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CONSUMER AND AGRICULTURAL PROTECTION  
ACT OF 1978

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON  
AGRICULTURAL PRODUCTION, MARKETING,  
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,  
NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

S. 2626

A BILL TO PROVIDE PRICE AND INCOME PROTECTION FOR  
AGRICULTURAL PRODUCERS BY ASSURING SUCH PRODUCERS  
A PRICE FOR THEIR AGRICULTURAL COMMODITIES OF NOT  
LESS THAN THE COST OF PRODUCING SUCH COMMODITIES;  
TO ASSURE CONSUMERS AN ADEQUATE SUPPLY OF FOOD AND  
FIBER AT REASONABLE PRICES; AND FOR OTHER PURPOSES

MAY 22, 23, AND 24, 1978

Printed for the use of the  
Committee on Agriculture, Nutrition, and Forestry



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# CONSUMER AND AGRICULTURAL PROTECTION ACT OF 1978

MONDAY, MAY 22, 1978

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,  
MARKETING, AND STABILIZATION OF PRICES OF THE  
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:05 a.m., in room 324, Russell Senate Office Building, Hon. Kaneaster Hodges, Jr., presiding.  
Present: Senator Hodges.

## STATEMENT OF HON. KANEASTER HODGES, JR., A U.S. SENATOR FROM ARKANSAS

Senator HODGES. The hearing will come to order. We are here today to consider Senate bill 2626. I, particularly at the beginning, want to thank the chairman, Mr. Talmadge, who assisted in setting up these hearings, and also Senator Huddleston, who is chairman of this subcommittee. He is campaigning in Kentucky; his primary will be tomorrow and, of course, he is unable to be here. I am particularly grateful to those two men.

I have a statement which I will read about the bill itself. I would like to preface it by saying that there are many, many farmers who would like to be here, present at these hearings, but I assume everyone here knows something about agriculture. I see some people here who know a great deal about it, because they are farmers themselves, and they know that this is the critical time on a farm. It is even more important than the harvest, because if you do not get planted, there is nothing to harvest.

So, many farmers who wanted to be here could not; particularly in the Midsouth area, we have had tremendous problems with excess rain, and they are replanting now; the sort of problems farmers seem to go through every year. And those who are here, I know, are here at considerable sacrifice to themselves.

On March 2, 1978, Senator Dale Bumpers of Arkansas and I introduced Senate bill 2626, the Consumer and Agricultural Protection Act of 1978. An identical bill, H.R. 11262, was subsequently introduced in the House by Congressman Ray Thornton of Arkansas. These hearings are to elicit and develop testimony about the provisions of this bill in the hope of establishing its concepts as the guiding principles of future U.S. agricultural policies.

The bill creates a comprehensive farm program which differs significantly from the various farm programs currently in force. It is a new look at agriculture, and it is a direct result of the dire economic problems which beset the agricultural sector of our economy in 1978.

The years of 1977 and 1978 have seen the Nation's farmers squeezed by low farm commodity prices and relentless cost increases for all kinds of production inputs. In the fall of 1977 and the spring of 1978, the farmers protested, forming loosely knit organizations which attempted to bring the farmer's plight to the Nation's attention and which sent representatives to lobby for help in Washington.

For a brief time, the farmers were successful. Although they never truly reached the public, the farmers succeeded in galvanizing the Congress into considering legislation designed to utilize existing farm programs to bring economic relief for agricultural producers. These successes however were quickly turned into defeat, as the administration succeeded in utilizing a threatened veto with a successful public relations campaign to keep the proposals from ever leaving Congress. A brief, limited relief measure was finally passed, but most producers consider it too little and too late.

I would like to deviate for a moment from my statement and say that the thrust of the administration's concern has been in the area of production loans. And these are fine, except that the essential, basic problem that farmers have is receiving sufficient income to repay any loans. And therefore, I think that any program must look to producing additional income for the farmer, and not for those on the periphery of farming.

I also would like to say that most farm programs—and indeed the 1977 farm program—do not seem to be oriented toward or basically help the average farmer. You have to look at the problem of the individual who owns his land separately from those engaged in farming itself for a living. And I think anyone who knows or understands anything about farming will realize that those that are engaged in farming itself, and are not simply living off the equity in their land, are in very difficult circumstances.

There are those—and I include among them the Farm Bureau—who seem to think that the 1977 Farm Act is sufficient and will work, and I know that is the position of Secretary Bergland and many of those in the Agriculture Department. We have had some 5 or 6 years now of free trade, the so-called "free trade" approach, and it simply has not worked. Those that are naive enough to believe that we exist today in an atmosphere or in an economy in which there are no restrictions on agriculture are living in a fool's paradise.

There are enormous, indirect restrictions on farming. Our Government is engaged in making loans overseas and increasing productivity overseas, which directly impacts on our American agricultural economy. Our Government, in addition, has consistently failed to bring down barriers overseas in important trading areas, such as Japan. We have almost unlimited availability of our markets to Japan for various products, but when we turn around and try to send our agricultural products into Japan, we either encounter strong levies or an absolute refusal to let them in.

We are one of the few countries and the only major industrial country that does not protect its own agriculture. And for those that talk

about a free market, I suggest that their interest is in more than simply the local producer. Our farm bills, in my personal opinion, have been written by and primarily benefit those that are in processing, those that are in shipping, and those that are in other areas of agriculture. They benefit the least and impact the hardest on those that are the basic producers. And I simply suggest that if you do not believe this to be true, look at the facts: Effective farm income for those that are producers is at its lowest level since the thirties, and does not appear to be on the increase.

As a personal statement: I am a landowner; I own substantial amounts of land, much of which I began to buy in 1967 and 1968. Landowners are not adversely affected by these current conditions because our costs have not increased. It is the people that farm that are bearing the brunt of what is happening in American agriculture. Landowners will survive, the processors will survive, the shippers will survive, the exporters will survive, but many, many farmers—those that earn their living from producing crops, or cattle, or meat of various kinds—are in difficulty.

Now, there are some farmers who are beginning to do well, but they will do well at the expense of other commodities. I think one of the greatest benefits of S. 2626 is an effort to look at all commodities together, because traditionally what we have done in agriculture—and it is almost written into our policy—is to transfer the problem from one commodity to another; as prices go low in one commodity, such as wheat, you see the transfer of enormous acreages over into another commodity which therefore drives the price low in that commodity. I have said time and time again that if you view American agriculture as a single body, Government programs are, in effect, taking a transfusion of blood from one arm, walking around the table and putting it in the other arm and assuming that you have done some good.

Our cattle industry has suffered tremendously over the last 3 or 4 years; I know, because I can testify personally about that. It is now going up, but it will not stay up very long because our Government is already considering measures to allow more beef to be imported into this country because of pressure from consumers.

S. 2626 is inflationary, but any bill to increase farm income is inflationary—it has to be by its very nature. But the farmers of this country have been the frontline soldiers in the battle against inflation for the last 4 or 5 years, and many of them are casualties who will no longer be able to participate. Farmers' debt has doubled in the last 3 or 4 years, and income has decreased significantly. Most farmers are essentially bankrupt, if you take away the only asset many of them have, and that is their land.

The mentality in farming has been such that most of the people in this country on the bureaucratic and the Government side somehow think they ought to be satisfied with whatever they get, 1 good year out of 3. I suggest that we look at other nations, and we will find that no other nation has treated its agricultural sector like we have ours; look at the price supports all of them have for their agricultural products, and the protection they give them in terms of tariffs and indirect tariffs.

I am all for increasing markets overseas, and I think that is a great concept and it is important, but you cannot long exist when your policy

is to open your doors to almost anything that comes in and let your neighbors keep their doors closed. The Japanese seem to have almost unlimited access to our markets, and yet they will not allow our beef in their country, and they will not allow our rice in their country; their threshold price on wheat is \$7 and something a bushel; their threshold on other commodities is even higher. And, yet, we have a deficit trading balance with Japan.

The European Economic Community keeps many of our products out of its domestic markets. In private discussions I have had with some of their people, they say, "We will not even talk about talking about dropping the barriers"—it is that sensitive an issue in the European Economic Community. And, yet, our Nation continues to go blindly along, willing, I suppose, to let our farm economy sink deeper and deeper.

I feel very strongly about it. I do not think our farmers have had an adequate voice in the making of agricultural policy, and I say agricultural policy in this country has been cheap food, and it continues to be cheap food, and the laws themselves are designed to make it so. The target price concept should be abhorrent to anyone concerned about free enterprise.

The Farm Bureau issued a statement Friday, which I will deal with in considerable detail down the line. I am a member of the Farm Bureau. I have been in the past and intend to continue to be a member in the future. But I suggest strongly that they need to reconsider and look at S. 2626 and other farm legislation. Any farmer should realize that the effect—whether it is the motive or intent or not, I do not know—but the effect of target price legislation is to put a lid on the market; it is a direct subsidy, and it is of benefit not to the farmer himself, but to those who are looking for cheap products in volume, and it works that way.

And, lastly, those who are involved in agriculture at the farming level should realize that they are on the edge of some additional, substantial increases in the cost of farming. It is inevitable within the next 12 months that fuel is going to go up. Indeed, the entire principle on limiting demand is to increase price, and that is the thrust of the energy package. For those in farming, therefore, I suggest that you are going to find that your fuel is going to go up; I suggest that steel is going up now, and it will eventually translate into higher prices for tractors and such, and therefore, the cost of producing your crop is going to be greater 1 year from now than it is today.

So, more difficult times are ahead in terms of cost control, not easier times.

Now, S. 2626 has three major concepts, and I am assuming that everyone here is familiar with it. I am not going to actually speak all my statement; I will put in the record in its entirety when I finish.

There are a number of changes which will be made. Some of the prices that you find in the present bill we are reducing somewhat. There will be other amendments by the end of the hearings, which are scheduled now to go through Wednesday.

S. 2626 is a farmer and ranchers' bill; it is for producers. It is not a bill that will make happy those who have other interests. It is a bill to protect farmers. And for that reason, any farmer I have talked with that understands it likes it. Now, there is disagreement with some

in the American Agricultural Movement who feel that it does not go far enough and that the prices in it are not high enough. But I think these are realistic prices.

S. 2626 is cosponsored by Senator Hatch of Utah, Senator Church of Idaho, Senator Eastland of Mississippi, Senator Abourezk of South Dakota, Senator Hollings of South Carolina, Senator Magnuson of Washington, Senator Sasser of Tennessee, Senator Baker of Tennessee, Senator Randolph of West Virginia, Senator Bayh of Indiana, and Senator Nunn of Georgia.

I think it is a good bill; I think it contains good concepts. It was put together essentially by farmers and ranchers themselves over a period of several months. Many of those will be here to testify.

The farmer must have additional income. He is the only member of our economy that is consistently asked to produce and sell at less than what it cost him to make the crop. Now, there are those who would say, "Well, we are for free enterprise," or there are those who would say, "Well, we are sure this is too much control." First of all, there really is not that much control in the bill, and I suggest that you read it and compare it with the present controls. Second, the bill puts the farmer himself essentially in control of his own destiny, which he absolutely does not have now. But, lastly, I suggest that you look at other areas of our society, and you will discover that there is Federal legislation which puts a floor under steel; there is Federal legislation which puts a floor under airplane prices, and under trucking routes. All across this economy of ours, sector after sector has built-in protection—Federal employees, by the minimum wage—and, yet, agriculture has to suffer \$1¼, \$1½ wheat prices. And the reason has been simple—because farmers have been unwilling to demand what other areas of the economy long have had, and that is some reasonable floor under what they are doing.

Now, there are those in Congress and those in the administration who accept as inevitable a continuing decline and decrease in the farm population. I suggest that those who want to solve the problems of the cities look and see where the problems of the cities came from. The problems of the cities being experienced right now, and within 10 miles of this room, are the direct results of ignoring the rural economy of this country. People left the farms in droves in the thirties, forties, fifties and into the sixties and came to the cities looking for work, and they swelled the welfare rolls, causing tremendous strains and pressures in our cities. You cannot solve your problems in large cities unless you also solve the problems in the rural areas.

In 1977, according to Time magazine, the United States lost 454,000 more people from the farm population. The projections for 1978 are comparable. These people go into the cities and cause additional problems there.

I reiterate: We are the only major industrialized Nation that fails to protect its farmers. Nothing—and I repeat—nothing has been done yet by this Congress to make any significant impact on farm income, and the prices of commodities are still not up sufficiently to cover the cost of production to the average farmer; no commodity is at this point, outside of, probably, rice, and its outlook is bleak.

So, I do not think anything has been solved. I think there is still a strong need for Senate bill 2626.

I would like to ask that the balance of my remarks and the text in full be put in the record, and I will furnish that.\*

At this point, I wish to place the text of S. 2626 in the record, with the caveat that a few minor changes in wording will be added prior to its consideration by the full Senate Agriculture Committee. In addition, I will also place an economic analysis of S. 2626 in the record. Members of my staff have "costed-out" this proposal using computer studies and standard statistical analysis. Their research has revealed a most important fact: In terms of direct cost to the Government, the program proposed by S. 2626 will cost less than the present farm programs.

[S. 2626 (with suggested changes by Senator Hodges), an economic analysis of the bill submitted by Senator Hodges, and a staff explanation of S. 2626, as introduced, follow:]

U.S. SENATE,  
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,  
*Washington, D.C., June 13, 1978.*

HON. HERMAN E. TALMADGE,  
*Chairman, Committee on Agriculture, Nutrition and Forestry,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The hearings on S. 2626 were held on May 22, 23, and 24. These hearings provided helpful testimony about the concepts of the bill, and furnished new information unavailable when the bill was drafted.

Mr. Chairman, in light of this new information and because the bill contains some provisions we have intended to change, mentioned explicitly in the hearings, I wish to request that, solely for the hearing record, the copy of the bill included in the hearing record contain certain changes made to reflect this new information and to reflect intended changes. I cannot emphasize enough that this action is taken solely for an accurate and informative hearing record. For purposes of markup, of course, the bill which will be considered by the Agriculture Committee will be that introduced by Senator Bumpers and myself.

Your kindness and assistance in this manner will be greatly appreciated.

Sincerely yours,

KANEASTER HODGES, Jr.

[NOTE: Matter shown in black brackets is as introduced. Matter shown in italic denote suggested changes.]

[S. 2626, 95th Cong., 2d sess.]

A BILL To provide price and income protection for agricultural producers by assuring such producers a price for their agricultural commodities of not less than the cost of producing such commodities; to assure consumers an adequate supply of food and fiber at reasonable prices; and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Consumer and Agricultural Protection Act of 1978".*

FINDINGS

SEC. 2. Congress finds that—

(1) agricultural production in the United States is the foundation of many industries and generates extensive domestic and foreign commerce;

(2) a strong, vigorous agriculture is essential to the welfare of the United States;

(3) the agricultural producers of the United States are the most efficient and productive farmers in the world and that status must be continued;

(4) at the present time the agricultural producers of the United States are faced with major economic problems; they are deeply in debt, receive prices for their commodities which do not recover the cost of producing such commodities, and are without any means of escaping agricultural

\*See p. 131 for the prepared statement of Senator Hodges.

cycles of overproduction which drive the level of return on their agricultural investment below subsistence levels;

(5) direct and immediate economic relief is required to prevent irreversible changes in the character of the agricultural producers in this Nation because many farm operations are being forced into bankruptcy and the owners of many other such operations are abandoning agricultural production for other means of earning a livelihood;

(6) current agricultural policies will not provide the infusion of money and market stability necessary to reverse the disastrous economic plight of agricultural producers;

(7) producers of certain agricultural commodities have been seriously injured by extensive imports of such commodities;

(8) strong and consistent export policies which have benefited agricultural producers of the United States in the past by providing markets for the Nation should be instituted; and

(9) agricultural producers should and must have a voice in the policies of the United States which directly impact on their livelihood.

#### PURPOSES

*(1) to provide prices for agricultural commodities equivalent to parity and to raise agricultural income to levels comparable with income levels of other sectors of the U.S. economy;*

(NOTE: Original paragraphs (1) through (6) are redesignated as (2) through (7).)

(2) to provide to agricultural producers an equitable price for their agricultural commodities calculated on the basis of the comprehensive cost of producing such commodities, without regard to whether such commodities are sold for consumption in the United States or for export;

(3) to provide for a national reserve of certain agricultural commodities;

(4) to provide effective representation of agricultural producers in the formulation of the policies of the United States which affect agriculture;

(5) to regulate the import and export policies of the United States to insure that domestic agricultural producers receive a price for their commodities based upon their comprehensive costs of producing such commodities;

(6) to curtail or eliminate from the domestic agricultural economy the transfer of unfavorable economic conditions from one agricultural commodity to another; and

(7) to provide price stability in domestic and foreign markets for agricultural commodities which will result in equitable prices to producers for such commodities and at the same time reflect the comprehensive cost of producing such commodities.

#### DEFINITIONS

##### SEC. 4. For the purposes of this Act—

(1) the term "Secretary" means the Secretary of Agriculture.

(2) the term "United States" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, and the territories and possessions of the United States.

(3) the term "specified commodity" means wheat, corn, grain sorghum, barley, oats, dry beans, rice, soybeans, cotton, sugar, cattle (except dairy cattle), calves, hogs, poultry, and milk and dairy products.

(4) the term "producer" means the original producer of any specific commodity, whether produced for himself or produced under contract or agreement for another, and includes any individual partnership, firm, joint-stock company, corporation, association, trust, or estate engaged in the production of one or more agricultural commodities.

(5) the term "Department" means the United States Department of Agriculture.

#### NATIONAL BOARD OF AGRICULTURE GOVERNORS

SEC. 5. (a) There is hereby established a board to be known as the National Board of Agricultural Governors (hereinafter in this Act referred to as the "Board").

(b) The Board shall be composed of twenty-one members appointed by the President as provided in subsection (c). The terms of the members first taking

office shall expire (as designated by the President at the time of appointment) seven at the end of one year, seven at the end of two years, and seven at the end of three years. Thereafter the term of office for all members shall be three years, except that the term of any person appointed to fill a vacancy on the Board shall be appointed only for the unexpired term of his predecessor.

(c) (1) One member shall be appointed by the President from each of the twelve Farm Credit Districts of the United States to represent the interests of producers of agricultural commodities. The appointment in the case of each such district shall be made from among nominees submitted to the President from such district as provided in subsection (d).

(2) Three members shall be appointed by the President from among nominees submitted by the Secretary as provided in subsection (e).

(3) Two members shall be appointed from among persons nominated by consumer organizations.

(4) Two members shall be appointed from among persons nominated by organized labor.

(5) Two members shall be appointed from among persons nominated by business organizations.

(d) Nominees for appointment to the Board from the Farm Credit Districts of the United States shall be selected as follows:

(1) Each county committee (established under section 8(b) of the Soil Conservation and Domestic Allotment Act) of each State within each Farm Credit District shall select three nominees from among its members and designated alternate members. The members and designated alternate members shall have equal voting right for such purpose.

(2) The producers of specified commodities in each county shall elect one of the nominees referred to in paragraph (1) to represent such county in a State Convention called for the purpose of selecting a nominee from the State concerned for appointment to the Board.

(3) Each such State convention shall select a nominee for appointment to the Board from the Farm Credit District in which the State concerned is located. One of the nominees from each of the Farm Credit Districts shall be appointed to the Board by the President. Each such State convention shall establish its own procedures for selecting its nominee.

[(e) The Secretary shall nominate for appointment to the Board six persons to represent the interest of specified commodities not adequately represented by persons appointed under subsection (c) (1). In selecting nominees for appointment to the Board, the Secretary shall not favor any particular geographic area or region of the United States.]

*(e) The Secretary shall nominate for appointment to the Board by the President six persons to represent the interests of specified commodities not adequately represented by persons appointed under subsection (c) (1). In selecting nominees for appointment to the Board, the Secretary shall not favor any particular geographic area or region of the United States.*

(f) In designating the terms of office of the first members appointed to the Board, the President shall insure that the terms of not more than one-third of the members appointed under subsection (c) (1) will expire in any one year and that the terms of the two members appointed under each of the paragraphs (3), (4), and (5) of subsection (c) will expire in different years.

[(g) Appointments made from nominations submitted under paragraphs (3), (4), and (5) shall be made on a bipartisan basis.]

[(h) No person shall be eligible for appointment to the Board from any Farm Credit District unless such person is actively engaged in agricultural production and derives his primary source of income from such production.]

*(g) Appointments made from nominations submitted under paragraphs (3), (4), and (5) shall be made on a bi-partisan basis, with no more than eleven members to represent the same political party.*

*(h) No person shall be eligible for appointment to the Board from any Farm Credit District or by action of the Secretary under subsection (e) of this section unless such person is actively participating in farming or ranch operations and derives at least two-thirds of his income from such operations.*

(i) The President shall designate one of the members appointed under subsection (c) (1) as Chairman of the Board.

(j) A member of the Board may be removed by the President only for neglect of duty or malfeasance in office.

(k) A member of the Board may continue to serve on the Board after the expiration of his term of office until such time as his successor has been appointed.

(l) No person may be appointed to the Board for more than one three-year term.

(m) A quorum for the transaction of the business of the Board shall be fifteen members and all actions of the Board shall be determined by a majority vote of the members present.

(n) Any vacancy on the Board shall not affect its powers to function but shall be filled in the same manner as the original appointment was made.

(o) The Board shall have an official seal which shall be judicially noticed.

#### DUTIES OF THE BOARD

SEC. 6. (a) The duties of the Board shall be—

[(1) to establish and from time to time, as necessary, revise a comprehensive cost of production price for each specified commodity;]

(1) to establish and revise on an annual basis a comprehensive cost of production price for each specified commodity;

(2) to establish cost of production price levels for specified commodity loans made or guaranteed under this Act;

(3) to advise the President, the Secretary, and the Special Representative for Trade Negotiations on international trade agreement negotiations which pertain to agricultural commodities and on matters and policies affecting the importation of agricultural commodities;

(4) to seek and develop export markets for agricultural commodities produced in the United States;

(5) to allocate among producers on a fair and equitable basis production or marketing adjustments established for any specified commodity; and

(6) to perform such other functions as may be necessary to carry out the policies and purposes of this Act.

(b) The Board shall hold public hearings prior to establishing a cost of production price for any specified commodity and prior to allocating production or marketing adjustments among producers whenever such adjustments are established for any specified commodity.

(c) (1) The Board shall consult with and advise the Secretary regarding the improvement and implementation of the agricultural policies and programs of the United States. The Board shall, from time to time, submit to the Secretary such recommendations as the Board deems appropriate regarding the long-range production and marketing of each specified commodity.

#### DUTIES OF THE CHAIRMAN; ACTING CHAIRMAN

SEC. 7. (a) The Chairman of the Board shall be responsible on behalf of the Board for the executive and administrative operation of the Board, including the functions of the Board with respect to—

(1) the organization and supervision of personnel employed by the Board, except that each member of the Board may select and supervise personnel for his personal staff;

(2) the distribution of work and responsibilities among personnel and among administrative units of the Board;

(3) the expenditure of and accounting for funds appropriated for Board functions; and

(4) the recruitment and hire of such employees, experts, advisors, clerical assistants, and other categories of personnel as the Board, in its sole discretion, deems necessary to carry out effectively and efficiently its duties and functions under this Act.

(b) The Chairman of the Board may from time to time designate any other member of the Board as Acting Chairman to act in the place and stead of the Chairman in the absence of the Chairman. The Chairman (or the Acting Chairman) shall preside at all sessions of the Board.

#### INDEPENDENCE OF BOARD MEMBERS AND PERSONNEL

SEC. 8. In the performance of their functions under this Act, the members and other personnel of the Board shall not be responsible or subject to the supervision or control of any officer, employee, or agent of the Department.

## AUTHORITY OF THE BOARD TO ESTABLISH RULES

SEC. 9. The Board is authorized to establish such procedural and administrative rules as are necessary to carry out its duties and functions under this Act.

## BUDGET FOR BOARD ACTIVITIES

SEC. 10. The Board shall prepare and submit an annual budget to the President for transmission to the Congress and such budget shall be separate from the annual budget of the Department. The Board shall not be dependent in any way upon funds of the Department to carry out its duties and functions under this Act.

## SPECIAL POWERS OF THE BOARD

SEC. 11. In carrying out its duties and functions under this Act, the Board shall have power to hold hearings, administer oaths, examine witnesses, and receive evidence at any place in the United States.

## COST OF PRODUCTION PRICES

[SEC. 12. (a) The Board shall establish and announce a comprehensive cost of production price for each specified commodity prior to the beginning of each marketing year for such commodity. Such cost of production prices as established shall reflect cost principles and accounting procedures utilized by business management in industry and trade. In determining the cost of production for any such commodity the Board shall include as components of such price—]

*SEC. 12. (a) The Board shall establish and announce a comprehensive cost of production price for each specified commodity prior to the beginning of each marketing year for such commodity. Such cost of production prices as established shall reflect cost principles and accounting procedures utilized by business management in industry and trade, and shall reflect the concepts of parity at the marketplace. In determining the cost of production for any commodity the Board shall include as components of such price—*

(1) variable costs; including a cost for hired labor at equivalent industry wage levels;

(2) machinery ownership costs, including current replacement costs of farm machinery and equipment;

(3) general farm overhead costs attributable to the production of such commodity;

(4) a value for the management services contributed by the producer of such commodity;

[ (5) a value for land utilized in the production of such commodity, such value to reflect the value of farmland as valued for estate tax valuation purposes under section 2054 (a) of the Internal Revenue Code of 1954 rather than reflecting values based on the current market value of real property used for agricultural purposes; and ]

*(5) a value for land utilized in the production of such commodity, such value to reflect the value of farmland as valued for estate tax valuation purposes under section 2032A of the Internal Revenue Code of 1954 rather than reflecting values based on the current market value of real property used for agricultural purposes; and*

(6) such other factors as, in the Board's discretion, should be included to accurately reflect the cost of producing such commodity.

(b) The Board shall conduct public hearings prior to the beginning of each marketing year for each specified commodity to give producers and other interested parties an opportunity to be heard on matters relating to the cost of production price to be established for such commodities for such marketing year.

(c) The cost of production price for any specified commodity shall be established at a level which will provide incentive toward maximum efficiency in the production of such commodity and not at a level which will encompass those producers who are inefficient in the production of such commodity.

(d) The Board shall promptly notify the Secretary in writing whenever it establishes or revises a cost of production price for any specified commodity for any marketing year and shall provide for the publication of such information in the Federal Register. The Board shall also provide for such public announcements of such information as it deems necessary to make such information generally known to the producers concerned.

(e) The Secretary shall designate by regulation a marketing year for each specified commodity.

COST OF PRODUCTION ESTABLISHED FOR 1978

【Sec. 13. (a) The following are prices representative of projected costs of production for each specified commodity in calendar year 1978, and are hereby established as the cost of production price for each commodity as set forth below for the purposes of this Act:

dry beans, \$22.00 per hundredweight;  
wheat, \$4.75 per bushel;  
sugar, \$0.25 (raw) per pound;  
corn, \$3.15 per bushel;  
soybeans, \$6.60 per bushel;  
barley, \$3.00 per bushel;  
grain sorghum, \$5.39 per hundredweight;  
oats, \$1.65 per bushel;  
cotton, \$0.70 per pound;  
cattle, \$0.55 per pound;  
calves, \$0.65 per pound;  
milk, \$12.00 per hundredweight;  
hogs, \$0.50 per pound;  
rice, \$10.00 per hundredweight;  
poultry, \$0.40 per pound.

【(b) Cost of product prices as established in subsection (a) shall remain in effect until supplanted or revised by the Board.】

*SEC. 13. (a) The following are prices representative of projected costs of production for each specified commodity in calendar year 1979, and are hereby established as the cost of production price for each commodity as set forth below for the purposes of this Act:*

*dry beans, \$17.00 per hundredweight;  
wheat, \$4.00 per bushel;  
sugar, \$0.17 (raw) per pound;  
corn, \$2.80 per bushel;  
soybeans, \$6.00 per bushel;  
barley, \$3.00 per bushel;  
grain sorghum, \$5.39 per hundredweight;  
oats, \$1.65 per bushel;  
cotton, \$0.65 per pound;  
cattle, \$0.50 per pound;  
calves, \$0.55 per pound;  
milk, \$11.00 per hundredweight;  
hogs, \$0.45 per pound;  
rice, \$9.00 per hundredweight;  
poultry, \$0.35 per pound.*

*(b) Cost of production prices as established in subsection (a) shall remain in effect until supplanted or revised by the Board.*

GUARANTEE OF LOANS: AMOUNT OF LOANS: TERMS

【Sec. 14. (a) The Secretary shall guarantee in any year loans made by commercial lending institutions to producers of nonperishable specified commodities (as determined by the Board). The amount of any such loan (loan level) in the case of any producer shall be an amount not in excess of an amount determined by multiplying the quantity of such commodity on which such producers is eligible for a loan under this Act by the cost of production price established by the Board for such commodity for the year concerned.】

*SEC. 14. (a) The Secretary shall guarantee in any year the full amount of commodity loans made by commercial lending institutions to producers of nonperishable specified commodities (as determined by the Board). The amount of any such loan (loan level) in the case of any producer shall be an amount not in excess of an amount determined by multiplying the quantity of such commodity on which such producers is eligible for a loan under this Act by the cost of production price established by the Board for such commodity for the year concerned.*

*(b) The term of such loan shall be for such period as may be agreed upon by the lender and the producer-borrower but in no case for a period longer than thirty-six months.*

(c) No loan may be guaranteed under this Act unless the rate of interest thereon is no greater than the rate of interest on comparable loans made by commercial lending institutions in the same area for the same purpose without the benefit of Federal guarantees.

#### DIRECT LOAN AUTHORITY

SEC. 15. (a) The Secretary is also authorized to make loans to producers of nonperishable specified commodities (as determined by the Board) on their crops through the facilities of the Commodity Credit Corporation. Loans made under authority of this section shall be made at a level not less than that prescribed in section 14 (a). Loans made by the Secretary under authority of this subsection on any specified commodity shall be made at the same rate of interest at which loans guaranteed under this Act are made on the same commodity. The Secretary shall use the guarantee loan program whenever practicable in providing an initial loan to any producer on any specified commodity.

(b) Producers shall be entitled, upon application to the Secretary, to obtain a loan from the Secretary as provided in subsection (a) on the commodities owned by such producers in an amount not less than that described in section 14. Loans made under this subsection shall be for an unspecified period of time. Notwithstanding the foregoing, no loan may be made by the Secretary on any specified commodity of such producer unless such producer has satisfied any prior loan made on such commodities which was guaranteed by the Secretary or unless the proceeds of the loan made by the Secretary are to be used to satisfy such prior loan.

#### NONRECOURSE NATURE OF LOANS; ADJUSTMENTS FOR GRADE AND OTHER FACTORS; COMPLIANCE REQUIREMENTS

SEC. 16. (a) Loans guaranteed by the Secretary under section 14 and loans made under section 15 shall be guaranteed and made without recourse against the producer-borrowers and no security other than the commodity on which such loans are made shall be required.

*Sec. 16. (a) No producer shall be eligible for a loan or guarantee under this Act on any specified commodity unless such producer complies with any production adjustment allocated to such producer under this Act and complies with the other requirements of this Act.*

(b) The Board may adjust the loan level for any specified commodity on the basis of the grade, type, staple, or quality of such commodity.

(c) No producer shall be eligible for a loan or guarantee under this Act on any specified commodity unless such producer complies with any production or marketing adjustment allocated to such producer under this Act and complies with the other requirements of this Act.

#### MANDATORY RELEASE PRICE

SEC. 17. (a) The Board shall establish for each specified commodity mandatory release prices at which a percentage (specified by the Board) of the quantity of that commodity under loan (made or guaranteed under this Act) must be released for sale in domestic or export markets. Mandatory release prices shall be a condition of any loan made or guaranteed under this Act.

(b) Mandatory release prices shall be established for each specified commodity prior to the start of the marketing year for such commodity and shall remain in effect for that marketing year.

(c) Mandatory release prices in the case of any specified commodity shall be established by the Board as a percentage of the cost of production price for that commodity plus storage charges and interest charges applicable to prevailing loans for that commodity.

*(c) Mandatory release prices in the case of any specified commodity shall be established by the Board as a percentage above one hundred percentum of the cost of production price for that commodity plus storage charges and interest charges applicable to prevailing loans for that commodity.*

#### AUTHORITY TO CALL LOANS

SEC. 18. The Secretary is authorized to call any loan made under this Act and secured by commodities comprising part of the National Commodity Reserve, if the Secretary determines that the domestic or foreign market for the commodity

for which such loan was made is unstable because insufficient quantities of that commodity are being offered for sale, except that the Secretary may only call loans on such commodity at any time that the market price for such commodity is at or above the mandatory release price established by the Board for such commodity. The Secretary shall call the oldest outstanding loans first and proceed chronologically to the newest loan outstanding; except that at no time shall the Secretary call any loans on any specified commodity if the calling of such loans will cause the price of such commodity to drop below the cost of production price currently in effect under this Act for such commodity.

#### PROHIBITION AGAINST RENEWAL OR EXTENSION OF CERTAIN LOANS

SEC. 19. No new loan may be made or guaranteed under this Act with respect to any quantity of any specified commodity owned by any producer and no existing loan may be renewed or extended on any quantity of such commodity owned by any producer if such quantity of such commodity has been ordered released from loan pursuant to section 17 or the loan on such quantity of such commodity has been called pursuant to section 18.

#### NATIONAL COMMODITY RESERVE

SEC. 20. (a) The Secretary, in consultation with the Board shall establish and maintain each year a national reserve for each of the following commodities: wheat, corn, grain sorghum, barley, oats, rye, rice, soybeans, cotton, sugar, and any commodity which may be stored from marketing year to marketing year made subject to the provisions of this Act by producer referendum conducted under section 24(a). The total quantity of all such commodities placed in reserve under this section shall be known as the "National Commodity Reserve".

(b) The purpose of the National Commodity Reserve shall be—

(1) to provide quantities of certain commodities sufficient to maintain adequate supplies of such commodities in time of war and national emergency during periods of shortages occurring as the result of natural disaster, and to meet foreign demand for such commodities; and

(2) to provide a mechanism by which the producers of such commodities may be protected from depressed prices caused by periodic overproduction and excessive marketing of such commodities.

(c) The Secretary, in consultation with the Board, shall designate the national reserve for each commodity set forth in subsection (b) prior to the marketing year for such commodity.

(d) Loans secured by any quantity of commodities designated as part of the National Commodity Reserve may only be made through the facilities and services of the Commodity Credit Corporation.

[(e) The Secretary shall accept applications from producers to designate quantities of commodities as part of the National Commodity Reserve, and shall designate such quantities to enter the National Commodity Reserve based on the date of application, with quantities contained in applications arriving first entering the National Commodity Reserve until the quantity designated as the reserve for each commodity shall be met.

[(f) Any quantity of commodities designated as part of the National Commodity Reserve may only be removed from reserve by action of the Secretary as provided in section 17 for a period of thirty-six months. After the expiration of such period, commodities may be removed from the National Commodity Reserve if the owner of such commodities makes application to the Secretary to remove such commodities. The Secretary is authorized to establish such conditions upon the release of commodities from reserve by such applications as may be necessary to maintain a National Commodity Reserve sufficient for the purposes of this Act.]

*(e) The Secretary shall accept applications from producers to designate quantities of commodities as part of the National Commodity Reserve, and shall designate such quantities to enter the National Commodity Reserve based on the date of application, with quantities contained in applications arriving first entering the National Commodity Reserve until the quantity designated as the reserve for each commodity shall be met. Application shall be for a term of thirty-six months.*

*(f) Any quantity of commodities designated as part of the National Commodity Reserve may only be removed from reserve by action of the Secretary as provided in section 18. Commodities may be removed from the National Commodity Reserve by the owner of such commodities if the owner makes application to the Secretary*

*to remove such commodities. The Secretary is authorized to establish conditions upon the release of commodities from reserve by such applications as may be necessary to maintain a National Commodity Reserve sufficient for the purposes of this Act.*

STORAGE; PAYMENT OF STORAGE COSTS; INTEREST PAYMENTS

SEC. 21. Producers may, if they so elect, store on the farm any quantity of a specified commodity produced by them which has been designated as a part of the National Commodity Reserve.

(b) The Secretary shall pay the storage costs for commodities stored as a part of the National Commodity Reserve, whether stored on the farm or in commercial facilities, but only to the extent that such costs do not exceed prevailing commercial rates.

(c) Whenever a portion of the total quantity of any commodity of any producer is placed in the National Commodity Reserve, the interest on that amount of the loan (made or guaranteed) attributable to such portion shall be paid by the Secretary.

RESPONSIBILITY FOR LOSS OR DESTRUCTION RESERVE COMMODITY STOCKS; ROTATION

SEC. 22. (a) The owner of any specified commodity, a quantity of which has been designated by the Secretary for the National Commodity Reserve, shall be responsible for the proper storage and care of such quantity of such commodity. In the event that any such quantity of a specified commodity for which any producer is responsible is lost or destroyed by reason of the negligence or misconduct of such producer, such producer shall pay to the Secretary an amount equal to the amount of the loan (made or guaranteed under this Act) secured by the quantity of such commodity lost or destroyed, plus any storage and interest charges which may have been paid by the Secretary in connection with such quantity of such commodity lost or destroyed.

(b) Under such regulations as the Secretary shall prescribe, stocks of specified commodities designated as a part of the National Commodity Reserve may be rotated by producers to prevent spoilage and deterioration of such commodities and may be moved from one place of storage to another.

PRODUCTION MANAGEMENT

SEC. 23. (a) Each producer of a specified commodity shall report in writing to the Secretary, through the appropriate office of the Agricultural Stabilization and Conservation Service, the quantity of such commodity such producer plans to produce in the next production year. Such report shall be filed at such time in advance of the production year for such commodity as the Secretary determines will provide adequate time for allocating individual production adjustments for such commodity in the event production adjustments with respect to such commodity are determined necessary. Copies of production reports filed under this section shall be furnished to the Board by the Secretary in such manner as the Board may request.

[(b) The Secretary shall evaluate the domestic stocks of specified commodities prior to the start of the marketing year for that commodity. If the Secretary, in consultation with the Board, determines on the basis of the information obtained under subsection (a) that the domestic stocks of any specified commodity, including quantities designated for the National Commodity Reserve, will exceed domestic and foreign demand for such commodity in the next marketing year and will exceed quantities needed for a reserve sufficient to accomplish the purposes of this Act, unless a production adjustment is established for such commodity, the Secretary shall determine and announce a production adjustment for the next production year for such commodity. The production adjustment for any such commodity shall be apportioned among the producers of such commodity by the Board and the reduction in production shall be equally applied to all producers.]

(b) *The Secretary shall evaluate the domestic stocks of specified commodities prior to the start of the marketing year for that commodity. If the Secretary, in consultation with the Board, determines on the basis of the information obtained under subsection (a) that the domestic stocks of any specified commodity, including quantities designated for the National Commodity Reserve, will exceed domestic and foreign demand for such commodity in the next marketing year, the Secretary shall determine and announce a production announcement for the*

next production year for such commodity. The production adjustment for any commodity shall be apportioned among the producers of such commodity by the Board and the reduction in production shall be equally applied to all producers.

(c) Each producer required to reduce production of any specified commodity as the result of a production adjustment shall remove from production of such commodity average production quality land (in the case of a soil produced commodity) and such land shall be contiguous or in fieldsized pieces.

(d) No crop may be harvested from land removed from production under this section and such land may not be used for grazing purposes. In the event that any producer subject to a production adjustment produces a crop or grazes livestock on land removed from production by such adjustment, such producer shall be subject to a civil penalty as follows :

[(1) If the crop produced on land removed from production under a production adjustment is a crop of a specified commodity, the producer shall be liable to the United States for an amount equal to the cost of production price for the commodity produced on such land multiplied by the normal yield for such land, and the entire crop of the specified commodity produced by such producer, including the crop of such commodity produced by such producer on land removed from production aside under a production adjustment, shall be subject to a lien in favor of the United States.]

(1) If the crop produced on land removed from production under a production adjustment is a crop of a specified commodity, the producer shall be liable to the United States for an amount equal to the cost of production price for the commodity produced on such land multiplied by the normal yield for such land, and the entire crop of the specified commodity produced by such producer, including the crop of such commodity produced by such producer on land removed from production under a production adjustment, shall be subject to a lien in favor of the United States.

(2) If the crop produced on land removed from production under a production adjustment is a crop of an agricultural commodity not subject to this Act, the producer shall be liable to the United States for an amount equal to the cost of production price for the specified commodity which constitutes the producer's largest crop in the crop year concerned multiplied by the normal yield of such specified commodity for the land on which the commodity (not subject to this Act) was produced, and the entire crop of such specified commodity produced by such producer shall be subject to a lien in favor of the United States.

(3) If the land removed from production in any marketing year by a production adjustment is used by a producer for grazing purposes, then such producer shall be ineligible for the loans and loan guarantees established by this Act for that marketing year.

(e) The Secretary shall authorize by regulation the use of marketing cards and any other procedure which, in his discretion, may be necessary to enforce produce compliance with the production adjustments established by this section.

(f) Production adjustments established in any year for any specified commodity shall apply to all producers of such commodity whether or not such producers apply for and receive loans or guarantees under this Act.

(g) In establishing production adjustments in the case of milk and dairy products, perishable commodities (as defined by the Board), cattle, calves, hogs, and poultry, the Board may utilize production bases, quotas, or allotments, or any combination thereof.

(h) No production adjustment may be established for milk or dairy products, perishable commodities (as defined by the Board), cattle, calves, hogs, and poultry, unless a majority of the producers of such commodities vote in favor of such adjustments in a referendum of such producers conducted by the Board.

(i) Any quantity of a specified commodity produced for human consumption on the farm on which produced shall be exempt from the provisions of this Act. Acreage used for research purposes and seed stock shall also be exempt from the provisions of this title, subject to regulations issued by the Secretary.

(j) No payments shall be made by the Secretary for any land removed from the production of any specified commodity as the result of a production adjustment made under this section.

(k) The Secretary is hereby authorized to issue such regulations as may be necessary to require that acreage removed from production under this Act shall be devoted to soil conserving uses.

## REFERENDUMS

SEC. 24. (a) If 15 per centum or more of the producers of any agricultural commodity, other than a specified commodity, petition the Board in writing for a referendum of the producers of such commodity on the question of whether or not such commodity should be a specified commodity for the purposes of this Act, the Board shall, within sixty days after validating the petition, conduct a referendum by secret ballot of such producers. If a majority of the producers of such commodity voting in such referendum vote in favor of making the provisions of this Act applicable to such commodity, then, on and after the date on which the results of such referendum are determined, such commodity shall, for the purposes of this Act, be considered a specified commodity.

(b) If 15 per centum or more of the producers of any specified commodity petition the Board in writing for a referendum to determine whether the producers of such commodity wish to terminate the program provided for under this Act with respect to such commodity, the Board shall, within sixty days after validating the petition, conduct a referendum by secret ballot of the producers of such commodity. If a majority of the producers of such commodity voting in such referendum vote to terminate the program provided for in this Act with respect to such commodity, then, within a period of ninety days after the results of such referendum are determined, such commodity shall no longer be considered as specified commodity for purposes of this Act; but nothing in this paragraph shall be construed to prevent the subsequent application of the provisions of this Act to such commodity pursuant to the procedures provided for in paragraph (1).

## NOTICE TO CONGRESS OF PROPOSED ACTION

SEC. 25. (a) The Board shall notify the Congress in writing of any cost of production price proposed to be established by the Board under this Act. No such proposed section shall become effective unless (1) thirty days of continuous session of the Congress have expired following the date on which notice of such proposed action is received by the Congress, and (2) neither House of Congress had adopted, within such thirty-day period, a resolution disapproving such proposed action.

(b) For purposes of this section, the continuity of a session of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than three days to a day certain are excluded in the computation of such thirty-day period.

## PARTICIPATION BY SECRETARY IN PUBLIC HEARINGS CONDUCTED BY THE BOARD

SEC. 26. The Secretary may participate in any public hearing held by the Board but shall comply with the rules of procedure established by the Board for the conduct of such hearings. The participation of the Secretary in any hearing conducted by the Board shall not affect the obligation of the Board to assure procedural fairness to all interested parties.

## IMPORT AND EXPORT OF AGRICULTURAL COMMODITIES

SEC. 27. No quantity of any specified commodity may be imported into the United States in any year at a price less than the domestic cost of production for such commodity as established by the cost of production price for such commodity for such year, adjusted by appropriate transportation and handling costs.

## AUTHORITY TO IMPOSE CUSTOM DUTIES

SEC. 28. The Board is authorized to impose upon specified commodities imported into the United States such custom duties as may be necessary to maintain the price of such imported commodities at levels established under this Act for the same kinds of commodities produced in the United States. Moneys collected on imported commodities as the result of action under this section shall be utilized by the Secretary in his discretion to make specified commodities produced in the United States competitive in foreign markets.

**MINIMUM PURCHASE PRICE FOR COMMODITIES PURCHASED BY GOVERNMENT FOR EXPORT**

SEC. 29. No specified commodity produced in the United States may be purchased in any year by the Secretary or any department or agency of the Government for use in carrying out any food assistance program in any foreign country at any price less than a price equal to the cost of production of such commodity as established by the cost of production price for such commodity for such year.]

(NOTE: Original Sections 30 through 36 are redesignated as Sections 29 through 35.)

**INSPECTION STANDARDS**

SEC. 29. All quality inspection requirements applicable by law, Executive order, or regulation to domestically produced agricultural commodities shall be applicable to imported agricultural commodities of the same type as a condition of the entry of such imported commodities in the United States.

**AUTHORIZATION FOR APPROPRIATIONS**

SEC. 30. There are hereby authorized to be appropriated such funds as are necessary to carry out the provisions of this Act.

**JURISDICTION OF DISTRICT COURTS OF THE UNITED STATES**

SEC. 31. Notwithstanding the amount in controversy, the district courts of the United States shall have exclusive original jurisdiction of all cases or controversy arising under this Act, or under rules, regulations or orders issued exclusively thereunder.

**APPLICABILITY OF OTHER LAWS**

SEC. 32. Any provision of law in effect on the day before the date of enactment of this Act which is applicable to any agricultural commodity to which this Act is also applicable, to the extent inconsistent with the provisions of this Act, as determined by the Secretary in consultation with the Board, shall be null and void on and after the date of enactment of this Act.

**AMENDMENT TO TITLE 5 UNITED STATES CODE**

SEC. 33. Section 5315 of title 5, United States Code, is amended by adding at the end thereof a new paragraph as follows:

“(122) Members, National Board of Agricultural Governors.”.

**RULES AND REGULATIONS**

SEC. 34. The Secretary is authorized to promulgate such rules and regulations as may be necessary to carry out the requirements and policies of this Act.

**SEPARABILITY CLAUSE**

SEC. 35. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act and the application of such provision to other persons and circumstances shall not be affected thereby.

[The following material was submitted by Senator Hodges:]

**GOVERNMENT OUTLAY UNDER S. 2626**

Government outlays for farm price and income support could be greatly reduced through implementation of S. 2626. Under the Food and Agriculture Act of 1977, the Commodity Credit Corporation is liable for large annual cash payments (deficiency payments) to support farm income when prices are low. S. 2626

would do away with deficiency payments and would institute "floor" prices through commodity loans at levels that would support farmer's incomes without requiring government transfer payments. Because most of the commodity loans would eventually be repaid, only the first year of operation under S. 2626 would require outlays of a magnitude comparable to the Act of 1977. Annual outlays that would be limited to the difference between loans made and loans repaid (which in some years would mean a net receipt, as repayments outweighed new loans), plus storage and interest charges on the farmer-held commodity reserve.

The following table shows projected government outlays for price and income support, FY79 to FY83, under the Act of 1977 and under S. 2626.

PROJECTED GOVERNMENT OUTLAYS FISCAL YEARS 1979-83

	[In millions of dollars]				
	1979	1980	1981	1982	1983
S. 2626.....	1,271	4,278	628	664	932
Act of 1977 (December budget).....	2,772	2,354	1,713	1,739	2,372

USDA has not re-estimated its budget projection since December and recent commodity price increases have probably improved the cost outlook. These numbers, however, reflect the type of budget exposure that the government bears under the Act of 1977. The cash payment share of these outlays alone averages almost \$1 billion annually.

#### SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

(Staff explanation of S. 2626)

[NOTE: The following staff explanation of S. 2626 pertains to the bill as introduced.]

S. 2626 provides for a comprehensive farm program which would replace existing programs. The principal "specified" commodities covered are wheat, corn, grain sorghum, barley, oats, dry beans, rice, soybeans, cotton, sugar, cattle (except dairy cattle), calves, hogs, poultry, and milk and dairy products.

#### MAJOR PROVISIONS

(1) Cost of production prices for each commodity would be established for 1978 or until revised by a National Board of Agricultural Governors representing producers, consumers, labor and business. Cost of production prices established by the Board would be used as a basis for both guaranteed and direct loans to producers and for the purpose of determining release prices for commodities for sale in domestic and export markets.

(2) A "National Commodity Reserve" would be established for storable commodities designated in the bill or made subject to the provisions of the bill by producer referendum. Interest on loans on commodities placed in the reserve by producers as well as storage costs on such commodities would be paid by the Secretary.

(3) Producers of "specified" commodities would be required to report the quantities of such commodities to be produced in each subsequent production year. From these reports the Secretary would be required to determine whether stocks of such a commodity would exceed domestic and foreign demand for such commodities and reserve needs. If such stocks of any commodity were found excessive, the Secretary would be required to announce a production adjustment for the next production year for such commodity, which adjustment would then be applied to all producers. Producers of commodities subject to such production adjustment would be required to comply or be subject to civil penalties.

(4) Commodities could be added to or eliminated from the program through producer referendums.

(5) Restrictions precluding the importation of commodities subject to the legislation at any price less than the domestic cost of production would be imposed. The Board would be authorized to impose such custom duties as might be necessary to maintain such prices.

(6) No commodity subject to the bill could be purchased in any year by the Government for use in any food assistance program in any foreign country at a price less than a price equal to the cost of production price.

#### DETAILS OF THE BILL

##### *National Board of Agricultural Governors*

The bill would establish a twenty-one member board to be appointed by the President for three-year terms. Twelve members of the Board would represent each of the twelve Farm Credit Districts. They would be named by the President from a slate of producer-nominees selected through state conventions and an election process described in the bill. Three members of the Board would be appointed by the President from a slate of six persons nominated by the Secretary to represent the interests of "specified" commodities not otherwise adequately represented by the persons selected from the Farm Credit Districts. Two members each would be appointed from among persons nominated by consumer organizations, organized labor, and business organizations. One of the members selected by the President from a Farm Credit District would be designated by the President as Chairman of the Board.

##### *Duties of the Board*

The Board would be required to establish a cost of production price for each "specified commodity", *i.e.*, wheat, corn, grain sorghum, barley, oats, dry beans, rice, soybeans, cotton, sugar, cattle (except dairy cattle) calves, hogs, poultry, and milk and dairy products as well as any commodities added to the list by producer referendum. The Board would also establish cost of production price levels for direct or guaranteed commodity loans; advise on trade negotiations; seek and develop export markets; allocate production or marketing adjustments; and, perform such other functions as may be necessary to carry out the Act. The Board would also be directed to consult and advise the Secretary on agricultural policy and programs. Separate funding authority for the Board would be provided so that the Board would not be dependent on the Department of Agriculture.

##### *Cost of Production Prices*

The components of the cost of production price to be established each year for each commodity would include variable costs; machinery costs; general farm overhead attributable to the commodity; a value for management services for the commodity; and a value for land utilized in the production of the commodity. Land values would be based upon the valuation of land for IRS estate tax purposes. The cost of production price would be set by the Board at a level to provide incentives toward maximum efficiency in the production of the commodity. For 1978 the bill would establish the following cost of production prices: dry beans, \$22.00 per hundredweight; wheat, \$4.75 per bushel; sugar, \$0.25 (raw) per pound; corn, \$3.15 per bushel; soybeans, \$6.60 per bushel; barley, \$3.00 per bushel; grain sorghum, \$5.39 per hundredweight; oats, \$1.65 per bushel; cotton, \$0.70 per pound; cattle, \$0.55 per pound; calves, \$0.65 per pound; milk, \$12.00 per hundredweight; hogs, \$0.50 per pound; rice, \$10.00 per hundredweight; and poultry, \$0.40 per pound. These prices would remain in effect until supplanted or revised by the Board.

##### *Loan Authority*

The Secretary would be required to guarantee loans made to producers of nonperishable "specified" commodities by commercial lending institutions. The amount of any guaranteed loan would be not in excess of an amount determined by multiplying the quantity of the commodity by the cost of production price established for the commodity for the year involved. The term of the loan would be that agreed upon by the lender and the producer-borrower but not in excess of thirty-six (36) months. The rate of interest would be the commercial rate in the area. Direct loans through the facilities of CCC by the Secretary would also be authorized at a level not less than the guaranteed loans and at the same rate of interest. Both direct and guaranteed loans would be nonrecourse and would require no security other than the commodity involved. No producer would be eligible unless he complied with his production adjustment allocation. Loans would be required to provide for a mandatory release price. This price would be established before the marketing year for each commodity and would be at a specified percentage of the cost of production price of that commodity plus

carrying charges. The Board would be required to specify a percentage of the commodity which must be released for sale in domestic or export markets when the mandatory release price is reached.

#### *National Commodity Reserve*

The Secretary, in consultation with the Board, would be required to establish and maintain a national reserve for wheat, corn, grain sorghum, barley, oats, rye, rice, soybeans, cotton, sugar and any storable commodities made subject to the bill by producer referendum. Commodities would be placed in the reserve upon application from producers for a period of thirty-six months. A commodity could be removed from reserve if the Secretary determined that insufficient quantities of that commodity were being offered for sale, but only if the market price for the commodity was then at or above the mandatory release price established by the Board for the commodity. Storage costs and interest on commodities placed in reserve would be paid by the Secretary.

#### *Production Management*

Producers of wheat, corn, grain sorghum, barley, oats, dry beans, rice, soybeans, cotton, sugar, cattle (except dairy cattle), calves, hogs, poultry, and milk and dairy products and any other commodities added by referendum, would be required to report each year the quantity of such commodities they plan to produce in the next production year. If the Secretary determined on the basis of these reports that domestic stocks of a commodity would exceed domestic and foreign demand and an appropriate reserve, the Secretary must determine and announce a production adjustment for the next production year for any such commodity. The production adjustment would then be equally applied to all producers of the commodity and they would be required to comply or be subject to civil penalties. No production adjustment could be established for dairy products, perishable commodities (as defined by the Board), cattle, calves, hogs, and poultry unless favored by a majority of producers in a referendum conducted for such commodities. No payments for land removed from production would be made.

#### *Referendums*

If fifteen percent or more of the producers of any agricultural commodity (other than those "specified") petition for a referendum on the question of whether or not such a commodity should become a "specified" commodity the Board must conduct a referendum of such producers. If a majority of the producers of the commodity favor including the commodity in the program, then the commodity would be included. By similar referendum producers of "specified" commodities could terminate the program for that commodity.

#### *Significant Miscellaneous Provisions*

The Board would be required to notify Congress of any cost of production price proposed by the Board. No price would become effective until the expiration of thirty days of continuous session of the Congress. In the meantime, if either House disapproved the proposed price, it would not become effective. Imports at less than the established cost of production prices would be prohibited. Authority is given to the Board to impose custom duties necessary to maintain the cost of production prices. Commodities could not be purchased by Government agencies for use in foreign food assistance programs at less than cost of production prices. Imported commodities would be subject to the same quality inspection requirements as domestic commodities. All existing legislation in conflict with the bill will be null and void on enactment of the new legislation.

[The following report was subsequently submitted by USDA:]

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
Washington, D.C., June 5, 1978.

HON. HERMAN E. TALMADGE,  
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate,  
Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for a report on S. 2626, "To provide price and income protection for agricultural producers by assuring such producers a price for their agricultural commodities of not less than the cost of producing such commodities; to assure consumers an adequate supply of food and fiber at reasonable prices; and for other purposes."

The Department opposes enactment of this bill.

This bill would establish a National Board of Agricultural Governors to assume many of the responsibilities for formulating and administering agricultural policy now vested with the Secretary of Agriculture. The Board, among its duties, would determine the costs of production, as defined in the bill, for agricultural commodities. The bill would require that prices be supported at the cost of production for specified commodities unless disapproved by producers in referenda. Similar price supports would be required for any other agricultural commodity upon approval by producers in a referendum.

The Department considers the basing of income supports for farmers on costs of production to be a sound and workable concept. We supported the provisions in the Food and Agriculture Act of 1977 which base the target prices on production costs. The current programs will provide payments to producers of the major crops if market prices are below the cost-of-production-determined target prices. These payments will not guarantee farmers a profit, but instead provide a measure of income support in periods of depressed prices. Other measures, including the announced set-aside of acreage in 1978 and the isolation of surplus grain from the market in a farmer-owned reserve, will keep prices at a level that would provide producers reasonable incomes without Government payments in most years.

S. 2626 would set interim support rates well above our estimates of average production costs. Maintaining the price levels in the bill would require substantial production cutbacks and tight marketing controls. As a result, food costs would increase. Maintaining the specified price levels for perishable commodities and livestock may be infeasible administratively and would be potentially costly to the Government.

The Department is also concerned about the transfer of authority to a National Board of Agricultural Governors. To implement and carry out an effective agricultural policy that meets the needs of both farmers and consumers requires the use of the broad authorities now vested with the Secretary of Agriculture. The bill, by diluting the authority of the Secretary of Agriculture and transferring powers to an independent board, would make the procedures for the establishment of agricultural policy fragmented, cumbersome, and less responsive.

Enactment of the proposed legislation would not necessarily require an increase in Government expenditures if production controls are used to keep prices at the specified minimum levels. The increase in returns to farmers would instead be paid by consumers through higher food prices.

The Office of Management and Budget advises that there is no objection to the presentation of this report and that enactment of S. 2626 would not be in accord with the President's program.

Sincerely,

BOB BERGLAND, *Secretary.*

Senator HODGES. I did not intend to take that long. I apologize to Mr. Fitzgerald, who is our first witness. I feel very strongly about this problem, Mr. Fitzgerald, and I know you, perhaps, feel as strongly the other way.

At this time, I will hear testimony from Mr. Ray Fitzgerald, Administrator of the Agricultural Stabilization and Conservation Service. Mr. Fitzgerald, when I was growing up, I used to work and measure crops for the ASCS back in the fifties in Arkansas. Thank you, and you are welcome.

**STATEMENT OF RAY FITZGERALD, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Mr. FITZGERALD. Mr. Chairman and members of the committee, I appreciate the opportunity to appear today before this distinguished committee to discuss S. 2626, the proposed Consumer and Agricultural Protection Act of 1978.

The bill would establish a National Board of Agricultural Governors who would be appointed by the President from nominees submitted by consumer organizations, organized labor, business organizations, farmer organizations, and the Secretary of Agriculture. The Board would assume some of the responsibilities for formulating and administering policy and programs now vested with the Secretary of Agriculture. The Board would determine the costs of production for agricultural commodities based on definitions described in the bill, and would allocate production quotas to individual producers. In addition, the Board would give advice on international agricultural matters and would seek to develop export markets for U.S. commodities.

A major economic impact of the proposal is the requirement that prices for specified nonperishable commodities be supported at the cost of production unless disapproved by producers in referendums. Similar price supports would be required for other nonperishable commodities upon approval through a producer referendum. The price supports would be provided to farmers through nonrecourse loans made either by the Secretary or by loans from private lenders with guarantees by the Secretary. The bill sets interim cost of production prices that would be the basis for price supports until the Board would make its own estimates.

The Department favors an agricultural policy that will offer farmers the opportunity to earn a fair return. Since assuming office last year, this administration has worked hard to develop programs that would assume a healthy and viable agriculture. When we took office, grain surpluses were accumulating with prices falling. Inflation was rocketing farm costs upward. As a result, the income position of farmers was threatened and debt continued to accumulate, although many creditors were forced to tighten their farm lending.

The Food and Agriculture Act of 1977 was put together under these difficult circumstances only through months of work, compromise, and cooperation. Its provisions satisfied no one entirely, which is to be expected given the magnitude and complexity of the act. The legislation does give us the tools to administer a food and agriculture policy in a manner fair to producers and consumers alike.

Target prices for the major crops were raised to realistic levels based on production costs. The outdated allotment system was discarded, so that income protection was made consistent with current production patterns. A system of grain reserves has been implemented to assure our foreign customers a dependable supply and to remove some of the roller coaster price patterns of the previous several years. In addition, the recently passed Emergency Agricultural Act of 1978 gives us additional authority to properly reward farmers who are willing to set aside acreage in periods of surpluses.

We are utilizing the authorities given to us by Congress in the past year, and the results are becoming evident. Grain prices have strengthened, a result of transferring surpluses to reserves program, the apparent success of the announced set-aside and diversion programs, and strong exports. The deficiency payments made to wheat, barley, and grain sorghum producers provided a needed cash inflow. The acreage diversion advance payments to feed grain and cotton producers help as well. The livestock industry appears to be regaining

its health after a long period of distress, particularly ranchers and cattle feeders.

Our programs have begun to achieve the objectives that were established even though there has only been a limited time for them to work. With additional time, the current programs will bring further improvements to the farm economy.

The Department supports the objectives implicit in S. 2626, but we do not believe its passage would be in the best long-term interests of the Nation's economy. The Department must therefore oppose enactment of S. 2626.

We agree with some of the concepts embodied in the bill, such as basing income supports for farmers on costs of production. However, the interim support levels in the bill are at such a high level that they could disrupt to bring ruin to some sectors in agriculture. Also, the fragmentation of authority now vested with the Secretary of Agriculture would make the process for establishing and implementing food and agricultural policies fragmented, cumbersome, inefficient, and less responsive to the needs of producers and consumers.

The interim support rates established by this bill are well above the average costs of production. It is recognized that production costs vary considerably among farms and regions, and that they are difficult to estimate, but the USDA estimates have been carefully prepared based on information furnished by farmers. Our figures indicate that the interim cost of production prices would be the support prices under the bill and are above projected costs for 1978 by about \$1.50 per bushel for wheat, \$1 for corn, \$1.30 for soybeans, and 10 cents per pound for cotton.

There is a similar relationship for other commodities specified in the bill. To maintain the price levels indicated in the bill would require severe production cutbacks in response to a substantial reduction in exports and some fall-off in domestic use. Marketing controls would have to be imposed to maintain a reasonable supply/demand balance.

The livestock industry would be severely disrupted again by the bill. The higher feed prices would put many producers back into a money-losing situation. Unless the production controls on crops were carefully implemented, traditional livestock producers would be threatened from the competition posed by grain producers who would otherwise avoid acreage reductions by feeding instead of selling their grain. The livestock industry is just coming out of a very difficult period and certainly could not stand the shocks that would be introduced by the provisions of this bill.

The higher prices mandated by this bill would largely be capitalized into higher land values. The support prices would lead to escalating land values, which, in turn, would result in higher costs of production and increased support rates. A spiral in land and commodity prices could result. For the renter, who accounts for more than half of the production, the provisions of the bill would result in higher rents to the landowner, with the tenant able to benefit only to the extent that the owner was willing to share.

The net result would be higher farm incomes in the aggregate, but lower returns for livestock and some crop producers, a reduction in exports, and tight controls on production. Food prices would jump, accentuating inflationary pressures and slowing the overall economic

growth. Federal outlays, especially for those programs tied to the cost of living index, would increase. It would be a move to heavy Government controls and regulations in agriculture.

Instead of introducing the drastic changes mandated by this bill, let us continue to operate using the tools available. Give us a fair chance to administer the comprehensive agricultural policy based on the provisions in current law which were enacted only last year.

I thank you for the chance to appear this morning.

Senator HODGES. Mr. Fitzgerald, is the overall purpose of the 1977 Farm Act to increase farm prices above their current levels? The reason I ask is that Mr. Bergland has consistently said that if we will let the 1977 Farm Act have a chance, prices will rise in the major commodities.

Mr. FITZGERALD. That is certainly one of the purposes, Senator, of the act.

Senator HODGES. Let us take three or four commodities we are all familiar with: Wheat, corn, soybeans. What levels, in your estimate, would be prices that would bring a profit to, say, a majority of those that produce it?

Mr. FITZGERALD. I am not able to answer that. I am really not qualified to answer that, Senator, because I am not an economist and I do not take part in the economic research of agriculture.

Senator HODGES. So, when you made this statement on page 4—so, you really do not know the cost of production, then?

Mr. FITZGERALD. No; I do not, and my agency is not responsible for determining costs of production.

Senator HODGES. So, you really have been sent over here to read the statement, and you do not know the accuracy or inaccuracy of the statement?

Mr. FITZGERALD. There is much truth in that, yes, sir.

Senator HODGES. So, you are not in a position to respond to anything said in this statement?

Mr. FITZGERALD. Oh, I can respond in general. I did not have a chance—as I say again, I did not have a chance to study the bill, analyze the bill, and I am not responsible for any analysis of this particular bill.

Senator HODGES. If the purpose of the 1977 Farm Act is to have increases in prices above where they are now, then the 1977 Farm Act, if it accomplishes what it set out to do—higher prices—will have the same result that this bill will, will it not?

Mr. FITZGERALD. Yes. It is a matter of degree; yes, sir.

Senator HODGES. In effect, what we are saying is that because we make all these very dire predictions as a result of higher farm income, we are saying, in effect, we really do not want or need or desire higher farm income from an overall economic standpoint of the Government.

Mr. FITZGERALD. It is my impression, Senator, that the purpose of the act and the purpose of the Department of Agriculture is to increase prices and farm income.

Senator HODGES. Well, if you do that, then you are going to capitalize those higher prices into higher land values.

Mr. FITZGERALD. To some extent, that is true.

Senator HODGES. And that will lead to escalating land values.

Mr. FITZGERALD. That is true.

Senator HODGES. Under your 1977 Farm Act. And that is a spiral in land and commodity prices—that would result, would it not?

Mr. FITZGERALD. Yes, sir.

Senator HODGES. In other words, as you tell these wheat farmers and corn farmers and soybean farmers, "Just hold on; we are going to bail you out; give our act a chance to work," you are also saying that, "We really see dire consequences of that also," are you not?

Mr. FITZGERALD. No. I think the rate of increase and the problems it gives other producers in the economy, in the agricultural economy are important considerations.

Senator HODGES. So, you are, in essence, agreeing with what I said earlier, that one part of agriculture is not going to do well if another one does well.

Mr. FITZGERALD. Not necessarily. What I am trying to get at is—I used to feed cattle, and the principal cost of the feeding was the cost of feed. Cattle, right now, are starting to recover from a very difficult period of years, and some of the people who were my neighbors are doing all right. If their input, their major input were increased rather radically and dramatically and fast, they would have a difficult time adjusting.

Senator HODGES. Do you have any idea of how much each year farm costs are going up, the percentage?

Mr. FITZGERALD. No; I do not.

Senator HODGES. At least inflation, would you agree with that, 6 to 10 percent a year?

Mr. FITZGERALD. Yes, sir.

Senator HODGES. So that, you should add on at least 10 percent on to the present prices simply to cover the increase in the cost of production to farmers?

Mr. FITZGERALD. Well, I am not qualified to say it is 10 percent, but it certainly is an increase, yes, sir.

Senator HODGES. But you are not in a position to really discuss any prices, and you really do not know—on page 4, when you say these things—whether these will happen or not, do you?

Mr. FITZGERALD. I did not prepare the testimony, Senator.

Senator HODGES. Do you honestly believe that if farm prices go up, the renter is going to have to pay higher rent? On what would that possibly be based? I rent out, I guess 12,000 or 13,000 acres of land. If I get higher prices, I would really like it, but I do not increase my rent. What basis would there be for that, for making that statement?

Mr. FITZGERALD. Well, I suppose for most landowners, at any rate, they charge about what the going rental rate is, the going price is. If the going price in my county happened to raise \$5 an acre, \$1 an acre, presumably I would be somewhere near that in my rental rate.

Senator HODGES. Again, I do not want to embarrass you, because I know you did not prepare, but I just ask you from your own background, because you indicated you had something to do with agriculture—do you think rents are going to go up just because there are higher farm prices?

Mr. FITZGERALD. In my case, if over a period of years the cost of land and the income of farmers increased in my county, so that my costs as a landowner increased, I would probably raise the rent, yes, sir.

Senator HODGES. But if the 1977 Farm Act works, prices will go up?

Mr. FITZGERALD. I hope so, yes, sir.

Senator HODGES. Which will lead to an increase in the cost of land?

Mr. FITZGERALD. Yes.

Senator HODGES. Which will lead to higher rents?

Mr. FITZGERALD. Yes.

Senator HODGES. Which, under your testimony today, will make farmers really not any better off. As I read the testimony here, it really does not deal with the bill itself. Essentially, this testimony you have given is saying that if the farmer gets higher prices, it is going to be disastrous to the American economy. Now, that is what the thrust of this is, regardless of whether the higher prices come under the 1977 Farm Act or any other, because this argues against higher farm prices.

Mr. FITZGERALD. I do not know at what point it becomes disastrous. I suppose at some point it becomes disastrous rather than burdensome; I do not know what point that is, Senator.

Senator HODGES. Thank you very much, sir. I appreciate it.

Mr. FITZGERALD. Thank you, Senator.

Senator HODGES. Our next witness is Dr. Jay C. Andersen, chairman, department of economics, Utah State University.

Go ahead, Doctor.

#### STATEMENT OF DR. JAY C. ANDERSEN, CHAIRMAN, DEPARTMENT OF ECONOMICS, UTAH STATE UNIVERSITY

Dr. ANDERSEN. Thank you, Senator. I think I will skip over many of the first few pages of my statement; some of it is background, and I think we all understand much of this, in terms of the appropriate goals for farm policy. I will turn over to page 4 of my remarks.

Senator HODGES. What I would like to do is include your statement in full in the record, which we will do, and that will free you to just make whatever comments you wish, and I will try to respond.

Dr. ANDERSEN. I would comment on a number of provisions that are embodied in Senate bill 2626. First, I would like to talk about the cost of production price concept.

I recall that when I was in graduate school in the late fifties and early sixties the agricultural policy analysts had been discussing the long-run excess capacity to produce agricultural commodities in the United States, and there have been continuing indications that agriculture would suffer if production went unchecked.

In its simplest form, the problem of unacceptable farm commodity prices is a problem of excess supply. Frequently, it has been asserted that the laws of supply and demand are no longer working, but they are working; the results of the working of the laws are distasteful to some, but the system is working.

In the written statement\* is a simple characterization of the supply and demand relationships in agriculture, which shows that the intersection of the supply and demand curves comes up with a price that is unacceptable as a goal in the country. And I subscribe to that particular finding—that the prices for some agricultural commodities are

\*See p. 140 for the prepared statement of Dr. Andersen.

somewhat lower than we as a nation find acceptable. There are possible ways to deal with the problem of this price's being unacceptable.

Now, the reason for the country's achieving the excess supply capacity is perhaps somewhat interesting to consider. I hold that it is because of the vast productivity that is associated with improvement in technology. Seed, fertilizer, irrigation, better tillage methods and other things have thrust American agriculture into a situation not common to many countries of the world. In many places of the world where I have traveled, this is certainly the case; they have not had this industrialization of agriculture.

Efficient producers can continue to improve their production. There are ineffective brakes on this big machine, and farmers have no option once they get large and efficient but to try to continue to cover the cost of production, at least those that come out of pocket, and there may be little or no income left over to cover fixed costs. It would be quite foolish to expect farm machinery makers to build so much machinery that prices fall and machinery manufacturers produce themselves into bankruptcy. Most sectors that farmers buy and sell from have that kind of control, agriculture does not.

One of the problems with a cost of production price is that it is impossible to come up with a single cost of production figure that is applicable to all farmers. There are about as many situations as there are farmers. In figure 2 of the written statement, we have simply indicated that there are very many figures for cost of production, and that they are related to the size of enterprise and the particular situation on each farm. There is an average cost of production. If we simply look at the average of all those who are producing, there are some relationships. Generally, the costs fall as the size of the enterprise becomes larger.

The important thing is, though, that any reasonable sale price will make some farmers rich and some farmers poor; if the price is high, more become rich, and if it is low, more become poor. That is a problem we have with this single price kind of a target.

The cost of production price has been indicated in Senate bill 2626 as a kind of support or target price. Let us look at a few of the cost of production data that we have. At Utah State University, we have cost of production data for several selected crops in Utah. We also note, and this relates to previous testimony, that the U.S. Department of Agriculture indicates that farm costs have been inflating at the rate of 7.6 percent from 1967 to 1977; that is 7.6 percent per year. We have assumed, in updating some of these costs, an 8 percent increase in order to project the 1978 projected cost level.

I have prepared a table showing the cost of production for alfalfa, barley, grain corn, and corn silage, and generally indicate that the cost of production is quite substantially higher than the sale price for these commodities if you include a land charge. I think that is probably the main difference in the data that was cited by the previous witness here.

Senator HODGES. The USDA figures?

Dr. ANDERSEN. The USDA figures do not include a land charge, and I think that is the significant difference, probably, in the data presented here.

There are some problems with including a land charge. There is evidence that in agriculture there is, perhaps, a rate of return on land of only 2 or 3 percent, but, on the other hand, land prices continue to inflate by 8 or 10 percent a year. There are a lot of reasons that are cited for this change in land prices. Some would attribute it to a foreign conspiracy to take over our country, and I do not put much credence in that. There is another theory that it is a sense of agricultural fundamentalism—people buy land because they can afford it and they like it as a consumption good; they have some sense of good from owning land, even if it costs them. And, certainly, there are some tax treatments, both foreign and domestic, that provide some incentive to hold land. But I would assert that the main reason that people continue to buy land and bid up prices is that they have an expectation of making a profit. But, of course, for many, the profit can only be realized by a resale, since the direct returns to farming land or renting land remain low. So, it is a matter of buying the land with the chance of reselling it.

Young farmers find they cannot buy land, farm it, and pay out on their investment. The American dream of climbing the agricultural ladder to ownership is thwarted. There is a problem, too, if prices and incomes are boosted up substantially, there is a further increase in land prices. It is a problem if people cannot buy land, farm it, and obtain from farming sufficient to pay out on the land charge.

Just look at one example: In Utah, let us suggest that in producing barley, we have indicated that the cost of production for producing this barely on our best land, growing about 90 bushels per acre, would be about \$1.45 per bushel, excluding the land charge. Now, if we have an interest charge on the land, the investment cost then would be \$144 per acre, or for each bushel, the land charge would be \$1.60. So, other than land, the cost would be \$1.45, and for land, the cost would be \$1.60. Thus, the land charge is more than the other costs for growing the barley.

So, is the cost of production of barley \$1.45 or is it \$3.05 a bushel? What is our goal? We have to decide that and try and make a policy consistent with that goal.

Let us look at wheat. In Wyoming, there is a bulletin that we have updated somewhat that would indicate that the average cost of producing hard red winter wheat for 1978 would be \$4.41. An Oregon bulletin, and again updating a little bit on that, would indicate that the cost would be about \$4.72 per bushel. In table 2 we have compared current costs with a current price and a 100 percent of parity price. There is a very substantial difference between either the costs of production, or the parity price, and the current selling price. In general, wheat out in our part of the country has a selling price of about \$2.70 a bushel, the cost of production, including this land charge, might be \$4.60. So, there is a very substantial discrepancy there. Barley, corn, hay, and corn silage show similar differences.

