time, and agriculture has made progress in this struggle for equality, but the facts show that much has been left to be desired.

Agricultural income is about 78 percent of that of the nonfarm population. Farm prices today are very nearly the same, at the same

level that they were 20 years ago, but farm costs have doubled and, in fact, tripled in many instances. The parity index, which is the only measuring stick of equality that we have, shows that farm prices are a long way from equality with other enterprises. Below-parity prices for farmers are a direct subsidy for the rest of the Nation. The myth that farmers are doing just fine today, and that this alleged prosperity is at the expense of the consumer which now prevails has caused boycotts and many other problems that have compounded the problems in agriculture.

If farming is such a money-making enterprise, why do we have this outmigration from rural to urban areas? Our Nation has taken for granted that it is a natural and desirable condition for farm prices to be low and food prices cheap. The unparalleled efficiency of the American farmer is the basic reason for the high standards of living of the American people. The farmer should share in this achievement.

Positive Government policies are needed to acquire and carry forward desirable reserves of grain and soybeans and to provide for their release under specific conditions, while still maintaining stable farm prices at reasonable levels. Agricultural policy dedicated to full-throttle production to provide low-cost domestic and export supplies does not recognize that the heartbeat of staying in business is a return on investment. Controls are necessary for orderly production and, despite the fact that many in agriculture are opposed to controls, it is the only way the family-farm type of operation can survive. Small farmers are at a disadvantage in a general cropland adjustment program, so special consideration must be given to the needs of the small operator. We need an act that will guarantee the farmer an income adequate to meet the present standards of living. Farmers can produce more than the commercial market will accept without a substantial decline in price. This is exactly what we will see happen, the ability of the farmer to produce has been shown in the past. Through technology, he is able to do much greater things, bring forth much more from the soil than he did in the past, and unless we have some controls we will have a substantial increase in production and a decline in prices.

If price supports and adjustment programs are discontinued, agriculture will suffer irreparable damage.

Thank you.

Senator McGovern. Thank you very much, Secretary Schroeder. We appreciate your testimony and your presence at these hearings.

Our next witness is the attorney general of South Dakota, Mr. Kermit Sande. We will ask Mr. Sande to testify at the present time.

We will ask you to bear with us, too, Kermit, by trying to hit the highlights of your statement. If you have additional material and you want to file the entire document, it will be printed in the record.

STATEMENT OF KERMIT SANDE, ATTORNEY GENERAL, STATE OF SOUTH DAKOTA, PIERRE, S. DAK.

Mr. SANDE. Very well, Senator.

Senator McGovern, for the record, I am Kermit Sande, attorney general of the State of South Dakota.

It is a genuine pleasure for me to be here today, and I want to

compliment you for bringing the Senate Agriculture Committee here to South Dakota. I wish only that perhaps more congressional committees would take their time to come out to where the people are. Perhaps a lot more of the bureaucrats should also get down to the grassroots level to find out what the people really have on their minds.

I think it is also particularly appropriate that the Senate Agricultural Committee should come to South Dakota, since we are one of the most agriculturally-oriented States in the Union. There is something wrong with agriculture when, even with strong prices, the State is losing nearly a thousand farms a year.

I have seen a roster of the persons who have testified here today, and who are scheduled to testify, and I regret very much that I am the only elected State official to testify here in a State in which the major industry is agriculture. Perhaps some of our officials and some of our organizations have taken a "Let George do it" stance, as you have for so many years when it comes to agriculture. It could be that the importance of agriculture is so taken for granted that some see little point in appearing before the Senate Agriculture Committee.

In any event, Senator, I am personally glad to see you here today.

Mr. Chairman, the main thrust of my remarks as attorney general will deal with the problem of crime in rural areas, and certain other problems of rural America. However, I would just very briefly like to comment—and the bulk of the comment will be entered in the record—on the REA bill which I understand is now in conference. I would also like to say a few words about the general farm bill which will be passed this year.

I think it is fair to say that most of us in South Dakota favor the Denholm REA bill. It is my understanding that, if Representative Denholm's bill clears the conference committee and becomes law, it will enable 25 of South Dakota's 32 REA's to continue to borrow money from the REA at the traditional 2 percent rate. In view of the almost entirely negative record of the current Administration on rural electrification measures, this is clearly as much as we may reasonably expect.

As far as the general new farm bill is concerned, it is my view that the Administration's plans to phase out our price-support program over a 3-year period would be disastrous for the family farm and for rural America. Termination of price supports and a return of the soil bank scheme is nothing more than the rerun of the discredited and bankrupt policies of former Secretary of Agriculture Ezra Taft Benson.

Mr. Chairman, little is said about the menace of crime in rural areas. Rural American is catching up with the cities in this respect. The reports of the FBI entitled "Crime in the United States", compiled by the FBI for the years 1970-71, show that crime in the rural areas, while it is still the lowest in the categories of crime, is, in fact, increasing. In 1970, the rate of increase was more rapid in four of the nine categories of crime in rural areas. Fewer crimes of nearly every kind, compared to the population in the reporting areas, were committed in the rural areas than in the Nation as a whole, especially the cities. In rural areas, the rate of crime in some instances is growing faster than in the cities.

In 1970, there was a 12.8 percent increase in crimes against property, and in 1971, the rate of increase of crimes against property in the rural areas was double that of the cities.

Murder, forcible rape, burglary, and thefts of \$50 or more all increased at a greater rate in the rural areas than in the Nation as a whole in 1970, although the rate of increase did taper off a bit in 1971. Crime appears to be leveling off in the cities. Perhaps they are saturated. It is possible that crime in rural areas may not be rising as far as the statistics indicate, since the reporting may be better. However, more than 30,000 additional rural crimes known to the police in 1970 were actually committed against fewer people as a result of the population losses in the rural areas compared with the cities. It was in crimes against property that the rural areas were setting new records.

In 1970, for instance, the thefts of \$50 and over increased at about twice the rate of the Nation as a whole, and ten times the rate of the other cities of 1 million and over. Most law enforcement agencies in the rural areas naturally, and in South Dakota as well, are understaffed. Their job is made more difficult by the geographical size of the jurisdictions, and I think this is also so very true here in South Dakota. Yet the number of arrests in relation to the number of crimes was higher in the rural areas.

Narcotics violations are big news in the cities. Yet rural police are cracking down here. In the rural areas police arrested 111.4 percent more persons for narcotics crimes in 1970, and 38.7 percent in 1971. It is a very real problem.

Senator MCGOVERN. Attorney General Sande, is the use of hard drugs on the increase in schools in our State, in the small towns as well as in the larger places?

Mr. SANDE. I think that, Senator, as a generalization, the past few years have seen quite a significant increase in hard-drug usage. However, most of the evidence available and a general feeling of law enforcement people is that perhaps the actual use of hard drugs, not only in the rural areas but, I think, urban areas as well, has sort of stabilized and perhaps even declined a little. However, I think that the abuse of marihuana most definitely is increasing, but I think perhaps the kicks of the hard drugs and perhaps increased education as to the dangers of hard drugs, with increased education in the schools, has been a factor in stabilizing actual hard-drug usage.

Agricultural thefts are one of South Dakota's leading crimes. They are by far the largest single dollar loss. Yet little attention is paid to the problem of crime in rural areas. It seems that, because the rate per thousands in the large cities is many times greater, some persons apparently have the idea there is no problem out there, but there is.

We have seen how quickly the drug culture reached our State and the corresponding increase in drug arrests. We are making strides here in South Dakota which I could discuss in some detail, but I would like to suggest that this committee, since it is concerned with the quality of life in rural America, as I am, should look into the problem of rural crime per se. The statistics on crime are abundant, they are broken down just about every way they can be. However, but for a few pages of the FBI's annual report of crime in the United States, is there any mention of rural crime. It is nearly always con-

sidered in the context of the crime itself without reference to whether it occurred in the rural or urban area where the detection and the prosecution are much different.

Then there are crimes unique to agriculture. In the southern part of the State, in particular, we are currently having considerable difficulty and problems with chemical thefts, fertilizer thefts, and across the State there are problems with machinery thefts, cattle rustling, machinery part thefts.

In conclusion, we are trying to determine the extent to which present-day cattle rustling is organized on multistate lines, and the attorney general's office is presently working on a project to get into this in the entire area of rural crime on a much greater depth. However, it does seem to me that the Department of Agriculture could be asked to undertake some of these tasks in assistance to us.

So, in conclusion, I thank you for the opportunity to testify here today, and I thank you for bringing the Senate Agriculture Committee here to South Dakota.

Thank you, Senator.

