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AMENDMENTS TO THE FOOD AND AGRICULTURE CUMENTS ACT OF 1977

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HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE,

NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 1696

TO FURTHER THE PURPOSE OF THE FOOD AND AGRICULTURE ACT OF 1977 IN PROVIDING PRICE AND INCOME PROTECTION FOR FARMERS AND ASSURING CONSUMERS OF AN ABUNDANCE OF FOOD AND FIBER AT REASONABLE PRICES

S. 2016

TO ADJUST TARGET PRICES FOR THE 1979 AND 1980 CROPS OF WHEAT AND FEED GRAINS

S. 2028

TO ADJUST PRICES FOR THE 1979 AND 1980 CROPS OF WHEAT AND FEED GRAINS; TO EXTEND THE DISASTER PAYMENT PROGRAM FOR THE 1980 AND 1981 CROPS OF WHEAT, FEED GRAINS, UPLAND COTTON, AND RICE; AND TO AUTHORIZE THE SECRETARY OF AGRICULTURE TO REQUIRE THAT PRODUCERS OF WHEAT, FEED GRAINS, UPLAND COTTON, AND RICE NOT EXCEED THE NORMAL CROP ACREAGE FOR THE 1980 AND 1981 CROPS

S. 2029

TO EXTEND THE DISASTER PAYMENT PROGRAM FOR THE 1980 AND 1981 CROPS OF WHEAT, FEED GRAINS, UPLAND COTTON, AND RICE

S. 2036

TO ADJUST TARGET PRICES AND LOAN AND PURCHASE LEVELS FOR THE 1979 AND 1980 CROPS OF WHEAT AND FEED GRAINS; TO EXTEND THE DISASTER PAYMENT PROGRAM FOR THE 1980 AND 1981 CROPS OF WHEAT, FEED GRAINS, UPLAND COTTON, AND RICE; AND TO AUTHORIZE THE SECRETARY OF AGRICULTURE TO REQUIRE THAT PRODUCERS OF WHEAT, FEED GRAINS, UPLAND COTTON, AND RICE NOT EXCEED THE NORMAL CROP ACREAGE FOR THE 1981 CROPS, AND

H.R. 3398

TO AMEND THE FOOD AND AGRICULTURE ACT OF 1977 RELATING TO INCREASES IN THE TARGET PRICES OF THE 1979 CROPS OF WHEAT, CORN, AND OTHER COMMODITIES UNDER CERTAIN CIRCUMSTANCES, AND FOR OTHER PURPOSES

NOVEMBER 27, 1979

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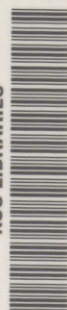
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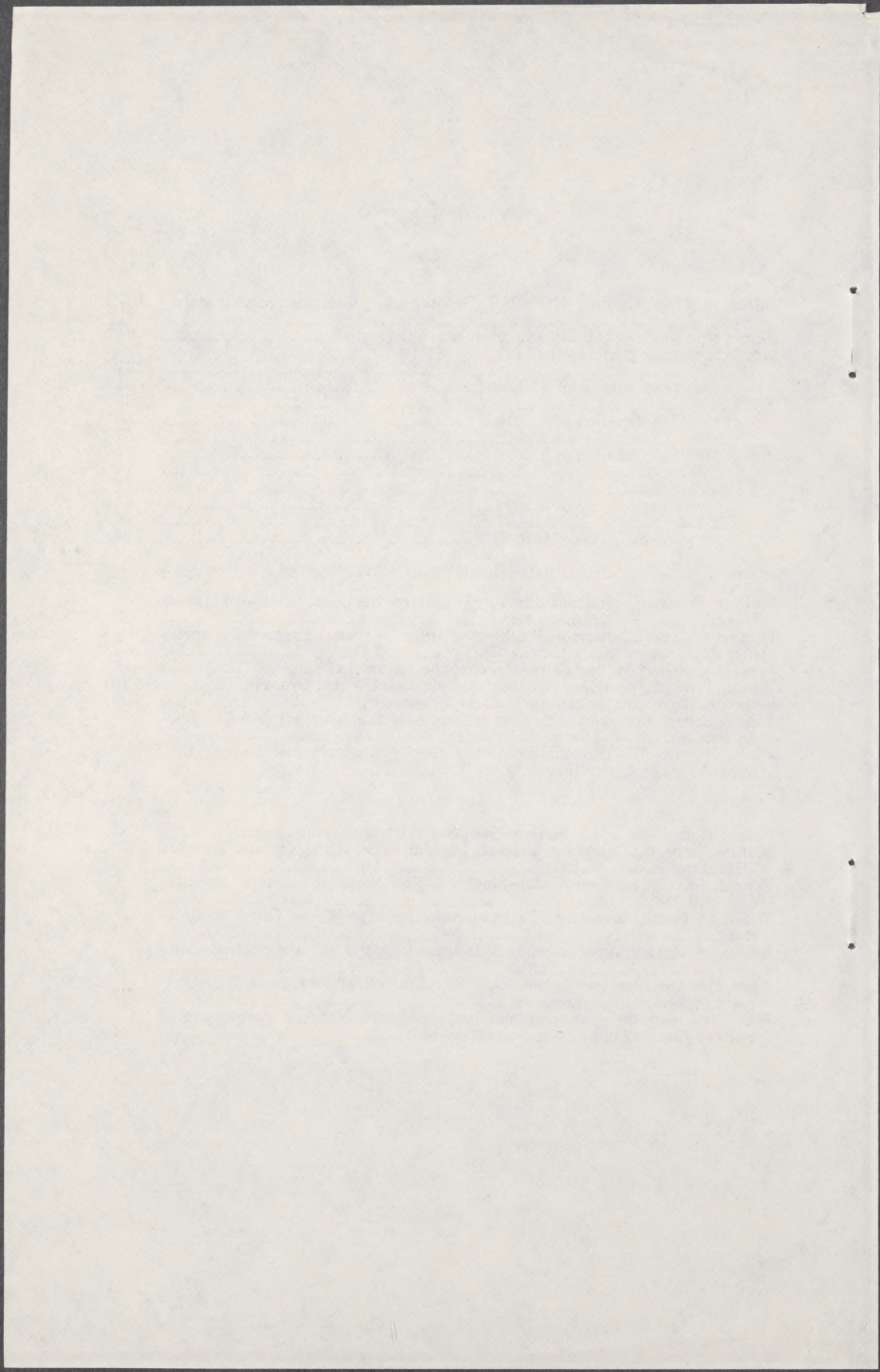
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AMENDMENTS TO THE FOOD AND AGRICULTURE ACT OF 1977

TUESDAY, NOVEMBER 27, 1979

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 8 a.m., in room 324, Russell Senate Office Building, Hon. Herman E. Talmadge (chairman of the committee) presiding.

Present: Senators Talmadge, McGovern, Huddleston, Zorinsky, Melcher, Stewart, Pryor, Boren, Helms, Young, Dole, Hayakawa, and Boschwitz.

STATEMENT OF HON. HERMAN E. TALMADGE, A U.S. SENATOR FROM GEORGIA

The CHAIRMAN. The committee will come to order.

The hearings this morning concern amendments to the Food and Agriculture Act of 1977. We have a House-passed bill, H.R. 3398, before the committee as well as a number of Senate bills dealing with the same subject. The hearings were planned to be brief. We have only seven witnesses. Depending on the questions, we should be finished in shortly over 1 hour, in view of the 10-minute time limitation.

I would suggest to the committee that we immediately thereafter move into a markup of the measures on the agenda. There are three. First, will be the McGovern sense of the Senate resolution, S. Res. 225, urging increased marketing education of farmers. Second, is the extra long staple cotton bill, S. 1978. These bills should not be controversial, and we ought to complete action on them quickly.

Finally, the committee will consider the proposals amending the Food and Agriculture Act of 1977, using H.R. 3398 as a markup vehicle.

I hope we can dispose of these bills today. This may be the last meeting the committee will hold this year.

Without objection, all the bills will be inserted in the record.¹

Our first witness this morning is Robert Mullins, assistant director, legislative services, National Farmers Union.

Mr. Mullins, would you come around please?

We hate to limit your time; but, in view of constraints placed on the committee, we will ask that you insert your full statement into the record and that you summarize it in not more than 10 minutes.

¹ The text of S. 1696, S. 2016, S. 2028, S. 2029, S. 2036, and H.R. 3398, and committee staff explanations to the bills start on p. 61.

We are delighted to have you with us.

**STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR,
LEGISLATIVE SERVICES, NATIONAL FARMERS UNION**

Mr. MULLINS. Thank you, Mr. Chairman.¹

I am Robert J. Mullins, assistant director of legislative services for the National Farmers Union. I am pleased to have the opportunity this morning to be before the committee and bring the recommendations of the Farmers Union to this committee as they consider amendments to the 1977 Food and Agriculture Act.

Our recommendations to the committee this morning are made in full recognition of the limitations the committee will be working under in amending the 1977 act. Quite briefly, we have five recommendations for the committee to consider.

First, we would recommend an increase in the target price for wheat for 1979 year a minimum of \$3.63 per bushel, to be comparable to the House-passed version that the committee has before it.

Additionally, we would suggest that the committee also provide provisions for an increased target payment in 1980, taking into account the increased cost of production. This would put the target for 1980 wheat somewhere in the range of \$4.10 a bushel.

Additionally, we think the committee can take this opportunity to include provisions which would adjust the target price for wheat and corn for 1980 crop—1981 crop year by tying the increase for that crop year to the base 1980 period with an escalator clause tied either to increased cost of production or something like the Consumer Price Index.

Third, Mr. Chairman, we would recommend very strongly that the disaster and prevented planting provisions of the 1977 act be extended for 2 more years, through the 1981 crop year. Those provisions will expire at the end of this year. The earliest now that the House will act on a crop insurance bill will be sometime next session. We think that it is very important that producers do have the protection, at least the minimum protection that is provided in those provisions.

Fourth, we would recommend that the 1977 act be amended to require producers to stay within their normal crop acreage to be eligible for program benefits even though a set-aside is not in effect.

Finally, Mr. Chairman, we would recommend that the loan rate and target prices for upland cotton be adjusted. As you know, the loan formula for cotton is very complex and is tied to past market performances. Congress last year in the emergency feed grains and cotton program did put a statutory minimum 48-cent loan in effect. Based on all projections, in 1980 the loan will revert to that 48-cent statutory minimum. In fact, if the minimum were not there, the loan would be someplace in the neighborhood of 46 cents. It is currently 50.23.

We would recommend a minimum loan for 1980 cotton of 51 cents with a target price established at a rate of 69.7 cents per pound.

Cotton particularly has gone through a tremendous cost increase. We think that the preliminary targets prices that are being talked

¹ See p. 44 for the prepared statement of Mr. Mullins.

about now for 1980 cotton at 61.1 is inadequate to provide producers a fair return on their investments.

Mr. Chairman, that is a short summary.

The CHAIRMAN. Mr. Mullins, I congratulate you on your brevity. You certainly got to the point, and I appreciate that.

What benefit is it going to be to farmers to raise the target prices and the loan levels this year since most of it has already been harvested and much of it sold?

Mr. MULLINS. This year, even at the \$3.63 target price for wheat, there will be no deficiency payment. But the importance, I believe, is, if we tie an increase in 1980, we are going to need a base; and that needs to be adjusted upward. We figure that a 7-percent increase at this point will bring the target price to \$3.63 and then, basing further increase on the increased cost of production will bring the target to 80, somewhere in the neighborhood of \$4.10. We need it for a base for future years, sir.

The CHAIRMAN. I agree with you that it needs to be raised. If we do anything about raising the loan level, and the target prices for the year 1980, the budget resolution has already been agreed to, we will have to get a waiver from the committee or else we will be subject to a point of order on the floor. Are you familiar with that fact?

Mr. MULLINS. Yes, sir, I am.

The CHAIRMAN. What do you recommend about that parliamentary situation?

Mr. MULLINS. Well, sir, I am not that familiar with that but I do know some people would certainly object to you bringing something like this—

The CHAIRMAN. Senator McGovern and I can speak with experience in that regard because we got run over regarding school nutrition, and that's about as popular a program as you can present on the floor of the Senate. We got beat very handily on that issue.

I would hate for us to go out there with the farm program and get clobbered. I guess you would, too; would you not?

Mr. MULLINS. I would hate to suffer another defeat this year, sir.

The CHAIRMAN. I agree with you on this set-aside. If we have good crops in this country and overseas next year, without a set-aside, I think we are going to have a lot of our crops in a surplus situation. I think it is going to depress farm income tremendously. It has already been estimated that farm income will drop about 20 percent next year. I think the Secretary made a very great mistake not to have a set-aside for many of these basic farm commodities next year. You agree with that; don't you?

Mr. MULLINS. Yes, sir, I just finished a trip in the West. We are going to plant everything that can be planted next year in wheat and corn as well. Everything will be planted. And we are faced with the same thing in cotton. As you well know, we are faced with the largest cotton crop in this country in history, 14.5 million bales. We are going to have a carryover going into next year probably in excess of 6 million bales.

The Secretary still has time to announce a set-aside for 1980. With cotton prices and the outlook, prices are going down and will

continue going down. We are faced with another large crop as with the other commodities next year.

The CHAIRMAN. Senator McGovern?

Senator MCGOVERN. I have no questions right now, Mr. Chairman.

The CHAIRMAN. Thank you.

Our next witness is Charles Frazier, director of the Washington office of the National Farmers Organization.

Mr. Frazier, we are happy to have you.

Without objection, we will insert your statement, in full, in the record.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON OFFICE, NATIONAL FARMERS ORGANIZATION

Mr. FRAZIER. Thank you, Mr. Chairman.¹

Briefly stated, sir, we do support the changes proposed with respect to increase in target prices and extension of the disaster program for 2 years.

I should inject at this point that some of us have been rather disappointed over the long number of months that it took the House to act to get a bill over here. Obviously, it is quite inadequate.

We would stand ready to help you on any votes that are needed to handle the budget problem on the floor.

I should emphasize two things in my testimony. I try to point out that we think that 20-percent estimate in the drop in net farm income next year is probably timid or low. I have been in touch with a number of our members, smalltown bankers and others out in the country. The USDA may have failed to estimate the effect of the higher interest rates and the shortage of money for these farmers when they go into the first part of next year. It is going to be very difficult out there.

Even though some of those policies may be changed at a time when it will be helpful to businessmen and others, farmers will have to go up against it, line up their credit, make their commitments in the first 3 months of the year. In other words, if we are pushed on into more recession, the farmers will have to take it on a 12-month basis; they cannot have a chance to recover in 6 months through a change in interest and money policy.

The second thing I should like to emphasize is covered in a supplement to the statement. We have been very disappointed in the way Dr. Hjort handled feed grains under the authorities you gave him a couple of years ago in the 1977 act.

As you will recall, section 110(b)5 set up a range of 140 to 160 percent for the release of the grain the farmer had placed in the so-called farmer-held reserve. At this point they cut off his storage, tell him he can pay up his interest charges and sell his grain. When it reaches the 175-percent level, in the case of wheat, they call the loan. In the case of feed grains, you left it entirely discretionary with the Secretary. In that case of corn, barley, and so on, they stop storage at 125 percent of these loan rates, and they call at 140 percent.

¹ See p. 45 for the prepared statement of Mr. Frazier.

Over several months this summer some farmers who have grain in this reserve program have not known where they stood. They were first told that the price had reached the release level and that they would watch it another 30 days. Then they tell them, "No, it can go back into the reserve." We had phone calls last summer from men simply saying: "Look, I didn't expect to go borrowing \$200,000 to pay off this grain loan in the middle of the summer."

This is a serious problem. Farmers want to cooperate with Secretary Bergland on that reserve program. But the handling of that release and the level of that call are too low. In the case of feed grains, the range is too narrow. It can easily fluctuate between 125 and 140 percent at different areas of the country.

They can have men out there who are told they are getting this market level when they can't get cars and can't sell that grain; the producers can't possibly go ahead and pay the loan at a reasonable rate.

So, I have suggested a couple of modifications in the language in the law. You should make wheat and feed grains alike. And I think you should take feed grains out of that permissive status and simply provide that the farmer with grain in the reserve could have storage cut off and be notified that the grain was eligible to be redeemed and sold when market prices reach 175 percent of the loan rate. And you should call the loan at 200 percent of the loan rate.

[The following information was submitted by Mr. Frazier:]

FARMER OWNED RESERVE

Section 110(b)5 of the 1949 Act, as added by the 1977 Act, provides that the Secretary is to "induce producers to redeem and market the wheat and feed grains" when the wheat market price reaches a level between 140 percent and 160 percent of current loan level, and in the case of feed grains, when prices reach "appropriate levels".

Section 110(b)6 requires the Secretary to fix a level at "not less than 175 percent" of the loan rate as the trigger point to call such loans on wheat and leaves the feed grain call level discretionary with the Secretary.

These requirements were implemented as follows:

Wheat—Stop storage when market reaches 140 percent of loan and call at 175 percent of loan.

Corn—Stop storage at 125 percent and call at 140 percent.

The law is inadequate on wheat and entirely discretionary in the case of feed grains. These minimums should be modified accordingly if the proposed new target levels are agreed upon in the Senate and become law after conference with the House.

Recommendation

Modify Section 110(b)5 by adding thereto "and in the case of 1980 and 1981 crops of both wheat and feed grains, whenever the Secretary determines that the market price has attained a level not less than 175 percent of the then current level of price support."

Modify Section 110(b)6 by adding thereto "and in the case of 1980 and 1981 crops of both wheat and feed grains, whenever the Secretary determines that the market price for the commodity is not less than 200 per centum of the then current level of price support."

FARMER OWNED RESERVE

[Sec. 110(b) 5 and 6, 1977 Farm Act]

	Loan	Target	Release and stop storage	Call loan
1979:				
Wheat	\$2.35	\$3.63	\$3.29	\$4.11
Corn	2.00	2.35	2.50	2.80
1980:				
Announced	2.50	3.63	3.50	4.38
Proposed	2.50	² 4.08	³ 4.37	³ 5.00
Announced	¹ 2.00	2.35	2.50	2.80
Proposed	2.00	² 2.64	³ 3.50	³ 4.00

¹ Announced as a minimum by USDA—may be slightly increased at later date.² McGovern-Melcher.³ NFO-GLF.

Mr. FRAZIER. I have a little table attached. That means, in effect, that wheat, if they stick with the 250 loan rate, that a wheat loan would then be called when the market reached \$5. We know that it is costing over \$4 a bushel out there today to produce this wheat.

In the case of corn, the call would be effective when the corn reached \$4.

I will cut it off there and see if there are any questions.

We seriously encourage you to do something about those reserve calls——

The CHAIRMAN. What you want to do is take it out of the Secretary's hands, where it is now permissive, and make it subject to a mandatory law.

Mr. FRAZIER. In the case of feed grains, yes; treat it like wheat.

The CHAIRMAN. You were here and you heard my questions of Mr. Mullins. I would like very much to raise these target prices for the year 1980. You know what the situation is regarding parliamentary procedure on the Senate floor. I believe you referred to it in your statement.

Mr. FRAZIER. Yes, sir.

The CHAIRMAN. It will require a waiver, you know, before we can raise the target price, the loan levels to the 1980 crop.