In looking at this matter of cost of production basis for pricing, it is interesting to look at the USDA production costs by region and the related projections by Doane Agricultural Service. As an example, we have compared—in table 3—some of the costs of production for hard red winter wheat for various parts of the country. In general, we find that the costs per bushel varies substantially across the country.

As an illustration, in the Central Plains, the total cost, excluding the land charge, would be in the neighborhood of \$2.15 to \$2.45; in the Southern Plains, \$2.90 to \$3.42; in the Northern Plains, only \$1.89 up to \$2.13; in the Southwest, perhaps \$2.28 to \$2.42. And we would add a land charge to that, according to the Doane report, of \$1.12 in the Central Plains and Southern Plains; about \$1.42 in the Northern Plains, and about \$1.16 in the Southwest.

Perhaps the most interesting part of this particular piece of information is that land charges are a large component of the cost of production, and that as other costs may be lower in a certain region, land costs tend to be high. That makes sense. If a farmer can go out and buy land where his costs of production are low, he would tend to pay a little more for the land—the land is worth more.

A final comment, perhaps, on this matter of a land charge, is that Government regulation of public utilities certainly provides for a return on land and other fixed assets. Certainly, the inheritance tax provisions often force sale of land, so that beginning farmers must pay for land whether or not the farm was in the family. We give somewhat favorable tax treatment to nonfarmers to go into farming, but the price situation and Government policy is unfavorable for a farmer to begin on his own in farming.

In summary, the question devolves to whether or not the policy should be to manipulate prices or incomes to an amount above the market equilibrium. My judgment is that we must do so by some means for stability and to protect a vital industry. The problem is how it can be done efficiently and equitably. And with that, I would like to turn to some comments on the subject of production adjustment as contained in this particular bill.

There are some alternative methods to supporting prices, to making the farming situation somewhat better; there are some alternatives. First, the Government could step in with price support payments to make up the price difference. This might involve direct Government payments to farmers. The main objection to this is usually that the Government program is too costly and the complaint that payments go only to large growers. There is, perhaps, another option on direct payments. This option might be to disregard commodities altogether, and simply make direct-income payments to farmers. This is a lot simpler and no more expensive, but generally held to be politically quite untenable.

The second possibility is to work on increasing demand. We could attempt to cause a larger quantity to be taken at a given price, so we might force the price up to a target, which is at a larger quantity of use than formerly. The very great foreign demand in the early seventies was an example of expanded demand and favorable prices. There have been a number of programs, such as food stamps, school lunch subsidies, and other related attempts to increase the demand. These programs have met with only limited success, at best, as far as expanding farm markets is concerned. The basic reason is the inelasticity of the human stomach. The vast majority of Americans have ample food. Some diet changes might be advisable, but demand expansion is severely limited.

More success has been had in attempts of expanding foreign demand. Around the world, bellies are not full, but these countries are

where people are hungry and they cannot afford to buy more food. Programs in the past, such as Public Law 480, have sought to combine demand expansion with a price support program, but in many cases—and I have talked with people from India and Bangladesh and other places—these subsidized sales or gifts to these poor countries are met with some reluctance, because, even as gifts, there is uncertainty of continued availability of these commodities and there is a tendency for the local agriculture systems to relax when food is not critically short. Other countries producing for export markets have also complained of dumping and price undercutting.

A third option, then, for effecting changes in price is to control supply. This is the thrust of Senate bill 2626. If we have a decreased supply, then at any given price, a smaller quantity will be produced. Due to the relatively inelastic demands for many agricultural commodities—that is, we have a relatively large change in price associated with a small proportional change in quantity—a small adjustment in supply often provides a substantial price change.

There have been numerous efforts of voluntary supply control. Killing baby pigs, not planting part of the acres, dumping milk, and so forth, have seldom, if ever, gotten much beyond the publicity stage. The reasons for the ineffectiveness of these voluntary actions lie in the large number of producers whose financial capacities to withhold vary widely, whose commitment to a cause vary widely, and whose bankers have varying degrees of sympathy with the program, but they have a certain insistence that the farmers meet the terms of the loans that they have. There is just not the incentive to individuals to stick to a voluntary program where others can stand to gain more than the withholder if the nonparticipant goes right ahead with full production.

Senator, I do not know how much time you would like me to spend. We can spend another few minutes here if you would like me to hurry through.

Senator HODGES. Go ahead and hurry through, and then I have got some questions that I would like to ask you, if you do not mind.

Dr. ANDERSEN. Fine. The conservation reserve, acreage reserve, and so forth, have been examples of things that have been done to control supply. A major problem is the tendency for the poorest acreage to be diverted, and then water and fertilizer and other production units concentrated on the remaining acreage, so that production is not much affected. This, too, has evoked adverse comments on payments for not producing and a general wave of antagonism.

Senate bill 2626, of course, would avoid payment programs. It is simply a reduced supply kind of a situation. There would be some problems on various schemes that might be an attempt to cheat on the system, but overall, I should think, the system should have appeal to the Congress and others. Although consumers would be hit with slightly higher food prices, the Government program cost could be fairly small. Consumer costs will be discussed in just a minute.

In review, then, of the options for increasing prices, the basic options for a solution to the problem are few. There can be Government price or income supports, or there can be demand expansion, or there can be supply contraction or production adjustment. There is not any magic. The Government cannot, without cost, make a declaration

which cures the problem. There is no easy way out. There are some hard ways out.

I would like to suggest a possible modification of the production adjustment feature of Senate bill 2626. As the proposal stands, each producer would be required to reduce his size of enterprise. There is so much of our system that depends on large-scale operations that this would quite seriously hamper efficiency of production. The proposal would be strengthened by having a banking system. This would improve the efficiency by facilitating transfers of production cuts or production rights among farmers. Inefficient farmers could benefit by selling their production allocation to more efficient operators or to those who might have a machinery complement exactly matched to their acreage. Efficient operators could continue to use their management and other resources to produce goods at low cost.

My recommendation is that the ASCS offer in each county a program to facilitate transactions by acting as an intermediary among buyers and sellers. Bids and offerings would establish the price. Of course, this provision would require establishment, or maintenance, of a normal yield base to serve as the basis for transfer of production rights. Increased freedom to choose the manner and the size of operation would result from the banking scheme.

The entire production adjustment provision does limit the freedom of farm operators. On the other hand, grinding poverty is an even more serious constraint. My judgment is that the production management system is advantageous to farmers and consumers alike, if there is a long-term commitment. It is necessary for a stable, viable food producing system.

Just some other general comments: It has been stated that an increase of farm prices of 30 to 50 percent would cause an inflation rate of 6, 8, or 10 percent a year. It seems impossible. In the first place, an increase would be a one-time event. This is not a rate of inflation which implies a repetitive annual increment to the problem.

A one-time rise in prices for farm products would result in the same expenditure by consumers buying fewer goods, or a large, expenditure to buy the same goods. This, of course, is by definition, a price inflation, but it is a one-time occurrence.

How much would this one-time inflation amount to? Let us assume a farm price increase of 50 percent. The farmer's share of the consumer's food dollar is about 35 percent. Consumers spend about 18 percent of their income on food. Thus, for the price rise at the farm of 50 percent, the appropriate estimate of inflation is 50 percent times 35 percent times 18 percent, or a one-time increment of 3.2 percent in the consumer price index that would be attributable to a very large increase in farm prices.

If there is lack of competition in the marketing channels, which leads to a larger food price increase being passed on to consumers, these increases should not be attributed to the farm price.

Another comment has been made that there would be a very large decline in the gross national product and widespread unemployment if farm prices were increased sharply. Apparently, there has been a case of neglect or forgetfulness by some analysts. Clearly, a boost in agricultural incomes would result in increases in employment, and in expenditures and investments by the farm sector.

This increase would be magnified by the multiplied effect of these farm input suppliers making further investments and expenditures. Our evidence is that the farm sector expenditure multipliers are as high or higher than anywhere else in the economy. Thus, we would expect that decreases in economic activity due to a fall in expenditures in nonfarm goods would be offset by an increase in economic activity associated with agriculture.

We should expect some decrease in economic activity because of higher farm prices and slightly fewer consumer dollars to spend on other goods. But a reasonable price should not provoke any catastrophe.

Consumers object to any increase in food prices. A Harris poll indicates that a 5-percent increase in food prices would be acceptable to a majority; a 10-percent increase would be somewhat unacceptable. Of course, if we are talking about a 17-percent increase in food prices, which we can assume from a 50-percent increase in farm prices, then that would be met with some adverse comment by consumers.

So, there is somewhat mixed reaction for an answer. Of course, we may not be talking about anything like a 50-percent increase in food prices.

Just a few final comments: I think it would be prudent and useful to establish a stockpile, which would not be regarded as burdensome surplus, but as a useful buffer and insurance, and this can be afforded.

The second general comment is that farmers are in difficulty. Some are worse than others; a few have no problems at all. But the general situation is that they have done their job so well for us all that they have dug a pit for themselves. We assert that some help is warranted to maintain a stable and viable industry.

Various forms of help are possible, but we think it not politically feasible to provide direct Government payments. But it is feasible to facilitate a mechanism of supply controls. Farmers themselves, because of their large number, cannot manage this in a voluntary way. Senate Bill 2626 could be a productive step to meet this particular goal.

The fourth general comment is that the productive capacity of agriculture is too great to let it go unleashed. Too many will suffer from the great burdens of overproduction. There would be too great a risk of the system self-destructing. Agriculture cannot compete, unfettered, in an economy where other sectors can manage production.

The fifth general comment is that demand expansion has little potential. Continued efforts may be worthwhile, but this is not the general solution.

The sixth general comment is that parity is a poor measure of equity to agriculture. It is not really very useful. It seems evident that an increase of price of agricultural commodities to 100 percent of parity would create too urgent signals for the system to produce more. Land values would be inflated. It would also cause consumer protests, although the effect on consumer expenditures would be less than some would have us believe.

We would suggest a program designed to bring agricultural incomes only part way up to what would be implied by the advocates of 100 percent of parity. An immediate, sharp increase to 100 percent of parity would cause too much stress in the livestock industry, and to consumers and to foreign markets.

And a final comment: Perhaps none of us would choose to have even infrequent, serious shortages of food, in preference to the overproduction problems. Let us take appropriate steps to stabilize and provide for a viable, long term, productive agriculture. Legislation of help to agriculture is immediately needed.

Senator HODGES. Doctor, thank you. I have a few questions. I assume that in studying agricultural economics, you have to study or know something about economics, generally.

Dr. ANDERSEN. My degree was from Iowa State University in the department of economics. They offer degrees both in economics and agricultural economics. The department that I now head is also a combined department of economics and agricultural economics.

Senator HODGES. Let me phrase it differently. Why should there not be, in computing any cost of production, a charge for land? Is there any other segment of the economy that takes its major source of production, whether it be a physical plant for a steel mill, or whatever, and does not charge or expect some return for it?

Dr. ANDERSEN. Well, I guess the only real comparability is in regulated industries, Senator. Certainly, in the regulated public utilities, charges for the fixed assets are included in calculating allowable returns.

In the steel industry, for instance, there is a market price; of course, it is not a completely open and free market. Certainly, I think that the fixed assets are paid for in that kind of industry.

In agriculture, I think the reason why we have not seen general acceptance of the idea of a charge for land is because of the inflationary nature of land prices. We have noted that farmers who are speculators and investors who own land have realized an increase in their net value because of this inflationary pressure on land. And I think probably that there is some reluctance to build in a price for agriculture that would further inflate the land values.

Senator HODGES. Our bill S. 2626 says that when you take into consideration the price of land, it shall be done not on the basis of the market value, but the basis they use now, or allow you to use, as a means of computing value on the estate tax return; that is a rate of return, which, say, on soybeans would put it on the order of \$500 an acre.

In other words, it would have an economic basis, as opposed to an inflationary, speculative basis. Does this make sense to you, to approach it in that way; that is, approach a charge for the productivity of the land?

Dr. ANDERSEN. I think that would be a reasonable kind of compromise. Of course, in our State and in many others, there are property tax provisions—the Greenbelt amendments, or whatever they are called—whereby these land values are calculated each year. So, I think that would not be an unreasonable approach, and the information should be generally available.

Senator HODGES. I am interested in the cost of production which you gave, particularly with wheat. It just appears to me so—I call it second grade economics—that if you very long try to sell at a price of about half of your cost of producing, you are just not going to stay in business very long, are you, without refinancing, say, with your in-

flated value of land, which has the same effect as what we are talking about now, does it not?

Dr. ANDERSEN. Of course, that is what has been happening.

Senator HODGES. Yes.

Dr. ANDERSEN. Our farmers have been refinancing.

Senator HODGES. And putting it into production, which, would you not agree, then, is simply a short-term solution?

Dr. ANDERSEN. It is, until they can sell out. It has been a very serious matter for the cattle industry, particularly in the West during the last few years, and probably has in the South, as well. Refinancing and coming up with additional operating capital—farm and farm until it is gone is the general way we speak of it.

Senator HODGES. The joke I have heard ever since I can remember is about the man who inherited a million dollars and they asked him what he was going to do with it, and he was going to farm until it ran out.

Dr. ANDERSEN. Some of us enjoy it that well.

Senator HODGES. I do, too, and I am enjoying it less. But you would agree, first of all, that it is proper, economically, to put some charge in for land, and thus we just have a question of what amount?

Dr. ANDERSEN. Yes.

Senator HODGES. Does it not astonish you that the Department of Agriculture consistently fails to put in a very significant land charge? Is this not economically unrealistic?

Dr. ANDERSEN. I am not sure just what has been done. It is my understanding that about a 2-percent return—

Senator HODGES. At its lower value, not at the inflated value.

Dr. ANDERSEN. Is it the lower value? I have not been familiar with just what those figures were

Senator HODGES. Yes, at the lower value.

Dr. ANDERSEN. I see. That seems unreasonably low.

Senator HODGES. Does any other industry you know of compute a reasonable rate of return on their investment at 2 percent?

Dr. ANDERSEN. No; but agriculture is more fun, I guess.

[Laughter.]

Senator HODGES. The theory we constantly seem to hear here in Washington is that you ought to enjoy being out of doors, and therefore even though you are losing money, you ought to enjoy farming.

Dr. ANDERSEN. I believe that there are some other reasons, and I think the tax provisions probably contribute to this. I own a small farm and I have enjoyed a very substantial appreciation of the value of this farm in the past 5 years, or so, that I have owned it. Certainly, from farm operations, I have made no money off that; it is a losing proposition. It has been good for my tax returns each year.

Senator HODGES. But you, I take, do not make your living off the farm.

Dr. ANDERSEN. I do not make my living off that, by any means. There is another thing, I think; some foreign governments are offering very substantial tax credits for ownership in American land, and that has caused a wave of foreign purchases in our part of the country. The Dutch Government, I believe, offers a \$6 tax credit for every dollar of principal payment on American agricultural land. There have been a lot of Dutch people in there recently.

Senator HODGES. You indicate on page 17 that there is generally a lack of competition in the marketing channels of agricultural products. Could you expand on that?

Dr. ANDERSEN. The comment that I would make is that if we hear of a 10-percent rise in the price of steel, General Motors, Ford, and the other automobile producers quickly announce about a 10-percent increase in the price of cars. In other words, they pass on this percentage.

Senator HODGES. Just simply pass it on.

Dr. ANDERSEN. Not only for the steel costs, but simply add on that kind of constant percentage. And there seems to be that kind of tendency in the agricultural marketing channel. If the farm level price increases 10 percent, then food in the grocery store tends to go up by about 10 percent. This kind of a constant passthrough indicates, I think, some lack of total competitiveness in this marketing channel.

Senator HODGES. Either that, or they get together and have an understanding.

Dr. ANDERSEN. That is what I mean.

Senator HODGES. One thing that must be distressing for the American farmer, looking at low prices, are the many ways our Government is assisting other areas of the world to increase their agricultural capacity and productivity, which then compete with our products on the world market.

Immediately coming to mind is Brazil; I think the World Bank recently loaned them something on the order of \$100 million to increase their port facilities so they could better market and get their soybeans out. I know also that the World Bank and others are assisting in the development of palm oil, which is directly competitive with our various crops that produce oil.

Could you expand on that, and do you see this as an inconsistency by a Government, on the one hand, talking about wanting a healthy agricultural economy in this country, but assisting the overseas competitors?

Dr. ANDERSEN. I guess the entire effort of the Agency of International Development and the State Department is to increase the well-being of these people. Certainly, in these developing countries, almost everything they do is agricultural, so perhaps the entire effort here is somewhat competitive with our interest in markets for agricultural products.

However, in many of the countries of the world that I have been in, they simply cannot afford to buy our agricultural products. Their plight will continue unless they can, in fact, be somewhat more self-sufficient in their production. Perhaps we could look a little more thoroughly at an international economy and suggest that perhaps there are things that they could do better than produce agricultural commodities.

Most of them have somewhat selfish interests in becoming self-sufficient in food, particularly, and do not want to depend on any outside sources, particularly for military reasons.

Senator HODGES. And, also, the Government has proven itself unreliable in furnishing that. Would you agree?

Dr. ANDERSEN. Certainly. Our Government has not always been consistent in making these commodities available, for good reason.

We simply have not had the reserves to come forth with these commodities at all times.

Senator HODGES. And as the price goes higher in this country, there is increased pressure by our politicians in this country to manipulate the goods in this country so that the prices stay low, is there not? Have you not seen that, looking at the farm accounting in the last 4 or 5 years?

Dr. ANDERSEN. Certainly.

Senator HODGES. And, again, I say that our Government is committed essentially to a cheap food policy.

Dr. ANDERSEN. Well, we have more consumers than farmers. That is not too surprising, I think.

Senator HODGES. It may be good for the consumers, but it is not very good for the farmers.

Dr. ANDERSEN. It is good politically.

Senator HODGES. Lastly, would you agree with the statement I made when I opened that we are the only industrialized nation that does not support our agricultural sector at some minimal level?

Dr. ANDERSEN. I am not aware of the policies of all the industrialized nations. Certainly, that is true for very many countries. The European Economic Community—

Senator HODGES. Japan.

Dr. ANDERSEN [continuing]. And Japan are certainly very much supportive of this. The Canadian, Australian, Argentine—I am not familiar with the provisions of just how they are operating currently.

Senator HODGES. Doctor, thank you very much. I appreciate your being here, and your testimony.

Frank Condie, doctor of accounting, Utah State University.

Just proceed, Dr. Condie.

#### STATEMENT OF FRANK A. CONDIE, DOCTOR OF ACCOUNTING, UTAH STATE UNIVERSITY

Dr. CONDIE. Well, Mr. Chairman and committee members, I am happy to be here. Let me introduce myself. I am Frank Condie. I grew up on a dryland wheat farm in southern Idaho, but because I got a wheat rash every year and did not like harvesting, I told my father that I did not want to be farmer and that I wanted to be an accountant and work in a plush office.

So I left the farm, got a degree in accounting, worked for various CPA firms, and eventually got a doctorate degree in accounting, and am now teaching accounting at Utah State University.

In the meantime, though, my feelings about the farm changed, and when my father had a stroke and I could see that the farm was going downhill, I told my mother that as soon as I got back to Utah State, I would help her run the farm.

In the course of my years there, I read a lot of information about the cost of raising a bushel of wheat. I thought, being an accountant and a farmer, I ought to be able to determine the cost as well as anyone. So, in 1976, I prepared a study on what it cost to produce a bushel of wheat in southeastern Idaho [see p. 161]. I updated that study for 1978 [see p. 153].

Now, being an accountant, I would feel more at home if I had an overhead, a transparency, and a blackboard, but let me do my best without those.

Senator HODGES. Fine.

Dr. CONDIE. I broke down the costs by type of operation and by expense, as you can see in exhibit II [see p. 153]. And you can see that there is so much per acre for labor, fuel, repairs, taxes, and others. These are all direct expenses, out-of-pocket expenses.

Then I come up with a subtotal, and then I have a column for depreciation, and then interest on the equipment and the land. Now, let me turn to my own personal income statement, and if you would not mind turning to that, Senator, it is table 1 [see p. 150].

This is my income statement from schedule F of my 1040, showing what I have earned on the 1,344 acres of dryland wheat in southeastern Idaho. And I think these figures of net income bear up what you said in your introduction, Senator, that there has been wide fluctuation.

Yes; I made some money in 1973, when prices started going up. But you can then see what happened from 1974 on. Now, I might add that my father ran this farm with less than 1,000 acres. We were not the most wealthy people in Preston, Idaho, but we were above average back in those days. Of course, you can see from these figures that if I had this as my only income, we could not survive, with 1,344 acres.

Senator HODGES. What would the value of those acres be?

Dr. CONDIE. I have a value of \$300 per acre. However, just 20 miles away, a farm comparable to this one sold for \$400 an acre.

Senator HODGES. So, you have have an asset of somewhere close to half a million dollars, and you cannot survive on it?

Dr. CONDIE. That is right.

Now, if you will turn to table 2 [see p. 151], I have my actual costs for the last 2 years; expenses, direct, and depreciation and interest. And then, being a cost accountant, I have this standard cost per acre.

But you can see, for 1976, at least for the direct costs, I was not very far off. In fact, I was within 95 percent of this standard that I worked out. For 1977, last year, I was within 85 percent, but I have three stars there. Other expenses: I did not spray for weeds last year, for the first time in history. It was too dry, and I did not need to.

I did not spray for Canada thistle, because I did not have any money. This is a noxious weed that is almost out of control in our area that needs to have something done to it. I also only fertilized 180 acres of the 672, also because of lack of money. I may pay for that this year and in the years to come; I need to fertilize every year.

But you will notice, then, that when I get down to depreciation, I only have \$9,500 in depreciation in 1977 and my standard calls for \$15,000. Now, that standard was based on the price of new equipment in February 1978, and I have a schedule of that; it is schedule E [see p. 158]. Senator, if you would not mind referring to that. For the others, I have a schedule, also.

I need \$215,000 at today's prices to equip my farm to run it properly. Now, if you will go back to table 3 [see p. 151], I will show you my own depreciation schedule for my farm, which is a typical farm in southeastern Idaho.

You will notice that I have put in \$100,000. Now, I bought a D4D tractor back in 1969. I depreciated it over 8 years, and so I have no depreciation now. I would like to replace that tractor, but until I get some extra money, I will not; I will keep it going.

Senator HODGES. Do you have any idea of what that costs now?

Dr. CONDIE. Yes; \$36,000, and that is on this other schedule (schedule E).

Senator HODGES. In 9 years, the cost has gone from \$13,400 to \$36,000?

Dr. CONDIE. That is right.

Senator HODGES. And what is the difference in the price of wheat in 9 years?

Dr. CONDIE. If you go back to schedule 1, Senator, I have given you the high and low of what I sold for during the last 6 years. You can see it there at the bottom.

Senator HODGES. Yes.

Dr. CONDIE. From all the information I could get this year, the price of wheat was not going to do anything, and so I sold half my crop for \$2.12 back in August. It has made a significant movement upward; it is now almost \$3 in southeastern Idaho.

Senator HODGES. I always know it is not going to move up until I sell. I always thought I was the guy holding it up; I am glad to know it was you, too. [Laughter.]

Dr. CONDIE. Two years ago, wheat was selling for about \$3, and I said, "No, I am going to wait until it goes to \$3.50," and I watched it go down to \$2.50.

That is the extent of my testimony, Senator, these schedules I have prepared speak for themselves. However, if there are any questions, I will be very happy to try to answer them.

Senator HODGES. I am particularly glad to see what you have here. I know that one individual's operation, obviously, has to be looked at overall. But I am convinced, and I have said many times—not just since I have been here, but over the last 8 or 10 years—that most farmers, if they look closely at their operations, discover that they are in difficult economic straits.

I think that what you have done is apply a strict economic look at it. And based on your background in economics, would you agree that you have to have some reasonable return to your land, or you just simply cannot stay in business? I am talking about land at the inflated price; I am talking about, as an asset, you have to have some return.

Dr. CONDIE. Turn to table 4 [see p. 152], will you, Senator? I do want to mention that here. "Wheat Price Needed to Cover Various Costs"—for example, if I were to give my son—and by the way, he would like to farm—just give him my land and my equipment, and if he had a source of income so that he could eat, in order for him to break even, it is \$1.71. You can see that at the upper left.

But what if I say to my son, "Look, I have a half a million dollar asset. I think I ought to get at least 8 percent to live on in my retirement years." Then, he says, "Well, look, if I am going to run a half a million dollar asset, I think I ought to get about 8 percent."

So, in the upper right, if he pays his direct expenses, if he buys his equipment new—he either leases it or buys it, with the interest—

and then pays me the \$43,200 and he gets \$43,200, then he has got to have \$6.30 for him to break even.

Senator HODGES. In other words, if you treated farming like you would any other enterprise?

Dr. CONDIE. Yes.

Senator HODGES. You would not think of taking a half million dollar asset and not getting a return on it if you were not a farmer, would you? I understand farmers approach it differently.

Dr. CONDIE. I could tell my son, "If you cannot pay me \$43,200, I will sell the farm and buy some bonds and get my \$43,200."

Senator HODGES. And you could do that, could you not?

Dr. CONDIE. Yes; I could.

Senator HODGES. We have sat in the sun too long.

Thank you very much. I appreciate this information.

Dr. CONDIE. Thank you, Senator.

Senator HODGES. Lonnie Arbuthnot?

### STATEMENT OF LONNIE ARBUTHNOT, COLORADO AMERICAN AGRICULTURAL MOVEMENT, LAMAR, COLO.

Mr. ARBUTHNOT. Mr. Chairman and members of the Senate Agriculture Committee, my name is Lonnie Arbuthnot of Lamar, Colo. I am a member of the advisory board of the Colorado Wheat Administrative Committee, one of the earliest supporters and advocates of the American Agricultural Movement, and a family farmer of wheat, feed grains and cattle.

In both past and future testimonies, you have and will hear those who are testifying say that they are proud and privileged to be able to testify before the committees. I feel neither pride nor privilege, but rather shame that we are forced to spend time and money that we can ill afford to come here and testify before you.

It is high time that Congress bites the bullet, takes the initiative, and exhibits the leadership necessary to legislate sensible long-term solutions that benefit not only agriculture, but the whole economy. The 1977 Agriculture Act has proven itself to be insufficient and the recent bandaid measures are nothing more than small steps to alleviate one of the most serious problems this country has had to face—the economic strangulation of producers of food and fiber in this country. The thousands of farmers and ranchers who demonstrated here in January and April were not telling you lies; agriculture is in trouble, both here and abroad. The members of this body must not shirk its responsibility to help protect the most important segment of the world's economy, American agriculture and its ability to produce in quantity.

In order to retain this ability to produce, it is imperative that we alter the mistaken theory that agriculture has to produce at the lowest cost per unit of production. How long will it take this country to lose this great asset if Congress allows the USDA to continue to pursue the policies that has taken another 450,000 of the farmers and ranchers from the agricultural scene in 1977 alone? Even the USDA has determined that the most efficient producer of food and fiber are the family type operations. Do you want to see the day come that we finally get

down to just two producers and then one of them will have to go, as one is bound to be more efficient than the other?

In all of the crop reports issued, there is one crop missing that is probably the most important of all—our sons and daughters. We raise farmers and ranchers. All the books in the world cannot instill the love of land and knowledge that is required to be a successful producer. There is not any substitute for on-the-job training. The intangible benefits of the family-type operations are such that I seriously doubt a value could be placed upon them. If we are to continue this heritage, there has to be profit motivation.

How come the word "profit" seems to upset everyone when used in conjunction with agriculture? The profit motive is responsible for this country's greatness. Productivity should be rewarded and not punished, as the situation now exists in agriculture. If the rest of the economy was as productive as agriculture, there would be no inflation. The economists keep saying that we have to use the inflated value of our land as our profits. However, the only way to utilize this value is to sell out or borrow money against it. This money has to be repaid at some point, and the only way to do so is if we make profits.

I cannot believe that Congress is going to take as cavalier an attitude as the President of the United States has taken in regards to agriculture. The President's statement that "there are good times ahead for those that survive" is insensitive to the human rights of those who are pushed out of agriculture for one basic reason—unrealistic low prices that do not give the vast majority of producers a chance to make a profit. The cost price squeeze that agriculture faces today is now forcing both young and older producers out of business. There are many people like myself who are not encouraging our children to follow our footsteps into agriculture, as it is too uncertain a future at the present time.

I would like to interject one statement. I happen to be one of these producers who do not own land; I am a renter, and we are being forced out. I do not have this inflated land value to fall back on.

I know many of you are sick and tired of looking at the many proposed farm bills that you have considered in the past 9 months. The administration said the 1977 Agriculture Act was landmark legislation, and that you would not have to worry about any more farm legislation for the next 4 years. It was landmark legislation in that it would almost certainly guarantee the demise of agriculture as we now know it. The attempts that have been made by the administration and Congress to shore up the current farm bill are woefully inadequate and are not the solution. You can change the diapers, but it is still the same ugly baby.

The current and past production and subsidy bills have already proven that they are no longer viable and workable. It is time for legislation that will allow agriculture an opportunity to receive fair prices from the marketplace and not through Government payments.

This bill, S. 2626, meets all the necessary criteria that will let agriculture receive its prices from the marketplace. I now would like to highlight what I think are some of the key provisions of this bill.

Most everyone in agriculture will accept as fact that the loan rate of the United States sets world prices. In support of that statement,

I now submit as part of my testimony the excerpts of an address to the National Association of Wheat Growers' annual convention on January 18, 1978, by Sir Leslie Price, Chairman of the Australian Wheat Board, which is attached to the back of this testimony.\* Several of his main points were: The U.S. loan rate is the only floor in the world price of wheat; the United States is the world's largest exporter of wheat and, therefore, the United States determines the world price levels.

Also, reducing the price of wheat does not mean that overall world trade would greatly be increased; any attempts by the United States to pilfer other exporting countries' markets will be met with stiff resistance; the U.S. surplus stocks are a major worry to the other exporting countries; and last, if it were possible for all wheat producers to compete at higher levels, the U.S. wheat grower, the world's wheat growers, and the U.S. Treasury would all benefit, and so would the U.S. balance-of-payments position. That was the end of his excerpts.

This bill not only addresses itself to long-term solutions, but it also would make it possible for agriculture to receive benefits and relief immediately. The higher loan rates would enable agriculture and their lending institutions to sit down and figure what crops would be most profitable in their areas. This would be the best insurance policy that America can take out if we want a continued supply of not only abundance, but also the highest quality of reasonably priced food for future generations.

Other than the loan rate, the key provision in this bill is the authority for the formulation of a National Board of Agricultural Governors. The grassroots populace feel that we are not being well represented by those who contend that they speak on behalf of agriculture. The 15 agricultural members would have to be actual bonafide producers of food and fiber. We are not talking about processors, shippers, or people who have not been on the farm for years, but producers who are involved in the everyday decisions of farming and ranching.

Once again, I would like to jog your memory. The thousands of demonstrators here earlier this year were producers, and as a group, they were neither young, middle aged, or old. Instead, they were a cross-section of all age groups and, most importantly, they represented the major food and fiber producing areas of the United States. There are those who keep telling you that the biggest response came from the Wheat Belt and the areas hit by drought. Even if this were true, it should be considered a national disgrace that we have allowed agriculture to reach the point where one natural disaster can bring about this kind of response. These producers came to Washington to tell their story. The prices and provisions of the new farm bill were insufficient to meet the consistently rising costs that we are facing. If nothing else, a board of producers is needed to give credibility back to the U.S. Department of Agriculture. Actual producers have no representation in the Department of Agriculture today.

Could I make another little response?

Senator HODGES. Sure.

\*See p. 250.

Mr. ARBUTHNOT. If Mr. Fitzgerald is representing the Department of Agriculture, that is one reason I would like to have a board of producers there. He cannot even speak on behalf of his testimony and he is representing the Department of Agriculture.

Many producers are of the opinion that there should not be anyone but producers on this board. I personally feel that one of agriculture's biggest problems has been the lack of communications with the rest of the economy. If the six members of the board who are not producers evaluate the information provided and we can prove the actual costs of production to them, I feel that they will be more than happy to inform the rest of the economy that the loan rates are justified. I also hope that this board can educate everyone to the necessity of keeping as many producers as possible down on the farm.

Congress should want to keep the lines of communication open with actual producers in order to know the truth. Many producers, like myself, have been aroused out of our complacency and have come here to testify on the various bills. This bill had the input of producers from all over the country. The provisions contained in this bill are rapidly gaining acceptance throughout the land because of the simplicity and far-reaching effects it will have on their lives.

Please take time and effort to study and consider the possibility that this new concept in agriculture policy is feasible. This bill does not guarantee anyone a profit, but it does give me or any other producer a chance to keep our heads above the water if we are efficient and productive.

I am not an economist nor a statistician, but a family farmer who is tired of hearing the old cliches about huge Government giveaways to the farmers, how we get our welfare checks, or why pay farmers for not planting. Allowing us to get fair prices from the marketplace is the solution.

Thank you.

Senator HODGES. Lonnie, I know you have traveled a good deal with the American Agricultural Movement into other States. Would you just briefly outline some of the States you have been to and what sort of response you have gotten from the farmers themselves to 2626?

Mr. ARBUTHNOT. Well, I have been to 12 different States and over 114 meetings for American agriculture.

Senator HODGES. Outline those States, if you would, just briefly.

Mr. ARBUTHNOT. The States of Washington, Oregon, Idaho, Utah, Montana, Wyoming, Colorado, Kansas, Ohio, Iowa, Wisconsin, and Missouri.

Senator HODGES. And how many meetings?

Mr. ARBUTHNOT. 114.

Senator HODGES. And what sort of response have you gotten from average farmers, as they read the provisions of S. 2626?

Mr. ARBUTHNOT. Well, I want you to consider that I stayed with these farmers, and I am proud to say that at all the meetings I held I stayed with producers who were living on the farm. They were neither large nor small; they were just an average bunch of farmers.

As I have contact back with them, the people I stayed with especially can understand that the provisions in this bill can meet the criteria they need to survive in farming. They like it, and I think that is the key, to actually talk to the producers.

You know, if you do not mind my making reference to the Department of Agriculture's testimony, they say that if we increase the loan rates, our landlords will increase our rents. I find that completely contrary. My landlords, when we have higher prices, are much more receptive to a lower rent than they are when we get lower prices. When we get low prices, they start not investing back into the ground to help make the ground more productive. It is when we are facing the low prices that I am asked for higher rents proportionately.

Senator HODGES. So you have found a good reception, then?

Mr. ARBUTHNOT. Basically, where I spent most of my time was in the State of Washington, and the response there—well, I went back up there and they really like this bill. They say it is something they can live with and it approaches more products than any piece of legislation they have seen.

As an example, the Columbia Basin area, which is small farmers that homesteaded in there, they really like the bill and they are pushing S. 2626 very heavily. They raise asparagus, grapes, sugarbeets, potatoes, and many other crops. They are just a very diversified area, and it meets their problems.

Senator HODGES. OK. Thank you very much.

Mr. ARBUTHNOT. Yes, sir.

Senator HODGES. Evan Koller?

#### STATEMENT OF EVAN O. KOLLER, CORNISH, UTAH

Mr. KOLLER. Mr. Chairman and members of the Senate Agriculture Committee, I appreciate this opportunity of appearing before you and present testimony on Senate bill 2626. I will read this testimony and possibly digress a little bit from it. As we go down, if you have any questions, I will try and answer them.

Senator HODGES. Fine.

Mr. KOLLER. My name is Evan O. Koller. I reside on a farm at Cornish, Utah. Our farm—and I say “our” because it is a family-type farm—straddles the Utah-Idaho State line. We have lived in Idaho most of our lives, but recently built a home at a choice location on our farm which happened to be in Utah.

Utah is administered out of a different agricultural area office than Idaho. It has been our fortune, or misfortune, to experience the differences in administration of States and areas.

Presently, our farm is a dryland farm bordering on an irrigated row crop and dairy area. We are specializing in wheat and barley. We have in the past owned and operated irrigated land with both flood and sprinkler irrigation systems. To improve our efficiency and survive the cost-price squeeze, we have tried to grow and specialize.

Under the farm and tax policies that have been and are administered, it is a treadmill in hell. If the cost-price squeeze does not get you, the taxman or insurance man and attorneys will.

My father died while I was in the Army after the Korean war. I came home from the service to run the farm for my mother, as well as my own farm. One of the first things I learned was that the people running the agricultural office did not like the way my father farmed. He had been annual cropping much of his farm to spring wheat. They informed us we were not supposed to farm that way and they reduced

the history on that farm by 50 percent. They not only reduced the acreage history, but they set the yields the lowest in the county.

We were not the only people that committee was prejudiced toward. I watched them take 40 acres of wheat history from a very successful neighbor, just to prove a point. Forty acres of history had been omitted by a mistake. When he pointed this out to them in an appeal, they let him know there were others that needed that wheat worse than he did, and they did not like his posture. They took it away from him to show him they could do it.

That committee is gone, but others come along that are like them—men who lack vision and resist change and want everyone to stay in the same rut. We proved our yields long ago and not only raised our yields to more than double where they had set them, but raised the county average, as well. But proving yields is sure a hassle, and in many cases, impossible.

For instance, for people who are feeding cattle, and so forth, they feed much of their grains to cattle and have no records of what they feed. In our own case, the last few years we have mixed an awful lot of wheat in with barley and shipped it out, with no record of how much wheat went with the barley. In many cases, it becomes impossible to prove yields.

Idaho now understands annual cropping on dryland, but Utah does not. We have a small farm administered out of the Cache County, Utah office, which has been cropped annually to wheat and barley. It now has a beautiful crop of wheat on it which was planted last fall prior to the announcement of our present farm program.

If we were to comply with the present program, we would have to plow up 39 percent of the wheat on that farm. They have informed me they cannot allot the cropping history to that farm which it has, because they do not set normal crop acres that high in Utah on dryland.

Several years ago, I had an appeal in Utah with the same problem. They informed me then that they could not go along with annual crop on dryland in Utah because in the southern part of the State, they summer-fallowed 2 out of 3 years to raise one crop. Such a practice would destroy the soils on our farm.

I am glad those people do not buy my clothes. How would you like to wear average sized clothes? Average farm programs do not fit progressive individual farms any better.

When they took our wheat history away from us, we tried to develop alternate crops. We tried barley, alfalfa, grass seed, and safflower. Pacific Oil Seed, a company from California, came into our area and contracted safflower production. They said if they could get sufficient, stable production, they would build a plant.

We grew safflower in the place of other crops for 3 years, and encouraged others to do so, that we might get a plant and an alternate for wheat. Well, it did not work out. The company withdrew from the area and there was no further call for safflower.

In the meantime, barley histories were set. We did not have any. We had safflower history, and 20 years later we still had not rectified the problem because in order to give us barley history, they would have to take it away from someone else.

I have lived through enough envy, prejudice, and mismanaged and misguided farm programs to last me forever. As long as we have allot-

ments of acres and bushels based upon histories, we will continue to have these problems, for problems are built into such an approach. How do you think it would work if we based the right to fish upon how much you fished last year?

It is impossible for a county committee to equitably allot histories and yields among farmers on a historical bushel or acreage basis. Why? Because the variation in farms and rotations is exceeded by the variation in farmers. Further compounding the problem are such things as weather, insects, disease, weeds, advanced technology in machinery and chemicals, new crops or better varieties, and changes in the market.

All of these variables combine in different combinations to dictate changes in cropping practices and cause changes in yields on modern progressive farms. Forcing committees to attempt the impossible task of allocation is a waste of time and money and the source of most of the dissatisfaction with ASCS committees.

There is a much simpler, easier, and better way. It is embodied in Senate bill 2626. It has some similarities to our present farm law, but it is much better designed. Past farm programs have generally been diversion programs, transferring the problem from one crop to another. The farms that provided the reduction in production were those which had no viable alternate crops to divert the problem to. Past programs have not treated farmers equally.

It is imperative that we stop transferring the problem from one crop to another. The man who raises and markets alfalfa hay has been injured by allowing excess productive capacity to divert from other crops into hay and feed production. Senate bill 2626 stops and remedies the problem where it develops.

Some people are advocating that we use bushel or poundage allotments. Can you envision policing such a program? What do you do with the man who wants to market his quota and feed his excess? On cattle farms, how are you going to monitor how much they feed under a bushel allotment?

There is incentive here for people to black market their crops to other feeders at 50 cents below the market, or whatever. Policing this thing becomes a real problem under bushel or poundage allotment.

Then, what do we do with our excess productive capacity after we have stored all we want to? You see, a set-aside or production adjustment is needed in the final analysis. Some people have advocated storing wheat, for instance, on farms. But, eventually, you come to a period where you have got all the bins full that you want to build.

After you have done this, then what do you do with your excess productive capacity? You have got to lay some land out and have a production adjustment of some kind. So, in the final analysis, this is what we are looking at. So, why not make it simple and equitable to start with?

Some people are advocating bushel allotments and proving yields with a 5-year history, using the 3 highest years. A man from Idaho Falls proved years ago in Idaho that that nonsense did not work. On a 1,100-acre farm, you could irrigate 100 acres of wheat 3 out of 5 years, and summer-fallow 1,000 as dryland. The other 2 years you could crop the whole farm to wheat.

That would give you an irrigated yield of possibly 100 to 150 bushels per acre on the entire acreage, although the summer-fallow dryland would probably only raise 25 to 30 bushels per acre. Under such an arrangement, fictitious yields and bushel allotments can be established, and there are different variations of the game. It makes finaglers, connivers, and cheaters out of people.

Senate bill 2626 is an equitable bill. It allows farmers to grow the crops of their choice. It allows them to shift to meet changing conditions. It is market-oriented. If production of a particular crop is greater than the market will absorb at a fair price level, the pace of production of that crop will be slowed and all producers thereof will be limited the same.

This bill has not been designed to perpetuate the horse and the buggy. Production will gravitate to those who can best produce it. High prices and/or low set-aside will coax production from other crops. Low prices and/or a high set-aside will cause producers to seek alternate crops. It has a built-in check and balance system.

Some have said that farmers will abuse the set-aside system and will lay out only the poorest land—not under bill 2626. It calls for average land. However, if it were possible to do so, they would all have equal opportunity. If production is now slowed sufficiently, the production adjustment can be adjusted to whatever is indicated.

A productive index could be used, so that more below average and less above average land is retired. It is important that whatever guidelines are used, that production is reduced, and reduced fairly and equally among all producers.

On our farm, I expect we will rotate our fields with soil building crops, with each field taking its turn. This should conserve energy and fertilizer. I would also like to develop some areas for wildlife. Under bill 2626, it can be done without fear of losing history.

Under bill 2626, farmers will be operating in a vibrant, fair enterprise climate, and those who best manage will most succeed. They will be able to farm in their own style and grow the crops of their choice. No longer will they be required to raise a crop just to maintain a history. No longer will the progressive farmer be inhibited, restrained, or hamstrung if he tries something new or farms differently than the crowd.

It is sheer folly for this Nation to ask its farmers to mine the soil and sell crops here or abroad for less than the cost of production. Bill 2626 stops that nonsense. If farmers are to maintain the soils and conservation of the land, they must be funded.

Senate bill 2626 proposes the best marketing approach I have seen in my lifetime. It is market oriented and gears production to meet market demands. It provides a loan and commodity reserve system that assures the consumers of an abundant supply of commodities at stable and fair price levels.

In the past, if we geared our production to achieve a fair price for farmers, we could get caught in a drought or unexpected foreign demand, and the consumer would suffer. If we geared production to a large inventory for consumer protection, they have construed it to be a surplus, and prices are driven below cost of production. Bill 2626 solves this dilemma.

It also solves the problem of the Commodity Credit Corporation dumping stocks on the market to suit the whims and price notions of some Government administrator. There is no valid reason for CCC to own stocks and use them in competition with farmers.

Through the fifties, sixties, and into the seventies, CCC controlled the price of wheat by dumping wheat on the market to drive prices below loan levels, so they could take over sufficient wheat under loan at maturity date to do the same thing next year. Only when the Russians took big orders were they unable to control prices. They simply ran out of wheat, so embargoes were resorted to.

This bill ruins that bag of tricks. It has a commodity reserve program similar to the one being used by Secretary Bergland, except the loans have no maturity date. They are revolving loans that can only be called because prices are reaching upper limits.

The loans are to be called in order, starting at the oldest and proceeding to the newest, so all will have equal chance at getting into the reserve if they desire to. Loans cannot be called in sufficient quantities to drive prices below the cost of production. Again, bill 2626 should solve the problems we have had with CCC.

The reserve can act as a surge tank. If it gets too large, increase the size of the production adjustment. If it is too small, decrease the adjustment. It can work as easily as a faucet in a washbasin.

There are no subsidies in the bill. Income is achieved from the marketplace. The cost to the Treasury will be less than with subsidy type laws.

This bill has left the parity concept of pricing and gone to a cost of production concept. Few people understand the parity pricing formula. Most farmers do not even understand parity. The news media has linked parity with subsidies, Government payments, and guaranteed profits. Farmers will wear out trying to explain it to the general public. A cost of production index is much easier understood and less subject to distortion by the news media.

If honest cost of production values are used an index can be tabulated for each crop upon which loan values can be very adequately based. If Congress is sincere about preserving the family farm system of America, as it has indicated in the present farm law, it will require production costs that will allow the youth of America to acquire ownership of efficient, productive units, and provide a standard of living for their families at levels equal to comparable levels of expertise in industry, utilities, and Government.

If the same standards are applied to utilities by other Government agencies, farmers will do well. If farmers do well, many other industries, people, and areas will do well, also.

Never in history has a larger labor force been engaged in agriculture and its related industries and supportive services. They may not be in the fields with hoes and pitchforks, but they are behind the frontlines providing those in the fields with the ammunition they need to be very effective and efficient. And the source of pay for them all is the value received for the crops.

Many economists and Department of Agriculture people have said they do not know what to do about a land charge and value. If they were out there trying to buy those farms, paying the taxes and making

the mortgage and interest payments, they would know what to do about it. The tax people know how to value land. It should be mandatory in any Government cost of production index that the land cannot be valued less for cost of production purposes than it is for tax purposes.

Back in the thirties, my father bought some land. At that time, land in our area sold for somewhere around \$40 an acre for dryland wheatland. I still have some old Sears & Roebuck catalogs from that date, and Montgomery Ward catalogs, and the best pair of leather workshoes that they built—logger type boots—was selling for between \$3 and \$4 a pair.

So, \$40 an acre land would translate to 10 pairs of those shoes. Today, that land has been selling from \$300 to \$400, and this past winter I was offered by some foreign interests \$550 an acre for dryland wheatland. Those same shoes are now selling for somewhere around \$40 a pair.

If you said that land was worth \$400 an acre, it is still only worth 10 pairs of shoes, the same as it was back in the thirties. Land has got to inflate in value to maintain its comparable relationship with other products. These people that want to hold farmland down to where it always was are not realistic.

Furthermore, the foreigners coming in and buying this land at \$550 an acre have put our people, particularly the youth, out of business.

There is no way that our kids can pay \$550 an acre for dry farm wheatland in our country with present farm prices and make it pay. We have, with our farm policies and tax policies, disenfranchised the youth of America.

The USDA is now using a cost of production index that allows a 2-percent return to farmland, because that is all it has historically received. We talked to some fellows who had a big role in preparing the cost of production study which the Department of Agriculture is now using. One of these was Ron Crenz of Oklahoma State University at Stillwater, Okla.

I think he did a good job with the materials he had to work with. But he informed us that they were allowing a 2-percent return to farmland because that was all it had historically received. He said they had to work with the data that was fed into them by farmers, and using the material that was given to them, they did the best they could with their study. And I think he did do good work with what he had to work with.

But, allowing this 2-percent return on investment because that is all it has historically received, is a false argument; it makes wrong self-perpetuating. Historically, slavery was practiced. Should it still be? And yet, we have economic bondage being foisted upon farmers as right and proper because it has always been.

In the USDA cost of production study, some farmers reported they could raise wheat for 75 cents a bushel. I suspect they lied. If they can raise wheat for 75 cents, they must have very productive land which should have a very high value. If they sell this land to the youth of America, can the youth pay the interest and principal and other production costs, and make a decent standard of living on 75-cent wheat? If not, someone was in error when they reported they could raise wheat for 75 cents.

In fact, an accurate land charge is a requisite to balance variations in production costs. High-productive land is worth more than low-productive land and has a higher land charge.

Under bill 2626, some people are going to make some money, but that is what the American system is all about. We have an income tax that is a great equalizer, and an inflationary spiral that takes care of any money farmers make. Suppose they have sufficient funds left to spend on a new house or car, machinery, buildings, weed control, soil conservation, a better church house, or a college education for the children. Is this going to be bad for America?

This bill addresses the export and import questions. It does not attempt a total and final solution, but is the beginning of a fresh, intelligent approach to a vital but confused policy. It stops the United States from being used as a dumping ground for agricultural products, and it will stop requiring farmers to mine the soil and ship goods abroad below our cost of production.

According to a USDA issue-briefing paper dated March 3, 1978, our balance of payments will improve even if there are reduced levels of export.

Senator HODGES. That is, assuming the higher prices?

Mr. KOLLER. Yes, assuming the higher prices. This issue-briefing paper is one which they brought out in answer to the eight-point proposal of American agriculture. And they show that projected exports in here will reduce at 100 percent of parity. But, even so, at 100 percent of parity, our balance of payments will improve. So, this is just pure economics.

It looks to me that the economists within the Department of Agriculture, or those that are running this Government, are not applying sound economics to agriculture. Any company will not produce units of production to the extent that they realize a lesser return from the market than they would if they reduced their production.

Economics demands that you produce at a level that brings from the marketplace the greatest return. Yet, in agriculture we throw all of this economic knowledge to the wind and pursue it otherwise. We seem to produce for the lowest market.

How much our exports will reduce at increased prices is an unanswered question. Jean Smith, chairman of the Idaho State Wheat Commission, toured our Far Eastern wheat markets last fall and reported, upon returning, that our customers are not as concerned about prices as they are about dependability of supplies. The United States is the world's most dependable supplier. Despite this advantageous position, little benefit has accrued to the U.S. farmer. Bill 2626 rectifies this.

The bill has a Board of Producers and Consumers who will have input into the Department of Agriculture and our food industry. Throughout my life, I have observed the Federal Reserve Board, the Council of Economic Advisers, the Office of Management and Budget, the State Department, and others, thwart the intent of Congress, and manipulate farmers like sheep without anyone seeming to have any recourse.

This bill gives farmers a long-needed voice in their industry, with Congress having direct control over their actions. It rightfully restores these powers to the people and their representatives.

In conclusion, the purpose of this bill is to protect and preserve the great marvel of production, the family farm system of America. It assures consumers of an abundant supply of food at stable and fair price levels. The concept embodied in this bill makes men free—free to farm their land in their own style and grow the crops they wish.

It will leave them in a fair enterprise system, in competition with other farmers and ranchers. Those who must succeed will be those who best manage their business. The intent is to keep the program as simple and inexpensive to administer as possible.

It is flexible and adaptable. It endeavors to treat all men equally. All will have equal opportunity to grow the crops of their choice. If production is generated faster than markets can absorb it, the pace of production will be slowed and all will be limited the same.

It is what I would call a complete parity bill. To me, parity is a beautiful word. It is taken from the Latin word *par*, and means equal. This bill grants equality and equal rights. It will emancipate the American farmer. It is the best piece of agricultural legislation I have seen in my lifetime. May you see fit to enact it into law, that it might foster freedom and justice throughout the land.

Senator HODGES. Thank you very much.

Mr. Jim Wink?

**STATEMENT OF JAMES WINK; ACCOMPANIED BY KEITH GOLDMAN,  
SPENCER COUNTY, IND.**

Mr. WINK. Mr. Chairman and members of the committee, I am James Wink, a full-time farmer from Indiana. I am here to urge you to support S. 2626, the Agriculture and Consumer Protection Act of 1978. I firmly believe this bill would stabilize agriculture which, in the long run, would benefit the consumer, as well as the economy and our balance-of-payments deficits.

I farm 1,400 acres with my family and one full-time hired man. I have a liquid fertilizer business which I operate from my home. I am equipped to do all my own applications and some custom work. This helps out my cost of production. I consider my operation an efficient one. I am probably as big a consumer as most of you in this room, and I know full well about rising costs of everything.

I feel S. 2626 will help both young and old farmers in Indiana. It will help stabilize prices and avoid the wild changes in the market, thus enabling the farmer to plan ahead rather than gamble and hope for good prices. I have seen corn in Indiana go from \$1.50 a bushel to \$2.25 in less than 60 days. The farmer that had to sell at \$1.50 lost money far below the cost of production. The one who sold at \$2.25 did not break even. You are probably asking how they can keep on. Most of these farmers have paid for their farms once, and now they are borrowing on the inflation that has made their land more valuable. Some farmers now owe more on their land than they did 10 years ago, thus making them pay for their land a second time. S. 2626 would give them cost of production and they would not have this problem, unless they had a crop failure or mortgaged their land to expand.

Since farmers are the biggest consumers of finished products and are producers of the one commodity necessary for our survival, I feel we must have a voice in our program. S. 2626 would give us that voice

through the Growers-Producers Board that would be true grassroots farmers elected by farmers. This Board would help establish production control through modern techniques already in use at the ASCS offices.

You have told us we do have true representation through other farm organizations. I do not feel that most of these leaders are true grassroots farmers. Weekend or summer vacations on granddaddy's or uncle's farm does not make you a true grassroots farmer, anymore than my 3 months in Washington this past winter would qualify me for a Senator's job. Now, I realize we need all these people for their expertise, but they must not let themselves get in a rut and forget about the real issues and problems at hand. They may have started out as farmers, but over the years have either sold or rented out their farms. This type of farmer soon forgets what it really costs to put out the crop, buy equipment, keep it repaired and replaced when necessary.

Some of our so-called farm organizations have leaders other than farmers, who benefit from nonfarm services offered by their organizations. They would include businesses such as millers, ginners, processors, or handlers of farm commodities and insurances.

While in Washington this winter, I was concerned about some Senators who were supposed to be farmers, but did not know that diesel fuel is now 48 cents a gallon. Some thought it was still 12 cents a gallon. Some of the committee chairmen of our USDA who thought of themselves as farmers could not believe that good farmland was over \$1,000 per acre. Cost of chemicals, seed, and fertilizer were unbelievable to them.

Through S. 2626, the farmers will have a true voice and representation, and not be controlled by officials of millers, ginners, processors, or insurance companies. These true grassroots farmers would serve only for a limited time, and then they will go home to live among their grassroots farm neighbors. This will keep them from developing a short memory.

It is plain to me that the people who put together the 1977 farm bill were not knowledgeable farmers. It makes no sense whatsoever to let land lay idle in order to get a loan on what you do produce that does not even cover the cost of production. Is this the way our Government plans to force a cheap food policy? I feel this will only put farmers out of business. Food prices will increase to the American consumer anyway, because all of the handlers along the way will add their increased costs.

What will happen when all the farmers are in the situation of one of my neighbors? He is a totally disabled man; he lost his leg in a farm accident. He is 65, and his wife operates the machinery. He purchased 220 acres in 1964 for \$50,000. At one time, he had it down to \$20,000. He now owes the PCA \$90,000. PCA will not refinance him to put out this year's crop. The Federal Land Bank turned him down. The FHA turned them down for emergency relief for loss of livestock and crops due to the severe winter. These are hard-working people who have had a lot of bad luck. With our low prices, they cannot rent their ground out and make any payments on their debt. They are receiving the minimum social security, but could not get SSI payments. They were turned down for food stamps because they own valuable land.

They are really desperate. I feel there should be a way out without foreclosure, which seems to be what they are facing.

I can assure you there will be more of us facing this if something is not done soon. Is that the future you really want for America? With the average age of farmers now 56 years old, what is going to happen if our young people feel they cannot make a living on the farm?

My 17-year-old son is smart enough to realize that at today's prices he cannot farm. He and I work close together and it looks like this year we will be working for nothing again. We plant mostly corn. The cost per acre in Indiana runs high. For example, Purdue says it costs \$2.26 a bushel. This does not give any return on land, taxes, or replacement of equipment. Purdue does include depreciation, but this does not buy back any equipment that has gone up from 6 to 20 percent each year for the past 10 years. With today's farm prices, there is no way to pay for a \$65,000 combine; 10 years ago, the machine that did the same job cost \$7,500.

Why should our suppliers of machinery, fertilizer, chemicals, seed, and fuels all be able to price their goods and the farmer have no choice but to pay their price? Then, when it comes time for the farmer to sell his product, he is unable to price it. Our Government policies dictate the prices through loan and target prices. Does not our Constitution guarantee equal rights under the law? Farmers are fighting for their rights through S. 2626. They cannot do it alone. Is it not your responsibility as our representatives to give us equal rights as provided by the Constitution?

There is also the question of a reserve to protect us in case of any kind of emergency. I am sure you realize this spring has been a bad one for many farmers; too wet and too cold, hail and snow damage in much of our country. Another month like this and we could face a real shortage of food. Last year at this time, I had 1,400 acres of corn planted. Today, I have 30 acres that are water soaked.

S. 2626 would establish an adequate reserve in the hands of the farmers. It could not be called a surplus to force our prices down. At the same time, if there should be a real surplus in any commodity, the bill provides for an equitable reduction of acreage to take care of it. Knowledgeable farmers know that we have to have a way to determine our needs and meet them and not overproduce.

As for our balance-of-payments deficits, was it not in 1974 that a bushel of wheat paid for a barrel of oil? Today, wheat is down 40 to 50 percent and the price of oil has quadrupled. Do not the Arabs need food as bad as we need oil? This reminds me of an incident that occurred in Washington in February. A group of Arabs were talking to some AAM members wearing their strike hats. An Arab walked up to this farmer, poked his finger in his chest and said:

You fool. You damn big fool. When are you going to get smart? We Arabs were fools a long time, but we got smart. But you—you are still a damn big fool.

Sir, I do not exactly feel like a damn fool, because I am doing everything I know to do in order to get justice at the marketplace. I beg you to consider our problem and vote for S. 2626. The Arabs had their embargo, but I still believe that in America we can get a square deal by presenting our case in the halls of our Government.

I have talked with many agri-business people about S. 2626, and they believe this would help stabilize inflation and put the farmer on the

same economic level as the rest of our economy. They were particularly impressed with the Growers-Producers Board, and the way it was elected. This board would use our already existing ASCS offices and facilities.

I have heard that there has been a lot of money offered by big businesses, grain companies, and other processors to stop any meaningful farm legislation. I pray to God every night that this is not true. Only you know the answer.

Senator HODGES. Thank you very much. Just for the record at this point, what crops do you grow?

Mr. WINK. We have corn, wheat, and soybeans. In our area, there are a lot of grasses. Throughout the State of Indiana, there are watermelons, cucumbers, sweet corn, green beans, strawberries, and orchards. We are pretty well diversified over the whole State.

Senator HODGES. You mentioned this Purdue study. Your land in Indiana is productive, is it not?

Mr. WINK. Yes; it is. Almost all the land in Indiana is dryland, and I think the State yield for corn is about 105 or 106 bushels.

Senator HODGES. And even at that high production, Purdue says the average cost in Indiana is \$2.26 a bushel, with no return for land, taxes, or replacement of equipment?

Mr. WINK. Yes, sir. I would like to say as a comment, back in the winter, Mr. Fitzgerald had a meeting with some of the Congressmen from the State of Indiana.

Senator HODGES. Is this the Mr. Fitzgerald who was here today?

Mr. WINK. Yes, sir, Mr. Ray Fitzgerald.

Senator HODGES. Did he know more then than he knew this morning? [Laughter.]

Mr. WINK. He was trying to explain to the farmers why the 1977 farm bill would work, and the 1977 farm bill would not pay the interest on the loan or the personal property tax that would be involved in the grain that would be stored on the farm, and the property tax that would be charged against the bin to store it in that State.

I would just like to say that he was part of the reason for me writing my testimony the way I did, because it was plain to see that at that particular time, he did not know anything about the 1977 farm bill; no more than he did today.

Senator HODGES. This was something they overlooked under the 1977 Farm Act, had they not, that if you store that commodity, the county or State is going to charge you on that as a personal property, are they not?

Mr. WINK. That is right. There was another thing that I was surprised you did not come up with there, when he said rent land would go up. People that are renting land on shares—why are they going to go up? What grounds did he have to make that statement?

Senator HODGES. Mr. Fitzgerald is not here. In deference to him, it was obvious to me that someone prepared the statement, gave it to him to read, and sent him over.

Mr. WINK. Senator, Keith Goldman is here with me. He does not have anything written, but he would like to make a few statements.

Senator HODGES. Please, go right ahead. Tell your name, if you would, and where you are from.

Mr. GOLDMAN. I am Keith Goldman from Spencer County, Ind., just about 10 miles from Jimmy. My brother, my father, and I farm together.

Senator HODGES. How many acres do you farm?

Mr. GOLDMAN. We own about 350 acres, and we rent about 1,900. We do the work ourselves; we do not ride around behind a windshield to get the job done.

We like the bill; we have carried it over the State. We held at least 12 meetings in 15 days, and we had one man that did not like it; of course, he was a Farm Bureau man, to boot. But it is something we can live with; it is a reasonable approach to it, and I do not see why in the hell anybody cannot vote for it.

Senator HODGES. So, in taking it over Indiana, you found support among grassroots farmers, men who actually farm?

Mr. GOLDMAN. The more people that see it, the better they like it. We had people, even at the start of the American Agriculture Movement, you know, they laughed and made fun of it, as a movement as such. We came back with S. 2626, sat them down, and said, "Hey, look at this." It just turned completely around.

You are not a bunch of young, broke, hell-raising farmers anymore; you have got something sensible, and a good approach to it. I just wish that all these chairs were full and that there was more interest in it than it appears like there is.

Senator HODGES. You realize that the interest in it has been from grassroots farmers, and they are having to—as I am sure you need to be, home in the fields, if you could be.

Mr. GOLDMAN. Well, Jim and I, we spent about \$300 apiece to get up here, and my cornplanter is sitting at home on a turn row. It was that important for us to come, and I cannot for the life of me understand why a Senator of the United States does not think it is important enough to be here.

If I were a Senator and a guy was coming from my State to testify before my committee, I would feel obligated to be there if he was going to talk about the dog taxes in his home county. Jim and I walked in the door, and that was the first comment we made; there was one man.

We do not really know quite what to think of it, because we look at the bill and if I can live with it, anybody can, because I am one of the first people who hollered, "Get the Government out of agriculture." And if I can live with it, I feel like any family farm in the country can.

Senator HODGES. Let me ask you this: Earlier, I had heard comments that, particularly, corn farmers are not willing to ever have any mandatory set-aside. If corn farmers that you have talked with knew that the floor on corn was at cost of production, if a surplus developed, do you think that the farmers you know, and yourself, in terms of corn growers only, would be willing then, if a surplus developed, in order to keep the costs of production price, to set aside on a mandatory basis?

Mr. GOLDMAN. There are a certain number of corn farmers—most of us are short-legged, overweight Dutchmen, kind of set in our ways. You are not going to please all the people; it does not make any difference what you do. Those who holler first are usually the more out-spoken bunch.

I have got a cousin who was probably more vocal against the American Agricultural Movement, and anything we were talking about, than anybody I have seen yet before, at first. He came and visited one Sunday; he is an older fellow of about 55. We sat there and argued for about 3 hours, or a family discussion, if you will.

I took S. 2626 to him, and he said, "By God, I will do it." He said, "If I know that it is going to treat me the same as a 10,000-acre landowner, I am all for it." He said, "If we are overproducing, why should not the man with 40 acres have to sacrifice his share, just like the 4,000-acre landowner?" To me, it is plain and simple.

Senator HODGES. So, he liked the fairness of it, and the equality of it.

Mr. WINK. The people that I talked to about the mandatory thing and about the bill, they would be willing—they would not do it if everybody would not, but if everybody had to do it, fine. To maintain a good price of cost of production, they would be willing to accept mandatory controls.

Senator HODGES. It is ironic to me. My experience has been the same as yours, that when you get out to the actual farmers, they are very much for 2626. If you get into those who are either lobbyists or represent the country club crowd of farming, you get a totally different reaction. I say those who prefer low prices and high volume oppose this bill; the bakers and the processors, and so on.

Mr. WINK. Senator, I would like to say this, that in Indiana, every week since the bill has been out, and a little bit before, we have sent out a copy to 48 newspapers in the State of Indiana. And bit by bit, we have taken S. 2626 and explained it, and we have put it in the paper. There are lots and lots of farmers in Indiana who know about S. 2626.

Senator HODGES. What sort of response do you get?

Mr. WINK. Everybody wants to know when we are going to get it done.

Senator HODGES. I would like to know, too. [Laughter.]

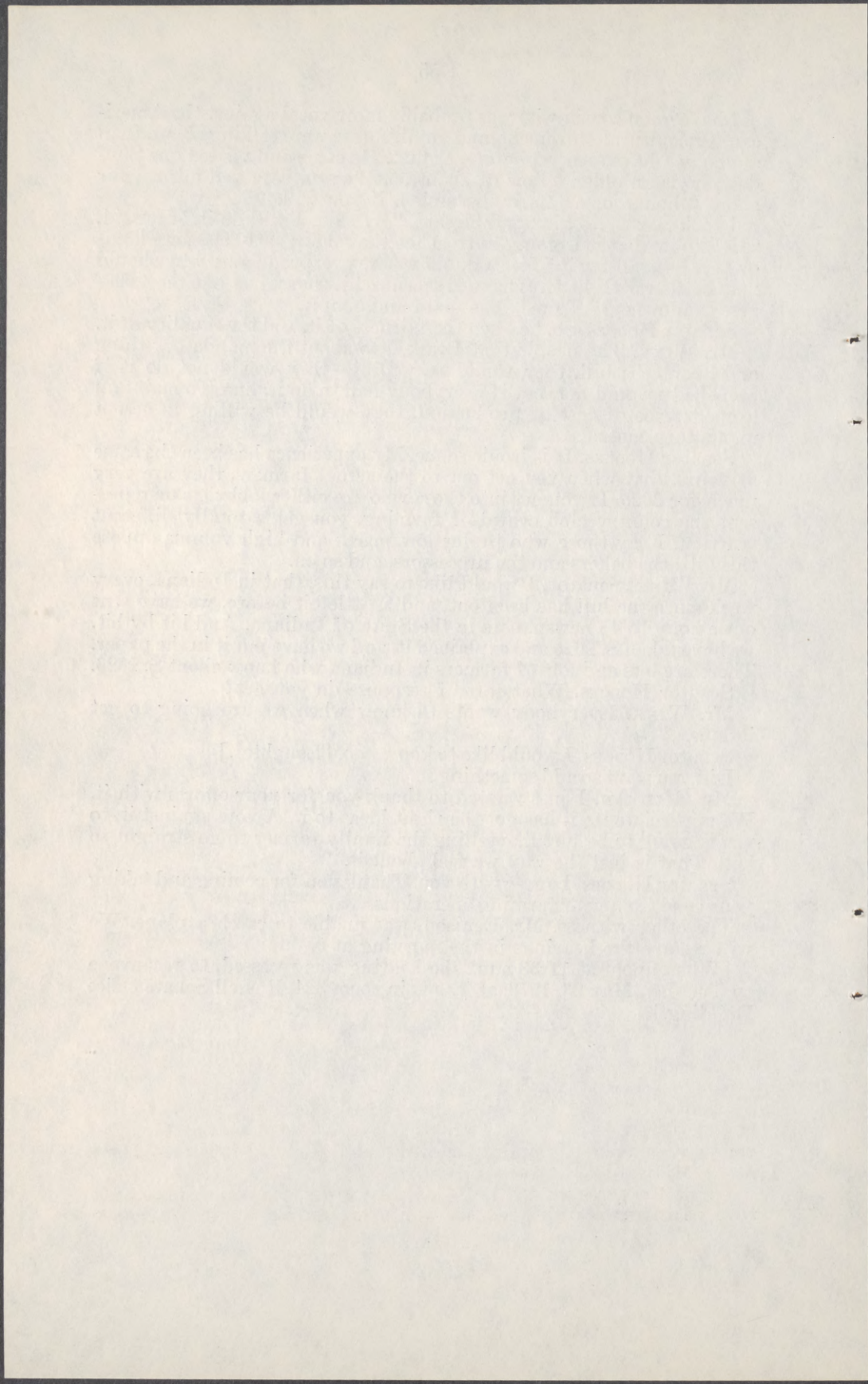
Did you want to add something?

Mr. GOLDMAN. I just wanted to thank you for your efforts with it. We appreciate it; it has got the right ideas to it. A vote against it, to me, is going to be just like telling the family farmer to go straight to hell. That is just the way we feel about it.

Senator HODGES. I agree with you. Thank you for coming and taking your time from your farming operations.

The other witness, Mr. Denison, was unable to catch a plane. We will resume the hearings in the morning at 9.

[Whereupon, at 11:38 a.m., the hearing was recessed, to reconvene on Tuesday, May 23, 1978, at 9 a.m., in room 324, Russell Senate Office Building.]



# CONSUMER AND AGRICULTURAL PROTECTION ACT OF 1978

TUESDAY, MAY 23, 1978

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,  
MARKETING, AND STABILIZATION OF PRICES OF THE  
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,  
*Washington, D.C.*

The subcommittee met, pursuant to notice at 9 a.m., in room 324, Russell Senate Office Building, Hon. Kaneaster Hodges, Jr., presiding.

Present: Senators Clark and Hodges.

Senator HODGES. The hearing will come to order, please.

We are continuing hearings this morning on Senate bill 2626. Most of the testimony this morning will involve those directly involved in agriculture and, of course, those most affected by the bill.

Our first witness this morning will be Mr. L. A. Davidson of Indianola, Miss. Have a seat, Mr. Davidson, and tell us who you have with you please.

Mr. DAVIDSON. Mr. J. M. Bearden, from Isola, Miss.

Senator HODGES. Just proceed at your own pace, Mr. Davidson.

## STATEMENT OF L. A. DAVIDSON, INDIANOLA, MISS., ACCOMPANIED BY J. M. BEARDEN, ISOLA, MISS.

Mr. DAVIDSON. My farm operation consists of more than 1,500 acres in Sunflower County, Miss. The soils on this farm are productive and well drained Mississippi River alluvial types not subject to flooding. The fields are of sufficient size and suitable arrangement for efficient and modern cultural practices. The soils are well adapted to the crops and rotations used. Yields obtained usually compare favorably with the area averages and the Midsouth averages.

We use a diversified cropping system with cotton, rice, and soybeans to take the best possible advantage of economic conditions, soil productivity and soil adaptability. In 1978 we plan 750 acres of cotton, 400 acres of rice, and 400 acres of soybeans. These crops will receive the best cultural practices common in our area that have been proven over a long period.

I rent the 750 acres of cotton on a share basis to a qualified farmer who owns an interest in two cotton gins, a chemical and fertilizer company, a farm equipment company, and other agribusiness. He is Mr. J. M. Bearden, who accompanies me.

I rent 400 acres of rice and 400 acres of soybeans on a share basis to a partnership with adequate equipment, labor, and experience to

produce maximum yields efficiently. All renters have adequate financing guaranteed for 1978 and will not be limited by lack of funds.

I participate in most phases of the farming operations and am available for assistance whenever needed. The farm has a \$100,000 irrigation system that can provide over 2 million gallons of water per day. I have worked 25 years to make the farm efficient and economically productive under as broad a range of conditions as possible. Our system of owner-tenant operation dilutes the effects of adverse weather, insect damage, government policies, and general economic conditions. Nevertheless, both owner and tenants have lost heavily for the past 4 years. If the tenants do not make a reasonable profit in 1978, they must make drastic changes in their operations. I will seriously consider selling the farm if a profitable crop is not produced. In 1978, 750 acres of cotton have been planted two times and have not emerged on May 21.

If the cotton yield on our operation equals the Sunflower County average yield for the last 4 years and the target price of 52 cents per pound is obtained, my cotton producer will lose approximately \$100 per acre on every acre of cotton grown.

Some renters in the area who pay cash in advance will lose as much as \$125,000 per acre. These computations are based on the USDA and Mississippi Agricultural Experiment Station budget studies for 1978, designated as information bulletin 2, February 1978.

The 1978 rice crop has been planted and should make the average yield produced in the county for the last 4 years if favorable growing and harvesting conditions prevail the remainder of the year. If the crop can be sold for \$4 per bushel as assumed in the above-mentioned budget studies, the rice operator will lose approximately \$40 per acre.

The 1978 soybean crop has not been planted at this time, but assuming the production equals the county average yield for the last 4 years and the price equals the \$5.50 per bushel projected in the above-mentioned budget, the net return before general overhead is deducted will be about \$20 per acre. The interest owed to the Farmers Home Administration on past debts will absorb more than this amount.

All of the tenants have lost money over the last 4-year period and are in debt with very large interest expenses adding to the annual deficits. Loans and moratoriums have enabled them to continue farming, but have increased their accumulated debt each year. If the point of no return has not been reached, it is very close for a majority of the producing farmers in our area who are without substantial income from outside sources.

The prices farmers must pay for most farm equipment have tripled in the last 5 years. Labor costs have tripled and the cost of many supplies has tripled since 1973.

We sold our 1978 crop of cotton for 50 percent of the 1973 top price. Some of our 1978 crop of rice has already been sold for less than 50 percent of the top price of 1973. Soybeans are selling today for approximately 60 percent of the top price 5 years ago.

It is impossible to understand why commodity traders, USDA officials, and many other economists fail to realize that no industry can survive under such conditions and the result will be a complete replacement of our traditional efficient, reliable system of producing the

greatest amounts of food and fiber at the cheapest, relative, prices that the world has ever known.

It does point out the unreliability of the sources of information used in the past to determine policy formulation. I would submit that one can substantiate anything desired by choosing 18 cotton budgets, 7 rice budgets, 22 soybean budgets, as was done in the March 31, 1978, report "Costs of Producing Selected Crops in the United States—1976, 1977, and Projections for 1978."

I am referring to this periodical right here. And for the whole country, that number of budgets was the budget that this was based on.

A casual glimpse by a Midsouth farmer at the "Southeast" and "Delta" projections will show that they are completely misleading. Also, the notion that land costs allocated to production expenses can be based on the average land value since 1941 is impossible for a farmer to comprehend. Even with these unrealistic inputs, the cost of producing cotton in 1977, according to their computations, was 66 cents per pound, or about 20 cents more than the loan price and 15 cents more than the selling price in our area for the harvest period of 1977.

The Mississippi Experiment Station and USDA Information Bulletin 2 of February 1978, page 15, projects a cost of \$300 per acre, without an input for land rent or general overhead expenses. They base their profit projection on a yield of 730 pounds lint per acre when the 4-year average yield in my county is 370 pounds, as compared with the 730 pounds in their example. They also use an estimated land charge for cotton in 1977 of \$37.56 per acre when it is a matter of public record that 16th section school parcels have rented for 2 times that much under terms of cash in advance, plus taxes.

Projections until 1980 made by Purdue University staff members include statements that good managers can make high returns and have good income opportunities. They charge to the cost of production approximately one-third of the land investment costs and no farmer can have a viable operation with that little a return on his investment.