Senator MCGOVERN. Thank you very much Attorney General Sande. You have introduced a new dimension to our hearing today. I think there is a tendency on the part of many of us from rural States to downgrade the importance of crime in rural areas. We think we are somewhat more free of it than they are in the large cities, and in one sense I think that's true. But I think testimony of this kind helps remind us of the importance of maintaining a strong and wholesome rural life in the interest not only of our State but of the Nation.

We are grateful for your testimony, and also for your efforts as the chief law enforcement officer in this State. We are very pleased with your record.

Mr. SANDE. Thank you very much, sir.

Senator MCGOVERN. We have two more witnesses from the department of game, fish and parks, and the agricultural committee of the Aberdeen Chamber of Commerce.

We will hear from Mr. Dvorak of the department of game, fish, and parks. He is accompanied by Robert Dahlgren of Brookings, Dick Fisher of Cresbard, and Jim Sich of Aberdeen, and others.

We appreciate the fact that you gentlemen have been with us all day. You have been very patient.

Mr. DVORAK. Thank you, Senator.

Senator MCGOVERN. I think all of us in South Dakota appreciate the importance of the game, fish and parks department to our lives and its cross-relationship to a healthy agricultural economy. We are glad to have your testimony.

**STATEMENT OF DARRELL DVORAK, LAND STAFF SPECIALIST,
SOUTH DAKOTA DEPARTMENT OF GAME, FISH, AND PARKS,
PIERRE, S. DAK.**

Mr. DVORAK. My name is Darrell Dvorak, I am a land staff specialist with the South Dakota Department of Game, Fish and Parks. These gentlemen here with me today are representing themselves.

They are also interested in the set-aside acres program with regard to the benefits for wildlife. A bit later they will be giving their testimony, as I said, again, on behalf of themselves.

I am here today on behalf of the game, fish and Parks department to comment on the effects of the Agricultural Act of 1970 and the revision of the set-aside and food-grain program in 1974. I am personally pleased to see the fine attendance here this afternoon and the participation here today. I believe it behooves us all to have input into governmental programs when given the opportunity such as we have here today, whether it be individual representation or that of a group or organization.

I believe it is particularly important today, as we are discussing the program which directly or indirectly effects each and every one of us. It does so by manipulating our environment, our wildlife, our food supplies and surpluses, exports and economy, and farm prices and income.

I have with me today a prepared statement of the department with reference to the impact of the present program on wildlife and our State's environment and our recommendations for change in the 1974 feed grain set-aside program. I will present that statement now and ask that it be placed on the record with the agricultural programs committee and the Congressional Record as the South Dakota Department of Game, Fish, and Parks.

Senator McGOVERN. Without objection, it will be made a part of the record.

Mr. DVORAK. The set-aside, cropland diversion and REAP programs of the Agricultural Act of 1970 is being reviewed and revised into a new program for 1974. A sound agricultural program must be developed with input and consideration from agricultural producers as well as other groups and agencies to effectively formulate an environmentally sound and consistent program.

A factor significant to the existence of our wildlife populations is the presence and availability of quality habitat. The USDA set-aside program with the annual enrollment of millions of acres of agricultural land certainly has the potential of making a major contribution to wildlife propagation in the United States. The 1972 feed grain set-aside program in South Dakota had a participation of nearly 5.4 million acres. In the United States, a total of nearly 58 million acres was enrolled in the program last year. The majority of this acreage was diverted, of course, from the production under the set-aside program for wheat, feed grains, and cotton.

The concern of the South Dakota Department of Game, Fish and Parks is for the loss of wildlife cover on the lands of South Dakota, and the resultant adverse effect on wildlife population.

The current set-aside program is administered principally on an annual basis. The tenure of this program and the influence of short-term management practices is having a detrimental impact on our environment. Since the present short-term contract is not conducive to the establishment of a cover crop on these retired acres, annual programs generally encourage fallowing. Few benefits, however, are realized by wildlife from this practice. The soil on these lands is left exposed and susceptible to severe wind and water erosion. Concur-

rently, though not generally considered, the loss of topsoil generates a continuing depletion of the agricultural productivity of the soils. The Soil Conservation Service reported in 1971 that the Great Plains reached a 14-year high in soil loss due to wind erosion. South Dakota reported 636,800 acres damaged during that year. Water quality is degraded as run-off water carries sediment and nutrients down the hillsides, slopes, and ditches to be deposited in adjacent creeks, streams, and lakes.

A survey of the set-aside program in South Dakota and 13 other Midwestern States was conducted with the purpose of determining the vegetative cover condition of the lands enrolled in the set-aside program. The total survey involved 121,000 acres of set-aside cropland on 3,543 farms. The States participating in the survey were: Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, Pennsylvania, South Dakota, and Wisconsin, as shown on table 1.

The survey in South Dakota, table 2, indicated that of the 5.4 million set-aside acres in 1972, 3.1 million acres, nearly 58 percent, were fallowed and void of vegetation. Acres with new seeding of annual or perennial cover involved 16 percent and prior years' seeding of grasses and legumes totaled 26 percent of the program acreage. The mean percentage of the 13-State survey of the set-aside acreage indicated 57 percent unseeded, 20 percent new seeding, and 23 percent old or established seeding.

The set-aside program can be modified to meet the environmental requirements of land stewardship, water quality, clean air, and abundant wildlife. Those requirements may be achieved without degressing from the purpose of regulated crop production. The key to achieving this goal is through the establishment of grasses and legumes as protective cover crops on the millions of set-aside acres committed to this program. The implementation of a multi-year program will enable and encourage participants to program their farm operations and production with assurance of realizing the total benefits of the program.

The establishment of protective cover crops on the millions of set-aside acres would reduce erosion of soils by wind and water, reduce air and water pollution, improve soil tilth and productivity, and increase wildlife populations. The set-aside program offers more potential benefits to wildlife than any other management program due to the immense acreage involved and the ability of the program to encourage the establishment of quality habitat for wildlife.

Dahlgren, in 1971, reported that:

The value of good habitat to the pheasant population can be seen by comparing the population of the mid-'50's, four to six million birds, with that at the height of the Soil Bank, eight to eleven million. Good cover nearly doubled pheasant numbers.

South Dakota's pheasant population has since declined to about 4 to 5 million birds, even though about 1.6 million acres more land is presently diverted than existed at the peak of the Soil Bank era. Erickson and Wiebe, 1973, stated:

The lack of response with reference to pheasant production is due to the fact that no vegetative cover is required under the present system of annual contracts.

They further concluded that:

It is questionable that the increasing demand for wildlife-oriented recreation can be met by Fish and Wildlife agencies alone. Adjustments in federal programs to provide permanent cover on existing surplus cropland could assist greatly in meeting this demand. One essential adjustment would be conversion of land retirement programs from an annual to a long-time basis.

The following proposed amendments are recommended for consideration in the Agricultural Act of 1974.

The Secretary shall determine the minimum acreage that shall be set aside annually for a period of 5 years. Farm operators shall be encouraged to devote this acreage to a vegetative cover crop capable of maintaining itself throughout a 5-year agreement period to provide soil protection, water quality enhancement, wildlife production, and natural beauty. In addition, the Secretary shall determine acreages to be set aside under annual agreements to adjust supply with demand. The acreage set aside shall be devoted to an approved conservation use as determined by the State ASCS Committee.

If, in any year of this act, the Secretary determines that additional acreage shall be set aside for the duration of the act, the Secretary shall enter into agreements with farm operators for such additional acreage to be set aside and devoted to a protective cover crop capable of maintaining itself during the remaining years of this act.

The Secretary, if he deems necessary, may provide cost-sharing incentives to farm operators for cover establishment. Payment benefits under this program shall be applied without prejudice under both long-term and annual agreements.

The Secretary, after consultation with the State ASCS Committee, shall appoint an Advisory Board consisting of State and Federal agricultural and wildlife agencies, citizens, and organizations knowledgeable in the fields of agriculture and wildlife in each of the several States. The advisory board shall assist the State ASCS Committee in defining approved conservation uses to protect the set-aside acreage from erosion, insects, noxious weeds, and rodents; to improve water quality; and to provide wildlife habitat.

During the period when this program is in effect, the Secretary shall make available to landowners and operators optional 10-year agreements on tracts of land up to 10 acres per farm for wildlife habitat enhancement and preservation of natural beauty. Such tracts shall:

(1) Be approved as to size, shape and distribution by the State ASCS Advisory Board;

(2) Be devoted to vegetative cover and/or water development and conservation;

(3) Be protected from grazing; and

(4) Be included as a part of the set-aside, or diverted acreage, or conserving base.

Set-aside acres entered into agreement under this part of the act will not be deleted from the landowner's base acreage and will continue to qualify for benefits therefrom so long as the operator continues to participate in these programs. The Secretary may provide for additional payments on such acreage in an amount determined by the Secretary to be appropriate for cost-sharing conservation practices beneficial to wildlife and the general public.