What is your recommendation? Should we take a chance going to the floor and getting beat, or what?

Mr. FRAZIER. Take your chances. We have sat around for about 8 months on this question. We are past any real effective action for 1979, but we have got to have something done for 1980 and 1981.

We will help you as well as we can. We did go through this a couple of years ago.

The CHAIRMAN. As I see it, the House bill is a meaningless gesture. We have already harvested the 1979 crops. Much of it has been sold.

Mr. FRAZIER. That's right.

The CHAIRMAN. Some of it has already been put in the reserve.

Of course, when we get to 1980, we are subject to a budgetary limitation, as you know.

Mr. FRAZIER. That's right.

The CHAIRMAN. In fact, we cannot even consider it if a point of order is made and that point of order is sustained. Unless we have

the votes to override the Budget Committee, we are dead in our tracks. You understand that; don't you?

Mr. FRAZIER. Yes, sir. All I can say is that we will try to help you.

The CHAIRMAN. Thank you very much.

Senator McGovern, do you have any questions?

Senator McGOVERN. Mr. Frazier, if we do not act this year in some way in the Congress, the entire disaster relief program dies the end of calendar year 1979—

The CHAIRMAN. Excuse me. Will you yield?

Senator McGOVERN. Yes.

The CHAIRMAN. That is unless the House passes our crop insurance bill.

Senator McGOVERN. That's right. The probability is that the House is not going to do anything.

The CHAIRMAN. Is the House doing anything? It's just standing still.

Senator McGOVERN. I was going to ask if you have heard any indication of any movement on the House side. My information is that they have reported the bill out of the committee on a 20-to-19 vote. It is not a very strong position to take to the House floor.

The probability is they will not act this year.

If that information is correct—and I would be interested in your judgment on it because you watch the House maybe even more closely than some of us—it is going to be necessary for us either to amend this bill or some other farm bill to extend that disaster program.

At the appropriate time today, I want the committee to consider adopting a proposal that I previously made, which the committee has adopted and the Senate has already passed as a modification of the crop insurance bill that extends the disaster program for 1980. Then it makes it optional with the producer in 1981.

What would be the position of you and your organization on that strategy? The plan would be to attach it as an amendment as we do on the price support bill.

Mr. FRAZIER. I understand, sir.

The last reading that I have over there is they will not move effectively on the crop insurance bill before Christmas. There will be a fight on the House floor on the matter of a 2-year extension of the disaster provision.

I think 1 year would go by rather easily. But there are a block of votes over there that will be objecting to 2 years.

Senator McGOVERN. Even if the second year were optional?

Mr. FRAZIER. That is right, according to the statement of some of the members.

Senator McGOVERN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dole?

Senator DOLE. No questions.

The CHAIRMAN. Senator Huddleston?

Senator HUDDLESTON. No questions.

The CHAIRMAN. Our next witness is Mr. Robert Frederick, legislative director, the National Grange.

Mr. Frederick, we are happy to have you here. You are familiar with the time constraints. Please summarize. We will insert your full statement, without objection.

**STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE
DIRECTOR, THE NATIONAL GRANGE**

Mr. FREDERICK. Thank you, Mr. Chairman.

I am Robert M. Frederick, legislative director of the National Grange, with headquarters at 1616 H Street NW., Washington, D.C.

Mr. Edward Andersen, from Waterloo, Nebr., the newly elected master of the National Grange, regrets that he is unable to be present for this hearing. The events of the past 2 weeks have moved so fast that Mr. Andersen has had little time to devote to the Washington headquarters of the National Grange. In addition to making arrangements for the continuation of his 700-acre cattle and grain farm, Mr. Andersen has been busy turning over the leadership of the Nebraska State Grange to his successor, saying goodbye to five grandchildren and trying to find living quarters in the Washington area.

However, through all the turmoil caused by a change in leadership of any national farm organization, the National Grange remains in strong support of the Food and Agriculture Act of 1977 and for the target price concept which it contains. We hope to have the opportunity early in 1980 to discuss with this committee the National Grange's recommended changes in farm policy that we adopted at our 113th annual meeting held in Lancaster, Pa., November 12 to 20, 1979.

We appear before this committee, Mr. Chairman, in support of H.R. 3398 as passed by the House and ask that it be amended to further increase the target prices for wheat and feed grains for the 1980 crops in keeping with the rapid increase in production costs.

The target price concept provides income security for farmers. Target prices are not designed to be a guaranteed income program or to cover total costs of production or to guarantee profits to farmers at the expense of taxpayers but are designed to give the farmer a safety net should prices decline when supplies are in excess of market demand.

The 1977 farm bill contained a cost of production formula to adjust target prices each year, but the formula has not been working due to rampant inflation. Amendments to the act that were passed last year gave the Secretary of Agriculture the authority to adjust the target price in any year in which a set-aside was a program requirement. The Secretary used this administrative authority for the 1978 and 1979 crops of wheat and feed grains. But, to date, he has not readjusted the 1979 target prices to reflect increased production costs, thereby making this legislation necessary.

The programs as announced for wheat and feed grains for 1980 crops do not contain a set-aside requirement; therefore, the Secretary of Agriculture does not have the authority to adjust the target price in line with the increased production costs. In this event, the target price for wheat and feed grains for 1980 reverts back to the

formula in the 1977 act, which would result in a sharp reduction in target prices rather than the increase that is needed.

Net farm income for 1979 is estimated at between \$30 billion and \$32 billion. But it will be down sharply in 1980. Cash receipts, which are projected at a record \$129 billion for 1979, are seen continuing high in 1980. But production expenses, seen at \$114 billion in 1979, are projected up around 11 percent for 1980. It would mean that net farm income could be down as much as 20 percent from 1979's total. That would put net farm income for 1980 at \$24.8 billion, which would be the lowest since 1977's \$19.8 billion and well below the \$27.9 billion now estimated for 1978. While factors underlying agricultural income for the first quarter of 1980 are fairly well established, the rest of the year is a question mark. Farm prices and income during the last half of 1980 will be largely influenced by worldwide crop prospects and harvest.

If farmers are to continue to produce an abundance of food at reasonable prices for the domestic market and at the same time have the production from 1 out of every 3 acres available for export, the agricultural production machinery must be maintained at near full capacity. In accomplishing this production capacity the farmers deserve the income security that target prices provide. They should not be left to the vagaries of the weather or world crop production.

In addition to increasing the target prices for 1979 and 1980 crops of wheat and feed grains the 1977 act should be amended to give the Secretary of Agriculture the authority to adjust the target prices if a farmer maintains his normal crop acreage and to extend the ASCS disaster payment program through the 1981 crop year.

Mr. Chairman, it is of vital importance that the disaster payment program be extended to cover the crop years of 1980 and 1981. During the writing of the 1977 Farm Act, Congress was persuaded to authorize the continuation of ASCS disaster programs only through the 1979 crop year, with the understanding that an improved Federal crop insurance program would be adopted by Congress and offered to producers in all counties in time for the 1980 crops. The 1980 winter wheat crop has been planted but the administration-backed crop insurance bill is still pending before Congress.

As it looks now, Congress will not conclude action on a new Federal crop insurance program until early in 1980. Consequently, producers will enter 1980 with neither disaster program protection nor an improved Federal crop insurance program. Therefore, extension of the disaster payment program before the 96th Congress adjourns is imperative.

Thank you, Mr. Chairman, for the opportunity to present our views.

The CHAIRMAN. Senator McGovern?

Senator McGOVERN. No questions.

The CHAIRMAN. Senator Zorinsky?

Senator ZORINSKY. I have no questions.

The CHAIRMAN. Senator Dole?

Senator DOLE. No questions.

The CHAIRMAN. Senator Huddleston?

Senator HUDDLESTON. No questions, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Frederick.

Mr. FREDERICK. Thank you, Mr Chairman.

The CHAIRMAN. The next witness is Mr. Winston Wilson, president, National Association of Wheat Growers.

Mr. Wilson, we are very happy to have you with us. You are familiar, of course, with our time constraints. We will insert your full statement in the record.

**STATEMENT OF WINSTON WILSON, PRESIDENT, NATIONAL
ASSOCIATION OF WHEAT GROWERS**

Mr. WILSON. Thank you, Mr. Chairman. I will do my utmost to meet your time requirements.¹

First of all, I want to express my appreciation to the chairman and members of the committee for their expeditious action in getting this bill before the committee. Hopefully, some quick action will follow. We are very appreciative of that fact and appreciate the fact that the Senate is concerned and hopes to get something done in rather short fashion.

The House-passed target legislation that is now before this committee is very battle scarred and has been a long time in the process of getting through the House. Hearings were first held last February. We finally got House action only about 2 weeks ago.

Gentlemen, as you are well aware, time is running out. There are a lot of problems with scheduling, the Rules Committee, and other things. Consequently, only the 1979 target prices were addressed in this bill. We think it is essential that the 1980 crop be included as well.

When we look at the cost of production for the 1979 crop, in the case of wheat, it is estimated to be well over \$4 a bushel. We have had considerable price increases as far as inputs since that time. When we put the 1980 crop in, costs were up around 20 percent above those for 1979.

We also looked at the USDA's 1980 income projections for the agricultural industry. They are down, roughly, 22 percent for net farm income. I think that it is very critical, that we take another look at target prices.

We are also very interested in seeing some provision made to allow the Secretary to require producers to maintain normal crop acreage. Since we do not have an announced set-aside this year, we are very concerned that we may see some overplanting and over-supply problems in the wheat industry. I think Mr. Frazier and others have referred to this earlier.

Latest USDA estimates are that planted acreage is up about 10 percent for the 1980 crop. We think that normal crop acreage is a very important concept and must be maintained. Therefore, we urge you to include this authority in any bill that you would mark up today.

The other reason we feel that this legislation is so critical and it is so important that we have realistic target price levels is that, in my view, the target price is the primary incentive that we have for our agriculture program as outlined in the 1977 Farm Act. If we have unrealistic target prices, we virtually do not have an agriculture program. We think these target prices have to be updated and

¹ See p. 48 for the prepared statement of Mr. Wilson.

set at realistic levels. Otherwise, our farm program in the 1977 Farm Act is virtually useless.

Another area which we are vitally concerned about—and this has been referred to earlier today—is the crop insurance disaster program area. In the 1977 Farm Act, Congress was persuaded to continue the disaster program only through the 1979 crop year with the understanding that an insurance program would be—an expanded Federal crop insurance program would be onstream at that time. This effort has been going on since mid-1977. Quite frankly, I think we are very little closer to having an expanded Federal crop insurance program than we were 2 years ago.

It looked for a while, back a month ago, that the House would finally take some action. But now, as has been mentioned earlier, it looks like February is as early as the House is going to take action.

I commend this committee and the Senate for the manner in which they faced this situation and did take some action. Certainly the National Association of Wheat Growers does support the action of the Senate in reference to the disaster and crop insurance program.

At this point in time, we have the 1980 wheat crop in the ground; and we do not have either the disaster protection or crop insurance. We think this is an oversight that must be corrected because there is certainly nothing on the immediate horizon that is going to offer relief from this situation. We think it is highly important. It is an essential feature of the farm bill. It is an essential requirement as far as producers in this country are concerned.

I think, when we look at the time period covered, we have to think about 2 years. Even if the House does act in February, in my opinion it is very unlikely that any sort of workable program is going to be developed and working even for the 1981 crop, let alone 1980. If they do take action in February, we are still looking, in our opinion, at a good 6 to 9 months before the final program can be formulated. We are going to be in the planting period of the 1981 wheat crop.

So, we urge you to include the provisions which you did in your original deliberations of the crop insurance disaster bill and urge you to add them to this bill that you are going to mark up today.

I think one other thing that might be pointed out in relation to the crop insurance disaster program situation is this. The administration a few weeks ago did agree to accept the Senate language, the language that is in the Senate crop insurance bill, and did agree to a 1-year extension of disaster programs straight across and in the second year at the option of the producer, depending upon whether or not crop insurance was available or not.

I think that should certainly continue, this feeling toward the bill. I am not sure what Mr. Hjort is going to say this morning, but at one time they did accept this language. I see no circumstances which should give them a change of heart.

In summary, the National Association of Wheat Growers strongly supports a legislative increase in the 1979 and 1980 target prices.

We support authority for the Secretary to require producers to maintain their normal crop acreage to be eligible for the increased target price levels.

Also, we strongly support extension of the disaster program to cover 1980 and 1981 crops with an option in 1981 for producers to choose between disaster programs and FCIC coverage if it is available.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Wilson, for your very succinct recommendations.

The House-passed bill in its present form is a meaningless gesture; is it not?

Mr. WILSON. Well, except for those people who would be eligible for some disaster payments. It would have some influence there because the disaster payment is based on target price levels. So, it would represent an increase.

But, as I mentioned, the procedural problems could just bog the bill down and it could be impossible to get anything accomplished.

The CHAIRMAN. You are familiar with the fact that Congress has already passed a budgetary ceiling for the year 1980; are you not?

Mr. WILSON. Yes.

The CHAIRMAN. You are aware of the fact that to raise the target price for that year, or loan levels, would require a budgetary waiver; are you not?

Mr. WILSON. Yes. We have been through that.

The CHAIRMAN. What do you recommend in view of those parliamentary impediments?

Mr. WILSON. Well, looking around this table, Senator, I would not care to be so presumptuous as to make recommendations to this group. I think there is know-how here that far exceeds anything I might be able to say.

The CHAIRMAN. Are there any further questions? Senator Zorinsky?

Senator ZORINSKY. No, sir.

The CHAIRMAN. Senator Dole?

Senator DOLE. No question, except to state the obvious problem would be the budget waiver. I assume you have thought of that.

Mr. WILSON. The hour is growing late, Senator; we have to try something.

Senator DOLE. All right, I understand that. But that does pose a real problem, as the chairman indicated, whether or not there are enough votes; that is the name of the game here.

The CHAIRMAN. Senator Huddleston?

Senator HUDDLESTON. Is there enough data, enough information to make an adequate determination of what the normal crop acreage is?

Mr. WILSON. Yes, sir. That was, of course, established in the 1977 act. Each farm does have a normal crop acreage. ASCS has that established.

It is not a new concept. Under the terms of the 1977 act, when there is no set-aside, then the normal crop acreage does not apply. We think this is something that should be looked at. We want to avoid getting into extreme oversupply situation. Also, there are conservation considerations, keeping more fragile land out of production, as it should be.

Senator HUDDLESTON. Thank you.

The CHAIRMAN. Senator Boschwitz, do you have any questions?

Senator BOSCHWITZ. No, Mr. Chairman.

The CHAIRMAN. Senator Stewart?

Senator STEWART. No questions.

The CHAIRMAN. Senator Pryor?

Senator PRYOR. No questions.

The CHAIRMAN. Senator Young?

Senator YOUNG. No questions.

The CHAIRMAN. Thank you very much.

The next witness is Mr. Wayne Peterson, American Agriculture Movement.

STATEMENT OF WAYNE PETERSON, AMERICAN AGRICULTURE MOVEMENT

Mr. PETERSON. Thank you, Mr. Chairman.

Our goals are still as they were in the past. We only feel that this Senate Agriculture Committee must accept responsibility of somewhat correcting the inequities which we see.

We are asking, as the American Agriculture Movement, to have the loan rate on wheat raised to \$3.50 a bushel, the loan rate on corn raised to \$2.40 a bushel, the reserve and call level raised to 150 and 180 percent of the loan rate respectively.

We realize what we are asking is very difficult to, possibly, put through the Senate. We also realize that you people are the elected officials. You can make it very clear to your colleagues in the Senate that there is no way the economies of this Nation can survive, the portion of it that has \$2 out of every \$3 as capital investment in America, is operating at 2 to 3 percent return on investment. It is just impossible to have an economic balance in America.

We certainly hope that you folks understand that and understand that you have a moral obligation to preserve the food-producing ability of America and keep it in the hands of the private sector.

We know the time is growing short this year. But all I can say is that we would be very supportive in helping you in any way we could. We realize anything you do will be difficult. If you can draw out the problems to your colleagues, to the executive branch of this Government, and the Department of Agriculture, and explain to them that a profit-oriented society cannot operate without profit, we feel you will at least have done your job in making the greatest efforts you can.

I believe most of your witnesses here are paid lobbyists or something. I still have the heart and soul of my ranch within me. And I am certainly apt to be one of the victims of the governmental policy that seemingly has not benefited this large sector of America.

With that, I will close and try to answer any questions you have.

The CHAIRMAN. Thank you very much for an excellent statement.

You are familiar, of course, with the problems confronting the committee including budgetary constraints. I am sure that, if the committee had its way and we could pass the bill through the Senate and get it through the House and get the President's signature on it, there is no doubt in my mind but what this committee

would take some affirmative and positive action that would be helpful. We recognize that we are limited by points of order on the Senate floor, and there is also the problem in the House. You are familiar with that.

Mr. PETERSON. I certainly am. I just feel that it is an issue that can be so clearly pointed out, Senator, if you could get your heart into the problem, my feeling is that you should be able to convince your colleagues of the necessity of it in the face of the disastrous economic situation we face in America today.

The CHAIRMAN. I think you have been around here long enough to know that it does not take wisdom, justice, eloquence, or logic to pass a bill; it takes votes.

Are there any further questions?

Senator MCGOVERN. Mr. Peterson, I think you come down on the side of increasing the loan rate rather than the target price. What is the reasoning behind that?

Mr. PETERSON. The reasoning behind it—

Senator MCGOVERN. Instead of going for a higher target price.

Mr. PETERSON. The target price does not increase the value of our commodities overseas. The loan rate effectively sets the floor price of commodities in America as well as worldwide. That is the major reason.

We feel that, if this Congress and this house has passed an 80-percent parity bill for dairy products, certainly they ought to be able to accept 80-percent target. We are very concerned that you will raise the target price very closely to your call price and your reserve, and then the Government will be faced with either a massive payment to make up for the target price or a release on your reserve. That reserve is a very vital part of our agricultural programs today. We must keep that reserve call level at a price that is above parity, is our feeling. When it is called, it will be a fair price.

Senator MCGOVERN. Thank you.

The CHAIRMAN. Are there any further questions?

[No response.]

The CHAIRMAN. Thank you very much. We appreciate your contribution.

Mr. PETERSON. Thank you.

The CHAIRMAN. Next is Mr. Robert Pyle, executive director, Independent Bakers Association; and Mr. Bob Wager, president, American Bakers Association.

We are delighted to have you both with us.

Please summarize, and we will insert your full statement in the record.

STATEMENT OF ROBERT WAGER, PRESIDENT, AMERICAN BAKERS ASSOCIATION, ACCOMPANIED BY ROBERT PYLE, EXECUTIVE DIRECTOR, INDEPENDENT BAKERS ASSOCIATION

Mr. WAGER. Mr. Chairman, there are just a few brief points that we would like to make this morning.¹ First of all, we are opposed to the increase in the target price for 1979. We feel that it is bad policy and bad precedent to raise the target price after the crops

¹ See p. 49 for the prepared statement of the American Bakers Association and the Independent Bakers Association.

are in the bin. The target price program is designed to provide a safety net for the farmer, to encourage production, and to provide insurance that, if crops are large and prices fall, the farmer will receive a target price payment for the difference between the market price and the target price.