I believe that a board of producing farmers must be depended on to analyze and correct all data to be used in formulating Government policies or the roller coaster we have been on for so long continue, and a dip will soon completely stall our production system.

My county, Sunflower County, Miss., extends nearly 60 miles through the major cotton producing area in Mississippi. It usually produces over 10 percent of the cotton in Mississippi. Soil and climate conditions are representative of the major part of the Mississippi River alluvial plain and I feel confident that our production data and conditions are representative of the entire Midsouth area.

I can state unequivocally that we cannot survive under the 1977 Agricultural Act, and the token changes in the 6-month period since it was enacted do not make it workable. Mr. Carter was quoted May 16, 1978, as saying that "I intend to propose legislation to remove this minimum price provision." He was referring to the increase on the 44-cent loan to the 48-cent loan minimum now existing. Neither 44 nor 48 cents is in the ball park, \$4.50 soybeans will not save the industry, as everyone in our area that can possibly leave \$6 soybeans to produce rice, at a bare subsistence level, is producing rice this year.

Consumer prices of most foods and cotton wear have demonstrated that they go up regardless of drastic reduction in prices to the farmer. So that dragon of fear has been proven a tool of the price depressant experts. Our exports went down tremendously last year regardless of the fact that most of the agricultural products were sold below the cost of production and the farmer had to borrow money to pay for the privilege to export. That was in dollar value that the exports went down. According to news releases, Japan agreed to reduce her trade advantages in 1978 from \$10 billion to \$6 billion by next spring. From January 1, 1978 to March 31, 1978, the advantage already was \$4.2 billion. Japan, as well as all other countries, should have their import duties, purchasing gimmicks, and trade policies publicized and examined to determine what true facts are restricting the profitability of our agricultural commodity exports and have appropriate action taken.

According to late reports, Nigeria is the only OPEC nation that has maintained the same 1977 ratio of U.S. imports thus far in 1978. All others have decreased the ratio of American products, favoring imports from other countries.

A farmer board should be empowered to examine the true facts concerning synthetic fiber production costs and what effects, if any, that tax writeoffs, corporate loss shifting, or any accounting gimmicks have on sales prices of synthetic fibers to spinners. After all the years of manipulations through embargoes, tradeoffs, exploitations by international commodity traders, production forecast errors, and other adverse actions, time is growing short for corrective action.

In 1896 William Jennings Bryan said it clearly: "Burn down your cities and leave our farms and your cities will spring up again as if by magic, but destroy our farms and the grass will grow in the streets of every city in the country." In today's jargon, when our farmers can no longer produce our low-cost food, or when they have no economic incentive or ability to produce this food, truly again "the the grass will grow in the streets of every city in the country."

On a recent trip to China, an old China resident was asked by a first time visitor if the Chinese in Taiwan and Hong Kong were the same genetically as the mainland Chinese. There was such a definite difference in physical movements and attitudes that the first time visitor could not accept the fact that they were from the same stock, but reflected the environmental forces that have caused China and Russia to change from agricultural commodity exporting nations to large scale commodity importing nations.

It is difficult enough to produce for wealth redistribution with your neighbors, but when it involves both neighbors and foreign nations, one thinks of years of struggles against many adversaries by generations and it must become a part of your decisionmaking.

Without a drastic change from the present price structure and constantly changing policies in various directions, the USDA will have an opportunity to see how well they can handle the farming of the millions of acres of farmland that the U.S. Government receives title to.

I do not care to predict what kind of production that insurance companies, foreign investors, and government agencies will achieve when the present producing farmers are forced to decide whether to change their system or look for a city job for money to feed their children.

In my judgment, Senate bill 2626 is a sound approach to a stable policy of continuous farm production, contributing to a viable economy. We cannot continue to be subjected to constantly increasing cost inputs while suffering from sales price fluctuations from month to month and year to year by amounts impossible to live with. Neither can we operate under the constant threat of embargoes by the President and shutdowns by dock strikes and labor disturbances during harvest. We must have some significantly help rapidly. Prices paid by farmers for labor, fuel or for harvesters are set by law or by monopolistic controls that guarantee everyone involved a profitable return, covering all expenses and a profit on their investment. To pay the required prices, farmers producing cotton, rice, soybeans in the delta and Mid-south have mortgaged or sold their property to the extent they have little or no equity left in any possession. Labor has been driven from farmwork because the farmers were not financially able to pay them the wages set by law, not because the work ceased to be there, not because the farmer wanted to do the work himself or could manage without it. The work is still available. But the government is forced to spend billions of dollars feeding and caring for these people and their dependents.

In 1953, over 50 families were employed on my farm; in 1978 5 families, or the maximum that can be paid for, are employed to do the essential work. Maintenance work must be neglected. No more savings or changes can be made.

We need legislation that will enable and permit us to pay our legal debts and survive along with the business and labor community of the world and preserve our lands in a viable condition. In my judgment S. 2626 will provide eight necessities for an efficient agriculture, stable U.S. economy and an adequate world food and fiber supply.

(1) It will enable the farmer to keep his land out of the hands of foreign investors, speculators, insurance companies, and large companies who would have the capacity to demand and get extremely high food and fiber prices from the consumer.

(2) It will preserve the greatest example of efficiency and dependability the world has ever produced by enabling the farmers of America to pull their destiny from the restrictive grasp of government agencies that have a dictatorial stranglehold on the majority of the family type farm operations in the Midsouth. The loan agents of the Federal Government, have a growing ability to close down any operation that doesn't adhere to their demands.

(3) It will, through its 3-year loan feature, provide the world with a storehouse of food and fiber to use during disastrous years through the action of normal supply and demand surpluses which would be adequate, but not burdensome.

(4) It will stop the foolish and frustrating program of forcing the farmer to provide the world with food and fiber at a personal loss on every item he sells below full cost, including profit enough for maintenance of his farm enterprise. No justification can be made for subsidizing OPEC or other nations and customers. There is no sound reason for production costs to exceed sales prices for long periods of time.

(5) It will provide the farmers with reliable information not now available on the minimum price we will receive for our products. We

can then plan our year's operation with confidence that we do not have to check with ASCS or Farmers Home Administration each morning to see what policy changes were made the night before. Presently the USDA information, college economist opinions, stated government plans and established misnamed farmer organization platforms could not be more misleading and destructive if our worst enemies formulated them.

(6) It will provide farmers the means by which they can determine and take remedial action when other countries are using restrictive or unfair practices to penalize our products, such as Japan's wheat and other commodity penalties.

(7) It will provide the farmer with an ongoing opportunity not now available to maintain and rebuild the fertility of his soils that have been depleted in an attempt to avoid bankruptcy over the past 4 years.

(8) It will enable farmers to expect and obtain a return on their capital investment, necessary in every business, whether it be General Motors or the corner magazine store.

Gentlemen, there is no way to exaggerate the importance of and the necessity for you to take affirmative action on this bill.

Thank you, sir.

Senator HODGES. Thank you very much for an excellent statement.

Do you mind if I ask a few questions?

Mr. DAVIDSON. No, sir.

Senator HODGES. Just to give you a background of why I am going to ask you a few of them, it has often been said it is the young farmer that is in trouble, the ones that bought the land in the last 3 or 4 years. May I ask your age, sir?

Mr. DAVIDSON. Sixty-one.

Senator HODGES. And do you own the land that you refer to here?

Mr. DAVIDSON. Yes, sir.

Senator HODGES. You own all 1,500 acres of it?

Mr. DAVIDSON. Yes, sir.

Senator HODGES. How long have you owned that land?

Mr. DAVIDSON. Since 1951.

Senator HODGES. So your statement includes your background, which indicates you owned 1,500 acres in Sunflower County, Miss., since 1951 and you lost substantial money all of the last 4 years and you are not a young farmer nor having recently come to it, are you?

Mr. DAVIDSON. No, sir.

Senator HODGES. Sunflower County, Miss., is one of the most productive counties in Mississippi, is it not, with some of the the best soil?

Mr. DAVIDSON. It is typical of the alluvial flood plain in the Mississippi Delta and, as I stated, it extends for 60 miles up the central part and it borders most of the counties in the delta region that produces most of the cotton.

Senator HODGES. What would you estimate, if you simply put your 1,500 acres on the market, would it be worth, and what I am getting at is to see what sort of investment you have or asset you have if the fact is that it is not producing anything. Would you mind just simply speculating, in a range, what you think it is worth?

Mr. DAVIDSON. I think a ball park figure would be around—there are over 1,500 acres in cultivation, so I would think it would be in the area of \$1.5 to \$2 million.

Senator HODGES. Would I also be correct, since I happen to know something about Mississippi farmland, although not a great deal, would it be correct to say if you put it on the market the odds are strong it would either be bought by an insurance company, land speculators generally or foreign investors?

Mr. DAVIDSON. I think that would cover the only ones interested or able to buy it.

Senator HODGES. Insurance companies have become particularly interested in buying land in Arkansas and have acquired large tracts. Is that also a trend you are beginning to see in Mississippi?

Mr. DAVIDSON. That is a very definite trend and I have had insurance people ask me if I wanted to sell the farm. I told them no. They made no price, but they made the offer or asked the question.

Senator HODGES. Have you also noticed a trend where perhaps insurance companies are now willing to loan considerably higher percentage of the appraisal value of land?

Mr. DAVIDSON. If it is good land, they just ask what would you like to have. There just seems to be no basis, other than just what a man would like to have so they can get it on the books.

Senator HODGES. I notice you raise cotton. Looking at the 1977 farm bill, if there was ever any crop that was treated like a stepchild, in my opinion it would have to be cotton. Would you agree with that?

Mr. DAVIDSON. I would agree, and that has been consistent with past programs. The farm organizations have usually used the cotton industry as a trade-off to get other programs through and, of course, the competition, the synthetic manufacturing companies, have received tax writeoffs, tax advantages to build plants to produce synthetics, and I just have no idea how much it costs to produce a pound of synthetic material. But, of course, cotton can be produced at a fraction of the cost in fossil fuels that a pound of synthetics can be produced for. It is a much more efficient production system than the synthetic systems, speaking primarily to the fossil fuel needs.

Senator HODGES. And hearing both personal conversation and testimony from the Cotton Council and others, I am consistently struck by the fact that, one, the group that supposedly comes and speaks for the cotton farmer in fact represents all segments of the cotton industry, of which farming is probably only one-seventh, that is, there are six others, shippers, crushers, ginners and so on.

Mr. DAVIDSON. Yes, sir.

Senator HODGES. Part of the concern I have is that these people that say we will lose our overseas markets are not being realistic in that if you consistently try to sell it for substantially under what it costs you to produce it, then regardless of whether you lose your overseas market or not, the existence of that market has to be irrelevant to a producer. Am I accurate in stating your feelings as a producer?

Mr. DAVIDSON. That represents them, and I am not convinced though that we cannot sell our crop overseas at the cost of production, plus a return on our investment in land and return for our labor because the point that you brought out, the data is prepared by these groups that

are interested in volume shipping and they make so much per bale and they really——

Senator HODGES. They would rather have 11 or 12 million bales, regardless of what it costs to produce it.

Mr. DAVIDSON. Right, and regardless of whether each bale shipped overseas carries farmer equity or actual dollars, and the producing farmer has no real input in farmer organizations such as the Farm Bureau or the National Cotton Council or any of the others. They do not have any input.

Senator HODGES. Have you talked with other farmers in your area about whether or not they are having similar problems to yours and whether their feelings are similar to yours? In other words, are you representative, in your opinion, of the farmers?

Mr. DAVIDSON. Everyone that has read S. 2626 agrees with my treatise. I find that a whole lot have not read it. The bankers say that approximately 75 percent of their farmer clientele have had to leave the old established financing institutions and go to Government agencies such as the Farmers Home Administration and the Small Business Administration and that seems to be the consistent Midsouth figure—75 percent.

Mr. Bearden is a director of a bank and one of the larger farmer financial organizations in our area and he has some personal figures of his family operation and can make comments on the banking situation.

Senator HODGES. Yes, I would like to have his testimony in a moment.

We have a similar serious situation in our area where people are converting short-term debt to long-term debt and it disturbs me when you take short-term operating debt and convert it to long-term capital debt. It seems to me, with the little economics I know, that this is simply postponing a problem and making a farmer not only a gambler in putting his crops in the ground, hoping he gets them up and to harvest, but he becomes a serious gambler in the long-term hopes of crop prices going up, simply to get him out of his long-term debt, if I am making sense to you.

Mr. DAVIDSON. Yes, sir, and it has the same input on his costs. It doesn't matter whether it is \$100 interest per acre of land or \$100 increase in your diesel fuel cost, it is a cost attributable to the cost of production of that crop and it is \$100 regardless of what it is.

Senator HODGES. In other words, when you start having to borrow against your capital assets for your operating expenses, then you are in a serious down cycle that has to end up in bankruptcy.

Mr. DAVIDSON. There is a point of no return, where it ends up in bankruptcy or in some other state and when it gets to that in a sizable part of the industry, the entire industry will fail.

Senator HODGES. Mr. Bearden, I want to give you an opportunity to make a statement, if you would like.

Mr. BEARDEN. Thank you, sir. It will be very short.

Senator HODGES. Take whatever time you need. You might give your background. It is helpful, I think, for the people that will read the record to know something about your background; perhaps what your age is, what investment you have in farming, and how much you are speaking of personal experience.

Mr. DAVIDSON. Excuse me. I neglected to say I have a masters degree in agronomy and got it before I started farming, and I worked for the agricultural experiment station and agricultural colleges before I started farming.

Senator HODGES. Thank you.

Mr. BEARDEN. My name is Gerald Bearden. I am 37 years old and a farmer from Humphreys County, Miss., located in the Mississippi Delta. I have a B.S. degree from Mississippi State University.

My father, two brothers and I farm 7,200 acres of delta lands located in Humphreys and Sunflower Counties, Miss. We plant 4,100 acres of cotton, 500 acres of rice, 900 acres of catfish, and approximately 1,500 acres of soybeans. We own 4,000 acres and rent 3,200 acres of this land. It is all well drained and located close to town, making farm supplies easily available, at lowest possible prices.

Some of the illustrations or examples I am fixing to use may sound like personal problems, but they are common problems with all of our neighbors and farmer friends.

We own an interest in cotton gins, feed mill, automobiles, tractor, fertilizer, and chemical dealership. Being a major stockholder, we have the best purchasing power of farm supplies of any farmer in our area.

The cotton, soybean, and rice part of our operation has been disastrous for the last 4 years. The production has been low for several reasons, one being weather conditions which we cannot control, the cost of production and price received for the commodities being the major reason for the disastrous years.

I have been farming since 1962. The following will give you an example of cost of production in 1962 versus 1977: We had a budget of \$100 per acre total cost from the foreplanting until after harvest for cotton in 1962. In 1977 we spent \$96 per acre on the insecticide alone. The total expense for harvesting an acre of cotton in 1977 was \$300 before any rent was added.

These expenses cannot be reduced on our farm. In the last 2 years we have disposed of all of the luxuries, such as two farm managers, one mechanic, and several laborers, referred to as helpers. These luxuries we had enjoyed in the lates sixties and early seventies, when we were making a profit.

Now as to the 1966 versus 1977 gross income: In 1962 we sold our cotton for 32 cents per pound; in 1977 we put our cotton into government loan at an average price of 41.8 cents per pound, this being an increase in price of approximately 25 percent, whereas the cost of production increased by 300 percent from the year 1962 to 1977. The above examples explain why we have had disastrous years. Had we not owned the land, we would be out of the farm business. We have increased the loans against the land for the last 3 years. The tract of land my grandfather owns did not have a mortgage on it between 1940 and 1976. Today it has a loan of over \$400 per acre with Federal Land Bank. This money was used to pay the crop production loss of 1975. Inflated land prices is the collateral we have been using for production losses.

An example of inflated land prices is as follows: We purchased 320 acres of land in 1970 for \$500 per acre. We paid \$125 per acre down-

payment and received in loan from the Federal Land Bank \$375 per acre.

Today, 7 years later, we owe \$1,200 per acre on the same tract of land. The interest 7 years ago on the unpaid balance was \$31 per acre; today it is \$108 per acre per year.

Some of the opposition to this bill is that the commodity prices will be so high we will be priced out of the export market. The only export market that has helped me is the price for Mississippi Delta land. Foreign buyers inflated price enough so I could borrow a little more money each year to make it possible for me to pay production losses. I can see now that we cannot borrow ourselves out of debt. We are fast approaching the point of no return, with the interest on farmland amounting to over \$100 per acre each year.

The cotton gins we own and operate have the same problems as the farmers. In 1973 we ginned 6,800 bales of cotton and had a profit, before depreciation, of over \$200,000. In 1977 we ginned 18,800 bales, almost three times as many as 1974, and had a break-even year. The reason for this was cotton sold for \$160 per ton in 1974 and sold for \$80 per ton in 1977. The gross sale of cottonseed barely paid the operating cost, not charging any depreciation. The increased cost of labor and energy supplies contributed heavily in not making a profit in 1977.

In the early sixties we had a loan rate on cotton that assured a cotton farmer a reasonable profit with an average yield. Today we cannot take loan price for cotton with a bumper crop and break even.

The community I live in is so dependent upon farmers. If the farmer cannot buy and pay for the products of the merchants, then the merchant and the banks cannot profit either.

Gentlemen, the point I am trying to make is we cannot cut production costs and we cannot survive in the farming business today, with today's prices. With bill S. 2626 the farmers will be assured of enough per pound for his commodity to earn a small profit with normal yield. If the farmer shows a profit, the merchant and banker will too. This will help every person in our community.

I ask that you give bill S. 2626 careful consideration and enact it into law before it is too late for the American people, not just the American farmer. I am not asking for any forgiveness of a loan, any charity or guarantee of profit each year just because I am a farmer; I am asking for a fair price for my commodities so I can make a profit by hard work and good management. This bill gives me that opportunity.

Thank you, sir.

Senator HODGES. Thank you very much, Mr. Bearden.

Let me ask you one or two questions. You are a large operator. Do you think there is any different situation or any different effect in economic terms for the small operators in your area?

Mr. BEARDEN. No, sir, I do not.

Senator HODGES. You indicated you are on a bank board; is that correct?

Mr. BEARDEN. Yes, sir.

Senator HODGES. Without revealing any specifics, what would you say is the outlook from the bank standpoint? Do you see this reflected across the board, this economic problem in Mississippi and in your area?

Mr. BEARDEN. Yes, sir. To give you an example, we have a subsidiary of the bank known as Dixie Aid. It supplies production money for the local farmers; 2 years ago we had \$7.5 million in loans; today we have \$4 million in loans, with about 40 or 50 percent customers—what I am trying to say is even though we still have over 50 percent of the money out in loans, we have less than 50 percent of the customers because the loans that we have, a big part of it is loans that weren't paid last year, are just accumulated carryovers. The reason we lost these customers is they had to go to FHA or SBA loans or some other lending institution.

Senator HODGES. They simply converted their short-term debt to long-term debt, using their assets?

Mr. BEARDEN. Yes.

Senator HODGES. This philosophy you have been talking about has been occurring in the last 3 or 4 years, that is, to borrow yourself out of debt?

Mr. DAVIDSON. I might add the smaller producer, their cost of production per unit is much higher than Mr. Bearden's because of their better purchasing prices. They get them at wholesale and they have had, in their businesses they have had to go up on the market to cover the loss on other accounts, so the spread is broadening between his deficit purchasing power and the average farmer-operator, family farmer.

Senator HODGES. Mr. Bearden, you are from a different county than Mr. Davidson?

Mr. BEARDEN. Yes, but it is really close.

Mr. DAVIDSON. It is adjacent.

Senator HODGES. As you talk with farmers, do you also find that the opinions that you hold are similar to theirs or do you find that you are an exception in terms of your economic forecasts and economic consequences?

Mr. BEARDEN. No, sir, it is all the same.

Senator HODGES. I thank you very much for your testimony.

Benny Fratesi, Pine Bluff, Ark.

**STATEMENT OF B. J. FRATESI, PINE BLUFF, ARK., ACCOMPANIED BY PERRY STRATTON, CHAIRMAN, JEFFERSON COUNTY ASC COMMITTEE AND BEN COLLINS, POINSETT, ARK.**

Mr. FRATESI. Mr. Chairman, today I have with me two farmers from Arkansas that I would like to introduce: Mr. Perry Stratton, from Jefferson County, who is chairman of the Jefferson County ASC Committee, and has been for 5 years. He has been a 20-year member of the committee. He is a board member of the Jefferson County Soil Conservation District and president of the Arkansas Association of Farmers.

Also I have Ben Collins, a farmer and landowner and lifetime farmer from Poinsett County, Ark., a rice and bean farmer.

My name is Benny Fratesi. I'm married and have three children, two boys and a little girl. I have a B.S. degree in agriculture from the University of Arkansas. I've been farming 600 acres of cotton, 1,000 acres of soybeans, 200 acres of wheat, and 100 head of cattle (cow and calf operation) for 17 years. I've been one of the more fortunate

farmers that have survived natural disasters and our inadequate farm programs. I have been a leader in the A.A.M. to get 100 percent parity. I realize from the economics of agriculture that we the producer farmers cannot continue to produce food and fiber for the consumers of this Nation under the present farm bill and survive.

Therefore, I come before you today as an Arkansas farmer to testify for Senate bill 2626. The farmers from Arkansas endorse this bill as the salvation to agriculture and a major step toward solving the economic and inflationary problems of this country.

First, it's a farmers' bill written by farmers for farmers to provide for a price for their agricultural commodities of not less than the cost of production. It also assures the consumer an adequate supply of food and fiber at reasonable prices. Whereas the present farm bill was written by processors, millers, shippers, and organizations not representing the producer.

Second, it sets up a board of producers to help establish a true cost of production and to help keep them current with rising costs. This board will be made up of farmers elected by farmers to advise and assist the President, and the Secretary of Agriculture on any matters pertaining to agriculture. Whereas, in the present farm bill the farmers have little input into the final cost of production figures used in setting loan and target prices.

Third, S. 2626 sets up a 3-year loan program that would enable the farmers to hold their commodities off the market during times of over-production in order for the farmers to balance supply and demand and bring the price at the marketplace back up to the cost of production. This bill gives the farmers a fair price, plus protects the consumers with a cost of production and triggering release price when supply is less than demand. Whereas, under the present loan program its intent is only to help the farmer not to have to sell at harvest time. This gives the buyers another tool to be used against the farmer.

Fourth, the bill sets up a National Commodity Reserve that would provide an adequate supply of food and fiber in time of war and national emergency. This reserve could be used to take pressure off of a bumper crop and help keep supply and demand in balance and stabilize the prices to farmers and consumers.

Fifth, the Bumpers-Hodges bill gives the farmer the freedom to plant the crops that his land can produce most efficiently. It assures the farmer the cost of production for the commodities he produces for accepting production adjustments on his farm. Therefore, keeping supply and demand in balance and allowing the farmer to get his price at the marketplace and at the same time stabilizing the prices to the consumer. Whereas, the present farm bill causes farmers to switch from one commodity to another with no control on total production. This causes shortages in some commodities and over-production in others, creating an economic problem for the farmers and inflationary prices to the consumers.

Sixth, the bill allows the farmers of each agricultural commodity the freedom to vote in or out of the bill by referendum, giving the producers, rather than the processors or the millers, the right to determine what is best for the farmer and rancher.

In conclusion, I would like to go on record with the rest of the farmers in Arkansas as supporting the Bumpers-Hodges bill as one of the best pieces of farm legislation that has ever been introduced

into the Senate Agriculture Committee. The bill addresses itself to the problems of agriculture and consumers and has the long-range effects to save the family farmers and ranchers of this great country, and in doing so, not only stabilize the economy of the United States, but of the Nation.

Mr. Chairman, I think the problems of farmers and ranchers of this country lies in three senses, book sense, common sense, and nonsense. For far too long the USDA and farm organizations have been representing the farmers with book sense and nonsense. I think when the farmers and ranchers can represent themselves with book sense and common sense, we can solve the problem of agriculture.

Thank you, sir.

Senator HODGES. Let me ask you a couple questions and then we will see if Mr. Stratton and Mr. Collins would give us some of their thoughts. I know you heard it said by USDA and Mr. Bergland's line simply seems to be that it is young farmers who bought land in the last 4 years that are in trouble, that is, that have faced an economic squeeze. One, you are not young in that you have been in farming 17 years.

Mr. FRATESI. Yes.

Senator HODGES. It is true that the problem has become critical in the last 4 years, but in your experience does it simply involve young farmers that got in in the last 4 years or is it that the problem has finally come to a head in the last 4 years?

Mr. FRATESI. The problem involves all people involved in agriculture, not only the farmers that have been in farming and farms have been passed down from generation to generation, not only the old and the young, but everyone connected in agriculture and agribusiness is involved in this economic depression of agriculture.

Senator HODGES. Will the 1977 Farm Act work if it is given enough time? We constantly hear Mr. Bergland and we have heard the President say that.

Mr. FRATESI. I think the 1977 farm bill is completely a processors bill and a millers and shippers bill. It was not designed to assure the farmers any price at the marketplace. It was designed specifically for other segments of agriculture, rather than the farmer and the producer and I think that the bill has shown in the past the same aspects in the USDA, and I think at the present time in the State of Arkansas we can see the problems it is creating. At the present time we have rice planted even in the backyards of the farm all over the State of Arkansas. Every field that is available that has water and suitable lands is put into rice, and I can foresee a problem of not only the transportation and the drying, but also the problem of overproduction, the shifting from one commodity to the other, and I think this is a major problem, one of the major problems that the 1977 farm bill doesn't address itself to, trying to keep all commodities at a fair price at the marketplace and balance the supply equally. It causes a shifting from one commodity to the others, causing economic problems for the farmer, and also inflationary prices to the consumers.

Senator HODGES. Thank you very much.

Mr. Stratton, I know you might not have a prepared statement, but would you give into the record some of your background and I think it would be helpful for the record if you would give your feelings about S. 2626 and about agriculture as you know it, and so on.

Mr. STRATTON. I am Perry Stratton, from Jefferson County, Ark. I am 46 years old. The only occupation I have ever had has been farming. I have two partners, my brother and brother-in-law. It is a family operation. We own about 1,500 acres of land; we lease another 1,500 acres of land. Some of this land we sublease.

We own a cotton gin, we have an interest in a farm supply and fertilizer business, we have an interest in a trucking business, my wife has a children's wear store. I am not saying this braggingly, I am saying this simply because of the three people involved in this operation, and we have 12 children and there is no way possible that we can take care of our 12 children in the manner that we would like to under strictly a farming operation. We have been forced to go into other areas to try to insure that we leave a legacy for our children.

My older son is presently working at the fertilizer plant, rather than working on the farm. This is one of the things he has had to do.

I have been associated with the ASC in Jefferson County for 20 years, have been chairman of the county committee for 5 years. I have worked with any number of farm programs. I think the 1977 farm bill is really a total fiasco in a lot of areas. I have discussed Senate bill 2626 with a great number of farmers across the State and in-depth. I have not received any negative response to the bill. Everyone seems to think it will do a good job and get them out of trouble, get the farmers out of trouble. What we have is our young farmers as well as our old farmers in trouble.

Our target prices that we hear so much about is something that is not realistic. A target price is just a measure. We get a lot of bad publicity out of target prices in the 1977 farm bill. It looks like the farmer is going to receive a target price, but in reality this may not happen but in the public's eye the farmer gets the credit for receiving this, so I would just like to restate that Senate bill 2626 appears to be the only salvation that we have for agriculture today.

Senator HODGES. Thank you very much.

Just without getting too personal about the assets, but you indicate you own a substantial amount of land and could you state what you would think that would sell for if it were put on the market—not that you would, not that you think it is worth that, but if you put it on the market, what would it sell for and what is your guess as to who would probably buy it?

Mr. STRATTON. Well, Senator, I am in a unique situation, as I am close to Pine Bluff, a city of 60,000 or 70,000 people. We are on the Arkansas River; we are on the railroad. This land is actually not farmland; it is actually industrial sites. For farmland it would bring \$1,500 to \$2,000 an acre; for industrial purposes, who knows?

Senator HODGES. So if you sold it in terms of farmlands, you are talking about assets in the range of \$2 to \$3 million then?

Mr. STRATTON. Right.

Senator HODGES. I take it from what you said earlier that you are not even breaking even on the farming part of that large operation?

Mr. STRATTON. Our farm operation is making a little money, and I have a few figures, I think, in my head that will substantiate this. This is extremely good land. We have a projected yield on the farm of 1,100 pounds to the acre.

Senator HODGES. That would be class 1 then?

Mr. STRATTON. Yes. We have a county average of probably 600 pounds per acre. This is the only way I have been able to show any sort of profit, is with production. I think we have reached a plateau in production and we can't go any higher.

Senator HODGES. If you took what utilities, say, will take as a return on their investment of 7 to 8 percent, that is, after taxes, and you have a \$3 million asset, you would think you ought to have \$250,000 return. Without getting personal, most farmers I know that own substantial amounts of land don't even have a 2- or 3-percent return.

Mr. STRATTON. No, sir.

Senator HODGES. Just for my own curiosity, how did farmers ever get into the position where they were willing to accept such a low return on their assets? Is it just traditional or what?

Mr. STRATTON. I think what has happened, and I probably am as familiar with this as anyone that is in the farming business, some years ago, and this is involved, some years ago when I first started farming, I was involved with the farm bureau. I was on the board of directors of the farm bureau. We were indoctrinated or it was popular to think at that time that we were a minority, that we had to take whatever little tidbits that the Agriculture Department would give us. And then after that why I graduate up, as you do in the farming business, and as you go through the farm bureau, then you get asked to be a member of the National Cotton Council or the Agricultural Council or different organizations and all of these organizations through the years, historically, have taken the position that we can't raise our prices too high, we are going to lose our foreign markets and, say, in cotton, we will lose to our synthetics. Now this has been indoctrinated into these organizations all of these years and until this movement a year ago came around I believed this. You know, this is the way I talked; this is what I believed. I thought that we couldn't grow cotton, that we were going to lose our markets. I was deathly scared of losing our markets. But I believe today that we have been going down the wrong road, that it is time now for agriculture to turn around and hold our head up and say that we can do it and that they are going to have to prove to us that we are going to lose our markets.

Senator HODGES. But you want to be treated as a business and you want to treat your farming as a business?

Mr. STRATTON. Absolutely.

Senator HODGES. One last question: I have asked this of almost every witness, but I ask it for one reason, and that is that Secretary of Agriculture Bergland believes it is only young farmers that are in trouble, the one who have gotten in in the last 4 years. You have not gotten in in the last 4 years; is that correct?

Mr. STRATTON. No, sir; this has come about from years back.

Senator HODGES. Do you, from your experience and your background, feel that the problems you outlined are common to almost all farmers in your area and across Arkansas?

Mr. STRATTON. Absolutely.

Senator HODGES. I do, too; and I would just add that I think it is not just young farmers. They are suffering the worst, but everyone is suffering.

MR. STRATTON. I have a brother that has paid for a farm that he bought in 1957 and in 1969 it was paid for clear and free and today I think he owes somewhere around \$200,000 on it, and he is a good farmer. He is an excellent farmer, an excellent businessman.

Senator HODGES. Thank you.

Mr. Collins.

MR. COLLINS. Mr. Chairman, my name is Ben Collins, a rice and soybean farmer in Poinsett County, Ark. I am a small farmer and I own my own land. I was raised on the farm. I am 48 years old, and I have raised 37 rice crops. I raised my first crop when I was 11.

My debt load is increasing daily, yearly. We are efficient, we are a class 1 farm. Our yields in both rice and soybeans are top in our county. We are in the Weiner-Harrisburg ricing producing area, which is tops.

The 1977 farm bill is just about to destroy the rice industry. The industry, being a high export product, rice, the industry wants a lot of volume. Due to that volume, the price goes down and down. The cotton industry really would lose less money on rice and I don't blame them for trying to plant rice. They have to go someplace. But the cheap cotton price directly affects the rice; it affects me, you, and everyone else that raises rice. We can't survive under this bill. There is no way.

As I said, I have been at this all my life. That is all I know. In the last 4 years I have fast gone down and down. The farm organizations, which I have been on the board, the Farm Bureau, the grain board—I have been on most of these—they have been very carefully brainwashed and they have brainwashed me that we must produce cheap, we must be more efficient. We are at the end of our efficiency; I am at the end of my efficiency. I have a son 19 years of age. There is not enough land for both of us and I haven't figured out a way to help him get started.

Land in our area is selling from \$2,000 to \$2,500 an acre, and the products will not support that price of land, so our people in our area are in support of S. 2626 because it gives us some freedom to farm. It adjusts the production of all crops across the United States. It supports the prices of all crops, rather than support just a small amount and no support on the rest of the crops that we grow.

If we don't get some relief in the next year or two, the industry is going to be in very serious trouble.

Senator HODGES. Thank you very much.

I happen to be very familiar with your area because we farm close to there and live in the next county. If in your area you cannot raise rice and soybeans efficiently, successfully, and profitably, it is very difficult to raise them anywhere else, because some of the best farmland I have seen in Arkansas is in your county and in your area. Your rice yields I guess are the highest in Arkansas, higher than around Stuttgart and what people think of as the rice areas. Your soybean yields are consistently the highest in Arkansas.

As you talk with other farmers, do you find that the problems you outline are common to them also or are you an exception?

MR. COLLINS. I am not an exception, Senator, and the amazing thing that I find is the older farmers—I am talking about farmers even older than I am—maybe their sons are farming or they rent it out—they

watched this trend and they are extremely disturbed, the older farmers, more so than the young ones. Some of the younger farmers haven't felt the full impact in our area. They borrow more money and they think that tomorrow it will be better, but the older farmers are the ones that are extremely disturbed about this overall trend that we are seeing.

Senator HODGES. Let me ask a couple of quick questions. One, the basic thrust of the energy programs and the energy plans that are coming out is going to be to reduce consumption by increasing the cost, either directly or indirectly. What is your thought on that as a farmer, knowing the tremendous amounts of fuel and energy and all related products that are used on the farm? What I am saying is that I think, and I mentioned it yesterday, the cost of things for the farmer are going to continue to go up dramatically. Steel has already gone up, and that will translate to higher prices. Fuels are going to go up. I think OPEC is simply waiting for the right moment to raise oil. Would you comment on that and particularly relate it to trying to finally get some relation between what you sell your product for and the cost of production? That is long question and about half of the answer is in the question, too, but would you comment on that?

Mr. COLLINS. Yes. To me it is very simple. Nearly everything related to input in agriculture is directly or indirectly connected with petrochemicals. Your chemicals, your fuels, and everything is directly coupled with petroleum. Right after the 1960's and early 1970's our diesel fuel was 16 cents and now it is 46 to 48 cents. That sounds insignificant, but that particular product is coupled with everything else we use. All of our chemicals, all of our equipment, transportation—if you buy a piece of equipment, from where it is manufactured down is very directly coupled with it. If they go on with their prices, which I am sure it will go up, our costs will triple again in the next 3 to 4 years, and they have already tripled and in some cases more than tripled. In 1974 our rice brought as high as \$10 per bushel. This year it looks like we are looking at \$3.50, if we are lucky, or it may be \$3, so there just isn't any way we can make it.

I don't understand why USDA can't use the figures like we do. It is quite simple to me, but they just don't seem to be able to do it.

Senator HODGES. Do any of you have any last comment?

We appreciate very much your support of 2626, and I hope that the Agriculture Committee will see it as we see it. Thank you for coming, and particularly in this difficult time. I know in the Midsouth how critical it is. I assume every farming area is at a critical time.

Tommy Willis, Brownsville, Tenn.

If you could identify yourselves and then speak in whatever order you like.

**STATEMENT OF TOMMY WILLIS, BROWNSVILLE, TENN.,  
ACCOMPANIED BY JOHN W. MOSES AND LEWIS MOODY**

Mr. WILLIS. Mr. Chairman, I have brought with me today John Wade Moses from Brownsville, Tenn., who is a farmer and has a liquid fertilizer business, and Mr. Lewis Moody from Dyer County, Tenn., who is a farmer and a ginner.

Mr. Chairman, members of the Senate Agriculture Committee, may I begin by introducing myself? I am Tommy Willis of Brownsville, Tenn., and a farmer. I raise cotton, soybeans, corn, and cattle.

May I state further I appreciate this opportunity to speak to you on behalf of S. 2626, the cost of production bill with a producers' board. This is a bill that is much needed by farmers, yet it is reasonable to both the Government and the consumer.

The best way I know how to evaluate a farm bill is to compare it with the preceding farm bill. When we look at the 1973 farm bill, we see it created a boom and bust cycle in all of our commodities, something which agriculture had never witnessed before. Our present 1977 farm bill is a continuation of this policy.

The farmers of this country can no longer survive under this type of policy. There must be more stability in the agriculture community, and S. 2626 will give this stability to the agriculture community which it so badly needs.

Our previous farm bills have had loan rates far below the cost of production, with no provisions to control the production. This has led to overproduction and ridiculously low prices to the farmers. This practice would be protected through passage of bill S. 2626. This would guarantee the farmer a loan at the cost of production and at the same time would be controlled so that the farmer would get the price for his commodities through the marketplace. This would not make it a direct payment from the Government.

We all know that when you raise the bottom of a marketing cycle, you also reduce the top of the marketing cycle. By doing this, it would be helpful to the consumer.

The past several years have been disastrous for the farmer, and particularly the year 1977. We have seen the national farm debt increase by staggering amounts. Last year the amount rose by \$17 billion, for an all time high in 1 year, to a total of \$117 billion. This was money that the farmer had to borrow, place mortgages on his land and equipment in order to operate. It could be termed loss of equity. This is a condition that is recognized by several segments of government.

In recent months we have seen the Farmers Home Administration relax its rules on farmer financing. For the first time we have seen Small Business Administration include farmers in their programs with a disaster loan. There have been other emergency farm loans made available. These programs have been good in that it made it possible for the farmer to operate for 1 more year, or on a short-term basis. However, may I emphasize that these programs would be of no value in the long run unless the farmers can get a better price for their commodities so that it is possible to repay these loans. Without some long-term relief, as offered by S. 2626, these loans would only add to the farmers' misery in later years.

I believe that S. 2626 is a positive step toward correcting this situation.

Gentleman, in this country we have the highest rate of soil erosion that this country has ever witnessed. This was brought about by the previous policy of fence-row to fence-row farming. In many cases the farmer knew that he was not following the best conserving practices for his land, but under his economic situation he had no choice

but to farm every foot of land that he could in order to try to make ends meet. Not only was this bad for the soil on his farm, but also it was washing his soil down into the river bottoms where it was silting in and killing the timber. There are many acres of timber in west Tennessee today that are dead and dying from these practices, and this will be a loss for generations to come.

Another very alarming fact of today's agriculture is that the farmer who farms the lands are losing control of the land at a very fast rate. It has gotten to the point that the farmer cannot buy both land and equipment. The land gradually is falling into the hands of the investor-speculators and so forth. This is what we call an absentee landowner. This type of landowner knows nothing of soil conservation practices and cares nothing of learning about them for he is only interested in return on his investment and the appreciation. Consequently Government must force him to conserve his soil. This could be done with S. 2626, with an acreage reduction or set-aside provision. This would allow the farmer to take this land and to devote it to soil conserving practices.

We all remember the theme of the 1973 farm bill. That was to get the Government out of agriculture and return our agricultural commodities to the so-called free market. This was accomplished by unrealistically low loan rates on all of the commodities, which oftentimes was 50 to 60 percent of the actual cost of production. Target prices were supposed to reflect the cost of production, and did not do this. Actually these target prices wound up as a partial cost of production.

The 1977 farm bill is a continuation of this same basic policy. We all know that the Government getting out of agriculture is a farce. This is best shown by the embargoes which we all remember. These low loan rates have made it possible and profitable for foreign governments to enter the picture. They have made it possible for them to enter and buy their commodities at a cheap rate—the bottom of the boom or bust cycle. Therefore the market would go up when our consumer would be the one that would have to pay the higher price. Rarely has any foreign government bought commodities at the top of the cycle. These farmers have become very skillful traders as they have learned how to use our free market to their advantage. This is all made possible by the unrealistically low loan rates that we have. Any foreign government knows several months in advance they are going to need one of our products. This gives them plenty of time to pick the low market in our Chicago Board of Trade or Commodities Exchange, buy their commodity on the board and this fixes their price at the lower figure. Then several weeks later they usually send a trade envoy to the United States to try to locate and make deals for the spot commodity. At this point the price for the commodity usually begins to rise, but this makes no difference to the foreign government because they have already fixed their prices on the board at a lower figure. Now once this price is settled upon for the spot grain, the price usually then goes up. Now they have already gotten the price fixed at a lower figure, so they do not care how high the price goes. The party who winds up paying the high price for the grain or commodity is our consumer.

Sufficient records are not kept by our commodity exchanges to who is buying grain on the board, whether it is a foreign country, investor, or whoever. There is a law that says all the grain companies have to report within so many hours of a sale of spot grain to the foreign country, but there are few records kept of the commodity tradings. They have no one to answer to so long as our free market system is allowed to operate through these wide ranges. There is no wonder that the yen and the mark keep increasing in value, while our dollar continues to decrease in value.

One of the more recent examples of foreign governments in our free market system and the effect it has upon it is shown in the soybean market for the 12 months. In the spring of 1977 soybeans were approximately \$5½ to \$6 per bushel. Brazil came out and made a statement that even though they had a bumper crop their domestic oil demand was increasing at such a rate that they were going to limit oil imports. This immediately got the market started up. At the same time it had some additional help. The Hunt family, as we all know, entered the market and apparently tried to corner the soybean market. Hunt supposedly bought about 20 million bushels of beans on the market. They were allowed to buy 3 million bushels legally. This was several times their allowable limit. These two factors together drove the soybean market up to about \$11 per bushel.

About the time the *Hunt* case broke, they were forced to stop trading on the board. Then Brazil stepped in and started hedging their crop. They have a big crop. Now they hedged their crop on our board. That starts the market, driving the prices of our beans down, and they continued to decline until last fall, when they hit around \$5 per bushel. As the market got to \$5 per bushel, Brazil lifted their hedges. It was against the law for the Hunt family to deal in more than 3 million bushels of soybeans on the board, and I am not taking up for the Hunt family, but nobody knows for sure how many millions of bushels of beans the Brazilian Government traded on our board when they hedged their crop. We all know that the Brazilian interest in the market had more to do with the prices of soybeans last year than did the Hunt family.

There is a question I would like to ask the domestic grain companies, that is, why did they pay 40 to 60 cents per bushel over the market for soybeans at the Gulf for several weeks prior to the September Stocks in All Positions Report. We know that a grain company will raise their bases when they need beans, lower it when they do not. It appears that when the bean market started breaking in June that the grain companies prehedged beans in anticipation of large farmer selling based on the second quarter Stocks in All Positions Report. When time approached for the September report, they found themselves short of beans to fill their commitments, so they raised their basis in an attempt to get the beans. They still had their short position on the board which they did not want to buy back and raise the market going into harvest. With this in mind, did they hold their short position and report it as noncertified stock, knowing that harvest would start in a couple weeks and then they could get their beans?

The Producers Board in S. 2626 could seek answers to such questions.

Most of the countries which buy our commodities have an import tariff on our commodities, particularly if this commodity is produced

in their country. This is placed there to protect their farmers. The amount of this tariff is usually the difference between what they can buy it for in this country and what it costs their farmers to produce the same product. If we were to raise the price of our commodities, of our products to the cost of production, this means that they would have usually lowered their tariff by the amount that we raised ours. So long as we sell our products below the cost of production, we, the American farmer, are subsidizing the foreign governments.

Now I do not advocate doing away with the free market system. Our free market system is really the best market system that we have today. I do think that it needs some limitations, and I believe that S. 2626, with its higher loan rates to the farmer, coupled with the national reserve, will offer these limitations, and by doing so will not make our market as profitable to the foreign countries to enter into and manipulate, as they have done in the past.

In recent months we have seen many farm bills proposed, with equally as many ideas for raising farm prices. I believe S. 2626, with its cost of production principle, is the best because it keeps all commodities relative to one another, which is a must to be fair to all segments of agriculture.

Let us look at cotton, the most unrelated to all major commodities, to illustrate this. In the last 25 years we have seen the world carryover of cotton rise and fall several times. The world carryover of cotton always increases when we have cheap grain prices because it is more profitable for foreign countries to export and import our cheap grain. We do not see world carryover decline until we have high grain prices. Then it becomes more economical for these foreign countries to produce their own grain, rather than import our high priced grain. They have to try to keep their trade balance the same as we do.

In closing I would like to say that S. 2626 is much needed by the farmer. It is reasonable for the consumer and should be justified by Government. I respectfully request that you see fit to let this bill get out of committee, and likewise hope that you will see fit to work for its passage in the Senate.

I thank you for your consideration.

Senator HODGES. Thank you, sir.

Do you have a statement, Mr. Moses?

Mr. MOSES. No, sir, I would just like to say I am 46 years old; I have three sons that farm and are in the ginning and fertilizer business with me. I think the other gentlemen who testified here this morning testified that it is becoming where we can't all make a living out of our business.

My oldest son is married and has two children; my youngest son is in college.

The cost of production has tripled in the last 5 years. We own approximately 450 acres of ground that we bought for \$150 to \$200 an acre. We now owe \$600 an acre on this land.

Senator HODGES. How long have you been in farming?

Mr. MOSES. Twenty-seven years. We rent about 2,500 acres.

Farmers in our area have gone so heavily in debt that they are beginning to raise the price of rented land so high thinking that they can work higher volume and work out of their debt. Land is just going out of sight as far as renting. It is kind of like a dog chasing its tail.

They are using less fertilizer. We have noticed that this year. They are trying to cut back on their costs, which is going to hurt them in the long run. We are seeing them trying to go to one crop, where they have been diversified in the past with corn, cotton, and beans, but they are going all beans. This is going to hurt the bean market.

I think—I don't think, I know that S. 2626 is a bill that with the help of our Government, with a mandatory set-aside, with no pay for this set-aside, that this will help the farm industry. I cannot understand why our Government, our Agricultural Committee cannot see this as a bill that will help us all, not only the consumer, but the farmer. This won't cost the Government one dime. We will get our price in the marketplace, and this is where we want it. We don't want a handout. We are the largest industry in this country, and it is one of the most economically hurt businesses in this country, and I can't see how our President thinks that we can get our economy on the road to success when the largest industry is in such a recession.

Senator HODGES. It was brought out yesterday, and I think it has been consistently illustrated that we are the only major free industrial society that does not have some sort of basis for supporting its agricultural economy. We apparently do not do so, first of all because the agriculture economy is different. It is not like other segments of the economy that can start up and slow down based simply upon the market demand. First of all the actual production is unknown because of the vicissitudes of weather and other things. You don't have any idea who is going to plant what and when, but we do it in other segments of our own economy. We underpin fuel. Petroleum has been subsidized for years. Airlines have certain built-in routes; trucking does and steel has so it is not a novel idea that is being asked at all.

Mr. Moody, do you have anything you would like to add, or perhaps just briefly state where you are from and your operation and your age.

Mr. MOODY. I am Lewis Moody, from Dyer County, Tenn., and I am a farmer. I farm in the Lenox community.

I have been farming 32 years and the Good Lord helped me out last year, got me close enough out of debt that I could keep going. He let me buy a farm, and get enough profit to pay my back debts.

In our community, with the major farmers you just cannot talk about cotton because all you hear is a dirty word. They have quit planting cotton and gone to beans. You don't need as much help, and there is not as much expense. I think 2626 will be our salvation.

Senator HODGES. I have asked this question, I guess, of each group that comes up, but I have spoken with many of the farmers and I don't find that the problem is just with the young farmers—I find it as much or more critical with the people that have been in farming a good while and that have considerable assets. They are the ones that have managed to hang on. The young farmers that didn't have any assets to start with, their equipment has been sold, and they busted out of farming a year or two ago. Do you agree with that and do you share my idea it is as much the older farmer, the farmer that bought lands cheaper and had to refinance, and that this is a broad farmer problem and not just confined to people recently going into farming? Would you care to comment on that?

Mr. WILLIS. I think it is almost universal. There is certainly not much difference between a large farm or small farm or old farmer or young farmer. We all have the same problem.

Mr. MOSES. In our area I know there is one farmer that bought some land pretty close to us for a thousand dollars an acre, and his interest on that land will run about \$85 to \$90 an acre, and land in our area has risen from, say, \$50 to \$60 an acre, and I asked this young man—I said: "How do you intend to pay for this land," and he told me he didn't know how he was going to pay for it. If his mother-in-law hadn't helped him finance it, he couldn't have bought it. In all probability it is going to get his whole family in trouble by buying this 600 acres of land. There is no way for him to pay for this land farming, and buy the high priced equipment.

I think the average age for farmers—I have heard anywhere from 56 to 58 years old—but that is a perfect example. We have a whole generation of young farmers that we are missing right now that are not able to go into farming. If I wasn't already in farming and had a half million invested in a gin, and \$250,000 in the fertilizer business, and some farmlands, my sons could not farm. There wouldn't be any way possible for them to get started in farming. It is going to hurt us in the long run—no question about it.

Senator HODGES. Two things: We are going to run short of time, but I just want to pick up on one problem I think Mr. Willis mentioned that is of critical concern. That is that we are mining our lands so that the organic matter is going down in land. It is very difficult to bring it back up. If you ever look at a graph, you will find that productivity—our ability to produce food—we have run wide open so long that we have literally reached the top of the graph and we might be starting down.

The second thing is that, unfortunately, some time in the future there will be a crisis. We will get all worried about it and overreact, instead of dealing with the problem which we can do right now to conserve our resource. We are the only Nation in the world that looks on a surplus of farm products as a problem. Everyone else would look at it as an asset; something that is significant, worthwhile, and something to be proud of. In this country, we treat it as if it were something that was unfortunate, and, as I said earlier, just simply to highlight it once more, I think our loss of productivity in the land is going to begin to tell shortly on us. We are not using good practices because of the tremendous need to get money out of it each year simply to meet ongoing costs.

Mr. WILLIS. In west Tennessee, there are basically six rivers that feed into the Mississippi across west Tennessee. Three of those rivers—and these are river bottoms that grow timber that I have been referring to—three of those river bottoms today you can drive for miles and miles and miles and hardly ever see a live tree in them. The effects are beginning to be seen in the other three river bottoms and if something is not done, in 10 or 15 years they will be like the other three—they will all be dead. Ten or fifteen years ago, this was some of the highest productive hardwood timberland in the South.

Senator HODGES. What is that commercial—"You can't fool mother nature"—I think we are going to feel considerable impact from that.

The water tables are beginning to drop. You just can't mistreat land and get the maximum amount out of it every year and not put something back. That is just a fact of life.

There is another thing I would like to highlight from you and the witnesses that we have had and the ones that are to come again. The administration tries to leave the impression it is just sort of young, radical-type farmers that are having problems and time and again the ones I know that are hurting are substantial people in the community that have held positions in the farm bureaus, the Cotton Council; they are substantial people in their own communities. I think the best thing about the agricultural business is people have been willing to say we haven't made any money. I think most people are too proud to say, well, I am just not doing well.

I appreciate very much the three of you coming and taking your time to appear here. I know Tennessee is like Mississippi and Arkansas, and I assume in lots of areas that you need to be farming now.

I thank you for coming. I appreciate it very much.

Mr. Fred Huenefeld from Louisiana.

He is not here.

Mr. Jeff Wade of Missouri.

Go right ahead, Mr. Wade.

#### STATEMENT OF JEFF WADE, BRAGG CITY, MO.

Mr. WADE. Mr. Chairman and members of the committee, my name is Jeff Wade. I live in a rural area in southwest Missouri, in the corner known as the "Bootheel of Missouri." I have farmed all my life. I raise cotton, soybeans, wheat, and milo. I derive all my income from farming. I have no other way in which to support my family.

I want to thank you for having these hearings on this bill, S. 2626. I also want to thank you for showing us you are interested in helping the farmers of this Nation. This, in turn, will help the entire country. It is a privilege for me to testify before you.

I have farmed all my life, with the help of my wife and our two sons when they are out of school. Our 20-year-old son has just completed his second year of college, where he is majoring in agribusiness, and our 16-year-old son is ready for his third year of high school. Along with some hired help and my sons, I farm 1,200 acres of row-crop delta farmland. I have made and harvested 30 crops. I believe I have a good knowledge of farming and its problems.

I am here today to tell you what I need as a farmer and how this bill will help me and also help my fellow farmers. I don't feel like I am qualified to tell you how to vote on the Panama Canal treaties or the foreign arms sales, as I only know what I read about them. My knowledge of farming is from actual experience.

One of the main points that I like in this bill is the Board. I earnestly believe this is a big step in solving our problems today. If you will notice, this Board is made up of 21 members, 12 of these to be appointed by the President from a group picked from farmers, by farmers. In my judgment, this one item in this entire bill is something that has needed to be forthcoming for many, many years.

The balance of the Board will come from consumer organizations, organized labor, business organizations, and recommendations by the

Secretary of Agriculture. To me, this represents every media that is involved directly or indirectly in farm products, in the farming operations.

One reason the consumer is discontented is due to the lack of knowledge of the structure of our constantly changing agriculture prices. With some consumer representatives on the Board, they will become aware of what the cost of production is in relation to the prices on the Chicago Board of Trade. For instance, when soybeans were \$11 to \$12 per bushel, very few farmers had beans to sell for that price, but most of the consumers thought all farmers got that price for all their beans and are still receiving it.

Now labor is well aware that one must have this cost of production, plus a reasonable return for his labor. So by labor having someone on this Board to help determine this cost, they will keep those in the labor organizations informed about the farmer's true costs, his true expenses, and his cost of production.

All business organizations know that they must have cost of production, plus a profit to stay in business. The farmer must also have these two same components. So by the Board having someone from the business organizations, it can help meld and blend these things so we can have this also.

I feel that one of the main reasons for the difficulties we farmers are having today is from lack of communication. This Board will be working with the Department of Agriculture and for the farmers. I have the opinion that the Department of Agriculture has been working for someone other than farmers. This may not be their fault, because they have lost contact on the national level with the farmer. Now this Board would be a long step in correcting the situation.

The Board would have to show the cost that they determined to all of these groups. This would also help you in knowing what the cost really is. I am afraid, under the present farm bill, the USDA isn't giving you and others the true cost of production. I don't believe they are keeping current with the cost of production figures that they are supplying you.

I would like to just give you a couple examples of this. I have an invoice with me today, and if you would like to see it, you sure can. It shows that on May 31, 1973, I purchased a combine and it cost me \$17,119 before our State sales tax. I consulted my local dealer Friday and asked him what it would cost me to replace this combine if I pay him cash for it, one of comparable size to the one I have, and he told me his best price would be \$42,000, and he said that is below the manufacturer's suggested selling price.

Now the same year, 1973, I purchased a tractor, without cab, and this cost \$10,114, before States sales tax. I asked him what a tractor of this size would cost me today, without a cab, and his price to me was \$19,000.

Also in 1973 I purchased a 21-foot disk, which cost me \$3,414 before sales tax. Today that same disk sells, he told me, for \$5,200. This was only 5 years ago, so you can see the necessity of keeping the cost of production figures on a current basis. I was receiving more for my farm products when I bought these than I received for my farm products that I have just got through selling.

Now, I am proud to be a farmer, but it really hurts me at the way our Department of Agriculture works for all groups, most of the time at the expense of the farmers. I thought it was created for the farmers and to serve the farmers.

If this Nation were having to import food and fiber, as well as oil, we would be doomed. No other Nation would expect its farmers to sell their crops below the cost of production. If they knew that this food and fiber was needed in other countries, our costs, if we were importing this stuff, would be outrageous. We should consider the food and fiber that we have left over after our needs as an asset and not a liability.

I am thankful to God for our good soil and our good climate. Without it we couldn't produce anything. But soil, climate, machinery, and labor aren't enough. We must have a profit for our labor or we can't continue. Bill S. 2626 will give us a chance for that profit.

I realize that this land will always be farmed, but without the cost of production, plus a return for our labor, the farmers will become fewer and fewer, and the farms will become larger and larger and will be controlled by large corporations. Then, gentlemen, they won't ask for cost of production, plus return for their labor; they will demand whatever they desire. Food and fiber are a necessity, not something you can take or leave. We have taken it for granted too long.

We farmers are a proud people and we pride ourselves in being efficient. This can't be denied, because how else could we have stayed in business this long. Is our efficiency going to cost us, rather than help us? I am afraid so, unless S. 2626 is enacted for us.

I like the loan provision in this bill. I will admit the present farm bill has a loan and target price. But with this bill, this will enable me to place my product in the Government loan at a price high enough where I will be able to pay off the cost of my production, but at the same time when I place my farm product in the loan, I will be paying interest on that loan. The product will be put up as collateral and I will be able to redeem this product out of the loan when the market price reaches to the point where I think I have received a profit.

Now I realize under the present farm bill I am forced to be under at this time has a loan provision, but this loan provision is below the cost of production. I don't mind growing food and fiber to feed and clothe a world—not one bit. I am proud to do it and want to continue to do it, but, gentlemen I am tired of doing that at a price below the cost of my production.

Now I have been told by some that they can't find the value of land cost to use in determining the cost of production. For those who have that opinion, I would like to just ask you this: If you have acquired any land in the last few years, when you depart from this world I will guarantee that the Internal Revenue will determine a cost of that land. Now I ask you this question: Why does a person have to die in order for a realistic price to be determined on this land?

Folks, under this bill, S. 2626, we will accept that same formula that the Internal Revenue goes along with to determine the cost of that land, so I think that you will have to get another argument besides that in order to say that the cost of the land cannot be determined.

Now as a row crop farmer I realize I cannot plant fence row to fence row and flood the markets and still expect a good price. I am

glad to say that this bill, S. 2626, has a provision for a reserve to cover those years when we would have a disastrous situation, and it also has a provision where it can control production, and I want you to know that I as a farmer and the other farmers that I have talked to, and I believe I represent a large group of those, we are willing to live under that situation, to curtail our production, where we will have a decent price.

Now, gentlemen, I enjoy farming. It is the only thing that I have ever done and, regrettably to say, it is the only thing that I know how to do, so I am going to have to stay in farming. But why should I sell my product below cost of production, which, in reality, means that I am feeding the world out of my pocket.

You know I would like for all of you, if you would, to look at the Readers Digest, the April issue, page 152. Under cartoon quips, I would like to quote something that is there, and this is a quote: "Supermarket Clerk to Shopper: 'It is just simple economics, madam, wheat goes up, bread goes up; wheat comes down, bread stays up.'"

Fellows, I am going to tell you this: When your livelihood depends on something, I don't appreciate this being under a cartoon quip because it is serious business to me.

I know I stated this when I started out, that I have two sons. One is 20 years old and the other 16. One of them wants to go into farming and the other one says he wants to go into the medical profession, and I am uneasy about both of them. If we don't get something like this 2626 enacted, I am worried about the one that goes into farming, that he will be able to stay in it. I am worried about the one that wants to go into the medical profession because that profession has curtailed their situation so much that unless a man has a lot of pull there is no way he can even be admitted into medical school. The boy makes good grades. I am not bragging, but he has a high IQ, and I believe I can sell some land and just keep mortgaging land and maybe get him into medical school, but I am not even sure they will let him come in because they are keeping the supply of doctors down.

I also went into our University of Missouri and found out if he wants to go into raising crops and all, why there is no limit there. They will just take them there by the droves, just so you pay the tuition, to raise farm products and so on, which our Government says we have a surplus of, but over there on the other side of the same college, so to speak, they say we have a scarcity, but they won't let the boy in if he wants to go into the medical profession, unless you have some big pull. I ask you this: Is that fair?

So I want to tell you that I hope that this committee will consider seriously this bill S. 2626.

Now I have discussed this bill with the grassroot farmers of the AAM in Missouri and a lot of other States and I want to tell you that they wholeheartedly support this bill 2626.

Thank you, sir.

Senator HODGES. We are running short of time, so I will just ask one question. In your experience in the bootheel of Missouri and in other areas where you have talked to farmers, is the problem restricted to young farmers who have gotten into farming in the last 4 years or do you find the problem equally oppressive and heavy on those that have been in farming for some time?

Mr. WADE. To answer your question, the only compliment that Secretary Bergland made me in this whole movement was he has called me a young farmer. He is about the only one that has. I told you I have been farming for some 30 years, because I started right after I got out of high school, and what I would like to stress there is the fact that 30 years ago a young man could do that. I came right out of high school, and I just have to take up some time because I have some things I jotted down here to tell you. I purchased the first 120 acres of land that I have in 1951 and why I bought it was there wasn't anybody else around except your neighbor farmers and when a farm came up for sale, that is who bought it, and it was priced at a price where the farm products off of that farm would pay for it.

I bought the next farm in 1953 the same way. This man got old and retired and wanted to sell his farm and get out and he wanted the payment spread out over a long period of time. He didn't ask me, like they do today, an outrageous price. I got another 50 acres in 1963. In 1957 I was fortunate enough to acquire another 440 acres the same way, in 1962, 120; in 1971 another 60 acres. Even in 1971 when a farm came up for sale a neighboring farmer bought it, but since 1971 that is not so. If the farm next to me comes up for sale when I get home, I can assure you I nor my sons, neither of us will buy it.

Senator HODGES. It is too high?

Mr. WADE. Too high. There is no way in the world I could buy it.

Some people say why don't you sell and quit. I can tell you this, if things don't change, my son and I can't continue farming. We will both have to sell out and quit and do something else because we will not be able to keep in there. I have equity in it now for only one reason. On paper it looks good, but that is the only place it looks good.

Senator HODGES. It doesn't produce any more net dollars in purchasing power to you than it did when you first bought it, does it?

Mr. WADE. You know when I first started farming, the man that owned the land was at an advantage because his interest and principal payment was less than the rent, but now you are better off to go out and rent land at a big price than you are to go out and try to buy it. You can rent land in my area at about \$60 an acre cash rent and if you go out and buy it at the price it is today, you pay over \$100 on interest and taxes before you even touch the principal, so there is no incentive for a man to go out and acquire real estate in my area today. The only ones doing it, and don't you think I am trying to copy after what the President did and pick on the medical field—I am not doing that at all, but I am telling you about the only ones that can buy it now are the doctors that need it for a tax writeoff, the insurance companies, and thank goodness in Missouri we think we have stopped some of these foreign investors, but those are the only ones that have been able to buy it in my area. I don't know of a local man that has bought a farm next to him in several years, not that he wouldn't like to. My mouth waters when I pass by some of that land that I would like to have, but when they quote the price, I spit—I don't bite.

Senator HODGES. I am sorry, we are going to have to stop at 11:30 and we have three more witnesses. I appreciate your taking the time to come here and thank you very much, sir.

Mr. Steve Rice of Illinois.

## STATEMENT OF STEVE RICE, POTOMAC, ILL.

Mr. RICE. My name is Steve Rice and I am from Vermilion County, Ill. I am 31 years old. I guess I am the proverbial young farmer. I have a wife, four children, two sons, two daughters. I started farming in 1972, after I came back from the service, from college and other years where I was away from the farm.

My farm was homesteaded by my great, great grandfather in 1847. I am the fifth generation farmer on this farm, and the thing that hurts me and pains me the most is it looks like I could possibly be the last because all my cousins, uncles, aunts, nobody is farming except me.

In 1977 I had a gross income of \$24,000. According to USDA, this put me in a category of—quote—a big farmer, but in reality I lost \$5 an acre on my farm.

My farm consists of 40 acres of soybeans, 50 acres of corn, 25 acres of oats, 75 acres of alfalfa; also my livestock operation, which is a flock of 200 yews—sheep.

In 1977, according to this \$5 an acre that I lost, I had to have some outside income from odd jobs, plus I went into my cash values on all my life insurance policies. This spring I had to give up these life insurance policies because I cannot pay the premiums.

Also, my great grandfather was founder of the Goodwine State Bank in 1903. My family is involved with this bank. It is a small rural bank situated in my county. The loans and discounts in this bank are composed of 62 percent of farmers, which is 21 farmers. Not one farmer, since 1973, has ever paid down or got all the way out of his investment. He has remained in debt until this time. The operating profits in this bank have dropped 60 percent from this time last year, which is a cyclical thing because the farmers and the bank in my area are really tied so closely. What one does, the other does. This is a very bad thing.

I am not here to look for a subsidy or handout from the Government; I am here to look for economic equality. This is what I have to have in order for me to maintain my family farm, because if not, it will be gone.

S. 2626 looks real good. There are two parts that I like. I like the farmers board that is included in this because with this the grass-roots farmer can step in and say anything that is wrong or anything that looks good to him about his farming operation, which is very important. It is the democratic process in its full force, and that is what we have to have.

Also the loan rates that will be included in S. 2626 are very good, especially to the young farmer.

OK, my due dates on my notes are usually around November or December 1. This is the worse time to possibly market a farm commodity such as corn or soybeans because you are at the mercy of the market. Of course they know, the Government knows, the exporters know that young farmers have to unload them; therefore they can get this grain cheap. This loan rate within this bill will enable me to possibly work within the marketing procedures like I want to, because I would still have the grain, plus I would have the guaranteed backing of the Government to insure that I can do this, and that is one of the

main reasons I think that S. 2626 will be very beneficial to the young farmer.

Senator HODGES. Thank you very much. We are glad we have finally seen someone they talk about so much, because I think you are the only young farmer here, and if it is any comfort to you, some of the older farmers that have large areas also are in the same boat.

In your area do you find that prices are considerably below the cost of producing the crop or commodity?

Mr. RICE. Yes; definitely, especially, like I said, with the young farmer because I think with the young farmer it is laying on his shoulders right now.

Now the Farmers Home Administration has not really been that strong in Illinois until recently, the past year or so. Our small bank, we have a lending limit of \$75,000 on what we can lend to one person. Well, with today's costs, the cost of production, that is not even in the ballpark, so therefore you have to go to a correspondent bank, to a bigger bank in some of our larger towns and they have reached a point where they are going to refuse to take a young farmer because, let's face it, he is basically a bad risk within agribusiness' eyes. Therefore, Farmers Home has stepped in and I really don't know if it is good or bad, what the concept is here, but they are the only ones now that will be able to take an overline loan on young farmers.

OK, there could be some problems down the road. As it stands right now, I just couldn't tell you on that, but if something does happen, it looks like maybe you could possibly have a Government takeover of some sort, not a drastic situation like some people have said, but they could come and take over this land and then resell it or put it out to whom they want to farm it, which I think is something that has to be watched and should be. A watchdog on Farmers Home should be there all the time.

Senator HODGES. I thank you very much. We are running a little short of time. Thank you for your testimony. I appreciate it.

Billy Davis, from Mississippi.

#### STATEMENT OF BILLY DAVIS, LAUREL, MISS.

Mr. DAVIS. With the chairman's permission, I have a prepared statement that is being put in its final form and I will submit it tomorrow morning in sufficient copies.

Senator HODGES. That will be fine.

Mr. DAVIS. In the interest of time, I think I can probably cover my written statements a little bit quicker than I can paraphrase it.

I appreciate the opportunity of appearing to speak to what I believe could be the most significant piece of agriculture legislation since the late twenties. I am Billy Davis, Route 3, Laurel, Miss. My family of five and I operate a diversified family farm in the hills of southeast Mississippi. We have several main enterprises and I will cover each in turn as they relate to this proposed legislation.

My wife, Martha, and I were both raised on a farm, educated in the public schools of Mississippi and obtained our bachelor degrees from Mississippi State University. I have majors in government economics and prelaw. My legal studies are completed and I have been a member of the Mississippi State Bar for 15 years. I have been a full-time farmer by choice, not for the economic rewards so often dreamed of

by most nonfarmers, and some farmers, but for the way of life that lately is becoming a broken dream.

The past 3 years have been so bad. Even after drought wiped out many of the crops in our area, these same farmers don't qualify for SBA disaster loans because their cash flow is not consistently sufficient to guarantee repayment.

This year's crop prospects, due to weather, is not too bright in our area, and in most areas of the major farm regions in this country it likewise is not too bright.

One of my major enterprises is broiler production. I have a grower contract with one of our major poultry companies, and I am quite familiar with this phase of poultry production. S. 2626 could be a vital means of protecting our poultry farmer through the cost of production concept it sets forth. The poultry industry is a prime example of an industry where farmers growing the birds have no control over their product, yet are paid on a formula based upon quality of birds, feed conversion, and weekly competitive ratings among growers.

An example of proper implementation of S. 2626 is shown through the cost of production hearings where poultry producers, actually processors, commonly referred to as producers, must, upon submission of costs, include the cost of production for their respective contract growers. When this is done, it will become quite evident that the cost of production figures now being relied upon do not truthfully include this farmer. We as growers receive nationally an average of 2.83 cents per pound out of an average of 22.3-cents-per-pound cost through slaughter. However, a personal survey of growers in Mississippi, Alabama, Georgia, and Arkansas reveal a true cost of production, when using accepted cost accounting methods, to be a net loss to the grower of over 2 cents a pound.

Our next major enterprise is purebred polled Hereford cattle. This enterprise is currently reduced due to adverse cost-price spread over the last few years and it is primarily due to large cattle investors virtually killing our local registered market. The operator is paid a fixed price per year for each producing female and this figure includes all fixed variables, contingent costs and a return on investment; the net result being a price above the cost of production. In addition, he gets all bull calves as a bonus. How can we price our calves to compete? This is not just the purebred business, but has begun to move into the market cattle operation. The prime reason for this situation is that it is a net loss to the investor that supports this production corporation. Where this type investor gains is through tax credit.

An effective cost of production base as established through the hearing process provided for in S. 2626, together with effective import countercyclical quotas, or any other means the board of governors presents for referendum to the producers of that commodity. This would indirectly establish a true cost of production for the beef cattle industry, particularly the purebred business or seed stock, therefore denying this type investor the ability to automatically invest for the purpose of a tax loss credit.

Our next major enterprise is seed production, which covers soybeans, vegetables, oats, rye, and grass. Practically all of the seeds we produce is done under contract with a major seed company. This type of contract, generally negotiated, can be for a flat rate price per pound or bushel or a contract covering an additional percentage to the normal

market price for that product on a given projected date, or in some cases where certified seeds are involved a point-by-point negotiated contract. This may appear to be an amicable approach on the surface. However, none of the contracts which we are familiar with in our business have any relationship to the cost of producing that particular commodity, seed stock. The price arrived at generally is based upon an alleged projection of demand as much as 10 months in advance of that demand. As a general rule, this demand is over-projected, beyond normal losses and carryovers, to the point of producing a surplus in advance, the theory being that the resulting low price will reduce production and negatively result in an increase of a theoretical price for the remaining growers of that commodity.

Since most of the contracts currently in use directly relate to market price, then the cost of production hearings to establish that base market price would reflect directly in seed stock producers' contracts, which would benefit not only that seed stock producer, but the farmer who purchases that seed stock for the production of his marketable commodity.

The above are my three major enterprises. However, we do produce pork to a lesser degree. In these particular areas production is rapidly losing ground among independent farmers due to excessive importation during domestic prime seasons and again through major corporations through the contract process. This, in general, could be curbed through the utilization of provisions provided in S. 2626 and through the board of governors and their discretion granted, through the referendum process, to the producers of that commodity.

The pork industry is, by and large, plagued by the same type situation. In fact, gentlemen, these same threads are woven almost across the board through agriculture production in this Nation in an ever tightening patchwork.

To deviate momentarily, I feel we must cover very briefly an area, as is evident in the above, that needs additional attention. Over the past 20 years, and particularly within the past 10, with rapid progression in intensity, multi-interest corporations, foreign and domestic, have vigorously moved into active agriculture production, along with related support agribusiness. In addition to this, the nonfarm individuals increasingly have moved into agri-investment. Why? Is there no money to be made in active agriculture production within today's agri-economy? No. They have seemingly no limits to money they pour into land, cattle, and other agri-ventures, seeking paper-loss benefits. The recent revision of tax statutes relieves some of the problems, but 2 loss years out of each 3 still is not sufficient to halt such an illegal, unjust burden on the taxpayers of this Nation that are unable to avail themselves of such loopholes.

Corporation conglomerates receive encouragement within our tax statutes by having ability to spread agri-losses over nonagri-related gains. This will continually cut down the independent family farmers until Congress revises title 26, sections 1501 to 1505 of the Internal Revenue Code to prevent an agricultural producing individual or corporation from having its tax returns consolidated with any other individual endeavor or corporation.

S. 2626, with its cost of production hearing process, which I personally feel will bring forward true cost of production on practically every commodity in the country, would eliminate the ability of these

corporations and individuals to automatically reflect a loss which is so attractive to their tax need.

It is said by many alleged experts to raise the price received by farmers to a level which would include a net return would result in additional inflation of land values. One of our local realtors down home belongs to a national farmland sales organization and with his help, by use of his WATS line, we have talked with several hundred realtors in prime agriculture areas of this country over the past several weeks. We have attempted to determine the type individuals who are currently purchasing farmland, whether he be farmer or non-farmer, or whether or not there is any relationship between price paid and use intent. As we suspected, the reported price paid per acre for farmland in nearly all areas did not indicated the land use intent. This we obtained only through personal conversations, as the figures do not reflect it on a national average as to the intent of the purchaser. Farmers who purchased land for the intended use of agriculture production paid a price generally far below the average of land sales in the area in question. Individuals who purchased farmland, in the opinion of the selling realtors, almost unanimously, for non-agriculture intent, whether speculation or pure commercial use, generally paid from 30 to, in some cases, over 200 percent of land use value. The reported figure of price per acre included intended commercial use, speculative use, and agricultural use. Therefore the alleged inflated land spiral cannot be tied to farmers in any shape, form, or fashion. The farmers do not inflate land value, nonfarmers do.

S. 2626 in the computation of cost of production as related to return on investment utilizes federally accepted State tax land use values, which will tend to aid in the stabilization of farmland values.

In summary, the relegation of independent and family farmers to the multi-interest corporation who, like cancer, thrives on a weak agricultural economy, can only lead to the ultimate death of that agricultural economy. The production of food and fiber by our farmers in a "what will you give me" situation, with the rest of the Nation on a cost-plus-price wage structure, can only lead to the ultimate collapse of sufficient supplies of food and clothing for this Nation. The consumers of this Nation are being dealt a weak hand by the Government of this Nation in that our Government encourages expansion and consolidation of large corporately controlled agriculture producing units, which logically will result in this type corporate entity controlling the vast majority of all food and fiber production. The consumers are being told that to raise the price our farmers receive would be too expensive from a taxpayer's standpoint and a food consumer standpoint. In my opinion, the very minor increases needed so desperately by our farmers would be a small price to the consumer and taxpayer, which they could well afford, as opposed to the logical conclusion of corporate domination of food and fiber. This type control could only be called, knowing the interrelationship of most of our major corporations engaged in active commodity production, a food and fiber cartel.

S. 2626 is a very reasonable approach to the solution of a dilemma. It is not a panacea nor a Pandora's box, but it is an approach I personally feel would not need continual legislative adjustment as we have in our current agricultural program. It could very well, accompanied by necessary tax revision, reverse the trend of the declining family

farm number, reverse the trend of agricultural labor, which is now flowing into the inner city and creating a problem, reverse the trend of increased individual agricultural debt, which now sits in excess of \$85 per acre. It could almost eliminate direct farm subsidy, such as deficit payments, and ultimately guarantee the consumers of this Nation, and much of the world, a reasonably priced supply of food and fiber from the farmers of this Nation.