TABLE 1.—STATUS OF VEGETATION ON SET-ASIDE ACRES IN 1972 ¹

State	Percentage of set-aside acres		
	Unseeded	New seeding	Established seeding
Colorado.....	66	10	24
Illinois.....	19	43	38
Indiana.....	30	30	40
Iowa.....	4	67	29
Kansas.....	79	7	14
Michigan.....	54	5	41
Minnesota.....	54	27	19
Nebraska.....	74	8	18
North Dakota.....	96	1	3
Ohio.....	30	17	44
Pennsylvania.....	10	3	87
South Dakota.....	58	16	26
Wisconsin.....	39	7	54
Mean ²	57	20	23

¹ Statistics through the courtesy of the ad hoc Farm Programs Committee.

² Adjusted to the total acreage of set-aside cropland in the 13 States.

TABLE 2.—SOUTH DAKOTA, 1972 SET-ASIDE REVIEW

1. Area checked:	
24 counties, 5 farms per county: Total farms checked.....	120.
2. Total acres checked.....	8,358.7 acres.
Acres destroyed (July check ¹).....	4,943.0 acres.
Acres destroyed (July check).....	59.1 percent.
Acres remain undisturbed.....	3,415.7 acres.
3. Total number of fields checked.....	257.
Number fallow and disced.....	128.
Number fallow and disced (July check).....	49.8 percent.
Number not destroyed.....	129.

¹ July check showed 12 additional fields destroyed.

	June	July	July (percent)
Undisturbed.....	3,751.2	3,415.7	40.9
Fallow.....	4,448.8	4,572.7	54.7
Disc and duckfoot.....	158.7	249.1	3.0
Mow.....		121.2	1.4
Percent destroyed.....			59.1
Total.....	8,358.7	8,358.7	100.0

Mr. DVORAK. That's all I have at this time. I do wish to comment, if I may, that William Larson, representing the South Dakota Wildlife Federation has submitted for the record similar testimony to what I have just completed, and it is being introduced into the record without a verbal statement, with your permission.

Senator MCGOVERN. Without objection, Mr. Dvorak, that will be made a part of the record.

I wanted to ask if you have had a chance to test some of these wildlife habitat programs by working farmers around the State, and to get some reaction from the farmers as to what they think about these proposals?

Mr. DVORAK. I think you are probably making reference to long-term contracts.

Senator MCGOVERN. I am referring to the kind of suggestions you were making here in your statement today. I just wondered if you have had a chance to get some reaction from farmers on those proposals.

Mr. DVORAK. I have not discussed these particular proposals with any group of farmers or any number of farmers with these ideas specifically in mind. I think the trend of the farmer in his program would follow what I have just concluded with from the presentation I have just made, and that assumption is made on the basis of general conversation that has been had during the course of the last few years when the program has been in effect.

As I say, these particular amendments that have been proposed have not been discussed with the farmers or farm groups.

Senator McGOVERN. Are those in legislative form now, Mr. Dvorak? Is the language comprehensive enough so that the committee could look at it with a possible eye to turning it into a legislative proposal?

Mr. DVORAK. Yes, I believe it is.

Senator McGOVERN. Thank you for your testimony. We will be glad to hear from any of you other gentlemen.

Mr. DVORAK. If I may, then, I would introduce these other gentlemen and then they can give the qualifications on which they base their statements.

First here we have Bob Dahlgren of Brookings; Jim Sieh of Aberdeen; Dick Fisher of Cresbard; Bill Larson and Ted Schenck.

Senator McGOVERN. Mr. Fisher, you are a farmer, aren't you?

Mr. FISHER. Yes.

Senator McGOVERN. Are any of you other gentlemen farmers?

[No response.]

Senator McGOVERN. We will be glad to hear from the rest of those of you on the panel.

STATEMENT OF ROBERT B. DAHLGREN, BROOKINGS, S. DAK.

Mr. DAHLGREN. Senator McGovern, I think I can address myself to your question, and we will talk in terms of dollars and show how farmers might be interested in some of these proposals.

I was a game biologist for the South Dakota Department of Game, Fish, and Parks from 1952 to 1967. I watched this rise in pheasant numbers that came in the conservation reserve that was initiated in 1956 that Mr. Dvorak just testified about.

This was an economic boon for South Dakota. The nonresidents hunting pheasants in South Dakota increased from an average 18,000 in the 3 years preceding conservation reserve to an average of 59,000. That's a 257 percent increase in the 3-high years of conservation reserve from 1961 to 1963.

On the same basis the resident hunters in our State benefited because resident hunters going afield increased from 114,000 to 131,000. That's an increase of 15 percent in our resident hunters.

Now, up until a few weeks ago I was not able to lay my hands on figures that would put some of these benefits that we are talking about and putting cover on set aside in dollar terms, but within the last few weeks some of these figures have become available to me.

For instance, there was a report put out of a survey of game departments in five States that indicated that resident hunters spent an average of \$15 to bag a pheasant. I think South Dakota can hunt pheasants a little more cheaply, so I am going to quantify at \$10 a

pheasant. The average expenditure by nonresidents that was put out in this same report was \$22.50, and that doesn't sound like an unreasonable figure for South Dakota.

If we apply these dollars figures to the pheasants killed by hunters in 1962, which was not the peak year of hunting in Soil Bank, but was following the year where we had the peak amount of Soil Bank in, and compare it now to 1971, the last year for which I have figures, we can see the difference in dollar value between managing set-aside acres under 1962 conditions, when approximately two-thirds or so of the land was under protective cover, and 1971, when all of it was in annual contracts and very little of it was protected.

We see that in 1962, \$37.45 million accrued to South Dakota in the form of hunting income, and in 1971, \$14.61 million. This is a difference of \$23 million lost to South Dakota in hunting expenditures from the way that we are managing our set-aside acres today. This may not seem like very much money, but it approaches a fourth of the budget that is handled by the South Dakota legislature and it is about one-fourth of the Federal farm program cost for set aside in this State.

There is another cost that we can quantitate. Wildlife managers chiefly graduate from agricultural colleges and many of them are farm boys, as I am. We know that wildlife depends on good soil that is held in place, so they are concerned with soil erosion as well. To quantitate the costs of soil erosion, we have to know how well the land is protected.

Mr. Dvorak indicated to you that wildlife biologists, checking 121,000 set-aside acres in 13 Midwestern States, comprising 3,543 farms, in the summer, found that land was rather poorly protected from erosion.

Now, if we totaled the acres that are completely fallow and those that are newly seeded, chiefly to oats, the following percentages were poorly protected from spring winds and rains in South Dakota and her sister States: South Dakota, 74 percent relatively poorly protected; in Nebraska, 82 percent; in Minnesota, 81 percent; in North Dakota, 97 percent.

I visited with Dr. L. O. Fine at South Dakota State University and he suggested to me the best estimate of the value of annual soil loss due to our present set-aside policy is \$25 per acre of nutrient losses. This figure is given in his personal statement to the 1973 House Agricultural Committee hearings and is an approximation, of course, because very flatland loses less soil and steep slopes lose more.

But if we multiply this \$25 per acre times 74 percent of the 2,975,000 acres of poorly protected set-aside acres, in South Dakota in 1972 we can establish a loss of \$55 million in terms of soil nutrients.

I noted with some interest that Mr. Dvorak was using different figures for the number of set-aside acres in South Dakota. I got this 2,975,000-acre figure in a telephone call from the State ASCS Office, but if Mr. Dvorak's figures are correct and this figure is wrong, we are talking in terms of something like \$100 million.

The State office spent \$98,600,000 last year. To spend \$98,600,000 to lose \$100 million in soil nutrients doesn't look like good business to me, particularly when you add another \$23 million in loss in wildlife values.

Now, this is from a program that cost about \$99 million. This from a Federal agency that has a service to handle soil conservation problems. This in a time when we need recreational outlets for our citizenry. This when we already have 7 to 9 feet of silt in many of our prairie lakes on which so many depend for fishing and swimming and water skiing and boating—farmers constitute a good bulk of the hunting public in South Dakota, and they like to take their boats on the prairie lakes. This in a State where we suffer from wind as well as water erosion.

The problem appears even more serious when additional population growth compounds competition for both food and recreation in the future. Our children are going to have to be depending on the land that we turn over to them. We have not quantified the loss to pollution, to water-based recreation, or the decrease in the productivity of the land we leave for our children to use.

I don't believe that we can afford to continue a Federal subsidy for soil erosion and degradation of our environment. Farmers and nonfarmers alike deserve a more sound investment of the Federal dollar. We can have set-aside acres in the 3- to 5-year contracts, multi-year contracts, with a requirement that these acres have perennial protective cover. To do so would not cost, but pay dividends to all of us.