We think that to raise the target price after the crops are in the bin amounts to a windfall for producers.

With respect to 1980, Mr. Chairman, we feel that there ought to be a 7-percent increase in target prices. We feel that any larger increase, of the kind that is before this committee in certain amendments, would run the risk of creating very large budget deficits. The committee ought to keep in mind that every penny that you raise the target price of wheat is about \$20 million in potential budget liability. Every penny on corn is about \$70 million.

As you well pointed out this morning, Mr. Chairman, there is a budget resolution in effect and any substantial target price increase would breach the ceiling for agriculture in the budget resolution.

This is a difficult problem for the committee. The country is faced with a very difficult situation today with respect to inflation. The baking industry has made a commitment that we are going to abide by the 7-percent wage-price guidelines. We hope that others will make the same commitment.

In balancing out the equities and our national priorities, we feel that it is in the best interest of the Nation that the target price for 1980 be limited to 7 percent.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Bob.

You recognize, of course, that this 7-percent recommendation you are making for 1980 is far below the inflationary factor and also the cost of production; do you not?

Mr. WAGER. I recognize that it is below it, but this is what the wage-price guideline has provided. That is what many other industries within the private sector of the economy are living with. We feel that it is in the best interest of the Nation, and it is equitable that we all abide by the same rules.

Senator BOSCHWITZ. Your figure of every penny costing \$20 million on wheat and \$70 million on corn presumes that the market price, of course, is lower than the target price. Is that correct?

Mr. WAGER. Yes; that is right.

Senator BOSCHWITZ. It should be made clear that that is not the case at the present time.

Mr. WAGER. Not at the present time, no.

Senator BOSCHWITZ. So, even raising the target price as we suggest would, at least under present market conditions, not cost the Government anything.

Mr. WAGER. That's right, but we were talking about 1980. With respect to that, we do not know what the market prices will be at that time. We are talking about potential budget liability.

The CHAIRMAN. Senator Dole, do you have any questions?

Senator DOLE. No, Mr. Chairman.

The CHAIRMAN. Senator Young?

Senator YOUNG. As Senator Boschwitz pointed out, the proposed target price level would mean there wouldn't be any payments at all by the Federal Government if the price remains anywhere near where it has been for the last year. Is that not true?

Mr. WAGER. Yes; that's right. At current price levels, if they were to be maintained next year, then there would be very little, if any, liability.

Do you have something to add to that?

Mr. PYLE. No. I was going to say, certainly not since February.

Senator YOUNG. Do you realize that farmers are very big users of oil and fuel of all kinds? Fuel prices did not increase 7 percent; it doubled in price in the last year.

Mr. WAGER. I am particularly well aware of the situation in your State, Senator. I just had the privilege of addressing North Dakota wheat growers. I had an opportunity to talk with many of them and was pleased to see how prosperous they are out there. In North Dakota you have every reason to be pleased with the situation.

The CHAIRMAN. Senator Melcher?

Senator MELCHER. Mr. Wager, does the Independent Bakers Association and the American Bakers Association have any difficulty staying with the President's wage-price guideline?

Mr. PYLE. Not to my knowledge.

Mr. WAGER. Nor to mine either. We have five companies which file quarterly reports. While I am not privy to their reports, there has been no indication from the Council on Wage and Price Stability that any segment of the baking industry is not in compliance at this time.

Senator MELCHER. I am not asking what they have said. I am asking you, from your association's standpoint, have you had any difficulty at all with the 7-percent wage-price guideline—the 7-percent wage guideline or the price guideline?

Mr. WAGER. Well, we have made a commitment to live within it, and that is what our industry is doing.

Senator MELCHER. Well, has it exceeded it? We constantly have had reports that food prices have been one of the worrisome parts of the administration's wage-price guidelines.

Mr. WAGER. To the best of my knowledge, both wage and price movements within the industry since the program began in October of 1978 have been within the guidelines.

Senator MELCHER. What have been the wage increases in the baking industry during the past year?

Mr. WAGER. Within the 7-percent guideline.

Senator MELCHER. Is that 4 percent, 3 percent, or 6.5 percent, or a flat 7 percent? Do you know?

Are you familiar with contracts in the industry?

Mr. WAGER. I am not familiar with every contract, but I do know that the trend has been settlements between 6 and 7 percent.

Senator MELCHER. Between 6 and 7 percent. Is that likely to be the case in 1980?

Mr. WAGER. We will be complying with whatever the pay board finally determines to be the wage standard for 1980.

Senator MELCHER. What if the people in the industry that are under the wages do not agree? Are you able to coerce them then into agreeing?

Mr. WAGER. I assume that, if the employees are not agreeable, then there would be a strike.

Senator MELCHER. Then there would be a strike. Is a strike likely settled then at some figure in between?

Mr. PYLE. There is no way of knowing, really.

Senator MELCHER. Of course there is no way of knowing. But, if you are anticipating that plus for 1979, and that whatever it might be in 1980 might be 8 to 9 percent, would it be reasonable then to assume that producers might need the same sort of adjustment? That would be 6.5—whatever your figure is—and 8 or 9, or whatever it is going to be for 1980. That would add up to about 15 percent; would it not?

Mr. WAGER. Well, we feel that, whatever the standard is that is announced by the pay board and the Council on Wage and Price Stability, we are prepared to live within that. We hope others would make the same commitment.

Senator MELCHER. Then you would be in favor, you would be supportive of about a 15-percent increase.

Mr. WAGER. No; I did not say that.

Senator MELCHER. Why not?

Mr. WAGER. Because what we are talking—

Senator MELCHER. Are we not still talking within the ballpark of what would be fair?

Mr. WAGER. I do not understand your arithmetic. We are talking about, if the pay board or the Council on Wage and Price Stability should announce a standard for the second program year, of 7 or 8 or 9 percent, whatever it would be that they would finally determine, then for the program year which began October 1, 1979 and would end September 30, 1980, we would be prepared to live within that. We think that would be a fair arrangement for the entire economy. But no one has suggested that that would be 15 percent. If the Council would say 15, then—

Senator MELCHER. I am just merely adding what you have already worked into the price for 1979, and adding what you have projected for 1980 that would be within the proper guideline for wage settlements for 1980, I am just adding the two—

Mr. WAGER. Well, what we have had in the past year, as you know, Senator, is an increase in wheat prices of about 25 percent, so—

Senator MELCHER. We understand that, but we are only talking about a floor price. Recognizing that the Treasury did not have to pay out anything for 1979 to protect that floor. That is no reason for forgetting about it and just dropping it. I do not know why we should be advised here that we should drop 1979 out of it and just go for whatever inflation in 1980 is.

We would lose that 7 percent; would we not?

Mr. WAGER. 1979 was a pretty good year, Senator, in the farm economy.

Senator MELCHER. Well, we are talking about the floor price. We are not talking about making up or adding on to anything. We are just talking about recognizing inflation that occurred in 1979.

You are not having any difficulty following that arithmetic; are you?

Mr. WAGER. Well, we feel that, starting with the current budget year, it would be fair to increase the target price by about 7 percent, or whatever it is that the Council on Wage and Price Stability would announce as the guideline for the entire economy.

Senator MELCHER. You are also suggesting that we forget whatever happened in 1979 and not take anything out for—

Mr. WAGER. We made our position clear on 1979. There should be no target price increase.

The CHAIRMAN. Are there any other questions?

[No response.]

The CHAIRMAN. Thank you very much, gentlemen. We appreciate your coming.

Our next and final witness is Mr. Howard Hjort, Director, Economics, Policy Analysis, and Budget of the Department of Agriculture.

We are happy to have you back.

Senator HUDDLESTON?

Senator HUDDLESTON. Mr. Chairman, before Mr. Hjort starts, may I inquire what the plan of the committee is?

The CHAIRMAN. I thought what we would try to do—of course, you realize the Senate will go in session shortly. I thought the first thing we would do is take up these two noncontroversial bills on the agenda. I do not think they will take more than 5 minutes. And then try to mark up this House-passed bill if we have a quorum with us and move expeditiously. Time is of the essence, as you know. You know what the parliamentary situation is. This may well be the last meeting of this committee this year.

Is there any objection to that procedure?

[No response.]

Senator HUDDLESTON. I have another meeting I needed to attend between 9 and 10. Would I be counted as a quorum if I leave?

The CHAIRMAN. No. Actually, to report a bill to the Senate, you have to have a physical quorum present under the rules. Now, that has not always been complied with, but I have made an effort to do so.

Senator HUDDLESTON. Do we have a quorum at this time?

The CHAIRMAN. Yes; we do. We have 11 Senators present now.

Let's take action on these two noncontroversial bills, and then we will hear from Mr. Hjort. Is that agreeable?

[Whereupon the committee suspended its other business to proceed to consider Senate Resolution 225 and S. 1978.]

AMENDMENTS TO THE FOOD AND AGRICULTURE ACT OF 1977

HEARING—RESUMED

The CHAIRMAN. Mr. Hjort is recognized.

Without objection, we will insert your full statement in the record.

STATEMENT OF HOWARD W. HJORT, DIRECTOR, ECONOMICS, POLICY ANALYSIS, AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. HJORT. Thank you, Mr. Chairman.¹

¹ See p. 50 for the prepared statement of Mr. Hjort.

We do have a rather lengthy statement. I want to direct your attention, to those who have it in front of them, to page 18. This is where the statement starts to address directly the questions before the committee.

The first part of the statement is general background on the policy developments, the role of target prices, the reserve programs, and how these policies have affected the situation over the last 2½ years.

Senator BOSCHWITZ. Mr. Chairman?

The CHAIRMAN. Senator Boschwitz?

Senator BOSCHWITZ. It would be nice if the witness from the Department would see to it that we receive this in advance so that we could read the first 18 pages.

Senator TALMADGE. Eighteen is really a misnomer. Eighteen is page 1 of the document you have before you. I don't know how he got his numbers. Maybe it's the new arithmetic, with which you and I are not familiar.

Mr. HJORT. Senator, we do apologize for not having the material to you in advance. It turns out to be one of our continuing problems. I do apologize.

Senator BOSCHWITZ. You are not the only one.

Mr. HJORT. Mr. Chairman and members of the committee, the administration recommends that the committee: One, make no change in 1979 target prices;

Two, approve an adjustment in target prices for the 1980 crops to levels that will approximate short-term costs;

Three, authorize a change in existing legislation so that 1981 crop target prices can be set by the Secretary at levels that will approximate short-term costs;

Four, approve an extension in disaster payment authorities to April 1, 1980; and

Five, amend existing authorities to permit the Secretary to require producers to plant within their normal crop acreage as a condition of eligibility for farm program benefits when there are no set-aside or diversion programs in effect.

Those are the elements that are essential to receive administration support.

The CHAIRMAN. Senator McGovern?

Senator MCGOVERN. What do you mean, Mr. Hjort, by short-term costs? Are those cost of production figures? How do you define that?

There has been an estimated 20 percent inflation factor the last 2 years which farmers have had to deal with. How does this figure you use, short-term costs, relate to that?

Mr. HJORT. What we are referring to is the concept of the costs that a producer would have to pay to stay in business in the short run. It makes the distinction between the full cost of production and the amounts that would be required to keep a producer in business through time. The philosophy of a target price is that it is an economic safety net; it prevents economic disaster.

The concept here is that the short-term costs would be those that you would have to cover when prices were depressed to be able to stay in business.

Senator MCGOVERN. Maybe I'm a little thick. What is the difference between that and the actual costs of production though?

This is a term I have not seen before: short-term costs. And I was just wondering if you could maybe explain it a little more clearly, what the difference is in that phrase and what we have been accustomed to as the production costs?

Mr. HJORT. It is not easy to explain because short-term costs for one producer and short-term costs for another producer do vary. But a major component of the costs that would not have to be covered every year would be the costs to replace machinery and equipment. Those costs, in a short-run context, can be postponed to a year when things are better.

Senator MCGOVERN. Isn't that difficult to compute?

Mr. HJORT. Well, under the guidance from the Senate and from the Congress, we do have to calculate costs of production, and machinery replacement is listed as a separate component, as are other variable costs, and land return, and so on.

Part of our difficulty is that, if you are renting land, one of the costs that you cannot postpone is the rent for that land. If you would own your land debt-free, you do not have a cost there. If you own land that has a heavy debt, you have a cost you cannot postpone.

This concept has to have some flexibility. The key distinction is that it does not cover the full cost of production. It is designed to cover those costs that the typical or the average producer would have to cover year after year to be able to stay in business.

Senator MELCHER. Is not that short-term cost theory that you are enunciating something like Chrysler is going through? They have had enough money for their short-term costs, but they have not enough money to keep themselves liquid in the long run.

Mr. HJORT. Yes, it is essentially that kind of concept. You have a certain cash flow requirement that has to be maintained to keep an operation in business. And the target price should be the guarantee that returns to the producer would not go below that level.

Senator MELCHER. Chrysler is in big trouble.

Mr. HJORT. We hope we never have to use those target price levels.

Senator ZORINSKY. Is it generally accepted by the banking industry that you can postpone payments on tractors and heavy equipment until a better year comes?

Mr. HJORT. That is not what I said, Senator. The interest costs on equipment that has been purchased with a loan would have to be paid. What I am talking about is a reserve for depreciation, a replacement cost that is added to current costs of production. Those amounts do not have to be paid on an annual basis. If a person has a tractor that he has under loan, sure, he has to pay that; and those would be included in the short-term concept.

The CHAIRMAN. You may proceed.

Mr. HJORT. Time, events, and policies this year have unfolded in a manner that eliminates the need for an adjustment in 1979 target prices. But because production costs have risen rapidly this year and will again in 1980, the case for an adjustment in the target price formula in the 1977 act for the 1980 crop is persuasive.

Also, we believe this is the time to make the necessary adjustments in target price authorities so that we can be sure that 1981 target prices will cover short-term costs, and yet remain consistent with the principles and policies established in the Food and Agriculture Act of 1977.

Turning first to the proposed changes in the 1979 target prices, when H.R. 3398 was introduced early this year, and even when the House Agriculture Committee reported the bill on April 7, the proponents argued that it would have a beneficial impact on participation in the set-aside programs and that the proposed increase of 7 percent was both consistent with the anti-inflation guidelines of the administration and below the increase in production costs.

Now, late in November of 1979, it is obvious that an increase in 1979 target prices could not have any impact on participation in the 1979 set-aside programs. Final decisions on participation in those programs were made months ago. Almost all of the 1979 crops have already been harvested.

Second, market prices for wheat and feed grains are significantly higher now than they were when H.R. 3398 was introduced and when it was reported by the House committee. And wheat, corn, sorghum, and barley yields all were record high this year. In fact, the increase in gross returns per acre from 1978 to 1979, even after we adjust for payment differences, show that the increase is in excess of the rate of inflation in the general economy.

That is, wheat returns will be up 29 percent; corn returns up about 20 percent; sorghum returns up about 30 percent; barley returns up about 17 percent from one year to the next. Clearly, these are above the rate of increase in inflation in the general economy or above the rate of increase in the costs to producers.

Further, adjusting 1979 target prices would also be inequitable. Those who decided not to participate in the 1979 programs could now do nothing to become eligible. Changes in program provisions after the fact—and, remember, these target prices were announced more than a year ago—undermines the credibility of government farm programs.

While wheat prices have increased enough so that there would not be any deficiency payments under this measure, and corn prices probably will be high enough so that there will not be any payments, there would be an increase for sorghum and barley producers. And those who decided not to participate would not be eligible for that benefit. We believe that would be unfair to those who decided not to participate. After all, in this year a majority decided not to participate in the 1979 programs.

Further, an increase in the 1979 target prices would place an unjustified burden upon the taxpayers. It could cost as much as \$194 million. This increase in outlays, given the sharp increase in gross returns, at a time when inflation is a major problem, simply cannot be justified.

Finally, as long as target price adjustments are based on sound economic criteria, they can be both effective and credible. By increasing the 1979 target prices by a single index that does not reflect either cost or productivity, that important principle established in the 1977 act would be broken and could be lost forever.

We are, as I have indicated, concerned over the level of 1980 target prices that result from the formula in the 1977 act. Cost increases have been substantial.

According to the 1977 formula, the 1980 target prices for wheat, corn, sorghum, and barley would be in the area of \$3.06 a bushel for wheat, \$2.08 a bushel for corn, \$2.46 for sorghum, and \$2.35 for barley.

That formula, you will recall, adjusts the target prices from one year to the next by the change in costs after adjusting for changes in yields. The reason the increases are so small is that, even though planted acre costs increased sharply from 1977 to 1979, so did yield per planted acre. And the result is this small change.

If we could be assured that yields in 1980 would again increase by the magnitude that they have in the last 2 years, one need not be concerned about those formula target prices. But the odds certainly are that 1980 yields are not going to increase. As a matter of fact, the statistical odds favor a situation where the national average yields are lower than in 1979. If that happens, it is pretty clear that those target prices would not cover even the short-term costs of production.

We believe that they should. The target prices, as we all know, are a means of income support, designed to protect farmers from economic disaster when atypically low prices occur. They are, in effect, a safety net, protecting producers from the consequences of disaster level prices when supplies are in excess of market requirements. However, target prices are not and were never intended to be a guaranteed income program or to cover total costs of production including a full return to land.

We view our reserve program as the first line of defense against the price depressing effects of crops in excess of current year requirements. Our latest changes make that even more so. Appropriate loan levels are critical to an effective reserve program. The set-aside and diversion programs are the second line of defense. The third line of defense, target prices, provides the economic safety net farmers need when everything else fails. The effectiveness of that policy has been demonstrated repeatedly since it was established in 1977 and it will continue to be demonstrated in the future.

The key question is what target price levels are necessary in 1980 to permit producers to cover short-run production costs? Unfortunately, there is nobody who can answer that question with precision in the fall of 1979. We do have projections, but nobody knows for sure what the yields are going to be.

In those circumstances, the ideal amendment to existing authorities would be a simple one that would direct the Secretary to establish 1980 crop target prices at levels not less than those necessary to cover those costs producers cannot postpone. Such an amendment would be entirely appropriate for both the 1980 and 1981 crops.

Given our cost estimates for 1980, and combining those with projected yields that in each case are below those observed in 1979, it would appear that 1980 target prices of around \$3.50 for wheat, \$2.35 for corn, \$2.50 for sorghum, and \$2.55 for barley would be appropriate. Those prices are close to those in H.R. 3398 for 1979,

and the administration would accept an amendment that makes the adjusted target price level of H.R. 3398 applicable for 1980—not for 1979—provided the target price for wheat is established at \$3.50 instead of \$3.63.

We also believe it is essential that the committee amend the 1977 act authorities for target prices to require the Secretary to establish 1981 target prices at levels which approximate short-term costs. We would be pleased to work with the committee staff to develop appropriate language.

In summary, the administration will accept legislation which:
Leaves 1979 target prices at current levels;

Establishes 1980 target prices approximating short-run costs;

Is consistent with the already-established concept of adjusting target prices on the basis of changes in yields and production costs; and

Provides new authorities for 1981 crop target prices, the final year covered by the 1977 act, at levels that approximate short-term costs.

None of the measures now being considered by the Congress meets those tests. Legislation not meeting those criteria is not acceptable to the administration.