S. 2626 encourages reasonable competition in the marketplace, encourages efficiency among all agricultural producers, encourages young farmers to enter agriculture in increasing number, and would expand the tax rolls of this Nation by adding more farmers. Last, but not least, this proposed legislation, more than anything I have been personally associated with in recent years, could make a giant step toward putting agriculture back in step with the rest of the economy of the United States.

Thank you, sir.

Senator HODGES. Mr. Davis, I am sorry, we are going to be running short of time.

Senator Clark, we are going to have to stop, I think, at 11:30.

Senator CLARK. I see you have one more witness.

Senator HODGES. We have two more, one more, who is Mr. Reid, and then I think Mr. Wilson back here is going to give the testimony of the State senator from Indiana that wanted to submit testimony.

Thank you very much, Mr. Davis.

Mr. Reid, Big Spring, Tex.

#### STATEMENT OF DONNIE REID, BIG SPRING, TEX.

Mr. REID. Mr. Chairman and distinguished members of the Agriculture Committee: I am indeed grateful to have this opportunity to come before this committee today to present facts concerning the loan rates of agriculture commodities, in relation to the cost of production.

I am Donnie Reid from Big Spring, Tex., of Howard County. I have been actively engaged in this vocation for 15 years, after 1½ years of college. My principal crops are mainly upland cotton and cattle, although I do also produce grain sorghum, hay, and sometimes a little wheat. My entire operation is a partnership with my brother and it is shared in by both of us contributing one-half of the management and one-half of the financing. I am a member of the Howard County ABCS Committee, on which I have served for 4 years.

I would like to begin today by presenting to this committee some facts of agriculture in my county and try to show what impact a loan set at the cost of production would have meant to my fellow farmers and the consumers in my county. My county has a population of 44,000 people, made up of seven small rural towns. There are 408 farmers, with the average size around 900 acres. The majority is dryland farming. We produced 91,000 bales of short staple cotton, harvested from 96,000 planted acres. There are 224,000 acres of land in row crop. Nearly all of the land is skip row farming. We have an annual rainfall of 19 inches. Had the cotton produced in my county had a loan price at the cost of production we would have received an additional \$9 million, which in turn would have turned over 7 times, making an additional \$63 million for the economy of my town to grow and develop. Had the U.S. cotton industry received cost of production on a crop of 12,700,000 bales, the farmers would have received an additional

\$508 million and the economy would have had an additional \$31½ billion of new wealth generated by expanded growth.

In the 1977 year, my brother and I farmed 1,100 acres of cotton skip-rowed on 2,300 acres of land. We use two employees for cotton. In our ranching operation we had 776 acres of grain sorghum skip-rowed, 450 acres planted for grazing and baling, and we had 13,500 acres of grass. We use two employees on our leased ranch. The other labor is provided by family members of both families. We work from 70 to 80 hours per week, and a lot of time 7 days a week.

Before leaving to come to Washington, I had my certified public accountant, Sidney Clark, of Big Spring, Tex., to figure a 1977 crop year net income statement, page 6 of my testimony, which I would like you to look at and realize I did not color these up any because they are proof enough that things aren't very good. At the bottom of the page is a code to show items added into the year 1978 that were after the 1977 year. It also shows our partnership investment, and that the return on our investment was 1.77 percent return. The reason I do not show a loss is the fact that I did not use any weed chemical, nor did I apply any fertilizer on the land for the year 1977 because I was trying to cut every corner to show a profit. I also do nearly all of my own mechanic work and all of my welding. My newest equipment is 2 years old.

REID BROS.—A PARTNERSHIP, 1977 CROP YEAR NET INCOME

	Per schedule F, form 1065	Add 1977 items in 1978	Less 1976 items in 1977	Crop year 1977 (cols. 1+2-3)
<b>Income:</b>				
Livestock sales.....	199,188			199,188
Cost of livestock sold.....	159,809			159,809
Calves.....	80,176			80,176
Cotton.....	49,233	29,046		78,279
Grain.....	20,050		10,383	9,707
Machine work.....	4,210			4,210
Farm program payments.....		13,866		3,866
<b>Total.....</b>	<b>193,088</b>	<b>32,912</b>	<b>10,383</b>	<b>215,617</b>
<b>Operating expenses:</b>				
Labor, employees.....	23,205			23,205
Repairs.....	14,622	373	1,048	13,947
Interest.....	1,119	19,240		20,359
Rent or lease.....	21,282			21,282
Feed.....	14,436	3,256	2,249	15,443
Seed.....	9,500			9,500
Fertilizer, insecticide.....	2,154			2,154
Machine hire.....	5,789		70	5,719
Supplies.....	3,002	29	66	2,965
Veterinarian and medicine.....	1,603		417	1,186
Gas, fuel, oil.....	19,593	850	1,480	18,963
Taxes.....	1,773			1,773
Insurance.....	2,201			2,201
Utilities.....	1,849			1,849
Freight, trucking.....	977			977
Miscellaneous.....	988			988
Contract labor.....	13,071			13,071
Pickup and truck expenses.....	2,688	1,929	256	4,361
Travel.....	289			289
Telephone.....	932			932
Accounting and legal.....	1,820			1,820
Office and dues.....	44			44
New jobs credit.....	800			800
Depreciation (declining balance).....	47,460			47,460
<b>Total.....</b>	<b>189,597</b>	<b>25,677</b>	<b>5,586</b>	<b>209,688</b>
<b>Net income.....</b>	<b>3,481</b>	<b>7,235</b>	<b>4,797</b>	<b>5,925</b>

<sup>1</sup> Received by individual partners.

<sup>2</sup> Paid by individual partners on behalf of partnership.

Note: Total partnership investment \$336,000; return on investment of 1.77 percent.

Page 7 is a copy of all my equipment and it is not nearly as adequate as I need or would like. I built all of my equipment from the listers and row markers, gage wheels, planter bars, kniving rigs, cultivators, for the 12-row and also the old equipment for the 6- and 8-row.

	<i>Cost</i>
Breeding stock:	
9 Horses -----	\$5, 100
54 Bulls -----	19, 698
693 Cows -----	163, 026
41 Heifers -----	5, 125
<b>Total -----</b>	<b>192, 949</b>
1950 grain truck -----	375
Disc plow -----	175
2 4020 J.D. tractors -----	8, 635
Breaking plow -----	450
Packer -----	215
6 cotton trailers -----	1, 134
282 J.D. stripper -----	5, 350
Air compressor -----	195
1972 J.D. tractor 4320 -----	6, 400
5 bottom breaking plow -----	1, 791
Sanddigger 24-row -----	1, 447
282 J.D. stripper -----	6, 301
J.D. stripper 33 -----	3, 450
4630 J.D. tractor -----	22, 850
Offset disc J.D. -----	5, 120
Grain drill J.D. -----	1, 450
¼ International loader -----	685
4630 J.D. tractor -----	23, 071
2 saddles -----	1, 057
2 adding machines -----	413
Equipment Foster -----	5, 000
Planters and lister beams -----	6, 025
Equipment Foster -----	8, 500
Shredder -----	1, 095
4630 J.D. tractor -----	16, 800
Butane tank -----	125
2 12-row kniving rigs -----	2, 325
2 12-row planters -----	2, 325
2 12-row cultivators -----	2, 325
C.B. radios -----	198
Gooseneck trailer -----	1, 500
Saddle and equipment -----	500
Scratchers -----	243
Water line -----	2, 847
Water troughs -----	955
Pipeline -----	778
1969 case combine -----	2, 000
1955 Chevrolet truck -----	1, 600
Saddle -----	72
3 cotton trailers -----	1, 795
Water tank -----	165
Portable working chute -----	1, 085
Windmill -----	500
<b>Total -----</b>	<b>150, 149</b>
<b>Total -----</b>	<b>343, 098</b>

I also would like to submit in my testimony on page 8 a copy of an average of six other farmers prepared by an area economist for the Extension Service in Fort Stockton, compiled by Gary Condron. These figures were compiled considering there were ideal conditions, no hail, no blowing out, no insects, and no flooding. These figures do not figure

any cost or return for the land and also no charges for management. They show a dryland yield of 400 pounds per acre, which is a bumper crop. If land cost and management were added, allowing 2 cents per pound or \$9,000 for management, on 900 acres skiprowed, the cost of production would be 60 cents per pound.

*Average farm operation for Howard County*

[900 acres—500 pound projected yield]

Equipment investment.....	\$137, 405
Operating cost of equipment.....	\$59, 913
360 bales of cotton at \$.40, 400 pounds per acre.....	\$72, 000
Less operating cost.....	\$59, 913
Net income of farmer that owns his land.....	\$12, 187
Return on investment..... percent	6. 17
If land counted..... percent	1. 88
If farmer rents land (at one quarter rent) his loss is.....	\$5, 813
Amount of drop to be eligible for deficiency payment.....	\$28, 800
Total loss before eligible for any government payment.....	\$34, 613
Estimated 10-year average yield (when using a 2 and 2 planting pattern over 900 acres)..... pounds/acre	400
To break even farmer must receive..... cents per pound	\$. 46

Source: These figures were compiled by Gary Condron—the area economist for the Extension Service in Fort Stockton and six average farmers from Howard County area ranging in age from 24–60.

Note.—These figures were compiled considering there were ideal conditions—no hail, no blowing out, no insects, and no flooding, et cetera.

On page 9 a similar report from the same accountant who prepared mine, who is Sidney Clark, of Big Spring, Tex., a report for the same year of 1977 for Clay Reid, my dad, shows a loss of \$6,298 and does not allow anything for the value of the land or his management.

CLAY AND VELMA REID, JR.—1977 CROP YEAR INCOME

	Per schedule F, form 1065	Add 1977 items in 1978	Less 1976 items in 1977	1977 net crop income (cols. 1+2–3)
<b>Income:</b>				
Calves.....	3, 079		3, 079	
Cotton.....	116, 747	75, 373	116, 747	75, 373
Trailer credits.....	1, 767		1, 767	
<b>Total.....</b>	<b>121, 593</b>	<b>75, 373</b>	<b>121, 593</b>	<b>75, 373</b>
<b>Operating expenses:</b>				
Labor.....	6, 410			6, 410
Repairs equipment.....	11, 592	27	2, 220	9, 399
Interest.....	630		404	226
Feed.....	254		254	
Seed.....	3, 213			3, 213
Fertilizer.....	8, 397			8, 397
Machine hire.....	18, 249			18, 249
Supplies.....	2, 366	34	185	2, 215
Gas, fuel, oil.....	4, 263	81	195	4, 149
Property taxes.....	2, 121		134	1, 987
Insurance.....	1, 852		85	1, 767
Utilities.....	487			487
Cotton chopping.....	2, 089			2, 089
Pickup, car and truck.....	629	126	135	620
Telephone.....	198			198
Dues and subscriptions.....	44			44
Legal and accounting.....	593			593
Office in home.....	326			326
Depreciation.....	21, 302			21, 302
<b>Total.....</b>	<b>85, 015</b>	<b>268</b>	<b>3, 612</b>	<b>81, 671</b>
<b>Net income (loss).....</b>	<b>36, 578</b>	<b>75, 105</b>	<b>117, 971</b>	<b>(6, 298)</b>

Page 10 is a report from one of my neighboring counties, Fisher County, of Roby, Tex. The figures show a diversified farming cost per ground acre for a 1,000-acre operation. The minimum major item of equipment is listed which is needed for an operation of 65 percent cotton, 10 percent milo, 10 percent wheat, and 15 percent livestock.

*Costs per ground acre for diversified farming in Fisher County, Tex., 1977*

<i>Item and cost</i>		<i>Item and cost</i>	
Labor -----	\$13. 64	Vet -----	\$0. 02
Supplies -----	7. 48	Interest -----	2. 96
Repairs -----	7. 02	Taxes -----	2. 37
Fuel -----	6. 15	Dues and fees -----	. 07
Seed -----	3. 79	Office expenses -----	. 12
Utilities and phone -----	. 42	Vehicle licenses -----	. 10
Chemicals -----	2. 80	Hand expense -----	. 50
Fertilizer -----	1. 60	Storage -----	. 19
Leases and rent -----	32. 15	Insurance -----	. 96
Pest control -----	20. 13	Equipment payments -----	26. 36
Machine hire -----	. 66	Miscellaneous -----	. 13
Feed -----	. 26		
		<b>Total -----</b>	<b>129. 87</b>

MINIMUM MAJOR ITEM EQUIPMENT LIST NEEDED FOR 1,000 ACRE DIVERSIFIED FARMING OPERATION (65 PERCENT COTTON, 10 PERCENT MILO, 10 PERCENT WHEAT, 15 PERCENT LIVESTOCK) IN FISHER COUNTY

<i>Item</i>	<i>New price</i>	<i>Average used price</i>
2 tractors 100 hp. -----	\$31, 000	\$19, 600
2 cultivators complete -----	4, 800	3, 200
2 planters complete -----	1, 770	1, 300
2 14 ft tool bars complete -----	3, 600	2, 400
1 4-bottom plow and rake -----	3, 650	2, 400
2 14 ft tandem disc and rake -----	7, 960	5, 000
1 90 in. shredder -----	1, 690	750
2 300 gal spray rigs -----	3, 150	1, 900
1 1,000 gal water trailer -----	2, 200	1, 600
1 14 ft chiesil -----	2, 100	975
1 Big Ox 9 shank -----	1, 800	850
1 cotton stripper -----	10, 500	6, 800
10 cotton trailers -----	24, 000	20, 000
1 cotton ricker -----	3, 100	2, 100
1 grain drill -----	2, 300	1, 600
1 combine 14 ft header -----	45, 000	29, 600
1 grain truck -----	19, 400	14, 000
2 ¾ ton pickup trucks -----	10, 950	4, 900
2 fuel storage tanks -----	1, 400	1, 100
1 8 row rotary hoe -----	3, 950	2, 600
1 8 row sand fighter -----	1, 970	900
1 12 ft hay swather -----	6, 540	3, 700
1 stack hand -----	10, 700	6, 400
1 stack mover -----	4, 800	3, 500
1 metal barn with shop (40 ft by 100 ft) -----	9, 700	6, 000
1 16 ft stock trailer -----	2, 800	2, 100
Farm shop equipment and tools -----	12, 000	9, 000
Livestock miscellaneous equipment -----	8, 500	5, 400
<b>Total -----</b>	<b>241, 330</b>	<b>159, 675</b>

Page 11 is a comparison of expenses and income for the years 1950 and 1977. This report was taken from actual receipts from my dad's records and can be documented if anyone so requests.

COMPARISONS OF EXPENSES AND INCOME FOR THE YEARS 1950 AND 1977,  
HOWARD COUNTY, TEX.

In 1950 a four row tractor, fully weighted, with cultivator, lister, and planter sold for \$3,970.00.

In 1977 an eight row tractor with no extras sold for \$26,732.00.

In 1950 a ½-ton pickup sold for \$1,550.00.

In 1977 a ½-ton pickup sold for \$6,442.00.

- In 1950 good farm labor cost \$5 per day with nothing furnished.
  - In 1977 farm labor cost \$30 per day in addition to housing, fuel, electricity, and transportation to and from work.
  - In 1950 cotton sold for \$0.42 per pound and seed sold for \$110.00 per ton.
  - In 1977 cotton sold for \$0.41 per pound and seed for \$67.00 per ton.
  - In 1950 after paying the ginning, seed checks of \$25.00 per bale were received.
  - In 1977 ginning cost an additional \$10 per bale above the seed.
  - In 1950, after rent cotton netted \$140.25 per bale.
  - In 1977, after rent cotton netted \$103.50 per bale.
  - In 1950 hand picked cotton cost \$34 per bale to harvest.
  - In 1977 machine stripped cotton cost \$30 per bale to harvest.
  - In 1950, before net weight trading, wrapping that weighs 21 lbs. per bale was sold for the same price as the cotton.
  - In 1977, since net weight trading, wrapping costing \$14 per bale goes with the cotton and the producer buys the wrapping and receives nothing for it.
  - In 1950 cotton sold on grade and staple.
  - In 1977 we have many different grades and staples. We also have the mike, all of which lowers cotton prices.
  - In 1950 charges for selling a bale of cotton were \$1.85 per bale.
  - In 1977 charges for selling a bale of cotton were \$6.60 per bale.
  - In 1950 a bale of cotton would buy about 114 barrels of oil.
  - In 1977 a bale of cotton will buy 12 to 14 barrels of oil.
  - In 1950 a bushel of wheat would buy about 1 barrel of oil.
  - In 1977 a bushel of wheat would buy about  $\frac{1}{4}$  of a barrel of oil.
- According to my research and records, the above comparisons are true.

CLAY REID.

I realize that this committee is working to establish laws for the betterment of the American farmer and also at the same time for the good of our country. I know that the President has not seen fit for the American farmer to receive parity income, but I do not understand why he thinks the people who feed and clothe the people of this country and half the world, would or should be expected to produce at less than the cost of production. With all due respect to the leaders of our land, I think it is time the administration realized that we are the backbone of this great country and if the family farmer does not survive, the country will not survive because corporations or foreign interests that replace us will not be near as efficient, but they will set their prices at whatever price they see fit. If we as farmers are forced to work for someone else, we will be just like the rest who do not produce, we will have lost our initiative and efficiency.

I appreciate Senator Hodges' concern for the farmer and sincerely believe that the loan at the cost of production will be good for the farmers and the Nation as a whole. The cotton farmer believed from every word of information that he received or read that under the original 1977 farm bill he was going to have a loan on strict low-middling  $1\frac{1}{16}$  of at least 50.28 cents per pound. The loan is a marketing tool for the farmer with his buyer and also a guarantee for his banker that if a farmer is efficient and the Lord blesses us with good weather that we might have an opportunity for a profit. The loan is no guarantee that we will make a profit, but at least we will have a better chance. The Commodity Credit Corporation will not lose money on this type of loan because the farmer repays every penny, plus interest and storage charges. I also do not believe that our country should export or import our commodities below the cost of production. We do not have surpluses, but what we do have is unequal distribution of our commodities.

At this time I would express to all of our Senate Agriculture Committee the deepest and kindest regards and best wishes, and I thank

each and every one for your patience and understanding of my awkwardness to say, "work for America to keep it strong and free, but always remember that our agriculture is the source and the beginning of our wealth."

Thank you very much.

Senator HODGES. Thank you very much.

We are going to have to quit in exactly 1 minute. How long have you been in farming?

Mr. REID. I have been farming for 15 years. I farmed all of my life as a boy. I was raised on a farm and I have been farming ever since I got out of school.

Senator HODGES. In your experience in your part of Texas are the problems in farming confined to the people that got into farming in the last 3 or 4 years or are they problems that everyone is having that is a farmer?

Mr. REID. I think Mr. Bergland remarked that the only people that were having trouble were the inefficient farmers with poor management and that is the reason they are here, but I don't think that is the case. I think everybody that is farming is in the same fix, including the older farmers.

Senator HODGES. Thank you very much. We are going to have to adjourn, under the rules of the Senate, and we will take up again in the morning at 9 o'clock.

[Whereupon, at 11:30 a.m., the committee recessed to reconvene at 9 a.m., Wednesday, May 24, 1978, in room 324, Russell Senate Office Building.]

# CONSUMER AND AGRICULTURAL PROTECTION ACT OF 1978

WEDNESDAY, MAY 24, 1978

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,  
MARKETING, AND STABILIZATION OF PRICES OF THE  
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY  
*Washington, D.C.*

The subcommittee met, pursuant to notice, in room 324 of the Russell Senate Office Building, at 9:02 a.m., Hon. Kaneaster Hodges, Jr., presiding.

Present: Senators Hodges, Curtis, and Helms.

Senator HODGES. I will now call the meeting to order.

I will insert statements of Senators Abourezk, Bayh, and Bumpers and a letter from Senator Sasser introducing a resolution from the Gibson County Tennessee American Agriculture Movement, if there are no objections.\*

Senator HODGES. Mr. Anthony, would you come forward, please, sir? I want to welcome you to the hearing and ask you to have a seat. Right there will be fine, sir.

Go ahead and begin your testimony, please, Mr. Anthony.

## STATEMENT OF A. W. ANTHONY, JR., PRESIDENT, GRAIN SORGHUM PRODUCERS ASSOCIATION, FRIONA, TEX.

Mr. ANTHONY. Mr. Chairman, members of the committee, I am A. W. Anthony, Jr., of Friona, Tex., and I am a farmer, livestock producer, and president of the National Grain Sorghum Producers Association. Our association's membership is made up of grain sorghum farmers throughout the grain sorghum production area of the United States.

And I appreciate the opportunity of appearing before your committee today to discuss S. 2626. We commend Senator Hodges and other Members of the Senate, who are sponsors of this bill, for being vitally concerned about the agricultural depression which is currently affecting our producers. We farmers certainly have many problems, which need to be studied and acted upon, and we are very appreciative of those of you in the Senate who are concerned enough about these problems to seek ways to help solve this serious agricultural economic crisis.

\*See pp. 134, 135, and 136, respectively, for the prepared statements of Senators Abourezk, Bayh, and Bumpers, and p. 137 for the letter from Senator Sasser introducing a resolution from the Gibson County Tennessee American Agriculture Movement.

The Grain Sorghum Producers Association was very disappointed that the House of Representatives and the administration would not go along with the flexible parity bill that was passed by the Senate. We felt that bill would have worked toward solving the farm crisis in a very systematic and sound way.

I must confess that the statement I will be giving this morning is more of my own personal views toward S. 2626 than it is of our association. Our Board has not discussed this bill nor have we even considered many of its provisions. However, I can say that our association does agree with the intent of this legislation "to provide price and income protection for agricultural producers by assuring such producers a price for their agricultural commodities of not less than the cost of producing such commodities." Any legislation that would provide such an assurance to our producers would be most welcome and is vitally needed.

I would certainly support legislation that would provide price and income protection to our producers; however, I do question the feasibility of some of the points that are suggested in the bill. I am concerned that establishing a National Board of Agriculture Governors could be the beginning of another bureaucratic echelon, which would only complicate this system instead of actually giving any relief to our farmers. The fact that this bill requires the President to appoint the Board of Governors is my main concern. I recognize that most of the appointments would be made from a list of people recommended through election processes by producers. But the President could and would select only those individuals that would best serve his views and objectives. And with his use and threats of the veto, we feel the President already has too much authority in establishing farm programs, which is why it has been virtually impossible for Congress to write a good farm program for the last several administrations. Therefore, a commission or board named by the President would do little in solving our farmers' problems.

If Congress should see fit to move in this direction, we would highly recommend that the National Board of Agriculture Governors be responsible solely to the producers of the various commodities and their commodity and farm organizations. If the producers had the total say as to whom the Board members would be, then we would have more confidence in this procedure.

The Grain Sorghum Producers Association initiated and introduced to Congress the cost of production survey which was included in the Agriculture Act of 1973. It is our view that USDA has done a reasonably good job in doing a nationwide cost of production study. We have followed their work very closely and commend them for their sincere efforts in developing a true and accurate cost of production on a national scale. The one main area of concern is in land costs, which we feel must be a part of the cost of production. After studying different proposals of adding land cost into the cost of production, the best way is to take all input costs of production, including return to management, and dividing it by the average tenant's share of the crop. Information is available on the typical tenant's share, and this method would take out the wild gyrations of land costs and commodity prices in establishing the return to land. We believe this procedure would be a much fairer and more accurate way of using land costs in the cost-

of-production studies than the one that is suggested in S. 2626, section 12(A) (5).

In section 14, which is the section that deals with guaranteed loans through commercial banks, I am sure that it would give farmers additional flexibility and would be advantageous to establish a system of guaranteed loans on commodities through private banks. I see that in many cases where such a system could be very helpful; however, we would support this only as long as our present loan is continued through the Commodity Credit Corporation. The lower interest rate provided through the Commodity Credit Corporation loan is advantageous to most producers, and we would certainly not want to disband that type of loan in order to get the guaranteed loan through the commercial banks. As long as we have the option between the two types of loans, there would definitely be some benefits.

Section 17 deals with the mandatory release price of commodities covered under loans. The Grain Sorghum Producers Association is very concerned about the mandatory release prices or recall levels of loan grain under the present law. At this time, grain producers who put their grain in the reserve program will be forced to recall their grain when the market goes to 140 percent of the loan level, which is still below the farmer's cost of production and carrying charges. The Grain Sorghum Producers Association has been appealing to the Department of Agriculture to raise the recall levels on feedgrains to be consistent with the reserve program on wheat, which is 175 percent of the loan. At that level, farmers could see a little hope of making a profit at the end of the reserve period. However, with the way it is now, there is no way that USDA will allow our prices to go beyond the cost of production and carrying charges. We certainly recommend that this problem be solved so farmers can make a profit out of their grain by using the loan and reserve programs.

We feel that section 17 should be stated even clearer to make sure that the recall price is well above the cost of production plus carrying charges and allow for profit. In subparagraph C of section 17, we would recommend that it be stated that "The mandatory release prices in the case of any specified commodity shall be established by the Board as a percentage above the cost of production price for that commodity plus storage and interest charges applicable to prevailing loans for that commodity." We definitely want the recall prices to be above the cost of production and carrying charges instead of a percentage of those costs. Section 18 partially takes care of this problem, but we feel that the language should be even stronger to protect our farmers on the recall price levels.

Grain Sorghum Producers Association has always been concerned about national commodity reserves. We have had bad experiences in the past from reserves or surpluses. Any time that Congress considers setting up a national commodity reserve as outlined in section 20, we certainly want such a reserve to be isolated from the market to the extent that there is no way that it can be held over the market as a threat or a deterrent to farmers' prices.

Skipping over to production management, section 23(A), it would be very difficult for producers to submit their intended plantings for the coming year early enough for all this data to be analyzed and then allotted back to the producer. Producers have to have the flexibility to make decisions on what they plant even up to the time of planting

due to weather conditions and when planting moisture is received. Also, we, as an association of grain sorghum farmers, do feel that we must have a system which will restrict plantings and keep supplies in balance with demand to the extent that farmers' prices can rise to profitable levels.

Mr. Chairman, these are some of the concerns which I have had as I reviewed S. 2626. We certainly appreciate those of you who have been working on legislation in behalf of the American farmer. And we want to work with you as you give further consideration to this and other proposals. The concerns that I have shared here this morning are some that we do feel that you should study closely.

It has been a pleasure to be with you this morning. I will be happy to try to answer any questions at this time.

Senator HODGES. Thank you very much for your testimony. I am particularly interested in your agreeing that land costs, on a realistic basis, have to be in cost of production. One of the quarrels that I have with USDA has been their unwillingness to allocate those. Every other industry allocates land costs and similar things—puts in every cost that they have, and land use is certainly a cost. I don't understand—they say it is difficult to do, and yet they avoid the problem.

Mr. ANTHONY. You can't produce without land, can you?

Senator HODGES. That's exactly right. We are also concerned about mandatory release prices. The reason that we have set them in the bill that we have is so that—you will note you aren't forced to take all your crop out, even by operation of those mandatory release prices. But the intent of that is simply not to allow its use as a speculative vehicle, because the farmer, were he able to keep it in any level in loan that he wanted, would then be in a position to simply do what is being done to him now, that is, to be highly manipulative.

And I would pick up on one other thing. How would you suggest, then, say, with grain sorghum, that you would restrict plantings?

Mr. ANTHONY. Well, I think we have to restrict it as to the needs of our grain supply, and I certainly believe—

Senator HODGES. I understand that, but what system would you use?

Mr. ANTHONY. Well, to decide how much grain—you know, the Secretary decides how much grain is needed, and then restrict our plantings to that percentage, is that what you are asking?

Senator HODGES. Yes, sir, but how would you allocate, then, what acreage could be planted?

Mr. ANTHONY. Well, through the percentage deal—we need so many acres of grain or so much production, and then we restrict our plantings to that percentage.

Senator HODGES. I understand that, but who is going to get to plant grain sorghum?

Mr. ANTHONY. Well, it would be allocated to the grain sorghum producers, the fellows that have been raising grain sorghum, is the way I look at it.

Senator HODGES. Well, the only thing I am asking is that everyone agrees that at some point you ought to restrict acreage—the difficulty is determining the system for doing that. And you are saying that you would restrict it to those people on what—a 5-year basis, a 3-year basis?

Mr. ANTHONY. You mean as to what they have planted the past 3 or 5 years?

Senator HODGES. Yes, sir. I am trying to determine—you say you are in agreement, and I believe also that in times of surplus you have to restrict the amount of a crop to be planted. How would you do that?

Mr. ANTHONY. Well, if I had been planting, say, 100 acres and we decided that we don't need but 75 percent of what we planted the year before or the last 3 years, then I would say cut it 25 percent.

Senator HODGES. So you would have to have a history of a crop?

Mr. ANTHONY. I think so.

Senator HODGES. All right, you indicate you are opposed to any further bureaucracy. Now, then, if you are in favor of doing that, it seems to be highly bureaucratic. Wouldn't that require a tremendous amount of bureaucratic decision?

Mr. ANTHONY. Well, no more than what we have at the present time. Of course, now, in the present farm program—

Senator HODGES. Grain sorghum has never been an allotted crop, has it? I grow grain sorghum and I am not aware that it has even been allotted.

Mr. ANTHONY. Well, yes, you bet, it has been in our area back in—before this now, we could only plant so many acres; we were allotted.

Senator HODGES. You were allotted in your area?

Mr. ANTHONY. Right.

Senator HODGES. I didn't realize that.

Mr. ANTHONY. Right. Plant so many acres of grain sorghum, so much cotton, so much of this.

Senator HODGES. Well, I know you could cotton; and I know rice was an allotted crop—but I was not aware that grain sorghum was ever an allotted crop.

Mr. ANTHONY. At the present time, I can place my whole farm in grain sorghum, as long as I don't exceed the normal crop acres—or cotton or wheat or whatever.

Senator HODGES. But you are saying that at one time grain sorghum was an allotted crop?

Mr. ANTHONY. Yes.

Senator HODGES. OK.

Mr. ANTHONY. It was in my area.

Senator HODGES. Well, thank you very much, Mr. Anthony, for coming; we appreciate that.

Nancy Espy from Montana. Hello, how are you today? Just have a seat anywhere.

#### STATEMENT OF NANCY ESPY, REPRESENTATIVE, WOMEN INVOLVED IN FARM ECONOMICS (WIFE), BOYES, MONT.

Mrs. ESPY. Mr. Chairman, I am Nancy Espy, vice-president of WIFE in Montana. I certainly appreciate the opportunity to be here today.

I have brought several clippings I would like to have entered into the record,\* because what I am going to say will be a very general statement with not too much information you are not already aware of, I believe.

This is who controls the grain companies in the United States; I think it would be of great interest.

\*See p. 164 for the material submitted by Mrs. Espy.

This shows our share of the farm dollar in bread.

This is foreign buying of U.S. farmland—it exceeds \$1 billion.

And this is the cheap food policy beginning to backlash.

More foreign investment.

We would like for you to consider these things in your overall review of these hearings—and I am sure that you will.

We do greatly appreciate the honor to come and speak before this committee. WIFE would like to commend the efforts of the sponsors and cosponsors of S. 2626 on the work that has been done to offer farmers a program that may be acceptable to them. Having observed the hearings for a short while on Tuesday, it is obvious that the problems of the farmer have been presented to this committee in an accurate and sincere manner.

WIFE organized in anticipation of achieving 100 percent parity for farmers. We continue to strive toward this goal and will support and work for any farm program that a majority of the farm community would find acceptable to them. There is no doubt that most farmers and ranchers have more invested in their farms and ranches than most businesses on Main Street, but are not recognized as the true businessmen that they are, not only nationally but internationally. We hear much about subsidizing the farmer, and WIFE resents this attitude and would point out that in truth it is the consumer that has been and is subsidized by the Government as it continues the cheap food policy that has enabled the consumer to continue to be the best fed and at the most reasonable price in the world, thus allowing for more disposable income to be spent on many more material products. That makes life more enjoyable for them, we realize.

It would be well for every person in this United States to take a good hard look at the road we are traveling, and every day that farmers are denied the right to make a fair profit, the road will become a more dangerous freeway. The farmer today is about 57 years of age; he was probably born to be a farmer or exposed to it at a very young age. He is not afraid of hard work or risk, nor is his wife and family. The love for the land and livestock are not something he can shut off like changing to a new job or slowing down the factory. He makes plans 1 to 3 years ahead. Once a field is tilled and planted, or a cow, sow, or ewe is bred, there is no opportunity to shut down that factory. The results of the farmer's labors will be harvested. The risk in weather, even reasonable price fluctuations, are part of the business; but Government actions and reactions are not understandable, nor can they be tolerated. Embargos, price freezes, inaccurate reports, foreign interest investments placed before U.S. interests, have caused farmers to be suspicious and resentful of Government.

As wives, mothers, daughters, and partners of these farmers and ranchers, there is no way that I can adequately express the heartache we suffer when the farms we love are overloaded with debt and we see neighbors sell out to strangers and foreigners, because they are at the end of their financial rope and must sell to save what equity they still have.

There has been an old saying for years in farming, that you live poor but you die rich. Believe me, with the debt we carry, our children will most likely sell the farm to pay inheritance tax.

We carry, as women, what is probably the greatest sorrow and the hardest to bear—and it is the desperation we see in the very soul of these men we love as they fight with every means available to them.

The guaranteed emergency credit loan, for instance, that was passed to help us—several years ago—this really helped the banks. The 9 percent interest was raised to 10 percent on \$250,000 loans. That is another \$25,000 a year interest payment with very little, if any, paid on the principal. Disaster loans for feed purchase, the payments were made with FHA's name on them, had to be placed back against the payment on the following year's loan, thus leaving feed bills that the disaster loans were prepared for still unpaid, or cash flow not there, not available.

The second mortgages are often made with FHA, and this is how this comes about. So two land payments are made. Some would use funds from family funds that were willingly loaned, but could still jeopardize another family unit.

The financial burdens could be eased with higher farm prices. The Nation's balance of trade could be helped with higher farm prices. The consumers' guarantee of an adequate supply of food at a reasonable price could be assured with higher farm prices. Local, county, State, and National economies would improve and inflation would be more easily controlled. Remember, every agriculture dollar generates \$7 in the economy, and farmers would be paying more tax with higher farm prices. The farmer is and always has been the guardian of the soil, and is producing the only renewable resource this country has, agriculture. Women Involved in Farm Economics appreciate the opportunity to appear before you.

Thank you, Mr. Chairman.

Senator HODGES. Thank you very much. I appreciate your statement.

What are you involved in in Montana?

Mrs. ESRY. Ranching—cattle ranching.

Senator HODGES. Do you have a cow-calf operation?

Mrs. ESRY. We have cow-calf and we raise feeder steers. And there was a time when we fattened feeder steers. We have not done that for a long time.

Senator HODGES. Everyone is saying now how bright the outlook is, and the prices are better, but does that necessarily mean that it is that much brighter, or is it simply better than it was?

Mrs. ESRY. It is very encouraging to us; yes, it is brighter. But I think it should be considered, in our part of the country anyhow—it looks as though we may get \$70 more this year for our calves at current prices, than we did last year. Last year we sold our calves higher than most people. We had a crossbred cow that is very much in demand.

If we got \$70 more than last year you will have to consider that with the extreme winter we have had, we have put 2 tons of hay into our cows at \$70 a ton, so that calf isn't going to bring us more profit.

Senator HODGES. That was my point: although the prices are higher, you are not necessarily that much better off.

Mrs. ESRY. That's right. And then, of course—we are certainly grateful for higher prices and we have deleted our herds in anticipation of this. However, I think it would be wise to stress that, even so,

imports are going to continue to come in. We are still fighting with our higher prices to have imports curbed, and I appreciate your—

Senator HODGES. Are you aware that in this bill that cattle cannot be brought into this country at less than our cost of producing it, and I think that would provide import control. If they want to bring them in and compete, that's one thing; but to bring in this cheap meat raised under conditions that we would not even allow in this country, or raised with various steroids and so on that we don't permit—my view is that constitutes unfair competition. Would you agree with that?

Mrs. ESPY. I certainly do agree. In fact, I attended all the ITC hearings and testified on behalf of the meat industry, and this is very true. And I was just about to say that I personally really appreciate that particular part of the bill. It's something that if our import laws fail, we need it; we need it even if they don't fail.

Senator HODGES. One last question. One thing I think that the bill does that is very beneficial is try to address all of agriculture, that is, the grains and cattle and so on, and try to keep them in balance. One reason you are doing well, or have been able to see some light in feeding is because grains are low. And if they do come up, then, of course, that will cut your margin in the cattle part, will it not?

Mrs. ESPY. Well, Mr. Chairman, we have always said that when we have cheap grain, we have had cheap cattle; with higher grain we do usually have higher cattle, because prices overall are better. It's true that there is a lag there, that from about 1 year that somebody is going to make a great deal of money with the cheap grain, they bought the calves cheap, when the price goes up they sell high. We have never been that fortunate, I might add.

Senator HODGES. Senator Helms, would you have any questions?

Senator HELMS. Mrs. Espy, you are a very impressive lady.

Mrs. ESPY. Thank you.

Senator HELMS. Don't you think that the farmer is the most severely affected by the inflationary spiral of all of the segments of our economy?

Mrs. ESPY. I certainly do.

Senator HELMS. And, of course, that inflation starts right here where Senator Hodges and I work.

Mrs. ESPY. Yes, I agree.

Senator HELMS. Deficit financing and the very unwise international situation in which we participate. Senator Talmadge, Mr. Chairman, often says that he wishes that there were an American desk down at the State Department; you know, we have a Latin American desk, a European desk, an Asian desk—no American desk.

Don't you feel that if Congress successfully pursued an export program that this would be of substantial benefit to the farmer?

Mrs. ESPY. Yes, I do. And I am sure that you are well aware that we export between 50 and 75 percent of the production of wheat. We are the world's market of wheat. I feel that if we set our loan value high enough, this would determine the world value—we could immediately help our balance of payments right there. And as far as cattle exports, we export 1 pound of cattle for every 22 pounds that we import—and this is not a very good balance. We do not need to really import any cattle—if we had to produce for our own consumers,

we could. Realizing the necessity of foreign trade, we are not asking that all imports be cut off, because we do want to develop an export market. But we would like very much so see that desk in the State Department.

Senator HELMS. You may have covered this in your statement before I came in. Do you have a percentage estimate of the increase in your operating costs, say, over the past 5 or 10 years?

Mrs. ESPY. I do have that at home and I could get it to you, Senator Helms; I would be very glad to do that.\*

Senator HELMS. It might be well just to have that for the record, because that's the key to it, Mr. Chairman. Everything you buy has just gone through the stratosphere.

Mrs. ESPY. Yes.

Senator HELMS. And we hear so much from the urban commentators that the farmers never had it so good. They haven't tried to buy a tractor lately.

Mrs. ESPY. That's right.

Senator HELMS. I thought your testimony was most impressive and I appreciate your coming.

Mrs. ESPY. Thank you. We have those figures prepared for the ITC on our own personal ranching operation, and I think you would be very interested in it.

Senator HODGES. Thank you very much, Mrs. Espy. We will make these a part of the record.

Mrs. ESPY. Thank you very much.

Senator HODGES. We welcome you, Senator Sasser.

#### STATEMENT OF HON. JAMES SASSER, A U.S. SENATOR FROM TENNESSEE

Senator SASSER. Mr. Chairman, thank you, and I welcome this opportunity to come before this distinguished committee in support of S. 2626, the Consumer and Protection Act of 1978. I frankly believe that this legislation, which I am cosponsoring, is in the best interests of the American farmer and the American consumer. This bill has received the overwhelming endorsement of the American Agricultural Movement in my native State of Tennessee. And I was delighted to see that yesterday several Tennesseans from the American Agricultural Movement testified here before this distinguished committee in support of this legislation.

In my view, the formation of the American Agricultural Movement is a significant milestone in the history of agriculture in the United States. I believe this movement marks a new beginning for the American farmer. We can now expect farmers to become increasingly involved in the tough issues related to farm policy. And I, for one, welcome their counsel and their advice. Farmers should have a voice in public issues that affect them and affect their economic future.

Mr. Chairman, in my judgment, S. 2626 provides for progressive innovation in American agricultural policy. It calls for grassroots participation by the producers and growers of the Nation. It will serve to bring farm incomes into line with the economy as a whole by establishing cost-of-production prices for the commodities covered by this

\*See p. 169.

act. It will cause agricultural products to be priced in a way similar to the pricing of goods now produced by industry.

I believe that the establishment of a cost-of-production price for farm commodities is important for the preservation of family farming as we know it today. The farmer has too long been the subject of inflationary pressures without any recourse to the marketplace. Cost of production has increased while the farmers' return has actually decreased from year to year.

The bottom line on the farmer's ledger is written in red; he is losing money and he has been losing money. This bill establishes a cost-of-production price for commodities, based on overhead and direct costs. The factors which will be considered in setting the cost of production include the cost of labor, management, machinery, and use of land. Commodity loan levels will be established on the basis of the farmer's cost of production.

Under this bill, an Agricultural Board of Governors will operate independent of the Department of Agriculture. This Board will hold public hearings in the rural areas of the Nation prior to the beginning of the marketing year in order to establish the true cost of producing commodities covered by this act. The Board will be available to the Congress, the Secretary of Agriculture, and the President in an advisory capacity on agricultural policy matters.

Mr. Chairman, the dust raised, as we considered emergency agricultural legislation, has now settled. Farmers have returned to their homes and their farms. But they have left a distinct impression on many Members of this Congress, including myself. The Congress has passed, and the President has signed into law, a bill which provides some relief for American farmers this year. And no one is more aware of the long-term issues that must be resolved, Mr. Chairman, than you and the other distinguished members of this committee. And, I hope that this bill can serve as the basis of the solution to the problems facing the rural economy.

I strongly endorse this legislation and recommend favorable action by this committee.

Having said that, Mr. Chairman, I have another engagement which I am going to have to go to.

Senator HODGES. Thank you for your excellent statement and your support of the legislation.

Senator SASSER. Well, I thank you both for allowing me to appear here this morning to testify in favor of this legislation.

Senator HODGES. Norvin Thomas of Iowa. Good to see you, have a seat.

I will just preface by saying, before you get into your remarks, how difficult it is right now for farmers to be here. Many need to be in the fields and have come here at great sacrifice, and we very much appreciate your taking your time, I know when I saw you last they were wanting to get into the fields, and I imagine they are still trying to.

So go ahead and give us your statement, if you would, Mr. Thomas.

#### STATEMENT OF NORVIN THOMAS, MONDAMIN, IOWA

Mr. THOMAS. I'm Norvin Thomas from Mondamin, Iowa, and I am here to testify in support of this bill 2626. And I feel, and the people in

my area feel, that this bill is realistic, it's sensible, and its reasonable. And the No. 1 reason that we have is that the board of governors that is in this bill, which would consist of 21—12 would be farmers and ranchers, and that would give us the representation that we feel we so desperately need. And we do have to have some input as to our destiny or our direction as farmers and ranchers.

All farmers and ranchers do realize now that they must have this board to help decide the direction that they are going to go. And we don't feel that we any longer wish to be manipulated, one segment against the other, and this board gives us all fair representation. There is no other segment of industry that operates the way farmers and ranchers do.

It appears to be the Government policy these days to modernize and improve all aspects of America, and if this is to be the case then we feel that agriculture must also be included and recognized. And we feel this board will take care of that problem.

No. 2, the cost of production in this bill no way guarantees us a profit, but it will stop us from going backward and bankrupt as has happened in the past few years. I just received my copy of the Agricultural Situation put out by the USDA Crop Reporting Board, and in 1975 we received an average price per bushel per corn of \$2.54; in 1976 we received \$2.15, and in 1977 \$2.02. And with every aspect of our cost rising by at least 10 percent a year—and that is not including inflation—I would hope that you can see the unpleasant situation that we have been put in. This is no way—there is no way that our children could take over the family farm in this situation—and this bill would certainly help correct that problem.

No. 3, also included in this bill—a grain reserve, which we believe our country should have, and we feel that this grain reserve would help stable food costs and also I personally feel that with a grain reserve held in this country we wouldn't have to worry about an attack of any kind on us when we hold the only reserve food supply. We also feel this would help to keep a more stable and realistic grain price for us and everyone else.

As to what his bill would do to land prices, we cannot see where it would bother at all. I don't know of a single farmer who has a desire to sell his land as long as he can keep operating, and I don't know of a farmer who wouldn't be proud to have his son or daughter helping or taking over the farm if he knew they could make a decent living.

As for the young person wanting to start farming, I am sure that his banker would be more likely to loan him the money if he could show him what his price was going to be, and then he could pay the loan off.

With these main parts of this bill that I have pointed out, and with the fact that it would fit in with the President's cut-in-spending policy, because it is tremendously cheaper than the 1977 Farm Act, and also all the machinery needed to implement this bill is already existing, we feel this bill should have your fullest consideration and, most of all, your complete support.

And I thank you. And I also have with me a written testimony from another farmer, Mr. Grover Gee in our area, I would like to have that entered into the record.\*

\*See p. 223 for the prepared statement of Mr. Gee.

Senator HODGES. Fine. If you will leave that, we will make that a part of the record also.

Let me just ask you a few questions. How old are you, if you don't mind my asking?

Mr. THOMAS. Forty.

Senator HODGES. And how long have you been in farming?

Mr. THOMAS. Fifteen years.

Senator HODGES. We have heard—and I have every day asked the witnesses—the USDA line seems to be that it is just young farmers that have gone in in the last 3 or 4 years and have bought high-priced land that are having difficulties. We have yet to find this to be true, that those are the only ones. My experience, and that of the witnesses who have testified, has consistently been that anyone involved in farming has had difficulties the last 4 years, because of consistently lower prices and much higher costs—just as an example, diesel in 4 or 5 years had gone from 16 to 46, and getting ready to jump again.

Now, would you agree with this, that it's farmers of all levels that have had this difficulty?

Mr. THOMAS. I most certainly would. I think the reason that they say it's young farmers that overextended themselves is because they are probably hurt the worst, and your older farmers are not yet, especially in Iowa—

Senator HODGES. They are living off the equity of their land?

Mr. THOMAS. Are living off the equity, and they realize they aren't putting money in the bank, but they keep thinking things will get better, and they may be able to get by. I might also add that the way that I got here today—and that was through people in my area that support this bill donated the money to send me out here, thought it was a very worthwhile cause; I have gotten them all the bill and they have all read it, and they do support it and they think it is a good piece of legislation to have.

Senator HODGES. We appreciate that very much. You grow corn?

Mr. THOMAS. Corn, soybean—rotation—and about 200 head of hogs a year. I sell irrigation equipment on the side, and my wife has a part-time job.

Senator HODGES. With reference to your doing all those sorts of things, and without getting into any of your personal finances, have the last 4 years been very productive in terms of net income, or have they been difficult?

Mr. THOMAS. If it hadn't been for the drought in our area and the extremely excessive sale of irrigation equipment, I would have been in quite a desperate situation myself.

Senator HODGES. So you made your money out of an agri-business instead of the agriculture?

Mr. THOMAS. Yes.

Senator HODGES. Let me just ask you one or two other questions. Do you see any objection yourself, or do the farmers that you know that grow corn on this very costly land in Iowa object to a mandatory set-aside if it occurred only when there was a surplus and if they knew that they were going to have at least loans at cost of production?

Mr. THOMAS. Everybody that I have talked to, that's one point that I have brought out to them that they understand with this bill that would be a voluntary set-aside, if needed. And I have heard nobody complain on that.

Senator HODGES. Under the bill it is mandatory if there is a surplus.

Mr. THOMAS. Yes.

Senator HODGES. But under the present Government program, it's voluntary, and most farmers don't seem to want to follow a voluntary set-aside. Would you agree with that?

Mr. THOMAS. In one sense of the word, yes. There were so many of them that eagerly run over to sign up for this present farm bill and it was explained—and I was to the meeting myself—that you could have just as much corn this year as you did last year and still get paid for diverted acres. But after discussing it with most of them they realized then what was happening, that they were actually being paid to grow the corn because, hopefully, they were going to come up with a big crop. And then they realized what was going to happen to their price.

Senator HODGES. That they are being manipulated again.

Mr. THOMAS. Right. When it first came out, it did sound good.

Senator HODGES. Sounds good, but what they really do is get you in the end instead of at the beginning.

Mr. THOMAS. Right.

Senator HODGES. Senator Helms, do you have any questions?

Senator HELMS. You drew a delineation between what you said your increased production cost and inflation—I think you said—

Mr. THOMAS. I said I didn't include inflation.

Senator HELMS. Not counting inflation, or something to that effect. What do you mean by that? Isn't it all inflation in terms of your cost of operation?

Mr. THOMAS. Well, I don't necessarily call it all inflation; the price of things naturally has to go up from time to time, the way the country is going today—and I don't necessarily call that inflation all the time.

What I was trying to say is that my costs on diesel fuel, on repairs, on any type of equipment, every year hits about 10 percent; then I am not figuring any inflation on top of that.

Senator HELMS. Of course, those factors are a part of the established inflation rate.

How much more does it cost for you to farm today than it did 5 year ago? Just off the top of your head, an estimate.

Mr. THOMAS. Oh, right around three times as much.

Senator HELMS. Three times as much.

Mr. THOMAS. Diesel went right at three to four times, and everything else in the area of parts and stuff has just—

Senator HODGES. Fertilizer, herbicides, yes.

Mr. THOMAS. Fertilizer in our area has stayed stable for about the past 2 years, but that, again, is a big rip-off to the farmer, because it depends on how much you get it on. In our area everybody likes to apply their anhydrous before they plant; this year we had a wet spring and a lot of them gave up and decided to side-dress, which didn't put the press on the company to have that much there. Now they are all going to want to side-dress and when it comes hard to get in, the price goes up, which I don't think is right, because that fertilizer is already there and it is already made and the trucking rate doesn't get any higher. It's just the object that they don't seem to be able to get it fast enough so the price goes up, because it's going all over the State of Iowa that way.

Senator HELMS. How many employees do you have working with you?

Mr. THOMAS. None, just my wife and kids.

Senator HELMS. How many did you have 5 years ago?

Mr. THOMAS. None.

Senator HELMS. So that hasn't changed?

Mr. THOMAS. No.

Senator HODGES. How many acres do you farm?

Mr. THOMAS. 400.

Senator HELMS. Keeps you busy.

Mr. THOMAS. Yes; got the corn all in and just finished rotary hoe before I came here.

Senator HELMS. Senator Hodges, I appreciate this gentleman coming. I know you did it at a sacrifice to yourself.

Senator HODGES. Mr. Thomas, thank you very much for being here.

Mr. THOMAS. I thank you.

[The following letter from Mr. Thomas was subsequently received by the committee:]

JUNE 7, 1978.

HON. WALTER D. HUDDLESTON,  
*Chairman, Subcommittee on Agriculture Production, Marketing and Stabilization of Prices*

DEAR SENATOR HUDDLESTON: If it would please the chairman, I would like to add to my testimony on S. 2626 as I did not know that Farm Bureau testified on May 22, 1978, against S. 2626, I am a Farm Bureau member but I must insist that Farm Bureau does not represent me, and also several other farmers in my area. Perhaps someone should do a thorough investigation of Farm Bureau just to see who they do represent.

Thank you.

NORVIN THOMAS.

Senator HODGES. Dr. Elmer Close? How are you, sir? Nice to see you. Have a seat, please. You may begin your testimony when you wish.

**STATEMENT OF ELMER CLOSE, ASSISTANT DIRECTOR OF MARKETING FOR THE FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES (ON BEHALF OF DOYLE CONNER, COMMISSIONER OF AGRICULTURE OF THE STATE OF FLORIDA)**

Dr. CLOSE. Mr. Chairman, I would like to express my appreciation for the opportunity to be heard this morning. My name is Elmer Close, and I am assistant director of marketing for the Florida Department of Agriculture and Consumer Services, and I am speaking on behalf of Doyle Conner, commissioner of agriculture for the State of Florida. I would like to speak to the bill that we are talking about today, that is, Senate bill 2626, and I would like to speak to this bill in the context of my concern for a healthy agriculture both in Florida and the Nation.

First, I would like to compliment those responsible for this proposed legislation, for they have exhibited a desire to do something positive rather than sit back and complain. They also have shown some keen thinking and hard work.

When Florida is mentioned, most people think of it as a vacation land. What they don't realize is that Florida is a major agricultural State with farm marketings of over \$2.5 billion in 1977. This was good enough for a ranking of 13th in the Nation.

Some of the "specified commodities" listed in this bill are quite important in Florida. On an annual basis, they represent approximately \$1 billion in cash farm receipts to the State. Thus you can understand that I have more than a passing interest in this legislation. It has the potential for greatly affecting the agriculture and general economy of the State of Florida.

This bill we are discussing today represents far-reaching proposals which could have a very great impact on food and agriculture in this country. Hopefully, the net effect would be positive. However, there is no departure from the basic philosophy which has guided our Nation's agricultural policy for over 40 years. I am referring to national programs designed to provide relatively stable prices while, at the same time, protecting farm producers from disastrously low prices. These programs were designed to dampen the boom or bust cycles so often experienced in American agriculture. These extreme cycles are not good for either the Nation's farmers or consumers.

This bill has many good features. However, I believe changes can be made in certain areas which would strengthen it. In this statement, I will mention some of these along with some of the more desirable features.

As I see it, the biggest departure from earlier stabilization programs is the substitution of cost of production prices for parity prices. I feel that this is the most important feature of the bill. The parity concept has long been outdated and today has little or no value for use in establishing a fair price for the products of American farms.

Even though the parity formula has been refined, the basic short-coming of the parity concept has not been overcome: The reference point for equality is still the 5 years 1910-14. The increase in agriculture's productivity invalidates the current parity concept. Farm output as a whole increased 144 percent between 1910-14 and 1971-75, while total inputs rose by only 16 percent. As a measure of farm purchasing power, the parity concept is defective. At best, the parity ratio would reflect the relative buying power of products; not farms or farm producers.

I realize there will be difficulties in establishing realistic cost-of-production prices adequate for use in a national program. A price that reflects the cost of producing a certain commodity for the average farmer would produce a net profit for the more efficient operators. However, with the deficiencies involved in this approach, it would be more timely and more realistic than would the archaic parity concept.

A national commodity reserve for storable commodities, which would be provided for in this bill, appears to be a necessary part of a stabilization program. Such a reserve would be quite useful in leveling out the supplies available for consumption and international trade as well as providing a means of handling possible burdensome farm supplies.

Restrictions on the importation of commodities subject to this legislation at any price less than the domestic cost of production seems to be a necessary provision. Otherwise, we would run the danger of a flood of imports which would doom the program.

I would now like to offer some suggestions for modifications of the bill; some changes which I believe would improve it.

I recommend that the concept of "specified" commodities be deleted and that there be "enabling legislation" permitting any agricultural

commodity to be brought under or be removed from the program upon a 65-percent majority vote of the producers of that commodity voting in a referendum. It is realized that it may not be appropriate for some of the more perishable commodities to come under this program.

Another suggestion is that the required number of producers petitioning for a referendum be reduced from 15 percent to 10 percent. It would appear that our traditional democratic principles would move us toward making it easier for the majority to exercise its will.

I would also suggest that provisions be made for the establishment of production bases, quotas or allotments for all commodities, including those currently referred to as "specified commodities." Otherwise, I believe there would be great difficulty in administering such a program.

I'm sure there are those who view this bill as a bold new step. And perhaps it is. But isn't it time we take the bull by the horns and do what is necessary to maintain a healthy American agriculture?

In closing, Mr. Chairman, I would like to again express my appreciation for the opportunity to be heard concerning S. 2626.

Senator HODGES. Thank you very much. I will come back to you in a moment, as Senator Bumpers has just come in. But I have a few questions for you, and I particularly appreciate your support. And if we can have Senator Bumpers stay, and if you don't mind having a seat, we will come back to you. Perhaps Senator Curtis will have some questions also.

Senator Helms was here and expressed his regret that he had to go to Armed Services—but you know about that.

#### STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM ARKANSAS

Senator BUMPERS. Senator Curtis, before I forget it, I have got some guests from Arkansas, and one of them says she used to babysit for your daughter and she wants to meet you today.

Senator CURTIS. Delighted. And behind you are three Presidential scholars from Nebraska.

Senator BUMPERS. They look pretty scholarly, don't they?

With your permission, I had thought that I would just file my statement for the record and sort of summarize and make a few caustic comments about our administration. [Laughter.]

I have some statistics in this, and I think they may be repetitious statistics you have heard already about what's happened to the income of farmers in actual figures, dropping from \$33 to \$20 billion in the last 4 years, how there is a massive flight of people off the farms last year—I take that back. The migration from the farm in 1977 slowed a little bit; but in 1976, 6.9 percent of the farm population moved off the farm. Now, that's not number of farms or farmers, but that's people; 611,000 people gave up in 1976, and left the farm for the very obvious reasons that we are here for today to try to correct. The farm population now stands at 7,806,000 people, and that represents 3.6 percent. When I was first elected Governor in my State, we talked about 5 to 6 percent of the people of this country living on the farm—and that has been slowly declining since 1970. Now we are down to 3.6.

Of course, that means a lot of things. It means people have given up farming; it means agri-business is getting bigger; the big farm is getting bigger—because actually there is more land under cultivation today than there was then. There are 2.68 million farms left—that's a 1978 estimate. And that's a decrease in the number of farms of 26,300. But, again, so that nobody misunderstands that, that is not a decrease in the amount of land; that is simply a decrease in the number of farms.

I can remember traveling through the countryside with my father before he died, and he would say "There used to be a farmhouse here," and "There used to be a farmhouse here," and "There used to be a farm there," and they used to raise this, that, and the other. And now, of course, that's all past, and a way of life and a culture has gone with it.

There was an 11-percent decrease in the number of farms in this country between 1969 and 1978. In my own State, the preliminary 1978 estimate is that there are 68,000 farms left in my State. But that is a 6-percent drop since 1969 just in Arkansas.

Now, so far as the bill is concerned, Mr. Chairman, though my name is on it, you and members of the Agricultural Movement, the American Agricultural Movement, and your staff, are actually the authors and the drafters of the bill. I only got involved in the bill in the sort of refining of it in the last stages. But still I not only endorsed it and introduced it with enthusiasm; I honestly believe that it is the most sensible proposal that has been offered to this committee and to the Senate for all kinds of reasons: No. 1, there isn't anything in here to indicate that the consumer is going to be all that adversely affected—and the point has been made many times—I believe it was either the Harris poll or the Gallup poll showed—that a majority of the American people would accept a 5-percent increase in food prices if they thought it would bail out the American farmer.

Well, I can tell you a 5-percent increase in food prices would do more than bail the American farmer out; it would make him really whole. And yet that shows a great deal of magnanimity on the part of the American people, most of whom are having a tough time keeping body and soul together because of the utility bills and food costs.

The bill, of course, doesn't cost the Federal Treasury anything, because all we are saying is we ought to loan farmers the money to make a crop at what their actual production cost is, and not at some highly arbitrary figure that nobody agrees with out of the Department of Agriculture, which we have had in the past.

And in exchange for that very simple proposition, we have raised the interest rate in this bill on what the farmer would have to pay to the local going rate, whatever it is. Now, they get a subsidized interest rate now when they put things in the loan, but we are saying: let them put their crops in the loan, let them borrow enough at the going rate of interest to make their crops, and then let them put their crops in loan for some extended period of time, not to make speculators out of the American farmers, but to at least keep them from having to sell at distress prices always in the fall of the year so they can pay the bank back at a time when everybody knows the price is always the lowest and the most distressed. And the bill has safeguards to keep the farmer

from actually becoming a speculator even if he wanted to be, because there is a mechanism in the bill that provides that as the price of a commodity goes up, he has to take a percentage of his crop out of the loan until it gets to 100-percent parity.

So anyway I don't understand the administration's opposition to the bill. I was in Arkansas Monday when the administration official came over here and testified, Mr. Chairman, to express the administration's opposition to the bill. And I was chagrined by it, but at the same time I know a number of things: No. 1, it's not going to get out of this committee with the administration opposing it; No. 2, even if it did, we would have a tough time getting it in the Senate; and, No. 3, all of this is a reflection of out of sight out of mind, just like lovers, Senator Curtis. The farmers are gone home, they are not roaming the halls, and we don't have to contend with them; they had to go home and start making crops, and they are gone and so the pressure is off. But the truth of the matter is, the Congress and the administration have not done anything to solve the farmers' problem. Everybody saw the price of wheat jump from about \$2.60 up to \$3 and said, well, isn't that great; wheat prices are going to go up now to where the farmers can make some money; soybeans went up from about \$6.20 to \$7 and stabilized; cotton has had a fairly good increase in price, still, in my opinion, not enough to make the cotton farmers much money, if any. And so it is just the same old story.

We have really, I think, misled the American farmer—I won't say deceived, but I think we have misled them. While they were here we told them we were going to do something for them—and if anything has been done for them, it has magnificently eluded me.

And I think that the administration could have come out and taken a very responsible position and said we don't like all of that bill—I don't like all of it either, and I know that you, Mr. Chairman, would be more than willing to amend some portions of the bill; we talked about it.

And to make it palatable, without gutting the bill or really taking out the basic features of it—but, you know, Senator, the Commodity Credit Corporation has never lost a dime since it was first established, and it certainly wouldn't lose anything under this bill, and there would be a chance at least to prove this Congress' good faith without ripping off the taxpayer or the consumer.

And I am going to—even though I am sounding pessimistic about the ability to get this out of the committee—I am going to continue to lobby and talk to members of this committee and hope that we might at least get it on the floor for a debate, and let the whole world know what's at stake here.

I apologize for being late, Mr. Chairman, and I submit this statement for the record.

Senator HODGES. It will be entered in its entirety. You would be interested to know that Mr. Fitzgerald, who came here on behalf of the administration, couldn't answer questions about his own statement, and finally admitted here before the committee that he was simply reading a statement prepared by someone else and really didn't know much about it. He was rather embarrassed, and ought to have been.

The second thing, and the central thrust of what he said was the terrible effect higher farm commodity prices will have. And I asked him

whether what he was saying is that higher farm prices will cause detrimental effects, whether they come from our bill or come from the marketplace, because he talked about how adverse higher prices were going to be on raising land prices, if prices were higher, and so on. All of which led me to believe that in truth and fact the farmers are correct when they say that this administration is simply opposed to higher farm prices, period, whether they come from 2626 or come from some other source.

Senator BUMPERS. Even natural competitive forces?

Senator HODGES. Yes. Because I asked him whether these terrible adverse effects that he was saying would occur whether the marketplace brought it up naturally from supply and demand or otherwise, and finally he had to admit, yes, that was true; that much he did know about his statement. But, apart from that, he seemed to know nothing. It was very embarrassing for him, I am sure.

Senator BUMPERS. Yesterday morning, as I got ready to come back to Washington, I was leaving the Camelot Inn and a young fellow ran up to me and said, "Senator, I'm a farmer, and, you know, we are not any better off than we were," and he said, "I am going ahead and planting my crop this year—cotton and soybeans," he had 800 acres—but he said if the prices are the same this fall as they are right now, he says "I am just gambling and if they are the same this fall as they are right now, this will be the last crop I will ever make." And I said, "well, I don't know what to tell you except that I can't be very optimistic about what your chances of continuing farming are."

Senator Curtis, what is the Agriculture Department's estimate of the cost of raising wheat now?

Senator CURTIS. I wouldn't want to quote a figure. I use it every once in a while, and—

Senator HODGES. I think it's a \$3.75, the average was \$3.75 their March 31 report.

Senator CURTIS. And it depends on whose estimate it is.

Senator BUMPERS. One other point, incidentally, before I forget it—I think what the people in Washington traditionally object to about our bill is this 21-person governing board. And, you know, they just assume that you can't appoint 21 people from the public sector that would know anything about farming and have enough sense to know what production costs are. And I think that's one of the things in the bill that would instill more confidence in the American farmer than any other single thing.

Senator HODGES. Twelve of the 21 are to be elected by the farmers and ranchers themselves.

Senator BUMPERS. Then, of course, there is this business, well, the livestock farmers at home are just euphoric. My father-in-law's in the cattle business, and, of course, they have been in a long dry spell in the last 3 years—they are making more money than the U.S. mint, and they love it, and they say, we don't want under your bill, and I say, well, you know, there's a provision in there to get out. And that's another thing: Nobody is going to be forced under this bill; 15 per cent of growers of any particular commodity can get in or out, or at least—

Senator HODGES. Call an election.

Senator BUMPERS. They can call an election to get in or out. So nobody is being forced into anything under the bill. It has that democratic principle.

Well, I won't take any more of your time; I know you have witnesses, Mr. Chairman. But I am very pleased that you are holding these hearings, and pleased to be here this morning.

Senator HODGES. Thank you for coming by and your support of the bill, and your introduction of it that we appreciate very much.

#### STATEMENT OF ELMER CLOSE—Resumed

Senator HODGES. Mr. Close, I didn't know whether Senator Curtis had any questions or not. I wanted to thank you for your testimony, and what I think are perhaps some good suggestions for modification. I did not know whether on page 4 you realized that any commodity could be brought under the legislation by a referendum of the people growing that commodity.

Mr. CLOSE. Yes, sir. I understood that.

Senator HODGES. But you wanted to change the percent from 50 percent to 65 percent?

Mr. CLOSE. Yes, sir. What I was thinking—what we were thinking was making it permissive across-the-board rather than having—

Senator HODGES. Oh, I see, I follow you. In other words, let them all petition whether they want to come in or out.

Mr. CLOSE. Yes, sir.

Senator HODGES. I understand.

Mr. CLOSE. And the percentage—maybe this is a personal philosophy—we have had experience in administering State marketing orders, and we in our State have Federal marketing orders also, and this is a 65-percent or a two-third majority, both. We feel that this is good because we would hate to administer a program where it was about split down the middle between those against it and those for it.

Senator HODGES. I see.

Mr. CLOSE. So it's questionable—this is a personal philosophy from that standpoint.

Senator HODGES. OK. I very much appreciate your remarks.

Did you have any questions, Senator Curtis?

Senator CURTIS. Does it require a referendum to put a commodity in or out of the program?

Mr. CLOSE. On marketing orders?

Senator CURTIS. No, not marketing orders—but, as I understand it the law now provides that certain specific crops or commodities are within the farm program. Is it true that this bill would do away with that and give to the Department of Agriculture the authority to put a commodity in or out of a program?

Mr. CLOSE. The bill as it is proposed now, as I understand it, would be that these specified commodities, if this bill became law—as it is, the specified commodities would be automatically in the program.

Senator CURTIS. But who has authority, besides going through the process of a referendum, to put a commodity into the program or out?

Senator HODGES. Under this bill, Senator?

Senator CURTIS. Yes, as written.

Senator HODGES. The producers themselves, those who are actually the producers of that commodity—15 percent of them can petition to come in.

Senator CURTIS. The question is, is any authority given to anybody other than through the method of a referendum?

Senator HODGES. No, sir, not under this bill.

Senator CURTIS. I see. And what does it do about livestock?

Mr. CLOSE. Livestock is one of the specified commodities which would come under the program if the bill becomes law. However—

Senator HODGES. No; it's not. I don't want to—he is just testifying in support of certain provisions of the bill, and I don't think he knows all the provisions. Livestock is not one of the specified commodities. It is covered in this sense, Senator Curtis: No livestock could be brought into this country at less than the cost of production to producers in this country. So I think that is the provision of the bill that—

Senator CURTIS. Because we have never had a support price under livestock.

Senator HODGES. No, sir, there is not one in this bill.

Senator CURTIS. It's a very complicated and controversial proposal and calls for grading of almost every critter.

Senator HODGES. It would be impossible.

Senator CURTIS. And that is the source dollarwise of the greatest share of the income from my State. I am not urging that it be put under a program.

Mr. CLOSE. Our proposal is that this be permissive to those commodity groups who wish to go through the referendum and come under the program.

Senator HODGES. He is just suggesting a modification of the bill as proposed now, I think.

Do you have any further questions of this witness, Senator Curtis?

Senator CURTIS. What is your idea, if this would be enacted—how would the referendum be determined? One producer, one vote? Or would it take into account the amount of production?

Mr. CLOSE. As it is proposed now, my understanding would be one producer, one vote.

Senator CURTIS. So someone in the Ohio Valley who produces 15 acres of wheat would have one vote, and a full-time wheat producer in western Nebraska that produces 600 acres would have one vote?

Mr. CLOSE. This is as I understand it, yes, sir.

Senator CURTIS. That's all.

Senator HODGES. OK, thank you.

The next witnesses are Mr. Julian Hodges and Mr. Larue Tippet from Florida.

Is Mr. Tippet with you?

Mr. HODGES. No, sir, he just couldn't get here, sir. His irrigation system broke down on him.

Senator HODGES. OK.

#### STATEMENT OF JULIAN O. HODGES, MADISON, FLA.

Mr. HODGES. He was supposed to have been here; he was going to be your testifier.

Mr. Chairman, members of the committee, ladies and gentlemen, I am Julian O. Hodges of Madison, Fla.

Farming and ranching must not and will not go away. The three "sine qua nons" for human existence are here to stay or we humans will go the route of the dinosaur: Pure water, air, and nutrients we must have. God provided all three at first. One of the three, due to human population growth, continuously must be updated by humans. To encourage this action the efforts by humans who accomplish this updating must be rewarded. Clearly, S. 2626 strives to do this rewarding.

During my lifetime I have been caught in two great farm depressions. The farmer for the past couple of years and the rancher for a longer period horrendously have suffered under suppressed prices for their products. For slightly over 40 years price, support, and production adjustment programs have impacted the farm and national economy. For the past several months a most serious farm problem has provoked a raging debate across the country and here in Congress on how to solve the problem.

During this time we all have heard that consumers have consistently had a reliable supply of farm products for a smaller proportion of their income than anywhere in the world. We have been told that Congress has attempted to assure the farmer/rancher a specified minimum price for his products. We have learned that during and since World War I the farmer can and has overproduced our needs. We have seen how overproduction of farm products, coupled with a depression or not, turns into a cruel commentary on the people who labor to produce our fiber and food.

Maybe the farmer/rancher creed is to stoke the flame of agriculture and to invent new ways and practices to keep pace with our needs. The good sense in S. 2626 picks up the gauntlet to preserve this flame that it may forge and temper unceasingly the sinews of our today and tomorrow's farm policy.

Notwithstanding all other points in the bill, it addresses the two outstanding stumbling blocks that hinder a healthy farm economy: (a) the cost to produce plus a fair return, and (b) overproduction.

To dramatize these two points let's look up the rows of a crop as seen by a farmer who must have in-pocket moneys to ride the tractor to produce a commodity. Mr. Chairman, of all the other testimonies which you will hear, the attached worksheets show initial raw cost of production. They show a farm unit plan which in turn can be used to show a lending firm, if need be, an order to borrow initial farm cost for a crop.

Mr. Chairman I would like for you to ask me some questions concerning the worksheets. The worksheets show what I planned to plant in 1978, how much the raw cost would be—and if judged against national needs our ASCS office would or would not give the OK to plant the crop. Additionally, alternate crops could be planted if deemed necessary to adjust production by the USDA.

A close examination of the worksheets shows that it becomes a farm management unit. The estimated raw cost of production is seen; the estimated production is seen; the actual intention of acres to be planted is seen—and if seen against all other type farm units nationwide it provides a tool to keep in balance our food/fiber needs for the Nation.

The production management concept embodied in S. 2626 allows our ASCS offices to use this type information in attachment 1 to adjust production of farm-produced products. Used nationwide for every farm/ranch unit, this type procedure can readily stabilize commodity needs.

At this very moment how do we estimate our national needs for farm/ranch-produced products? Shortages or overages of farm/ranch-produced products cause wildly fluctuating lows and highs at the marketplace. These lows and highs of one or more commodities create grave problems for the markets and catastrophic hardships for the producer and has brought us to this conference table today.

I suppose that through trade-and-buy machinations and evidently through an osmotic process we hope to stumble upon an answer that will safeguard our reserves, disaster, and national food/fiber necessities. However, at times of overproduction of farm/ranch commodities it appears, real or imagined, that all governmental, industrial, and farm organizations cannot bring to bear enough management expertise to properly market, store, and/or pay our producers a fair comprehensive production cost for their products.

The broad but definitive scope of the S. 2626 bill will answer both the above dilemmas. As envisioned by the bill the farmer/ranchers, by managing their production under proper guidelines and directives, can electronically—and this is strictly a management tool, sir, that you can use in the bill; you can do it by any other means, horsebuggy if necessary—but this is only a little tip to update us—feed their expected production estimates and time schedules through the ASCS office. Someone said that you may not have enough time to read out farm intended schedules and estimates. But is not given longer lead-time you can, with this type of an electronics updating.

Further, these computerized estimates can be read out at State and National level to be adjusted against every known need. This methodology of management means that supply determinants and marketing requisites can always be in balance or in close tolerance with all known requirements.

The par excellence, sir, of S. 2626 levels supplies and gives the farmer/rancher comprehensive cost of production and answers the age-old agricultural question: How do we control farm production to meet our needs, our country's and the world's?

Senator HODGES. You are from Florida, and I know you have been active in American agriculture and talked with lots of farmers. Have you talked with them about this bill? And what response have you gotten, if you have had a chance to share it with them?

Mr. HODGES. Yes, sir. Where I live in the north part of Madison, Fla., all of our county of Madison County and Hamilton County and the immediate adjoining counties—yes, they appreciate the bill and naturally they want it.

Senator HODGES. Is this a bill that they think they can live with?

Mr. HODGES. Yes, sir.

Senator HODGES. Realizing there are some modifications that will probably need to take place.

We are going to run short of time. I've got a number of questions I would like to ask you, but in order to get everyone in before 11 o'clock because under the rules of the Senate, we have 2 hours after

they go into session—and they went in at 9 o'clock this morning, so we will have to stop the hearing at 11. We have several other witnesses.

Thank you very much for your testimony.

We will hear at this time from Mr. Udelhoven from Montana. Did I pronounce your name correctly?

Mr. UDELHOVEN. Very close.

Senator HODGES. Good; have a seat, sir.

#### STATEMENT OF MARTIN UDELHOVEN, WINIFRED, MONT.

Mr. UDELHOVEN. I am Martin Udelhoven from Winifred, Mont. I have been ranching in the same area for 40 years. I'm the chairman of the county ASCS committee for the past 3 years and a committee member for 4 years. Before that I was on the community ASCS committee for 10 or 12 years, I don't remember exactly.

Mr. Chairman, I would like to thank you for the opportunity to testify at this hearing. I will not speak of the problems of producers in other areas, but know that producers of small grain and cattle in my area are in serious trouble. Beef prices are good now, but most producers won't see the benefits until they sell their calf crop this fall. We need something to insure that the old boom-and-bust cattle prices cycle doesn't continue.

The present farm program increases the income of grain producers somewhat. However, it will just prolong the agony a little longer before we go broke. There is no way that a farmer can make enough on \$3.40 wheat to pay his debts, to replace worn machinery, to say nothing of paying for the cost of land and the cost of living. During a news conference last winter, President Carter stated that most farmers were doing all right, except for those who were in drought areas. I don't know who is responsible for supplying him that information, but he is badly misinformed.

I live in a semiarid area with average annual rainfall of 14 inches. Yet in the past 4 years my average yield has not only been above average for my area, but also has been above national average for each of those 4 years. In spite of the good crops, my loss for 1976 was \$21,258 and for 1977 it was \$2,967. My loss would have been considerably greater except for my barley crop—that was for 1977—which was exceptionally good, about double normal yield and I sold it directly to a local feedlot for considerably more than market price.