Senator, if we are dealing with a \$100 million expenditure, and we are talking about losses that we can quantify of over \$100 million, we are talking about enough money so that USDA can make an offer to farmers that they cannot afford to refuse, and yet protect our soil and these other environmental benefits that we need so badly.

Senator MCGOVERN. Thank you very much. That is a very compelling argument, I must say.

Mr. DAHLGREN. Thank you, sir.

[The prepared statement of Mr. Dahlgren follows:]

Mr. DAHLGREN. I wish to present testimony as a private citizen on one particular aspect of farm programs, set-aside acres. I grew up on a farm near Walnut Grove, Minnesota, received a B.S. degree from South Dakota State University, a M.S. degree from Utah State University, and a Ph.D. degree from South Dakota State University. From 1952 to 1967, I was employed as a Game Biologist with the South Dakota Department of Game, Fish and Parks, doing chiefly pheasant research. Since 1967, I have been a federal employee stationed at South Dakota State University, supervising and conducting game research and assisting in training graduate students in wildlife biology. I intend to present testimony indicating that a shift in Federal farm program policy on set-aside acres can, at little or no cost to the taxpayer, result in additional benefits to all segments of society. These benefits would include soil stabilization and conservation, increased hunting recreation, a reduction in pollution and subsequent benefits to recreation on our prairie lakes. The dollar benefits from this policy shift cannot be entirely quantified, but I will show that they are large.

We have a set-aside program under the Agricultural Act of 1970. Acreage set-aside in 1972 totaled about 60 million acres at a cost of 3.5 billion dollars. I understand that economists predict we may need to set aside land for the foreseeable future, perhaps to the year 2,000.

At some future point in time, these acres will be important to all of us. All of our agricultural land should be well cared for.

I have studied the response of pheasants in South Dakota to set-aside acres that were planted to perennial vegetation under 3-10 year contracts during the Conservation Reserve Program initiated in 1956. Pheasants about doubled in numbers, from 5-6 million to 11 million. Pheasants responded to the undisturbed nesting cover in proportion to the number of acres of such cover established. This spurt in pheasant numbers was an economic boon to South Dakota. Non-residents hunting pheasants in South Dakota increased from an average of 18 thousand in the 3 years preceding Conservation Reserve to an average of 59 thousand (+227%) in the 3 high years from 1961-63. Additionally, and on the same basis, resident hunters going afield increased from 114 thousand to 131 thousand (+15%).

To determine the dollar benefit from increased pheasant habitat, we can examine the difference in value of pheasant hunting between 1962 (after the peak year of conservation reserve, not the peak year of hunting) and 1971 (representing present conditions). In 1961, the set-aside program consisted of about 1.8 million acres under conservation reserve at a program cost of about \$18 million and about \$0.9 million acres of set-aside under an annual contract at a program cost of 15.7 million. By contrast, in 1972, all of the 2.98 million acres of the set-aside was in annual contracts at a program cost of \$98.6 million. The difference that I wish to point out is that at the peak of Conservation Reserve, two-thirds of the acres were under several-year contracts where the land was protected by vegetation, as opposed to recently when the land was under annual contracts and protective vegetation was not required.

To place a dollar value on the hunting, we further need to estimate its value. Five states in the midwest reported that resident hunters spent an average of over \$15 to bag a pheasant. Because our hunting is better in South Dakota, I will arbitrarily use only two-thirds of that figure, or \$10. The average expenditure by non-residents was reported to be about \$22.50, which appears to be reasonable for South Dakota. (These figures are from a mimeographed report of the Agricultural Programs Committee, Midwest Pheasant Council, Association of the Midwest Fish and Wildlife Commissioners, Dr. Ronald F. Labisky, Chairman, dated by accompanying letter as March 23, 1973.)

Applying these dollar figures to the pheasants killed by hunters in 1962 and 1971, as follows:

	1962		1971	
	Resident	Nonresident	Resident	Nonresident
Pheasant kill (millions).....	2.048	0.754	0.822	0.284
Value of each cock.....	\$10.00	\$22.50	\$10.00	\$22.50
Dollar value (millions).....	20.48	16.97	8.22	6.39
Difference (millions of dollars).....			-22.84	

We see that 23 million dollars was lost to South Dakota in hunting expenditures. This may not seem like very much money, but it approaches one-fourth of the budget appropriated by South Dakota's legislature, and is about one-fourth of the Federal farm program cost for set-aside in this state.

There is another cost that we can quantitate. Wildlife managers chiefly graduate from agricultural colleges, many are farm boys. They know that wildlife depends on soils held in place, so they are concerned with soil erosion, as well. To quantitate the costs of soil erosion, we need to know how well the land is protected and what the dollar value is of soil lost on unprotected land. The present set-aside programs with annual contracts do not require a protective crop. In 1972, wildlife biologists in 13 midwestern states examined the treatment of 121,000 set-aside acres on 3,543 farms in summer. Fifty-seven percent of the acreage was not seeded to a cover crop; 20 percent was newly seeded, chiefly to oats; and only 23 percent was protected, chiefly with perennial grasses and legumes. Totaling the unseeded and newly-seeded acres, the following percentages were poorly protected from spring winds and rains in South Dakota and sister states:

	Percent		Percent
South Dakota-----	74	Minnesota -----	81
Nebraska -----	82	North Dakota-----	97

(These figures are from the above-mentioned report, and in table 1 therein.)

Dr. L. O. Fine, soil scientist at South Dakota State University, suggested that the best estimate of the value of annual soil loss due to our present set-aside policy is \$25.00 per acre of nutrient losses. This figure is given in his personal statement to the 1973 House Agricultural Committee Hearings, and is an approximation (flatland loses less, steep slopes more). Multiplying this \$25.00 per acre times the 74 percent of the 2,975,000 acres of poorly-protected set-aside acres in South Dakota in 1972, we can establish a loss of 55 million dollars in terms of soil nutrients.

Adding the 23 million loss in pheasant hunting dollars and the 55 million dollar loss in soil nutrients, we can quantify a loss of 78 million dollars for South Dakota alone. This from a program that cost the taxpayer \$99 million. This from a federal agency that has a Service to handle soil conservation problems. This is a time when we need recreational outlets for our citizenry. This when we already have 7-9 feet of silt in many of our prairie lakes on which so many depend for fishing, swimming, water-skiing, and boating. This in a state where we suffer from wind as well as water erosion. The problem in a state where we suffer from wind as well as water erosion. The problem appears even more serious when additional population growth compounds competition for both food and recreation in the future. We have not quantified the losses to pollution, water-based recreation, or the decrease in the productivity of the land we leave for our children to use.

We certainly cannot afford to continue a federal subsidy for soil erosion and degradation of our environment. Farmers and non-farmers alike deserve a more sound investment of the federal dollar. We can have set-aside acres in 3 to 5 year contracts with a requirement that these acres have perennial protective cover. To do so would not cost, but pay dividends to all of us.

STATEMENT OF WILLIAM T. LARSON, VICE PRESIDENT, SOUTH DAKOTA WILDLIFE
FEDERATION, SIOUX FALLS, S. DAK.

The South Dakota Wildlife Federation feels that any agricultural support program involving "set aside acres" should include a requirement that these set aside acres be retired for 3 to 4 years to enable wildlife to utilize this land. Any land retired for only one crop season and then put back into production cannot produce sufficient undisturbed vegetative cover in time to encourage the propagation of wildlife.

The South Dakota Wildlife Federation urges incorporation of these provisions in an agricultural program.

Senator MCGOVERN. Mr. Jim Sieh, Aberdeen, S. Dak.

STATEMENT OF JIM SIEH, ABERDEEN, S. DAK.

Mr. SIEH. Senator, my name is Jim Sieh from Aberdeen, and I am on a busman's holiday today because actually I am a Federal employee. But I want to emphasize that I am not here representing my agency, but solely and entirely myself as an interested citizen in South Dakota, interested basically in farming, but also in fish and wildlife and in people who utilize all of these resources; soil, water, and wildlife.

I want to give you a little bit of my background. I was born and raised in Aberdeen, finished high school there, went overseas during World War II, back to Iowa State University where I graduated with a B.S. and M.S. in fish and wildlife management, and worked as Iowa's water fowl biologist, traveling the entire State of Iowa for approximately 15 years. I returned to South Dakota with the U.S. Department of Interior, and for the last 10 years I have intensively traveled and worked, particularly in the 20 northeastern counties of this State, and to a lesser extent in the southeastern counties, administering what we call Public Law 87-732, the Drainage Referral Act, and the Reuss amendment to the Agricultural Appropriations Act. My primary function, of course, has been to preserve and to save vanishing wetlands and habitats for all wildlife, including waterfowl, pheasants, deer, jackrabbits, mink, muskrats, et cetera.