As I previously indicated, on disaster payments, the administration would accept an extension to April 1, 1980, to give the Congress time to complete action on the crop insurance program.

The administration favors an amendment to make it possible for the Secretary to require participation with the normal crop acreage in years when we do not have a set-aside.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Hjort. We appreciate your brevity.

As you can imagine, I have a parochial interest in peanuts. The new peanut program that we wrote into the 1977 act has been in operation for 2 years now. How well, in the view of the Department, is the program working? Have any particular problems developed?

Mr. HJORT. As far as we can see, the program is working very well, Mr. Chairman.

The CHAIRMAN. One of the objectives that we hoped to achieve with the new peanut law was a reduction in program costs. What have been the costs for the past 2 years, and how do they compare with costs prior to the new program?

Mr. HJORT. The costs have been quite low, Mr. Chairman. If I recall—and I do not have the numbers in front of me—the fiscal 1979 outlay was about \$27 million. When that measure was being considered by this committee, you will recall that the estimate was \$108 million for that year.

The CHAIRMAN. How are the costs of the new program compared to the Department's estimates at the time we wrote the new law?

Mr. HJORT. They have been considerably below those estimates. The export demand has been very strong.

The CHAIRMAN. Under the law, the Secretary of Agriculture must announce the national acreage allotment and the national poundage quota for the 1980 peanut crop by December 1. Most everyone seems to be satisfied with the present acreage allotment

of 1.6 million. But the growers and, I understand, some of the peanut butter manufacturers are opposed to the Secretary reducing the 1980 poundage quota to the minimum specified in the act; that is 1,516,000 tons. They think the quota should remain at least at the 1979 level, 1,596,000 tons. I agree with them and have so written the Secretary.

With domestic and export demand for peanuts running at record levels, it seems to me we might easily find ourselves in a short supply situation next year if the poundage quota is reduced again.

Will you please tell us what the Secretary plans to do about the 1980 poundage quota?

Mr. HJORT. Mr. Chairman, I do not believe a final decision has been made. But I believe the recommendations to the Secretary would be that we go to the minimum both on the national acreage allotment and the quota. The basic analysis indicates that supplies would still be adequate to take care of domestic requirements even if the quota were at a minimum.

The CHAIRMAN. The new law also gives the Secretary very broad authority to set the price support level for quota peanuts, with a statutory minimum of \$420 per ton. Congress put language into the new law specifically requiring the Secretary to consider changes in the index of prices paid in arriving at his decision on the quota support level. The Secretary has not seen fit to increase the quota support level since the new law took effect, even though the change in the index of prices paid has increased between 25 and 30 percent during that time. The increase in the index this year alone will probably be about 15 percent. The \$420 support level now represents about 58 percent of parity. Growers in Georgia and in the other producing States are hurting, and I think they are entitled to a substantial increase in the support level next year.

Will you please give us the Secretary's thinking on this question?

Mr. HJORT. Mr. Chairman, we are presently inviting comment from the public on the level of support. We have put forward to the public three alternative levels: the \$420 minimum; a level that is judged to be close to the actual change in costs for producers from 1978 to 1979 and one that would be geared to the index that you referred to in your question.

That comment period has not closed. It is not appropriate yet to bring that question to the Secretary, but we have it under active consideration.

The CHAIRMAN. You would agree that 58 percent of parity is quite low?

Mr. HJORT. Yes, sir.

The CHAIRMAN. Senator Helms?

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Senator HELMS. Mr. Chairman, the essential purpose of any successful farm policy has always been to try to provide a basic stability in the agricultural sector so that farmers may plan for the long run. One element of such stability is the predictability of farm legislation, of the rules by which each farmer knows that he and his fellow farmers must "play the game."

In 1977 this committee and Congress culminated a generation of long debate on the correct mix of government programs and market orientation by developing a bipartisan consensus farm policy. That legislation has been significantly successful in achieving sound results.

Basic prices farmers receive have risen 20 to 30 percent in the face of unprecedented production; that is a situation that was thought virtually impossible not too many years ago. Farmers have benefited tremendously from increased production because the supply thus created has also created an effective world demand. And aggressive marketing on our part has made those markets American markets.

The seemingly correct mix of a realistic loan rate and target price, with appropriate set-asides, farmer-held reserves, and a shared cost disaster protection program, have been effective because farmers could plan their planting and marketing strategies with the knowledge that the rules of the game were constant and established for the 4-year life of the 1977 act.

Mr. Chairman, in the judgment of this Senator, if we undo this delicate mix, if we turn our backs on a generation of consensus that made the mix possible and effective, if we remove the predictability of the rules, I do not think we are going to be benefiting farming and agriculture. Instead, we will initiate a generation of doubt and uncertainty and simply exacerbate the very problems farmers now face.

So, I hope we can understand that the problems farmers face today have very little, if anything, to do with defects in agricultural policy and commodity legislation. Farmers are being swamped by spiraling inflation and the consequent increases in the costs of their inputs. Substantially altering the basic 1977 act will not change that; it will only make those problems more acute by stimulating increases in the costs of farmland, stimulating overproduction, stimulating excessive costs to the taxpayers, stimulating demand for stringent production controls, and in turn weakening our opportunities to sell in the world markets that are essential to prosperity in the agricultural sector.

There are three major areas of basic farm policy on the agenda today. First, there is a proposed increase in target prices. I intend to take a realistic approach by offering an amendment to permit the target price to remain as it is now. That is, to prevent it from being lowered because of the absence of a set-aside program the secretary mandated for 1980.

Second, as to disaster payment extension, I respectfully ask this committee to abide by its earlier decision to extend the disaster payments program as part of the comprehensive shared-cost disaster protection legislation which passed the Senate earlier this year and which is now pending before the House.

Finally, I hope to persuade the committee to reject any attempt to tamper with the delicate and sensitive loan rate level.

I go into it in somewhat more detail in my statement, Mr. Chairman. But in the interest of time, I ask that it be printed in the record.¹

¹ See p. 41 for the prepared statement of Senator Helms.

The CHAIRMAN. Without objection, it will be inserted in full into the record.

I thought we would follow the early bird rule this morning, gentlemen, and try to make our questions as brief as possible. Senator McGovern?

Senator MCGOVERN. Mr. Hjort, I wanted to go right to the disaster payment part of your testimony. I am not satisfied with the level you have suggested on target prices. But we do have a critical emergency that we are going to confront here very shortly in view of the failure of the House to act, and apparently they are not going to act. At the end of this year, all the disaster programs die, and there is no crop insurance program in place.

You propose extending that to April 1. But that strikes me as a pretty thin assurance to give farmers. There probably will not be any disasters to speak of in January or February or March. If there are disasters, they will begin after April 1. We do not know what the House is going to do even then. They reported the crop insurance bill out of their committee by a 20-to-19 margin, which is a pretty thin basis upon which to go.

As Senator Helms has said, this committee previously adopted an amendment that I offered in the committee to the crop insurance bill. It extended the disaster program from 1980 and then made it optional to the producer in 1981. The full Senate acted on that same principle on the floor and endorsed it by a vote of 58 to 33.

I introduced that language again in S. 2029 on November 19. In effect, it put in language that we could look at here what the Senate had already done.

Why would not it be sensible for us just to add to whatever we do on this target price or price support bill an amendment ratifying the action the Senate has previously taken to extend these disaster payments through 1980, give the producers an option in 1981?

I ask that question because I think that the department has been reasonably satisfied with the action the Senate has taken. Why don't we just ratify that as an amendment to whatever we do on the price support bill?

Mr. HJORT. These two recommendations from the administration need to be put in the proper context. We do favor an extension of disaster authorities in the manner that became part of the Senate-passed crop insurance bill.

As you say, we are now faced with not having disaster protection for some crops right now. We have every reason to believe the Congress will complete action on a crop insurance measure early in the next session. So, it seems our essential task is to get an extension in the disaster programs now that carries us to the time when the insurance program can be passed, when there will be the further extension through the 1981 crop.

So, what I think that the real question is, what is the appropriate amount of time to grant for the Congress to complete action on the crop insurance measure?

Maybe April 1 is too short. Maybe July 1 would be better. But it would seem to me, based on the information that we have had so far, that the House does intend to take the measure up early in the next session. We would anticipate that the Senate would be able to act expeditiously as it did this last time.

Senator MCGOVERN. Even granted the most optimistic scenario that the House might act on crop insurance, what have we really lost in nailing down for farmers right now what the Senate has already done? What would be lost by that? Then they at least would have the assurance that, if there is a disaster, they are going to be covered in 1980 and 1981. The House can still move next year—and I hope they will—on the crop insurance bill. But I do not see where we have lost anything by reaffirming what the Senate has already done by an almost two-to-one margin.

My understanding, incidentally, is that this would not be opposed by some of the people on the House side that have been most interested in agricultural matters.

Mr. HJORT. Senator McGovern, I can assure you that the administration would not favor an extension for a full year or for 2 years at this time.

A very high priority objective of the administration has been to obtain legislation that authorizes an adequate, justifiable crop insurance program to replace the disaster program. As the Secretary said in 1977 repeatedly before this committee and in other places, our natural disaster programs are a disaster. Recent news and recent evidence simply demonstrates that they are, in fact, a disaster.

As soon as we can get rid of those disaster programs and have them replaced with a justifiable crop insurance program, the better off we are all going to be.

So, we simply could not accept an extension of the disaster programs without the authorization for a crop insurance bill.

Senator MCGOVERN. Mr. Chairman, at 10 a.m. we have Secretary Vance coming up before the Foreign Relations Committee, and I am presiding there today. If I am not here at the time we get to the amendment, I wonder if on my behalf, without committing yourself as to how you are going to vote, you would offer this amendment on my behalf.

The CHAIRMAN. If you leave it with the staff, I can assure you your amendment will be proposed.

Senator HELMS. I would make the same request.

The CHAIRMAN. I understand. Any amendments you have will be proposed if you leave them with the staff.

Senator Zorinsky?

Senator ZORINSKY. Thank you, Mr. Chairman.

Mr. Hjort, you have indicated that you feel that the 1979 prices should not be tampered with. Is that correct?

Mr. HJORT. Yes, sir.

Senator ZORINSKY. You have also indicated that the economic climate for farming is much better now than when the administration first took office.

Mr. HJORT. Yes, sir.

Senator ZORINSKY. Would that indicate that it was not too good before the administration took office?

Mr. HJORT. When we came in in 1977 the agriculture community, particularly the grain segment, was headed toward disaster. All through that year it was one series of policy actions after another including—and most importantly—the action of the Congress of

the United States to authorize a set of policies and programs that could reverse that disastrous trend.

Senator ZORINSKY. I agree with your analysis of the economic situation of a few years ago. That is why I am at a complete loss to understand why everybody seems to think 1979 is such a good year and the farmers are doing well. I am businessman enough to know that during bad years you go out and borrow money and hope to pay it off in the future when things get better. There is a flaw in the administration's approach next year's loan support prices and target prices. I was taught in business that you have to average good years over bad years. The bad years are already represented in high debts that farmers have assumed in the past, hoping that in the future they will make money and be able to stay in business by paying off those debts.

Government looks at the realistic possibilities for next year, completely forgetting about any past events.

You have been before this committee to talk about land values. Everybody says, you can't take 1 year's land value; you have to average it out over a period of years.

I am surprised that we are approaching this particular legislation based on what's going to happen next year rather than what happened 3 or 4 years ago. There is no way in agriculture a farmer can make up for disasters during years past in the single upcoming year. There is no way.

I think we have to approach this realistically. We have had peaks and valleys in agriculture ever since I can remember.

In order to create some stability in agriculture Mr. Hjort, is the administration looking at next year in terms of what this Nation can afford for budgetary allotments for agriculture? Or are they looking at a total picture of preserving family farms, of keeping people in business, and of allowing them to make payments next year that they obligated 3 or 4 years ago, when they thought the family farm was going down the drain and had to go out and commit themselves to the hilt?

Mr. HJORT. Yes, Senator, we expect that their situation will be such that they can do that. What I mean by that is that we would expect market prices will be above target prices. Target prices should be viewed, pure and simply, as a safety net to protect against economic disaster.

We have market prices at the present time that are well above target prices. The programs that were authorized in 1977 added significantly to net return in 1977 and even in 1978 for wheat producers from what they would have otherwise been.

We are in a situation now where market prices are well above target price levels. We would expect that that situation would continue in 1980. Export demand is very strong. Even though we have announced no set-aside programs for 1980, we do not see a situation where grain prices are going to deviate significantly from where they are. As a matter of fact, we would expect feed grain prices, in particular, to be higher.

Senator ZORINSKY. Thank you.

The CHAIRMAN. Senator Dole, will you yield to Senator Young?

Senator DOLE. Yes.

Senator YOUNG. Mr. Hjort, a bill introduced by Senator Dole and myself would establish target prices for the next year at \$3.88 a bushel. Now, that's about the average farm price for the last 6 months. I sold my wheat at my country elevator 3 weeks ago for \$4.04 a bushel. I think corn prices are comparable to the wheat prices with respect to target prices.

Do you expect wheat prices to go down?

Do you object to the \$3.88 a bushel?

Mr. HJORT. Yes, sir, we do object to the \$3.88 a bushel target price.

You're right. That level is very close to the current market price. The market price is well above the 1979 formula target price; \$3.88 clearly would cover costs in excess of those that would have been contemplated to be covered under the target price concept established in the 1977 act.

Therefore, yes, we would not favor \$3.88.

As far as what does one anticipate for market prices in 1980, it is possible that the wheat price may come down some. It has been strong, but the key to what happens to the market price for almost all of these grains is the terms and conditions of the reserve program. They have a greater impact on market price than, clearly, a target price has. A target price is not going to have much impact on market price at all. It is the reserve policies that may influence most.

We are now preparing and, in a very few days, will be going to the public to ask for their comments on any changes in the terms and conditions of the reserve programs. We have had some concern that the gap between release and the call price on reserves may not be wide enough. There may be some other fine tuning that is necessary on those reserve programs, even though they have operated and they have worked remarkably well, I would submit.

Through those reserve policies, we believe that a significant decline in the price of wheat can be prevented.

Senator YOUNG. Do you believe wheat next year is going to go below \$3.88 a bushel?

Mr. HJORT. There really is not any way that any of us can know what is going to happen in 1980—we just cannot predict what is going to happen with yield. But I would say that there is a scenario where the market price could be below \$3.88.

I would hope that, with our reserve programs and policies, it would not occur.

Senator YOUNG. I was the originator of the target price system. We looked at it as sort of an insurance program. At \$3.88 a bushel, I would think that the Federal Government could anticipate not much of any cost at all. But it would give farmers some assurance that they could pay their bills next year.

Mr. HJORT. Senator, it would deviate significantly from that concept of target price that you advanced in the early seventies. As you will recall, when we came in in 1977 wheat and feed grains, target prices were established at a level that would cover what we call variable costs. That would have been only about two-thirds of total costs including a land return based on acquisition value. That concept was sharply below even where the Congress came out in the 1977 act.

So, if we were going to follow that original concept of target prices, even the level that I mentioned today of \$3.50 would be high.

Senator YOUNG. Where I first got the idea was the Secretary of Agriculture at that time said the price is going to be at a certain level. So, I said, why not peg it at that level. The idea of a target price first originated with me and, I think, with the committee members.

The CHAIRMAN. Senator Helms?

Senator HELMS. As a practical matter, do you think the President will veto \$3.88?

Mr. HJORT. Yes, sir.

Senator DOLE. As the practical matter, I think he has indicated he would veto anything other than the recommended, what, \$3.50, \$3.35?

Mr. HJORT. I think that's about right.

Senator DOLE. That is sort of what I inferred from your statement.

Mr. HJORT. The unacceptable caught your attention.

Senator DOLE. On a related matter, are we preparing to stop shipments of food to Iran?

Mr. HJORT. Not to my knowledge, we aren't.

Senator DOLE. Why not?

Mr. HJORT. The question of food and its moving to Iran is a question that, obviously, the President has to consider. I do think that there is fairly general recognition that food is different from some of the other items that are involved in international commerce. It is a commodity that is very difficult to maintain identity on. Wheat moves from here to Rotterdam and trades hands there. There is really no way that the U.S. wheat—

Senator DOLE. It's about like oil, I guess.

Mr. HJORT. In some respects, it is.

Senator DOLE. The reason I raise the question, I understand that is an option that might be under consideration. I am not certain what is in the pipeline and how much we ship to Iran. I just assume that is one of the options that the President may be considering and one that is supported by a great many farmers. I do not think the dollar is that important at this point. And I understand the very delicate problems in Iran.

I wanted to raise that for the record.

The CHAIRMAN. Senator Hayakawa?

Senator HAYAKAWA. How great is the usual shipment to Iran in normal circumstances?

Mr. HJORT. At the present time, we are not shipping any wheat to Iran. The main items that have been shipped recently from the United States are feed grains and vegetable oil. The feed grains are mainly for their poultry sector. I understand that at the present time the unions are not loading any vessels, so I do not believe anything is leaving the United States at the present time.

Senator HAYAKAWA. The longshoremen have just refused; have they not?

Mr. HJORT. That is my understanding.

Senator DOLE. I think we ought to know if it is firm that the administration has agreed that we could increase or should increase the 1980 target prices as you set forth.

If that is in fact the bottom line—which is one of the cliches the Washington Post notes that we use a lot of around here—then I think, as long as that is clear, it would help us to make a judgment. I am not suggesting everyone will accept that. But it would indicate then that anything—if \$3.88 is too high, then I assume \$4.08 is even higher.

Mr. HJORT. Yes, sir.

Senator DOLE. There went Melcher and McGovern out the window along with Young and Dole. That leaves no one on this sheet here.

Initially, I introduced a bill to make certain that the 1980 levels would be the same as existing law. That is the same thing that Senator Helms referred to earlier. But now I certainly would want to accommodate the administration in making it higher, but I am not certain how much higher.

We know each other pretty well. Do you speak with a lot of authority this morning?

Mr. HJORT. Yes, sir.

Senator DOLE. I don't have any further questions then.

The CHAIRMAN. Senator Boschwitz?

Senator BOSCHWITZ. Mr. Chairman, first I concur in Senator Zorinsky's comments. Senator McGovern asked some of the questions that I had in mind.

I also would be very concerned with the concept, of short-term costs. The concept, according to Mr. Hjort, would be costs of production that a producer would have to pay to stay in business. Presently there is also a concept called variable costs that you spoke about.

Frankly, I find these farm programs to be complicated enough without introducing yet another method of evaluating the program.

Would you expand, once again, on the approximate short-term cost concept?

Mr. HJORT. I share your concern with the recommended solution that the administration has. I do not think that one has to deviate. I believe those are consistent with the philosophy and the principles and the policies of the 1977 act. We would not be changing basic policies or principles that have previously been established by the Congress with prices at these levels—

Senator BOSCHWITZ. Why the change in terminology then?

Mr. HJORT. Well, unfortunately, there is the term "short-term costs," and that is not a common one. I personally have difficulty with cost concepts. They, frankly, arise from the fact that we have too many economists involved in calculating costs of production. There is the economist's concept and the accountant's concept.