That means that I had to borrow that much additional money, speaking of the losses, for operating plus living expenses, and could not reduce the debt that I had before. I have talked to many farmers who had much heavier losses because they weren't fortunate enough to get the good crops.

We fight hail, drought, floods, blizzards, insects, noxious weeds, and so forth—yet if we manage to produce in spite of all these, we are expected to guarantee continuous cheap food. I think it is time that the farmer be given a chance to make a decent profit.

When the farmers were in Washington on strike last winter, the news media said that when spring comes the farmers will go home and forget about it. I think most of them have gone home and will seed their crops. Whether they cut their acreage or not, I don't know, but they won't forget about it. Most farmers, whether they took any active part in the farm strike or not, are plenty mad about the governmental

cheap food policy and are not about to forget about it until we get a decent return for our products.

When agricultural products were up to about where they should have been, embargoes were put on to keep the domestic supply high, thereby bringing prices back down. We keep hearing about the cost of subsidizing agriculture, yet nothing is said about the farmer subsidizing the consumer. Every time a consumer buys groceries, the farmer has already picked up the tab for a goodly percent of what the groceries cost.

The only way farmers can stay in business is to borrow more money on their land. In the fall of 1976 I borrowed five times what my land originally cost; it was paid for 30 years ago. That money was used to help pay off production loans and replace old machinery.

We have to have prices which will cover cost of production plus a reasonable return for management and a profit to pay off old debts. All businesses have to operate that way or fold up.

Another thing most people don't seem to consider is the impact of the agricultural economy on the national economy. Agriculture is still the largest single industry in the country. If we, the farmers, had the money we need to buy the new machinery—trucks, cars, household appliances, and so forth that we need, that would put a large part of the unemployed back to work; they, in turn, would buy more consumer goods which would put more people back to work. That would certainly cut the welfare costs besides increasing the tax base and decreasing budget deficits.

The general opinion seems to be that an increase in the prices of farm products is too inflationary. Over half of the cost of food is for processing, transportation, and profits after it leaves the farm. The Winifred, Mont., elevator deducts 75 cents per bushel for freight with 4 cents increase due in June from quoted Portland markets. This is typical of all Montana, varying somewhat on mileage. This is another unseen cost in getting food to the consumer.

Labor and transportation costs go up, so the consumer expects the farm commodity prices to go down to keep the cost of groceries from rising. Let's put the blame where it belongs—on high interest rates, excessive profits in some cases, and the cost of labor increasing faster than productivity.

What we need to correct the things I have mentioned is a program that will control production so there won't be enough surplus commodities to be a burden on the taxpayer or the producer. At the same time there must be a price-support program that will make it possible for a farmer to get cost of production plus a reasonable profit.

No legislation can guarantee a farmer that he will make a profit. Only fair prices and adequate production can accomplish that. I believe S. 2626 is the best bill I have seen to accomplish the things I have mentioned. It will control production and prices. As an added benefit, it seems to me, as a county ASC committeeman, that it would be a far easier program to administer than any program we have had in the past.

Thank you again for the privilege of testifying before this committee.

Senator HODGES. Thank you. Just for the record, could you, if you don't mind, tell us your age, how long you have been in farming?

Mr. UDELHOVEN. I have been farming 40 years; I am 61 years old, or will be in a few months.

Senator HODGES. And what type operation do you have?

Mr. UDELHOVEN. Wheat, oats, barley, and cattle.

Senator HODGES. And you are from Montana. Have you talked about 2626 with others there, and what is their response?

Mr. UDELHOVEN. I have talked to as many as I have had an opportunity—and the opinion of it seems to be pretty good. Most of them wanted to have more time to study it. You see, I haven't had that bill out there too long, and my wife made up copies of it and sent it around the State to different offices of the WIFE organization. But we didn't get answers from a lot of them, because of time.

Senator HODGES. And they are, I assume, busy now trying to—

Mr. UDELHOVEN. I hope so.

Senator HODGES. Trying to do the best they can. Just one last thing. I have tried to ask it of different witnesses from different parts of the country, and the answer has been consistent. The administration has consistently maintained that it is the younger farmers who got in the last 4 years that are in trouble.

Do you share that view? You are certainly, with all due respect, not young; you have been at it 40 years.

Mr. UDELHOVEN. I have been at it 40 years, and, like the other gentlemen said, those of us who have been in it longer can borrow more money and stay in longer, but it will just prolong the agony if we don't get relief; we are eventually all going down the drain.

Senator HODGES. Well, we are going to be short of time. There are other witnesses. But I appreciate your coming. Thank you.

Mr. Loren Garber, Washington. Nice to see you. Have a seat.

#### STATEMENT OF LOREN GARBER, LATAH, WASH.

Mr. GARBER. My name is Loren Garber. I am a diversified farmer from the State of Washington. I farm in the southeastern portion of Spokane County that is commonly referred to as the beginning of the Palouse area.

The State of Washington is one of the most diversified agricultural States in the United States. In 1974 there were 16½ million acres under cultivation in our State, growing 144 different crops. The State of Washington ranks No. 1 in the production of apples, hops, sweet cherries, dry peas, and lentils. It ranks No. 2 in the production of potatoes, pears, asparagus, mint oil and green peas. It ranks No. 3 in the production of grapes. It ranks fourth in the production of cranberries and sweet corn, and it is fifth in wheat and sugar beet production. Whitman County, which is in the heart of the Palouse, is the No. 1 wheat-producing county in this country. Along with these and other crops, there are also sizable cattle herds and feedlots.

According to Governor Ray of the State of Washington, 60 percent of all the income within the State is directly related to agriculture. With these facts I can honestly say that I am from a true agricultural State.

Within this large diversified agricultural State there are farmers representing almost every one of the 144 individual agricultural commodities involved in the American Agricultural Movement.

Washington farmers have been to many local meetings, a large number of State meetings and several national meetings held by the American Agricultural Movement. We have testified at Senate and House Agriculture Committee and subcommittee hearings within the past few months. From all of the meetings attended and testimony heard, the American Agriculture Movement within the State of Washington has drawn several conclusions.

(1) The farmers, not only in the State of Washington but across the United States, are in great economic trouble. The prices farmers receive for many agricultural products are below the cost of production.

(2) We the farmers and ranchers who derive our total income from the farms and ranches do not feel that we have a direct voice into our Government. We feel that you the Government are not totally aware of the problems of the family farmer and rancher.

(3) A cheap food policy does exist within these mighty walls of my Nation's Capital. I too believe that we the farmers and ranchers should provide food at prices as cheap as possible. However, you the Government will soon make that impossible. As it stands right now, independent farmers and ranchers are leaving the farms and ranches at the outstanding rate of 1,000 per day. Not because of cheap food, but the inability to market what we raise, at least at the cost of production.

(4) That importation of agricultural products at prices below the American farmers and ranchers' cost of production are now, and have in the past, created inadequate prices received for our American-grown food and fiber.

(5) That inflation is one of the major problems facing this Nation today. I believe that the boom-and-bust cycle that is so prevalent in agricultural prices is one of the major causes of inflation. When agricultural prices have their boom cycle, labor and industry adjust their prices and wages to compensate for the higher food prices. Then, traditionally, agricultural prices retreat into their bust cycle. Through this bust period in agricultural pricing, many of the farmers that will be needed in the near future leave our farms and ranches to compete with our city cousins in the high rate of unemployment job market. This again fans the fires of inflation. I believe that the only way to eliminate this portion of the inflationary trend is to stabilize agricultural prices and put them on the same line as the rest of the economy.

As long-time farmers and ranchers, young and old alike, the average American family farmer and rancher sought a solution to these problems facing us.

Shortly after March 2, 1978, several farmers and ranchers in the State of Washington received copies of Senate bill 2626. Upon studying this piece of proposed legislation quite thoroughly, many of the supporters of the American Agricultural Movement in my State saw that this piece of legislation could solve many of the problems I have mentioned.

We have distributed copies of this proposed legislation to all of the people who attended the American Agricultural Movement meetings at the individual areas scattered throughout our State. These farmers and ranchers took this bill home and read it and returned 1 to 2 weeks later. Then a vote was taken as to if we liked the concepts of this

bill. When all of the offices were tabulated, all but one of the American Agricultural Movement offices had voted unanimously that they would prefer to farm under this type of program. The one office abstained because they had not held a local meeting to tabulate the area's farmers.

I know that this bill has been presented to many farm bankers in the State of Washington and the response is quite favorable. I have spoken to ASCS committee members in my county and the concepts of this bill are favorable to them.

This bill has been publicized on a major radio station news station in Spokane, Wash., and has not received any negative comments from the consumers of that city.

The individual supporters of the American Agricultural Movement within the State of Washington have worked very hard in support of this proposed bill. With the facts I have presented to you today, I feel I can justly state that if this bill is enacted into law, it would be accepted favorably by consumers, farmers, and ranchers of the State of Washington.

As an individual wheat producer, I have always favored a strong loan policy over a target price farm program. When farmers and ranchers can obtain loans for their products at the cost of producing that product, it would let those farmers and ranchers obtain a fair price for their product at a minimal cost to the taxpayers. This would stabilize agriculture prices on the same economic line as the rest of the economy is standing.

In conclusion, the American Agriculture Movement within the great agricultural State of Washington, supports Senate bill 2626 and its concepts.

The American Agriculture Movement within the State of Washington urges this legislative body to adopt and pass this bill and to promote this bill so it will be passed by both Houses of Congress and signed into law by the President of the United States.

Thank you.

Senator HODGES. Thank you for an excellent statement. I appreciate it very much. I am just sorry that we don't have enough time that I can go into detail with you about it.

But thank you very much for an excellent statement.

Mr. Reed Griffiths of Idaho. I ask you to go ahead and start, please—thank you.

#### STATEMENT OF REED O. GRIFFITHS, WESTON, IDAHO

Mr. GRIFFITHS. Mr. Chairman, my name is Reed O. Griffiths. I am from Weston, Idaho. I farm a second-generation farm plus some that I have purchased from three other sources. I farm about 1,400 acres, all dry land except 90 acres. I grow wheat, barley, alfalfa, and occasionally some corn. I serve on the ASCS neighborhood committee. I am a graduate of Utah State University in Logan, Utah, with a degree in agricultural economics with emphasis on farm policy. I am a full-time farmer and have been for the past 25 years. I have three boys which I am encouraging to choose a different occupation.

Idaho is a State that is quite diversified agriculturally. We are most famous for our potatoes. But we also produce sugar beets, beans, pears, peas, corn, wheat, alfalfa, barley, onions, and many other crops.

I believe that S. 2626 is a great bill because it takes into consideration all crops—any group of producers can come in or out of this program by referendum vote. Some specialized or perishable crops may not want to be in this program. I have had good success with most people explaining the concepts of this bill. Our greatest critics seem to be those who don't understand the bill. I have gotten an endorsement in writing from our local Farm Bureau officers, also the grassroots farmers in the NFO, and Farmers' Union. The Potato Growers of Idaho's president also said he would like to have a program such as this so they could have a set-aside in potatoes. It seems to me that the farm organizations at the national level do not represent the views of the grassroots American farmer. The American Farm Bureau is especially guilty of this. Last March, when I was in Washington, D.C., I, along with 12 other farmers (6 of which were Farm Bureau), called at the Washington, D.C. office of the Farm Bureau. We were told there, among other things, that we didn't have a problem with agriculture price levels. The six Farm Bureau members with me could hardly believe what they were hearing. I think they have all paid their last Farm Bureau insurance premiums. I got a similar reaction from a full-time Farm Bureau executive at the State level. The thing that I would like to go on record for is this. The American Farm Bureau, though boasting of great membership numbers, does not in fact represent but a small minority of the grassroots farmers. In recent weeks Alan Grant was given credit for being one of the very top influences on farm policy.

This is a gross misjustice to the American farmer. How can we get any help from an organization that doesn't even recognize the problem. When I think of their cheap price and large market policy, it reminds me of a story of the enterprising young man selling his wares for \$3. When congratulated on his sales, he said: "Yes, but I pay \$3.50 for each item." The congratulator answered: "Look at the volume." I don't think that a market that is for less than the cost of production should be considered a market at all. I would like very much if the people that manufacture farm machinery would adopt that policy.

I would next like to talk a little about inflation. We as farmers seem to get a lot of publicity for being inflationary. We get almost daily news coverage. Let me define inflation in the real sense of the word. Inflation is when prices advance faster than production. In 1948, net farm income was about the same as now, yet we are now feeding 63 million more people. What does this tell the intelligent mind? Yes, farmers have in fact been very deflationary. We continually increased our production and the prices received in some cases are the same as they were 30 years ago. The fact that we are the unorganized part of the economy has allowed this Nation's leaders to take advantage of our unorganized state and use us as their greatest tool to fight inflation.

We need S. 2626 to tie our prices to the cost of production so we can sell like any other business for a cost plus price. May I submit to you that the basic rules of good business apply to agriculture the same as any other business?

We all believe in freedom. Freedom comes from obeying true laws. There cannot be economic freedom if economic laws are violated as they have been in the farm programs of this Nation. S. 2626 again obeys economic laws and yet leaves farmers free to run their business

on the principles of freedom as laid down by our Founding Fathers. We need such a bill. S. 2626 will do a lot to stabilize prices within reasonable limits. This again is good to control inflation as drastic fluctuations in the market seem to invite others to jump on the bandwagon and take excess profits. An example of this is when farm machinery jumped 34 percent in a little over a year's time when farm prices went up in 1973. Machinery has taken annual raises every year since. If S. 2626 is passed and we tie farm prices to the cost of production, business will have to blaze the trail of inflation, not the American farmer.

This movement started much as the labor unions did. It was because the people in power took undue advantage of those who had no power. They got desperate, they were being underpaid. They had to organize to survive. It was a bloody war before they finally succeeded. I hope the American farmer won't be driven to such measures in order to survive. Let us hope and pray for some good long-term legislation to solve this problem. The laborer is worthy of his hire and an honest day's work deserves an honest day's pay. I believe that S. 2626 will do what we need to solve these problems.

Thank you.

Senator HODGES. Thank you very much. We are going to have to hurry. Thank you for your testimony.

#### STATEMENT OF E. N. WILSON, UNIONDALE, IND.

Senator HODGES. Mr. Wilson of Indiana.

Mr. WILSON. Mr. Chairman, I thank you for the privilege of being here. I am going to introduce three copies here for the record, and be brief with it and not elaborate on them. I am going to touch on—with your permission to have these in the record \*—

Senator HODGES. Yes, sir, they will be entered in the record in full.

Mr. WILSON. I would like to touch on two or three subjects here. No. 1, I support all the testimony that I have heard here today and yesterday with these farmers supporting S. 2626. I think they have done a magnificent job. So in brief that would be my repetition testimony also.

And also, as the Congress and the Senators have heard this—I think they have done a fine job on this Hill. They know the rules, they know the action here, and I think they are going to respond to this beyond our estimation. And I want to specifically call your attention to the consumer that is involved. They are 99 percent of them out there to me—99 to 1. And my work across this country, as public relations, with full-time farming, has found that 1 out of 10 raises a little opposition to farmers having their fair share at the marketplace. Ninety percent-plus have told us personally for years and thousands and thousands of miles that farmers are getting ripped off; you deserve your fair share—we are glad to see you go to Washington—glad to get farmers out in the front across this country and expose your plight. We feel highly elated over that.

This Senate and the Congress on this Hill is going to have to reckon with our consumers, and when they do, because they are the voters, they will listen to their plea, because the consumer wants the family farmer

\*See p. 223 for the additional material submitted by Mr. Wilson.

out there; they do not want the corporation. They love the idea of S. 2626—we are providing storage and a reserve on the farms scattered clear across the United States of America, and will have a food supply there in case of emergencies, whether it's weather, whether it's a war effort. I have a copy here that is just recent about civil defense; a very expertise man here in Washington come out just last week—he has the headline: It will only cost \$50 per person if the United States, under a civil defense program, to compete with Russia and China throughout the world in case of an atomic confrontation, would only cost \$50 per person to protect 93 percent of our population.

What would be more advantageous than to have the S. 2626 into effective legislation that would provide storage across this country of all of our major commodities for civil defense? That's what they stress.

The consumer has long considered our purchases from them—we buy at the rate of \$75 billion plus per year. Many consumers tell us, the farmers—we don't even have a yard, let alone a garden, to raise our produce; we need you out there; we do not want the corporation, because the cost will go tremendously high.

It's been touched here about the foreign markets. There is no way that S. 2626 will stand in the way of foreign markets. Their prices over there have shown year after year if their price is high—they are still buying vigorously from the United States. And the thing that has stopped that is embargoes, because they are afraid we would run short in the United States, or some political pressure, or administration pressure. To set that aside, we would not lose foreign markets due to higher prices, in the judgment of the consumers that talked to us, as we visit with farmers and with other legislators—and look at the record in the past.

Another thing that I would like to stress here just briefly—it has been testified here by many farm organizations in this hearing and in past hearings: let's get the Government out of the business; we don't want Government in the farm business; it's a tragedy; it's an evil. But I would like to call the attention of this Senate in these hearings—if that is the case, you, Senator Hodges, and the rest of the Senators in the Congress—it's time to go home. This industry of agriculture has a gross income in excess of \$100 billion a year. We are spending \$75 to \$80 billion a year. That is a large industry.

So if the Government is not needed in there to pass legislation to keep it in balance, then they are not needed here for the national defense, because they are in excess of \$100 billion. And you take many of the other national programs we have—the Government is full-fledged in them. I say we need the Government in this, and to pass S. 2626 to keep a uniform system, instead of these tremendous ups and downs that have bankrupt farmers in the last year.

I have farmed—this is my 38th crop—and born and raised on the farm; I have a son to follow me. And I am just going to give you two or three figures here for the sake of time. In 1977 we had a tremendous production in the Indiana farms, had a million and a half pounds of wheat, and sold that at market price at 3 cents a pound; \$45,000, had a million pounds of No. 2 corn—it's in the marketplace at 3 cents a pound; that was the market price, \$30,000. We had 750,000 pounds of soybeans, No. 1, 8 cents a pound, \$60,000, for a total gross sale of \$135,000, and our expenses at the rate of \$150 an acre gross for the cash and

depreciation alone—in \$132,600, leaving only \$2,400 under the 1977 Farm Act that we lived under in 1977.

I took the S. 2626 and replaced the prices from it, and that made the wheat go to 8 cents a pound, under the S. 2626 formula, \$120,000; a million pounds of corn at 6 cents a pound under the S. 2626 bill goes to \$60,000; the 750,000 pounds of soybeans would go to 11 cents a pound, \$82,500, that's \$262,000—subtract the same costs from it, \$32,600 I would have net, before taxes, to return to investments and management, of \$129,000—

Senator HODGES. I hate to slow you down, but we have only got about 3 or 4 minutes, and we are going to have to close and this is the last day, and I would like to give Mr. Hamilton a chance.

Mr. WILSON. That's mighty fine, I appreciate that.

Senator HODGES. And we will put this in the record, and I appreciate it. I hate to cut you short, because I know you have come a long way.

Mr. Hamilton, can you come on up, please, sir?

#### STATEMENT OF CALVIN HAMILTON, INDIANOLA, MISS.

Mr. HAMILTON. Mr. Chairman, I will be swift.

I am a farmer from the rich Mississippi delta, rich in soil type, not in monetary means in the last few years. It's a little unique: I am also a CPA and a cost accountant, which gives me some insight into the problems on calibrating costs.

I wish to testify that the farmers in fact need relief, that the administration's statement that the farmers are not in trouble is incorrect. It may be because the farmers themselves are unique, where land costs have increased, net worth and equity on balance sheets have increased, where in fact the farmers have lost money with their operations. Of course, Mr. Chairman, you must realize that the farmer must have his land to operate, and, of course he can't sell it and recognize the equity increase and continue to farm.

Moving right along, I agree with the roller coaster effect. Having farmed with soybeans at \$5 or \$8, it is very difficult to plan your operation. My side profession, of course, dictates that I do a tremendous amount of planning. This last year, soybean seed and rice went from \$7 to \$10, depending on when you purchased the seed. That means if you planned in November for what you were going to grow, you had a very economical input into your costs. This is what we did. I had 300 acres of cotton, and we switched to 500 acres of rice. Well, the rice price now—we are overgrowing rice, it's coming back down—we have sold some of it.

So the roller coaster has got to be evened out and farmers have got to have some way of planning ahead and planning their costs for operation.

Now, of course, the opponents of the bill argue about the determination of the cost, and that is extremely difficult. In cost accounting it's very easy to calculate costs in everything but agriculture, because when you start putting in prices of land rent, management, and so forth, you find different criteria in different parts of the country. Of course, if you set different price levels in different parts of the country, it's, of course, not equitable at all.

So I think this makes it a real problem. But I think the basic thing—the cost—we have to arrive at some cost, even if it is a lower cost that I agree is in the bill; I think these are the minimum requirements. For example, the total expenses per acre of cotton, \$300.37, from the Delta experiment station 1978 cost—without land rent. Let me quote—they also say: “These budgets do not include taxes, insurance, drainage, bookkeeping, pick-up truck expenses, land rent, management or other overhead expenses.” This is from page 1 of Budgets for Major Crops of the Delta in Mississippi, 1978. And to a cost accountant this is completely unsatisfactory. It would be just like saying for a manufacturing plant we are going to take a portion of the overhead completely out, take some of variable cost, and eliminate those and say we can manufacture an automobile for  $x$  number of dollars.

So I think the economists and the people that feed in the costs do not have reliable figures—and even using their figures, at \$300, and putting in \$50 for land rent, you would have a loss situation in 60-cent cotton.

So I think this is a very workable—as Senator Bumpers said, it may not be the best solution, but it is a solution. It shouldn't cost the taxpayers anything, and it allows the farmers to plan their activities over a 3-year period and not be caught in this up-and-down cycle.

Now, of course, the question always comes up: Why not sell at \$8? I have been there; I have had the phone in my hand. But in April, when the beans are not planted, you hate to sell at \$8 because you might be buying them back at \$9—I have had that happen, too.

So if the farmer has some basis to return his cost of production and some period of time to market the crops, then I believe the roller coaster would be evened out and allow the farmer to plan ahead.

One last comment about the ASCS difficulty with this bill compared to the present system—as a CPA, with a master's degree in accounting and working with Internal Revenue regulations every day, the ASCS just confuses me completely. I think about the poor farmer that doesn't have the background in interpreting regulations. And I think under this bill the farmer would understand that he has a basic price for his commodity; he can sit down in the fall of the year for the next year and calculate what he plans to produce; data can be accumulated in the spring or early part of the year to determine if there are any excesses—and it is a very workable situation. It may not be the best approach, but it is a good approach and should save the taxpayers money and allow the farmers to get off the roller coaster.

And one last point, the inflationary situation. If the farmers do not get on the inflationary train with some support in their cost of production—you have it for labor, you have escalator clauses for manufacturers, for everybody under the Sun; even the postal workers are asking for increases. If the farmers don't get on the inflation train, then we are in bad shape.

And one last thing. Some of the farmers think—of course, farmers, being basically independent, don't want any Government controls at all. I think in our complicated system, the Government is in the picture whether we like it or not, and they have got to continue to be in the picture. And this is one of the ways that the Government would help with the least control over the farmer's operation.

And one closing point. On today's news I understand the USDA issued a regulation this morning—this was on the "Today Show"—to have everyone in the USDA—it was a special regulation to insure that the regulations were in layman's language. They said it would be hard to implement because nobody could understand the regulation that came out. That was actually on today's news at 7 o'clock this morning.

Senator HODGES. I thank you very much. I am going to have to bring these hearings to a close, and I appreciate very much your testimony.

I want to thank the farmers and people who have taken time out of their schedule—and there couldn't be a worse time, in the spring, to ask farmers to come. And we thank you for coming and being here.

You made one excellent point—that is, that the issue is not ever going to be whether Government's in or out of farming. Government is in farming, and the question is whether they are going to have a direct bearing on you or an indirect bearing on you. And you are very naive, and the American Farm Bureau is naive, if they think that the Government is going to be out of farming. They are not. They will hold either indirect controls over you, through assisting agriculture in other parts of the world—the threat of embargoes; or you can have some direct input into it.

And I think that is what 2626 does.

Thank you for coming. The record will stay open for 2 weeks for additional testimony. I know there are some other Senators who want to put in testimony in a written form.

But at this point we must adjourn the hearing. Thank you for coming.

[Whereupon, at 11:06 a.m., the subcommittee adjourned subject to call of the Chair.]

## SUBMITTED ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. KANEASTER HODGES, JR., A U.S. SENATOR FROM ARKANSAS

On March 2, 1978, Senator Dale Bumpers of Arkansas and I introduced S. 2626, the "Consumer and Agriculture Protection Act of 1978". An identical bill, H.R. 11262, was subsequently introduced in the House by Congressman Ray Thornton of Arkansas. These hearings are to elicit and develop testimony about the provisions of this bill in the hope of establishing its concepts as the guiding principle of future United States' agricultural policies.

The bill creates a comprehensive farm program which differs significantly from the various farm programs currently in force. It is a new look at agriculture. And it was a direct result of the dire economic problems which beset the agriculture sector of our economy in 1978.

The years of 1977 and 1978 have seen the nation's farmers squeezed by low farm commodity prices and relentless cost increases for all kinds of production inputs. In the fall of 1977 and the spring of 1978, the farmers protested, forming loosely knit organizations which attempted to bring the farmer's plight to the nation's attention and which sent representatives to lobby for help in Washington.

For a brief time, the farmers were successful. Although they never truly reached the public, the farmers succeeded in galvanizing the Congress into considering legislation designed to utilize existing farm programs to bring economic relief for agricultural producers. These successes were quickly turned into defeat, however, as the administration succeeded in utilizing a threatened veto with a largely successful public relations campaign to keep the proposals from ever leaving Congress. A brief, limited relief measure was finally passed, but most producers consider it too little and too late.

S. 2626 was developed by the farmers who came to Washington during the peak of the so-called "Farm Strike". It was created as a realistic alternative to legislative proposals calling for the mandating of parity prices by law, which many farmers regarded as unwarranted and politically impossible. A group of farmers with no legislative or political experience got together and hammered out a group of ideas which form the framework of S. 2626. It is a farmer's bill, conceived and propounded by the producers of basic agricultural commodities.

The bill has three major concepts. The first is loan prices which are to be set at realistic cost of production levels. A board of agricultural producers would be created to determine in public hearings accurate unit production costs incurred by farmers in producing basic agricultural commodities. These loan prices would be comprehensive; the basic idea is to cost agricultural commodities as industry costs out manufactured articles, with a charge included for the cost of land and a return included for the farmer's management ability.

The second major concept is the use of extended loan terms to provide farmers with maximum marketing flexibility. Farmers would receive loan guarantees on commercial loans for periods up to three years. In the alternative, a farmer could receive a direct CCC commodity loan from the government on a non-recourse basis for an unlimited duration. These extended loan periods will allow agricultural producers maximum flexibility in determining when to market their commodities. In addition, such loan terms would render speculation in commodity futures much more difficult.

The last major concept is that of mandatory production controls. S. 2626 embraces the thesis that our farmers' productivity capacity is their own worst enemy—the nation's ability to generate huge surpluses of agricultural commodities and thereby drive prices for such commodities below economic subsistence levels is the most persistent problem plaguing our agricultural economy. It is time that as a matter of policy this over-production be curtailed to yield farmers

a measure of income security from year to year. The bill does this by attempting to align production with demand on a year-to-year basis, and limits production by use of acreage controls combined with penalties for non-compliance.

Those are the major components of this legislation. It has other concepts which I should mention very briefly: it establishes a National Commodity Reserve of storable commodities, it requires that any quality or health standard applicable by executive order, law, or regulation to domestically produced agricultural commodities shall be applicable to imported commodities of the same type, and it states that imported commodities for which a domestic cost of production price is established may enter the United States only at that price.

All of these measures are to protect farmers. The cost of production loan levels at extended terms and the mandatory production controls are to ensure that farmers will have enough income from year-to-year to remain in production. The bill is further to help farmers escape the boom-and-bust cycle of the present agricultural economy, in which the producers of one commodity may prosper only if the producers of another are suffering. It is my hope that the floor price established at a rational average cost of production for each commodity will provide sufficient income to agricultural producers to allow them to escape the crushing debt under which they labor.

There are, of course, problems with this legislation. Any proposal of such magnitude is susceptible in some areas to criticism. The loan levels being set at realistic cost of production levels will mean that prices will be higher than those of current markets. This will be inflationary on a one-shot basis; after the initial rise, the inflation in food prices will keep pace with inflation in farmer's costs. And it should also be noted that the figures which I propose as a realistic starting point and therefore, covering most farmers' current costs are no higher than farm commodity prices have been in the last three years.

In addition, the volume to export sales in world markets will drop. The value, however, in dollar terms of these same exports will rise because buyers will be paying realistic and higher prices for such commodities.

There are problems present. But this bill will do what it is designed to do: it will raise farm incomes. And it will remove the direct payments from the Federal treasury to farmers and allow those producers to receive their income from the marketplace.

S. 2626 is co-sponsored by Senator Orrin Hatch of Utah, Senator Frank Church of Idaho, Senator Jim Eastland of Mississippi, Senator James Abourezk of South Dakota, Senator Fritz Hollings of South Carolina, Senator Warren Magnuson of Washington, Senator Jim Sasser of Tennessee, Senator Howard Baker of Tennessee, Senator Jennings Randolph of West Virginia, Senator Birch Bayh of Illinois, and Senator Sam Nunn of Georgia. I would like to address briefly why these Senators have joined with Senator Bumpers and me to propose this legislation.

At its most basic levels, the current farm program establishes a floor price on agricultural commodities at loan levels low enough to maintain our competitive position in world markets for agriculture commodities. This floor is too low to allow farmers to recover production costs, and so a "target price" is established by Congress. The target price is supposedly set at a national average variable cost of production for each different commodity. It also recovers part of the necessary charge to management and land use. A farmer receives a direct payment from the federal treasury in the amount which is the difference between the target price and the average of farm prices received by market sales, or the loan rate, whichever is higher. In this manner our agricultural producers are to be priced low enough to sell in world markets while the farmer receives enough income to recover his costs. And perhaps the most important result is that domestic food prices are kept low, and thus this policy becomes the cornerstone of the government's war upon domestic inflation.

I have many problems with this policy, both in theory and as it is applied. I shall, however, mention only a few.

The first is that the target prices are under political control. They become political tools, manipulated to serve other ends than the farmers'. Thus they have always been set too low to serve their intended purpose—which is to give farmers' enough income to recover costs. A necessary byproduct of political manipulation is that such prices always rise much slower than the costs they are intended to meet.

In addition, the idea of supporting domestic food prices at low levels to preserve export markets for domestically produced agricultural commodities is

suspect. It sounds nice in theory. But its result is that American farmers go broke subsidizing world consumers by selling food at prices which drive the sellers out of business. The same farmers also end up subsidizing domestic consumers at prices which are too low—Americans pay less for their disposable income for food than people of any other nation in the world. And in combination with too-low target prices these low loan rates inexorably drive farmers out of business.

Many people question whether farmers deserve any government support at all. These well-meaning critics ask whether or not it is fair for the government to protect farmers from economic forces when other businessmen do not receive such protection. They claim that efficiency should be rewarded and that bad farmers should go broke. In the end, the strong will survive, it is claimed, and the country will be better for it.

In addition, these people draw support from current market prices for farm products. Farm commodity prices have risen somewhat recently, and some feel that this is a sure sign that current policies are working. There is also a popular preception that only a few young farmers have actually been in trouble of late, and that their problems are their own fault. It is claimed that these few farmers decided that the high commodity prices in 1973 and 1974 would last forever and therefore rushed out to buy more land at high prices which they could not afford. Those prices had to fall and did.

There is some truth in these assertions. I submit, however, that these ideas ignore the real problem. And that is why the United States is steadily losing its rural agricultural population. This loss is moreover a direct result of present government agricultural policies.

The current drafters of farm policy have decided that it is okay if farmers go broke. The loss of a number each year is viewed as desirable, and current programs seem to encourage this result. In 1977, according to Time magazine, the United States lost 454,000 people from its farm population. This figure represented 5.4% of the total agricultural population, and projects of additional losses in 1978 are comparable.

The United States is apparently the only major industrialized nation in the world which does not attempt to protect its farmers. Other nations have made the social policy judgment that the steady loss of rural population is not a good thing to have. When the rural population is driven from the farms to economic conditions, these people go to the cities and towns. They often become a burden on society, seeking jobs which don't exist, thus entering the welfare rolls.

Unfortunately this result is real. It may be documented. And it will continue until we as formulators of agricultural policy come to grips with the stark fact that commodity prices are too low and that farmers are being driven bankrupt because of it. When enough farmers are gone, prices will rise because there will be just enough producers to make centralized production decisions. There will be little government may do about it. S. 2626 poses a question of social policy. It proceeds on the assumption that a strong, viable rural population is necessary for the continued welfare of the nation. We should not accept the steady loss of agricultural producers, but instead should seek ways to provide enough agricultural income to arrest this erosion. That is why we are here today: to seek a consensus that this should be done, and to create a record by which the proposals of S. 2626 may be tested and strengthened.

SUPPLEMENTAL STATEMENT OF HON. KANEASTER HODGES, JR., A U.S. SENATOR FROM ARKANSAS

The American Farm Bureau Federation has chosen not to present oral testimony at these hearings. They have, however, submitted written testimony and released a news statement concerning Senate Bill 2626.

Upon reading that news release, dated May 19, 1978, it becomes apparent that Farm Bureau has not taken the time or the effort to digest the content of S. 2626. Indeed, statements made in regard to the bill constitute a misrepresentation of the facts. This lack of knowledge of the bill's provisions is exemplified in the Farm Bureau's charge that agricultural producers would be a minority of the Board of Agricultural Governors. The agricultural producer members total fifteen out of a total board membership of twenty-one. This hardly constitutes a minority.

The Farm Bureau news release attacks the formation of a Board of Agricultural Governors on the premise that such a board would become just another layer of bureaucracy within the U.S.D.A. I would like to say in response that

S. 2626 specifically calls for the Board to be an independent body—with no dependence upon the Department of Agriculture. I am opposed to added bureaucracy. But when the present system breaks down to the point where the Department of Agriculture is fostering a cheap food policy at the expense of the farmers—the very citizens which that agency was created to serve—then we can justify placing some authority and decision-making ability back into the hands of those people who must live under those decisions. In addition, the Farm Bureau's statement that S. 2626 would allocate the crops that farmers could plant is again misrepresentation of the provisions of this bill.

I now want to take issue with the Farm Bureau's written statement to this subcommittee, dated May 22, 1978. I was very disappointed to find upon reading their comments that the Farm Bureau had either not read the bill or that they had completely misunderstood its intent. Neither of these two alternatives speaks well for our nation's largest farm organization that should be dedicated to improving the lot of our grass-roots farmers.

In several places the Farm Bureau's statement mentions marketing quotas for various storable commodities—at no point in S. 2626 are marketing quotas mentioned in regard to non-perishable commodities. The Farm Bureau states that they oppose the suggested program for government reserves, and that they favor farmer-held reserves. If Farm Bureau had carefully studied the bill they would have undoubtedly discovered that the National Commodity Reserve which is established by the bill is a farmer-held reserve.

One section of Farm Bureau's criticisms of S. 2626 deals with the problems that they foresee in our foreign export markets if this bill becomes law. The Farm Bureau says that in recent years the United States farm commodities have been extremely competitive in the world marketplace. This is entirely true; U.S. farm products have been competitive while the American farmer suffers economic distress. Is this what the Farm Bureau wants? A system where the United States farm economy subsidizes foreign nations while our farmers sell their products at a price below what it costs them to produce that crop? Farm Bureau objects to placing any type of restrictions, such as S. 2626 would call for, upon foreign agricultural commodities which are imported into this country. I feel that Farm Bureau evidences a lack of sensitivity to the impact of imports upon domestic producers.

In short, Farm Bureau's Press Release and written testimony indicates a very shallow familiarity with the concepts and features of the bill. Indeed one could assume that the bill had not been read.

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STATEMENT OF HON. JAMES ABOUREZK, A U.S. SENATOR FROM SOUTH DAKOTA

Thank you for this opportunity to express my views on S. 2626, "the Consumer and Agricultural Protection Act of 1978". I would first like to commend the Chairman and members of this Committee for the very able support you have given to the family farmer in this country. During the past several months, you have demonstrated your genuine concern for his welfare by your leadership role in attempting to have some meaningful farm legislation enacted in the face of stiff opposition from many quarters. I particularly welcome these hearings here today because they confirm the fact that this concern still remains despite the setbacks to some of the previous legislative efforts.

It is clear to me that, in the words of Senator Bumpers, S. 2626 is a product of the "diligent effort" of Senator Hodges and his staff. Senator Hodges' office is only a few doors from mine and I have had the opportunity to notice the large numbers of farmers that use his office as a "base". I believe the Senator when he says that his bill is the product of "literally hundreds of farmers in dozens of States".

At the risk of appearing simplistic, I believe that today's farmer has two basic problems with the current farm program: first, he perceives an inherent lack of responsiveness to his needs because of a minimal amount of producer participation in its formulation and implementation and, second, he is receiving unacceptably low prices for his products, prices so low that even the most efficient producer is not able to recover his costs of production. Both of these shortcomings must be redressed; the American family farm system of agriculture is the envy of every nation, but its future is bleak unless a national food and fiber policy can be formulated that allows the farmer to recover his costs of production.

The measure that is the subject of discussion here today, S. 2626, offers a realistic approach to this problem. If adopted, it would go a long way toward providing for the needed producer input while establishing a mechanism for cost-of-production pricing in agriculture. The vehicle for upgrading producer participation would be a Board of Agricultural Governors, an entity that would be independent of the Agriculture Department. Fifteen of its 21 members would be "grass-roots elected" producers. The Board would have a variety of duties, the most important of which would be the determination and establishment of the cost of production prices for all covered commodities. The Board would conduct a series of public hearings in order to determine the fair production price, another means by which producer input would be assured.

S. 2626 would be able to accomplish its dual-edged objective and still benefit the consumer by putting an end to the destabilizing shifts in food prices and by setting upper limits to prices by means of trigger levels for the release of commodities when prices exceed their cost of production limits. What's more, the farmer wouldn't be forced into a "straitjacket" of governmental regulation.

Yet another strongpoint of S. 2626 is its broad inclusion of commodities. Many objections were heard to earlier legislation that sought to remedy the income positions of producers of certain types of agricultural products while excluding others. This measure would not improve the prices of corn farmers at the expense of livestock raisers, for example. Obviously, such an all-encompassing approach is necessary if the program is to be successful.

There is no need for me to go any further into the details of S. 2626. I am confident that each and every section will be closely evaluated during the course of these hearings. I support this piece of legislation because it has been well-thought out and responsibly formulated. It has had the input of those who will be most directly affected by it and therefore comes to grips with the problems facing agriculture, a step that is mandatory if the problems are to be truly solved. The crisis facing American agriculture has not faded with the arrival of the new planting season; the more that we procrastinate, the more severe will be its repercussions. I strongly urge this committee to act favorably on this measure and, by so doing, establish the foundation for a strong and healthy family farm system in this country.

Thank you.

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STATEMENT OF HON. BIRCH BAYH, A U.S. SENATOR FROM INDIANA

Critical developments over the past year as well as the thousands of dedicated farmers who left their families and farms to lobby in Washington this winter made it clear that U.S. agriculture policies need reform. Senator Bumpers and Senator Hodges have done the nation a great service in proposing S. 2626, an appropriate long-term solution to many of our serious farm problems. The Consumer and Agriculture Protection Act of 1978 would insure producers a voice in national policy decisions and would provide a fair pricing policy, expanded agricultural markets, and needed crop reductions.

Foremost, S. 2626 would establish market price levels which are high enough to cover production costs and allow reasonable profits for family farmers. The recent gains in farm income are nowhere near the amount needed to make up for years of dismal prices. In terms of constant 1967 dollars, farm income in 1977 was at its lowest point since the late 60's and close to the level of the 30's. Early crop predictions indicate another large world grain crop and domestic surpluses, in spite of decreased production in a few areas. Another price depression will most likely follow right behind. Hard times have already taken their toll on the nation's family farmers. The American farm population dropped 5.4 percent or about 450,000 people in 1977. My home state of Indiana lost 2,000 farms. Although family farms make-up the backbone of American agriculture, they cannot sustain year-after-year of rock bottom prices. I fear the loss of these farms which support so many fine families and communities across the country. Farmers, who now compose only 3.5% of the U.S. population have worked long hours and made costly investments to provide the country and the world with abundant high quality food. Threats of debts and foreclosure are certainly bitter rewards for their contribution.

As usual, farmers are caught in the price squeeze—they must buy at retail and sell at wholesale. Production costs are soaring. The USDA reported that prices paid by farmers for production inputs for all of 1978 could average 6 to 8 percent over last year. The price of land jumped 9% last year to a nation-wide average of \$490 an acre. During the 1973-77 period land prices rose 14-25% each

year. Another startling example of skyrocketing input costs is the price of tractors. In 1969 a John Deere tractor cost about \$10,500 or approximately 3,465 bushels of wheat; in 1977 the comparable tractor cost \$23,200 or 12,020 bushels of wheat.

It is high time that the Congress work to help restore economic vitality and stability to the farm sector. One measure is to provide farmers the same economic price and supply guarantees which are taken for granted in other areas of the economy. S. 2626 would impose mandatory set-asides of sufficient acreage to result in prices to meet costs of production plus a return to labor, management and capital comparable to returns for similar inputs in other industries.

Another essential ingredient of this bill and any serious agriculture recovery plan is a substantial increase in farmer-held reserves to protect against domestic shortfalls and insure international trade stability. Although abundant food supplies exist now, the surplus is exaggerated here because the U.S. now holds about 45 percent of the world grain supply. Poor weather could easily create food shortages in other countries.

S. 2626 would commit the U.S. to active promotion of agriculture exports and it is consistent with other market developments to aid agriculture. New energy markets for farm crops also should be encouraged to boost the demand for American farm production. With our present food surpluses, we can afford to devote land to fuel crops and experiment with crops on land not traditionally cultivated. Surpluses of traditional crops and farm residues could be sold as an energy source—transforming wastes into assets. New crops could be developed specifically for fuel crops like the guayule plant which grows in arid regions and yields a natural rubber or perhaps new varieties of sweet sorghum in the midwest.

Reliance on renewable energy sources such as farm crops would have many favorable results—among them: better balance of payments, reduced dependence on fossil fuels, new rural industry and employment, and higher farm prices. Every region has a renewable resource which could be used for energy production. For example, in Alabama a farmers cooperative is using corn and cucumbers to make alcohol fuel. Establishing new markets to use this potential in every state would insure the long-term economic success of agriculture, and rural communities could take an important step toward energy independence.

These and other programs are the types of developments possible under S. 2626. It is a well-conceived proposal to provide far-ranging improvements in agriculture. Of course certain aspects will require some changes or precise definition. The composition, selection and authority of the farmer controlled Board of Governors as well as the bill's impact on international trade needs careful attention. The Senate Agriculture Committee must work out the powers and limitations of the Board and determine the best way to remove the present unfair advantages held by foreign producers without decreasing our foreign markets and while treating other domestic producers of all crops fairly. I strongly support the intent of S. 2626 and I am certain that the Committee can resolve these questions. I urge the Committee to give quick and favorable action to S. 2626. It is a major step toward a productive and profitable American agriculture.

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STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM ARKANSAS

Mr. Chairman and members of the committee: During recent months the nation has become increasingly aware of the crisis facing American agriculture. Since January, both the Senate and the House have spent weeks conducting hearings on the status of agriculture and its major problem: high production costs and low commodity prices.

As you well know, the figures point out the disastrous economic results of the problem. In the last four years net farm income has dropped from \$33 billion to \$20 billion, and declining market prices have resulted in an increased debt load for producers that has caused bankruptcy for many. That debt load has risen 63 percent over the past five years to an unprecedented \$119 billion.

As a result, more and more farmers are losing their livelihood and leaving farming. Although the migration from U.S. farms slowed somewhat in 1977, the farm population decreased more drastically in 1976 when 6.9 percent, or 611,000 people, gave up and left their farms. This is virtually all due to high capital costs and shrinking profits as commodity prices dropped from their record levels of 1973-74. The farm population now stands at 7,806,000 which represents only 3.6 percent of the U.S. population of 215.9 million. These farm families live on 2.68

million farms (1978 estimate) a decrease of 26,300 farms (one percent) from last year. For an overall figure, the drop from 1969 to 1978 is eleven percent. In Arkansas, the preliminary 1978 estimate is 68,000. This level is unchanged from 1977, but is a six percent drop over the ten year period since 1969.

These all too familiar statistics have emphasized the need for Congressional action and given rise to dozens of bills designed to bring relief to a troubled industry.

On March 2, 1978, I introduced S. 2626 on behalf of my distinguished colleague from Arkansas, Senator Hodges, and me. I honestly believe that the "Consumer and Agricultural Protection Act of 1978" is the most sensible piece of legislation introduced to deal with the problems of agriculture. It is a representative bill, written by farmers from throughout the country and guided by the experience and dedication of Senator Hodges.

S. 2626 is a comprehensive bill that goes beyond short term legislation and the Administration's farm policy. It is designed to provide price and income protection to farmers by addressing the problem at its source of high costs and low return. I have spoken with hundreds of farmers during the past six months, and am convinced that such a program with provisions for higher loan levels based on the cost of production and production adjustments will provide economic relief for the vast majority of farmers, regardless of the various commodities they grow or the number of acres they farm. This can be accomplished without a drain on the Federal Treasury or a burden on consumers.

S. 2626 provides a voice for all sectors of the economy: farmers, consumers, business, and labor. The twenty one member National Board of Agricultural Governors is independent from the Department of Agriculture and will assure that the needs and interests of all groups are considered in setting farm policy.

In addition to the Board, S. 2626 embodies the concept of a producer referendum, producers may either remove commodities from the programs or add new programs if that is the choice of the majority of the producers. Production adjustments and a National Commodity Reserve will work toward balancing supply and demand of commodities, stabilizing prices, and providing a reserve of food and fiber.

One of the most important provisions of the bill lies in its loan program with the levels based upon the cost of production and an extended loan period. In determining the cost of production, the Board will hold public hearings, just as it does before allocating production or marketing adjustments. This opportunity for farmer input will provide a realistic assessment of how much it takes to produce the various commodities. This "floor" under the loan levels will become increasingly important as the costs of land, fertilizer, machinery, and fuel continue to rise.

Farmers may obtain a government guaranteed loan for up to three years from commercial lenders or a loan from the Commodity Credit Corporation with no fixed duration. They would be required to pay a competitive interest rate and remove a percentage of their commodities from the loan as prices rose. This mandatory release price would keep speculation at a minimum. In addition, the extended loan period gives farmers the opportunity to hold their commodities off the market until the prices rise rather than selling when the market prices are low.

I proposed an extended loan period as an amendment to H.R. 6782, "The Emergency Agricultural Act of 1978." The amendment was adopted, but deleted in conference committee. The Senate's original approval indicates the willingness to accommodate the needs of farmers in this area.

The testimony presented by farmers during these hearings has shown strong support for S. 2626. Farmers are not seeking government subsidies. They are asking only for the opportunity to make a fair and decent living with some hope of controlling their own financial destinies. This can be accomplished through enactment of S. 2626, and, speaking on behalf of the bill's thirteen co-sponsors, I hope that the Committee acts favorably upon it.

U.S. SENATE,

Washington, D.C., June 1, 1978.

HON., KANEASTER HODGES, JR.,

Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Russell Senate Office Bldg., Washington, D.C.

DEAR SENATOR HODGES: Enclosed is a resolution of the Gibson County Tennessee American Agriculture Movement (AAM) which was sent to me in support of S. 2626, the Consumer and Agriculture Protection Act of 1978.

It is the request of the Gibson County AAM that their resolution be included in the record of hearings on S. 2626. Your attention to this matter is greatly appreciated. Thank you for your assistance.

Sincerely,

JIM SASSER,  
U.S. Senator.

Enclosure.

GIBSON COUNTY, TENNESSEE CITIZENS' ENDORSEMENT OF S. 2626, THE CONSUMER AND AGRICULTURE ACT OF 1978

Whereas we, both the agriculturally related and the non-agriculturally related citizens of Gibson County, Tennessee, recognize that the family farm has always been the basic unit responsible for the production of food and fiber for domestic consumption, foreign export, and foreign assistance programs; and

Whereas we recognize that inflationary pressures have presented a serious economic dilemma for all sectors of the economy, including the farm sector; and

Whereas we recognize that the farmer has had little resource to the marketplace due to uncertain marketing conditions and natural phenomena beyond the farmer's control; and

Whereas the agriculture sector has had little or no representation in the policy-making process which directly relates to the farmer's survival; and

Whereas we feel that S. 2626, The Consumer and Agriculture Protection Act of 1978 can provide the long-range solution to the basic problems that confront the farmer, while at the same time protecting the interests of the consumer; and

Whereas S. 2626, The Consumer and Agriculture Protection Act of 1978, so co-sponsored by Senators Sasser, Bumpers and Hodges, will create an Agricultural Board of Governors with the authority and responsibility to advise Congress and the administration on farm policy and problems, guarantee a cost of production price for commodities and protect the viability of the American rural economy;

Therefore, we, the citizens of Gibson County, Tenn., do hereby endorse S. 2626, The Consumer and Agriculture Protection Act of 1978 as co-sponsored by Senators Sasser, Bumpers and Hodges, and do enthusiastically urge positive action by the Senate Agriculture Committee at the hearings on this bill the 22nd, 23rd and 24th day of May, 1978.

[NOTE: There are 265 signatures affixed to the above resolution.]

STATEMENT OF HON. WOODROW WILSON, A STATE SENATOR OF INDIANA

Mr. Chairman and members of the committee: I bring you a message from the Indiana Legislature and the Governor of the State. This resolution, HCR 39, was sponsored by members of both parties and passed without a dissenting vote, expressed the concern we in Indiana have for a healthy agriculture, the survival of the family farm, and the ability to provide adequate food and fiber at reasonable prices.

Farmers have always responded to the plea for additional production when needed, but too often have been abandoned when the need is met. Too many things beyond the control of producers have an affect on suppliers and the profit generated by the production of those supplies.

In addition to weather, insects, disease and other factors world-wide that affect production and prices, government through its policies, especially the power to tax, makes it almost impossible for a farmer to accumulate reserves during the short "boom" time that will see him through the long "bust" that inevitably follows. This and other factors are driving many out of agriculture and worse yet discourages young men and women from entering.

Too often, the general public and those with the ability to help eliminate the "boom" and "bust" cycle remember agriculture as it existed in grandfather's time. Let me cite a few changes that have occurred in the last few years that make it hard to make yesterday's programs fit today's needs.

In the late forties and early fifties, a farmer could purchase a 160 acre farm for \$30,000 to \$40,000 with interest rates on the mortgage at 4 to 4½ percent with principle, interest and property taxes costing approximately \$1,000 per year. Today, that same farm will cost \$300,000 to \$400,000 with interest and property taxes costing an excess of \$20,000 per year, with the need for an additional \$20,000 if the mortgage is ever to be paid. In 1952 a self-propelled combine could be pur-

chased for \$3,500 with a comparable machine costing \$20,000 in 1972 and reaching \$46,000 in 1978 with other machinery reflecting the same cost ratios.

Fertilizers, fuels, chemicals and other supplies needed have in many instances quadrupled in cost in the last few years.

While these changes were taking place, the price that farmers have received in the last three years has averaged only 50 to 60 percent higher than they were in the fifties and sixties and at the most have no more doubled.

Faced with a perpetual debt with the need of cosigners on notes and very little hope for living standards comparable to his city cousins, is it any wonder that young men and women are fleeing agriculture. It is much cheaper for parents to send their children off to medical or law school than it is to help them get started in agriculture.

The copy of S 2626 that I have was presented on March 2 and, with two exceptions, should it be adopted would accomplish what we in Indiana have requested in HCR 39. [The resolution, HCR No. 39, follows.]

In Section 14B, loans made on a specific commodity that is not part of the national commodity reserve should mature under, unless otherwise agreed to by the producer-borrower, one month prior to have set time of the like commodity the succeeding year.

In Section 21, the cost of property taxes on both the storage facilities, as well as stored commodity, should be taken into consideration in determining storage costs.

In addition to S 2626, something needs to be done to prevent manipulators, such as the Hunt family in Texas and others, from cornering the market as has happened in beef, sugar, soybeans and coffee in recent years and is apparently being repeated in the meat industry now.

#### STATE OF INDIANA HOUSE CONCURRENT RESOLUTION No. 39

A concurrent resolution memorializing the Congress of the United States to review the existing farm price support program and to develop legislation that will assure the American farmer a fair portion of the income earned by and through the products that he produces which represent a reasonable return on his labor and investment.

Whereas it has been reported that more than twenty-five percent of farmers and ranchers will be forced to either liquidate or refinance their operations this year; and

Whereas the cost of producing farm products has risen drastically in the face of slow rising or declining farm prices; and

Whereas the people of America pay only sixteen and eight-tenths percent of their disposable income for food while the people of other nations pay a minimum of twenty-eight percent of their income for food; and

Whereas the historic cost of food to the American consumer is reflected by only a small percentage of the total final market cost charged; and

Whereas the American farmer and American agriculture are vital to the continued growth and development of the economy of this Nation, and also to the World at large; and

Whereas the American farmer and American agriculture are vital to our economy and general welfare; Therefore, be it resolved by the House of Representatives of the General Assembly of the State of Indiana, the Senate concurring:

SECTION 1. The Indiana General Assembly hereby memorializes the Congress of the United States to immediately undertake a comprehensive review of the existing farm price support program and to develop legislation that will insure that the American farmer receives an equitable portion of the total cost to him and the benefits of his labor which will represent a reasonable return on his investment and encourage him to continue to provide an essential part of our continued welfare and prosperity.

SEC. 2. That the Principal Clerk of the House transmit copies of this resolution to all members of Congress elected and serving from the State of Indiana and to President Carter.

Otis R. Bowen, M.D., Governor; Kermit O. Burrous, Speaker of the House; Sharon Cummins Thuma, Principal Clerk; Donald E. Hume, State Representative; Lindel O. Hume, State Representative; Woodrow Wilson, State Senator; Michael E. Gery, State Senator; Frank L. O'Bannon, State Senator; Robert E. Peterson, State Senator; W. Wayne Townsend, State Senator; Robert D. Garton, State Senator; Morris H. Mills, State Senator.

STATEMENT OF JAY C. ANDERSEN, PROFESSOR AND HEAD, DEPARTMENT OF ECONOMICS,  
UTAH STATE UNIVERSITY

CRITIQUE OF SENATE BILL 2626 "CONSUMER AND AGRICULTURAL PROTECTION ACT  
OF 1978"<sup>1</sup>

Many farmers and ranchers are now facing severe financial stress. Since 1974, farm prices have been seriously disadvantageous to farmers.

In these comments, I accept the premise that farm prices are unacceptably low. There seems to be some sentiment to come to the aid of farmers, but hard decisions must be made in the face of lack of information and a lot of misinformation.

*Goals of farm policy*

In the past, agricultural policy has been dictated too much by the political emergencies of the moment. A longer-term, more consistent approach is urgently needed. As a beginning, we assert that there are several legitimate goals of farm policy. Among appropriate goals and purposes are at least the following.<sup>2</sup>

1. *Abundant supplies and reasonable prices to consumer.*—Surely as a nation we want to perpetuate the great legacy of abundance that we enjoy here. The vast productivity of agriculture has given us this invaluable position. Farm productivity has released the manpower and other resources from the farms so that we can enjoy the fruits of resource use in nonfarm pursuits.

2. *Stability of market supplies and prices.*—The extreme sensitivity of agricultural markets to shifts in supply and demand has led to risk and loss to producers, dissatisfaction of consumers, and reduced efficiency in farming and the food industry. A reasonable task is to bring more stability to markets for food. It is reasonable to insulate from short-term swings in supplies or demands, but not possible or desirable to maintain "normal" prices only by use of storage plans in the face of long-term burgeoning surpluses or enduring scarcity.

3. *Income enhancement for farmers.*—There seems to be some sentiment for helping farmers in their plight of low returns to their resources used in production. The question is complicated by some producers doing very well because of their great efficiency or low debt position or other factors, while many other farmers are for various reasons in danger of losing their equity. Serious arguments arise with respect to measures that would enhance the position of large vs. small producers and vice versa.

4. *Low cost for government agricultural programs.*—Payments, food stamps, administrative costs, and other items may be a considerable burden on taxpayers. Added inflation may result. Most everyone would agree on the desirability of minimizing government costs.

5. *Preservation of freedom of choice.*—The matter of individual freedom to respond to incentives and the option to choose among alternative courses of action are fundamental issues. Certainly, economists use as a model of efficiency the notion of perfect competition. While this is an abstraction that does not really exist, it is true that encumbrances or departures from perfect competition on the part of individual entrepreneurs reduce the efficiency of the economic system.

6. *Aid to poor countries.*—Most Americans find it acceptable and desirable to share the abundance they have with less fortunate people. The more difficult question is how this is to be accomplished. Is it by donations or subsidized sale, providing expertise to enhance their own system, or by direct financial aid to the people with which they can buy food or other items?

7. *Expansion of foreign markets.*—The United States has had a balance of payments problem, especially since the large oil imports have become commonplace. Export of agricultural commodities has been a major offsetting factor. Farmers and the nation in total have a stake in market expansion.

8. *Provision of a storehouse for emergencies.*—It would seem that as rich as we are and as capable as we are of producing large quantities that this nation can well afford to stockpile more than a few weeks' of basic commodities. We have tended to view these as burdensome in the past, and their existence has depressed

<sup>1</sup> Testimony given at Senate Agricultural Committee Hearings, May 22, 1978.

<sup>2</sup> Many of these are mentioned in Brandow, G. E., "Issues in Food and Agricultural Policy—An Evaluation of Policy Instruments". Paper presented at National Public Policy Education Conference, Zion, Illinois, September 15, 1976. As Brandow notes, some of these are conflicting, and opposing views arise.

prices. Perhaps an attitudinal change is required to view a larger carryover as being desirable. That which is undesirable is continued build-up after an adequate storehouse is achieved. A storehouse is certainly consistent with stability; but, as it has been viewed in the past, it has been a serious depressant on commodity prices.

9. *Minimal adverse impact of commodity programs on other commodity producers.*—It is well known that high-feed grain prices are undesirable for livestock feeders, at least in the short run. It is essential that one program does not disrupt and throw other programs into disarray.

With the preceding goals in mind, I would document on particular provisions of SB 2626. It will be appropriate to mention each of several major aspects of the bill.

#### *Cost of Production Price*

Since I was in graduate school in the late 1950's and early 1960's the agricultural policy analysts have been discussing the long-run excess capacity to produce agricultural commodities in the U.S. continuing indications have been given that agriculture would suffer if production went unchecked.

In its simplest form, the problem of unacceptable farm commodity prices is a problem of excess supply. Frequently, it has been asserted that the laws of supply and demand are no longer working. Such is not the case. The results of the working of the laws are distasteful to some, but the system is working.

Consider the following simple characterization of workings of supply and demand in Figure 1. Assume that price  $p_p$  is deemed appropriate and acceptable as a goal for a particular commodity. Demand is depicted by  $DD$ , which indicates that as prices decrease, the quantity taken by consumers will increase. Supply is  $SS$ , which suggests that as price rises or as price is expected to rise, producers come forth with a larger quantity of production. Supply and demand intersect such that price is  $P_1$  and quantity produced is  $Q_1$ . Unfortunately, price  $P_1$  is well below the accepted goal.

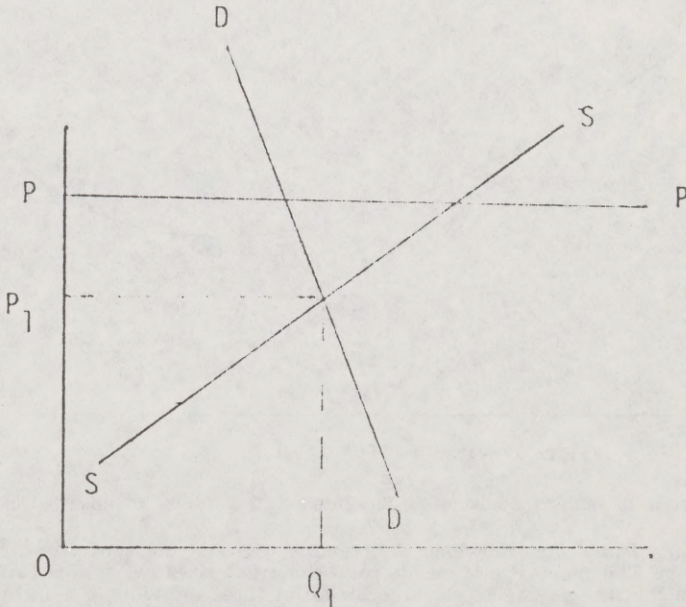


FIGURE 1.—Supply and Demand—Showing resulting price and quantity as well as price goal

The reason for the country's achieving the excess supply capacity is because of the vast productivity associated with improvement in technology. Seed, fertilizer, irrigation, better tillage through mechanization and other related factors have thrust American agriculture into a situation not common to other countries of the world. Efficient producers can continue to improve and lower costs of production to add to the capacity of the system. There are ineffective brakes on this giant machine since producers have no option but to continue to produce even more to try to cover at least the out-of-pocket costs of production. There may be little or no income left over to cover fixed costs such as is incurred by ownership of land or for other costs already sunk. These costs go on whether production takes place or not. Thus, farm producers are unlike other sectors of the economy. It would be foolish to expect farm machinery makers to build so much machinery that prices fall and machinery manufacturers produce themselves into bankruptcy. Most sectors have such control. Agriculture does not. Because of this difference, many would justify some program to stabilize and support agriculture.

Frequently, we have heard that farmers are producing their goods at below the cost of production. This has several possible interpretations, depending on which factors are included and whether we are talking about the most efficient or least efficient producers.

It is a misconception to suppose that a single figure on cost of production is applicable to all farmers. There are as many situations as there are farmers. In general, cost of production might be characterized as in Figure 2. Each dot on the graph represents the average cost of production for a given farmer for a specific commodity for a particular year. Of course, in reality there are many more producers than dots on the graph.

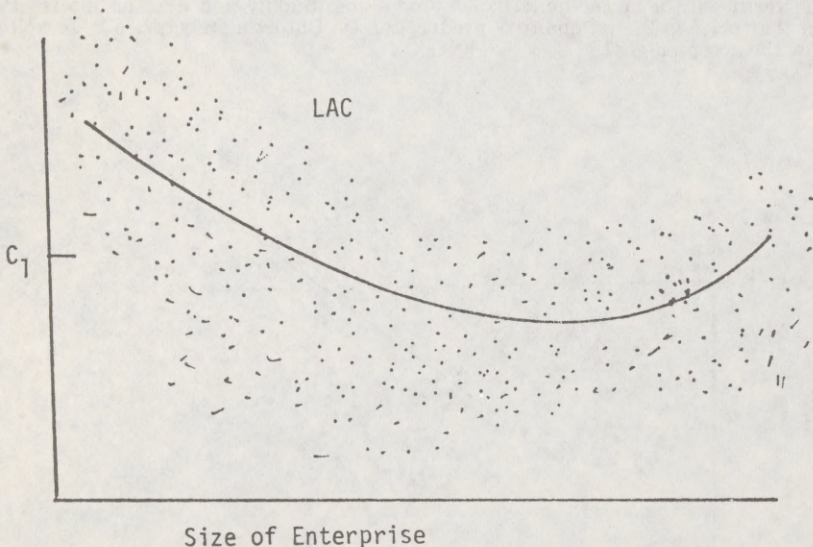


FIGURE 2.—Average cost of production related to size of enterprise

There are many factors which affect costs, certainly size of enterprise is one of them. The general relationship can be characterized as the line LAC. Let us assume that the average cost value for all of these individuals is  $C_1$ . At this point, about one-half of the producers can produce at a cost less than the average and one-half only at more than average. If it happened that the sale price was exactly at the average of all producers' costs, some would make money and some would lose. Some would want to increase their business because of the high

profit potential and others would want to get out of the business or make some other change because they were losing money. The important thing is that any reasonable sale price will make some rich and some will become poor. If the price is high, more will become rich; if it is low, more will become poor. If sale price is established at a high level, then there are powerful incentives for many to increase production by many and diverse means. Some of these can be monitored and controlled while others cannot.

A cost of production price has been indicated in S.B. 2626 as a kind of support or target price. With all of the problems mentioned above, it is perhaps worthwhile to list some standard data for a few areas. The Department of Economics, Utah State University, has a set of cost data for 1977 (see Table 1) for selected crops in Utah.<sup>3</sup> The data from U.S. Department of Agriculture indicates that farm costs have been inflating at a rate of 7.6 percent per year from 1967 to 1977.<sup>4</sup> Assume an 8 percent increase to bring these values to a 1978 projected cost level. These values are found in the first five columns of Table 1.

In the last three columns of Table 1, the additional cost of paying for land is included. The problem of whether or not to include this item is difficult. There is evidence that the imputed rate of return on land is only 2 or 3 percent. But land prices continue to inflate by 8 to 10 percent per year. There are various reasons cited for this, which range from foreign conspiracies to take over our country (which we think is not credible), to a sense of agricultural fundamentalism wherein people, who can afford land, buy it as a consumption good. That is, some derive a sense of good from owning land, even if it costs them. There are some tax treatments, both foreign and domestic, that provide some incentive to hold land. But we assert that the main reason that people continue to buy land and bid up prices is that they have an expectation of making a profit. For many, the profit can only be realized by a resale since the direct returns to farming land or renting it out remain low.

TABLE 1.—COST OF PRODUCTION FOR 1977 FOR SELECTED CROPS BY LAND CLASS WITH FACTORS ADDED TO INFLATE COSTS TO 1978 AND TO PROVIDE FOR A LAND CHARGE

Land class—Commodity (unit)	Cost per unit, 1977	Per unit cost for 1978 (plus 8 percent)	Per acre land charge (per acre)	Production per acre (tons)	Cost per unit for 1978 with land charge
I—Alfalfa (tons).....	\$35.64	\$38.49	\$144	4.5	\$70.49
II—Alfalfa (tons).....	36.77	39.71	120	4.0	69.71
III—Alfalfa (tons).....	40.86	44.13	104	3.0	78.80
IV—Alfalfa (tons).....	44.48	48.04	88	2.5	83.24
I—Barley (bushels).....	1.34	1.45	144	90.0	3.05
II—Barley (bushels).....	1.43	1.54	120	80.0	3.04
III—Barley (bushels).....	1.62	1.75	104	65.0	3.35
IV—Barley (bushels).....	1.87	2.02	88	50.0	3.78
I—Grain corn (bushels).....	1.35	1.46	144	140.0	2.49
II—Grain corn (bushels).....	1.55	1.67	120	100.0	2.87
I—Corn silage (tons).....	11.16	12.05	144	20.0	19.25
II—Corn silage (tons).....	11.55	12.47	120	18.0	19.14

Certain problems arise in this situation. Young farmers find they cannot buy land, farm it, and pay out on their investment. In many cases, the American dream of climbing the agricultural ladder to ownership is thwarted. On the other hand, if prices and incomes are boosted to where there is a substantial return to land in farming, there is some reason to expect a further bidding up of land prices to where again there is a low imputed return to land. Much of the contention on whether incomes and return in agriculture are adequate revolves around the question of how returns on the land investment are handled. As an illustration, assume as in Table 1 that Class I irrigated land is selling at \$1,800 per acre (Classes II, III, and IV are assumed to be worth \$1,500, \$1,300, and \$1,100, respectively). On the Class I land, 90 bushels per acre of barley can be grown. Costs of production other than for land are about \$1.45 per bushel. If

<sup>3</sup> Davis, Lynn H., Stuart H. Richards, and Rondo A. Christensen. "Enterprise Budgets for Farm and Ranch Planning in Utah", Economics Research Institute, Study Paper #77-7, Utah State University, August 1977, 13 pp.

<sup>4</sup> U.S. Department of Agriculture. "Agricultural Prices", Washington, D.C., January 10, 1978.

interest on the land is 8 percent, the investment cost is \$144 per acre ( $1800 \times 0.08$ ). For each bushel, the land charge would be \$1.60. What is the cost of production of barley, \$1.45 or \$3.05 per bushel? What is our goal on land ownership? Is it desirable to further push up land prices? These are unanswered questions. Certainly, there is a point that a young or beginning farmer must have returns to land in order to buy land. Government rate allowances for regulated public utilities certainly provide for a return to fixed investment regardless of whether their value is inflating.

As further evidence on cost of production in the Western States, a Wyoming bulletin lists the costs of producing dryland wheat including a land charge as \$3.29, \$3.77, \$4.53 for production of 30, 25, and 20 bushels per acre, respectively.<sup>5</sup> These are values for 1975-76. These, too are subject to inflation of 8 percent per year, or an increase to \$3.85, \$4.41, and \$5.30, respectively. The middle value of \$4.41 would reflect the average production of 25 bushels per acre.

In an Oregon bulletin, which also includes a land charge, the 1976 cost is cited as \$4.03 per bushel for dryland wheat. Again applying the cost of inflation to bring this to the current year the cost would be \$4.72 per bushel.<sup>6</sup>

Comparison of these examples of costs, the current parity prices, and the current market prices for commodities is in Table 2. Note particularly the discrepancy in grain prices and costs. Livestock prices are also a problem which leads to the general situation of low farm incomes.

TABLE 2.—COMPARISON OF COSTS, PARITY, AND SELLING PRICE FOR SELECTED COMMODITIES

Crop (unit)	January 1978 parity	Current selling price	Example costs with land charge included <sup>1</sup>
All wheat (bushels).....	\$5.00	<sup>2</sup> \$2.70	\$4.60
Barley (bushels).....	3.08	<sup>2</sup> 2.02	3.10
Corn (bushels).....	3.49	<sup>4</sup> 2.45	2.68
Hay (baled) (tons).....	<sup>5</sup> 70.60	<sup>6</sup> 56.00	73.00
Corn silage (tons).....	NA	<sup>7</sup> 18.83	19.20

<sup>1</sup> Estimated from preceding data.

<sup>2</sup> No. 1 Hard Red Winter Wheat, average protein, at Ogden, Utah, as of Feb. 22, 1978. Source: Utah-Idaho Grain Exchange, Ogden, Utah.

<sup>3</sup> No. 2 barley, 46 lb or over at Ogden, Utah, as of Feb. 22, 1978.

<sup>4</sup> Average price for 1977 in Utah. USDA, Statistical Reporting Service, Salt Lake City, Utah.

<sup>5</sup> All hay.

<sup>6</sup> Alfalfa hay baled Jan. 1978. USDA, Statistical Reporting Service, Agricultural Prices, Jan. 31, 1978, p. 13.

<sup>7</sup> Estimated from feeding value and hay price.

In considering the cost of production basis for pricing, it is interesting to note the USDA production costs by region and the related projections by Doane Agricultural Service. As an example, the following data in Table 3 are cited. These data are for hard red winter wheat. Similar relationships exist for other commodities.

TABLE 3.—PROJECTED HARD RED WINTER WHEAT PRODUCTION COSTS, 1978

Cost item	Central Plains	Southern Plains	Northern Plains	Southwest
Cost per acre, excluding land.....	\$65.90	\$72.47	\$61.03	\$143.42
Current land charge per acre.....	32.13	25.86	43.45	70.96
Yield per acre (bushels).....	26.8-30.8	21.1-25.1	28.5-32.5	59.2-63.2
Costs per bushel:				
Total, excluding land.....	2.15-2.45	2.90-3.42	1.89-2.13	2.28-2.42
Current land charge, per bushel.....	1.12	1.12	1.42	1.16
Total, including land.....	3.27- 3.57	4.02- 4.54	3.31- 3.55	3.44- 3.53

Source: Doanes' Agricultural Report, v. 41, No. 16, pp. 5, 6, Apr. 21, 1978 (Western edition).

<sup>5</sup> D. E. Agee, "Costs of Producing Dryland Winter Wheat on Summer Fallow, South-eastern Wyoming, 1975-76", Bulletin 634, Extension Services, University of Wyoming, November 1975, p. 13.

<sup>6</sup> Cook, Gordon H. and A. Gene Nelson, "Estimated Wheat Production and Marketing Costs in a 2,000-Acre Dryland Farm, Oregon Columbia Plateau, 1976", Oregon State University Extension Service, November 1976, p. 5.

Perhaps, again the two most important aspects of this information are that land charges are a large component of the cost of production, and that as other costs may be lower, in a certain region land costs tend to be high. Certainly one would expect a producer to pay more for land where he could produce at lower cost.

A final comment is that government regulation of public utilities certainly provides for a return on land and other fixed assets. Inheritance tax provisions often force sale of land, so that beginning farmers must pay for land whether or not the farm was in the family. In the current situation we give somewhat favorable tax treatment to nonfarmers to go into farming, but the price situation and government policy is unfavorable for a farmer to begin on his own in farming. In summary, the question devolves to whether the policy should be to manipulate prices or incomes to an amount above the market equilibrium or not. My judgment is that we must do so by some means for stability and to protect a vital industry. The problem is how to do it most efficiently and equitably. With that we turn to the section on comments on production adjustment.

#### PRODUCTION ADJUSTMENT

##### *Alternatives to Supply Control*

The government could step in with price support payments to make up the price difference. This might involve direct government payments to farmers. It may be identified as a non-recourse loan at some target price. If the grower finds the market price below the loan rate, he turns the crop over to the government. The government thus accumulates a larger stock. The main objection is usually the government program cost and the complaint that the payments go to large growers. Furthermore, if price support payments (target prices, loan rates, or whatever) are raised significantly, the country faces the almost certain problem of unwieldy surpluses as well as continuing costly payments to farms. Another option is to disregard commodities altogether and simply direct income payments to farmers. This is a lot simpler and no more expensive, but generally held to be politically untenable.

The second option is to work on increasing demand. In Figure 3, D'D' represents a new level of demand. At any given price, a larger quantity will be taken than before. The price is forced up to the target at a larger quantity of use than formerly. The very great foreign demand for grains in 1973 was an example of the expanded demand and favorable price. Numerous programs, such as food stamps, school lunch subsidies, and other related attempts have sought to increase demand. These programs have met with only limited success, at best, as far as expanding farm markets is concerned. The basic reason is the inelasticity of the human stomach. The vast majority of Americans have ample food. Some diet changes would be advisable, but demand expansion is severely limited. More success has been had in attempts of expanding foreign demand. Around the world, bellies are not full, but the countries where people are hungry are the same places where they cannot afford to buy food.