To do this, we have a tremendous struggle because in our lifetime, through my experience in Iowa and in the Dakotas, I have seen the amounts of quality habitat continually disappear due to the need for agriculturists to till more and more land, produce more and more grain and food, and I presume that this will continue as population increases.

As a consequence we have an obligation to try to keep here in South Dakota and elsewhere some of this habitat which is the backbone of the production base of our pheasants and our waterfowl.

Now, we have struggled to obtain grass-legume or other cover crops on set-aside acres, and we recognize that this is an annual program, but we feel that people don't understand that there is a possibility of entering into something like a 3- or 5-year contract for a cover crop or part or all of these set aside-acres. In an emergency, a national emergency, there could be fall plow down, there could even be spring plow down if necessary of set aside acres.

I want to also mention that I am partly a land manager, because my family owns a few quarters of South Dakota land. I am confront-

ed with operators, and I recognize that the good farmer sets up his program 2 or 3 years in advance and his rotations and what have you.

Now, our big problem is the "fallow ground" on our set aside which, of course, is a great temptation, and we all know that this is not considered a good soil conserving use of land. It increases production, yes; it controls weeds, yes; but it doesn't produce wildlife. It allows erosion and it is not basically a good practice in many portions of the Dakotas. Now, there are some exceptions, as we all know.

I am here just to urge, if it is humanly possible, to get some of the set-aside acres under contract with a grass-legume cover crop for 3- to 5-year periods, and if you can help us do this we will certainly appreciate it.

Senator McGOVERN. Mr. Sieh, I want to say to you and to Mr. Dahlgren and Mr. Dvorak and your colleagues here that I am very much impressed by the proposals you have outlined here today. I don't know any reason why we can't write a farm bill that would include some of the concepts that you have outlined, perhaps all of them. It seems to me that there is no conflict between a good agricultural program and good land management and good wildlife protection and development.

I want to say to you before it gets any later here this afternoon that we are going to take these proposals very seriously and look them over carefully. We want to talk to some of the farm people, but at this point I don't see any reason why we can't embrace these proposals and make them a part of the farm bill.

Mr. SIEH. We certainly would appreciate it.

One quick note. At the Northern Prairie Wildlife Research Center in Jamestown, N. Dak., they have experimented with dense nesting cover, mixtures of grasses and legumes, and they can prove beyond a doubt that we can improve greatly both the production and the survival of waterfowl, many, many times. I am presuming that the same is true for pheasants and other species of wildlife.

Senator McGOVERN. Thank you very much. I appreciate it. Who's next?

STATEMENT OF DICK FISHER, CRESBARD, S. DAK.

Mr. FISHER. I am Dick Fisher; farmer, rancher, conservationist. I am thankful that you are here and I had an opportunity to get down. I didn't think I was going to make it. You are probably already aware I get involved in a lot of associations and organizations. Today is South Dakota's commemoration of Arbor Day and, as vice president of the Keep South Dakota Green Association, in order to stir up a little interest, I had purchased and offered some trees. I did get them out of cold storage and delivered and a couple of guys agreed to dispense them. My wife agreed to dig the holes and get the trees planted that we were going to plant, and she did make a few notes for me to get down here and bring to your attention.

I deal with this thing solely on my own thoughts, and they are relatively brief. I entered in the subject matter both farm programs and REA authority.

In dealing with farm program questions, two things to me are self-evident. The first is the American farmer has developed the ability

to produce more food than the people of the United States can use and, secondly, under an uncontrolled farm industry, all excess production must find additional market. It seems obvious to me that a farm program will be necessary to offset, when it is needed, this unpredictable foreign market situation.

Due to the loss of REAP and the possibility that those farm programs will continue with the so-called conserving base and set-aside features, some thought must be given to requirement provisions for the proper handling of such acreage.

In the more arid region of the farm belt, fallow is and will perhaps continue to be needed and accepted as a part of the general farm operation. It certainly is as far as mine is concerned. So to prevent wind and water erosion and provide additional aid to good land management and wildlife, I suggest the following requirements on conserving our set-aside acreage.

One, a reasonable percentage of both conserving base and set-aside be maintained in a permanent type of vegetative cover;

Two, that unprotected summer fallow be confined within a width limitation related to the soil types and based on the past knowledge of affected area needs;

Three, that a large percentage of fallow be provided with a winter cover crop, also related to the differing farm areas affected. This could be accomplished at a minimum disruption of farm planning where winter wheat or rye are regularly planted crops, and provide both winter cover for erosion control and full-season, undisturbed nesting areas for desirable species of upland game birds and waterfowl, whether we lose the REAP program permanently or not, we must restrict and govern ourselves in a manner which is conducive to the proper husbandry of land, water, wildlife resources, because this is the only realistic heritage we can leave our future generations.

I have some comments on REA authority if you would like that.

I feel a little spooky when I get into this. As a member of a local cooperative created by REA authority, I don't wish to jeopardize my electrical service by antagonizing what is becoming an urban-oriented U.S. Congress, or my own fellow members of my local cooperative, so I kind of am between the devil and the deep blue sea here, but I suggest continuation of 2 percent loans under carefully screened priorities related strictly to rural needs, in keeping with the original intent of the REA authority, where those money needs are basically rural and basically uncompetitive. I don't think that we should get lost in this concept of actual rural needs. If it becomes necessary, I'd still like to see the money available under emergency type situations.

That concludes my comments. Again, I am thankful for being here.

I have a couple of items of interest in relation to some of the things that the Game, Fish, and Parks were talking about, articles that I have written that more or less explain how my farm operation is conducted in order to more or less benefit wildlife in the process without effecting relative costs. They might be of interest to you if I may leave them.

Senator McGOVERN. We will be glad to have those made a part of the record, Mr. Fisher, and we appreciate your testimony here today.

Thank you so much for being with us.

[The documents above referred to follow:]

FARMING FOR PHEASANTS & PROFIT

[From the January/February, 1968, South Dakota Conservation Digest]

(By Dick Fisher)

Editor's Note: Any wildlife living on today's modern farm is usually an accidental by-product. Bushels per acre—not pheasants—are the main concern and understandably so.

But on Dick Fisher's farmstead, pheasants are as much a "planned" crop as alfalfa seed—and both are successful. Dick and his son, Ron, farm intensively. But they also practice good soil, water and wildlife conservation. Their farm is an abundant example of life—healthy pastures, good crops, and abundant wildlife.

All things have a beginning. In this case, my interest in conservation was due to the efforts of a farm family, the Milton Griffiths. For many years, I, as a young man, worked with the Griffith family and learned their farming philosophy.

They were farmers at heart, conservationists to the nth degree and had a deep and sincere love for the land and all it could provide. They asked of the land only what it could give; they returned as much nutrition as possible and they allowed all wildlife a chance to survive by leaving the necessary habitat for that survival.

How is the habitat provided?

First, my farm has the right topography. There are several dry draws, poor land classes, old tree claims, water dugouts, new tree plantings and shelterbelts and low wet areas congested with cattails, sedges and willows.

All of these areas have been left untouched. They contribute to the abundance of wildlife. Remove any portion of this habitat and the variety of wildlife would decline.

I farm 2,560 acres. About 1,756 acres are in crops and the remaining acres are in pasture or wildlife lands. Our program of "land use" is usually in line with Soil District recommendations which includes strip cropping, sod waterways and legume rotations. Our crop production has remained quite constant with these techniques with no apparent decline in the land's producing capabilities. However, when a field needs a "rest," it is planted to a legume or a legume-grass combination.

Our field work is planned to provide wildlife, particularly pheasants, the following: Adequate nesting and re-nesting cover; water and shade; escape cover from predators; deep winter cover; Winter food (the few times it is needed).

Nesting cover is provided in several ways. Our rye is left undisturbed during the spring, native grasses are mowed only every other year, fence lines are not burned and all dugouts are left relatively undisturbed. The summer fallow work is started before the birds begin nesting.

New alfalfa seedings are not cut the first year, but are used for seed harvest. Thus, this alfalfa is not disturbed until after the nesting season. Older alfalfa fields are not moved until after June 20th, which is usually past the peak pheasant nesting period.

The dugouts are surrounded by willows and cottonwoods. Most of them contain water year-round. Consequently, they provide water, shade and thick stands of sedges and grasses for escape cover from predators. (There have been years when we've had at least four fox dens within a mile of the house and still have had plenty of pheasants.)

Our program for winter cover is adequate, but is still being improved. Food plots consisting of grain sorghum and corn are placed near good winter cover. I have found that winter cover, to be effective, must be quite thick. Otherwise, they become clogged with snow and the pheasants are forced into the open.

The areas described are not costly; they require only some planning. I carry about 100 cows and their calves on the farm and market grain and feeder calves. All of the "profit" land on the farm is used. Wildlife use the unproductive land . . . therefore at little expense to me.