What I think we should be using in these considerations are those costs that actually have to be paid. If it's for family living, if it's for operating expense, if it's for land, or if it's for machinery, whatever actually has to be paid in the year of concern—I believe that is the amount that should be covered. And that is what this concept is.

Senator BOSCHWITZ. I was not here in 1977. Did the contemplation of costs under that act include depreciation of machinery, which you now want to eliminate?

Mr. HJORT. Yes, let me explain what that 1977 act did include. The 1978 target prices that were established by the Congress were based upon costs of production data for 1975 and 1976 and designed to cover variable costs, farm overhead expenses, a return to management, machinery, and equipment, and a partial return to land—between 3 and 4 percent for the various commodities based on the current price for land.

That is what was used to establish target prices. Then the formula specified that those should be adjusted annually based on changes in the variable, farm overhead, and machinery costs. In other words, essentially the operating expenses and the machinery costs, but not management or land.

Senator BOSCHWITZ. Did it say that you should eliminate some of these costs? Are you going to make allowance sometime down the pike when replacement becomes apparent or when it becomes needed? Are you at that point going to make allowance and allow the farmer to catch up? Eventually these costs have to be met.

Mr. HJORT. That's right; they—

Senator BOSCHWITZ. Then allow them to increase sharply?

Mr. HJORT. We are not going to let the target price jump up, because the target price is not an income guarantee program. But other policies—set-asides, reserves, and so on—will keep supplies and demand in balance so marketplace returns to the producer, over and above the target price, will enable him to cover his full costs of production.

I think, perhaps, there is one misunderstanding. The concept that I am talking about here of short-term costs includes more and is therefore higher than if one simply used the variable costs, the machinery costs, and farm overhead that are in the adjustment formula of the 1977 act.

The CHAIRMAN. The time of the gentleman has expired.

Senator STEWART?

Senator STEWART. He answered a question a minute ago about what the administration's position would be if the price support were not pretty much on target with that in your testimony. What would the administration's feeling be with regard to the legislation in the event we attached the amendment suggested by Senator McGovern in regard to disaster relief?

Mr. HJORT. As I tried to indicate—

Senator STEWART. Would you veto it or not?

Mr. HJORT. Well, I offered, when we were talking, a compromise: instead of an extension to April 1, 1980, to July 1, 1980. That, I believe—

Senator STEWART. If we put the amendment in like Senator McGovern suggested, what would the administration's position be?

Mr. HJORT. It would definitely be opposed. Such a provision would probably, just in and of itself, require a veto, even if all of the other provisions were exactly as the administration had—

Senator STEWART. Even with every requirement set out with regard to target price and you extended that, which has been done before, the administration would veto that?

Mr. HJORT. Yes, sir. And it has not been done before.

Senator STEWART. At least the Senate has taken that step and we have ratified——

Mr. HJORT. Not in this context, Senator, the Senate has not. The Senate has taken it in the context of approval of a crop insurance measure, and we support that. When the Congress completes action, we will accept that 2-year extension on the disaster programs and permit producers to have a choice between the two for those 2 years.

Mr. STEWART. No further questions.

The CHAIRMAN. Senator Melcher?

Senator MELCHER. Howard, your testimony has been cleared by the Office of Management and Budget?

Mr. HJORT. Yes, sir.

Senator MELCHER. Is your positive statement on vetoes based on OMB's clearance?

Mr. HJORT. Pardon?

Senator MELCHER. You said if the bill has such and such in it, the President would veto it. Is that why you are saying that, because it has been cleared by the Office of Management and Budget?

Mr. HJORT. Not only the Office of Management and Budget. It has been cleared by the entire administration. And that is why I am speaking for the administration.

Senator MELCHER. You know, I've heard these hard lines before, Howard. I wonder if it has been cleared with Bob Strauss.

Mr. HJORT. I do not believe so.

Senator MELCHER. No; I don't think so either.

Are you not pretty firm, as the Department has always been, in keeping wheat and feed grains together?

Mr. HJORT. Yes, sir.

Senator MELCHER. The reason I raise that is because, while the administration might write off the Wheat Belt, they do not necessarily write off the feed grains States yet.

You ponder about what the average yield will be for wheat and feed grains in 1980. Is it not still a pretty good yardstick to measure it out on an average yield over 4 or 5 years?

Mr. HJORT. I think so.

Senator MELCHER. If we would take that as the yardstick, the average yields over 4 or 5 years and then use an inflationary factor to cover 1978, 1979, 1980, we would not be unfair; would we?

Mr. HJORT. I am not sure I understand your——

Senator MELCHER. You do not know what to expect for 1980. The average yield multiplied by the amount of increase in cost—so, if we take the inflationary factor times the average yield and come up with the target prices, we would not be unfair; would we?

Mr. HJORT. Well, I think that is precisely what we have done in trying to estimate the levels that would be required to cover these costs that producers cannot postpone. We have projected forward for each one of these crops the costs per acre. Then we used a projected yield to look at what that would lead to. It is on that basis that we believe that \$3.50 for wheat and \$2.35 for corn, and so on, would be appropriate.

Senator MELCHER. What would the cumulative inflationary factor be for 1978, 1979, and 1980 on the average? Not the figures you have used but just the cumulative general inflationary rates in the United States.

Mr. HJORT. A new one has been just announced this morning, but I do not know what it shows. It is on the order of 11, 12, 13 percent this year. I do not remember what it was for 1978; it was somewhat below that. I believe it was 9-something. And I think most expect inflation in 1980 on the order of 10 percent.

Senator MELCHER. Then something in the ballpark of about 31 percent might be the cumulative inflationary factor.

Mr. HJORT. Something on the order of that, yes.

Senator MELCHER. And then multiply it times the average yield—

The CHAIRMAN. Senator Pryor?

Senator PRYOR. Mr. Chairman, I think most of my questions have been asked. Thank you.

The CHAIRMAN. Senator Boren?

Senator BOREN. Mr. Chairman, I want to follow up again on what has already been said about the disaster program. I concur wholeheartedly in the comments made by Senator McGovern.

I just do not understand why there is opposition to continuing the program for 1 year. I have here a letter that the acting secretary sent to Chairman Foley in the House on November 13. It says:

The Administration does not object to offering producers such a choice through crop year 1981, because it will take approximately that long to perfect the new subsidized crop insurance program.

So, even if the crop insurance program is adopted, with an extension from this committee, according to the acting secretary it is going to take substantial time to put it in place. We know that the discussion of the crop insurance proposal has taken 2 years and it still might not be adopted. The House is moving rather slowly on it. That being the case—and I realize there is some criticism of the program—why would you oppose extending it for another year? It is going to take more than 1 year to put it into effect even if the crop insurance program passes right away.

Mr. HJORT. I think we are probably having some difficulty in communicating just exactly what the administration's position is.

The administration stands entirely behind that letter that you are referring to. As you will read that letter, you will notice that it is intimately linked with the crop insurance program.

Senator BOREN. I understand that, but—

Mr. HJORT. Acceptance of that amendment and that extension for 2 years is geared to passage of the crop insurance measure. That is the administration's position. We stay with that.

We have been told by the Congress, particularly the House, they have difficulties now, but they will take the measure up early in 1980. What we are offering and are trying to work out with you is some reasonable period of time to give the Congress time to act. That does not mean that we are going to back away from the 2-year extension in connection with the crop insurance program.

Senator BOREN. But it says that there is no objection because it will take approximately that long to get the program in place.

Now, if that is true—I suppose that that is a true statement—if it is true in this context, it will be true in any context.

Mr. HJORT. Also, there are some other words in there.

Senator BOREN. I can read the whole letter and put it in the record. I would be happy to put it in the record. It says very clearly that it will take that long to get it in place.

Mr. HJORT. I am not backing away from that position one bit. That is the administration's position. We favor that extension as long as it is part of the crop insurance program and so that it can be offered at the same time to producers. But at the present time we do not have the expectation that the House is going to complete action this session. We do have the expectation that they are going to do so early in 1980.

So, what we are offering to you is an extension of those disaster programs, those authorities, to a time that is reasonable to expect the Congress to complete action. And that measure has the further extension of the disaster program.

Senator BOREN. It just seems to me, as the statement was made in that letter, that, even if they complete action, it is going to take a significant period of time to put crop insurance in place. Therefore, it becomes certainly reasonable to extend the disaster program for 1 year. We are not only dealing with variable costs; we are dealing with variable positions by the administration. I understand the administration's position. It looks to me like we are just changing the rules, as we are by the way we are figuring the costs in the short-term basis with the target prices, to justify what purpose we have.

As I was reading these figures, I understand the administration on certain crops is proposing a 7-percent increase in target price for most crops and only a 3-percent increase for wheat. Is that correct?

Mr. HJORT. There is a difference on wheat. The wheat target that we recommend is \$3.50 a bushel.

Senator BOREN. Which is 3 percent; right?

Mr. HJORT. Part of the reason for that is that the wheat target price increased by a greater amount than the corn target price for the 1979 crop because there was a 20-percent set-aside associated with wheat and only a 10-percent set-aside associated with corn. In both cases we adjusted them from the formula amount by the amount that would be required to compensate producers for participating in the set-aside. So, the base that you are operating from is not the same for wheat versus corn. If one takes it from that base, you will find that our recommendations are quite consistent.

Senator BOREN. We see that 7 percent is used for every other aspect of American society in the economy. I think the farmers are certainly entitled to 7 percent along with everyone else.

Mr. HJORT. Yes, sir, and they have received considerably more than that.

The CHAIRMAN. Senator Dole and then Senator Melcher.

Senator DOLE. Are you advocating any increases in loan rates?

Mr. HJORT. No, sir.

Senator DOLE. What if we did?

Mr. HJORT. The loan rates are intimately linked to the reserve policies, as you know. As I said earlier, we are just ready to go out

to the public for comment on changes in reserve terms and conditions. Among some of those changes there is the possibility of adjusting the loan price.

But we simply cannot, with the release and call both linked directly to the loan levels, make those kinds of adjustments in the absence of the consideration of what it does to the reserve program. We do have this procedure under way. We simply appeal to you to let that informal procedure operate and see what comes out of that.

Senator DOLE. I think it would be fair to say that any increase in the loan rate would be unacceptable?

Mr. HJORT. At the present, in this context, yes. In connection with this review of reserve programs, we expect that there will be some suggestions and that we will give consideration to modest adjustments in the loan rates as one alternative to having release prices and call prices slightly higher.

It seems to us that it is quite important to keep it in that context rather than have legislation action at this time.

Senator DOLE. Then if you increased, as Senator Boren has pointed out, 7 percent for wheat, we are talking about what target price?

Mr. HJORT. The 1980 crop would have a target price of about \$3.06 under the provisions of the 1977 act. A 7-percent increase over the 1979 formula target of \$2.98 would result in a target price of \$3.29. A 7-percent increase over the announced 1979 crop target of \$3.40—which included compensation for set-aside participation—would be \$3.64.

Senator DOLE. You are suggesting that we set the target price at \$3.50. As Senator Boren points out, that is about a 3-percent increase. If we made it 7 percent for wheat, that would be what figure?

Mr. HJORT. Well, you take 7 percent from the target price that was adjusted to go along with the 20-percent set-aside; then it is \$3.64.

Senator DOLE. Do you have any objection, in an effort to compromise the disaster thing, if we went to the beginning of the next fiscal year?

Mr. HJORT. That stretches me one-quarter farther than I can be stretched at this point, I think. I did offer April 1. An extension to the beginning of the next fiscal year would be from October 1, 1979 to October 1, 1980, if I understand that proposal. And then I was saying, why not compromise on July 1. It would seem to me that July 1 would give sufficient time for the Congress to complete action.

Senator DOLE. Yes, I don't think April 1—depending on when we get out of here, if we start mid-January again, it takes a while. Of course, next year, as has been indicated, is an election year. I haven't checked all these figures with Senator Kennedy, but I hope to—

[Laughter.]

The CHAIRMAN. Senator Melcher?

Senator MELCHER. Howard, you just said in answer to Senator Boren that farmers have gotten a great deal more than 7 percent. I

assume you mean that in the marketplace the actual cash price was much higher?

Mr. HJORT. Yes. I was referring to the figures that were in the statement. They show that because we were fortunate in having very good crops with record yields and then higher prices, the gross return and even the net return have increased significantly.

Senator MELCHER. You described target prices as being a safety net to assure producers a protection level price. If we would follow the general procedure—following up my other line of questioning to you—where we would just add the inflationary factor to the target price over the last few years we would come up considerably higher than \$3.50 as the target price for wheat. Since it really is not indicated that the market price will be lower than that, I fail to understand your hard line in establishing a safety net at such a low level.

Mr. HJORT. Well, in part—in large part, actually—it is principle. What we are trying to do is to stay consistent with the principles and the policies that were established in the Food and Agriculture Act of 1977. That basic principle with respect to target prices was that adjustments should take into account changes in productivity and changes in cost. We believe that those are solid, sound principles. As long as we conform with those principles we are going to be all right.

If we start moving to some arbitrarily selected escalator, then we are going to be continually in deeper trouble, in my view, as we go through time. We should stay with the basic principles that one should cover the change in cost and one should consider the change in yields. We are not totally satisfied with the 1977 act formula. This business of using the annual yield in such a short period of time leads to year-to-year changes in those target prices that I do not think are in the best interests of anybody. So, there is a problem there.

As far as 1981 is concerned, if these new levels were established, we would welcome some attention to that adjustment formula from 1980 to 1981 so that we could take care of that problem—perhaps a longer time period, maybe even a 5-year average yield to smooth out those fluctuations. But what is down at the core of all of this is trying to stay consistent with those basic principles that were established in the 1977 act.

Senator MELCHER. These increases in cost are totally unprincipled. If the safety net is not high enough to encourage production, I think it would damage the national purpose of our policy in agriculture.

Mr. HJORT. We are in a situation where it may be operating exactly the other way. It appears to us that from 1975 through 1978 the increases in costs per acre were below the rate of inflation in the general economy. A large part of that is because fertilizer prices came down and so did chemical prices and so on. But that period is over.

The 1979 increases in costs of producing these target price commodities appears clearly to me to have been in excess of the rate of inflation in the general economy. I would not at all be surprised to see that again repeated in 1980. Now, taking all of that into account is what we have tried to do in coming up with these levels.

Senator MELCHER. The year you mention has been a reflection of the rapid increase in oil prices which puts the entire cost of production figures up for farmers and is likely to continue through 1980 and 1981.

The CHAIRMAN. First Senator Huddleston; he sought recognition first. And then Senator Boschwitz. And then Senator Zorinsky.

Senator HUDDLESTON. Mr. Chairman, I do not want to go over material that has already been covered during my absence, but on the matter of disaster payments extension I would hope that we not do more than is absolutely necessary. We know the disaster payment program is not efficient, it is not effective, it is not equitable. A very small percentage of the recipients receive a very high percentage of the total payout.

The extension in the crop insurance bill, as has been pointed out, was there with the understanding that we would have a crop insurance bill. The Senate spoke very decisively by 64 to 27 on that bill. I think we ought to keep whatever pressure we can on the House to complete action on it. I am afraid that, if we go to a liberal extension, the urgency of it from their standpoint may diminish somewhat.

I would just ask Mr. Hjort this. The extension to July, mechanically, is that adequate to ensure that there will not be any gap in coverage until the House has an opportunity to act?

Mr. HJORT. Others have been asking that same question. I have offered a change in our stated position here to make it July 1. I do believe that that would provide adequate time. Maybe April 1 is a little tight.

Senator HUDDLESTON. And, if the House is late in acting or if the conference committee gets snagged and that deadline approaches, would there then be opportunity for further extension to again eliminate the possibility there will be a gap in coverage?

Mr. HJORT. Yes, sir. If we are in a situation where it is clear that time pressures are such that the crop insurance measure cannot move through, I am sure you would find that the administration would support a brief extension amendment.

Senator HUDDLESTON. Thank you very much.

The CHAIRMAN. Senator Boschwitz?

Senator BOSCHWITZ. Mr. Chairman, very early in Mr. Hjort's testimony I pointed out that we had not received it until now. I also noted that, in response to Senator Melcher, his testimony has been cleared by the OMB and the entire administration.

So, I want to make my point again. I hope, Mr. Chairman, that the staff and others will try to get us copies of testimony in advance. If it can be prepared in time for the entire administration and the OMB to clear it, it seems to me you could get it here a day or two in advance.

Furthermore, you spoke about conforming to principles and you talked about staying consistent with the basic principles of the 1977 act. Once again I comment that I believe you are changing, as I understand it, some of those principles by coming up with a new terminology of approximate short-term costs.

I make those more as statements, Mr. Chairman, than as questions.

The CHAIRMAN. Senator Zorinsky?

Senator ZORINSKY. Howard, you mentioned before that you were going to allow the marketplace to dictate the higher prices which in turn, hopefully, will generate the additional profits necessary to keep the family farms in business. How can you make a statement like that when, according to some extensive hearings I have had recently the administration, you, the railroads, or anybody else cannot even guarantee grain transportation, let alone assuring that there is proper profit motive effective in the marketplace?

You say that the profit structure is going to be there, as we control our surpluses, but even if that is true, when you cannot ship the grain to where it is supposed to go, then the structure falls apart.

Mr. HJORT. Except for changes that we have continually been making through this period of strikes and rail problems and so on, to make it possible for a producer to hold on to his commodities. You will recall that some of the commodities such as oats and barley were called. Under the original rules, they would have had to deliver those commodities. Now, in situations where there was no transportation and no chance of doing so, we relaxed those rules so they did not have to dump those commodities.

We have modified the reserve program so that at the present time, producers can put commodities into reserve even though the national average price is above the release price.

It is through that series of things we have helped the producers. But the key difference between now and previous times is our reserve programs and policies to take that excess out of the market. If that excess is weather related or if it is because of a transportation difficulty or regional difficulty or some such, we do have situations where prices are depressed well below the market level. That was one of the main reasons why we modified the reserve rules just recently to permit producers to put 1978-79 crops that are under loan into those reserve programs so that they do not have to accept those distress prices.

Senator ZORINSKY. Well, I think we are bulging with grain in the reserve program. In addition to that, wheat and corn are being piled all over the ground because of the inability to move it. Anytime a penny or a dime is lost due to the inability to take advantage of a good price on any given day, it is the farmer who bears the cost.

I would just hope that in the future you look at some of the minuses along with some of these pluses that you keep bringing out every time there is a reason not to do something. There are many things happening in agriculture that are not benefiting the farmer, and I do not think some of these programs are taking account of them.

Mr. HJORT. I think that is right. I believe that that is one of the reasons the Secretary is not here today. He has started this series of hearings throughout the country to get a dialog going on the broader questions and the broader issues that face the whole system of agriculture and the agricultural structure. I think it is also part of the reason why the Congress established a commission on transportation and the Secretary of Agriculture and Secretary of Transportation have a group at work that are looking at these transportation problems.

Our transportation system is not good. It needs to be improved.

I have tried to work on those. I agree with you entirely that we frequently spend much too much time debating the question of whether the target price should be \$3.50 or \$3.60 when there are many broader issues that are out there that need to have attention.

Senator ZORINSKY. I submit to you that, when I get a call from a co-op that tells me they only got three grain cars this week and their competitor got four and it is a major catastrophe, I would say that there is something wrong with our transportation system.