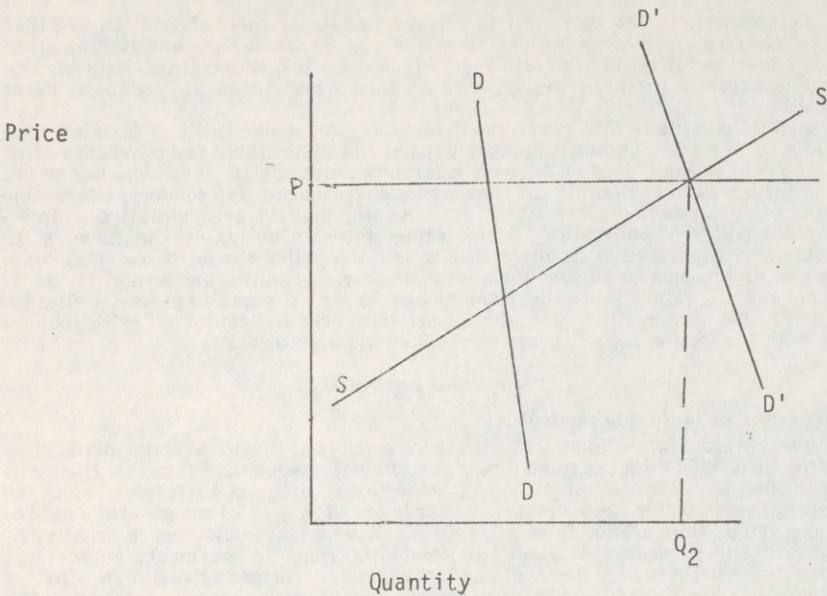


FIGURE 3.—Increased Demand for Agricultural Commodity.

Programs in the past (Public Law 480) have sought to combine demand expansion with a price support program. Subsidized sales or gifts to poor countries were used to meet the twin objectives of feeding the starving and using up our own surpluses. Interestingly enough, recipient countries have not always been too pleased with receiving commodities, even as gifts, because of the uncertainty of continued availability and the tendency for local agricultural systems to relax when food is not critically short. Other countries producing for cash export markets have also complained of dumping and price undercutting. On balance, it seems prudent to have a stockpile which can be drawn on for emergency donations for short-term disasters. Other forms of help, such as technical assistance and loans, seem more suited to the development process. Certainly, it seems useful to attempt to develop stable and effective cash markets.

A third option for effecting changes in price is to control supply. In Figure 4,  $S'S'$  represents a new level of decreased supply. At any given price, a smaller quantity will be produced. Due to the relatively inelastic demands for many agricultural commodities (that is a relatively large change in price is associated with a relatively smaller proportional change in quantity), a small adjustment in supply often provides a substantial price change. Numerous efforts of voluntary supply control have taken place. Killing baby pigs, not planting part of the acres, dumping milk, etc. have seldom, if ever, gotten beyond the publicity stage. The reasons for the ineffectiveness of voluntary actions lie in the large number of producers whose financial capacities to withhold vary widely, whose commitment to a cause vary widely, and whose bankers have varying degrees of sympathy with the program but a certain insistence on meeting the terms of loans. There just is not the incentive to individuals to stick to a voluntary program where others can stand to gain more than the withholder if the non-participant goes right ahead with full production.

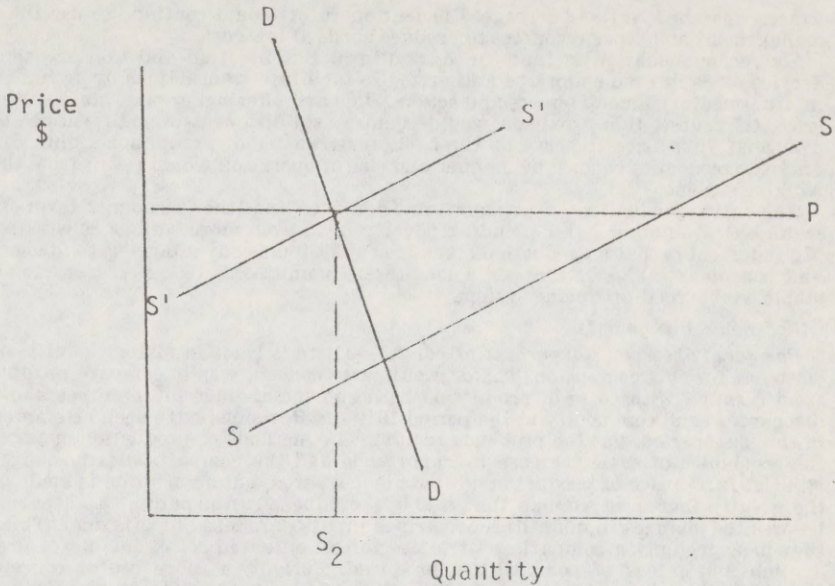


FIGURE 4.—Reduced Supply for Agricultural Commodity.

The Conservation Reserve, Acreage, set-aside, and other programs have sought to control supply. A major problem is the tendency for poorest acreage to be diverted or set aside, and water, fertilizer, and other production inputs concentrated on remaining acreage so that production is not much affected. Most such programs have had a government payment for the land taken out of production. This has usually evoked adverse comments on "payments for not producing" and a general wave of antagonism.

A further possibility for supply control is to control imports. This option has a lot of sympathetic supporters. The difficulty is that restrictions on trade curb specialization and efficiency. Other countries cannot buy our products unless they sell us some things for currency. Some control of wide fluctuations is at least warranted.

The SB 2626 proposal is for a set-aside that would control supply by requiring each producer to set aside a portion of his acreage in proportion to the national potential production which is not needed. There would be no government payment, only the supply contraction would support prices. The government would only be charged with enforcing compliance. This would create some problems such as various schemes to cheat on the system. But, overall the system should have appeal to the Congress and others. Although consumers would be hit with slightly higher food prices, the government program cost could be fairly small. Consumer costs will be discussed later.

In review, the basic options for a solution to the problem are few. There can be government price or income supports. Or, there can be demand expansion, or there can be supply contraction or production adjustment. There is no magic. The government cannot, without cost, make a declaration which cures the problem. There is no easy way out. There are some hard ways out. Basic understanding of the foregoing should help us to avoid these pitfalls.

I would like to suggest a modification of the "production adjustment" feature of SB 2626. As the proposal stands, each producer would be required to reduce his size of enterprise. So much of our system depends on large-scale operations, but higher prices would quite seriously hamper efficiency of production. The proposal would be strengthened by having a "banking" system. This would improve the efficiency by facilitating transfers of production cuts or production rights among farmers. Inefficient farmers could benefit by selling their production allocation to more efficient operators or to those, who might have a machinery complement

exactly matched to their acreage. Efficient operators could continue to use their management and other resources to produce goods at low cost.

My recommendation is that the Agricultural Stabilization and Conservation Service office in each county be authorized to facilitate transactions by acting as an intermediary among buyers and sellers. Bids and offerings would establish the price. Of course, this provision would require establishment or maintenance of a normal yield base to serve as the basis for transfer of production rights. Increased freedom to choose the manner and size of operation would result from the banking scheme.

The entire production adjustment provision does limit the freedom of farm operators. On the other hand, grinding poverty is an even more serious constraint. My judgment is that a production management system is advantageous to farmers and consumers alike, if there is a long-term commitment. It is necessary for a stable, viable food-producing system.

#### *Other general comments*

*Farmers "deserve" 100 percent of parity.*—There is basis in history, equity, or efficiency for this contention. The original parity concept was to compare receipts from farming with costs of production based on the average levels of costs and income for each commodity in the period 1910–14. Revisions have been attempted in the base period, but the problems remain. The methods of production change; the economies of scale increase in importance and the comparison is no longer valid. A farm price of product and inputs is measured, but no mention is made of the greatly increased volume that a single producer can generate. And, parity ignores the changes in quantities of various inputs purchased by a farmer. Thus, they measure only a comparison of prices for an outdated set of factors of production and prices of commodities produced. Perhaps a more useful concept would be a measure of parity or equitability of incomes per farmer with other occupations as of right now.

*An increase of farm prices of 30 to 50 percent would cause an inflation rate of 6, 8, or 10 percent per year.*—Some high-placed analysts have made such statements. It seems impossible. In the first place, an increase would be a one-time event. Thus, it is not a rate of inflation which implies a repetitive annual increment to the problem. A one-time rise in prices for farm products would result in the same expenditure by consumers buying fewer goods, or a larger expenditure to buy the same goods.

This by definition is a price inflation, but it is a one-time occurrence. Now, how much would this one-time inflation amount to? Take the following figures. Assume a farm price increase of 50 percent. The farmer's share of the consumer food dollar is about 35 percent. Consumers spend about 18 percent of their income on food. Thus, with the price rise at the farm of 50 percent the appropriate estimate of inflation (as measured by Consumer Price Index) is  $0.50 \times 0.35 \times 0.18 = 0.032$ , or a one-time 3 percent increment that would be attributable to a very large increase in farm prices. If lack of competition in the marketing channel leads to larger food price increases being passed to consumers, these increases should not be attributed to the farm price.

*There would be a large decline in gross national product and widespread unemployment if farm prices were increased sharply.*—Apparently, there has been a case of neglect or forgetfulness by some analysts. Clearly, a boost in agricultural incomes would result in increases in employment and in expenditures and investments by the farm sector. This increase would be magnified by the multiplied effect of these farm input suppliers making further investments and expenditures. Our evidence is that farm sector expenditures multipliers are as high or higher than anywhere else in the economy. Thus, we would expect that decreases in economic activity due to a fall in expenditures in non-farm goods would be offset by an increase in economic activity associated with agriculture. We should expect some decrease in economic activity because of higher farm prices and slightly fewer consumer dollars to spend on other goods. But, a reasonable price rise should not provoke any catastrophe.

*Consumers object to any increase in food prices.*—There are indications that consumers have a lot of sympathy for farmers' plight. But the support is limited depending on the extent of impact on the consumer pocketbook. In Table 4, the results show general sympathy; but when consumer costs are increased up to 10 percent, then the support wanes. Of course, any raise of as much as 50 percent at the farm could be expected to increase food costs by more than 10 percent. According to our earlier calculations, it would be about 17 percent ( $0.50 \times 0.35 =$

0.17). Of course, the usual pattern is for the marketing channels to tack on a constant percentage, but lack of a competitive system in the marketing can't be assessed to farmers.

TABLE 4.—PUBLIC SUPPORT FOR RAISING FARM PRICES DEPENDING ON THE EFFECT ON FOOD PRICE TO CONSUMERS

	Political philosophy			Political party			Voted for—		
	Total	Conser- vative	Middle of road	Lib- eral	Democ- rat	Repub- lican	Inde- pendent	Ford	Carter
Would you favor giving farmers 100 percent of parity if that enabled them to make ends meet?									
Favor.....	73.6	72.3	73.0	76.1	76.6	71.8	71.3	68.7	74.0
Oppose.....	15.4	18.8	15.7	13.9	12.1	18.8	19.7	22.2	15.5
Not sure.....	10.9	8.9	11.3	9.9	11.3	9.4	9.0	9.1	10.5
Would you favor giving the farmers 100 percent of parity if that raised your food costs 5 percent?									
Favor.....	53.7	53.2	55.3	53.2	50.6	58.6	56.7	56.8	52.8
Oppose.....	35.7	37.2	33.7	36.4	37.8	31.7	34.6	36.4	35.2
Not sure.....	10.6	9.6	11.0	10.4	11.6	9.7	8.7	6.7	12.0
Would you favor giving the farmers 100 percent of parity if that raised your food costs 10 percent?									
Favor.....	19.2	18.8	17.6	22.8	16.2	22.7	19.5	20.7	17.4
Oppose.....	68.3	68.1	69.7	66.7	71.8	64.9	67.7	71.9	68.1
Not sure.....	12.6	13.1	12.7	10.5	12.0	12.4	12.8	7.3	14.5

Source: Louis Harris & Associates poll of 1,259 respondents quoted in Doane's Agricultural Report, vol. 41, No. 8-1 Feb. 24, 1978.

So the question of public support is met with a mixed reaction for an answer. Only can it be said that agriculture seems to have more support than has been the case some times in the past.

#### SOME FINAL COMMENTS

A few things seem to be evident in reviewing goals and the nature of the problems and possible solutions. We would list the following:

1. It would be prudent and useful to establish a stockpile which would not be regarded as burdensome surplus, but as a useful buffer and insurance. This can be afforded.

2. Farmers are in difficulty. Some worse than others; a few have no problem at all. But, the general situation is that they have done their job so well for us all (and due to the nature of the industry), they have dug a pit for themselves. We assert that some help is warranted to maintain a stable and lively industry.

3. Various forms of help are possible. We think it advisable to minimize direct government payments while facilitating a mechanism of supply control. However, farmers themselves, because of their large number, cannot manage this in a voluntary way.

4. The productive capacity of agriculture is too great to let it go unleashed. Too many will suffer from the great burdens of overproduction. There will be too great a risk of the system's self-destructing. Agriculture cannot compete unfettered in an economy where other sectors can manage production.

5. Demand expansion has little potential. Continued efforts may be worthwhile, but this is not the basic solution.

6. Parity is a poor measure of equity to agriculture. It is not very useful. It seems evident that an increase of price of agricultural commodities to 100 percent of parity would create too urgent of signals for the system to produce more. Land values would be inflated. It would also cause consumer protest, although the effect on consumer expenditures would be less than some would have us believe.

7. We suggest a program designed to bring agricultural incomes up only part way to what would be implied by the advocates of 100 percent of parity. An

immediate sharp increase all the way to parity would cause too much stress in the livestock industry and to consumers, and to foreign markets.

8. Probably none of us would choose to have even infrequent serious shortages of food in preference to over-production problems. Let us take appropriate steps to stabilize and provide for a viable, long-term productive agriculture. Legislation of help to agriculture is immediately needed.

[The following material was submitted by Frank A. Condie,\* doctor of accounting, Utah State University, see p. 36 for the oral statement of Dr. Condie:]

\*About the Author: At present Frank A. Condie is Associate Professor of Accounting at USU teaching tax and auditing. He also acts as consultant for Duane A. Barker and Associates—a small CPA firm serving clients in northern Utah and southern Idaho.

Prior to coming to USU eight years ago he completed a doctorate degree in accounting at Arizona State University. Before that he was business manager for the Church College of Hawaii for 11 years. He became a CPA in 1963.

He grew up on his family's 1,200 acre dry land farm in northeastern Franklin County, Idaho. He assisted in all the operations for many of the years from 1940 to 1967, and in 1968, took over the active management of the farm.

TABLE 1  
CONDIE FARM  
Summary of Operations  
Preston, Idaho  
1344 Total Acres

	1972	1973	1974	1975	1976	1977
Sale of Wheat	23,187	66,070	63,315	40,330	42,196	47,384
Sale of Barley	1,275	20,058	3,381		5,997	**
Gov't Payment	6,746	5,527				
Patronage Div	125	95	1,072	121	159	155
Total Revenue	31,333	91,750	67,768	40,451	48,352	47,539
Lease payment (mother)	1,000	16,928	9,773	2,302	2,394	4,668
Net Revenue	30,333	74,822	57,995	38,149	45,958	42,871
Expenses						
Labor	1,938	2,263	5,737	5,960	7,780	7,906
Repairs	1,599	2,321	3,254	3,350	3,497	2,420
Fuel	2,198	2,628	3,560	3,567	3,771	4,700
Fertilizer	4,531	2,629	5,079	1,000	3,614	2,000
Machine hire	4,611	7,360	1,813	4,300	1,305	4,934
Seed	1,957	4,293	4,666	3,396	3,760	1,925
Other	1,152	3,386	1,593	4,819	5,719	1,427
Taxes	2,262	2,462	2,557	2,246	3,230	3,739
Depreciation	5,345	7,550	16,680	8,345	8,845	9,595
Total Expenses	25,593	34,892	44,939	36,983	41,521	38,646
Net Income	4,740	39,930	13,056	1,166	4,437	4,225
Total Yield (Bushels)	17,069	19,668	12,324	14,404	16,648	19,999
Acres harvested (wheat)	433	628	490	768	567	678
Yield per acre	39	31	25	19	29	29
Price sold						
High	1.45	4.61	5.35	4.00	3.60	2.57**
Average*						
Low	1.34	3.84	3.55	3.07	2.38	2.12

\*True average not calculated - Harvested crop not always sold in year harvested.

\*\*ASC wheat deficiency payment for 1977 not received until January 1978. To be reported in 1978.



TABLE 4

## WHEAT PRICE NEEDED TO COVER VARIOUS COSTS

A Inherit farm and equipment

EXPENSE	REVENUE
	$46,180 + 27,000 = 1.71$
Direct 46,180	
	-0- Earnings for operator

B Lease at 8% of FMV

EXPENSE	REVENUE
	$170,090 + 27,000 = 6.30$
Direct 46,180	
Depr 21,030	
Int-eqt 16,480	
Int-land 43,200	
(Earnings for lessee	
	43,200 Earnings for lessor

C Lease - one-third of crop (Inherit equipment)

EXPENSE	REVENUE
	$62,380 + 18,000 = 3.47$
Direct 46,180	
Taxes (5,400)	
	21,600 Earnings for lessor

D Lease for one-third of Crop

EXPENSE	REVENUE
	$121,490 + 18,000 = 6.75$
Direct 46,180	
Taxes (5,400)	
Depr 21,030	
Int-Eqt 16,480	
	43,200 Earnings for lessor

TABLE 5

## WHEAT PRICE NEEDED TO COVER VARIOUS COSTS (CONT)

E Inherit one-half of land Depreciation and interest at 50%

EXPENSE	REVENUE
	$108,135 + 27,000 = 4.00$
Direct 46,180	
Depr (1/2) 10,515	
Int-eqt (1/2) 8,240	
Int-land (1/2) 21,600	
	21,600 Earnings for operator

F Inherit three-fourths of land Depreciation and interest at 25%

EXPENSE	REVENUE
	$77,163 + 27,000 = 2.86$
Direct 46,180	
Depr (1/4) 5,263	
Int-eqt (1/4) 4,120	
Int-land (1/4) 10,800	
	10,800 Earnings for Operator

G Lease (one-third crop) - Depr &amp; int at 50%

EXPENSE	REVENUE
	$81,135 + 18,000 = 4.51$
Direct 46,180	
Taxes (5,400)	
Depr (1/2) 10,515	
Int-eqt (1/2) 8,240	
	21,600 Earnings for Operator

H Lease (one-third crop) Depr &amp; int at 25%

EXPENSE	REVENUE
	$60,963 + 18,000 = 3.39$
Direct 46,180	
Taxes (5,400)	
Depr (1/4) 5,263	
Int-eqt (1/4) 4,120	
	10,800 Earnings for Operator

[This is an update to a study which appeared in Utah Science, June, 1976—by Frank A. Condie, Assoc. Professor, Department of Accounting, Utah State University, Logan, Utah]

Exhibit I

YIELD AND PRICE COMBINATIONS TO RECOVER CERTAIN COSTS

			Direct Expenses	Direct Expenses plus Depreciation	Direct Expenses plus Depreciation plus Interest - Equipment	Direct Expenses plus Depreciation plus Interest plus Interest - Land
Costs			46,180	67,210	83,690	126,890
Yield	BusheIs Per Acre	Total				
Low	22	19,800	2.33	3.39	4.23	6.41
Average	30	27,000	1.71	2.49	3.10	4.70
High	38	34,200	1.35	1.97	2.45	3.71

		Per Bushel Average	%
Direct (Refer Exhibit II)	\$ 46,180	1.71	36.4
Depreciation (Refer Exh. II)	21,030	.78	16.6
Interest - Equipment*	16,480	.61	13.0
Interest - Land 8%	43,200	1.60	34.0
	\$126,890	4.70	100.0%

\*215,800 at 12% for 10 years = \$38,060 payment  
 Less - principle 21,580  
 Interest \$16,480

Exhibit II

PER ACRE COSTS

TYPE OF OPERATIONS	Operating							Interest			
	Direct					Depreciation		Interest			
	Labor A	Fuel B	Repairs C	Other D	Taxes E	Sub Total	F	Total	Eqt.	Land	Total
Plowing	3.42	.72	1.68		1.58	7.40	4.88	12.88			
Discing	1.70	.36	1.02		.88	3.96	2.90	6.86			
Harrowing (2 times)	1.32	.28	.62		.58	2.80	1.76	4.56			
Rodweeding	.76	.16	.57		.46	1.95	1.61	3.56			
Fertilizing				10.50		10.50		10.50			
Drilling	1.06	.23	.87		.68	2.84	2.48	5.32			
Seed				4.50		4.50		4.50			
Trucking	2.12	.35	1.16			3.63	2.89	6.52			
Spraying				2.75		2.75		2.75			
Miscellaneous				4.00		4.00		4.00			
Harvesting	2.12	.60	2.44		1.82	6.98	6.85	13.83			
Total cost per acre x 900 acres	12.50	2.70	8.36	21.75	6.00	51.31	23.37	74.68	18.31	48.04	141.03
Total Cost	\$11,260	\$2,430	\$7,520	\$19,570	\$5,400	\$46,180	\$21,030	\$67,210	\$16,480	\$43,200	\$126,890

\*Refer Exh. IV for basic calculations

Basic Calculations Used

A Labor - \$6.50 per hour plus FICA plus allowance for time other than actual driving the tractor (fueling, greasing, etc.) Refer Sch. A.

B Fuel - D4D Caterpillar tractor 4 1/2 gals./hr. @ \$.40 per gallon  
6602 John Deere Harvester 6 gals./hr @ \$.40 per gallon  
2T GMC trucks 5 1/2 mpg @ \$.49 per gallon. Refer Sch. B.

C Materials and Repairs - Equipment, tractor, and harvester.

Annual materials repair costs are estimated to be 4 percent of replacement costs. Refer Sch. C and D.

D Other

Fertilizer

Application of anhydrous ammonia by an independent operator at 50 units per acre at \$.21 per unit.

Seed

Based on \$3.60 per bushel times 1 1/4 bushels per acre.

Spraying

Spraying for weeds in the spring is done by a local flying service. The current rate is \$2.75 per acre.

Miscellaneous

Includes control of noxious weeds, erosion, drainage, etc., and is estimated at \$4 per acre harvested.

E Taxes - \$6 per acre harvested, allocated to operations on basis of cost of operations, including equipment depreciation before this cost.

F Depreciation

Equipment and Harvester

Annual depreciation was estimated at 10 percent of current cost divided by 900 acres. Refer Sch. E.

Tractor

Annual depreciation was estimated at 10 percent of current cost divided by 900 acres and then allocated to operations on the basis of hours used for each operation. Refer Sch. F.

Other - Buildings and Pick-up Trucks

Buildings (5 percent), Pick-up trucks (20 percent) of cost divided by 900 acres and then allocated to operations on the basis of cost of operations before this cost. Refer. Sch. G.

SCHEDULE A  
LABOR

	<u>Hours*</u>	<u>Rate**</u>	<u>Total</u>	<u>Acres</u>	<u>Cost/Acre</u>
Plowing	360	8.50	3,060	900	\$ 3.42
Discing	180		1,530		1.70
Harrowing	70		596		.66
Rodweeding	82		696		.76
Harrowing	70		596		.66
Drilling	112		952		1.06
Truck**	-0-		-0-		
Harvesting	225		1,912		2.12
Hauling Same as harvesting	<u>225</u>		<u>1,912</u>		<u>2.12</u>
	<u>1,324</u>		<u>11,254</u>		<u>\$12.50</u>

\*Acres per hour were estimated by the four wheat producers, averaged, and then divided into 900 acres (Refer also Sch. F).

**Base rate	\$3.25 (A)	\$6.50 (B)
FICA	.19	.38
Add't 25% for greasing, fueling & checking tractor & equipment	<u>.81</u>	<u>1.62</u>
	<u>\$4.25</u>	<u>\$8.50</u>

i.e. for every eight hours of tractor time -  
corresponding labor time = 10 hours

\*\*\*Tractor operator can drive the truck.

- (A) Rate for high school and college workers who, under close supervision, can do a satisfactory job.
- (B) Rate for skilled adult who needs no supervision. Competitive with construction and other work requiring skill in operating very expensive equipment.

SCHEDULE B  
FUEL

TRACTOR	<u>Cost/Hour*</u>		<u>No. of Acres/hr. <math>\phi</math></u>		<u>Cost/Acre</u>
Plow	1.80	+	2.5	=	.72
Discing	1.80	+	5.0	=	.36
Harrowing	1.80	+	13	=	.14
Rodweeding	1.80	+	11	=	.16
Harrowing	1.80	+	13	=	.14
Drilling	1.80	+	8	=	.23
 HARVESTER	 2.40	 +	 4 acres	 =	 .60

TRUCKS	<u>Est. Miles</u>	<u>MPG</u>	<u>Gallons</u>	<u>Cost</u>	<u>Total</u>	<u>Acres</u>	<u>Cost/Acre</u>
Hauling	3,450	5.5	627	.49	307	900	.33
Drilling	135	5.5	$\frac{24}{651}$	.49	12	900	.02

\*Based on the estimate that the Tractor D4D Caterpillar uses 4.5 gallons per hour at 40¢ per gallon. ( $4.5 \times .40 = 1.80$ )

\*\*Based on the estimate that a hillside, 18 ft. harvester uses 6 gallons per hour at 40¢ per gallon.

$\phi$  Estimated average acres per hour (Refer also Sch. F).

SCHEDULE C  
MATERIALS AND REPAIRS

	<u>Value (1)</u>	<u>% (2)</u>	<u>Repairs/Oper.</u>	<u>Acres</u>	<u>Cost/Acre</u>
Plow	8,400	4.0	336	900	.37
Disc	8,000		320		.36
Harrows	2,200		88		.10
Rodweebers	6,000		240		.27
Drills	<u>10,600</u>		<u>424</u>	<u>    </u>	<u>.46</u>
	<u>35,200</u>		<u>1,408 (2)</u>	<u>900</u>	<u>1.56</u>

- (1) Estimated Value of Equipment - Refer Schedule E  
 (2) Estimated annual cost - represents 4.0% of replacement \* cost.  
 Includes repairs (parts and labor) chain, shears, tires, etc., allocated to operations on basis of relative value of equipment.

MATERIALS AND REPAIRS - HARVESTER

	<u>Estimated Repairs</u>	<u>No. of Acres</u>	<u>Cost/Acre</u>
Harvester	2,200 (1)	900	2.44

- (1) Estimated annual cost - represents 4.0% of replacement \* cost.

MATERIALS AND REPAIRS - TRUCKS

	<u>Miles Driven (1)</u>	<u>% (2)</u>	<u>Repairs Operation</u>	<u>Acres</u>	<u>Cost/Acre</u>
Drilling	135	3.7	38	900	.04
Hauling	<u>3,450</u>	<u>96.3</u>	<u>1,002</u>	<u>    </u>	<u>1.12</u>
	<u>3,585</u>	<u>100.0</u>	<u>1,040 (3)</u>	<u>900</u>	<u>1.16</u>

- (1) Drill 4 1/2 trips x 30 miles = 135 Haul 115 trips x 30 miles = 3,450  
 (2) 900 acres x 1 1/4 bu. ÷ 250 bu/load = 4 1/2 trips  
 900 acres x 32 bu. ÷ 250 bu/load = 90 trips  
 (3) Estimated annual cost - represents 4% of replacement \* cost.

\*Refer Schedule E.

SCHEDULE D  
MATERIAL AND REPAIRS - TRACTOR

	<u>Hours (1)</u>	<u>% (3)</u>	<u>Repairs/ Operation</u>	<u>Acres</u>	<u>Cost/ Acre</u>
Plowing	360	41.2	1,186	900	1.31
Discing	180	20.6	594		.66
Harrowing (2 times)	140	16.0	461		.52
Rodweeding	82	9.4	271		.30
Drilling	<u>112</u>	<u>12.8</u>	<u>368</u>	<u>—</u>	<u>.41</u>
	<u>874</u>	<u>100.0</u>	<u>2,880</u>	<u>900</u>	<u>3.20</u>

- (1) Estimated hours to perform operation - refer Schedule F.
- (2) Estimated annual cost - represents 4.0% of replacement \* cost.  
Includes repairs (parts and labor) oil, grease, filters, tune-ups, belts, etc.
- (3) Annual cost allocated to operations on basis of hours used.

\*Refer Schedule E.

SCHEDULE E  
SCHEDULE OF EQUIPMENT

<u>Description</u>	<u>No.</u>	<u>Total Cost</u>		<u>Life</u>	<u>Depr./ Year</u>	<u>No. of Acres</u>	<u>Depr./ Acre</u>
		<u>Feb. '76</u>	<u>Feb. '78</u>				
Plow, 6 bottom 8'	2	7,200	8,400	+	10 = 840	900	.93
Disc, 14'	2	6,600	8,000	+	10 = 800	900	.89
Harrows 36' with cart	1	1,800	2,200	+	10 = 220	900	.24
Rodweeder 30'	1	4,800	6,000	+	10 = 600	900	.67
Drill 14'	2	9,600	10,600	+	10 = 1,060	900	1.18
Harvester, hill- side, 18'	1	48,000	55,000	+	10 = 5,500	900	6.11
Truck, 2 Ton x/bed	2	19,200	26,000	+	10 = 2,600	900	2.89
Tractor, Crawler (D4D)	2	60,000	72,000	+	10 = 7,200	900	8.00
Equipment Shed (60x40 x 14)		8,800	13,000	+	20 = 650		
Granery & Elevator (10,000 bushel capacity)		10,000	9,000	+	20 = 450	900	2.46
Pick-up		4,000	5,600	+	5 = 1,120		
<b>Total</b>		<u>180,000</u>	<u>215,800</u>		<u>21,040</u>	<u>900</u>	<u>23.37</u>

SCHEDULE F  
TRACTOR USE PER OPERATION  
(To Farm 900 Acres Per Year)

	Acres/ hr.*	Hours	Factor**	Total	Acres	Depr./ Acre
Plowing	2 1/2	360	8.24	2,966	900	3.30
Discing	5	180		1,483		1.65
Harrowing	13	70		577		.64
Rodweeding	11	82		676		.75
Harrowing	13	70		577		.64
Drilling	8	112		921		1.02
		<u>874</u>		<u>7,200</u>	<u>900</u>	<u>8.00</u>

\*Average acres per hour estimated by the four wheat producers.

Start and finish piece - includes  
Normal down time for repairs, getting stuck, etc.  
Corners  
Travel to and from pieces  
Changing gears every 10 minutes

\*\*Factor  
Tractor depreciation (Sch. E)           7.200  
+ hours above                            + 874  
Depreciation per hour:                 8.24

SCHEDULE G  
OTHER DEPRECIATION AND TAXES

OPERATION <sup>⊕</sup>	Cost of Operations**	%	Other Depr.	Cost Per Acre	Taxes***	Cost Per Acre
Plowing	10.05	26.4	587	.65	1,425	1.58
Discing	5.62	14.7	326	.36	794	.88
Harrowing (2 times)	3.74	9.8	217	.24	529	.58
Rodweeding	2.91	7.7	171	.19	416	.46
Drilling	4.36	11.4	253	.28	616	.68
Harvesting	11.27	30.0	666	.74	1,620	1.82
	<u>37.95</u>	<u>100.0</u>	<u>2,220</u>	<u>2.46</u>	<u>5,400</u>	<u>6.00</u>

\*\*Other depreciation and taxes are allocated to the major operations on the basis of cost of operations before these two costs. This, of course, is strictly arbitrary and other methods could be used. This method, at least to the writer, seems to be the best.

\*\*\*Based on average of \$3 per total acres (1,800) or \$6 per acre harvested (900).

⊕ Considered the major operations performed by the wheat producer.

## SCHEDULE H

## FERTILIZER

Although several types of fertilizer are used in this area, the most common is anhydrous ammonia. The usual application is 52 units per acre @ .20/unit equal \$10.40.

## SEED

Seed is estimated at \$4.50 per acre based on the following:

Wheat	2.80
Cleaning	.80
Treating	<u>3.60</u>
	<u>x 1 1/4 (75 lbs/acre)</u>
	4.50

## SPRAYING

Spraying for weeds in the spring is usually done by a local flying service. The current rate is \$2.75 per acre.

## MISCELLANEOUS

This includes control of noxious weeds (Canada thistle, morning glory, etc.) erosion control, drainage control, travel and other and is estimated at \$3,600 (\$2.00 per total acre or \$4.00/acre harvested)

Noxious weed control	\$1.00/acre x 1,800 = \$1,800 (1 gal. Tordon \$60)
Erosion control	<u>1.00/</u> <u>1,800</u>
	<u>\$2.00</u> <u>\$3,600</u>

## INTEREST

Interest on land utilized for the production of wheat in Franklin County was valued at \$300 per acre and an annual interest rate of 8% was used with this value. 1,800 acres x 300/acre = 540,000 x 8% = 43,200.

Interest on equipment was calculated at 12% of the following formula:

$$\frac{\text{Total equipment cost} + 10\% \text{ salvage value}}{2} \times \text{interest rate}$$

## HOW TO FIGURE CROP PRODUCTION COSTS

[By Frank A. Condie]

According to a USDA report, growing a bushel of wheat in 1974 would have cost as much as \$15.56 in a low-yield area of the high plains of Texas, or as little as \$1.95 in the high-yield wheat belt of Kansas. Both of these figures include use of land at its high and low acquisition costs.

A recent study at USU shows that raising a bushel of dryland wheat in southern Idaho costs an average of \$4.14.

The components of that cost (illustrated in Table 1) are just about as applicable to other crops as to wheat. They are classified by type of farming operation as well as by type of expense.

Table 1. Components of per acre costs of producing a bushel of wheat

PER ACRE COSTS+											
TYPE OF EXPENSE	Operating							Interest			
	Direct					Depreciation		Interest			
	Labor	Fuel	Repairs	Other	Taxes	Sub Total	Total	Eqpt.	Land	Total	
TYPE OF OPERATIONS											
Plowing	1.71	.72	1.41		1.02	4.86	4.04	8.90			
Disking	.85	.36	.83		.58	2.62	2.39	5.01			
Harrowing	.66	.28	.50		.36	1.80	1.44	3.24			
Rodweeding	.38	.16	.46		.30	1.30	1.30	2.60			
Fertilizing				10.50		10.50		10.50			
Drilling	.53	.23	.80		.49	2.05	2.16	4.21			
Seed				6.00		6.00		6.00			
Trucking	1.06	.35	.85			2.26	2.14	4.40			
Spraying				2.50		2.50		2.50			
Miscellaneous				2.00		2.00		2.00			
Harvesting	1.06	.60	2.13		1.25	5.04	5.93	10.97			
Total cost per acre	6.25	2.70	6.98	21.00	4.00	40.93	19.40	60.33	16.00	48.00	124.33
Cost per bushel (30 bu. av.)	.21	.09	.23	.70	.13	1.36	.65	2.01	.53	1.60	4.14

\*Based on a 1,800-acre, dryland farm, 900 acres under cultivation each year, 900 acres in summer fallow.

Most farmers consider their direct costs for labor, fuel, repairs, taxes, and such, as fixed. That is, regardless of crop or yield these costs have to be paid. The depreciation cost for replacement of equipment is also considered fixed. In the short run, however, a farmer can consider it variable in that existing equipment can be kept operating beyond its normal life, thus postponing replacement. The interest cost is also fixed, but if the land and equipment are owned, the interest is not an out-of-pocket cost. It still must be considered, though, since the owner has forgone an opportunity to invest the money (value of the farm) in other interest-earning ventures.

A revealing figure in Table 1 is the interest cost of \$2.13 (.53 + \$11.60) per bushel. This equals 51.4 percent of the total per bushel cost. Such financial realities demonstrate why it is virtually impossible under present conditions to purchase a farm with its attendant equipment and make it pay. By contrast, if the property and equipment are inherited, interest cost is avoided and some years of low yields and low prices can be sustained.

Farmers looking for ways to develop more accurate information on their crop production costs can use Table 1 as a guide. Interest and depreciation on equipment can be lowered by using the equipment longer. This, of course, generally results in higher maintenance costs, but usually not in the same proportion.

Those wanting to lower their direct costs can only do so at the risk of simultaneously lowering their yields by such measures as cutting down on fertilizer, forgoing control of noxious weeds, etc.

In some years, some crop farmers earn substantial incomes. However, during these good years much of the money has to go into upgrading equipment. This can amount to a very sizeable figure (Table 3). These costs are up nearly 100 percent over the past six years.

Table 2. Yield and Price Combinations Needed to Recover Certain Costs

			Direct Expenses (Out of pocket)	Direct Expenses Plus Depreciation	Direct Expenses Plus Depreciation Plus Interest - Equipment	Direct Expenses Plus Depreciation Plus Interest - Equipment Plus Interest - Land
Costs			36,840	54,300	68,700	111,900
Yield	Bushels Per Acre	Total				
Low	22	19,800	1.86	2.74	3.47	5.65
Average	30	27,000	1.36	2.01	2.54	4.14
High	38	34,200	1.08	1.59	2.01	3.27
			Per Bushel Average	%		
Direct	\$36,840		1.36	32.9		
Depreciation	17,460		.65	15.7	*180,000 at 12% for 10 years = 31,860 payment Less - depreciation 17,460	
Interest - Equipment*	14,400*		.53	12.8	Interest \$14,400	
Interest - Land 8%	43,200**		1.60	38.6		
	\$111,900		4.14	100.0%	**1,800 acres x \$300 = \$540,000 x 8% = \$43,200	

Table 3. Schedule of Equipment (1975 Prices)

Description	No.	Total Cost
Plow, 6 bottom 8'	2	\$ 7,200
Disk, 14'	2	6,600
Harrows 36' with cart	1	1,800
Rodweeder 30'	1	4,800
Drill 14'	2	9,600
Harvester, hillside 18'	1	48,000
Truck 2 Ton w/bed	2	19,200
Tractor, Crawler (D4D)	2	60,000
Equipment Shed	1	8,800
Granary	1	10,000
Pick-up Truck	1	4,000
Total		\$180,000

Table 2 illustrates the yield and price combinations needed to recover all of the costs mentioned in Table 1.

The USU study shows that in 1975, for an average 30-bushel crop of wheat, a farmer would need to budget a minimum of \$2.54 per bushel to meet his normal direct depreciation and interest on equipment costs. Any price above \$2.54 would begin to return to the farmer interest on his land, and he receives an 8 percent return only when (and if) the price reaches \$4.14.

## SUPPLEMENTAL STATEMENT OF L. A. DAVIDSON, INDIAOLA, MISS.

S. 2626 would give farmers a vehicle to counter unsubstantiated contentions that some economists and USDA officials frequently develop to influence legislation and regulatory decisions that disrupt the practical farming industry to an alarming degree.

Recently the USDA position has been that a rise in food and fiber prices received by farmers would seriously elevate consumer prices and strongly increase inflation. This has been proven to be a fallacy in recent years because drastic reductions in prices received by farmers has failed to reduce consumer prices. In most instances, consumer prices rose even though the farm prices were reduced as much as 50 percent. Therefore, inflated prices to consumers are not the result of prices received by farmers or CCC backed loans. It is a proven fact that the farmer receives only a small part of the food and fiber dollar that a consumer spends. The USDA contends that landowners would reap the major benefits from a commodity price increase. Nothing could be further from the truth. The farmer renting land would be the first to benefit and his survival depends on a price increase in the near future. The landowner can borrow money on his land and stay in business as long as the lending agencies increase the value of his collateral to cover his losses.

A USDA position is that farm land prices would escalate if commodity prices received by farmers increased to reflect the cost of production. Land price increases over recent years are largely a result of monetary policies and international political situations rather than spiraling commodity prices. Land prices would have been decreasing for the last few years if they were directly related to prices farmers receive for crops.

Of all the serious considerations resulting from the present cost-price squeeze on farmers, the most catastrophic are the permanent loss of our soil, soil fertility and permanent productive capability plus the loss of the irreplaceable present day farm operators.

Farmers cannot properly rotate, fertilize and follow good soil conserving practices while they are frantically trying to realize maximum income to pay high mortgage and other production costs. They are cultivating sloping pasture land continuously until erosion and other depletion forces completely ruin the land for any productive use.

Under present laws and USDA regulations, farmers cannot use land solely for purposes to which it is best adapted, nor can they follow fertilization and cultural practices conducive to maximum production over an indefinite period. Our streams are carrying more of our soils and soil material to the ocean than ever before in America's history. Farmers cannot survive and invest in the future when the battle for existence is so overwhelming and immediate. Their only alternative is to accept bankruptcy or seek another occupation for which they are not trained or prepared.

The agricultural potential for succeeding generations is being drastically reduced every year the present situation exists. This action is irreversible.

Another irreversible action is the loss of operating farmers and their children. Farm operator development involves several intangible, non-substitutive factors. Colleges of Agriculture and directives from the Secretary of Agriculture cannot imbue the knowledge, incentive, adaptability, reasoning acumen, and the mass of stored information unconsciously ingrained in one who spends his formative years exposed to farm operations and the multitude of complex decisions that farmers face daily. No education course supplants experience in the management and operation of today's highly specialized complex farm operations. Modern operations involve application of a wide spectrum of sciences ranging from chemistry, biology and medicine to complex industrial mechanics and very sophisticated politico-economic considerations that must all be properly evaluated, integrated and programmed.

We have no surplus of farmers nor can we go to the employment agencies and fill any needs that arise in years to come. New York City, San Francisco, Detroit and New Orleans employment agencies could not provide an individual capable of operating the average farm in our area.

The age of the average American farmer is 58. That figure guarantees an immediate, significant departure rate caused by death and retirement without the impetus from increased stress, strain and exertion resulting from present catastrophic conditions.

Neither America, nor the world can afford a continuation of the rapid deterioration in the reservoir of productive farm land or the pool of farmers. The Sahara desert, much of the Mid-East area, and other regions of the world attest to the irreversible nature of natural resource destruction. Immediate action is necessary to save our present food and fiber operation from certain disaster. S. 2626 offers the best vehicle for a viable, stable farm program that has been presented since I started farming 30 years ago.

[The following material was supplied by Mrs. Espy, see p. 101 her oral testimony.]

[Reprint from American Agriculture News, Mar. 28, 1978]

#### WHO CONTROLS GRAIN?

Nita G. Robbin, Bigfork, Montana, furnished us with the following rundown of the 5 major grain companies, which control 80-90% of U.S. exported grain.

**CARGILL, INC.**—Headquartered in Minneapolis, controlled by the Cargill and McMillan families, who own 85% of its shares. Believed to be the largest privately owned American company. Tridax, its European subsidiary, is so large that by itself it ranks as one of the worlds largest grain firms. Cargill trades in grains, produces animal feed, vegetable oils, manufactures steel, mines salt, and sells insurance. It has 50 domestic offices, 100 elevators, 33 terminals, 2,000 rail cars, 5 ships, and is the world's largest soybean processor.

**CONTINENTAL GRAIN COMPANY.**—Originated in Belgium in 1813. Headquarters in New York City. Moved to the U.S. as Hitler swept across Europe. The Fribourg family owns 90% of the company shares. World's largest grain firm. Acts as exclusive agent for Australian Government in selling to South America.

**COOK INDUSTRIES, INC.**—Headquartered in Memphis, Tennessee, now acquired by Pillsbury, Minneapolis. The only Public corporation among the top 5, with the Cook family owning 35% of the company shares. Cook switched from cotton in the early 1960's.

**BUNGE CORPORATION.**—Offices in N.Y. City and all over the world. Its stock is held by a holding company in Curacao, Netherlands Antilles. Established in Argentina, 1884, and is involved in commodities, finance and shipping on every continent.

**LOUIS DREYFUS CORPORATION.**—Headquartered in Paris. A conglomerate run by two cousins, Jean and Pierre Dreyfus, with interests in banking, real estate, and shipping, as well as commodity trading.

The USDA, intimately associated with the grain firms, does not hesitate to furnish them information on planting intentions, current crop statistics, and production figures gained by the USDA. Is the USDA operating with the best intentions for the farmer? Or is it working hand in glove with the big grain companies, several of which are mostly owned by foreign interests.

[Reprinted from the Tri-State Livestock News, Apr. 22, 1978]

#### CONGRESS ASKED FOR EXPORT ACTION

WASHINGTON, D.C.—The American Farm Bureau Federation asked Congress to take prompt action on legislation to enhance the U.S.'s agricultural export position and to support multilateral negotiations aimed at liberalizing restrictive trade barriers.

Elton R. Smith, president of Michigan Farm Bureau and member of the AFBF board of directors, threw the full support of the organization's 2.8 million member-families behind the Agricultural Trade Act of 1978 (H.R. 10434) and the Agricultural Trade Expansion Act of 1977 (H.R. 10377).

He testified before a House Agriculture subcommittee.

Smith pointed out that American farm exports totaled \$24 billion last year, which equals about 25 percent of all cash receipts from farm marketings.

Saying that each dollar earned by the farmer through exports generates another \$1.33 for the U.S. economy, Smith estimated the total impact on American business activity last year at \$50 billion.

## WHAT A BUSHEL OF WHEAT BUYS TODAY

If the average wheat farmer is in the same kind of squeeze as Delynn Peterson of Kimball, Nebraska trouble down on the farm is serious indeed.

Peterson took the trouble to talk with various merchants about price hikes in recent years, then added his own table on how much some of these items would cost if they were being paid for in bushels of wheat.

He started with real estate taxes on his land. In 1961, he says, taxes on one section of his land were \$438. Ten years later they had more than doubled and in 1977 they had more than tripled to \$1,495.17.

How to pay for it in wheat? Well, back in 1973 when his wheat was bringing \$3.03 a bushel, it would have taken 435.50 bushels to pay taxes on the section. In 1977, with wheat bringing him \$1.93 a bushel, it would have taken 754.40 bushels to pay the taxes on the same section of land.

Other prices went along with taxes. Freight rates per bushel nearly doubled from 1967-77. Storage rates rose from  $\frac{1}{2}$  cent per bushel to 2 cents.

A tractor that had cost \$10,500 in 1969 is now \$23,000 or 3,465 bushels of wheat in 1969 against 12,020 in 1977.

\* \* \* \* \*  
 Back in 1972, a 6-bottom 16-inch plow cost \$1,650 or 561 bushels of wheat. Today it's \$4,525 in cash or 2,344 bushels of wheat.

Fertilizer that cost from \$55.60 to \$105 a ton in 1972 now ranges from \$118.95 to \$200 a ton. It would take about three times the number of bushels of wheat to buy it today over 1972.

A gallon of 2-4D herbicide has tripled in price since 1970, now bringing \$9 a gallon. Aerial spraying is up from \$1.35 to \$2.25 an acre.

Need a grain drill. In 1970 it was \$1,143 cash or 528 bushels of wheat. Today? \$3,000 cash or 1,544 bushels of wheat.

A combine for your harvest? In 1969 a combine with gas engine, no cab and a 19-foot head was \$9,800 or 3,234 bushels of wheat. Now? Essentially the same combine is \$30,800 in cash or 15,958 bushels of wheat.

How about a grain bin to store the wheat? One that will hold 5,860 bushels, maybe? In 1970 it was being sold for \$1,595, but today it's more than doubled at \$3,275. Figured in cost per bushel of the capacity, it was 27.2 cents in 1970, compared to 55.8 cents in 1977.

A pickup that was \$3,704 in 1967 is now \$6,554.

A bag of ready mix concrete that sold for \$12.65 in 1969 is \$30 today.

LP gas that cost 11.8 cents a gallon in 1970 is now 38.9 cents and diesel (No. 2) followed suit at 14.8 cents and 44.8 cents in 1970 and 1977, respectively.

If you want to have your underpriced wheat custom harvested, it would have cost \$14.50 an acre back in 1970, but \$34.12 an acre in 1977.

It even costs you more to get the bad news about farm prices. In 1971 a year's subscription to a newspaper was \$17, compared with \$42 in 1977.

If all this worry about the cost-price squeeze puts you in the hospital, you'd have been better off to have gone back in 1973. The wheat equivalent was 10.89 bushels per day. In 1977 you'd have been charged 35.23 bushels.

About the only necessity on the farm that didn't go skyhigh during the period from 1969 to 1977 was electricity for the Peterson home. Peterson's bill for household electricity was .0223 cents per kilowatt hour in 1969, but it edged up slightly to .0235 cents a kilowatt hour in 1977.

And, finally, let the record show (again) that while the prices Peterson and other farmers paid doubled, tripled and more, the prices they got for their wheat moved steadily downward.

During most of 1973, the wheat price held pretty steady at the Kimball County Grain Co-op at \$3.03 a bushel. It made a jump to \$3.85 a bushel in February, 1974, then dropped more than a dollar a bushel beginning in February 1975.

By February 1, 1976, it was down to \$2.65 a bushel and from February 1, 1977 to the end of the year it stood at a very uneconomical \$1.93 per bushel.

Moral? We suppose the farmers are the only businessmen who allow the prices for their products to seek their own level, while others are in terms of the economist, "managing" their prices.

Why? Because the American farmer has never been able to get together with other farmers to do something about it. Worse, he has not used the best vehicle at his command to keep prices above the breakeven point—his local farmer cooperative—reprinted from Rural Electric Nebraskan.

TREATY ENCOURAGES FOREIGN INVESTMENT IN U.S. FARM LANDS; WOULD INCREASE LOCAL TAX BURDENS

The U.S. Senate Foreign Relations Committee Tuesday reported the proposed United Kingdom Tax Treaty (Exclusive K 94-2) to the full Senate and there were indications at press time that proponents would seek to sneak the Treaty through the Senate next week before farmers of the nation became aware of a dangerous provision, Article 9(4).

Article 9(4) would have the effect of encouraging foreign investment in U.S. farm lands and would tie the hands of state income tax departments so that multinational oil, grain and other firms would be able to escape an estimated \$500 million in income tax liabilities, shifting the burden to other taxpayers.

Senator Frank Church (Idaho) tried unsuccessfully in the Senate Foreign Relations Committee to delete Article 9(4) from the Treaty and is expected to do so again when the Treaty reaches the Senate floor. It will take 51 votes to amend the Treaty, but only 34 votes to block ratification since a Treaty requires a two-thirds vote for final approval.

While this particular treaty deals only with the United Kingdom, approval of Article 9(4) would become a precedent for other tax treaties, it is feared.

About 30 Senators are on record as opposing Article 9(4). However, many Senators from agricultural states are still uncommitted on the treaty.

The \$1 billion invested by foreigners in U.S. farm land in 1977 may have only been the "tip of the iceberg," Reuben L. Johnson, director of legislative services for National Farmers Union, told the U.S. Senate Commerce Committee Wednesday. The Farmers Union testimony supported a proposed federal monitoring program on foreign investment in American farm land.

Johnson said that efforts of various states to deal with the problems of alien and corporate invasion of agriculture are hindered by the difficulty of discovering the real owners of purchased land. The acquisitions are often concealed through brokers, trustees, or corporate fronts, he added.

The Farmers Union statement deplored a universal official ignorance of the facts.

"It is unfortunate that no one seems to know any more about the land purchases than what they read about them in the newspapers," Johnson said. "It is intolerable that neither the Congress, nor government agencies, nor the general public are able to get at the truth about alien and corporate ownership and operation of U.S. farms."

A federal monitoring program would help the states in supplementing their own data collection programs, in considering the basis for constructive legislation, and in enforcing current statutes on the subject, Johnson stressed.

He reported that Farmers Union spearheaded legislation dealing with alien and corporate farm land ownership in seven states during the past ten years and that seven more states have had such laws or disclosure requirements under consideration during 1977 and 1978.

"This trend will accelerate if the reports of widespread land purchases by foreign investors continues to persist," he told the committee.

Farmers Union contended that foreign capital investments in America not only are not needed but, "in fact are disruptive," and tend to inflate land values in the selected areas in which the foreign acquisitions are concentrated.

FOREIGNERS BUYING U.S. LAND—"CHEAP FOOD POLICY" BEGINNING TO BACKLASH

(By Robert G. Lewis, Secretary and Chief Economist of the Farmers Union)

Foreigners are using the cheapest dollars since the American Civil War to buy up American real estate.

Der Stern, a leading news magazine in West Germany, estimates that West Germans have bought more than 44,000 square miles of foreign real estate, most of it in the United States.

This is about equal to the amount of land that Germany lost as a result of World War II.

Other European publications report that one-quarter of all farmland sales in the United States involve foreign buyers. Because many sales are carried out by third parties, the actual buyer of land in the U.S. often remains unknown.

The circumstances that account for this development arise substantially from American government policy. Pricing American grain at less than one-half of to one-third the current price within the countries that import it, and far below

the American farmers' cost of production, accounts for the willingness or necessity of many American family farmers to sell their land. And this same U.S. policy of giving our grain away so cheaply is an important factor in making U.S. dollars so cheap for the foreigners who are buying up American farms.

In 1977 Americans spent \$27 billion more for imported goods than we charged foreigners for what we sold to them. This "balance of trade" deficit was the largest in history, about five times the previous record.

This year we are heading for a still bigger total deficit unless our national economic policy is changed. The size of the trade deficit is the main reason that the U.S. dollar's value has dropped so low.

The prices American farmers have received for grain over the past year are the lowest in purchasing power in all history—excepting only 1931 and 1932.

This a self-inflicted wound. It is the U.S. Government that sets the price we get the grain we sell. More than half of all the grain that crosses national borders into world trade comes from U.S. farms, and the other exporting countries follow our prices up or down. The price support loan rate that is offered to American farmers for keeping their "surplus" grain in storage until it's needed to offset a short world crop sets the effective "floor" below which U.S. farmers won't have to sell their grain. That becomes the "floor" for the world market, and prices don't rise above it unless there is an actual or anticipated shortage.

All the other grain exporting countries want higher prices for their farmers, and their government grain marketing boards would all raise their selling prices to match a higher U.S. price. They would also store their share of the overall world "reserve" to help maintain prices at a higher level.

If we had priced our agricultural exports at the average of the last five years, we would have collected \$5 billion more for what we sold in 1977. If our exports had been priced at parity, our earnings would have been more by \$10 to 12 billion. Such extra earnings from farm exports would have made a big dent in the \$27 billion trade deficit.

But the U.S. keeps the grain price down, keeps the U.S. farmers broke, and thereby contributes to keeping U.S. dollars cheap for the foreigners who are buying our land.

Foreign bankers and financiers and speculators see our persistent trade deficit. They see us giving away our grain at the cheapest price since the crash of the 1930's. They think maybe we have gone off our rocker over here. They lose confidence in our national good sense, and that makes our dollars cheap.

American farmland still seems like a good buy to rich people who don't have to make money on all of their investments. Many of these people—in Europe, in Latin America, in Arab countries—fear that there will be a worldwide political and economic collapse similar to what happened in the 1930's. This creates the hoarding psychology that has resulted in bidding up the price of gold (only \$35 per ounce a few years ago) to over \$180 recently.

Wealthy people who want a safe place to store part of their wealth are willing to buy gold even though it costs them money to pay for storage and for guarding it. They will also buy farmland and other real estate in the U.S. even if it doesn't earn enough to pay interest and taxes. When commodity prices are forced down so low that young working farmers cannot pay interest and make a living, only the rich hoarders can afford to buy farms.

The irony of it is that the Carter Administration's short-sighted cheap food policy is already beginning to back-lash, both economically and politically. The cheapening of the U.S. dollar is raising the cost of imported goods, and is now adding more to the cost of living than cheap food takes it down.

No. 1

# AG FACTS EVERYONE SHOULD KNOW

## The potential of wheat



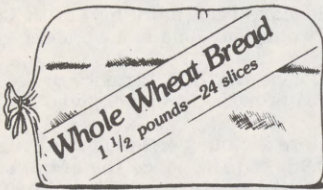
1 bushel



48—1 1/2 pound loaves of whole wheat bread

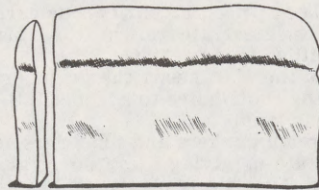
## Slicing the bread loaf

Wheat price: \$2.40/bu. Bread price: 65¢/loaf



65¢  
Store Price

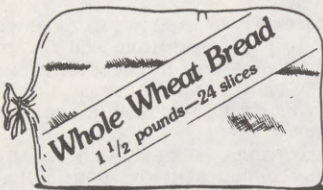
=



5¢      60¢  
To the Farmer      To all other interests

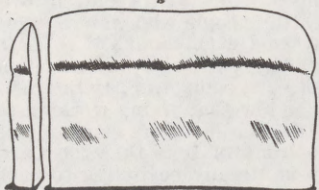
## Slicing the bread loaf again

Wheat price: \$2.88/bu. Bread price: 66¢/loaf



66¢  
Store Price

=



6¢      60¢  
To the Farmer      To all other interests

AG FACT: A 48¢ increase in the per bushel price of wheat would increase bread prices by only 1¢

[Reprinted from The Dakota Farmer, Aberdeen, S.D.]

#### MEAT IMPORTS SEEN SUBSIDIZING EXPORTS OF U.S. FARM MACHINERY

HOVEN—Meat imports are subsidizing exports of American-made farm machinery at the expense of the cattleman, Vernon Rausch, a spokesman for the Dakotas Concerned Cattlemen task force, said today.

William F. Toohey, general manager of Farrell Shipping Lines, testified at the International Trade Commission hearing in Washington, D.C., that their vessels that hold meat to minus 10 degrees for shipping "are very expensive to build and maintain."

The Farrell ships were remodeled in 1968 by the Litton Systems, Inc., at a cost of \$21 million each to carry 6,031 tons of meat. The shipyard which built them, however, received a construction differential subsidy from the government of 54.7 percent each.

After subsidy, the vessels then cost Farrell Lines \$9.5 million each. The new vessels reduced turnaround time from 134 days to 70 days. This nearly tripled the vessel capacity and cut trip time in half, Rausch said.

Toohey stated in his written testimony: "There is virtually no southbound frozen cargo so the refrigerated capability of these vessels is only one way. The space, however, is utilized for southbound general cargo, non refrigerated."

"The reason there is no southbound cargo that is frozen is because countries that have meat quotas with the United States have embargoes against our beef. So, shipping companies look for a backhaul," Rausch said.

Under cross examination at the ITC hearing, shipping lines representatives said that American made farm machinery was a major cargo.

Rausch said Farrell Lines was subsidized \$46 million for ship refrigeration to make it possible to haul imported meat. This in turn resulted in making shipment of farm equipment possible, and at a lower, backhaul price.

As a result, Rausch says, imported meat that competes directly with domestic cow and cull beef has been subsidized.

"The very products we as cattlemen must compete with then allows machinery companies alternate markets. Producers end up paying more for machinery and get less for their products."

ESPY RANCH, Inc.,  
BOYES, MONT.

DEAR SENATOR HELMS: I am sending you three Enter Price Cost of Cow-Calf Ranch Studies by Dr. Jim Cornelius of M.S.U. and the Extension Service at Bozeman, Mont. We Ranch is Powder River County (one of the studies) and Carter Co. The studies are conservative in nature and many ranchers are carrying even larger debt loads—also the real estate loans are often for 40 years not 20 as stated—many ranchers that owned their land debt free in 1973 are now into their equity by \$100,000 to \$500,000.

I felt these studies were more complete and more of an average than mine—I hope they will be of help to you.

We are very upset over the President's increase in meat imports—It is a real "slap in the face" to an industry that has not received any aid during these past four or five years—and I have to add did not ask for aid except through the strengthening of import laws—how one industry can be singled out as a culprit for inflation, while the Government continues its deficit spending and foolish international participation is most alarming—I do believe we need that "American Disk" at the State Dept. that you mentioned at the hearings.

Hope these cost studies will be of benefit.

Sincerely,

NANCY ESPY.

[The cost studies follow:]

ENTERPRISE COSTS FOR A 250-HEAD COW-CALF RANCH  
OPERATION IN BLAINE COUNTY

by

Jim Cornelius<sup>1/</sup>Situation

During the past few years, the range beef industry in Montana has undergone a period of extreme economic instability. Although much of this instability resulted from volatile cattle prices, rapidly increasing costs of production have contributed to the problem.

The economic outlook for the cow-calf man continues to be clouded with uncertainty, both good and bad. These conditions emphasize the critical importance of sound ranch management. A thorough understanding of enterprise costs and budgeting provides the rancher with a valuable input to management decisions.

Objectives

The objectives of this study are to:

- 1) Gather and analyze production and economic data for a cow-calf enterprise in Blaine County.
- 2) Construct representative cost estimates for a typical ranch operation in this area.
- 3) Provide operators with a procedure for evaluating the feasibility and profitability of range beef enterprises.

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4) Identify the important enterprise cost variables which influence profitability.

#### Source of Data

The information used in this study was obtained from livestock producers in Blaine County during the spring of 1977. Where practical and realistic, data from existing enterprise budgets were also used.

Variations among individual operations in the county are considerable. The assumptions made to establish a "typical operation" required some generalizations and the estimates used may not be appropriate for some ranches. As such, individual operators may wish to substitute different cost estimates in the space provided, based on their own herd size, acreage, and operating practices. The figures provided serve mainly as a guide.

#### Assumptions of the Study

Major assumptions used in this study to identify a typical cow-calf operation include the following points:

1) The enterprise is a 5,775-acre, deeded, cow-calf operation in Blaine County. This land is divided into 200 acres of improved pasture, 175 acres of irrigated hayland, and 5,400 acres of native pasture. In addition, roughly 600 AUM's of summer grazing are leased from the BLM and area Indian Reservations. The overall business unit includes a farming enterprise of roughly 1,000 acres of cropland in addition to the cow-calf operation.

2) The breeding herd consists of 250 cows and ten bulls. Ten

percent of the cow herd is culled yearly. Bulls are replaced on a four-year basis. In addition, 50 replacement heifers are held back from each calf crop for annual culling and mortality of brood cows. This inventory results in a total of 300 cow units (C.U.).

3) A 90 percent calf crop is obtained (calves weaned  $\div$  cows wintered).

4) The herd is wintered for  $4\frac{1}{2}$  months on a ration of forage hay and straw which is produced on the ranch. In addition,  $1\frac{1}{2}$  months of crop residue grazing is utilized in the fall and spring. For the balance of the year the herd is grazed on either leased or owned rangeland.

5) The ranch owner-operator has a mortgage on machinery and real estate of roughly \$100,000. Annual interest is charged at 9% of the average value (\$47,581) of this debt. Initially, it is assumed that no debt is owed on the land, although later four varying situations are evaluated. All short term annual cash operating capital is borrowed.

6) Fall marketing weights of weaned calves are 430 pounds for steers and 410 pounds for heifers.

7) Cattle prices and costs of ranch inputs reflect market conditions during the fall and winter 1976-77, in this study area.

#### Interpreting the Results

Annual cost estimates for the 250-head cow-calf enterprise in Blaine County are summarized in Table 1. Three major cost

TABLE 1. ANNUAL COSTS FOR BLAINE COUNTY COW-CALF OPERATION WITH 250 COWS, 1977

COST ITEM	ANNUAL COST	COST PER	YOUR
		C.U. (300)	ESTIMATES
	(\$)	(\$)	(\$)
<b>I. CASH OPERATING COSTS</b>			
Purchased Feed <sup>1/</sup>	2,775.00	9.25	_____
Seed, Fertilizer, Twine	2,000.00	6.67	_____
Vet and Medicine	800.00	2.67	_____
Hired Labor <sup>2/</sup>	3,500.00	11.67	_____
Fuel and Oil	5,000.00	16.67	_____
Repairs & Maintenance			_____
- Buildings	50.00	.16	_____
- Fences	300.00	1.00	_____
- Corrals	50.00	.16	_____
- Machinery	1,750.00	5.83	_____
- Water Facilities	50.00	.16	_____
Utilities	600.00	2.00	_____
Insurance	1,250.00	4.17	_____
Taxes	4,000.00	13.33	_____
Marketing Cost	750.00	2.50	_____
Miscellaneous Overhead	225.00	.75	_____
	<u>23,100.00</u>	<u>77.00</u>	_____
Interest on Operating Capital <sup>3/</sup>	1,039.50	3.47	_____
Interest on Machinery & Real Estate Debt <sup>4/</sup>	<u>4,282.31</u>	<u>14.27</u>	_____
<b>Total Cash Operating Costs</b>	<u>28,421.81</u>	<u>94.74</u>	_____
<b>II. NON-CASH COSTS</b>			
Owner's Labor <sup>5/</sup>	5,100.00	17.00	_____
Return to Management (5% Gross Sales)	<u>1,955.44</u>	<u>6.52</u>	_____
<b>Total Non-Cash Costs</b>	<u>7,055.44</u>	<u>23.52</u>	_____
<b>III. NON-CASH OVERHEAD COSTS</b>			
Depreciation	7,898.25	26.33	_____
Interest on Investment <sup>6/</sup>			_____
Real Estate	59,937.50	199.79	_____
Cow Herd	<u>5,250.00</u>	<u>17.50</u>	_____
<b>Total Non-Cash Overhead</b>	<u>73,085.75</u>	<u>243.62</u>	_____
<b>IV. TOTAL ANNUAL COSTS</b>	<u>108,563.00</u>	<u>361.88</u>	_____

<sup>1/</sup>Includes public grazing fees for 598 AUM's (see Table 2).

<sup>2/</sup>Salary of hired hand is split evenly between crop and livestock enterprises.

<sup>3/</sup>9% for 6 months on all cash costs.

<sup>4/</sup>9% of outstanding average value on intermediate and long term debt (see Table 4).

<sup>5/</sup>Full time operator-manager receives 1/2 yearly income from cow-calf enterprise and 1/2 from crop enterprise.

<sup>6/</sup>7% "Opportunity Cost" charged to the capital invested in real estate and cow herd.

groupings listed are: 1) cash operating costs; 2) non-cash costs; and 3) non-cash overhead costs.

Cash operating costs are simply the annual out-of-pocket expenses incurred in this enterprise. Included in this category are interest charges on all borrowed capital. Major cost items include fuel and oil, interest, taxes, labor, and purchased feed. Several categories (labor, machinery) can be split between the livestock and cropping enterprises, which reduces the livestock operation costs somewhat.

Non-cash costs as used here refer to the value of the operator-manager's labor, plus a nominal return to management of 5% based on gross sales. The salary level shown is somewhat arbitrary, but should reflect what the operator-manager could earn in alternative employment with equivalent responsibility. The owner's labor and returns to management are treated as non-cash costs because they are not normally out-of-pocket expenses. That is, the owner-manager will continue to work in the short run even though he may be unable to pay himself what he is worth. However, if the owner-manager must rely upon his salary for family living expenses, which is often the case, these expenses then become out-of-pocket expenses thus increasing cash flow requirements of the enterprise.

Non-cash overhead costs comprise the largest segment of annual costs. Depreciation and investment costs are also considered as non-cash expenses, since they need not be covered in the short run in order to stay in business.

It is important to recognize that all productive inputs, whether purchased or owned, are valued and charged as costs to the enterprise accordingly. Thus, even if an operation is "debt-free", interest costs must be charged as representing the "opportunity cost" of the owner's money had it been invested elsewhere. Given the large land investment required by the cow-calf enterprise there is a proportionally large opportunity cost of the real estate investment. To some degree, the opportunity cost of land is lessened by rising land values. However, unless land is sold and the appreciation realized, the opportunity cost is not reduced.

The effect of these accounting procedures will naturally tend to increase--on paper--the costs of production. For this reason, a distinction is made between "short-run" out-of-pocket variable costs which must be covered each year, and fixed costs which must be covered in the "long run", but not necessarily each year.<sup>2/</sup>

The opportunity costs placed on invested money, owner's labor, and so forth, can usually be considered as long-run expenses in the sense that these are relatively fixed, non-cash costs accruable to a given operation. Some operators may not include the opportunity cost of fixed investment when determining short-run break-even prices. In the long run, however, the owner should consider all such costs in assessing the overall and relative profitability of an enterprise.

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<sup>2/</sup> For purposes of economic analysis, the "short run" is considered to be the time interval over which the size and scope of a business activity cannot be changed; normally a year or less. In the "long run", the size, location, etc. of an enterprise or investment can be changed.

In summary, there are two categories of costs which the operator deals with. First, there are short-run operating costs which must be paid over the course of the year. These dictate the cash flow requirements of the enterprise. If these cash costs cannot be paid, the enterprise will very likely fail. Secondly, there are non-cash overhead-type expenses which are incurred during the course of yearly operations. These costs will exist whether the cow-calf operation succeeds or fails. As a result, non-cash costs are not so vital in yearly break-even figures, but must be considered in long term financial decisions.

As shown in Table 1, total cash operating costs amount to \$94.74 per cow unit per year. The combined non-cash costs come to \$267.14 per cow unit per year. Total annual costs are the sum of these two; \$361.88 per cow unit per year. Annual herd feed requirements and costs are given in Table 2.

Table 3 details the annual livestock inventory, production and sales receipts. Based on Fall 1976 prices, gross receipts for this enterprise amount to \$39,109, or \$130.36 per cow unit. Clearly, revenue per cow unit is less than total costs per cow unit. However, revenues will cover cash flow requirements as given by cash operating costs (\$94.74). This suggests that in the short run, the operator can stay in business, even though he is not covering all costs.

Table 4 is a complete listing and budgeting of the capital investment in this operation. The magnitude of annual net earnings

is given in Table 5. Returns over operating costs equal \$10,687, but when non-cash costs are included the net return to management is a loss of \$67,499. This results in a minus 0.5% return on capital investment (Table 6). In other words, annual losses are creating a negative return on the capital invested. Most of this loss is attributable to the non-cash opportunity cost of the land investment.

The derivation of break-even costs is shown in Table 7. The average selling price per cwt. is based on total livestock sold, including calves, cull cows, yearling heifers, and bulls. In 1976 this averaged out to \$32.84 per cwt. for the 1191 cwt. of cattle sold. To cover all annual costs would have required an average price of \$91.15 per cwt. As a result, the owner of this hypothetical ranch was losing about \$250 on every calf he sold. Overlooking the possibility of a dramatic increase in beef production given these same costs, cattle prices would have to nearly triple to cover all costs. If the opportunity cost of land is excluded from these cost figures, the resulting loss is about \$3.50 per cwt., or roughly a \$15 loss per calf sold.

#### Varying the Real Estate Debt Situation

For simplicity, the foregoing analysis assumed that no debt was owed on deeded land used in the ranching operation. Now, three additional real estate debt load situations are added to demonstrate the critical role of ranch debt position to economic viability of the enterprise, particularly cash flow requirements (Table 8).

Case 1 is that situation assumed at the outset of this study;

no debt is owed on the ranch's deeded acreage.

Case 2 is the same ranch operation, but with a \$100,000 land debt at 5½% interest borrowed in 1955 to be amortized over a thirty-year term.

Case 3 is the same ranch operation with a \$250,000 land debt at 7% interest borrowed in 1971 to be amortized over a thirty-year term.

Lastly, Case 4 is a present year loan on the same ranch operation with a twenty-year \$856,250 contract for deed on the land at 8% interest with 29% down at current land values. This results in an outstanding mortgage of \$607,938.

Whereas in Case 1 land cost appeared only as a non-cash overhead "opportunity cost", in Cases 2, 3 and 4 the land debt loan repayment becomes an addition to cash flow requirement. The influence of land debt is shown in Table 9. Although a substantial land debt decreases the opportunity cost of land investment (opportunity cost accrues only to equity), the off-setting increase in cash flow requirements to service the debt is more detrimental to the economic survival of the enterprise.

Case 4 is burdened with land interest payments alone of \$162 per cow unit. When combined with other cash costs, the Case 4 enterprise has total cash flow requirements of \$300 per cow unit, while revenues are only \$130 per cow unit. In the absence of some sort of outside income, the Case 3 and 4 ranches cannot survive on their own for even a year.

The Case 2 ranch is meeting cash flow requirements, but with little revenue left over to cover overhead costs. In the long run this ranch is also facing failure unless the situation improves.

#### Summary

This study has examined the costs of a cow-calf ranching enterprise in Blaine County. To illustrate accounting procedures and cost relationships, various assumptions were made in order to establish a representative ranch operation. As such, the cost and revenue estimates derived are only applicable given the assumptions listed, and should not be routinely considered as average or normal costs. Individual operators are encouraged to substitute their own estimates of costs and operating variables in the space provided. An on-going, organized farm records system will allow the manager to keep a close watch on his enterprise budgets.

Unfortunately, even the best record system or the best management cannot guarantee a profitable enterprise. This study has shown that a typical cow-calf operation with a very modest debt load was losing nearly \$15 per calf sold at Fall 1976 cattle prices, given current cash operating costs, depreciation, owner's labor, and management. If the opportunity cost of capital invested in land and the cow herd is included, total losses per calf approach \$250.

On the optimistic side, revenues are sufficient to cover

cash operating costs, and therefore meet the yearly cash flow requirements necessary to stay in business, even though long-term losses will be mounting.

The economic situation becomes more critical when the real estate debt is increased. This is because expenses which were opportunity costs in a debt-free ranch now become cash interest costs to service the debt. These interest charges must be paid annually. With a moderate, fairly typical real estate debt load (\$931 per cow unit long-term debt as described in Case 3), the revenue generated is insufficient to cover basic cash flow requirements. As a result, any plans for expansion or capital investment which will increase cash operating costs must be carefully examined.

The investment in rangeland is a key variable in the overall financial stability of the cow-calf enterprise. Rapidly rising land prices and the associated real estate debt during the past five years have contributed greatly to increased production costs. However, the resulting appreciation of rangeland investment presents an incentive for continuing ranching operations quite apart from the profitability of the cow-calf enterprise.

TABLE 2. FEED REQUIREMENTS AND COSTS

Feed	Livestock		Feeding		Feed Requirements		Home Crown		Purchased		
	Animal	# Head	Feeding Period	Amt./Day <sup>1</sup> /Period	Amount/Period	Total	Quantity Unit	Value (\$)	Quantity Unit	Price/Unit (\$)	Total Cost (\$)
Alfalfa Hay	Cows	250	6 1/2 mo.	15 lb.	1.1 T	253 T					
	Heifers (yearlings)	50	6 1/2 mo.	15 lb.	1.1 T	51 T					
	Bulls	7	6 1/2 mo.	30 lb.	2.2 T	14 T					
	Horses	3			2 T	6 T					
Subtotal						324 T	324 T	40.00		12.960	
Barley (Oats) <sup>2/</sup>	Heifers (yearlings)	50	6 1/2 mo.	2 lb.	270 lb.	6.75 T					
	Horses	3				1.25 T					
	Subtotal					8.0 T	8 T	90.00		8.00 <sup>3/</sup>	64.00
Salt & Minerals	All Stock					5.5 T				5.5 T 58.00	319.00
Range	Cows	250	6 mo.	1.0 AU	6 ADM	1500 ADM	1000 ADM			500 ADM	
	Heifers (yearlings)	50	6 mo.	.7 AU	4.2 ADM	210 ADM	140 ADM			70 ADM	
	Bulls	10	6 mo.	1.4 AU	8.4 ADM	84 ADM	56 ADM			28 ADM	
	Subtotal					1794 ADM	1196 ADM			598 ADM 4.00 <sup>4/</sup>	2392.00
Crop Residue	Cows	250	1 1/2 mo.	1.0 AU	1.5 ADM	375 ADM	375 ADM				
	Heifers (yearlings)	50	1 1/2 mo.	.7 AU	1.1 ADM	53 ADM	53 ADM				
	Bulls	10	1 1/2 mo.	1.4 AU	2.1 ADM	21 ADM	21 ADM				
Subtotal					449 ADM	449 ADM	5.00	2.245			
Total Cost Purchased Feeds											2775.00

<sup>1/</sup> Average amount over the indicated period.<sup>2/</sup> Produced as a rotation crop on hayland.<sup>3/</sup> \$8/ton charge for grinding feed grain.<sup>4/</sup> 1976 average of ELM and Reservation summer grazing leases.