The amount of harvestable wildlife has remained quite high year after year. Even when the neighbors had a storage of pheasants, my farm was alive with

birds. We hunt them quite hard, but have never shot too many cocks. I protect the fox in the spring because I like to see all wildlife. From five to 10 per cent of the deer shot in the county are taken from our farm. Yet, each year their numbers increase.

Basically, the pheasants, deer and other wildlife care for themselves. I have only seen fit to offer a place to live. The income I lose by doing this is minimal; the rewards have no price tag.

Many landowners are vitally interested in providing game habitat on their land as in the case of Dick Fisher in this article. The Game, Fish and Parks Department has a program to assist landowners in which they receive financial assistance from the Game, Fish and Parks Department. The WILDLIFE HABITAT IMPROVEMENT PROGRAM (WHIP), initiated several years ago for this purpose has helped in providing necessary game habitat. Persons interested in participating in this program can contact the Game, Fish and Parks Department for further information. Please address requests to WHIP, Game, Division, Game, Fish and Parks Department, Pierre, South Dakota 57501.

HIS PHEASANTS PAY THEIR BILL

[From The Farmer, Apr. 20, 1968]

(By Dick Fisher)

Editor's note: Dick Fisher, full-time farmer, feels he can justify cost of wildlife conservation. Game is not an accidental by-product. It's a profitable resource worth saving.

Can a farmer afford to contribute to wildlife production without sacrificing too much regular income?

My son and I are convinced he can. We're doing it.

As farmers, Ronnie and I feel a plentiful supply of wildlife is a beneficial side-result of good pasture and land management and a dedicated effort on the part of us, as land operators.

We feel any conservation-minded farmer, who really wants to, can enhance or increase wildlife on his property, and benefit directly or indirectly for his effort.

Our 2,560-acre farm in Faulk County, S. Dak., illustrates my point. About 1,756 acres are in crops and the remainder in pasture and rough land. To my son and me, that "wasteland" is wildlife land. It contains several dry draws, unfarmable areas and old tree claims. We've added water dugouts, new tree plantings and shelterbeds. Low, wet areas, congested with cattails, sedges and willows, have been retained as they were for wildlife.

All my "profit" land is used. But it would cost more than it's worth in money, time and aggravation to make that wasteland productive, so it is left.

Pheasants, being our major wildlife species, get the most consideration in our farm plan. Their main requirements are for nesting areas, food, escape routes from predators, adequate winter cover and perhaps winter food. These we supply at little effort and no loss of production—as can any farmer with an average amount of wasteland.

All waste areas on our farm are untouched. Rye is not disturbed in the spring. Native grasses are mowed only every other year in our low rainfall area. Fence lines are not burned. Tillage on summer fallow is started early—before birds begin nesting. This discourages nesting where nests would be destroyed by field work.

Alfalfa is an excellent nesting habitat, but it is the dangerous place a pheasant can nest. Where possible, delay of mowing until after the first hatch will prevent losses here—but that may not be economically feasible.

To partially get around that problem, first-year alfalfa is not cut on our farm. It is used for seed. Thus, this alfalfa is not disturbed until after nesting. Other alfalfa is not cut until after June 20, which is usually past the peak pheasant-nesting period. Cutting this late, does reduce the protein content of hay, true. But the additional tonnage harvested helps offset this loss, especially when alfalfa is fed to stock cows where protein content is not as critical.

An alternative to late cutting is to leave a round or two on the outside edges

of alfalfa fields. This helps tremendously, since most nests are on the outer edges.

During hot weather, young pheasants need water and shade. We give the birds a hand here by providing dugouts. One watering facility on each section is a good ratio in South Dakota.

Pheasants are persistent. If nests have been destroyed, they will keep trying until some eggs hatch or until the season is over. To help out when this happens, we try to provide re-nesting areas through the wasteland corners. Wild hay is a favorite re-nest cover.

Escape from predators is also provided in the undisturbed waste areas and by allowing some growth around the dugouts. Young birds must have a safe place to hide from predators. Stop birds from being killed by motorists by providing plenty of cover near roadsides. Then, they don't have to cross the road for food, water or shelter.

Food is usually not a problem for pheasants—even in winter in South Dakota. Winter food plots are not an absolute necessity unless most land is fall plowed, as is true in some Upper Midwest areas. Where plowing needs to be done in the fall, or may even be planted at the edge of a slough or waste area. These food plots should be near protective cover.

We protect young fox as well as pheasants and add them to our list of harvestable game, being relatively sure that good wildlife habitat will produce food enough for foxes, whose major diet is rodents. If they get enough other food, foxes will not greatly damage the pheasant population, but they will help you destroy rats, mice and rabbits.

Winter cover must be dense enough and of sufficient size to protect birds from long-lasting blizzards. Tree claims are excellent cover, if they are 15 or more rows wide. Total length is less important than width. Vegetation that is wide enough to withstand several blizzards without filling up with snow insures survival of brood birds.

Ronnie and I plan our farm operations to provide all these needs of wildlife, just as we provide for a good soil and water conservation program. We are rewarded with quality production in our grain and livestock operations and with plenty of wildlife. This satisfaction of producing wildlife has immeasurable self-benefits, even taken alone. But, for us, there are others.

We like to hunt. We harvest what we grow. We also exchange a part of our production with others, with those "profits" taken in pleasure.

We don't actually charge hunters on our farm but we do "trade" with friends in Minnesota's lake country. They come here to hunt. We go there to fish. I guess that would be worth about \$200 to us. I spend 10 to 15 days each season hunting. That's certainly worth \$10 to \$15 per day.

For the farmer who doesn't hunt but who has improved his wildlife habitat and wants a financial return, a portion or all of his harvestable surplus of wildlife can be offered for sale by advertising its availability. Many South Dakota farm families provide lodging, food and sometimes transportation for non-resident hunters. They charge about \$10 to \$15 per day. That can add up to over \$100 cash per hunter for the first week of pheasant hunting. Hunters have put many a South Dakota boy or girl through college.

One year when we were hard-pressed for money, we did commercialize our hunting. At times, we also charge our guests just enough for groceries, so we don't take an economic loss while hosting our hunting friends.

If I still haven't made my point, there's one last argument in favor of my belief that farmers can, and must, contribute to wildlife production. That is this: wildlife belongs to everyone. It's a natural resource; one that can best be conserved through the cooperative effort of farmers. Safeguarding continued existence of wild birds and animals is worth far more than an extra dollar gleaned from breaking out every spare corner and fenceline.

Senator McGOVERN. Mr. Dvorak, is there anyone else in your group who has anything else to say?

Mr. DVORAK. Does anyone have anything else?

Senator McGOVERN. If there are additional statements you want to file for the record, in view of the fact that it is getting kind of late here, we'd be more than happy to keep the hearing record open for

another 10 days and anything you want to submit we will make a part of the hearing record.

Mr. DVORAK. I guess the other statements have been filed for the record.

Thank you again. We appreciate very much the opportunity of speaking here today and being put on record and heard with your comments.

Senator MCGOVERN. As I have traveled around the State here the last week or so, a number of farmers and also elevator operators have expressed some concern to me about the new environmental protection standards. Some of the elevator operators are concerned about what requirements they are going to have to meet on air pollution standards, and some of our farmers and feeders are concerned about what expense they are going to be put to in order to meet certain feedlot standards that are laid down by the environmental protection group, and also where the money is going to come from to help them meet those standards.

I think what I will do is ask the staff to make a synopsis of some of these concerns that we have heard expressed and see if we can't make that a part of the hearing record, not because we have all the answers at the present time but because I think it is important for members of the Congress to know that farmers and elevator operators and others are concerned about these new environmental standards. I'm sure they want us to have a clean, healthy environment, but they also want to see some rural environmental assistance money released to help meet some of these requirements, and I am sure you have encountered similar inquiries with the people with whom you deal around the State.

Mr. DVORAK. Yes, very often.

Senator MCGOVERN. I would like to ask our staff to see that that concern is expressed, that we get a summary of these expressions that have been made to us as we have moved around the State the past week, and also some that have been repeated to me here today.

Thank you ever so much for your presentation this afternoon.

Is there anyone here from the Aberdeen Chamber of Commerce's Agricultural Committee?

If not, then our hearing is complete.

I do want to thank all of you who have stayed with us during this rather lengthy day. I think it has been a most fruitful and productive day for the Senate Committee on Agriculture, and a day that is going to be very helpful to the farmers of South Dakota and of the Nation as a whole.

We have had hearings similar to this one conducted by other members of the Committee on Agriculture in at least four other States to date, and we are compiling an extremely valuable record that's going to be helpful to us as we begin the markup of the farm bill next week.