Mr. HJORT. There certainly is something wrong it. We have taken the actions that I mentioned earlier to ease those pressures and make it possible for producers to have other alternatives to selling grain at distressed prices.

The CHAIRMAN. Thank you. The committee is adjourned.

[Whereupon, at 10 a.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The essential purpose of any successful farm policy has always been to try to provide a basic stability in the agricultural sector so that farmers may plan for the long run. One element of such stability is the predictability of farm legislation—of the rules by which each farmer knows that he and his fellow farmers must “play the game.”

In 1977 this Committee and the Congress culminated a generation of long debate on the correct mix of government programs and market orientation by developing a bi-partisan consensus farm policy. That legislation has been significantly successful in achieving sound results.

Basic prices farmers receive have risen 20 to 30 percent in the face of unprecedented production—a situation thought impossible not too many years ago. Farmers have benefited tremendously from increased production because the supply thus created has also created an effective world demand. And, aggressive marketing on our part has made those markets American markets.

The seemingly correct mix of a realistic loan rate and target price, with appropriate set-asides, farmer-held reserves, and a shared cost disaster protection program, have been effective because farmers could plan their planting and marketing strategies with the knowledge that the “rules of the game” were constant and established for the four-year life of the 1977 Act.

If we undo this delicate mix; if we turn our backs on a generation of consensus that made the mix possible and effective; if we remove the predictability of the rules, we will not benefit farming and agriculture. Instead we will initiate a generation of doubt and uncertainty, and simply exacerbate the very problems farmers now face.

And, let it be understood that the problems farmers face today have very little—if anything—to do with defects in agricultural policy and commodity legislation. Farmers are being swamped by spiraling inflation, and the consequent increases in the costs of their inputs. Substantially altering the basic 1977 Act will not change that—it will only make those problems more acute by stimulating increases in the costs of farmland, stimulating over-production, stimulating excessive costs to the taxpayers, stimulating demand for stringent production controls, and weakening our opportunities to sell in the world markets that are essential to prosperity in the agricultural sector.

Three major areas of basic farm policy are on the agenda today. First, there is a proposed increase in target prices. I intend to take a realistic approach by offering an amendment to permit the target price to remain as it now is. That is, to prevent it from being lowered because of the absence of a set-aside program the Secretary mandated for 1980.

Second, as to disaster payment extension, I respectfully ask this Committee to abide by its earlier decision to extend the disaster payments program as part of the comprehensive shared-cost disaster protection legislation which passed the Senate earlier this year, and which is now pending before the House.

Finally, I hope to persuade the Committee to reject any attempt to tamper with the delicate and sensitive loan rate level.

TARGET PRICE PROPOSALS

The body of legislation before the Committee today proposes several modifications to existing farm programs—the most prominent being an increase of seven percent or more per year in the target prices of wheat and feed grains. I firmly believe that if we adopt these changes, we will:

- (1) Be guilty again of “tinkering” with basic agricultural policy, thereby disrupting the “Rules of the Game.”

(2) Raise serious budgetary implications and further erode our budget process; and

(3) Merely provide some farmers government payments instead of addressing the real problems of our farmers' cost-price squeeze.

(1) The Food and Agricultural Act of 1977 provides a means by which target prices for wheat and feed grains could be adjusted over several years, based upon changes in certain costs of production. However, this formula for adjustment never had the opportunity to work properly due to passage of the Emergency Agricultural Act of 1978. This act gave the Secretary discretionary authority that enabled him to increase target prices when a set-aside of cropland is in effect. A set-aside was in effect for the 1979 crop year, and target prices were increased above levels the '77 act would have provided.

(2) The target prices for wheat and feed grains for 1979 did not evolve in the manner in which Congress intended when we initially structured the cost of production adjustment feature. We tinkered with our earlier decision and simply gave USDA the ability to set target prices where it wanted. The farmers who wanted more payments found they could get more, and so kept asking. Thus, we are here now to consider further increases based on an artificial status quo.

(3) I think we must also consider what these increases will cost the Treasury and the American taxpayer. I suggest that we really do not know. When H.R. 3398 was reported by the House Agriculture Committee in late May, the Congressional Budget Office (CBO) estimated outlays of up to \$369 million for FY 1980. USDA estimated that the bill would have an inflationary impact on the budget and would increase budget outlays by \$250-300 million during FY 1980. CBO provided a new estimate of increased outlays totaling \$115 million for FY '80. This estimate, dated October 23, 1979, did not include the added cost of calculating disaster payments, and, therefore, did not represent an accurate estimate of the fiscal impact of the legislation. I now understand that FY '80 costs for H.R. 3398, including disaster payments and interest paid to the Treasury, would top \$150 million according to CBO.

CBO has also estimated that a bill providing a seven percent increase for wheat and feed grain target prices for the 1980 crop would call for \$430 million in outlays, if farmers were required to stay within their normal crop acreage. As you can see, the costs are mounting and will probably go even higher.

(4) Perhaps the worst of all the effects of this legislation is that it does not provide any remedy for the true culprits that force farmer costs upward—inflation, excessive government regulation and deepening farm debt. There are no provisos for these elements of the problem—the bill just provides payments to certain farmers. Not until we seriously begin to control inflation and the like, will farm income and stability be properly supported. We are just continuing farmer dependence upon deficiency payments, and, I must believe, thereby diluting their interest in market-oriented agriculture. This is regrettable, Mr. Chairman, and, in my opinion, not in the best interests of American farmers and our long-term ability to produce food and fiber.

DISASTER PAYMENTS EXTENSION

I have serious reservations about adopting a simple, two-year extension of disaster payments, as may be proposed to the Committee. The disaster payments program is neither a very efficient nor effective way for the Federal Government to help the farmer soften the blow of a natural disaster. It is unfair; it encourages bad management practices; it is wasteful of the taxpayers' money.

The Federal Government's current disaster payments program amounts to free crop insurance. If, as a result of natural disaster, a wheat, feed grains, upland cotton, or rice producer is prevented from planting a crop or experiences yields below a predetermined percentage of his average yield for a given crop, he may be eligible to receive an outright grant from the Federal Government.

Such a program, Mr. Chairman, has obvious defects. First, it is inherently unfair in that only producers of certain crops receive disaster payments. Producers of soybeans (a primary crop in many areas), tobacco, peanuts, citrus fruits, sugar cane, sugar beets, dry beans, sunflowers, etc., may not receive disaster payments under any circumstances whatsoever. Even within the disaster payments program producers are not treated in like fashion. Wheat and feed grain producers must lose more than 40 percent of their yield before they are eligible to receive low-yield payments. Upland cotton and rice producers, on the other hand, need only lose more than 25 percent of their yield to qualify for low-yield payments.

Second, the disaster payments program discriminates against the small family farmer. USDA studies indicate that the distribution of disaster payments among all farms is less than the projected distribution of insurance premium subsidy benefits. The studies show that larger farmers receive proportionately more of the total disaster payments than do small farmers. Under a Federally subsidized crop insurance program, the subsidy benefits would be more evenly distributed among all farmers, resulting in a more equitable program.

Perhaps the most glaring fault of the disaster payments program, Mr. Chairman, is that it encourages production on marginal lands that are susceptible to natural disasters. This sometimes results in undesirable conservation practices and may contribute to surplus production. During 1974-1977, 31 percent of total disaster payments went to about 117,000 farmers who received payments either 3 of the 4 years of the program's existence or every year of the program's existence. These figures reveal that there are a small number of farmers who abuse the disaster payments program by planting crops on land that they know is subject to high-yield variability. Such mismanagement has cost the American taxpayer in the neighborhood of \$600 million since 1974. To put this figure in perspective, the average yearly cost of the disaster payments program is \$436 million. If the taxpayer's money had not been spent on this small number of farmers, there would have been sufficient funds to pay the costs associated with disaster payments for almost one and a half additional crop years.

Contrary to the claims of its advocates, the proposal to extend disaster payments for two more years is not directed towards promoting the stability and well-being of this nation's 2.6 million farmers. Rather, it is directed towards making farming a "risk-free" endeavor for a selected few. In 1978, 25 percent of recipient farmers received 76 percent of total disaster payments. In the same year, 60 percent of recipient farmers received an average payment of \$400, while about 12 percent of recipients received payments from \$4,000 to over \$1,000,000. It would be one thing if these payments were being made to different farmers in different years. But as my colleague from North Carolina, Senator Morgan, pointed out on the floor of the Senate on November 20, these disaster payments are made to the same few farmers year in and year out. I request that Senator Morgan's statement and accompanying material be included in the record.

I simply can not accept the argument that the \$2.2 billion handed out in disaster payments over the last five years has contributed significantly to a stable and productive agricultural sector. In too many cases, that \$2.2 billion has served as a windfall for a small number of producers who knew full well that they were planting in areas where they could not expect to harvest a crop. Such payments do not foster increased rates of agricultural productivity. They only reward poor management practices.

I am not proud of this disaster payments program and I doubt that many of this nation's 2.6 million farmers have much respect for our efforts to continue this blatant misuse of the taxpayer's dollars.

This same Committee, back in 1977, held firm in its belief that the current disaster payments program should not be extended indefinitely but that it should be replaced with a more equitable and cost-effective disaster payments program. The Committee took an important step toward that goal this year when it reported a comprehensive, shared-cost crop insurance bill, S. 1125, the Federal Crop Insurance Act of 1979.

Moreover, in September, the entire Senate worked its will with respect to disaster payments by passing S. 1125. This bill calls for what amounts to a two-year extension of disaster payments while a comprehensive federal crop insurance program is phased-in and implemented. Approving S. 1125, by a 64-27 vote, the Senate made it abundantly clear that a continuation of disaster payments is contingent upon an expanded and up-dated crop insurance program. We cannot now seek to circumvent the Senate's will by doing otherwise.

Finally, it is not essential that the future of the disaster payments program be determined at this time. The first disaster payments of the current fiscal year, if any, will not be paid out until the Spring, at planting time. With the absence of set-asides from the government programs for wheat and feed grains, most farmers will have little incentive not to participate in the government program. Therefore, few planting decisions will be influenced by whether there is a disaster payments program on the books by January 1, 1980. We can afford to wait and see what the House does with its crop insurance/disaster payments proposal in February, before we decide to institute a simple two-year extension of disaster payments.

To reopen this disaster payments controversy at this time is not the way for any legislative body to do business. The Committee has acted; the Senate has acted; and nothing has intervened to warrant further disruption of the legislative process.

LOAN RATE PROPOSALS

One of the bills before the Committee today increases the loan level for wheat and feedgrains. Apparently the rationale for such a proposal is a desire to increase the price levels for "release and call" of the farmer held reserve program.

Perhaps the release and call levels of this program could stand to be adjusted. The Secretary of Agriculture was given discretion to do just that in the 1977 Food and Agriculture Act and in the Emergency Farm Act of 1978. This is entirely appropriate, and I hope the Secretary will evaluate this matter carefully. Such a decision would amount to the fine tuning of a program that has been a tremendous success and has served farmers quite well during the last two years.

Most certainly the Congress should not attempt to legislate release and call price levels in the farmer owned reserve by the mechanism of increasing the loan levels. It is just not the most practical way to accomplish that goal because it carries with it so many adverse effects.

The loan rate serves as the floor price in the marketplace for these two commodities. An increase in the loan level has the effect of increasing the floor price. This action serves as an incentive for farmers to increase production. And, we can be assured that farmers will respond to an increase in loan levels by increasing production. That, of course, makes it likely that farmers will produce themselves into another surplus situation of the sort they faced in 1977 and 1978. And, that means a weakening of prices overall.

Markets are now strong and prices are favorable. Now is not the proper time to be taking action that could have the effect of stimulating production and excess supplies.

An increase in loan levels could serve to jeopardize foreign markets for U.S. commodities. An increase in loan levels sends a signal to U.S. competitors that the U.S. is following a policy of higher prices for its agricultural products. At higher prices other countries will increase their production, thus increasing competition for available markets.

The United States can ill-afford any action which could serve as a signal to other countries to increase their production. Agricultural exports rose from \$9.2 billion in 1972 to \$32 billion in 1979. About two-thirds of all U.S. wheat and 20 to 25 percent of all U.S. feedgrains are exported.

What's more, the Agricultural Council of America, composed of the most respected and important commodity groups, last week determined that the potential exists for a doubling of U.S. agricultural exports by 1985 if federal government policies are conducive to that. Such a goal will be impossible for American producers, however, if we adversely affect the supply of these commodities by increasing loan rates, and consequently creating an over-supply.

Hopefully, market prices will be much higher than the increased loan levels contemplated in the legislation before the Committee today. The chances are very good that this will be the case. But the fact remains that such action as is contemplated is not needed at this time, and, in fact, would be detrimental to farmers and the development of our foreign markets.

The long term answer to increased farm prosperity is for the government to provide—or more appropriately, to allow—an economic environment which will foster growth in U.S. agricultural exports. Raising loan levels certainly does not provide such an environment and I hope the Committee will not seek to do that.

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. Chairman, I am Robert J. Mullins, Assistant Director of Legislative Services, National Farmers Union, 1012-14th Street, N.W., Washington, D.C. National Farmers Union, on behalf of its 300,000 farm and ranch families, is pleased to appear before this Committee in support of legislation to increase target prices for agricultural commodities for 1979 and subsequent years. We commend the Committee for holding this hearing today, and the efforts of its members to readily address the issue.

In the twenty-five months since the "Food and Agriculture Act of 1977" was signed into law, prices received by farmers for their commodities have averaged 70 percent of parity. Those prices have ranged from a low of 64 percent in October

1977, to a high of only 75 percent in February and March, 1979. As of October 15, 1979, the parity ratio stood at 68 percent, three percent below a year ago.

Prices received by farmers for their commodities are 8 percent higher than a year ago, as of October 15. However, farm costs are up 14 percent over a year ago. Current estimates project farm operating costs to be at least equal to the inflation rate for 1980 (approximately 11 percent) while total net farm income for the coming year is expected to drop sharply.

National Farmers Union's recommendations to the Committee today are made in full recognition of the limitations imposed by the "Food and Agriculture Act of 1977". Within those limitations our recommendations are summarized as follows:

Increase the target price on wheat for 1979 to a minimum of \$3.63 per bushel, with comparable rate increases for corn and other feed grains. Target prices for 1980 should be adjusted at this time to reflect increased costs of production, which for wheat, would place it in the \$4.10 range.

Target prices for the 1981 wheat and corn crops should also be adjusted. This could be accomplished by basing the 1981 target on the 1980 rate providing for an adjustment tied to either increases in the cost of production or the Consumer Price Index.

The disaster and prevented planting provisions of the "Food and Agriculture Act of 1977" should be extended for the 1980 and 1981 crop years.

The 1977 Act should be amended to require producers to plant within their normal crop acreage when no set-aside is in effect to be eligible for program benefits.

The 1980 loan rate for Upland Cotton should be set at a minimum of 51 cents per pound with the target price established at not less than 69.7 cents per pound.

Our recommendations are based on the following:

Increasing the target price for 1979 wheat to \$3.63 per bushel would provide for a 7 percent increase over the 1978 rate (within the President's wage and price guidelines). Although it does not appear that deficiency payments will be required for the 1979 crops of wheat or corn it is important that the rate be increased to provide for an adjustment for the 1980 rate based on increased costs of production. Similarly, the increase provided for the 1981 crops must be based on the 1980 rate provided for an increase in operating costs.

Since the disaster and prevented planting provisions of the 1977 Act expire at the end of this year and the House has not acted on a new crop insurance program, and will not until next year, producers should have this minimum of protection extended until a new crop insurance program is in effect. Such an extension of the disaster program could be made compatible with a new insurance program by including language such as the "McGovern Amendment" in the Senate passed crop insurance bill.

The 1977 Act does not require producers to plant within their normal crop acreage if no set-aside has been established by the Secretary. An amendment requiring producers to plant within their normal crop acreage to be eligible for program benefits, even when no set-aside is in effect would provide some production controls and prevent new ground from being planted for 1980, particularly of commodities which are in excess supply.

The 1977 Act as amended by P.L. 95-279 establishes a rigid formula for determining the cotton loan rate depending on past market performances. The minimum loan rate provided by law is now 48 cents per pound. Under the formula in the law the rate would be about 46 cents per pound for 1980, however, because of the minimum rate provisions the 1980 loan rate will now be set at the 48-cent level. The level should be increased to a minimum 51 cents to provide producers with some marketing flexibility, particularly in light of the tremendous carry over from the 1979 crop now being predicted. Similarly, a preliminary target price of 61.1 cents per pound is being projected. This level is inadequate to return farmers their costs of production. The level therefore should be set at the maximum cost of production projected and that level should be not less than 69.7 cents per pound.

Mr. Chairman, National Farmers Union appreciates the opportunity to present these recommendations to the Committee this morning and would attempt to answer any questions the Committee may have.

Thank you.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON OFFICE, NATIONAL FARMERS ORGANIZATION

We appreciate this opportunity to comment on the urgent need to modify the provisions of the 1977 Act. We also appreciate the efforts of a number of members of this Committee who have introduced bills and urge you to act favorably on the proposals of Senators McGovern and Melcher. The target price levels of \$4.08 for wheat and \$2.64 for corn, with related adjustments for other feed grains, are quite reasonable when compared to 1980 costs of production.

Extension of the disaster payment provisions through 1981 for wheat, feed grains, cotton and rice is quite in order in view of the valuable time lost in negotiating acceptable crop insurance legislation. It is in the best interest of the Program and all responsible farmers to authorize the Secretary of Agriculture to require planting within the normal crop acreage to establish eligibility for program price supports.

A prominent economist in Washington recently stated: "When farmers are making money the whole economy is generally in pretty good shape." I think it is equally acceptable to acknowledge that all segments of producing agriculture do not move up and down together. Our dairy and livestock people may have a good year while grain producers are in trouble. Occasionally it is reversed. Nevertheless, the grains, cotton, rice, tobacco and peanuts are basic in the whole farm economy.

With the large 1979 grain crops and wide-open production planned for 1980, the grain producers are especially vulnerable to a price collapse. If these producers suffer a tremendous financial loss in 1980 because of our current costs of production and depression prices for the products, the effect will extend throughout the whole economy.

Earlier in the year the Chairman stated that this Committee would act when the House sent over a bill correcting the ineffective price support levels for 1979 crops. We have patiently awaited such an action. Even though it was long overdue, the bill now sent over by the House is sadly inadequate.

The USDA Outlook Conference produced a whole array of statements, estimates and forecasts as usual. There were three prominent predictions for 1980.

One anticipated a continuing flow of agricultural exports at dollar levels as high as 20 percent above 1979. Gross farm income also was forecast to hold even or gain slightly over 1979. Both of these views are necessarily subject to weather influence and the decisions to be made in other Governments throughout the world.

In the third area of immediate interest it was anticipated that our costs would continue to rise at a rate sufficient to reduce net farm income by 20 percent in 1980. Based on our recent experience and the OPEC decisions expected in mid-December, we believe this estimate is too timid. The cost and availability of money may not have been given sufficient consideration. Our net could fall much more than 20 percent next year.