TABLE 3. LIVESTOCK INVENTORY, PRODUCTION AND SALES

Livestock	Beginning of Year		To Be Purchased		Head		Head		Average		Total		Market	
	(No.)	(\$)	(No.)	(\$)	Born	Died	Sold	Weight	(Lbs.)	(Lbs.)	(Lbs.)	Price	Price	Receipts
Cows	250	75,000				3	25	1,000	25,000	20				5,000.00
Replacement Heifers	50	12,500				1	21	700	14,700	30				4,410.00
Bulls <sup>3/</sup>	7	5,250	3	2,250			3	1,800	5,400	30				1,620.00
Steer Calves					116	3	113	430	48,590	40				19,436.00
Heifer Calves					115	3	62	410	25,420	34				8,642.80
Total	307	102,750	3	2,250	231	10	224		119,110					39,108.80
								Total Revenue						39,108.80
								Revenue Per Cow Unit (300)						130.36
								Average Price Received Per Cwt. <sup>3/</sup>						32.84

<sup>1/</sup> Representative Fall 1976 prices received by Montana ranchers.

<sup>2/</sup> Three bulls are purchased and three sold this and every other year; on alternating years two bulls are purchased and two sold.

<sup>3/</sup> Based on total live weight sales of 1191 cwt.

TABLE 4. CAPITAL INVESTMENT

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Item	Replacement Value (\$)	Average Value (\$)	% Due to Cow-Calf	Average Value Due to Cow-Calf (\$)	Useful Life Yrs.	Depreciation Straight Line (\$)	Annual Cost Interest on Debt 9% 1/7 (\$)	Annual Opportunity Cost of Investment 7% (\$)
<b>Machinery &amp; Equipment</b>								
Tractor-Diesel (new)	18,000.00	2,700.00	50%	3,835.00	10	765.00	345.15	
Tractor w/loader (used)	5,500.00	3,025.00	75%	2,268.75	6	618.75	204.19	
Truck 3/4T 4WD (new)	7,500.00	5,000.00	90%	4,500.00	5	900.00	405.00	
Truck 15' (used)	5,000.00	2,875.00	100%	2,875.00	5	850.00	258.75	
Swather (SP)	7,500.00	4,125.00	100%	4,125.00	10	675.00	371.25	
Baler (PTO)	6,000.00	3,300.00	100%	3,300.00	10	540.00	297.00	
Bale Wagon (PTO)	9,000.00	4,950.00	100%	4,950.00	10	810.00	445.50	
Hay Trailer	500.00	50.00	275.00	275.00	10	45.00	24.75	
Disc - 12'	2,500.00	250.00	20%	275.00	10	45.00	24.75	
Plow - 2-way	1,000.00	550.00	20%	110.00	10	18.00	9.90	
Drill - 10'	1,250.00	125.00	20%	137.50	10	22.50	12.38	
Horses (3)	2,100.00	210.00	100%	1,155.00	10	189.00	103.95	
Bulls (10)	7,500.00	5,400.00	100%	1,050.00	4	525.00	94.50	
Misc. Shop	5,000.00	2,750.00	50%	1,375.00	10	225.00	123.75	
Subtotal	78,350.00			30,231.25		6,228.25	2,720.81	
<b>Buildings &amp; Improvements</b>								
Barn	4,000.00	2,000.00	100%	2,000.00	20	200.00	180.00	
Shop	5,000.00	2,500.00	100%	2,500.00	20	250.00	225.00	
Corrals (2)	6,700.00	2,350.00	100%	3,350.00	10	670.00	301.50	
Fence (20 miles)	15,000.00	9,500.00	100%	9,500.00	20	550.00	855.00	
Subtotal	30,700.00			17,350.00		1,670.00	1,561.50	
<b>Land</b>								
Range (5400 A)	675,000.00	675,000.00	100%	675,000.00			47,250.00	
Improved Pasture (200A)	50,000.00	50,000.00	100%	50,000.00			3,500.00	
Irrigated Hay (175 A)	131,250.00	131,250.00	100%	131,250.00			9,187.50	
Subtotal	856,250.00			856,250.00			59,937.50	
TOTAL	965,300.00			903,831.25		7,898.25	4,282.31	59,937.50

L Interest charged at 9% of average value on outstanding debt due to cow-calf enterprise (Column 5).

TABLE 5. INCOME, COSTS AND EARNINGS SUMMARY, 1976

## LIVESTOCK SALES (Table 5)

113 Steer Calves	\$ 19,436
62 Heifer Calves	8,643
46 Cull Cows and Heifers	9,410
3 Bulls	<u>1,620</u>
GROSS RANCH INCOME <sup>1/</sup>	39,109
Less: Cash Operating Costs (Table 1)	<u>28,422</u>
RETURN OVER OPERATING COSTS	10,687
Less: Depreciation	<u>7,898</u>
RETURN TO OPERATOR'S LABOR, CAPITAL INVESTMENT AND MANAGEMENT	2,789
Less: Operator's Labor	<u>5,100</u>
RETURN TO CAPITAL INVESTMENT AND MANAGEMENT	(-2,311)
Less: Opportunity Cost of Capital Investment @ 7%	<u>65,188</u>
RETURN TO MANAGEMENT	\$(-67,499)

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<sup>1/</sup>Based on 1976 prices received.

TABLE 6. RETURN ON INVESTMENT

LIVESTOCK SALES	\$ 39,109
Less: Cash Operating Costs	<u>28,422</u>
RETURN OVER OPERATING COSTS	10,687
Less: Labor and Management Depreciation	<u>7,055</u> <u>7,898</u>
RETURN TO CAPITAL INVESTMENT	(-4,266)
EQUITY CAPITAL INVESTED <sup>1/</sup>	931,250
PERCENT RETURN ON CAPITAL INVESTMENT	(-0.5%)

<sup>1/</sup> Includes real estate and cow herd.

TABLE 7. BREAK-EVEN ANALYSIS

	Cost \$/Cwt. (\$)	1976 Average Price/Cwt. <sup>1/</sup> (\$)	Net Returns/Cwt. (\$)
Average Selling Price Per Cwt. Necessary to Cover: <sup>2/</sup>			
1. All Cash Costs	23.86	32.84	8.98
2. All Cash Costs Plus Depreciation	30.50	32.84	2.34
3. All Cash Costs, Depreciation, Owner's Labor and Management	36.42	32.84	(-3.58)
4. All Annual Costs	91.15	32.84	(-58.31)

<sup>1/</sup> Based on total cattle sales from ranch (see Table 3).

<sup>2/</sup> Based on total yearly sales of 1191 cwt. beef (see Table 3).

TABLE 8. DEBT SERVICE DATA FOR FOUR REAL ESTATE DEBT SITUATIONS, BLAINE COUNTY  
250-HEAD COW-CALF ENTERPRISE

	Case 1	Case 2	Case 3	Case 4
<b>I. Real Estate</b>				
Year Loan Made	--	1955	1971	1977
Length of Loan (Years)	--	30	30	20
Original Amount of Loan	--	100,000.00	250,000.00	607,937.50
Interest Rate (%)	--	5½	7	8
Annual Amortized Payment	--	6,813.47	19,959.12	61,484.75
Interest (Current Year)	--	2,317.62	16,368.00	48,635.00
Principal (Current Year)	--	4,495.85	3,591.12	12,849.75
Outstanding Amount of Real Estate Loan	--	44,016.46	231,728.55	595,087.75
<b>II. Machinery and Equipment</b>				
Outstanding Amount of Machinery and Equipment Loan <u>1/</u>	47,581.25	47,581.25	47,581.25	47,581.25
<b>III. Total Outstanding Intermediate and Long Term Debt</b>				
	47,581.25	91,597.71	279,309.80	642,669.00
<b>IV. Term Debt Per Cow Unit (300 C.U.)</b>				
	158.60	305.33	931.03	2,142.23
<b>V. Total Cash Flow Required Per Cow Unit <u>2/</u></b>				
	94.74	117.45	161.27	299.69
<b>VI. Revenue Per Cow Unit <u>3/</u></b>				
	130.36	130.36	130.36	130.36

1/ From Table 4.2/ From Table 9; does not include family living expenses.3/ From Table 3; 1976 prices.TABLE 9. ANNUAL COSTS FOR A 250-HEAD COW-CALF ENTERPRISE IN BLAINE COUNTY UNDER  
FOUR REAL ESTATE DEBT SITUATIONS

	Case 1	Case 2	Case 3	Case 4
<b>I. Cash Operating Costs and Principal Repayment</b>				
Variable Costs <u>1/</u>	23,100.00	23,100.00	23,100.00	23,100.00
Interest on Operating Capital <u>1/</u>	1,039.50	1,039.50	1,039.50	1,039.50
Interest on Machinery Debt <u>1/</u>	4,282.31	4,282.31	4,282.31	4,282.31
Amortized Land Payment	-0-	6,813.47	19,959.12	61,484.75
Total Cash Operating Cost and Principal Repayment	28,421.81	35,235.28	48,380.93	89,906.56
Cash Costs Per Cow Unit (300 C.U.)	94.74	117.45	161.27	299.69
<b>II. Non-Cash Costs <u>1/</u></b>				
Owner's Labor	5,100.00	5,100.00	5,100.00	5,100.00
Return to Management	1,955.44	1,955.44	1,955.44	1,955.44
Total Non-Cash Costs	7,055.44	7,055.44	7,055.44	7,055.44
<b>III. Non-Cash Overhead Costs</b>				
Depreciation <u>1/</u>	7,898.25	7,898.25	7,898.25	7,898.25
Interest on Investment <u>2/</u>	65,187.50	62,869.88	48,819.50	16,552.50
Total Non-Cash Overhead	73,085.75	70,768.13	56,717.75	24,450.75
<b>IV. TOTAL ANNUAL COSTS</b>				
	108,563.00	113,058.85	112,154.12	121,412.75

1/ From Table 1.2/ "Opportunity cost" of capital investment in land and cow herd less interest paid on mortgage.

ENTERPRISE COSTS FOR A 200-HEAD COW-CALF RANCH  
OPERATION IN NORTHERN MADISON COUNTY

by

Jim Cornelius<sup>1/</sup>Situation

During the past few years, the range beef industry in Montana has undergone a period of extreme economic instability. Although much of this instability resulted from volatile cattle prices, rapidly increasing costs of production have contributed to the problem.

The economic outlook for the cow-calf man continues to be clouded with uncertainty, both good and bad. These conditions emphasize the critical importance of sound ranch management. A thorough understanding of enterprise costs and budgeting provides the rancher with a valuable input to management decisions.

Objectives

The objectives of this study are to:

- (1) Gather and analyze production and economic data for a cow-calf enterprise in Northern Madison County.
- (2) Construct representative cost estimates for a typical ranch operation in this area.
- (3) Provide operators with a procedure for evaluating the feasibility and profitability of range beef enterprises.

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(4) Identify the important enterprise cost variables which influence profitability.

#### Source of Data

The information used in this study was obtained from livestock producers in Madison and Jefferson Counties during the winter and spring of 1977. Where practical and realistic, data from existing enterprise budgets were also used.

Variations among individual operations in this area are considerable. The assumptions made to establish a "typical operation" required some generalizations and the cost estimates used may not be appropriate for some ranches. As such, individual operators may wish to substitute different cost estimates in the space provided, based on their own herd size, acreage, and operating practices. The figures shown serve mainly as a guide.

#### Assumptions of the Study

Major assumptions used in this study to identify a typical cow-calf operation include the following points:

(1) The enterprise is a 1,700-acre, deeded, cow-calf operation in Northern Madison County. This land is divided into 200 acres of irrigated hayland and 1,500 acres of native pasture. In addition, roughly 923 AUM's of summer grazing are leased from government agencies.

(2) The breeding herd consists of 200 cows and nine bulls. Ten percent of the cow herd is culled yearly. Bulls are replaced

on a three-year basis. In addition, 27 replacement heifers are held back from each calf crop for annual culling and mortality of brood cows. This inventory results in a total of 227 cow units (C.U.).

(3) A 92 percent calf crop is obtained (calves weaned ÷ cows wintered).

(4) The herd is wintered for 130 days on a ration of alfalfa hay which is produced on the ranch. For the balance of the year the herd is grazed on either leased or owned rangeland.

(5) The ranch owner-operator has a mortgage on machinery and real estate of roughly \$90,000. Annual interest is charged at 9% of the average value (\$51,630) of this debt. Initially, it is assumed that no debt is owed on the land, although later four varying situations are evaluated. All short term annual cash operating capital is borrowed.

(6) Fall marketing weights of weaned calves are 450 pounds for steers and 425 pounds for heifers.

(7) Cattle prices and costs of ranch inputs reflect market conditions during the fall and winter 1976-77, in this study area.

#### Interpreting the Results

Annual cost estimates for the 200-head cow-calf enterprise in Northern Madison County are summarized in Table 1. Three major cost groupings listed are: 1) cash operating costs; 2) non-cash costs; and 3) non-cash overhead costs.

TABLE 1. ANNUAL COSTS FOR NORTHERN MADISON COUNTY COW-CALF OPERATION WITH 200 COWS, 1977

COST ITEM	ANNUAL COST	COST PER	YOUR
	(\$)	C.U. (227)	ESTIMATES
		(\$)	(\$)
<b>I. CASH OPERATING COSTS</b>			
Purchased Feed <sup>1/</sup>	1,753.00	7.72	_____
Seed, Fertilizer, Twine	600.00	2.64	_____
Vet and Medicine	700.00	3.08	_____
Hired Labor <sup>2/</sup>	3,500.00	15.42	_____
Fuel and Oil	3,000.00	13.22	_____
Repairs & Maintenance			_____
- Buildings	500.00	2.20	_____
- Fences	500.00	2.20	_____
- Corrals	250.00	1.10	_____
- Machinery	2,500.00	11.01	_____
- Water Facilities	250.00	1.10	_____
Utilities	200.00	.88	_____
Insurance	1,100.00	4.85	_____
Taxes	3,000.00	13.22	_____
Marketing Cost	650.00	2.86	_____
Miscellaneous Overhead	200.00	.88	_____
	<u>18,703.00</u>	<u>82.39</u>	_____
Interest on Operating Capital <sup>3/</sup>	841.63	3.71	_____
Interest on Machinery & Real Estate Debt <sup>4/</sup>	<u>4,646.70</u>	<u>20.47</u>	_____
<b>Total Cash Operating Costs</b>	<b>24,191.33</b>	<b>106.57</b>	_____
<b>II. NON-CASH COSTS</b>			
Owner's Labor <sup>5/</sup>	10,200.00	44.93	_____
Return to Management (5% Gross Sales)	<u>1,634.87</u>	<u>7.20</u>	_____
<b>Total Non-Cash Costs</b>	<b>11,834.87</b>	<b>52.13</b>	_____
<b>III. NON-CASH OVERHEAD COSTS</b>			
Depreciation	8,417.00	37.08	_____
Interest on Investment <sup>6/</sup>	<u>21,997.50</u>	<u>96.91</u>	_____
<b>Total Non-Cash Overhead</b>	<b>30,414.50</b>	<b>133.99</b>	_____
<b>IV. TOTAL ANNUAL COSTS</b>	<b>66,440.70</b>	<b>292.69</b>	_____

<sup>1/</sup> Includes public grazing fees for 923 AUM's (see Table 2).

<sup>2/</sup> Hired labor during summer months.

<sup>3/</sup> 9% for 6 months on all cash costs.

<sup>4/</sup> 9% of outstanding average value on intermediate and long term debt (see Table 4).

<sup>5/</sup> Includes full time operator-manager plus additional family labor equivalent to 1/2 time employee.

<sup>6/</sup> 7% "Opportunity Cost" charged to the capital invested in real estate and the cow herd.

Cash operating costs are simply the annual out-of-pocket expenses incurred in this enterprise. Included in this category are interest charges on all borrowed capital. The major components of cash operating costs are hired labor, fuel and oil, taxes, machinery, and purchased feed.

Non-cash costs as used here refer to the value of the operator-manager's labor, plus a nominal return to management of 5% based on gross sales. The salary level shown is somewhat arbitrary, but should reflect what the operator-manager could earn in alternative employment with equivalent responsibility. The owner's labor and returns to management are treated as non-cash costs because they are not normally out-of-pocket expenses. That is, the owner-manager will continue to work in the short run even though he may be unable to pay himself what he is worth. However, if the owner-manager must rely upon his salary for family living expenses, which is often the case, these expenses then become out-of-pocket costs which increase the cash flow requirements of the enterprise.

Non-cash overhead costs comprise the largest segment of annual costs. Depreciation and investment costs are considered to be non-cash expenses, since they need not be paid in the short run in order to stay in business.

It is important to recognize that all productive inputs, whether purchased or owned, are valued and charged as costs to the enterprise accordingly. Thus, even if an operation is "debt-free", interest costs must be charged as representing the

"opportunity cost" of the owner's money had it been invested elsewhere. Given the large land investment required by the cow-calf enterprise, there is a proportionally large opportunity cost of the real estate investment. To some degree, the opportunity cost of land is lessened by rising land values. However, unless land is sold and the appreciation realized, the opportunity cost is not reduced.

The effect of these accounting procedures will naturally tend to increase--on paper--the costs of production. For this reason, a distinction is made between "short-run" out-of-pocket variable costs which must be covered each year, and fixed costs which must be covered in the "long-run", but not necessarily each year.<sup>2/</sup>

The opportunity costs placed on invested money, owner's labor, and so forth, can usually be considered as long-run expenses in the sense that these are relatively fixed, non-cash costs accruable to a given operation. Some operators may not include the opportunity cost of fixed investment when determining short-run break-even prices. In the long-run, however, the owner should consider all such costs in assessing the overall and relative profitability of an enterprise.

In summary, there are two categories of costs which the operator deals with. First, there are short-run operating costs which must be paid over the course of the year. These dictate the cash flow requirements of the enterprise. If these cash costs

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<sup>2/</sup>For purposes of economic analysis, the "short-run" is considered to be the time interval over which the size and scope of a business activity cannot be changed, normally a year or less. In the "long-run", the size, location, etc. of an enterprise or investment can be changed.

cannot be paid, the enterprise will very likely fail. Secondly, there are non-cash overhead-type expenses which are incurred during the course of yearly operations. These costs will exist whether the cow-calf operation succeeds or fails. As a result, non-cash costs are not so vital in yearly break-even figures, but must be considered in long term financial decisions.

As shown in Table 1, total cash operating costs amount to \$106.57 per cow unit per year. The combined non-cash costs come to \$186.12 per cow unit per year. Total annual costs are the sum of these two; \$292.69 per cow unit per year. Data concerning feed requirements and costs are given in Table 2.

Table 3 details the annual livestock inventory, production and sales receipts. Based on Fall 1976 prices, gross receipts for this enterprise amount to \$32,698, or \$144.04 per cow unit. Clearly, revenue per cow unit is less than total costs per cow unit. However, revenues will cover cash flow requirements as given by cash operating costs (\$106.57). This suggests that in the short-run the operator can stay in business even though he is not covering all costs.

Table 4 is a complete listing and budgeting of the capital requirements for this enterprise. The magnitude of annual net earnings is given in Table 5. Returns over operating costs equal \$8,507, but when non-cash costs are included the net return to management is a loss of \$32,108. This results in a minus 4.26% return on capital investment (Table 6). In other words, annual

losses are creating a negative return on the capital invested.

The derivation of break-even costs is shown in Table 7. The average selling price per cwt. is based on total livestock sold, including calves, cull cows, yearling heifers, and bulls. In 1976 this averaged out to \$33.31 per cwt. for the 982 cwt. of cattle sold. To cover all annual costs would have required an average price of \$67.66 per cwt. As a result, the owner of this hypothetical ranch was losing about \$150 on every calf he sold. Overlooking the possibility of a dramatic increase in beef production given these same costs, cattle prices would have to double in order to cover all costs. If the opportunity cost of land is excluded from these cost figures, the resulting loss is about \$12 per cwt., or roughly a \$50 loss on each calf sold.

#### Varying the Real Estate Debt Situation

For simplicity, the foregoing analysis assumed that no debt was owed on deeded land used in the ranching operation. Now, three additional real estate debt load situations are added to demonstrate the critical role of ranch debt position to economic viability of the enterprise, particularly cash flow requirements (Table 8).

Case 1 is that situation assumed at the outset of this study; no debt is owed on the ranch's deeded acreage.

Case 2 is the same ranch operation, but with a \$100,000 land debt at 5½% interest borrowed in 1955 to be amortized over a thirty-year term.

Case 3 is the same ranch operation with a \$100,000 land debt at 7% interest borrowed in 1971 to be amortized over a thirty-year term.

Lastly, Case 4 is a present year loan on the same ranch operation with a twenty-year \$272,500 contract for deed on the land at 8% interest with 29% down at current land values. This results in an outstanding mortgage of \$193,475.

Whereas in Case 1 land cost appeared only as a non-cash overhead "opportunity cost," in Cases 2, 3 and 4 the land debt loan repayment becomes an addition to cash flow requirement. This influence of land debt is shown in Table 9. Although a substantial land debt decreases the opportunity cost of land investment, the off-setting increase in cash flow requirements to service the debt is more detrimental to the economic survival of the enterprise.

Case 4 is burdened with land interest payments alone of \$68 per cow unit. When combined with other cash costs, the Case 4 enterprise has total yearly cash flow requirements of \$192 per cow unit, while revenues are only \$144 per cow unit (Table 8). In the absence of some sort of outside income, the case 4 ranch cannot survive on it's own for even a year.

Cases 2 and 3 are just barely meeting cash flow requirements, and have virtually no revenue left to cover overhead costs or family living expenses. In the long-run these ranches are also facing economic failure unless the situation improves.

Summary

This study has examined the costs of a cow-calf ranching enterprise in Northern Madison County. To illustrate accounting procedures and cost relationships, various assumptions were made in order to establish a representative ranch operation. As such, the cost and revenue estimates derived are only applicable given the assumptions listed, and should not be routinely considered as average or normal costs. Individual operators are encouraged to substitute their own estimates of costs and operating variables in the space provided. An on-going, organized farm records system will allow the manager to keep a close watch on his enterprise budgets.

Unfortunately, even the best record system or the best management cannot guarantee a profitable enterprise. This study has shown that a typical cow-calf operation with a very modest debt load is losing nearly \$50 per calf sold at Fall 1976 cattle prices, given current cash operating costs, depreciation, owner's labor, and management. If the opportunity cost of capital invested in land and the cow herd is included, total losses per calf are \$150.

On the optimistic side, revenues are sufficient to cover cash operating costs, and therefore meet the yearly cash flow requirements necessary to stay in business, even though long term losses will be mounting.

The economic situation becomes more critical when the real

estate debt is increased. This is because expenses which were opportunity costs in a debt-free ranch now become cash interest costs to service the debt. These interest charges must be paid annually. With a moderate, fairly typical real estate debt load (\$573 per cow unit long-term debt as described in Case 3), the revenue generated will barely cover basic cash flow requirements. As a result, any plans for expansion or capital investment which will increase cash operating costs must be carefully examined.

The investment in rangeland is a key variable in the overall financial stability of the cow-calf enterprise. Rapidly rising land prices and the associated real estate debt during the past five years have contributed greatly to increased production costs. However, the resulting appreciation of rangeland investment presents an incentive for continuing ranching operations quite apart from the profitability of the cow-calf enterprise.

TABLE 2. FEED REQUIREMENTS AND COSTS

Feed	Livestock		Feeding			Feed Requirements			Home Grown			Purchased			
	Animal	# Head	Period	Amt./Day	Amount/Period	Total	Quantity	Unit	Value	Quantity	Unit	Value	Quantity	Unit	Total Cost (\$)
Alfalfa Hay	Cows	200	130 days	23 lb.	14 T	300 T									
	Heifers (yearlings)	26	130 days	23 lb.	14 T	39 T									
	Bulls	6	150 days	33.3 lb.	24 T	15 T									
	Horses	3			2 T	6 T									
Subtotal						360 T		40.00	14,400						-0-
Barley (Oats) <sup>2/</sup>	Heifers (yearlings)	26	130 days	2.9 lb.	390 lb.	5 T									
	Horses	3				0.5 T									
Subtotal						5 1/2 T		90.00	495	(Grind)	8.00				44.00
Salt & Minerals	All Stock					4 T							4 T	58.00	232.00
Range	Cows	200	7.7 mo.	1.0 AU	7.7 AUM	1540.0 AUM	740.0 AUM						800.0 AUM	1.60 <sup>1/</sup>	1280.00
	Heifers (yearlings)	26	7.7 mo.	.7 AU	5.4 AUM	140.0 AUM	67.2 AUM						72.8 AUM	1.60	116.98
	Bulls	9	7 mo.	1.4 AU	9.8 AUM	88.2 AUM	37.8 AUM						50.4 AUM	1.60	80.64
	Subtotal						1768.2						923.2 AUM	1.60	1477.12
Total Value Purchased Feeds														1753.12	

<sup>1/</sup> 1976 average of Forest Service and BLM grazing fees.<sup>2/</sup> Produced as a rotation crop on hayland.

TABLE 3. LIVESTOCK INVENTORY, PRODUCTION AND SALES

Livestock	Beginning of Year	To Be Purchased	Head	Head	Head	Head	Head	Average	Total	Market	Sales
	Head	Head	Value	Born	Died	Sold	Weight	Weight	Weight	Price 1/	Receipts
	(No.)	(No.)	(\$)	(No.)	(No.)	(No.)	(Lbs.)	(Lbs.)	(Lbs.)	(\$/Cwt.)	(\$)
Cows	200		50,000		1	20	1,000	20,000	20		4,000.00
Replacement Heifers	27		5,022		1	5	750	3,750	30		1,125.00
Bulls	6		5,400			3	1,800	5,400	30		1,620.00
Steer Calves				94	2	92	450	41,400	40		16,560.00
Heifer Calves				94	2	65	425	27,625	34		9,392.50
Total	233	3	60,422	188	6	185		98,175			32,697.50
											32,697.50
											144.04
											33.31

Total Revenue

Revenue Per Cow Unit (227)

Average Price Received Per Cwt. 2/

1/ Representative Fall 1976 prices received by Montana ranchers.

2/ Based on total live weight sales of 982 cwt.

TABLE 4. CAPITAL INVESTMENT

Item	(1) Initial Cost (\$)	(2) Salvage Value (\$)	(3) Average Value (\$)	(4) Useful Life Yrs.	(5) Depreciation Straight Line (\$)	(6) Annual Cost Debt 9% 1/ (\$)	(7) Annual Cost on Investment % (\$)
<b>Machinery &amp; Equipment</b>							
Tractor-Diesel (new)	12,500.00	2,000.00	7,250.00	15	700.00	652.50	
Tractor Gas (used)	3,000.00	500.00	1,750.00	10	250.00	157.50	
Truck, 3/4T FWD (new)	7,000.00	2,500.00	4,750.00	5	900.00	427.50	
Truck, 14'w/Racks (used)	5,000.00	750.00	2,875.00	5	850.00	258.75	
Swather (used)	5,000.00	500.00	2,750.00	10	450.00	247.50	
Baler (new)	5,000.00	500.00	2,750.00	10	450.00	247.50	
Farmhand (new)	2,500.00	250.00	1,375.00	10	225.00	123.75	
Drill (used)	2,000.00	200.00	1,100.00	10	180.00	99.00	
Disc (used)	1,500.00	150.00	825.00	10	135.00	74.25	
Plow (used)	1,500.00	150.00	825.00	10	135.00	74.25	
Miscellaneous (shop, rack, etc.)	10,000.00	1,500.00	5,750.00	15	567.00	517.50	
Horses (3)	3,000.00	300.00	1,650.00	10	270.00	148.50	
Bulls (9)	8,100.00	4,860.00	6,480.00	3	1,080.00	583.20	
Subtotal	66,100.00		40,130.00		6,192.00	3,611.70	
<b>Building &amp; Improvements</b>							
Barns (2)	12,500.00	0	6,250.00	20	625.00	562.50	
Shop	5,000.00	0	2,500.00	20	250.00	225.00	
Corrals (3)	5,000.00	0	2,500.00	10	500.00	225.00	
Springs	500.00	0	250.00	20	25.00	22.50	
Fence (30 miles)	22,500.00	6,000.00	14,250.00	20	825.00	997.50	
Material Only	45,500.00		25,750.00		2,225.00	997.50	
Subtotal						1,035.00	
<b>Land</b>							
Range (1500 A. @ \$100/A)	150,000.00		150,000.00				10,500.00
Cropland (200 A. @ \$500/A)	100,000.00		100,000.00				7,000.00
Subtotal	250,000.00		250,000.00				17,500.00
TOTAL	361,600.00		315,880.00		8,417.00	4,646.70	18,497.50

1/ Interest charged at 9% of average value (Column 3) on outstanding debt.

TABLE 5. INCOME, COSTS AND EARNINGS SUMMARY, 1976

## LIVESTOCK SALES

81 Steer Calves	\$ 16,560
54 Heifer Calves	9,393
20 Cull Cows and Heifers	5,125
3 Bulls	<u>1,620</u>
GROSS RANCH INCOME <sup>1/</sup>	32,698
Less: Cash Operating Costs	<u>24,191</u>
RETURNS OVER OPERATING COSTS	8,507
Less: Depreciation	<u>8,417</u>
RETURNS TO OPERATOR'S LABOR, CAPITAL INVESTMENT AND MANAGEMENT	90
Less: Operator's Labor	<u>10,200</u>
RETURNS TO CAPITAL INVESTMENT AND MANAGEMENT	(-10,110)
Less: Opportunity Cost of Capital Investment @ 7%	<u>21,998</u>
RETURNS TO MANAGEMENT	\$(-32,108)

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<sup>1/</sup> Based on 1976 prices received.

TABLE 6. RETURN ON INVESTMENT

LIVESTOCK SALES	\$ 32,698
Less: Cash Operating Costs	<u>24,191</u>
RETURN OVER OPERATING COSTS	8,507
Less: Labor and Management	11,835
Depreciation	<u>8,417</u>
RETURN TO CAPITAL INVESTMENT	(-11,745)
EQUITY CAPITAL INVESTED <sup>1/</sup>	276,000
PERCENT RETURN ON CAPITAL INVESTMENT	(-4.26%)

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<sup>1/</sup> Capital investment in ranch and cow herd.

TABLE 7. BREAK-EVEN ANALYSIS

	Cost \$/Cwt. (\$)	1976 Average Price/Cwt. <sup>1/</sup> (\$)	Net Returns/Cwt. (\$)
Average Selling Price Per Cwt. Necessary to Cover: <sup>2/</sup>			
1. All Cash Costs	24.63	33.31	8.67
2. All Cash Costs Plus Depreciation	33.21	33.31	.10
3. All Cash Costs, Depreciation, Owner's Labor & Management	45.26	33.31	(-11.95)
4. All Annual Costs	67.66	33.31	(-34.35)

<sup>1/</sup> Based on total cattle sales from ranch (see Table 3).

<sup>2/</sup> Based on total yearly sales of 982 Cwt. beef (see Table 3).

Table 8. Debt Service Data for Four Real Estate Debt Situations, Northern Madison County Cow-Calf Enterprise

	Case 1	Case 2	Case 3	Case 4
<b>I. Real Estate</b>				
Year Loan Made	--	1955	1971	1977
Length of Loan (Years)	--	30	30	20
Original Amount of Loan	--	100,000.00	100,000.00	193,475.00
Interest Rate (%)	--	5½	7	8
Annual Amortized Payment	--	6,813.47	7,983.63	19,419.60
Interest (Current Year)	--	2,317.62	6,443.34	15,330.21
Principal (Current Year)	--	4,495.85	1,540.29	4,089.39
Outstanding Amount of Real Estate Loan	--	44,016.46	92,691.78	189,385.61
<b>II. Machinery and Equipment</b>				
Outstanding Amount of Machinery and Equipment Loan <u>1/</u>	51,630.00	51,630.00	51,630.00	51,630.00
<b>III. Total Outstanding Intermediate and Long Term Debt</b>				
	51,630.00	95,646.46	144,321.78	241,015.74
<b>IV. Term Debt Per Cow Unit (227 cows)</b>				
	227.44	421.35	635.78	1,061.74
<b>V. Total Cash Flow Required Per Cow Unit <u>2/</u></b>				
	106.56	136.59	141.74	192.12
<b>VI. Revenue Per Cow Unit <u>3/</u></b>				
	144.04	144.04	144.04	144.04

1/ From Table 4.2/ From Table 9; does not include family living expenses.3/ From Table 3; based on 1976 cattle prices.

Table 9. Annual Costs for a 200-Head Cow-Calf Enterprise in Northern Madison County Under Four Real Estate Debt Situations

	Case 1	Case 2	Case 3	Case 4
<b>I. Cash Operating Costs and Principal Repayment</b>				
Variable Costs <u>1/</u>	18,703.00	18,703.00	18,703.00	18,703.00
Interest on Operating Capital <u>1/</u>	841.63	841.63	841.63	841.63
Interest on Machinery Debt <u>1/</u>	4,646.70	4,646.70	4,646.70	4,646.70
Amortized Land Payment	-0-	6,813.47	7,983.63	19,419.60
Total Cash Operating Cost and Principal Repayment	24,191.33	31,004.80	32,174.96	43,610.93
Cash Costs Per Cow Unit (227 cows)	106.57	136.59	141.74	192.12
<b>II. Non-Cash Costs <u>1/</u></b>				
Owner's Labor	10,200.00	10,200.00	10,200.00	10,200.00
Return to Management	1,634.87	1,634.87	1,634.87	1,634.87
Total Non-Cash Costs	11,834.87	11,834.87	11,834.87	11,834.87
<b>III. Non-Cash Overhead Costs</b>				
Depreciation <u>1/</u>	8,417.00	8,417.00	8,417.00	8,417.00
Interest on Investment <u>2/</u>	21,997.50	19,679.88	15,554.16	6,667.29
Total Non-Cash Overhead	30,414.50	28,096.88	23,971.16	15,084.29
<b>IV. TOTAL ANNUAL COSTS</b>				
	66,440.70	70,936.55	67,980.99	70,530.09

1/ From Table 1.2/ "Opportunity cost" of capital investment in land and cow herd less interest paid on mortgage.

ENTERPRISE COSTS FOR A 200-HEAD COW-CALF RANCH  
OPERATION IN POWDER RIVER COUNTY

by  
Jim Cornelius<sup>1/</sup>

Situation

During the past few years, the range beef industry in Montana has undergone a period of extreme economic instability. Although much of this instability resulted from volatile cattle prices, rapidly increasing costs of production have contributed to the problem.

The economic outlook for the cow-calf man continues to be clouded with uncertainty, both good and bad. These conditions emphasize the critical importance of sound ranch management. A thorough understanding of enterprise costs and budgeting provides the rancher with a valuable input to management decisions.

Objectives

The objectives of this study are to:

- (1) Gather and analyze production and economic data for a cow-calf enterprise in Powder River County.
- (2) Construct representative cost estimates for a typical ranch operation in this area.
- (3) Provide operators with a procedure for evaluating the feasibility and profitability of range beef enterprises.

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<sup>1/</sup> Extension Economist, Montana State University, Bozeman, Montana.

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(4) Identify the important enterprise cost variables which influence profitability.

#### Source of Data

The information used in this study was obtained from livestock producers in Powder River County during the winter and spring of 1977. Where practical and realistic, data from existing enterprise budgets were also used.

Variations among individual operations in the county are considerable. The assumptions made to establish a "typical operation" required some generalizations and the cost estimates used may not be appropriate for some ranches. As such, individual operators may wish to substitute different cost estimates in the space provided, based on their own herd size, acreage, and operating practices. The figures shown serve mainly as a guide.

#### Assumptions of the Study

Major assumptions used in this study to identify a typical cow-calf operation include the following points:

(1) The enterprise is a 4,500-acre, deeded, cow-calf operation in Powder River County. This land is divided into 220 acres of improved pasture, 100 acres of hayland, with the remaining 4,180 acres in native pasture. In addition, roughly 833 AUM's of summer grazing are leased from government agencies.

(2) The breeding herd consists of 200 cows and ten bulls. Ten percent of the cow herd is culled yearly. Bulls are replaced on a four-year basis. In addition, 30 replacement heifers are held

back from each calf crop for annual culling and mortality of brood cows. This inventory results in a total of 230 cow units (C.U.).

(3) A 90 percent calf crop is obtained (calves weaned  $\div$  cows wintered).

(4) The herd is wintered for 100 days on a ration of forage hay and protein cake. All hay is produced on the ranch. For the balance of the year the herd is grazed on either leased or owned rangeland. Annual carrying capacity of the rangeland is 30 acres per animal unit.

(5) The ranch owner-operator has a mortgage on machinery and real estate of roughly \$63,800. Annual interest is charged at 9% of the average value (\$39,315) of the debt. Initially, it is assumed that no debt is owed on the land, although later four varying situations are evaluated. All short term annual cash operating capital is borrowed.

(6) Fall marketing weights of weaned calves are 420 pounds for steers and 375 pounds for heifers.

(7) Cattle prices and costs of ranch inputs reflect market conditions during the fall and winter 1976-77, in this study area.

#### Interpreting the Results

Annual cost estimates for the 200-head cow-calf enterprise in Powder River County are summarized in Table 1. Three major cost groupings are listed: 1) cash operating costs; 2) non-cash costs; and 3) non-cash overhead costs.

Cash operating costs are simply the annual out-of-pocket expenses incurred in this enterprise. Included in this category

TABLE 1. ANNUAL COSTS FOR A 200-HEAD COW-CALF ENTERPRISE IN POWDER RIVER COUNTY, 1977

Cost Item	Annual Cost (\$)	Cost Per Cow Unit (230) (\$)	Your Estimates (\$)
<b>I. Cash Operating Cost</b>			
Purchased Feed <u>1/</u>	4,844.20	21.06	_____
Seed, Fertilizer, Twine	400.00	1.74	_____
Vet & Medicine	1,000.00	4.35	_____
Hired Labor	500.00	2.17	_____
Fuel and Oil	2,000.00	8.70	_____
Repairs and Maintenance			_____
Buildings	50.00	.22	_____
Fences	500.00	2.17	_____
Corrals	100.00	.43	_____
Machinery	2,000.00	8.70	_____
Water Facilities	500.00	2.17	_____
Utilities	500.00	2.17	_____
Insurance	750.00	3.26	_____
Taxes	2,500.00	10.87	_____
Marketing Costs	1,000.00	4.35	_____
Miscellaneous Overhead	300.00	1.30	_____
	<u>16,944.20</u>	<u>73.67</u>	_____
Interest on Operating Capital <u>2/</u>	717.49	3.12	_____
Interest on Term Debt <u>3/</u>	<u>3,538.35</u>	<u>15.38</u>	_____
<b>Total Cash Operating Costs</b>	<b>21,200.04</b>	<b>92.17</b>	_____
<b>II. Non-Cash Costs</b>			
Owner's Labor <u>4/</u>	9,600.00	41.74	_____
Return to Management (5% Sales)	<u>1,530.00</u>	<u>6.65</u>	_____
<b>Total Non-Cash Costs</b>	<b>11,130.00</b>	<b>48.39</b>	_____
<b>III. Non-Cash Overhead Costs</b>			
Depreciation	5,067.00	22.03	_____
Opportunity Cost of Fixed Investment <u>5/</u>	<u>37,170.00</u>	<u>161.61</u>	_____
<b>Total Non-Cash Overhead</b>	<b>42,237.00</b>	<b>183.64</b>	_____
<b>TOTAL ANNUAL COSTS</b>	<b>74,567.04</b>	<b>324.20</b>	_____

1/ Includes public grazing fees for 833 AUM's (see Table 2).2/ 9% for six months for all cash costs except marketing.3/ 9% of outstanding average value of term debt (see Table 4).4/ Includes full time operator-manager plus any additional family labor.5/ A 7% opportunity cost is charged to capital invested in real estate and the cow herd.

are interest charges on all borrowed capital. Purchased feed is the largest single component of cash operating costs, and if the costs incurred in producing home grown feed are included (hired labor, fuel, seed, fertilizer, machinery repairs and maintenance, etc.), total feed related cash costs approach \$50 per cow unit.

Non-cash costs as used here refer to the value of the operator-manager's labor, plus a nominal return to management of 5% based on gross sales. The salary level shown is somewhat arbitrary, but should reflect what the operator-manager could earn in alternative employment with equivalent responsibility. The owner's labor and returns to management are treated as non-cash costs because they are not normally out-of-pocket expenses. That is, the owner-manager will continue to work in the short run even though he may be unable to pay himself what he is worth. However, if the owner-manager must rely upon his salary for family living expenses, which is often the case, these costs then become out-of-pocket expenses which increase cash flow requirements of the enterprise.

Non-cash overhead costs comprise the largest segment of annual costs. Depreciation and investment costs are treated as non-cash expenses, since they need not be paid in the short run in order to stay in business.

It is important to recognize that all productive inputs whether purchased or owned are valued and charged as costs to the enterprise accordingly. Thus, even if an operation is "debt-free", interest costs must be charged as representing the "opportunity cost" of

the owner's money had it been invested elsewhere. Given the large land investment required in the cow-calf enterprise, there is a proportionally large opportunity cost of the real estate investment. To some degree, the opportunity cost of land is lessened by rising land values. However, unless land is sold and the appreciation realized, the opportunity cost is not reduced.

The effect of these accounting procedures will naturally tend to increase--on paper--the costs of production. For this reason, a distinction is made between "short-run" out-of-pocket variable costs which must be covered each year, and fixed costs which must be covered in the "long-run", but not necessarily each year.<sup>2/</sup>

The opportunity costs placed on invested money, owner's labor, and so forth, can usually be considered as long-run expenses in the sense that these are relatively fixed, non-cash costs accruable to a given operation. Some operators may not include the opportunity cost of fixed investment when determining short-run break-even prices. In the long run, however, the owner should consider all such costs in assessing the overall and relative profitability of an enterprise.

In summary, there are two categories of costs which the operator deals with. First, there are short-run operating costs which must be paid over the course of the year. These dictate the cash flow requirements of the enterprise. If these cash costs

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<sup>2/</sup>For purposes of economic analysis, the "short-run" is considered to be the time interval over which the size and scope of a business activity cannot be changed, normally a year or less. In the "long-run", the size, location, etc. of an enterprise or investment can be changed.

cannot be paid, the enterprise will very likely fail. Secondly, there are non-cash overhead-type expenses which are incurred during the course of yearly operations. These costs will exist whether the cow-calf operation succeeds or fails. As a result, non-cash costs are not so vital in yearly break-even figures, but must be considered in long term financial decisions.

As shown in Table 1, total cash operating costs amount to \$92.17 per cow unit per year. The combined non-cash costs come to \$232.03 per cow unit per year. Total annual costs are the sum of these two; \$324.20 per cow unit per year. Data concerning the herd feed requirements and costs are given in Table 2.

Table 3 details the annual livestock inventory, production and sales receipts. Based on Fall 1976 prices, gross receipts for this enterprise amount to \$29,525, or \$128.37 per cow unit. Clearly, revenue per cow unit is less than total costs per cow unit. However, revenues will cover the cash flow requirements (\$92.17), determined by cash operating costs. This suggests that in the short-run, the operator can stay in business, even though he is not covering all costs.

Table 4 is a complete listing and budgeting of the capital investment in the operation. The magnitude of annual net earnings is given in Table 5. Returns over operating costs equal \$8,325, but when all non-cash costs are included the net return to management is a loss of \$43,512. This results in a minus 1.7% return on capital investment (Table 6). In other words, annual losses are creating a

negative return on the capital invested.

The derivation of break-even costs is shown in Table 7. The average selling price per cwt. is based on total livestock sold, including calves, cull cows, yearling heifers, and bulls. In 1976 this averaged out to \$33.78 per cwt. for the 874 cwt. of cattle sold. To cover all annual costs would have required an average price of \$85.32 per cwt. As a result, the owner of this hypothetical ranch was losing about \$200 on every calf he sold. Overlooking the possibility of a dramatic increase in beef production given these same costs, cattle prices would have to more than double to cover all expenses. If the opportunity cost of land is excluded from these cost figures, the resulting loss is about \$9 per cwt., or roughly a \$36 loss per calf sold.

#### Varying the Real Estate Debt Situation

For simplicity, the foregoing analysis assumed that no debt was owed on deeded land used in the ranching operation. Now, three additional real estate debt load situations are added to demonstrate the critical role of ranch debt position to economic viability of the enterprise, particularly cash flow requirements (Table 8).

Case 1 is that situation assumed at the outset of this study; no debt is owed on the ranch's deeded acreage.

Case 2 is the same ranch operation, but with a \$100,000 land debt at 5½% interest borrowed in 1955 to be amortized over a thirty-year term.

Case 3 is the same ranch operation with a \$100,000 land debt at 7% interest borrowed in 1971 to be amortized over a thirty-year term.

Lastly, Case 4 is a present year loan on the same ranch operation with a twenty-year \$471,000 contract for deed on the land at 8% interest with 29% down at current land values. This results in an outstanding mortgage of \$334,410.

Whereas in Case 1 land cost appeared only as a non-cash overhead "opportunity cost," in Cases 2, 3 and 4 the land debt loan repayment becomes an addition to cash flow requirement. This is shown in Table 9. Although a substantial land debt decreases the opportunity cost of land investment, the off-setting increase in cash flow requirements to service the debt is more detrimental to the economic survival of the enterprise.

Case 4 is burdened with land interest payments alone of \$115 per cow unit. When combined with other cash costs, the Case 4 enterprise has total cash flow requirements of \$238 per cow unit, while revenues are only \$128 per cow unit (Table 8).

In the absence of some sort of outside income, the Case 4 ranch cannot survive on its own for even a year.

Cases 2 and 3 are just barely meeting cash flow requirements, and have virtually no revenue left to cover overhead costs or family living expenses. In the long-run these ranches are also facing failure unless the situation improves.

Summary

This study has examined the costs of a cow-calf ranching enterprise in Powder River County. To illustrate accounting procedures and cost relationships, various assumptions were made in order to establish a representative ranch operation. As such, the cost and revenue estimates derived are only applicable given the assumptions listed, and should not be routinely considered as average or normal costs. Individual operators are encouraged to substitute their own estimates of costs and operating variables in the space provided. An on-going, organized farm records system will allow the manager to keep a close watch on his enterprise budgets.

Unfortunately, even the best record system or the best management cannot guarantee a profitable enterprise. This study has shown that a typical cow-calf operation with a very modest debt load is losing about \$36 per calf sold at Fall 1976 cattle prices, given current cash operating costs, depreciation, owner's labor, and management. If the opportunity cost of capital invested in land and the cow herd is included, total losses per calf exceed \$200.

On the optimistic side, revenues are sufficient to cover cash operating costs, and therefore meet the yearly cash flow requirements necessary to stay in business, even though long term losses will be mounting.

The economic situation becomes more critical when the real

estate debt is increased. This is because expenses which were opportunity costs in a debt-free ranch now become cash interest costs to service the debt. These interest charges must be paid annually. With a moderate, fairly typical real estate debt load (\$573 per cow unit long term debt as described in Case 3), the revenue generated will barely cover basic cash flow requirements. As a result, any plans for expansion or capital investment which will increase cash operating costs should be carefully analyzed.

The investment in rangeland is a key variable in the overall financial stability of the cow-calf enterprise. Rapidly rising land prices and the associated real estate debt during the past five years have contributed greatly to increased production costs. However, the resulting appreciation of rangeland investment presents an incentive for continuing ranching operations quite apart from the profitability of the cow-calf enterprise.



TABLE 3. LIVESTOCK INVENTORY, PRODUCTION AND SALES

Livestock	Beginning of Year	To Be Purchased		Head Died (No.)	Head Sold (No.)	Average Weight (Lbs.)	Total Weight (Lbs.)	Market Price 1/ (\$/Cwt.)	Sales Receipts (\$)
	Head (No.)	Value (\$)	Head (No.)						
Cows	200	60,000		4	20	1,000	20,000	22	4,400.00
Replacement Heifers	30	5,022		1	5	700	3,500	30	1,050.00
Bulls 2/	7	6,300	2		2	1,800	3,600	30	1,080.00
Steer Calves				4	4	420	37,800	40	15,120.00
Heifer Calves				4	60	375	22,500	35	7,875.00
Total	237	71,322	2	13	177		87,400		29,525.00
							Total Revenue		29,525.00
							Revenue Per Cow Unit (230)		128.37
							Average Price Received Per Cwt. 3/		33.78

1/ Representative Fall 1976 prices received by Montana ranchers.

2/ Two bulls are purchased and two sold this and every other year; on alternating years three bulls are purchased and three sold.

3/ Based on total live weight sales of 874 cwt.

TABLE 4. CAPITAL INVESTMENT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Market Value (\$)	Salvage Value (\$)	Average Value (\$)	Life (Yrs.)	Depreciation (SL) (\$)	Interest on Debt 9% (\$)	Opportunity Cost 7% (\$)
<u>Machinery and Equipment</u>							
Tractor - Diesel 45 HP	6,000	1,000	3,500	10	500	315.00	
Tractor - Gas 20 HP	1,000	300	650	10	75	58.50	
Swather - SP - 12'	5,000	500	2,750	10	450	247.50	
Baler - PTO	3,000	300	1,650	10	270	148.50	
Front End Loader	800	80	440	10	72	39.60	
Pickup - 4WD - 3/4T	7,500	2,500	5,000	5	1,000	450.00	
Trailer	1,800	200	1,000	10	160	90.00	
Crop Machinery	1,500	150	825	10	135	74.25	
Shop, Misc. Equipment & Tools	2,000	200	1,100	10	180	99.00	
Bulls (10)	9,000	5,400	7,200	4	900	648.00	
Horses (2)	1,200	200	700	8	125	63.00	
Subtotal	38,800		24,815		3,867	2,233.35	
<u>Buildings and Facilities</u>							
Barn	5,000	0	2,500	20	250	225.00	
Shop	2,000	0	1,000	20	100	90.00	
Corrals (60 x 180)	3,000	0	1,500	10	300	135.00	
Fence (20 miles)	15,000	4,000	9,500	20	550	855.00	
Subtotal	25,000		14,500		1,200	1,305.00	
<u>Land</u>							
Native Pasture (4180 A)\$100/A	418,000		418,000				29,260.00
Improved Pasture (220 A)\$150/A	33,000		33,000				2,310.00
Hayland (100 A)\$200/A	20,000		20,000				1,400.00
Subtotal	471,000		471,000				32,970.00
Total	534,800				5,067	3,538.35	32,970.00

1/ Annual interest charged at 9% of average value (Column 3) on outstanding term debt.

TABLE 5. INCOME, COSTS AND EARNINGS SUMMARY

LIVESTOCK SALES (TABLE 3)	
90 Steer Calves	\$ 15,120
60 Heifer Calves	7,875
25 Cull Cows and Heifers	5,450
2 Bulls	<u>1,080</u>
GROSS RANCH INCOME <u>1/</u>	29,525
Less: Cash Operating Costs (Table 1)	<u>21,200</u>
RETURNS OVER OPERATING COSTS	8,325
Less: Depreciation (Table 4)	<u>5,067</u>
RETURNS TO OPERATOR'S LABOR, CAPITAL INVESTMENT AND MANAGEMENT	3,258
Less: Operator's Labor	<u>9,600</u>
RETURNS TO CAPITAL INVESTMENT AND MANAGEMENT	(-6,324)
Less: Opportunity Cost of Capital @ 7%	<u>37,170</u>
RETURNS TO MANAGEMENT	\$(-43,512)

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1/ Based on 1976 prices received.

TABLE 6. RETURN ON INVESTMENT

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LIVESTOCK SALES	\$29,525
Less: Cash Operating Cost	<u>21,200</u>
RETURNS OVER OPERATING COST	8,325
Less: Labor & Management	11,130
Depreciation	<u>5,067</u>
RETURNS TO CAPITAL INVESTMENT	(-7,872)
EQUITY CAPITAL INVESTED	475,200
PERCENT RETURN ON CAPITAL INVESTMENT	(-1.7%)

TABLE 7. BREAK-EVEN ANALYSIS

	Cost \$/Cwt. (\$)	1976 Average Price/Cwt. <sup>1/</sup> (\$)	Net Returns/Cwt. (\$)
Average Selling Price Per Cwt. Necessary to Cover: <u>2/</u>			
1. Cash Operating Costs	24.26	33.78	9.52
2. Cash Operating Costs Plus Depreciation	30.05	33.78	3.72
3. Cash Operating Costs, Depreciation, Owner's Labor and Management	42.79	33.78	(-9.01)
4. All Annual Costs	85.32	33.78	(-51.53)

<sup>1/</sup> Based on total cattle sales from ranch at 1976 prices (see Table 3).

<sup>2/</sup> Based on total yearly sales of 874 cwt. beef (see Table 3).

Table 8. Debt Service Data for Four Real Estate Debt Situation, Powder River County Cow-Calf Enterprise

	Case 1	Case 2	Case 3	Case 4
I. Real Estate				
Year Loan Made	--	1955	1971	1977
Length of Loan (Years)	--	30	30	20
Original Amount of Loan	--	100,000.00	100,000.00	334,410.00
Interest Rate (%)	--	5½	7	8
Annual Amortized Payment	--	6,813.47	7,983.63	33,565.68
Interest (Current Year)	--	2,317.62	6,443.34	26,497.36
Principal (Current Year)	--	4,495.85	1,540.29	7,068.32
Outstanding Amount of Real Estate Loan	--	44,016.46	92,691.78	327,341.68
II. Machinery and Equipment				
Outstanding Loan on Machinery and Equipment <sup>1/</sup>	39,315.00	39,315.00	39,315.00	39,315.00
III. Total Outstanding Intermediate and Long Term Debt				
	39,315.00	83,331.46	132,006.78	366,656.68
IV. Term Debt Per Cow Unit (230 cows)				
	170.93	362.31	573.94	1,594.15
V. Total Cash Flow Required Per Cow Unit <sup>2/</sup>				
	92.17	121.80	126.86	238.11
VI. Revenue Per Cow Unit <sup>3/</sup>				
	128.37	128.37	128.37	128.37

<sup>1/</sup>From Table 4.<sup>2/</sup>From Table 9; does not include family living expenses.<sup>3/</sup>From Table 3; based on 1976 cattle prices.

Table 9. Annual Costs for a 200-Head Cow-Calf Enterprise in Powder River County Under Four Real Estate Debt Situations

	Case 1	Case 2	Case 3	Case 4
I. Cash Operating Costs and Principal Repayment				
Variable Costs <sup>1/</sup>	16,944.20	16,944.20	16,944.20	16,944.20
Interest on Operating Capital <sup>1/</sup>	717.49	717.49	717.49	717.49
Interest on Machinery Debt <sup>1/</sup>	3,538.35	3,538.35	3,538.35	3,538.35
Amortized Land Payment	-0-	6,813.47	7,983.63	33,565.68
Total Cash Operating Costs and Principal Repayment	21,200.04	28,013.51	29,183.67	54,765.72
Cash Costs Per Cow Unit (230 cows)	92.17	121.80	126.86	238.11
II. Non-Cash Costs <sup>1/</sup>				
Owner's Labor	9,600.00	9,600.00	9,600.00	9,600.00
Return to Management	1,530.00	1,530.00	1,530.00	1,530.00
Total Non-Cash Costs	11,130.00	11,130.00	11,130.00	11,130.00
III. Non-Cash Overhead Costs				
Depreciation <sup>1/</sup>	5,067.00	5,067.00	5,067.00	5,067.00
Interest on Investment <sup>2/</sup>	37,170.00	34,852.38	30,726.66	10,672.64
Total Non-Cash Overhead	42,237.00	39,919.38	35,793.66	15,739.64
IV. TOTAL ANNUAL COSTS				
	74,567.04	79,062.89	76,107.33	81,635.36

<sup>1/</sup>From Table 1.<sup>2/</sup>"Opportunity cost" of capital investment in land and cow herd less interest paid on mortgage.

## STATEMENT OF GROVER GEE, MONDAMIN, IOWA

As a grain and livestock farmer in the Mondamin, Iowa area for thirty two years I would like to go on record in support of the S 2626 bill.

With the continual rise in all areas of production we need a comprehensive cost of production bill to cover this condition.

Another one of the problems is the fact that imports come into this country at prices lower than our production costs.

The S 2626 bill would help overcome these situations very much. Also with farmers being on the board set up by this bill and they knowing the extreme cost variations from year to year would be able to help make the adjustments needed to cover the spiraling price cost fluctuations and thereby keep a strong agricultural economy which in turn reflects a healthy economy for all the country.

[The following material was submitted by Ernest N. Wilson, see p. 126 for his oral statement.]

THE DOLLAR COST TO EACH CONSUMER PER CAPITA, PERTAINING TO ALL FARMER  
NET FOR YEARS 1974-76

- (1) 220,000,000 consumers approximate in nation.
  - (2) \$22,000,000,000 net profit for all raw products to all farmers.
  - (3) \$22,000,000,000 divided by 220,000,000 consumers equals \$100.00.
  - (4) Twenty percent of this farmers net is obtained by export sales.
  - (5) Twenty percent of \$100.00 equals \$20.00. Leaving \$80.00 cost per consumer per year—22 cents per day.
  - (6) \$75,000,000,000 spent by all farmers per year to produce all raw products. This is spent to non-farmers and agri-businesses.
  - (7) Labor is chief ingredient in the \$75,000,000,000. Sixty percent gross net on the above equals \$45,000,000,000.
  - (8) \$45,000,000,000 minus \$22,000,000,000 equals plus \$23,000,000,000 for consumers.
  - (9) Seventy-five parity increased to 100 percent is a 33 $\frac{1}{3}$  percent increased net profits.
  - (10) 33 $\frac{1}{3}$  percent increased sales on \$97,000,000,000 (Item 2 plus 7) equals \$33,000,000,000 net.
  - (11) Twenty percent from export sales of \$33,000,000,000 equals \$6,600,000,000.
  - (12) Eighty percent consumers share of \$33,000,000,000 equals \$26,400,000,000.
  - (13) \$26,400,000,000 divided by 220,000,000 consumers equals \$120.00 per capita cost or 33 cents per day.
  - (14) \$22,000,000,000 net divided by 2,000,000 farm families equal \$11,000.00 before taxes.
  - (15) \$33,000,000,000 additional net divided by 2,000,000 farm families equal \$16,500.00 before taxes.
  - (16) The \$27,500 (Item 14 plus 15) before taxes will buy what replacements???
  - (17) The day the consumers know the above facts in dollars, I'm confident they will call their Congressmen with their understanding support of 100 percent parity by Law.
- The following, a back-up math formula to protect and keep all export channels open to American Family and Agri-Businesses.
- This is to support and encourage our U.S. Congress to pass a 100-percent parity compulsory law.
- (1) Under 100 percent parity selling for all raw products and livestock would be approx. equals \$130,000,000,000.
  - (2) An average 20 percent export to all sources equals \$26,000,000,000.
  - (3) Sell to exporters at 80 percent of parity if necessary to compete on world market equals \$20,800,000,000.
  - (4) Subsidize to exporters the 20 percent of parity equals \$5,200,000,000.
  - (5) Cost per capita \$5,200,000,000 divided by 220,000,000 people equals \$24.00 per person per year.
  - (6) The proportionate share of total expenses to export sales of \$75,000,000,000 is 20 percent equals \$15,000,000,000.
  - (7) Labor share of 60 percent of \$15,000,000,000 equals \$9,000,000,000.
  - (8) \$9,000,000,000 minus \$5,200,000,000 subsidy equals \$3,800,000,000 gross profit labor.
  - (9) With 100 per cent parity law in force, I sincerely believe the steady flow into all markets daily and weekly, of all raw products, will insure an efficient

and profitable climate for all labor and agri-business, therefore contemplating the elimination of surplus buildup.

(10) The importing countries likewise will be assured of full production and continuous steady supplies. All countries would order far in advance and therefore have a steady, continuous supply coming to their ports for unloading. The importing countries, with 100 percent parity by law, can not then delay their buying for a harvest glut and falling prices. The farmers would be storing on the farm for orderly marketing thruout the year. Then at last resort, due to world wide favorable weather and extra world production, revert back to item No. 3 at 20 percent reduction in price. The dollar saving to our government, due to eliminating of many costly programs would save enough to pay the export subsidy.

(11) All farmers would have an incentive to build storage and if commodities held over to next year would again be at higher prices.

(12) A backup mandatory land retirement of from 1 to 10 percent in years of extreme surplusses. No payment from government. All land to be affected regardless of crops or livestock. I have yet to see clean raw products dumped for the lack of markets over the past 30 years. It might have been at a cheap price, but the products have always gone to the market and people.

#### STATEMENT OF ERNEST N. WILSON

My father, Robert L. Wilson, started farming at 16 and retired at age 65. He died at the age of 82½. Drew social security payments for 17 years, plus medicare-medicaid.

1. In 1937, he bought a 260-acre farm—all borrowed money; \$23,500.

2. He tile-ditched the land at \$40 per acre (average over a period of many years, costing him: \$10,500.

3. At death he had cash in the bank, of: \$55,000.

Total \$89,000.

He worked 52 weeks per year at 14 hours per day, for 6 days per week, or 4,268 hours per year, a total of 209,132 hours.

209,132 hours divided into \$89,000 equals 43 cents an hour; which leaves no return for any year on the investment of the above of \$89,000.

My father stayed at home and worked, never attended a basketball game when his three sons played ball. He made one trip to Florida after my mother died in 1939. No time to lobby, or attend to local matters, attended church moderately. Occasional short trips to visit relatives.

Above average production on land and was very good in feeding and caring for his livestock. Never was an in and outer. Rotated his land with crops and clovers.

Our mother in her 51 years before death, cared for all children. Cooked, baked, scrubbed on wash board and made homemade soap. Mended patched and had the best garden always; cared for home butchering. She never smoked, drank or chewed tobacco. Never saw a ball game or attend the local clubs or socials. Taught her children the Bible and prayed for them and her friends and neighbors.

My parents sold all their production all these years. Never found a time someone wasn't needing their products.

Many years large truck patch gardens were planted so we all could attend the farmer-city markets to sell direct to the consumer. Many of these years were when parity was at 100 percent or above. Some below 100 percent or above.

When the farm of 260 acres was bought in 1937 it was considered one of the better farms and land and above average in size. He raised hogs, and fed them out. Milked cows in a small herd . . . above average herd of sheep. Had a chicken house with layers.

My father didn't have the smoking or drinking habit. He raised nine children and all children furnished their labor for a few quarters of spending money and a home. They left home when they finished high school to start out on their own. Three boys and the youngest daughter followed agriculture.

The math figures above shows he was earning at the annual rate overall average rate of \$.43 per hour. This was left over . . . not any income on his investment whatsoever.

The cash in bank was mostly saved after he retired and went on social security. At that time he rented out his fields on a half and half basis to the youngest daughter and son-in-law.

My grandfather, a full life in agriculture . . . his father also, and his father also followed a full life of agriculture, with the same general results . . . a meager family living.

You all know it will not be necessary for me to recite or recall their hard workings and sufferings. History books tells us now the low level of their living

surroundings they had to endure. Therefore; now, I believe it is evident our economic system will have to supply a compulsory Federal Law very much higher than 100% of parity lever, if the family farmer gets his just rewards.

For continued 37 years, I have had a living for myself and my family. I have produced raw products for an average of about 100 additional consumers . . . I have paid taxes upon taxes of all classifications. I have bought materials, supplies, machinery, and repairs from a to z and had to produce food to off set those costs.

Now multiply the above by millions and millions of other farm families that has followed the same path of reproducing food . . . are we entitled to the fruits and regards of this profession and achievement?

If not . . . *we can* produce and survive and have *our* living without this mass volume of production of food's raw products that continually feeds the extra 100 to 200 people outside of our family. Today the national average is one farm family produces for themselves and 56 others, plus world markets.

Is our government and our society telling us that is what they want us to do? To produce fully and efficiently has been and still is now my belief, and all my ancestry in agriculture. The record plainly shows in the majority of farm families their yearly living was all that's obtained. I will let you rate the living standards the American Farm family has lived under the past 200 years.

Our thirty years of public relations has put our family in contact with thousands of agriculture people. Their consistent story has been "they want to produce fully and efficiently . . . have a living, labor return, equity return on investments along with a reasonable profit."

Their general opinion has been, over the years, that the Government, large Agri-Business and unscrupulous profiteers want this squeeze against the family farmer. To force him off the land. These committee hearings now will finally tell the true story, as to whether the above thousands upon thousands are right. This is the *only* route left now to follow. There can be no turning aside.

#### COST OF OUR CIRCLE W FARMS

	Amount	Estimated replacemen
<b>(1) The following land farms bought entirely at the beginning on borrowed money:</b>		
(a) 1947 bought 297 acres grain farm .....	\$28, 000	-----
(b) 1962 bought 160 acres grain farm .....	47, 000	-----
(c) 1963 bought 80 acres grain farm .....	13, 500	-----
(d) 1969 bought 147 acres grain farm .....	89, 000	-----
(e) 1973 bought 270 acres grain farm .....	150, 000	-----
(f) Total purchase price of all farms ((b), (c), (d), and (e) when purchased displaced a farm family) .....	327, 500	-----
(g) We now owe total 1st mortgages of .....	345, 000	-----
(h) Bought clay tile, hired ditching machine to systematically ditch the above farms. From 1949 to 1977, total approximate cost .....	121, 000	-----
<b>(2) Inventory of farm equipment, trucks and cars:</b>		
(a) 1970 915 IHC combine .....	20, 000	60, 000
(b) 1973 1855 Oliver tractor .....	9, 300	25, 000
(c) 1970 856 IHC tractor (with cab) .....	6, 000	25, 000
(d) 1968 856 IHC tractor (with cab) .....	4, 500	25, 000
(e) 1960 88 Oliver tractor .....	800	15, 000
(f) 1951 M IHC tractor .....	800	8, 000
(g) 1950 M IHC tractor .....	700	8, 000
(h) 1943 M IHC tractor .....	400	8, 000
(i) 1955 R180 IHC grain truck .....	800	20, 000
(j) 1949 KB6 IHC grain truck (tandem and hoist) .....	1, 000	25, 000
(k) 1949 Dodge grain truck .....	400	15, 000
(l) 1967 Ford 4 x 4 pickup .....	1, 000	8, 000
(m) 1956 110 IHC pickup .....	300	6, 000
(n) 1959 Cheve pickup .....	500	5, 000
(o) 1975 Dodge van .....	3, 000	8, 000
(p) 1967 Cadillac .....	600	12, 000
(q) 1964 Oldsmobile .....	200	8, 000
(r) 1976 Rotary hoe .....	1, 500	3, 500
(s) 1967 6-row corn planter (3) .....	1, 500	(2)12, 000
(t) 1966 2 moldboard plows .....	1, 000	(2)11, 000
(u) 1968 13-ft disk (4) .....	1, 000	(2)11, 000
(v) 1966 Cult/mulcher .....	1, 000	8, 000
(w) 1966 IHC 6-row cultivator .....	500	3, 000
(x) 1972 IHC 18-ft field cultivator (2) .....	2, 000	2, 000
(y) Average-size hopper wagons (3) .....	1, 500	4, 000
(z) Above average-size hopper wagons(3) .....	2, 200	4, 500
(aa) Miscellaneous tools and shop equipment .....	2, 000	4, 000
<b>Total .....</b>	<b>64, 000</b>	<b>336, 000</b>

## THE GREAT BRUSHPILE OF THE U.S.A.

My father would always have his boys tromp the old brushpiles, back by the thicket, to chase out the rabbits. If the rabbit ran vigorously he would shoot it with his double-barreled 12-gauge shotgun. We boys would pick it up and put it in a sack to take home for my mother to cook for the family.

Now, if the rabbit ran slowly or wobbled some . . . maybe ran a short distance and sat down, he would shoot it also . . . but told his boys to leave it there, "it has the fever". This rabbit was considered sick and not healthy for the table.

This country of ours has too many sick rabbits with the fever . . . The brushpile is being flattened so bad the rabbits are smothering underneath because of the economic bullet or *shell*, if you please! Our big government, the big farm organization leaders, the huge four wheeled drive tractor with mamouth equipment are pulling the trigger on the gun.

The family farmer, rural American family worker, the family independent implement dealers, the family independent county merchants, are the basic rabbits that are being smothered under this huge U.S. brushpile!

If the above mentioned 100 percent plus minimum law has no place in our American system, then I now believe this country does not need the Federal Minimum Salary Law . . . for all government officials . . . the Social Security System . . . The Federal Tax laws, the minimum wage law, etc., etc.

I personally, as well as the majority of all Americans believe the above laws should be on the books. Today is the time to pass the "compulsory" 100 percent plus parity agriculture raw products minimum price law.

Foreseeing of trouble ahead if we don't change the trend of the past . . . within 5 years . . . four wheeled drive monsters by super-sized or corporation type farms will take over.

Take over with lack of control . . . over hired labor, which should come from farm oriented background . . . there will be inefficiency with an attitude of revenge and, failures of equipment. Equipment inefficiency operated; therefore, reducing total crop production drastically and consequently starvation of many millions of consumers and the continued dread of global malnutrition. The large corporations would store and then demand and get 150 percent to 200 percent parity. They would be in a position of controlling the food supply, therefore dictating to labor their own factories the labor contract settlement. The constant increase in numbers of people, more new stores, more shopping centers, more restaurants, motels, gas stations, churches, schools, etc., makes me to believe there should be more family farmers, not less numbers. Many of the huge farms should be divided!

## CIRCLE W FARMS—862 ACRES GROSS—800 ACRES CROPLAND

*Projected yields, prices, income at 100 percent parity*

375 acres corn times 90 bushels dry corn average—33,750 bushels times \$3.45 per bushel parity-----	\$116, 437
375 acres soybeans times 40 bushels average per acre—15,000 bushels times \$7.60 per bushel parity-----	114, 000
150 acres wheat times 60 bushels per acre average—9,000 bushels times \$5 per bushel parity-----	45, 000
Gross sales of grain at 100 percent parity -----	275, 437
800 acres cropland times \$150.00 cash expenses and depreciation per acre-----	120, 000
Subtotal -----	155, 437
Federal, State, and Social Security taxes-----	75, 000
Subtotal -----	80, 437
Under 100 percent parity would pay \$40 principal per acre on 862 acres. A period of 10 years to pay mortgage off (per year)-----	34, 480
Subtotal -----	45, 957

Now paying 8.25 percent interest per acre on land debt—approximately \$40 per acre—plus the minimum principal of \$10 per acre.

We should receive now:

My full management and labor of 50 weeks per year times 6 days times 14 hours per day—4,200 hours at \$10-----	42,000
My wife's labor and part management of 50 weeks times 40 hours per week—2,000 hours times \$5-----	10,000
Total -----	52,000
4,200 hours times 37 years farming-----	155,400
2,000 hours times 23 years farming-----	46,000
Total -----	201,400

Tile and machinery investment totals \$185,000 divided by 201,400 hours equals \$0.91 per hour to pay for these investments. We had a good family living above this.

The average today appraised value of the 862 acres is \$1,500 per acre:

Total value-----	\$1,293,000
Percent on investment-----	7

Total -----	90,510
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The marketplace prices should be high and stable enough to earn this. The price for all raw products would have to be sold at 125 percent parity to obtain this 7 percent on investment and the labor above as listed.

*Projected yields, prices, income at 125 percent parity for crop year 1978*

375 acres corn times 90 bushels dry corn average—33,750 bushels times \$4.31 per bushel at 125 percent parity-----	\$145,546
375 acres soybeans times 40 bushels average per acre—15,000 bushels times \$9.50 per bushel at 125 percent parity-----	142,250
150 acres wheat times 60 bushels per acre average—9,000 bushels times \$6.25 per bushel parity-----	56,250
Gross sales at 125 percent parity-----	344,046
Expenses and depreciation-----	120,000
Gross net-----	224,046
Federal, State, and Social Security taxes-----	130,446
Net profits-----	93,600
Labor for husband and wife-----	52,000
Average today-----	41,600
3 percent on the investment-----	38,790
7/8 of 1 percent profit on business of grain sales-----	2,810
Appraised value of the 862 acres, is \$1,500 per acre:	
Total value-----	1,293,000
Percent on investment-----	3
Total -----	38,790

If we now would apply the same yields, price, and compute into income, taxes, labor, etc., on the U.S.A. average-sized family farm, as listed above, the 125 percent parity scale, the attractiveness will not be so encouraging. Average U.S.A. farm approximately 400 acres with many less than the above per-acre yields in production.

## BALANCING THE CURRENT CASH FLOW DEBTS OF ALL FAMILY FARMS

Our local counties' ASC offices should obtain the total cash flow debt of each family farm unit, that has developed over the past five years. These past five years our Federal Government and State Government and Commercial agencies has asked and pleaded, also enticed, encouraged, coerced, manipulated, the American farmers and ranchers to produce all out . . . with no price base compulsory to cover the cost of production against price collapse.

When the debt per family farm unit is obtained and certified by legal records, it should be presented to our Federal Government for immediate payment to the debt holder. This expense will spread over all tax paying people due to the fact they used the food!

The Agri-Businesses, or other professions that were farming and did not obtain 60 percent of their gross income from farming would not get payment of debt. 100 percent parity? Increase to 115 percent? 113 percent? 150 percent?

What percent of parity should be increased over 100 percent of parity to allow and make up in the poor and lower quality of materials and labor and services, below the standards we knew and lived under the past 20 to 30 years.

The quality of all basic agriculture commodities has stayed as good over the last 50 years and many cases such as livestock and vegetables has greatly improved in quality.

I believe 25 percent increase to 125 percent.

The family farmer has never had a recall on his crops after sold to correct defects, or pollutants in air or water. We deliver, and are graded to make top qualities of our production. Also USDA grades are imposed as a standard for the farmer to sell by and get paid.

Comparable costs to the consumers of the United States of retail prices used by an individual daily:

	<i>Cents</i>
Present cost per day of all raw products from farmers on net-----	22
Additional cost at 100 percent parity-----	33
<b>Total -----</b>	<b>55</b>
1. 1 bottle beer per day-----	55
2. 1 pack of cigarettes-----	60
3. 2 cups of coffee-----	50
4. 1 high ball-----	1. 00
5. 1 small glass wine-----	50
6. 1 soft drink-----	30
7. 4 cigars-----	60
8. 1 large apple-----	25
9. 1 undersized candy bar-----	20
10. 1 gallon gas-----	60
11. 2 rolls or doughnuts-----	40
12. 1 small sack potato chips-----	60
13. 1 local newspaper-----	25

1. Q. How about allotments for production?

A. There would be no allotments. Each farmer across the U.S. would plant crops suitable for his type of land, locality of weather and general type of machinery he now has. Also, his background of knowledge of types of crops he has been raising. Therefore, as across the nation different farmers would balance out generally all crops in production and not have an extreme excessive production of one or two crops for the one current crop year.

2. Q: Would the livestock and poultry industry expand rapidly and over produce?

A: The extra grain would not be available as we are now farming all land. Also, the livestock industry is raising all the livestock on land, and some places are over-stocked for safe and profitable income. The great majority of all farmers are putting much more time than the 40 hours per week in. With profit better assured, many farmers would desire to back off a little and enjoy and participate in local activities of school, churches, golf, fishing, etc. . . .