So, thanks to each of you who has testified, and let me say for the public record that, if there are others who have not testified and want an opportunity to do so, or those of you who were here today who want to elaborate on your statement, at least for the next 10 days, this record will be open for additional material that you wish to file.

Thank you so much. The hearing stands adjourned.

[Whereupon, at 5:10 p.m., the hearing was adjourned, subject to call of the chair.]

[Additional statements filed for the record are as follows:]

PERKINS COUNTY, S. DAK.

Hon. SENATOR MCGOVERN: With so many of our farmers having recently being forced to pay very high prices for land, livestock and equipment—mostly purchased with borrowed money, demanding high rates of interest, it is so very necessary to have continued farm legislation. New legislation should be improved but at least let us have an extension of our present legislation including R.E.A.P.

The older, well established farmers are by and large out of debt and may be able to get by on these speculative markets but the young farmers (the people we need the most in our rural communities) will fall by the wayside after the first misfortune or first crop failure unless we have Government programs to at least guaranty cost of production.

We will need at least:

1. A continuation of the R.E.A.P. program. The consumer should realize that unless we conserve our soils for future production, food prices will eventually rise by leaps and bounds.

2. An improved wheat & feed grain program.

3. F.H.A. and R.E.A. financing are a must.

4. C.C.C. commodity loans and resale programs must be continued. Lets let the Ever Normal Granary theory work. The Commodity situation is very serious now since the Sec. of Agriculture has determined that producers must delivery all C.C.C. grain this spring. Transportation facilities can not be expected to handle an unusual situation such as this. Our local Co-op Elevator has been unable to purchase any farm stored grain in 1973. They still have 250 thousand bushels of warehouse stored grain which must be delivered before they can purchase any farmer grain. At the present rate of delivery it will be mid September before they can buy any grain. The least the government could do would be to pay the farmer storage until he can obtain a market. The present so called extension is a joke as the producer must continue to pay interest on his loan but can not collect storage on his commodity after maturity of his C.C.C. loan.

OLAF M. ANDERSON.

STATEMENT OF EMIL LORIKS, ARLINGTON, S. DAK.

As a lifelong farmer since returning from World War I, I appreciate this opportunity to make a statement about the situation in Agriculture today.

Indications are that we now face an era of dismantling and elimination of farm programs that have been developed over the past forty years. This spells tragedy for rural America. Instead of eliminating farm programs we should concentrate on improving them as our S.D. delegation in Washington strives to do, and I cite in this connection farm legislation sponsored by Congressman Frank Denholm. It deserves careful consideration and support

I received in the mail yesterday notice from the Agriculture Stabilization and Conservation Service (Kingsbury County ASCS Office in De Smet, S.D.) that there will be no resale of grain under loan to CCC, and that I have only two options—to deliver—or to repay! This sweeping order is most unfortunate!

This unprecedented action by USDA is manifestly unfair, and I believe it was stated at the time this policy was evolved it was for the purpose of bringing farm prices down! It seems to me a cold blooded attempt to liquidate the grain farmer, of which I am one, who presently is receiving only 63% of parity in the marketplace! We are told to rely on the free market! I remember going into farming after World War I, the glorious days of the free market, and I can remember the market card at the local Farmers Elevator in Hetland, S.D. when No. 2 yellow shelled corn was listed at 2 cents per bushel and ear corn was 3 cents less. In those days, 1932-3 we burned corn and wheat for fuel because it was much cheaper than coal.

The young Executives Committee of the USDA that recommended phasing out of farm programs, is doubtless composed of members who were not even

born in those days, and they should study the history of agriculture in the thirties, when bankruptcies, mortgage foreclosures and evictions and dispossessions of farms and homes were the order of the day, before attempting to formulate policies that could again bring such disaster to our greatest industry in America.

Calling in all grain under loan to CCC is unfair also when marketing facilities are unable to handle this grain and it is unfair to producers who have been encouraged to build storage facilities to provide storage on the farm to carry reserves for an ever normal granary which has been perhaps the most important part of our farm program. Many farmers have been encouraged to borrow to build grain storage facilities! It seems to me the orderly process would be to call in only a portion of the grain under CCC loan each year and provide continuity to the program, and especially is this imperative now with the paralysis in transportation (lack of box cars) and the absurd attempt to market several years of crops at once. This is extremely unreasonable and is just another sign that points to disaster for farmers. Storage should be paid on CCC grain until marketing is possible!

While other segments of the economy have been leap-frogging in the inflation rat race for the past 20 years, farm prices remained stagnant or lower than 20 or 25 years ago, yet no concern was shown over the fact that farmers income was depressed, not that the cost of things he must buy climbed 300% or 400%, as in the case of machinery and repairs. No ceilings on those prices.

A House Agriculture Committee staff report, released in March shows that overall farm prices for food have increased only 6% above what it was 20 years ago. At the same time wholesale food prices have jumped 20% and retail prices up 43%. The study shows further that agricultural productivity has increased 330% which compares with only 160% per man hour in manufacturing industries. The farmers have been penalized for efficiency!

When one sector of agriculture (livestock) finally reached 100% of parity screams of anguish are heard across the land and price ceilings are ordered!

We hope Congress will meet the challenge, and meet the threat to our most essential of all industries—agriculture! We need farm programs to protect the family farmer in the future as well as in the past.

STATEMENT OF THOMAS SKOOG, PRESIDENT, BOARD OF DIRECTORS, WHETSTONE VALLEY ELECTRIC COOPERATIVE, INC., MILBANK, S. DAK.

My name is Thomas Skoog and I'm representing Whetstone Valley Electric Cooperative's 1,906 members as their President of the Board. Our cooperative serves Grant and Roberts Counties in the northeast part of South Dakota. We have constructed and maintain 1,209 miles of distribution line to serve our members with electrical energy at a price comparable to what their city cousins pay.

One hundred and twenty days have passed since the administration by a stroke of a pen terminated a congressional act. One that is written in the history of our great country, that has done more for and has cost the tax payers less than any other act passed by we, the people, through our congressional representatives—the Rural Electrification Act of 1936 and as amended in 1944 by the Page Act, which provided that the rural electric cooperative systems would extend service to all unserved persons within their service area boundaries who desired electric services, and for this we were to receive needed funds at the set interest rate of 2 per cent. The cooperative signed a contract with their government agreeing to these terms regardless of the cost and to serve all persons regardless of their religion, color, race or creed. This act has not been amended or rescinded by we, the people, through our congressional representatives—that I'm aware of.

Our cooperative was informed some time ago by REA that we would have to make plans to obtain some of our capital from a source other than REA. They stated the appropriations from Congress would not be sufficient to fund all requests for loans needed by the rural electric cooperatives. Their method to determine the amount or per cent that a cooperative can borrow is figured on a tier (times interest earned ratio) and DCS (debt service coverage) of the cooperative. Our cooperative's tier and DSC placed it in the category that 70 per cent could be borrowed from REA at 2 per cent interest and 30 per cent of the capital needed would have to be borrowed from another source at a higher interest rate.

This REA department action, though never amended to the Rural Electrification Act by we, the people, through our congressional representatives, was never challenged, but accepted by the majority of the rural electric cooperatives because funds were desperately needed by those that were expanding by leaps and bounds. Our voices were soft in objecting to these changes for the good of the program. But this Executive Order handed down on December 29, 1972, if not reversed, will have a drastic and lasting effect on our cooperative, as well as, the community because our expansion is limited. Our forecast and trends show that we probably will lose 125 farms in the next 8 years, while only gaining 140 seasonal members and 200 rural residential homes. Our average farm revenue estimate for 1980 is \$561.36, so losing those farms will mean \$70,170 in lost revenue in one year, while the 140 seasonal members will be a gain of \$54.48 annual revenue average for each one equaling \$7,627.20. The 200 rural homes will pay an average of \$280.32 energy bill equaling \$56,064 revenue. This means that by losing 125 farms and gaining 340 new members that we will lose only \$6,500 in revenue not counting the expense to serve them.

There were 39,000 fewer farms in the United States last year than in 1971, as larger farms continue to absorb the smaller ones and dispense with the needed electrical service, according to the Agriculture Department. Of those 39,000 lost, our cooperative had 16 of them. In our sparsely settled area of 1.75 consumers per mile, each one leaves it mark.

The needs of our members will require Whetstone Valley Electric Cooperative to obtain additional capital in loan funds of \$1,053,000 to provide adequate and dependable service through 1971 at the cooperative level.

At the present time it is hard to assess the total added costs to our members for this drastic 150 per cent increase in interest on monies needed by our cooperative and other organizations we belong to such as East River Electric Power Cooperative and Basin Electric Power Cooperative.