There are reports from throughout the farm areas that country banks and other lenders immediately reduced standing lines of credit for farmers and small businessmen following the October 6 decisions of the Federal Reserve Board. Most of us must accept the new Volcker policy and the line of reasoning adopted by the Board because the annual inflation rate of 13 to 15 percent will be ruinous for farmers if it continues indefinitely. We agree that inflation must be brought under control.

Members of the Federal Reserve Board have clearly indicated that they expect to pursue the October 6 policy until rising unemployment, reduction of inventories and a lessening of demand for money results in lower interest rates. This is another way of saying they will stay with the current policy until we are in a serious recession. That means that farm owners and operators who are not in a preferred position to pull funds from the major money markets in 1980 will be hard pressed to finance production and meet mortgage payments. A stronger price support action on grains will reinforce their borrowing capability—and their chances of economic survival in the troublesome times that seem to be coming in 1980.

Some food processing segments may continue to press for excessive production and low farm commodity prices. They are cautioned that the proposed target prices only approximate our current costs of production. These rates certainly will fall short of the actual total cost of production in 1980.

Such groups also may well be reminded of a recent USDA statement:

"A decline in profits for good retailers in 1980 would follow 2 years of increasing profits. In 1978, food retailing profits increased more than 30 percent. This year, food retailing profits are expected to increase about 13 percent."

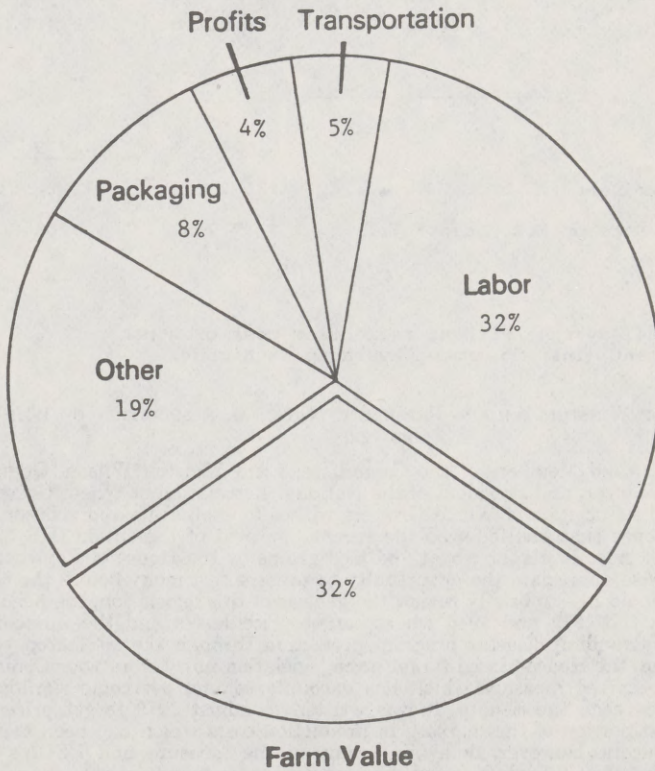
We would advocate that Government policies and priorities be rearranged to establish more real competition in food processing and retailing, while trying to secure the economic survival of food producers upon whom the whole food industry is based.

A majority of the members of the National Farmers Organization do not wish to rely on the Government Farm Program for income or price protection. Even so, we must recognize the inevitable consequences of our dependence of foreign oil, and the threat it poses in rising cost of production and our farm economy in 1980. Farmers need an improved bill if we are to sustain current levels of production.

A chart is attached to illustrate that inflation in retail food prices does not necessarily originate from the cost of the raw farm product. The farmer's share of the retail food dollar only represents 32 percent of the retail price. Also attached are some miscellaneous data pertinent to the bills at hand.

Please call on us if we may be of assistance.
Attachments.

COMPONENTS OF FARM FOOD EXPENDITURES



1978 data -

Administrator Kenneth R. Farrell, ESCS, USDA
1980 Outlook Conference

PERTINENT DATA

	<u>1979</u>	<u>1980 Est.</u>
Net Farm Income	\$32 bil.	\$24.8 bil.
Parity Ratio	68	?
Value, Total Ag. Exports	\$32 bil.	\$38 bil.
Value, Ag. Trade Balance	\$15.8 bil.	\$20 bil.

	<u>1978</u>	<u>1979</u>
Oct. 1 Stocks		
All Wheat	2.13 bil.bu.	2.29 bil.bu.
Corn	1.11 bil.bu.	1.29 bil.bu.

	<u>1973</u>	<u>1979</u>
Total Farm Debt	\$35.7 bil.	\$72.2 bil.
Av. Int. Rate on R.E. Loans*	7.75%	9.0%

*FLB annual average without reflecting cost of stock requirement; Ins. Co. rates averaged 1% higher.

STATEMENT OF WINSTON WILSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and Members of the Committee, I am Winston Wilson, Quanah, Texas wheat producer, and President of the National Association of Wheat Growers.

The National Association of Wheat Growers wishes to express its appreciation for the quick response that has followed the recent approval of legislation (HR 3398) adjusting target price levels for wheat and feed grains by the House of Representatives. We likewise appreciate the opportunity to present testimony before the committee, and I would like to briefly review the genesis of this legislation, the need for adjustments in the 1979 and 1980 wheat target price levels and the immediate importance of extending disaster program protection through the 1981 crop year.

Mr. Chairman, the House-passed target price legislation now before your Committee is a battle-scarred measure which has encountered and overcome significant impediments to reach the Senate. It was written to adjust 1979 target prices to reflect a modest portion of the increase in production costs which had been experienced by producers. However, delay in acting on the measure and USDA's announcement of a 1980 Wheat Program with no acreage set-aside and a 10 percent decrease in target price protection for wheat producers warranted an effort to broaden the bill's provisions to cover the 1980 season as well. Procedural and scheduling difficulties prevented the addition of a 1980 amendment in the House; consequently, the NAWG strongly encourages adoption of a provision adjusting the 1980 wheat target price to account for the steep increases in wheat production costs that have impacted producers. In addition, authority should be provided for the Secretary of Agriculture to require that producers maintain their normal crop acreage (NCA) as a condition for program eligibility, along with authority for the Secretary to increase target price levels when an NCA requirement is announced.

Mr. Chairman, wheat producers experienced production costs of more than \$4.00 per bushel on their 1979 crop, and growers seeding their 1980 winter wheat this fall

were hit by further cost increases of 15 to 20 percent. Moreover, while the USDA's 1980 price projections indicate that this season's market levels might be maintained, the department has projected an overall 20 percent decline in net farm income in 1980 resulting from a new wave of increased production and credit costs. It is critical, therefore, that the 1980 target price level be adjusted to at least keep pace with the general rate of inflation in the nation. Otherwise, producers will have little reason to take part in programs authorized by the 1977 Farm Act, and adjustment tools such as the set-aside and reserve programs will be rendered useless because of insufficient participation.

It is also of immediate importance that action be taken to continue the existing disaster protection program until new Federal crop insurance authority has been approved by Congress and the proposed program is developed and perfected by the Federal Crop Insurance Corporation.

Congress was persuaded during the writing of the 1977 Farm Act to authorize the continuation of the ASCS disaster program only through the 1979 crop year; it did so with the understanding that an improved Federal crop insurance program would be adopted by Congress and offered to producers nationwide in time for 1980 crop protection. The 1980 wheat crop has already been planted, but the proposed crop insurance legislation is still pending before the Congress.

Though the Senate approved a crop insurance bill in September of this year, a companion measure in the House has been postponed until 1980 because of controversy over the bill's provisions. If it can be assumed that the House will approve its crop insurance bill sometime next February, it is still unlikely that a compromise plan can be enacted before spring. Consequently, producers will enter 1980 with neither disaster program protection nor an improved FCIC program. Further, USDA has indicated that the subsidized crop insurance program that Congress may approve would probably not be perfected prior to the 1981 crop year. We concur. Wheat producers will begin seeding their 1981 crop nine months from now, and there is not way that the proposed program can be successfully developed, implemented and marketed by next season.

Accordingly, the NAWG urges this Committee to extend the 1977 Act's disaster program to cover the 1980 and 1981 crop years, and offer producers a choice in 1981 between its coverage and the crop insurance program which may be enacted. This action would be identical to that taken by the Committee and the Senate during consideration of the crop insurance bill, and it would agree with the Administration's position on new crop insurance legislation.

To summarize, the NAWG supports (1) a legislated increase in the 1979 and 1980 target price levels for wheat; (2) authority for the Secretary of Agriculture to require that producers maintain their NCA to become eligible for increased target price protection, along with authority for the Secretary to increase target levels when an NCA requirement is in effect; and (3) extension of the disaster program to cover 1980 and 1981 crops, with an option in 1981 for producers to choose between the disaster program and subsidized FCIC coverage which may be available.

We hope that speedy action can be taken on legislation authorizing these changes in the 1977 Farm Act, in order that adequate income and crop disaster protection can be enacted before Congress adjourns.

STATEMENT OF THE AMERICAN BAKERS ASSOCIATION AND INDEPENDENT BAKERS ASSOCIATION

Mr. Chairman and members of the Committee, my name is Robert Schaus. I am chairman of the Independent Bakers Association and a member of the American Bakers Association. With me today are Donald Smith, vice chairman of the IBA, and a member of ABA, Robert Wager, president of ABA and Robert Pyle, executive director of IBA. We appreciate this opportunity to present our views on H.R. 3398.

We are opposed to this bill in its present form, and there are amendments pending before this Committee that would make it even more objectionable.

As passed by the House, the bill raised the 1979 target price for wheat to \$3.63, and for corn and other feed grains to \$2.35. If the bill is enacted into law in this form, it would have only a small budget impact. Payments would be required only to sorghum and barley producers. These payments may total \$140 million, although market price movements for sorghum in the next few months could reduce that estimate.

But we believe it is wrong in principle, and a very bad precedent, to sanction an increase in the target price after harvest. The purpose of the target price program is to serve as a safety net for farmers. It is designed to encourage full production by assuring the farmer that if crops are large, and prices fall, he will receive a

government payment for the difference between the market price and the target price. Accordingly, raising the target price when the crops are already in the bin, amounts to a windfall profit for producers.

In the House, Congressman Sebelius planned to offer an amendment to raise the 1980 target price for wheat to \$3.88, and for corn and other feed grains to \$2.51. This could not be done, however, without a budget waiver. So the bill was passed in its present form, with the hope that the Senate would add the 1980 increases, and then the waiver could be obtained after Conference.

If the Senate adopts such an amendment, the potential budget cost could exceed \$1.3 billion. We calculate this by assuming wheat production of 2.2 billion bushels and an average price to farmers of \$3.50 (the first reserve release point). This would result in payments of \$836 million under a Sebelius-type amendment. Similarly, sorghum and barley payments would total about \$510 million.

In reality, this is a "best-case" scenario. For if wheat and feed grain crops are large, as they were this year, and the reserve program does not provide effective price supports, payments could run into many billions of dollars, as prices fall toward the loan levels. For example, if corn prices were to average only \$2.30/bu. instead of \$2.50, payments on 7 billion bushels of corn would be \$1.4 billion. Other payments would also increase sharply.

The recently approved budget resolution makes no provision for payments of this magnitude. Thus a budget waiver will have to be obtained if the Committee decides to increase target prices substantially.

In considering this bill, the Committee should keep in mind that each one cent increase in the target price for wheat creates a potential budget liability of \$20 million, and each penny increase for corn may add \$70 million to the budget deficit. Thus, approval of large target price increases would be a clear signal to the American people that the Congress is willing to sanction inflationary budget deficits. This would only add to the psychology of inflation, not reverse it.

Accordingly, we recommend no increase in the target price for wheat and feed grains in 1979. This would be contrary to the purpose of the target price program.

For 1980, since there will be no set aside, and the Administration is encouraging full production, we believe the producer deserves an assurance that he will receive a fair price for his crop. Therefore, we recommend a seven percent increase above current levels.

We have said before, and will say again, the farmer is our friend. He is our supplier and our customer. We want to see him prosper.

But if we are to conquer inflation each segment must contribute its part. The baking industry has pledged compliance with the President's wage-price guidelines. We hope that others will make the same commitment.

Mr. Chairman, we recognize that the legislative process inevitably involves compromise. The legitimate interest of one group must be weighed against the national interest, and a balance struck.

With inflation raging at double digit levels, top priority must be given to reducing this intolerable rate. Accordingly, we urge the Committee to limit any target price increase to seven percent next year.

STATEMENT OF HOWARD W. HJORT, DIRECTOR, ECONOMICS, POLICY ANALYSIS, AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, I appreciate the opportunity to appear before this Committee to present the Administration's position on H.R. 3398, a bill to increase target prices for the 1979 wheat and feedgrain crops and other proposals.

The focus of this bill is our system of target prices—the economic safety net the public provides to protect farmers from the disastrous consequences of low commodity prices. These income protections are essential to this Administration's agricultural policy, but the target price system is not our only policy tool. It is but one of several. And, as we consider important changes in the target price system, we must evaluate those changes carefully in terms of how they relate to the purpose of target prices, and in terms of how such changes would affect the function of target prices as a policy tool.

The Carter Administration agricultural policy is, basically, a reserves policy. Farmers hold reserves when weather and crops are good. They sell those reserves when crops and production are less favorable, and when prices are higher. Programs of reserves for wheat, feedgrains, and rice have been established. Others may be if the circumstances require them.

When market prices are below the levels needed to bring long-term capital investments into agriculture, the reserves are opened and grain can flow in. If

short-term production exceeds reserve needs, set-aside programs are re-instituted. If set-aside programs are insufficient, diversion programs are offered.

When market prices rise above the levels needed to bring long-term capital into agriculture, the reserves are released and farmers who choose to sell can do so at a profit—profits that come not from the government, but from the market. Farmers are free to plant the crops they choose, unrestricted by government allotments. And, once the reserves are released, farmers are free to sell when they choose, or to not sell depending on their private interpretation of economic trends.

Within this policy, commodity loans serve mainly to help permit farmers to take advantage of their expectations of favorable markets. Loans do serve as a market of last resort. But, they do not establish the price even in periods of good weather as they once did.

And, within this policy, target prices serve as a basic income protection—a floor on income to prevent an economic disaster in the same sense our crop disaster programs are intended to guard against production disasters.

In the context of this policy framework, I want to cover three main points today: First, that our reserves policy is well established and it is working very well. I want to describe briefly what we have accomplished and what I expect we will accomplish in the future.

Second, I want to tell you why a reserves policy means both higher prices and higher incomes for farmers than a "guaranteed incomes" policy based on extremely high target prices. And, third, I want to comment specifically on the provisions of H.R. 3398.

The reserves policy is working well

When the Carter Administration took office on January 20, 1977, we inherited a rapidly deteriorating agricultural economy. Following the poor harvest and high prices of 1974, the harvests in 1975 and again in 1976 were record large. The trend was again toward large and mounting stocks. Prices were declining. Farm incomes were being eroded, not only by lower gross receipts but from increasing costs.

By late January 1977, the policy and program decisions for 1977 had already been made in the fall of 1976 by the previous Administration. Loan prices for wheat and feedgrains had already been announced, and target prices established under the 1973 Act.

By the spring of 1977, the prospects for large 1977 crops appeared more and more favorable, and the price situation deteriorated still further.

On April 4, 1977, well in advance of the new 1977 Farm Bill, this Administration took several important actions. We announced a farmer-owned wheat and rice reserve program for the 1976 crops. This included:

A three-year extension of loans for 1976-crop wheat and rice, annual storage payments to farmers of 20¢/bu. for wheat and 65¢/cwt for rice.

Increased feedgrain and soybean loan rates:

Corn from \$1.50 to \$1.75	Oats from \$.72 to \$1.00
Sorghum from \$1.43 to \$1.70	Rye from \$1.20 to \$1.50
Barley from \$1.22 to \$1.50	Soybeans from \$2.50 to \$3.50

Lowered the commodity interest rate from 7½ to 6 percent.

Liberalized the farm storage facilities loan program: the interest rate was reduced; the maximum loan amount was raised; and only one-half the previous downpayment was required.

Both the Administration and the Congress were working to develop legislation to replace the expiring 1973-Agriculture and Consumer Protection Act. The highest priority was to develop new authorities to meet rapidly changing economic conditions. We were trying to develop, as Secretary Bergland so aptly stated, "a policy for all seasons."

The forces leading to the 1977 farm price slide could not be reversed until the new policy took effect. The 1977 wheat crop was a very large 2.036 billion bushels. Market prices fell below the loan price in many areas of the country, to \$2.03 and \$2.04 in June and July. Stocks accumulated to 1.177 billion bushels.

The feedgrain harvest was also huge—a record 203.4 million metric tons (mmt). Stocks increased to 41.3 mmt (from 29.9 mmt), and corn prices dropped to a monthly low of \$1.60 in September 1977.

When the year was over, net farm income was \$19.8 billion, up only very slightly from the previous year, with any increase largely due to improved livestock receipts. The result was very strong pressures in the fall of 1977 and the spring of 1978 to move quickly to a "guaranteed incomes" program based on very high target prices and major production curtailments. However, the Congress and the Administration resisted those pressures and continued to work together to implement the

new Farm Bill. This cooperation prevented the situation from being worse than it was and laid the foundation for subsequent recovery.

The wheat and rice reserve strengthened prices as farmers began isolating substantial amounts of the abundant 1977 crop from the market. By the end of 1977, farmers had placed some 55.8 million bushels of wheat in the reserve—prices had risen from the low of \$2.16 per bushel in September to \$2.47 in December as the reserve grew in size. (See attached table.)

Anticipating new authority in the 1977 Farm Bill, the Administration announced on August 29, 1977, its plan to form a 30 to 35 mmt food grain (wheat and rice) and feedgrain (corn, sorghum, barley and oats) reserve. And, on December 6, 1977, we expanded the reserve to include both the 1976 and 1977 crops of wheat and feedgrains. These actions immediately bolstered the market. Corn prices increased from \$1.60 in September to \$2.24 by April of 1978 in spite of the large harvests. Without the reserve, they would undoubtedly have been much lower.

The 1977 Act also increased target prices for 1977 grain crops (see table below).

1977 CROP TARGET PRICES

	Set by the 1973 act	Revised by the 1977 act
Wheat.....	\$2.47	\$2.90
Corn.....	1.70	2.00
Sorghum.....	1.62	2.28
Barley.....	1.39	2.15

The increase in the wheat target price provided an additional \$700 million in direct payments to wheat producers. On December 1, wheat growers were mailed checks for \$500 million of the \$1.2 billion total they eventually received. Sorghum producers received \$325 million in direct payments and barley producers received \$208 million.

The new authorities in the 1977 Act were the basis for the grain programs for the 1978 crops:

A 20-percent set-aside for wheat and a 10-percent set-aside for feedgrains.

Early entry of 1977 crop wheat, barley and oats into the grain reserve (farmers could place this grain directly into the reserve without waiting for the standard 9-month loan to mature.)

An increase in the farmer-owned reserve feedgrain storage payment from 20 to 25 cents per bushel. Further expansion in the farm storage facility loan program.

In 1978, grain crops were again record large. But, as the agricultural policy of this Administration began to take full effect, the economic situation for farmers was vastly different from the previous year.

Cash receipts from crops rose 20 percent; livestock receipts rose 13 percent. Net farm income in 1978 was \$27.9 billion, the second largest on record, and a 41-percent increase over 1977.