3. Q: How can farmers get their production sold?

A: Just as soon as the law is passed and in force, the producers will and should start to advance contract to his local dealer for his commodity for the time of sale and delivery. The floor is set. I am sure farmers would have many different months in controlled schedule to deliver. The farmer would not worry

about carrying over a little inventory as the price would be the same and most years following, would increase during the years and for next crop, due to 100 percent plus of parity prices would be going to follow capital and labor. Some would be encouraged to hold some production from 2 to 4 years.

4. Q: Who would store the inventory?

A: Many farmers that have not yet bought and installed drier and storage bins would start at once. We are one family of 900 acres that needs this storage and drier.

Therefore, an orderly and constant harvest, before weather would destroy crops . . . also, would provide the means for orderly delivery to buyers and overseas shipments. The government would not store the production.

5. Q: Who would police this law and costs?

A: The day the law of 100 percent of parity is passed, there would automatically be hired, at no cost, over 3 million farm families. All local dealers would be hired to police, at no extra cost, due to the fact, they will be buying direct from the farmer . . . the violators would be fined and sent to jail.

6. Q: How will Agri-Business benefit and handle the new law?

A: All dealers, handlers, grocers, processors and transport would start off buying from all farmers at the base price and therefore, one company would not undercut his competitor because he had bought his commodity cheaper. At this time the law of supply and demand would really work and the efficiency and profits would be maintained on a healthier pattern than under the "dog-eat-dog" fashion.

7. Q: How would Agri-Business and labor profit and/or participate?

A: The untold item that farmers have not been able to buy would provide the orders to dealers and manufacturers for many years to come. The huge land debt payments would be increased with a better hope of someday getting the land paid for. There is need of additional 1 million good farm labor today. Carpenters and labor are needed to build and repair buildings.

8. Q: How are we going to handle the surpluses?

A: With the 100 percent of parity by law, the orderly buying by all segments of our business trade will increase the efficiency of labor and handling facilities to such an increase that the extra, burdensome inventory would not build up. The loss of truck, rail car and boat trips due to the low supplies at various times prevent full utilization of equipment and facilities to move food to the consumer and foreign countries to feed their malnutritionalized people.

9. Q: The question that land prices will double again the present prices.

A: Much land would come off the market . . . there would actually be a less desire to buy land and expand. Under 100 percent of parity, the profit possibilities should help and will create a desire to stop their headlong plunge of huge machines and increased land acreage. Just the opposite of the trend that has plagued the nation for the last 25 years.

10. Q: Are farmers going to leave land to "summer fallow" with a legume?

A: My personal, complete at random, survey and public relations contract, continues to convince me that a very noticeable amount of landowners and farmers are going to "summer fallow" land with nitrogen gathering legumes.

A majority of these farmers are the independent, quiet, nonfront pages and TV material for news. They now believe it is the only way left to go. The results of these silent farmers practice would not be known into the middle of summer when it would be too late to plant!

### *Export Sales*

World population outside the U.S.A.

Cost per capita on all raw products from U.S. exported. 100 percent parity projected.

4 billion people times \$6.50 per capita totals \$26,000,000,000 exported projected.

365 days less than 2¢ per day per capita totals \$6.50 per capita.

With the above costs involved I cannot foresee losing our foreign markets. My predictions are that their consumption should increase as more people are born and they eat a fuller, better diet. Therefore, continued expanding export sales from the U.S.A. above the \$26 billion.

The continuous and advance known steady prices, of all raw products based at 100 percent plus parity, would, in my opinion, insure the steady flow of food to foreign countries and therefore, increase in our sales, not decrease.

The number one issue and need, also demand, in our foreign neighbors, especially the low, low income, would be a source of good food daily!

## STATEMENT OF NATHAN E. WILSON SUBMITTED BY ERNEST N. WILSON

GENTLEMEN: Since before I was able to walk my parents took me to the fields with them as they worked to provide a living for themselves and I. They worked with the hope of providing a future for me in agriculture and for my yet unborn sister.

By the time I was 3 years old I had an infant sister. I would follow my father and ride with him as he worked the fields of the farm that he and my mother were attempting to pay for. I would hoe weeds, pick up rocks and help in what ways a 3 year old can on the farm.

Within a couple of years my sister was in the field with my parents and I. As the years have progressed my sister and I have learned of the responsibility, hardship, and satisfaction of the family farm. We have also come to share the dream of our parents. That my sister and I might have a future in agriculture.

For the sake of that dream, and for the sake of the American nation I have come to Washington D.C. to plead our case, not only for ourselves but moreover, for the tens of thousands of young men and women whom I feel my life personifies in my deep rooting in the family farm lifestyle and ideals. For the entirety of my young 20 years in this world the family farm in agriculture has permeated my being both mentally and spiritually. It is my earnest hope and aspiration that I have a reasonable opportunity to farm and that my children and their children may also have that reasonable opportunity if they so choose.

Yet under the present economic circumstances and economic system in effect in American Agriculture today, the outlook for either myself or my sister remaining in agriculture is very grim and desolate of a reasonable hope. Not only for myself but for the many thousands of other young men and women whose future in agriculture is equally jeopardized beyond rational hope under present economic conditions and policies in American Agriculture today.

I also speak, I believe, in behalf of the whole American nation in that a strong and financially viable family owned and operated American Agriculture is the most reliable and most economical over the long term food source available to the whole of the American people.

To this Agriculture Committee and to each Congressman and government official who reads this letter, I earnestly urge you to work for a strong and financially viable family-owned and operated American Agriculture. First, for the sake of the American people . . . Secondly, for our generations to come . . . Thirdly, for the many thousands of young men and women who's dream of a future in farming is in serious and immediate jeopardy if immediate action is not taken on the part of our national government. Finally, for my own deep aspiration to farm . . . that my own dreams may have the opportunity that they need to become a reality.

It is my firm conclusion that a federally administrated production control system must be implemented by federal law. A price floor which provides for the cost of production, equitable labor return, a fair return on the capital investment, and a reasonable profit . . . I believe must be implemented by federal law to sustain a strong and financially viable family owned and operated American Agriculture.

[The following material was submitted by Ernest N. Wilson]

## STATEMENT OF NATHAN WILSON

We live in an age of change. An age in which nearly every social and economic aspect of our world is undergoing some degree of change.

In light of this past winter in which tens of thousands of America's farmers have come to Washington to protest depression era prices and to lobby for legislation to insure that America remain a strong nation by keeping our nation's economic base, American Agriculture, a strong, financially viable industry. It is obvious that the time has come for sweeping dramatic change in the federal government policies and decisions which affect American Agriculture not only for the sake of American agriculture but for the sake of the future our nation and its position in the world economic sphere of influence.

America's agriculture has become the largest industry in America and the most vital in terms of physical necessity and input of new wealth into our nation's economy, as well as its contribution to balancing our ominous trade deficit. America's principal farms have become comparable to any urban small business endeavor. Virtually all major industries and small businesses operate

on a comprehensive cost of production very similar to that which is in the Consumer and Agriculture Protection Act of 1978 before the Committee today in establishing the price at which they sell their goods and services. If this system of a comprehensive cost of production is fair and workable in the great majority of our nation's and even the world's economic pricing structure, then does it not stand to reason that a comprehensive cost of production pricing structure is both fair and workable for the American agriculture industry?

Considering the magnitude of our problems in American agriculture today it is obvious that their problems have not arisen over a short period of time but have been many years and many administrations in the making. It would appear obvious that the many varied farmer organizations that have been created to represent the farmer have not done so adequately. In the Consumer and Agriculture Protection Act of 1978, a board of producers is proposed to provide the needed direct contact grass roots farmer representation and input for the advisement in the formulation of policies and decisions that affect American agriculture for now and the future.

I am a youth of only 20, born and raised a part of the family farm my parents have strived to make successful so that my sister and I might have a reasonable future in American agriculture.

I have come to Washington to lend what support that I am able to give to the advancement of the Consumer and Agriculture Protection Act of 1978 because I feel that it not only meets the major needs of American agriculture today and also for the future. The future of our nation, American agriculture, and finally for the tens of thousands of other young people who have the ability and aspiration to be a part of American agriculture.

I earnestly hope and pray that the members of this Committee will look long and hard at this bill, that each of you will diligently search out the merits of this bill, and that you may see the genuine fairness and workability of this bill for American agriculture. We need this bill for the sake of the American nation and the future of tens of thousands of other young people who aspire to be a part of American agriculture but will be forced out if past agricultural policies are not dramatically changed to a fair and workable concept as set forth in the Consumer and Agriculture Protection Act of 1978. Finally, for the sake of each of your consciences because the future of American agriculture now rests squarely in the able hands of this Committee.

[The following information was provided by Ernest N. Wilson]

*Crop production and sales for 1977 crop from Circle ® Farm, Uniondale, Ind.*

1. 1,500,000 lb. wheat sold at 3 cents per pound.....	\$45,000
2. 1,000,000 lb. No. 2 corn sold at 3 cents per pound.....	30,000
3. 750,000 lb. No. 1 soybeans sold at 8 cents per pound.....	60,000

Total .....	135,000
4. Total cash expenses plus depreciation of farm equipment at 12 percent per year—884 acres of cropland at \$150 per acre.....	132,600

Remainder—not much to live on..... 2,400

*With S. 2626 replacing pricing structure under 1977 Farm Act*

1A. 1,500,000 lb. wheat sold at 8 cents per pound.....	\$120,000
2B. 1,000,000 lb. No. 2 corn sold at 6 cents per pound.....	60,000
3B. 750,000 lb. No. 1 soybeans sold at 11 cents per pound.....	82,500

Total .....	262,500
4B. Total cash cost plus depreciation of farm equipment.....	132,900

Net before taxes.....	129,600
4B. Net (before taxes and return to investment and management).....	129,600

4. Net .....	2,400
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Increase under Senate bill S. 2626..... 127,200

[Mailgram]

MAILGRAM SERVICE CENTER,  
 Middletown, Va., May 22, 1978.

HON. HERMAN TALMADGE,  
 Chairman, Senate Committee, Agriculture, Nutrition, and Forestry, Washington, D.C.

Previous commitments make it impossible for me to appear in support of S. 2626 being heard before your committee on May 22, 23, and 24. We have reviewed this bill carefully. We are in full accord with the need to improve target and loan prices paid to farmers and all of the other features set out in S. 2626 with one exception. Several years ago we advocated a National Board of Agricultural Governors. However we have since that time discarded this philosophy and believe a strong viable Agriculture Secretary with a competent staff can more adequately administer an agricultural program to benefit farmers. A letter follows with further comments on S. 2626.

L. C. (CLELL) CARPENTER,  
 Midcontinent Farmers Association.

MIDCONTINENT FARMERS ASSOCIATION,  
 Columbia, Mo., May 22, 1978.

Re Statement Supporting Most Provisions of S. 2626.  
 Senate Committee on Agriculture, Nutrition, and Forestry, Russell Senate Office Building, Washington, D.C.

DEAR CHAIRMAN TALMADGE: Recent administrative and congressional actions to increase farm prices were steps in the right direction. But more must be done if farmers are to receive the assistance they need to stay in business.

The administration of the 1977 Food and Agriculture Act at minimum levels would result in farm prices far below production costs; in fact, the administration of the recently enacted emergency farm legislation at minimum levels will also fail to assure adequate returns to farms.

Still needed are higher loan rates and target prices.

We do not urge greatly increased government payments. We want the market to provide farm income at increased levels. Fair prices at the market place occurred by chance in the early 1970's because of a shortfall in U.S. and world production. Adequate market prices could become the norm rather than the exception, and they could be achieved by design rather than by chance through proper administration of a sound farm program. This would require an annual adjustment in production, to keep supply in line with demand.

To achieve this objective, we recommend legislation which as a minimum would:

1. Establish loan rates at the cost of production including land costs on wheat, rice, feed grains, cotton and soybeans.

Because of the variances among producers' cost of production, it is recommended that the mid-point of USDA's projection of production costs be established as loan levels. Such levels would neither assure a profit for inefficient producers nor provide a windfall to the efficient. Rate adjustments would be made annually to reflect changes in production costs.

The higher loans would make the reserve program, with the resulting higher release and call levels, more attractive.

2. Establish target prices sufficiently above loan levels to assure a viable farm economy.

The target-price concept as incorporated in the 1973 farm program and continued in the 1977 Act is advantageous in many respects. It provides protection during times of low prices, and costs the government nothing during times of adequate market prices.

Target prices have generally been viewed only as incentives for increasing production. Such a view is too narrow. They should be viewed as incentives for achieving production goals. This implies that they not only serve as incentives to increase production when greater production is needed to assure ample supplies for domestic and foreign consumers, but also serve as incentives to reduce production when less production is needed to maintain adequate market prices. They also provide protection in case the Secretary of Agriculture misjudges acreage needed to maintain the balance between supply and demand at levels to ensure market prices above target levels. If this program works as intended, target-price payments would not be required.

In times past, the government has acquired surpluses which became costly and unmanageable. Such was the case because adequate reduction in production did not take place because support prices that were politically acceptable usually were not greatly effective. But under the target-price approach, it becomes more politically acceptable to adjust production at desired levels simply because the alternative could be too costly.

Target price levels established under the 1977 farm program and the minimum levels continued in the emergency farm legislation, indicate again that it is more politically acceptable to establish a cheap food policy than it is to ensure adequate prices for farm commodities. The minimum levels are set at levels too low to serve as incentives for farmers to reduce production adequately. Surpluses and low market prices are again depressing the farm economy, while at the same time requiring extensive government payments.

To correct this situation, target prices should be raised high enough to give the government little alternative but to announce set asides which will ensure prices near, or above, target, and high enough to encourage farmers to comply with the set asides.

If the 1977 farm program is changed to increase loan levels and target prices as recommended above, we would, for the first time, have an adequate program which is essentially self-adjusting to changing conditions. Loans would be adjusted to changing production costs, target prices would be adjusted to keep their same relationship to loans, and production goals would be adjusted to keep market prices above target prices. In addition, the farmer-held reserve helps make adjustment when the weather increases or decreases the supply and when world economic conditions change the effective demand.

Mr. Chairman, we strongly endorse the objective of the Consumer and Agricultural Protection Act of 1978 (S. 2626). We believe, however, that too great a reliance is placed upon commodity loans in this proposed legislation. We view the loans as tools for farmers for the orderly marketing of grain and fiber throughout the year rather than flooding the market at harvest. Commodity loans also provide the mechanism for building the farmer-held grain reserve.

In contrast, target prices are viewed as tools for adjusting production with established goals. Therefore, we strongly urge the Congress to maintain the target-price concept as an incentive for program compliance rather than to adapt the unrealistically harsh civil penalties to force compliance as proposed in S. 2626.

Several years ago, MFA advocated establishment of a board similar to the proposed National Board of Agricultural Governors. Since then we have concluded the concept of a board to administer farm programs to be undesirable. We believe that if adequate loan levels and target prices are established, a federal administrative agency is better equipped to administer farm programs than a board. We especially believe it is ill advised to establish a board outside of USDA to administer farm programs at a time when USDA is a prime target for dismantling.

Sincerely,

L. C. "CLELL" CARPENTER.

DELTA COUNCIL,  
Stoneville, Miss., May 22, 1978.

Senator HERMAN E. TALMADGE,  
*Chairman, Agriculture, Nutrition, and Forestry Committee, U.S. Senate, Russell Senate Office Building, Washington, D.C.*

DEAR SENATOR TALMADGE: Since it will not be possible for us to appear in person before your committee to provide our comments on S. 2626, we would appreciate it very much if you will enter this letter in the Hearing Record.

While we commend Senator Hodges and others who introduced S. 2626 for their concerns for farmers and for their efforts to reduce wide fluctuations in price and farm income experienced in recent years, we wish to express our opposition to this approach to providing assistance to U.S. farmers.

The material entered in the Congressional Record on March 2 by Senator Bumpers when he introduced S. 2626 on behalf of Senator Hodges, himself and others calls for the establishment of a CCC loan for cotton (70 cents per pound) at a level that, according to an analysis provided by Senator Bumpers, would reduce the estimated value of cotton exports from \$1,127,000,000 in 1978, under the current bill, to \$615,000,000 in 1982 under the provisions of S.2626. U.S. cotton farmers depend upon a high level of exports for a major percentage of

their total offtake. We, therefore, cannot support a program that would cause such a drastic reduction in our foreign sales.

In fact, we are opposed to price support levels for any commodity that will price our products out of the market and cause farmers to rely more and more on the Federal Government for a majority share of their income. Not only would we lose our export markets as a result of a 70 cents per pound loan, but we would also suffer big losses in domestic sales to man-made fibers.

Basically, we support a "market-oriented" farm policy. At the same time, we also support CCC loans to promote orderly marketing and assist in crop financing. We must not lose sight, however, of the fact that a loan for any crop that will guarantee a profit will result in overproduction with inevitable government restrictions.

For cotton, we must not forget that cotton is an industrial raw material that not only must compete with foreign cotton in the export market but with man-made fibers at home and abroad. This means that programs for cotton must also reflect market conditions and that cotton must always be relatively competitive in price, quality and in promotion. To lose sight of these basic economic facts would be to court disaster.

We believe that the changes provided by the recently passed Emergency Farm Bill will strengthen the Agricultural Act of 1977 and provide the tools needed for an effective farm program, if administered effectively.

There is one additional change that we would recommend for the Committee's serious consideration in the future. The Agricultural Act of 1977 does not have an effective method for bringing supply in line with demand in a direct and timely manner.

Fundamentally, the cotton program can develop such a burdensome excess supply that it cannot clear the market at prices high enough for farmers to continue to stay in cotton production. We, therefore, propose that the Agricultural Act of 1977 be further amended to include—

1. A requirement that the Secretary of Agriculture be directed to enforce a cutback in cotton acreage for the following season whenever the projected carry-over at the end of the marketing year for which the crop is being produced would exceed 4.5 million bales. The objective would be to maintain the carry-over around 4.0 million bales (plus or minus 10 percent).

2. The cutback provision should require:

- (a) A mandatory cutback of 5 percent for all program participants and in order to be eligible for the CCC loan;

- (b) An optional cutback of 10 percent for program participants as a requirement for being eligible for target price payments, disaster payments and all other program benefits including the CCC loan.

We appreciate the opportunity to provide these comments.

Respectfully submitted,

B. F. SMITH,  
*Executive Vice President.*

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STATEMENT OF JOHN DENISON, CHAIRMAN, RICE ADVISORY COMMITTEE,  
LOUISIANA FARM BUREAU FEDERATION

My name is John Denison and I am a rice, soybean, and cattle producer from Iowa, Louisiana. I serve as Chairman of the Rice Advisory Committee of Louisiana Farm Bureau Federation. I would like to thank you for the opportunity to testify regarding Senate Bill 2626. My comments today represent the collective views of over 54,000 member families of the Louisiana Farm Bureau. My testimony reflects policy developed through our statement advisory committees which are composed of producers from throughout the state.

Louisiana Farm Bureau policy strongly supports the concept that government agricultural programs should be market oriented. We, as farmers, feel that it is far more desirable to earn our livelihood in the market place rather than to be dependent for a portion of our income on the U.S. Treasury. Our policy concerning price supports which was adopted at the 1977 convention of Louisiana Farm Bureau states:

- (a) The purpose of farm price supports should be to protect the farmer from disastrous price drops in times of economic adjustments and to provide for orderly marketing.

(b) We recognize that price supports high enough to remove an agricultural commodity as a competitor in the free market are basically subsidies and must be linked with rigid production control. We further recognize that such a price support policy and its subsequent controls must eventually lead to governmental regimentation of all agricultural activities.

The major provisions of this bill are in obvious conflict with this policy and our beliefs. We strongly object to the establishment of a powerful national board of agricultural governors which would inevitably lead to complete control of agriculture from production through marketing. The powers delegated to this body which would establish strict production and marketing controls for all major crops is a giant step in the wrong direction.

Provisions of the bill which effect imports and exports would certainly disrupt the flow of agricultural products from American farmers to foreign consumers; and, for Louisiana farmers, this is of critical importance because of the high percentage of our products which are exported through gulf ports.

I would now like to discuss our specific recommendations concerning rice. In November of 1975, we appeared before this committee and supported vigorously the retention of the 1958 Rice Act. We stated that this program provided the necessary mechanisms for increased production when additional supplies were needed and production restrictions when supplies became excessive. We also stated that this program had served the rice production needs of this country well and would prove to be the least costly. However, the legislative result was the adoption of a target price program. This program included open-end production with target and loan provisions for allotment holders. This type of program was carried over under the Food and Agriculture Act of 1977.

In 1977, we testified in favor of retention of the target price program. We did this in view of the demand for rice and the desire by new producers to enter the rice business. However, we also supported provisions which would limit the rice allotment to 1.8 million acres and deny target price and loan protection on acreage in excess of the allotment. We do not feel that poor decisions made by some of these new growers should be subsidized out of the U.S. Treasury by making them eligible for target price and loan protection. I personally produce rice in excess of my allotment and I subscribe to this philosophy.

In reviewing the results of the first two years of this type of program, the record appears to be good. Last year, as a result of lower prices and weather problems, acreage was reduced. However, this year in the face of a stronger rice market, acreage has come back to previous levels.

Our Rice Advisory Committee, which represents all rice-producing parishes in Louisiana, met and reviewed Senate Bill 2626 and unanimously voted to oppose this bill. The committee felt that in view of the record over the past two years, the current rice program should be given a longer period in which to prove its worth. It is the Senate Agriculture Committee which was primarily responsible for the change in the rice legislation over the past two years and we feel that it would be unwise to change the basic concepts of this program that we now have for one which sets a high support price for all rice produced in the United States. This change will certainly lead to overproduction, both here and abroad and flood the rice market with disastrous effects on the market price. If it is necessary to go to a system of tight controls, then go back to the 1958 Rice Act which has been tried and proven, rather than the unsubstantiated concepts outlined in this bill.

Gentlemen, that concludes our testimony. Again, may I thank you for the opportunity to make this statement, and I will be glad to try to answer any questions that you may have.

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STATEMENT OF FRED HUENEFELD, JR., MONROE, LA., MEMBER, LOUISIANA AGRICULTURAL STABILIZATION-CONSERVATION COMMITTEE; LOUISIANA SOIL AND WATER CONSERVATION COMMISSIONER

GENTLEMEN: This is the third time this year I have presented testimony before a Congressional Committee concerning the conditions in the Agricultural Communities of this country and solutions to the financial difficulties facing farmers throughout the United States. The two previous statements I submitted before the House and Senate Agriculture Committees proposed what I called "radical surgery to cure a growing cancer in U.S. Agriculture."

I suggested that Agricultural Commodities be treated in much the same way as money—as a valuable asset that is tremendously important to the economy of this

country. The Farm Produce of this nation is our only renewable resource and the only means we have of creating new wealth. As such, it is vitally important as a means of maintaining and improving our economic position within our borders and in relations to the rest of the world.

For over twenty years I have been aware of the need to provide stability to our Agricultural Economy—both to insure farmers a fair return on their investment and to keep this nation financially sound. We can no longer afford, as individual farmers or as a nation, to subsidize this nation's consumers or the rest of the world with food and fiber at prices so cheap that they do not even cover the production costs. We are literally giving away our most valuable resource and the price we are paying for this foolhardy practice is an imbalance in trade payments, loss of tax revenues, inflated land costs, high unemployment, spiraling inflation and—perhaps worst of all—the loss of the belief that through hard work and efficient production, Americans can obtain financial security for themselves and their families.

In attempting to find a method of stabilizing the prices of our most valuable resources, I began thinking of how we maintain stability in the use of money. The Federal Reserve System controls the supply of money by setting the price of money through interest rates and by determining how much is available at any given time. If it were not for this system, money wouldn't maintain the value it does and we'd soon flood the market with cash and its value would decline rapidly.

We are flooding the market with Agricultural Commodities through our government's cheap food policy and the value of these commodities has decreased markedly as a result. What we need is an Agricultural Federal Reserve System to control the supply of vital commodities in order to maintain their value and insure their continued production. As long as the bulk of our farm produce is sold at harvest time—when the supply is greatest and the demand is the same as at any other time—we will continue to ignore the real value of these resources. What we need is a method of releasing these commodities as they are needed. This will enable us to sell them at reasonable prices.

None of us would like to pay the inflated prices a shortage of food and fiber would necessitate. We shouldn't be satisfied, either, paying such low prices for these necessities that we make them unprofitable to produce. Yet, this is exactly what we are doing!!!

The idea of a Federal Reserve System for Agriculture apparently occurred to several people at the same time, and I am even more enthusiastic about it today as a result. Shortly after I began looking into the Federal Reserve Banking System and consulting with economists from universities in Louisiana, Mr. Eliot Janeway—a noted economist and newspaper columnist—suggested an Agricultural Federal Reserve System in a speech to representatives of the American Agriculture Movement in Omaha, Nebraska on January 6, 1978. Nebraska's Governor Exon endorsed the idea following that meeting between farmers and Secretary of Agriculture Bob Bergland in early January. Then, Commentator Paul Harvey made the same suggestion in a radio commentary in early February. I was most encouraged by the article published in the March 19th issue of the Washington Post. A Nebraska farm wife, Marian Lenzen, described the problems caused by low farm prices throughout the country and explained that everyone in the food and fiber chain is reaping a harvest of profits—everyone, that is, except the farmer. Mrs. Lenzen then offered the following solution; "Perhaps a new approach to the problem is needed—perhaps a national food and fiber board to control the buying and selling of farm products, much like the Federal Reserve Board controls the supply of money."\*

This brings me to the main purpose of this testimony. I had the idea of an Agricultural Federal Reserve System; I had testified before the House and Senate Agriculture Committees urging them to consider this idea as a long-range, comprehensive farm program; I had been spurred on by the support of the idea by Mr. Janeway, Governor Exon, Paul Harvey, and Mrs. Lenzen—but: until I read the bill proposed by Senator Kaneaster Hodges of Arkansas (S2626), I had not seen a realistic legislative approach to creating an Agricultural Federal Reserve System.

This bill covers all the bases! It is a well-thought-out piece of legislation. It may be the best opportunity this country will ever have to institute a comprehensive farm program that is fair, not only to farmers but to consumers as well. If

\*See p. 242 for the article by Mrs. Lenzen.

ever there was an ideal farm bill, this is it!! The bill was drawn up by a Senator with no ax to grind. He's an appointed Senator who is not seeking another term and therefore, has no political motives!

The main feature of this bill is the National Board of Agricultural Governors—21 members representing the major commodities and every region of this country whose selection is accomplished in such a manner that everyone is represented—farmers, consumers, labor and business as well as the President and Secretary of Agriculture. Their job will be to determine the cost of producing Agricultural Commodities which will then set the Commodity Credit Corporation loan rate. I, frankly, don't see how anyone—business, consumers, labor or politicians—can argue that farmers should not receive at least what it costs them to produce the commodities they sell. The alternative is to continue the indifference of this government and non-farm consumers which was so eloquently described by Senator Bumpers when he introduced this bill. The alternative is literally to bankrupt the nation's farmers and bring on a depression that will have disastrous consequences far beyond this nation's farms!!!

This bill, gentlemen, actually protects consumers from the Boom and Bust economy that has prevailed in this nation's Agricultural Communities—the fluctuating prices that have increased the price of everything farmers buy and, consequently, most, if not all of what non-farm consumers purchase. While the prices for farm commodities have gone up and down, the cost of everything else has only risen, often as a result of fairly high farm prices which may occur one year in four or five!

Senate Bill 2626 would stabilize both the price the farmer receives and the price the consumer pays by allowing the Board to set both a floor and, in effect, a ceiling on farm prices. It would set a price level at which commodities would be released into the market both to keep consumer prices down and to provide for storage of new crops.

Another important aspect of this bill is that it provides for a national food and fiber reserve to insure that these necessities and demand remain in line with one another.

Very simply—this bill would allow farmers to receive fair prices, assure consumers of an adequate supply of farm products at reasonable prices and it shouldn't cost the government anything! As a matter of fact, the government should earn revenue from the interest rates paid by farmers who store their crops with the Commodity Credit Corporation!

This is a voluntary program with the incentive to the farmer to produce at a controlled rate and the assurance that he'll at least receive his production costs if he produces efficiently.

The Bumpers-Hodges Bill has the support of virtually every farm commodity group and it is my experience that every farmer I know who has studied this legislation endorses it enthusiastically.

Gentlemen, the concern of this nation's farmers hasn't diminished just because planting time has arrived. If anything, it has increased! Farmers are keeping a close watch on your actions and are making plans to support candidates who'll do something about the farm depression in this country! Senate Bill 2626 is the best opportunity you've ever had to do something for farmers—but, it is also one of the best chances you'll ever have to do something to stabilize farm prices, insure a healthy tax base, and provide a positive balance of payments. I urge you to support "The Consumer and Agricultural Protection Act of 1978" as enthusiastically as I do!

[Reprint from the Congressional Record—Senate, Mar. 2, 1978]

Mr. BUMPERS. Mr. President, today I am introducing a bill on behalf of my distinguished colleague (Mr. Hodges) and myself.

It is mostly the work of Senator Hodges, over a period of several weeks. It is a monumental effort, a diligent effort, and I believe one of the most sensible and rational pieces of legislation ever to be introduced in this body dealing with the problems of agriculture in this country, particularly at this moment.

I believe that Members of this body and our colleagues on the far end of the hall were shocked back in the latter part of November and early December when we found out that the farmers in this country had suddenly decided that even though we loved them, we were not treating them as though we did.

I think people all across this country were shocked. They were shocked to know that the farmers, even though they owned a lot of sophisticated equipment and a lot of land, were actually going broke.

At first, everybody accepted this movement, tongue in cheek. It is my honest belief that the Congress, when these farmers converged on Washington in their tractors and pickups, and however else they could get here, I believe it was the common belief by the Members of the Congress that we could pat them on the head, say, "You've had nice time, you've made a good point, we all understand, now go home."

The truth of the matter is that the farmers in this country wanted to go home. But they cannot. They cannot leave us alone because they cannot plant, they cannot harvest, and they cannot produce at today's prices. They have to have relief.

Now, most of them cannot afford to come to Washington. Sometimes I think that is unfortunate because I wish everybody could come here and see the workings of government, for better or for worse.

But I do not believe I have talked to a single Senator since the farmers came to Washington who did not say, "I would like to help those fellows, but how in the world do you do it, how do you do it without raiding the pocketbooks of the consumers, how do we do it without raiding the Federal Treasury, there is just no solution."

I have heard those statements and I think all of my colleagues have. Some of us have demonstrated not only concern but also hard commitments to do what we can to save that segment of men and women in this country who are the backbone not only of our existence but also the existence of countries who are dependent on our food for their survival.

Mr. President, what this all amounts to and what we are involved in right now is simply the culmination of an accumulation of indifference—indeed, a callousness—toward people engaged in agriculture in this country.

We have allowed the farmers of this country to become the whipping boys every time food prices go up. We have boasted openly to the world about how much we spend for food in this country and how much less it is than any other country of the world, and indeed, it is. We have cynically used farmers in our foreign policy by embargoing their crops, by rewarding or punishing other nations by either allowing them or not allowing them to have our crops. The farmers have been the recipients of all the devastating effects of all these official actions of the U.S. Government.

Then there are those traders, the paper shufflers, in their ivory towers, who, with sophisticated computers and telecommunications systems, manipulate the markets. I do not know how they do it. I am not sophisticated enough to understand it, and I certainly do not expect the dirt farmers of this country, who plow from sunup to sundown to try to produce, to understand it.

Mr. President, the truth of the matter is that the farmers of this country have been breaking their backs, literally; and although by the sweat of their brow and the work of their muscle they have done so much for this country, they are being rewarded with bankruptcy.

In our Fourth of July picnic speeches, we like to say that the character of this Nation is such that we are sensitive and we are concerned not just for the poor, not just for the minorities, but for any segment of our people who, despite their best efforts, are thwarted by our system. Our system is not perfect, and it does break down. There are places where people actually are harassed into bankruptcy, literally, through no fault of their own, and regardless of the amount of labor and effort they put into their endeavors.

Right now, in this virtually empty Chamber and the empty Chamber at the other end of the hall, we are demonstrating some indifference to the fact that 25 percent of the farmers in this country are going to go broke this year if they do not get some relief. Colleagues I have talked to have been looking for a commonsense approach to the problem, a rational approach—one, as I say, that does not raid the Federal Treasury, one that does not rip off the consumer, but one which at least will allow the farmer some indication of how he is going to fare at the end of the year, after a yearlong effort but usually himself and his wife and all the children in his family old enough to work.

The features of this bill, simply stated—and I think I should call it the centerpiece of the bill—is the establishment of an agricultural board composed of 21 members. Fifteen will be agricultural producers and six will be representatives of organized labor, consumers, and business. But the feature that is best about it is that it will be independent from the Department of Agriculture.

This board will be charged with the responsibility of determining what the actual cost of each commodity is each year. It will cover wheat, corn, grain, sorghum, barley, oats, dry beans, rice, soybeans, cotton, sugar, cattle (except dairy cattle), calves, hogs, poultry, and milk and dairy products.

Anybody who wants in, but is not in, can get in by a petition and referendum.

Incidentally, some of the nice farmers in my State have indicated that they do not want to be part of this. If they do not, all they have to do is this: If 15 percent say they want out, there will be an election, and they can get out.

The loan levels of the Commodity Credit Corporation will be mandatorily established at whatever the board says the cost of production is. Then, if the farmer wants to go to the bank or any other commercial institution to borrow money, he may do so by paying the going rate; and the Federal Government will guarantee it. He can do it for 3 years. But if he prefers, he can put his commodity in the Commodity Credit Corporation for some indefinite period of time.

Obviously, this country does not have the storage capacity or the facilities to leave commodities in storage forever. So there will have to be a triggering mechanism to require that a certain percentage of the producer's crop be taken out, as the price of that particular commodity reaches certain levels.

Mr. President, I think this is going to be some encouragement to farmers to plant, so there must be what we normally call a mandatory adjustment. Every year, after each farmer files an intent of what he intends to plant that year of a particular commodity, the Secretary will determine how much land in each commodity needs to be set aside. These set-asides are not playthings. They will be mandatory, and they will have to be enforced rigidly.

This board will be charged—once the Secretary makes that determination—with the responsibility of allocating to each farmer how much he is going to have to cut back.

Mr. President, those are the essential ingredients of the bill. It is not draconian by any standard. It just makes a lot of sense.

The Lou Harris poll recently reported that a vast majority of the people in this country would be willing to absorb a 5-percent increase in food prices if they thought it would alleviate the present plight of the farmers. That is a magnanimous thing to say about the American people. That shows their concern for the farmer, and that is more concern than the U.S. Congress has shown so far.

The interesting thing about this bill is that it will not cost as much as that famous 1977 agricultural bill.

Incidentally, I intend to introduce this bill, and I ask unanimous consent that it be printed in the Record immediately following my remarks and the remarks of Mr. Hodges, together with some tables, to prove what I just finished saying.

**THE PRESIDING OFFICER.** Without objection, it is so ordered.

**MR. BUMPERS.** Mr. President, the alternative is to do nothing. Incidentally, that is just what we have been doing. I do not allege or say that this bill is perfect. There are one or two things about it that perhaps I would like to change. I know that Senator Hodges does not claim perfection for it. But I think it is the vehicle that the Senate should start using today, to mark up, to get a bill passed, so that within 30 or 40 days, the farmers of this country will know that not only is Congress concerned about them, but also how much Congress is concerned.

I have heard it said that the chairman of the Senate Agriculture Committee has told the farmers:

"I'm with you any time you can get a bill with 51 votes for it."

I am going to work diligently, and I know Senator Hodges will, to get 51 co-sponsors of this bill.

Everybody has thrown in legislation, from one end of this building to the other. But this is a comprehensive bill. It is the most sensible, rational approach I have seen to the problem, one that can meet the most stringent demands of consumers and can provide the relief we are talking about.

So, Mr. President, I congratulate my colleague for the monumental effort he has put into this bill, and I am honored to be associated with him and with this bill. I hope the bill will be referred to the Committee on Agriculture, Nutrition and Forestry and that they will treat it with the urgency it needs, deserves, and literally demands, if we are going to save the farmers in this country.

The farmers of this country are concerned about agribusiness. Wait until all the family farms we pay lipservice to are gone, and agribusiness has this country by the jugular vein. Everybody will say, "Why didn't we do something about it?" Wait until foreign interests own most of the agricultural interests in this country. Everybody will say, "How did this happen? Why didn't we do something about it?"

Mr. President, the time to do something is now. I hope my colleagues will treat this bill with the urgency and consideration it deserves. I yield to my distinguished colleague from Arkansas (Mr. Hodges).

The PRESIDING OFFICER, The Chair inquires whether the Senator is yielding the remainder of his 15 minutes.

Mr. BUMPERS, I am.

Mr. HODGES, Mr. President, how much time remains?

The PRESIDING OFFICER, Two minutes.

Mr. BUMPERS, Mr. President, I ask unanimous consent that the Senator from Arkansas be granted a total of 5 minutes.

The PRESIDING OFFICER, Is there objection?

Mr. HATCH, Mr. President, I ask unanimous consent that the Senator from Utah be given 1 minute after the Senator from Arkansas speaks.

Mr. BARTLETT, Mr. President, I do not object; but, rather than proceeding in this fashion, I have this suggestion: I have 15 minutes, and I will not require that much time. I will be glad to yield 5 minutes to the Senator from Arkansas and 2 minutes to the Senator from Utah.

The PRESIDING OFFICER, Is there objection to the Senator from Oklahoma transferring 5 minutes to the Senator from Arkansas and 2 minutes to the Senator from Utah? The Chair hears none and it is so ordered.

Mr. HODGES, I thank the distinguished Senator from Oklahoma.

Mr. President, I appreciate the remarks of the distinguished senior Senator from Arkansas. He is a great asset to the State of Arkansas, to the Senate, and to the farmers of this Nation. He has been a friend for many years, and I appreciate his remarks and his efforts in this endeavor.

I wish I could claim credit for this bill, because it is a great idea, but I cannot. It is the product of literally hundreds of farmers in dozens of States, some of whom sit in the gallery today.

Mr. President, we do not have a farm problem. We have a farm crisis. It is distressing to me that we seem to have in this Congress, as symbolized here today by a virtually empty Chamber, some deaf ears.

There are those who say it is the young farmer who is in trouble, because he bought expensive equipment and paid high prices for land. But they should learn that that is not the case. I have been sitting in the Agriculture Committee hearings now for a number of days, and it is farmers of all ages, farmers of all economic levels, and people who have farmed for literally dozens and dozens of years who are also in trouble and surviving off their equity.

It is not just one small segment of the farm economy, and it is just not one commodity. Commodity after commodity is here saying, "We are in trouble and are losing money."

We import \$40 billion worth of foreign oil into this country. At the same time, we send \$24 billion worth of agricultural products abroad, and are proud of it; we are proud of our President and our executive branch. But this only represents two-thirds of our cost of producing these products, so that actually \$12 billion of our money is gone; and when I say "our" money I am talking as a taxpayer.

Those of you who ate breakfast this morning were subsidized by these farmers. Those who eat a loaf of bread each day are subsidized by these farmers.

Three and a half years ago a man appeared on television, representing the American bakers, and he said:

"You should get worried, because you are going to pay \$1 for a loaf of bread because of high farm product prices."

The American public threw up their hands and the President got worried.

Since that time bread has increased in price 20 percent, and wheat is half what it was sold for then. Has your loaf of bread dropped by half?

If I earned my livelihood from farming I would not be as courteous, kind, and thoughtful as these men and women are. If I saw my life's work and my family farm going down the drain, I would react as the coal strikers react.

What really are we teaching the American farmers? The Members of Congress are applauding the coal settlement, and it might be a good settlement. It is a 37-percent increase in wages in 3 years. Who is on the floor shouting it is inflationary? Everyone wants to settle the strike.

Violence has been had in the coalfields. Who is on this floor decrying the violence?

What we are telling the farmers, by the way we react to the coal strike is that "You are not mean enough; the only way we react as a Congress is not to ra-

tional intellectual arguments, but to threats and violence. We do not hear your cries in the night."

Now, there are desperate men in farming today, because the present income levels of farming are similar to those of the early 1930's, in the depression, and this desperation will continue to grow.

Some say, "Well, there is not much of a problem. It is a few isolated farmers." There are 1,600 strike offices open in this country now, however, and I daresay within the next month you will see tens of thousands of farmers returning to this Capitol.

We cannot continue farming on the basis on which it has been. We cannot patch up that same old tire once again. We cannot give them \$4 billion, \$5 billion, and expect them to go home, because we have done too great an injustice to the farm economy here in Washington, in these Halls and by these decisions.

I see an executive branch that does not seem to be listening. This bill says for the first time that farmers are going to try to run their own business. Not the processors, not those who look for cheap food, and not those who care more about keeping their mills running than the people who produce millable products.

This bill is a good answer for the short and for the long range. I do not suggest that it is perfect, but I have not seen a perfect bill here yet, and I think that at long last we must tell the farmer that he will have some control over his own destiny.

Mr. Hatch, the distinguished Senator from Utah, is going to have 2 minutes, and he tells me he is going to join in sponsoring the bill—in the spirit, I think, in which people should join it, not agreeing with everything that is in it but using it as an essential vehicle. I am proud to have him as a cosponsor.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. HODGES. I thank the Chair.

The PRESIDING OFFICER. The Chair recognizes the distinguished Senator from Utah (Mr. Hatch) for not to exceed 2 minutes.

Mr. HATCH. Mr. President, I rise on this occasion in support of my two esteemed colleagues from Arkansas. I particularly want to pay tribute to our new colleague, Senator Hodges from Arkansas. I believe for the short time he has been in the Senate he has worked very, very hard to try to do what is right in the Senate, and I am sure we are going to disagree on some things in the future, and I am sure we have disagreed on some things in the past; but I want to compliment him for the leadership that he is at least trying to utilize here and I think it is definitely being exhibited here in this effort to do something for the farmer.

I have been all over this country, and I have met with farmers all over this country, particularly in Utah, and I can tell you they are upset and concerned, because they are not getting fair prices for their produce.

I do not know of any nation in the world which has survived, which has allowed the farmers to go down. I see trouble on the horizon all over our society today, but I cannot stand by and let the farmers go down, and I agree with Senator Hodges, the distinguished Senator from Arkansas, and also my friend, the senior Senator from Arkansas, that now is the time to do the best we can to help them pull out of their difficulties.

I want to do exactly that if I can. So I want to be listed as one of the cosponsors of this legislation. Although I think there are areas where this legislation can be made better as it goes to committee and comes out on the floor. I still think it has some very good innovative ideas about helping the farmers receive fair prices.

The PRESIDING OFFICER (Mr. Hodges). The 2 minutes yielded to the Senator from Utah have expired.

Mr. HATCH. I thank the Chair for the time and I would like to be listed as a cosponsor on this bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BUMPERS. Mr. President, will the Senator yield for just 1 second? My colleague from South Dakota should be added as a cosponsor to the bill just introduced.

The PRESIDING OFFICER. Without objection, it is so ordered.

Under the previous order, the Senator from Oklahoma (Mr. Bartlett) is recognized as in legislative session for not to exceed the time period up to 10:06 a.m.

[Reprint from the Washington Post—Sunday, Mar. 19, 1978]

FARMERS ARE TIRED OF SUBSIDIZING THE COST OF FOOD

REALISTIC PRICES ESSENTIAL, NEBRASKA FARM WIFE SAYS

(By Marian Lenzen)

The average age of the American farmer is 53. It follows that the average age of the American farm wife is 50. That fits me exactly. I have been a farm wife for 30 years. We have seven children. The four boys are self-sufficient; none are farmers, not because they did not like farming, but because they were forced to face reality. Our 800-acre farm will support one family at the most and, with farm prices at current lows, it will hardly do that.

We have 150 acres of wheat each year, 150 acres of summer fallow, and the rest is grass. And have a small cow-calf operation. We consider ourselves successful family farm operators even though, by the material standards prevalent in our society, we may not appear to be so. Most of our machinery is old enough to vote; tires are no longer available to fit our truck. But we set priorities and the number one priority was to educate our children. Our four sons all worked part-time after age 16. They saved money, and with our help, loans and part-time work, all have graduated from the University of Nebraska. Two of our daughters are in college. We figure it was cheaper to finance seven children to four years of college than to put one son into farming.

The only way for a young man to go into farming today is to marry it or inherit it. When I hear young farmers begging for special consideration, such as a moratorium on loan payments or cancellation of interest, I have no sympathy for them.

Saying that "Farming is all I have ever wanted to do" does not justify their cause. Most of them started farming since 1970. They jumped in when land and machinery prices were skyrocketing and farm prices going down. They bought top-of-the-line equipment. They wanted to start farming on a par with those who had been doing it for 30 years and their interest charges are more than our annual income.

I see no reason for the federal government to finance them to a \$50,000 tractor with cab, air conditioning and piped-in music, when my husband has only an umbrella to shield him from the sun and long johns to protect him from the cold.

Those farmers who have overextended themselves made the mistake of believing the doomsayers and the do-gooders. The doomsayers convinced them that an ever-expanding world population meant prosperity for the food producer. The do-gooders convinced them they had a moral obligation to produce food for that expanding population.

What neither mentioned was that need and demand are two different things. If everyone in the world were to receive an adequate diet daily, there wouldn't be a food surplus, but reality tells us this isn't going to happen soon.

Farmers have been told for years, ever since World War II, that big was better, more efficient. Squeeze your neighbor off his land! Farm numbers have been decreasing by 1,000 a year just in Nebraska. According to the Department of Agriculture, farm population stood at 8.3 million in 1976, down 6.7 per cent from 1975 and 15 per cent less than in 1970. Farms have become bigger and fewer and farm income has fallen. As farms grew in size and farmers improved their efficiency, they produced more, the market was glutted and prices fell.

Yet the price of all the manufactured machinery, gasoline, feed, seed and fertilizers that farmers bought went up and up while the price of grain, meat and milk went down.

That's what agribusiness efficiency did for farmers. It busted the small operators and forced them into the cities, and it increasingly consolidated the production and processing and distribution of food in this country into the hands of a few big multinational corporations.

One reason it is so hard to get a realistic comprehensive farm bill through Congress is because many want to protect the interests of agribusiness corporations. Their profits depend on all-out production. They don't want land set aside. They want it fertilized, sprayed, fumigated and irrigated. Warehouses don't make money sitting empty, but filled with wheat, corn and peanuts, they are a gold mine.

Big business and big government now own or directly control all the resources and means of production in the world. The only holdout against complete corporate takeover is the family farmer.

According to an article in Mother Earth News, 12 landholders now control over half the state of Maine. (They may have to give some of it back to the Indians now.) Twenty-five control 52 per cent of the state of California. All of this has been accomplished with the aid and consent of the federal government. The 1902 law that prohibited the irrigation of more than 160 acres by one landholder from a federal water project has been completely ignored. Government policy has encouraged the big to get bigger, the rich to get richer and the small to get lost.

A farm bill that allows payments totaling \$55,000 to one operator encourages the big to gobble up their smaller neighbor. Three-fourths of the farms in Nebraska gross less than \$55,000 a year. Farm legislation should protect and preserve the family-sized farm, not encourage cannibalism. To do this, the rate per bushel of grain on which loans to farmers are based should be increased, the target selling price increased and the maximum payment to one operator decreased. There should be a minimum acreage cutoff for eligibility in the government deficiency payments program. Better to spread the payments among the many than to concentrate them in the few. Non-farm corporations should be excluded from government payments.

Farm prices are too low. Even farmers with no debt will find it next to impossible to survive without mortgaging their land. Many farmers are modern-day slaves, owned and controlled by their bankers. If Congress can legislate a minimum wage, it can legislate a minimum price for raw farm products.

Many have suggested that better marketing of our grain abroad would solve the problem of low farm prices. How naive can you get? When and if foreign demand raises the price of farm products, the longshoremen's union will refuse to load the grain until they secure some fringe benefit for themselves, like lifetime job security. The maritime union will demand that half the grain be shipped on American ships instead of the third they demanded and got in 1975. (Isn't it strange that farmers are told that grain prices cannot be raised because then our grain would not be competitive on the world market, but the shipping industry and the maritime workers do not have to price their services and labor to compete on the world market? Instead agriculture is forced to subsidize them to a higher standard.)

President Carter said in a recent news conference that parity prices for grain were not desirable because of the effect such prices would have on retail food prices. You can't say it any plainer than that. Food stamps are being used to subsidize the poor's higher fuel bill. The oil companies and utilities can raise prices and get what they ask, but farm prices are to be deliberately suppressed. Is it fair to ask 4 per cent of the U.S. population to bear the brunt of the fight against inflation?

When farm prices went up in 1973, machinery prices soon doubled. Not because of supply and demand, but because the manufacturers knew farmers had made some money and they jacked up machinery prices as high as traffic would allow. It's called gouging. If it were supply and demand, prices would be coming down because machinery is not selling and the manufacturers have had to lay off employees.

"Food for people, not for profit" is a popular slogan for those who do not make their living growing food. They have apparently forgotten the other saying: "There ain't no such thing as a free lunch." Someone has to pay and for too long that someone has been the American farmer. He's tired. He's getting old. He can't carry the burden alone any longer. It is the responsibility of every citizen to share the cost of providing cheap food.

Perhaps a new approach to the problem is needed—perhaps a national food and fiber board to control the buying and selling of farm products, much like the Federal Reserve Board controls the supply of money.

If cheap food is to be government policy, then the government must pay to the farmer the difference between market price and parity. A realistic limit should be made on these payments. City residents resent it when a few large operators and corporations collect huge sums of money from the government. They don't like to subsidize farmers to a European vacation any more than I like to subsidize the yachts, hunting lodges, country-club dues and three-martini lunches of the high-salaried urban executive.

Low farm prices are having an effect on the work ethic in rural America. We taught our children to work hard, live frugally and save for a rainy day. I'd never recommend that now. It gains nothing. I hate to admit it, because it sounds so un-American, but I must face reality.

[From the Monroe Morning World, May 21, 1978]

### FARMERS STRIKE TO PRESERVE IDENTITY

The American farmer, wedged between ever-increasing consumer prices and reduction in profits from his produce, has been forced to strike to preserve his identity, local farmers say.

Cecil McMullen, who owns about 750 acres of cotton land in Ouachita Parish, said the farmers' strike "has been making a lot of people aware" of the farmers' plight, which has significantly worsened over the past two or three years.

McMullen and his son are participating in the strike primarily because "the crop last year wouldn't bring in what it cost us to make it," McMullen said.

He has planted 53 percent of his total crop acreage, leaving about 400 acres planted in cotton. In one 131 acre field, McMullen said he left 20 percent (roughly 26 acres) unplanted, and planted only two out of every three of the remaining acreage.

"We don't want to receive paid subsidies or be paid for not planting a crop," McMullen said. "We need loans" in adequate amounts instead.

McMullen, who said he has harvested 32 crops of his own, said the farmer's situation has worsened over the past two or three years. "Inflation is eating this country alive," he said, "and in trying to stop inflation, we're caught in the middle."

The strike movement in northeast Louisiana has been relatively strong, McMullen contended though all are not taking a stand on the issue.

McMullen expressed concern over the apparent indifference of the general public and the federal government toward the farmers' appeals for help.

"I'm real disappointed and shocked to realize the intelligence of the people running this country," McMullen said. "They want to run the farms like they run the U.S. government."

The strike movement throughout the country, McMullen said, is an indication to the consumer of what could be in store for him.

### HOW AGRICULTURE STRIKE DEVELOPED

After hints of a farm strike loomed throughout the summer of 1977, a group of farmers and agribusinessmen met at Springfield, Colo. in early September to form the American Agriculture Movement. Within days AAM headquarters had been established in a dozen states, Louisiana among them.

Dec. 2, 1977—Oak Grove tractorcade and meeting with national AAM representatives. Strike deadline of Dec. 13 established.

Dec. 10, 1977—AAM members hold rallies in state capitols across the nation.

Dec. 14, 1977—Farm strike begins at 12:01 a.m., pickets and protests activities begin.

Dec. 24, 1977—President Carter agrees to meet with strike leaders.

Dec. 27, 1977—U.S. Rep. Jerry Huckaby meets with area farm leaders, establishes Fifth District Farm Advisory committee.

Jan. 11, 1978—Area farmers begin tractorcade to Monroe for Ark-La-Miss Farm Forum protest.

Jan. 14, 1978—Northeast Louisiana strikers receive backing of state AFL-CIO, U.S. Sen. J. Bennett Johnston, U.S. Rep. Jerry Huckaby and agri-businessmen at Farm Forum.

Feb. 1, 1978—Gov. Edwin Edwards meets with state strike leaders in Baton Rouge, promising support and assistance.

Feb. 6-9, 1978—Northeast Louisiana farmers and businessmen testify before House committee members in Washington, D.C. Intensive farmer lobby effort established.

March 2, 1978—Striking farmers arrested during demonstration on International bridge between Hidalgo, Texas and Nogales, Mexico.

March 4, 1978—Farmers released from Texas jail after two day siege, return to bridge next day for final border rally.

March 8, 1978—Rayville strikers stop freight train transporting cotton, halt pickup of five boxcars of baled cotton.

March 14, 1978—Northeast Louisiana farmers join AAM members from across the nation in 80,000 man lobbying effort as House and Senate farm legislation takes shape in Washington, D.C.

April 11, 1978—Senate okays emergency farm aid bill over administration protests. Bill moves to House for action.

April 12, 1978—House kills emergency farm bill.

May 3, 1978—U.S. Senate okays farm bill already approved by House. Bill includes measure outlining income support.

May 16, 1978—President Carter signs compromise bill.

#### SMALL FARMS DISAPPEARING IN NORTHEAST LOUISIANA

Ten years from now, the small "grass roots" farmer may be a thing of the past.

There's no question the small farmer has had a tough time making ends meet during the past few years. A lot of Northeast Louisiana farmers say if the small farmer doesn't get some help soon, he may be forced to give way to the larger corporate farms whose owners can afford to hold out for higher crop prices.

Area farmers like Harold R. Hodgkins of Kilbourne contend things are too easy for the corporate farmers who are successful sometimes at the expense of the small farmer.

"The larger corporate farmers have had pretty good going, had places willed to them. They go along pretty smooth," Hodgkins said. The strike itself is "a losing battle" for the small farmer, he added, because "there are too many corporate farmers with tax breaks who are putting the small farmer out of business."

Some farmers are pinning their hopes of retaining the small farming system in this country on the success of the farmers' strike.

Luther Hughes of Pioneer said he is convinced the strike will be successful "in the long run." If the farmers are not successful in raising price supports for their produce, "there will be corporations like Purina farming all the ground," he said.

"We're based on what is supposed to be a free and fluctuating economy," Hughes said, "and Purina is such a big corporation, they have the money to control their market where the average family farmer doesn't."

The small farmers' problems did not develop overnight. Many area farmers said they have seen it coming for a long time. The question they ask is, what happens to the farmer who is uprooted once he has to change his lifestyle?

To Epps farmer E. D. McKnight, the outlook for the individual small farmer is not good. "The trend is forcing the small family farmer out of business into villages, towns, and cities," McKnight said. "The next alternative is welfare, unemployment or food stamps."

#### SHELVES STILL WELL-STOCKED

(By Bill Short, World Staff Writer)

A check of Twin Cities area grocers and shoppers indicates the nationwide farmers' strike has increased produce prices but has not affected the operation of the grocery business or grocers' ability to keep their shelves well-stocked.

Several local grocers reported lettuce prices jumped from 49 to 99 cents a head, tomatoes from 59 to 89 cents a pound, apples from 59 to 79 cents a pound, cucumbers and bell peppers from 2 for 49 cents to 49 cents each.

However, the distribution trucks have been arriving on schedule and the stores have remained wellstocked with food items, grocers said.

John Mullinnix, manager of Brookshire's Food Store No. 56 at 2348 Sterlington Road, said about the only strike effect grocers see at the store level is an increase in prices.

"The wholesale prices were higher because of the shortage of produce supply, and the higher price was passed along to the consumer," Mullinnix said. "Lettuce went up about 20 to 30 cents a head and tomatoes fluctuated from 20 to 30 cents a pound.

"We haven't had any trouble getting our merchandise," he added. "We had ample supply in the warehouse but a shortage in fresh produce may show up in our warehouse this week."

Mrs. Connie Hatten, owner of Hatten's Crossroads Grocery at 749 Smith St., West Monroe, singled out the increase in lettuce prices as a result of the strike.

"I had to sell it for \$1.15 the last time I bought it," she said. "I bought some today that's cheaper but it's not very good. They used to cull things out, take out the bad items of produce and sell you the good, now they're all together for the same price."

Mrs. Hatten said she has not had much trouble obtaining merchandise but has not always been satisfied with its quality.

"If you want to pay what they're asking for the produce, you can usually always get it," she said. "It might not be what you want."

John Rappold Jr., manager of the J & J Jiffy Mart at 200 Old Bastrop Road, reported an increase of five cents for a large loaf of bread and two or three pennies for a box of cereal.

"I don't really know how extensive the farmers' strike is but if it gets very extensive, it could definitely affect us, although not as much as the larger grocers," Rappold said.

Consumers in the Twin Cities area say since the strike began, average grocery bills have increased substantially and are continuing to rise every week.

Most local shoppers said they could not pinpoint one particular area in which prices had risen, but indicated food costs in all departments had increased.

Janie Thornton of Monroe said since the farmers began publicizing their strike, prices throughout the grocery stores have risen.

"Everything's so high now, and every week prices go up a penny here, two or three cents there," she said.

Winnsboro residents Mr. and Mrs. Cleveland Wiggins also said they had noticed rising prices, "especially fruit and fresh produce."

Mrs. Benny White of Monroe said her grocery bill has increased as much as \$20 since the strike began. "It's not necessarily in one area," but the costs in general have risen, she said.

Lettuce, celery and other fresh produce prices have increased mostly over the past several months, Sara Dispenza of Monroe said. "It's all costing much more now."

#### PLACING THE BLAME: THE STRIKE HISTORY

(By Charles Able, World Staff Writer)

For years farmers and ranchers were among the most prosperous businessmen in town, prices and costs were well in line and a growing national economy kept the agri-businessman and his family content and at work.

The appletart was upset by a combination of many things; politics and inflation among them.

For years American farmers competed in the market place with foreign importers and for years American farmers were the most efficient in the world. But a number of political, regulatory measures stripped them of tools used by their foreign competitors.

Chemicals relied on for decades by farmers fell one by one as environmental or health hazards appeared and government agencies took the products from feed and seed store shelves. Foreign growers continue to use many of the products forbidden for use in the U.S., and the imported food and fiber products flood American markets.

State Department regulation of such import levels is often singled out by farm observers as a prime example of the political problem besetting domestic producers. The federal agency, charged with maintaining good relations with other countries, is in the position of rejecting or accepting shipments of farm goods destined for American markets.

State Department expenditures designed to develop foreign farm industries destined to ultimately compete with American products also draw considerable fire from farm interests, some of them soybean farmers severely damaged by Malaysian palm oil sales. Palm oil production is the result of U.S. funded research.

But politics alone was not enough to cripple farm income; inflation did the rest. Spiraling costs rose even higher after the 1972 oil crisis hit, then lingered for six years. Equipment, chemicals, fertilizer, feed, wire, lumber, medicinal supplies, farm labor and almost every other farm need rose 100 percent in less than 18 months.

In Northeast Louisiana, poor crop conditions, bad weather and poor prices in a five year span took a large toll on farmers. Many quit, others borrowed . . . and some could not borrow or quit because of indebtedness.

Some relief is in store for farmers through provisions of farm legislation signed last week by President Carter. The bill, among other things, backs up price supports and includes approaches designed to stabilize the American food and fiber market.

The effect of the legislation is impossible to predict, according to farmers, but all agree it will at least break the political impasse of the past seven months.

### MOST FARMERS CAN'T AFFORD TO STRIKE

(By Polly Strain, World Staff Writer)

Support in Northeast Louisiana for the nationwide farmers' strike run high, but most area farmers say they just can't afford to participate in the strike.

The results of a Morning World poll of farmers in 11 northeast Louisiana parishes indicate more than 80 percent of the farmers wholeheartedly support the strike. However, less than 30 percent said they would participate in the strike, which calls for farmers to limit their crop acreage to 50 percent of their acreage.

Of that 30 percent, a majority said they would probably plant their total acreage before the season ends.

The reasoning behind their support of the strike is obvious. As Price D. Turnage of Liddleville put it, "We're going out of business if we don't get some help."

The area farmers agreed on one thing—the prices they receive for their produce don't even come close to what they have to pay out in the purchase of equipment, chemicals and fuels. Very simply, they cannot afford not to plant this season.

"I'm just trying to keep up with the inflation," Woody Noble of Winnsboro said. "Everything we have to buy is so high; tractors, equipment, poisons, labor, repair work. . . . I'm just trying to make a living."

The farmer's problem is two-fold—the prices he gets for his marketable produce are low due to plentiful supplies, yet financial problems, some three and four years old, still plague the area farmer, making it financially impossible for him to sit out a season or limit his crop acreage.

Winnsboro farmer David Donnel said this year "is the last year we're going to be able to go if we don't get some help. I've borrowed and borrowed for the past two years" and "still lack a considerable amount paying off last year's debt. We don't want any 'give-me' programs; we just want a fair market," he added.

Donnell's viewpoint was shared by many other farmers who, for one reason or another, have not had good crops in recent years.

"We can't keep going on," Robert Fletcher III, also of Winnsboro said. "We just can't keep raising cheap food for the people to eat."

Fletcher, who indicated he would participate in the strike, added, "The word strike has always burned down deep within me. But if that's the only way."

For New Era farmer Donald W. Paris, the strike is not a totally satisfactory answer. Although he said he supports the strike, "I've got enough bills that I can't afford not to go ahead and plant what few beans I do grow."

Aside from bringing public attention to the farmers' problems, most area farmers are not entirely convinced that a strike is the only solution. Paris said, "If there was any other way around it, I would be with them 100 percent."

Several farmers who said they planned to take part in the strike hastily qualified their responses, saying a lot would depend on what the other farmers do.

Columbia farmer Guy Bennett said he waited until he saw other farmers in the area breaking ground before he prepared to plant. "I'm not going to sit here and be poor as a snake while everybody else plants a crop. I just can't afford that."

Most area farmers support the strike, but cannot afford to miss a crop to participate in it. Top lines indicate the participation in the strike as opposed to moral support indicated on the bottom lines. The chart illustrates the results of a Morning World poll of farmers in Northeast Louisiana and their comments on the strike.



## DID LEGISLATION SIGNAL VICTORY?

(By Polly Strain, World Staff Writer)

President Carter's signing of the farm bill last week drew mixed reactions from area farmers who have actively supported the farmer's strike.

Responses ranged from "it's just peanuts" to comments by some farmers that the strike had accomplished just about all they could hope for.

The bill Carter signed calls for up to \$700 million in new federal outlays for the 1978 wheat and cotton crops, which amounts to considerably less than the striking farmers had sought in their extensive lobbying campaign.

Acting Secretary of Agriculture Carol Tucker Foreman then raised the target price for wheat from \$3 to \$3.40 a bushel and the loan rate for upland cotton from 44 cents to 48 cents per hundred pounds, contingent upon the farmers setting aside some of their land.

The new bill's target rates do not fix farm prices or set a floor under markets, but protect farm income because the Agriculture Department must pay farmers for any gap between market prices and target levels.

Ouachita Parish farmer Cecil McMullen called the administration's proposals "just peanuts. LSU says it takes more than 60 cents to make a crop now and the bill includes only a 48 percent loan. That's less than production costs."

McMullen, who has been an outspoken supporter of the farm strike, said he thinks the American Agriculture Movement's demands were fair, and does not think the strike leaders will be satisfied with the compromise bill.

Other strike leaders in northeast Louisiana disagreed with McMullen's comments. Carl Batey of Wisner said although "it was a big disappointment that we didn't get a bigger bill, I'm satisfied with any kind of bill."

Batey said this bill will give "the really poverty-stricken farmers" a new lease on life, at least until next year. "We've accomplished all we could with the strike."

"The organized strike has taught us one thing," Batey said, "We can get some action if we group together." Batey said that agriculture movement "asked for too much too quick; we were shooting for the whole hog or nothing."

Although Crowleyville farmer Bobby Cox said he was not satisfied with the provisions of the bill, "it's about all we can expect out of that administration." Cox said he was looking for a "good solid farm bill that farmers of all types could live with."

He said he thought the bill would help out "in emergency situations," but did not provide the relief necessary if farmers are to stay in business.

The agriculture movement in Northeast Louisiana has not died out, Cox said, but "we kinda had to take time out to plant a crop. We're just as strong as we have been, stronger than we were in the winter."

Cox said he has not gotten any word from AAM leaders on the acceptability of the new farm bill yet.

## CORLIS HENRY WORRIES NO MORE—HE QUIT

(By Charles Able, World Staff Writer)

For the first time since '53 someone else is farming the Richland Parish cropland worked, developed and cross fenced by Corlis Henry.

And for the first time since 1953, Corlis isn't worried about losing his shirt. Henry moved his wife and two sons to Richland Parish farmland more than 20 years ago. Between them, they tilled and worked some 600 acres of sandy land. First it was dairy cattle, a profitable enterprise in 1953.

The year Henry began his dairy operation there were 30 others in the vicinity. At last count there were only three; years of bad prices and rising costs drove the remainder away from dairy farming into other pursuits; beef cattle and row cropping found new interest.

Those who went to row cropping did well for the first few years and when Henry saw the dairy industry entering a downhill slide, he chose row cropping—the production of food and fiber—more than six years ago. The change required a lot of labor, but Henry's boys were growing and field hands were plentiful.

Two good years followed.  
Then two years of crop failure struck Henry and other Northeast Louisiana farmers.

The next year, things were better throughout the growing season. Rains came when they were needed and the sun blazed at just the right times. A bumper crop resulted and farmers around the area rejoiced; until they sold for extremely poor prices at harvest time.

Some farmers began to borrow money; some were already in debt. Those able to withstand the blow could not hold their crops until prices stabilized and began to climb.

The fifth year, poor weather conditions decimated yields.

The last two years of hard work and soaring production investments cost Henry nearly \$50,000 and he left the row-cropping business.

"There are other farmers around here still going. But I just can't see why I should work myself to death for nothing," Henry said, "I just don't know what happened."

"I can see over the five years I farmed if I had the money to hold my crop, I could have hit the market highs, but I had borrowed some, Henry said of the fluctuating market, adding, "But if you could afford to do that you wouldn't need to be farming."

"I don't know the answer to the problem. Of course, the government will make you a loan on your crop, but that would just prolong the agony."

Henry now operates a liquid feed business and does custom baling for other farmers. He has two herds of cattle, one registered Brahmans and a few horses.

The future of Henry's farm depends on his sons, both enrolled in agri-business courses at Louisiana Tech.

"The lease is only for three years. That way we can see what they (the sons) want. Without labor like that, you just can't make it these days," he added.

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[The following material was submitted by Mr. Arbuthnot:]

EXCERPTS FROM ADDRESS OF SIR LESLIE PRICE, CHAIRMAN OF THE AUSTRALIAN WHEAT BOARD, TO THE NATIONAL ASSOCIATION OF WHEAT GROWERS ANNUAL CONVENTION IN WICHITA, KANS.

I have been part of your convention for the past six years. I have enjoyed all of them. I hope I learned something from each of them, but most of all, I value the enduring friendships I have established with many of you.

Since I saw you last, I have been appointed to the position of Chairman of the Australian Wheat Board by the Australian government. In this position I now have only limited contact with my own farming interests, but I am proud to say that I am still a farmer at heart. However, from the outset I would like to emphasize that my comments tonight are the views of myself and my board, and do not necessarily coincide with the view of the Australian government.

Over the last six year, we have seen the wheat situation move full circle—from the burdensome stocks and ruinous prices of the late sixties and early seventies, to the virtual elimination of stocks and high prices which, fortunately for world wheat producers, coincide with the oil shock, and then back again to burdensome stocks and prices which, if not ruinous, are almost so. On reflection, I wonder whether, in fact, those high prices were the best thing for world wheat exporters. They triggered off a chain of events, events that have stayed with us and are likely to be here for as far ahead as I can see. Input costs rose to whatever level the traffic would bear, rather than on any formula based on cost, plus accepted levels of profit. Growers, having let their working plant run down through all the lean years, suddenly found themselves with a level of liquidity to which they were quite unaccustomed, and bought with gay abandon—the result was that farm machinery prices rose 200 percent in three years, fertilizer doubled and even trebled in price, everything was up and running.

Encouraged by the Administration at that time, U.S. farmers planted wheat from fence to fence. I well remember sitting with you and hearing your secretary of agriculture inferring several years ago that set-aside was a thing of the past. "The world needs your wheat," he said. Unfortunately, what he didn't say was how much, for how long, or at what price per bushel!

The problem with this philosophy was that it neither recognized the real potential of the U.S. to produce wheat, nor did it acknowledge that the high level of USSR purchases may not continue unabated year in and year out. Hence the

question: Did those few months of high prices only set up the world's wheat growers for a much longer term of uneconomic production?

The answer is probably "yes," and if this is the case, one wonders whether exporters should be expected to produce to meet a variable demand when there is no mechanism to stabilize prices during the "off" period. Should the world's importing nations expect the world's wheat growers to continue producing wheat at a loss, or at such a small margin of profit, that workers in any other industry would find acceptable?

This brings me to the topic of my speech tonight—the "View from Down-Under." In expressing that view at your invitation, I would like to emphasize that we all have our systems which, for better or worse, we have to live with, and my comments should in no way be construed as criticism, but as a search for a more constructive approach to world wheat trade.

I don't need to be convinced that wheat farmers in U.S., Canada, or Australia are not making a profit; I know many of them are not. It is what we are going to do about it that is important. Over recent months most of the world's wheat exporters and importers have accepted the need to bring some stability to wheat trading, and I hope they succeed, but I am sufficiently realistic to know that it will not be easy.

During recent discussions on the proposed International Wheat Agreement, much has been said about the need for the world to have reserve stocks of wheat, and the need for the burden of carrying those stocks to be shared. We are fully in accord with both concepts, but I have to make the point that at present the world's exporters, besides carrying the physical stocks, are also sharing the effects of these stocks by accepting a drastically reduced return on every bushel of wheat they sell. This cannot continue. Hopefully, an agreement, which relied on stocks, would be constructed in such a way as to isolate stocks from the market.

Both the Australian government and the Australian wheat industry have supported the principle of international cooperation in wheat trading. Australia has been a signatory to all agreements so far. I believe our government and the wheat industry wish to see a new agreement which is workable and has the necessary flexibility on the one hand, and sufficient discipline on the other to bring price stability. I consider most of the problems of a new agreement capable of negotiation; however, there are some current pressing problems. I would be less than candid if I did not say that your—that is, U.S.—surplus stocks are a major worry to us.

During the recent past, I have heard or read statements by U.S. government officials and your promotional groups that you must have greater market penetration. Is this realistic? World usage is increasing by a known and measurable amount. Each exporting country has established a percentage share of the market and also a proportion of the increase. I think it would be less than prudent for any exporter to believe that the other sellers will allow what they consider to be their share to be pilfered. Having said that, I still think a new International Wheat Agreement (IWA) is possible, provided it recognizes a few basic criteria, including: It acknowledges differences in domestic policy; it does not attempt to shift problems from one country or group of countries to another country or group of countries; and it does not, in any way, deliberately bring about re-direction of trade in wheat.

Marketing is the life-blood of our industry, and each of the exporting nations has a different approach. Argentina has a government-appointed grain board, and so has Canada, but they are quite different in methods of operation. The EEC has a controlled system under the CAP, in which prices paid to growers have little relationship to global prices, and prices asked of buyers have little relationship to costs of production in the EEC. Australia has a grower-controlled elected board which has powers of acquisition and the sole right of export. In other words, the Australian Wheat Board has control of all aspects of the marketing, other than the price it obtains for its wheat on the world market. The U.S. system you all know well, so perhaps you could answer a question.

As I said earlier, this is my seventh consecutive attendance at a convention of this association, and each time I have been here, someone has made the statement that, in the U.S., "We are the most efficient wheat producers in the world, and we have the best marketing system." My question, asked with some temerity, is "Why do you think so?" As I see it, United States' wheat is being sold at below the cost of production. Why is this? Some will say it is because of competition from Canada, Australia, and Argentina, but I submit that this is nonsense.

Canada has more or less cleared its surplus up to its new crop. Australian production is well down this year due to drought, which means that we will only have sufficient for regular markets; and Argentina has a minimal quantity left to sell. Where then, is the competition? There is none. You have the only surplus wheat in the world, yet prices are extremely low, and these low prices are detrimentally affecting not only your own growers, but every grower in Canada, Australia and Argentina. If the position were reversed and the surplus held by Canada and Australia, do you think prices would be at their present levels? I believe the answer is no.

To me it is a simple fact of life that the largest exporter of any commodity must expect to; very largely set the global price; and accept the role of residual supplier.

The United States is the world's largest exporter of wheat, and its prices set world levels. Canada, Australia, and Argentina follow those levels. They have to. If they tried to set higher levels they would not sell. Given that they have to sell their wheat, then they have to remain competitive with the United States' prices. Additionally, I believe that if you drive your prices downwards, thinking that this will lead to greater sales, you will be mistaken, because the others will stay with you whatever the price level. I do not subscribe to the theory that overall world trade of wheat will be greatly increased by reducing the price.

In the circumstances, we ask what is the sense of us all competing at the lowest possible level. Surely it is much better for us to compete at a higher level, which would not only benefit the world's wheat growers, but which would, at the same time, automatically ensure that wheat production is kept up, thus ensuring supplies will be available to the world's importers.

What can be done to ensure we compete at higher levels? I am only a simple farmer, but to me there is one quick sure way, and that is for the loan rate to be raised. There is no question that the only floor in the world price of wheat today is the U.S. loan rate; take that away, and who knows to what level prices would slide?

I know that this will sound like heresy in that it would raise internal costs, but we all know that the cost of wheat in a loaf of bread represents only a small part of its retail price.

If it were possible for us all to compete at higher levels, the U.S. wheat growers, the world's wheat growers, and the U.S. Treasury would all benefit, and so would the U.S. balance of payments position.

You might well say I have had plenty of questions, but no answers. I believe you know the answers; it is how to put them into effect that is a very real problem. If you are going to stay with your present system of marketing, and I believe you will for much longer than the remainder of my life, then it is what you can do to make it work for you that becomes important. From an outsider's point of view, you have only limited room to move. You can cut production, or increase the loan rate. Or you may adopt part of both solutions.

I know that many of you would choose increased export subsidies, and this policy has the endorsement of some people for reasons of their own. Let me say to you that such a course could not benefit the world's producers. The Australian Wheat Board could and would match the market, and I would be surprised if the only other exporters didn't do the same. I am well aware of the U.S. attitude toward market sharing and I suppose other exporters all tend to feel the same way. I wonder sometimes if we are not "putting ourselves on." The present market division is much less flexible than many would like to think. I am one of those who believe that the world is again heading for a shortage of wheat—I also believe that some importing nations are already of the same view and will demand an assurance of supply—I also believe that the demand can be met if growers are given the incentive of a reasonable return for their labors.

I trust that my few comments will prove to be of interest and be seen as an attempt to sketch the possibilities for a more constructive approach to world wheat trade. That, then, is our "View from Down-Under". In a nutshell, we see no sense in wheat growers trying to cut each other's throats at low prices—let's do it at more reasonable levels!