We know that monies needed by the cooperative will cost our members \$103,551 more in interest on the amount of \$737,100 that will be borrowed from REA and \$71,188 estimated added cost in interest on \$315,000 to be borrowed from other lending sources. This brings the total added cost of interest on monies needed through 1981, just by the cooperative alone, to a staggering added burden of \$174,739 more in interest costs to the consumer, when the interest is raised to 5 per cent.

The continuation of low interest rate on monies is vital in meeting the needs of our members in their power requirements in the years ahead as well as to keep the cost of service at a level where they can continue to buy electrical equipment from the rural area business people which will assist in maintaining the economy level of rural America.

We have arrived at the crossroads. It is the responsibility, though few will exercise it, of every American to challenge the administration's termination of congressional acts. We must become concerned when we read remarks made by speakers who represent the administration. Since the termination of the REA 2 per cent direct loan program, many misleading comments and statements regarding figures pertaining to the rural electric cooperatives bring to mind the old phrase that "figures don't lie, but liars figure." I believe that we should add two words to this phrase to protect the innocent, the ignorant or the dilettantes. The phrase should read figures don't lie, but liars figure and misinform.

Facts show that these people representing the administration have been misinformed to make statements and comments that stretch the truth till it hollers.

We urge everyone to work with their congressional representatives and other congressional leaders to return our constitutional government to we, the people, and not let one man take it from us.

HOW TO BRING FOOD PRICES DOWN

[From the Wall Street Journal, Jan. 16, 1973]

(By Hendrik S. Houthakker)

Mr. Houthakker, professor of economics at Harvard University, formerly was a member of the Council of Economic Advisers under President Nixon.

An editorial on this subject appears today.

The administration has reacted quickly to last month's explosive rise in the agricultural component of the Wholesale Price Index, which brought an end to remaining hopes that wage-price controls could maintain the downward trend in the inflation rate prevailing since 1970.

With the scrapping of most of the general control program, it has also been recognized at last that farm prices are completely out of hand. And, for once, there was no brave talk about extending price controls to raw food-stuffs, which would be largely impractical.

Food wholesaling and retailing are generally competitive and remain under partial control and in most of the primary agricultural markets a rationing system would have to be introduced if prices were no longer allowed to balance demand with supply. The only way to prevent farm prices from going through the roof is to increase the supply. The White House announcement of January 11 confirms that this is now administration policy, though it is not yet clear how much will actually be done.

There is nothing mysterious about the rise in farm prices. Domestic demand has been increasing at its usual rather slow rate, while foreign demand has strengthened recently because of poor crops abroad. The supply of farm products, however, has been unable to keep pace with this increase in demand, primarily because it has long been government policy to keep farm supplies down. In this respect our farm policy is still largely influenced by ideas of the 1920s and 1930s, when the traditional belief in a tendency toward overproduction became established. Although there has been some progress toward a more rational farm policy in the last few years, this unfounded belief continues to carry much weight with rural politicians. The accumulation of surpluses during the 1950s was actually the result of maintaining artificially high prices, but it was interpreted as grist to the mill of the overproduction school. As a result, our policy for the basic crops during the last ten or fifteen years has been based on the principle of paying farmers for not producing. It is this policy which has brought us to our present predicament, first the temporary surpluses disappeared, now actual shortages are emerging.

THE 'SET ASIDE' PROGRAM

The first signs of trouble appeared in 1970, when the corn blight threatened to reduce our own feed grain supplies below the danger point. Nevertheless, the policy of output restriction, now incorporated in the so-called "set aside," was continued, and with the surpluses gone, the markets have become extremely vulnerable to changes in demand. The most effective measure that could presently be taken is a drastic liberalization of the 1973 feed grain program. Although this program was announced after the election at a time when feed grain prices were already soaring, its provisions were yet another manifestation of the outdated restrictionist thinking with its characteristic failure to take the public interest into account.

Assuming average yields, the feed grain production envisaged for 1973 under this program is no greater than in 1972, thus virtually guaranteeing a continuation of present high feed grain prices and consequently of high meat prices. If bad weather or blight reduce 1973 yields below average, a possibility that can hardly be ruled out, a further large price increase is in the cards. Since feed grains have not yet been planted, there is still time to eliminate the "set aside" for 1973, and thereby provide greater assurance of adequate supplies. Although the administration's announcement of Jan. 11 talks about the possibility of doing so, even now a definite decision is being deferred until more statistics become available, perhaps as late as March. By that time it may well be too late.

In the case of wheat, where an even more restrictive program was proclaimed last fall, it is already too late to do much about winter wheat, but spring wheat production can still be stimulated, and the administration has now moved in this direction. The world-wide shortage of wheat also gives us an excellent chance for strengthening our position in that market if we have enough to sell. Eliminating the set aside for grains should also have a favorable effect on soybean production, which has been insufficient in recent years.

Another measure that will now apparently be taken is to adopt a new inventory policy. Just as for years we have tried to keep farm output down, so we have also tried to keep stocks away from the market where they might depress prices. The inventories in government hands are no longer large, but what

there is could be used more effectively to restrain food price increases. By selling most of its stocks in the open market, the Commodity Credit Corporation could have a major impact on spot prices. If at the same time future contracts for delivery in the next year were bought, this could be achieved without depriving the nation of necessary emergency reserves. The CCC would then continue to bear most of the inventory risk, but would make its physical stocks available. If substantial inventories are held in the private sector, they will keep price rises in check, and the government will save storage charges. In the case of corn, for instance, the spot price is more than 10%, over the futures price for delivery in December 1973. By exchanging as little as 50 million or 75 million bushels of corn for December or March futures, the CC could probably bring spot prices down appreciably without raising futures prices by an equal amount. The same could be done in wheat and cotton. But even if the CCC sales are not matched by purchases of futures they will be useful.

Apart from inventories owned by the CCC there are also considerable amounts of grain under "reseal," that is, under loan from crop years prior to 1972; on November 30 these included some 500 million bushels of corn and 245 million bushels of wheat. It appears that these reseal agreements are now being terminated, though not as quickly as they might be. This should induce farmers to sell their grain in the free market rather than keep it in the loan in anticipation of future price rises. Provided 1973 output restrictions are removed, there need be little fear of a squeeze on supplies in the 1973-74 crop year.

Letting the private sector carry most of the farm inventories will also have a favorable impact on another problem area, namely export sales, especially to Communist countries. As far as one can tell, there was no gross impropriety in the unsatisfactory grain sales to the Soviet Union this summer, but there obviously was mismanagement resulting in part from the dependence of private traders on government-held inventories. If inventories were held in the free market, government agencies could stay out of these transactions, for which they appear to have been poorly prepared.

ALLEVIATING THE PROBLEM

A number of other things, some of them long overdue, are now being done to alleviate the food price problem in the near term. The suspension of import quotas on beef was a step in the right direction, but there are still other import quotas that could be liberalized. The operation of marketing orders, which are especially important in milk and in certain fruits and vegetables, should be more closely supervised to ensure conformity with anti-inflationary policy and with consumer interests generally. Some of these marketing orders permit practices that would be illegal in any other industry; as a result the price of tomatoes, for instance, is probably two or three times as high as it would be in a free market. Perhaps the most important farm measure announced on Jan. 11 is one that brings agricultural program decisions under the control of the Cost of Living Council. Like most regulatory agencies, the Agriculture Department has long been dominated by the industries it is supposed to supervise, and as a result it has all too often lost sight of the interests of consumers and processors and of the need to curtail inflation. Recent price developments have shown once more that agricultural policy is too serious a matter to be left entirely to the Agriculture Department.

These developments also show that the tremendous productivity of American agriculture is not something to be suppressed by expensive government programs, but rather something to be fostered as one of our greatest national assets. Since the Agriculture Act of 1970 expires this year, we have an opportunity to adjust our farm policy to the realities of the 1970s rather than the overproduction myth of a generation ago.

While there are still many poor farmers, who can be taken care of by welfare, the general income of the farm population has improved to the point where income support for crop producers is no longer justified. On the better managed family farms in the Great Plains gross revenue in the current crop year probably has approached \$200 per acre. Even at \$100 per acre these farms would probably give an adequate return to labor and capital, so they are now extremely profitable.

Because of the fluctuating nature of farm income one should not conclude too much from the results of a single year, but the fact remains that the average taxpayer with an income of about \$10,000 a year is now subsidizing quite

a few farmers with incomes of as much as \$100,000 per year; family farms with 1,000 acres or more have become quite common.

Moreover, it can no longer be said that the subsidies are necessary to assure us of cheap food. Being linked with output restrictions, they do just the opposite. The new farm programs we need may still involve some government involvement to prevent excessive price fluctuations, but they should get away from output restrictions and income support to commercial producers. It must be hoped that the emphasis on adequate supply in the Jan. 11 announcement will be carried over into the new farm legislation.