Direct payments of \$866 million were made to wheat and feedgrain producers, and \$62 million to rice producers.

The feedgrain reserve objective was reached by November 30, 1978, the wheat reserve objective had earlier been reached.

I believe 1978 was a watershed year in agricultural policy. We had record large crops, large carryover stocks, record exports; farm income was the second highest ever. This was an admirable achievement and it deserves emphasis. Over the time of two years, this Administration's policies had moved farm income from low and stagnant levels to levels only matched in times of crop disaster and famine—and had done so in the face of record crops. We believe we have made a beginning toward dealing with the classic "agricultural paradox."

Our 1979 grains programs were designed to maintain the near balance in supply and demand achieved in 1978:

A 20-percent set-aside for wheat, a \$2.35 loan rate, and a \$3.40 target price, the same as in 1978.

A 10-percent feedgrain set-aside and a 10-percent additional land diversion for corn and sorghum, and a 20-percent set-aside for barley.

Crops in 1979 were generally excellent. Export demand continues strong. And, again, in spite of bumper crops, crop prices remain strong.

Net farm income will be up almost \$4 billion, the second highest ever. Crop receipts will be \$11 billion higher and livestock receipts \$7.8 billion higher. These gains are broadly shared across the entire farm sector.

Supply and demand are in near-balance. We have removed the set-aside provisions for the 1980 programs.

There are two major points I want to emphasize from this brief recounting of the past three years. The first is that the economic situation in agriculture that was inherited by the Carter Administration was a disastrous one. The second point is that the cooperative efforts of the Congress and the Carter Administration have drastically changed the situation for grain farmers. We can readily see from the estimates that the net per acre returns after deducting short-term costs have increased—dramatically.

RETURNS FROM CROP PRODUCTION—1976-79

	1976	1977	1978	1979	Percent change, 1977 to 1979
Wheat:					
Gross returns	\$75.61	\$68.97	\$91.18	\$127.26	85
Net returns	— .51	— 5.23	11.76	33.55	742
Corn:					
Gross returns	187.27	179.39	222.20	269.03	50
Net returns	22.15	6.90	38.53	57.92	739
Sorghum:					
Gross returns	93.38	100.65	106.40	150.19	49
Net returns	.01	3.67	1.84	22.85	523
Barley:					
Gross returns	92.23	71.38	87.02	103.95	46
Net returns	11.51	— 13.51	— 4.16	— 3.34	75

Farm policies since 1930

I believe that the reserves policy, together with protection from income disasters through target prices is a natural evolution of our income protection policy that began in the early 1930's. From then until the mid 1960's, the primary means for protecting farmers' incomes was price support loans. These were initially established above marketing clearing levels, without restrictions on production. Surpluses accumulated and it was then necessary to adopt production controls—individual marketing quotas and acreage allotments, and amounts of land to be withheld from production. Farmers restricted from producing one crop turned to another. As the supply of that crop became excessive and had to be restricted, farmers would then turn to still another. The high supports distorted price signals and farmers produced for the farm programs rather than for the market.

While the price supports did offer price stability, they were unsuccessful in protecting against disaster. When a farmer had nothing to sell because of a crop failure, he received no support. Allotments and bases were rigid, and producers often planted to protect their base. Adjustments in production patterns that would have been profitable were not made. Crops for which producers had no allotment or base were ineligible for any income protection.

The high support levels also allowed foreign competitors to consistently under-sell the United States in world markets and we became a supplier of last resort to many commodities.

By the early 1960's, the high price supports and rigid programs led to huge government-held stocks. In an effort to make the programs more responsive to market conditions, programs to supplement the price support loans with so-called "price support payments" for certain commodities produced under quotas or allotments were first initiated. This was the first time market price and producer income supports were separated. Since then, the programs have gradually become less rigid.

The Agricultural Act of 1970 included the set-aside concept. It was designed to reduce the capacity of the entire agricultural plant, rather than specific commodities and to allow farmers the freedom to decide what to grow. The shift from program restrictions and toward greater reliance on market signals to guide producers continued. Price and income supports were fully separated in the Agriculture and Consumer Protection Act of 1973.

The dual support level concept has long been debated and was proposed by Secretary of Agriculture Charles Brannan in 1949. Target prices would provide income support and protect farmers from economic disaster when atypically low prices occur. However, there is no evidence that target prices were ever intended to be an annual guaranteed income program or to cover total costs of production and a full return to land. They were intended to protect producers from the consequences of disaster level prices for these periods when supplies exceed market requirements. Loan prices were established at levels that would keep our commodities competitive in world markets.

The 1973 Act initially established target prices for wheat, feedgrains and cotton. The 1975 Rice Production Act extended the concept to that commodity. The 1973 Act adopted a "cost of production" standard as the basis for annual adjustment of target prices instead of parity prices. Lack of adequate data on costs at that time led to the use of a broad-based index of prices for agricultural inputs. To provide a basis for the future, the 1973 Act directed the Secretary to establish current weighted national average costs of production for the major program commodities and dairy. These studies have since become the basis for the refined target prices adopted in the Food and Agriculture Act of 1977.

The initial levels set in the 1973 Act were adjusted each year to reflect changes in variable production costs as measured by the Department's Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates and changes in the three-year moving average of individual crop yields—the latter a proxy indicator of productivity changes.

This procedure proved to be less than entirely satisfactory. The Index of Prices Paid includes several items with no relevance for crop production (e.g., feed and feeder livestock). Furthermore, it distorted the relationship among crops since it made no allowances for varying rates of change in production costs for the various crops. And, it suffered from the limitation of being a price index rather than a measure of costs.

When the 1977 Act was adopted, the Congress modified the target price system. Target prices for 1978 were based on costs of production for 1975 and 1976—variable, machinery ownership, and general farm overhead costs—including a return to management and a three to four percent return to land on the current price of land.

The 1977 Act further revised the 1973 Act by specifying that the annual adjustments of target price be based on individual commodity production costs, rather than on the production cost index. Labor, management and land costs were taken into account without building in inflationary spirals. The same components of cost were covered for each commodity.

Furthermore, because a comparable level of income support is applied to each, producers of the major crops are treated equitably. And, the target prices do not become planning prices and they do not tend to encourage farmers to plant one crop over another.

The Congress in 1978 further increased the Secretary's flexibility to determine target prices. The Wheat, Feed Grains and Upland Cotton Emergency Assistance Act allows the Secretary, whenever a set-aside is in effect, to increase the target prices by an amount he deems appropriate to compensate producers for participation in the set-aside.

The target price system complements the system of loan prices. Set at a level to keep U.S. farm products competitive in world markets, commodity loans:

- Serve as an orderly marketing tool. Farmers can place commodities under loan when crop prices are typically low and obtain necessary cash for current expenses. Loans can be repaid and the commodity sold in the year when prices have strengthened.

- Serve as a market of last resort. In the event farmers choose not to redeem their loans, the government, through the Commodity Credit Corporation (CCC), will take the necessary grain at the loan price.

- Serve to govern reserve release and call prices for the farmer-owned grain reserve, an increasingly important function.

The Carter Administration's reserve policy is very different from the old ever-normal granary concept, and from previous stocks policies.

Until the farmer-owned reserve was established in April 1977, stocks under CCC ownership could be returned to the market whenever prices rose slightly above (105 to 115 percent) the loan level. When stocks were large, this resale policy left little room for upward movement of market prices.

In times when CCC accumulated excessive amount of grain, farmers would be offered "reseal" programs—extensions of their original loans, with payments for

storing the commodities during the extended period. The loan extensions and storage payments are features common to the present farmer-owned reserve. But, there is a vital difference—grain under resale was not effectively isolated from the market as it is under the farmer-owned reserve. Under previous programs, the grain was isolated from the market only when the government held it, and then the sales policy only provided a 5 to 15 percent margin for price increases.

Reserve programs complement the price and income support programs. The target price program provides producers with cash assistance in years in which the market price may be depressed. The reserve isolates excess supplies from the market and helps to balance supply and demand and provide price strength when needed. Over any intermediate term period, a well managed program of reserves will ensure market prices that provide producers full cost of production plus the profit levels required to bring adequate capital investment in agriculture.

Over the past two years, our reserve has been managed so it could accomplish those goals. Full cost of producing corn and wheat in 1979, with owned land reflecting acquisition prices, was below or between the reserve release price and call level. The wheat reserve was released at \$3.29, and will not be called until prices reach \$4.11. The corn reserve was released at \$2.50, but will not be called until prices reach \$2.80 at the farm.

Because the loan, target price and reserve programs are components of a total program, they have complementary purposes. None of the three works well without the others. Past efforts to support farm income through loan prices above market clearing levels have led to extremely restrictive policies and huge government surpluses. And, there are proposals to support farm income continually and substantially through target prices that cover full cost of production including full returns to management and land at its current price. The Carter Administration continues to oppose such proposals for two reasons.

First, such plans mean essentially administratively established prices and administrative pricing almost always leads to serious resource misallocation. It leads to overproduction of some crops and underproduction of others. It tends to destroy the traditional capital accumulation patterns in agriculture that favor the family farmer who has a number of advantages based on his knowledge, his family labor, and his willingness to diversify. Target prices at full cost of production bring family farms into competition with fugitive capital from pension funds and speculators who are shielded by the "guaranteed income" of high target prices, but who cannot compete on any other basis. The results are worsened, land inflation spirals and serious disruptions in the livestock and dairy economies. We have only to look at land prices and the cattle and dairy industries' problems in the mid-1970's for confirmation of that concern.

Second, target price deficiency payments are income transfers paid from the Treasury, and properly subject to public scrutiny and control. It is a political impossibility to maintain target prices for farmers at levels that cover full costs plus returns to land, other capital investments, and management. Target prices at those levels run the constant risk of either market prices that price us out of export markets, or transfer payments at multi-billion dollar levels. In a practical sense, the incentives agriculture must have if it is to have the necessary capital to meet the demands to the 1980's can come only from the market.

Finally, a shift to target prices that cover full cost of production would be a major change in the target price policy the Congress established in 1977. At that time, the Congress considered and rejected the concept of target prices that cover full costs. Because we now have a fully functioning set of reserve programs, the case for target prices that are below full costs is even stronger than it was in 1977.

Disaster payments

For several years, we have offered three separate kinds of natural disaster programs. We have a Federal Crop Insurance Program, but it does not attract enough producer participation to make it a viable, nationwide, natural disaster-protection program. The Disaster Payments Program offers free insurance for our six main crops. It is inequitable in its coverage an outlays average about \$500 million a year, but considerably more when weather is bad, and less when it is good. And, we have natural disaster loan programs that provide low-interest loans to persons who have crop or livestock-related natural disasters. These programs contain substantial subsidies.

One of the early conclusions of this Administration was that our natural disaster programs were themselves a disaster. The 1977 farm bill extended the disaster payments program for two years as an interim measure, allowing time to develop our proposal for dealing with natural disasters.

After passage of the 1977 farm bill, we undertook an extensive study of natural disaster program options. In April 1978, the Administration proposed a subsidized, all-risk crop insurance program that would replace the current disaster programs at no increase in cost.

The Administration's Subsidized Crop Insurance proposal was submitted to the Congress in mid-1978. The Congress did not take the proposal up in 1978 and it was presented again this year in the same form.

The Senate passed a crop insurance bill in September which is acceptable to the Administration. The Administration has agreed to an amendment that both the subsidized crop insurance program and the disaster payments program would be offered through 1981. Producers would be allowed to choose between them. No producer would be eligible for both.

However, in recent days a number of important supporters of the bill in the House are proposing to re-examine the bill early next year.

The disaster payments program has now expired. However, the Administration will continue to work with Congress to develop an acceptable subsidized crop insurance bill.

Mr. Chairman—members of the Committee—considering the factors which we have just reviewed, the Administration recommends the Committee:

- make no change in 1979 target prices;
 - approve an adjustment in target prices for the 1980 crops to levels that will approximate short-term costs;
 - authorize a change in existing legislation so that 1981 crop target prices can be set by the Secretary at levels that will approximate short-term costs;
 - approve an extension in disaster payment authorities to April 1, 1980; and
 - amend existing authorities to permit the Secretary to require producers to plant within their Normal Crop Acreage as a condition of eligibility for farm program benefits when there are no set-aside or diversion programs in effect.
- These are the elements that are essential to receive Administration support.

TARGET PRICES

Time, events and policies this year have unfolded in a manner that eliminates the need for an adjustment in 1979 target prices. But because production costs have risen rapidly this year and will again in 1980, the case for an adjustment in the target price formula in the 1977 Act for the 1980 crop is persuasive. Also, we believe this is the time to make the necessary adjustments in target price authorities so that we can be sure that 1981 target prices will cover short-term costs, and yet remain consistent with the principles and policies established in the Food and Agriculture Act of 1977.

When H.R. 3398 was introduced early this year, and even when the House Agriculture Committee reported the bill on April 7, the proponents argued that it would have a beneficial impact on participation in the 1979 set-aside programs and that the proposed increase of 7 percent was both consistent with the anti-inflation guidelines of the Administration and below the increase in production costs.

Now, it is obvious that an increase in 1979 target prices could not have any impact on participation in the 1979 set-aside programs. Final decisions on participation in these programs had to be made by producers months ago. Almost all of the 1979 crops have already been harvested.

Market prices for wheat and feed grains are significantly higher now than they were when H.R. 3398 was introduced or reported by the House Committee. And wheat, corn, sorghum and barley yields this year were record high. In fact, the increase in gross returns per acre from 1978 to 1979 will significantly exceed the rate of inflation in the general economy. Even after adjusting for payments, it is evident that per acre gross returns for wheat and the major feed grains will increase at a rate considerably in excess of inflation, as follows:

- Wheat returns—up 29 percent from 1978 to 1979;
- Cold returns—up about 20 percent from 1978 to 1979;
- Sorghum returns—up over 30 percent from 1978 to 1979;
- Barley returns—up about 17 percent from 1978 to 1979.

Adjusting 1979 target prices would also be inequitable. Those who decided not to participate in the 1979 programs could now do nothing to become eligible. Changes in program provisions after the fact—and the 1979 target prices for wheat and feed grains were announced more than a year ago—undermine the credibility of government farm programs. While wheat prices have increased enough so that no deficiency payments would be made even at \$3.63 a bushel, and corn prices for the first five months of the 1979 marketing year are likely to average near \$2.35 a bushel, the

barley and grain sorghum producers who decided to participate in the programs would obtain a higher payment than under the program as originally announced.

This, we believe, would be grossly unfair to those who decided not to participate. About 43, 55, and 23 percent of the barley, sorghum and corn acreage was in the 1979 programs. It is obvious that more producers decided not to participate than decided to participate. Furthermore, an increase in 1979 target prices would place an unjustified burden upon our taxpayers. It could cost as much as \$194 million. This increase in outlays, given the sharp increase in gross returns, and at a time when inflation is a major problem, simply cannot be justified.

Finally, as long as target price adjustments are based on sound economic criteria, they can be both effective and credible. To be effective, they must provide a level of return adequate to cover costs most farmers cannot postpone. To be credible, they must reflect changes in productivity so that consumers share those benefits. The Food and Agriculture Act of 1977 explicitly linked future adjustments in target prices to changes in production costs, after taking into account changes in productivity. By increasing 1979 target prices by a single index that does not reflect either cost or productivity, that important principle would be broken and could be lost forever.

We are, however, concerned over the level of 1980 target prices that result from the formula in the 1977 Act. As previously stated, production costs rose very rapidly in 1979, and another big increase will take place in 1980.

According to the 1977 Act formula, the 1980 target prices for wheat, corn, sorghum and barley will be about \$3.06, \$2.08, \$2.46 and \$2.35 a bushel.

This formula, you will recall, adjusts the target prices from one year to the next by the change in costs after adjusting for changes in yields. The 1980 target prices are the 1979 prices adjusted by the change from 1977 to 1979 in costs per planted acre after accounting for the change in planted acre yields from 1977 to 1979.

And although costs per planted acre increased sharply from 1977 to 1979, so did yields per planted acre. The result is only small changes in 1980 target prices based on the formula in the 1977 Act.

If we could be assured that yields per planted acre would again increase sharply in 1980 we would not need to be concerned over the formula target prices. And while no one knows what yields will be in 1980, the odds clearly are in favor of national average yields below the exceptional ones observed in 1979. If this happens, it is clear that the 1980 target prices will be well below the level that would permit most producers to cover the costs they cannot postpone. We believe that it is fully consistent with the principles and policies specified in the Food and Agriculture Act of 1977 that target prices cover such costs.

The target prices are a means of income support, protecting farmers from economic disaster when atypically low prices occur. They are to act as a safety net, protecting producers from the consequences of disaster level prices when supplies are in excess of market requirements. However, target prices are not and were never intended to be a guaranteed income program or to cover total costs of production including a full return to land based upon current land prices.

Our reserve policies are the first line of defense against the price depressing effects of crops in excess of current year requirements. Appropriate loan levels are critical to an effective reserve program. The set-aside and diversion program are the second line of defense. The third line of defense, target prices, provides the economic safety net farmers need when all else fails. The effectiveness of this policy has been demonstrated repeatedly since it was established in 1977 and will continue to be demonstrated in the future.

The key question is what target price levels are necessary in 1980 to permit producers to cover short-run production costs. Unfortunately, that question cannot be answered with precision in the fall of 1979. We do have projections of per acre costs for each of the target price commodities that appear to us to be in the ballpark. We know costs will be significantly higher in 1980 than in 1979. But we have no way of knowing what the yields will be in 1980.

In these circumstances, the ideal amendment to existing authorities would be a simple one that directs the Secretary to establish 1980 crop target prices at levels not less than those necessary to cover those costs producers cannot postpone. Such an amendment would be entirely appropriate for both the 1980 and 1981 crops.

Given our cost estimates for 1980, and combining those with projected yields that are below those observed in 1979, it appears 1980 target prices of around \$3.50 for wheat, \$2.35 for corn, \$2.50 for sorghum, and \$2.55 for barley would be appropriate. These prices are close to those in H.R. 3398 for 1979, and the Administration would accept an amendment that makes the adjusted target price level of H.R. 3398

applicable for 1980—not for 1979—provided the target price for wheat is established at \$3.50 instead of \$3.63.

We believe it essential that the Committee amend the 1977 Act authorities for target prices to require the Secretary to establish 1981 target prices at levels which approximate short-term costs. We would be pleased to work with the Committee staff to develop appropriate language.

In summary, the Administration will accept legislation which:

Leaves 1979 target prices at current levels;

Establishes 1980 target prices approximating short-term costs;

Is consistent with the already-established concept of adjusting target prices on the basis of changes in yields and production costs.

Provides new authorities for 1981 crop target prices, the final year covered by the 1977 Act, at levels that approximate short-term costs.

None of the measures now being considered by the Congress meets these tests. Legislation not meeting these criteria is not acceptable to the Administration.

Disaster payments

The 1977 Act extended the disaster payments program for two years as an interim measure, allowing time to develop our proposal for dealing with natural disasters. The Senate has passed a crop insurance bill that is generally acceptable to the Administration.

However, in recent days a number of important supporters of the bill in the House are proposing to re-examine the bill early next year. The disaster payments program has now expired, but the Administration cannot accept legislation that extends the program beyond a brief period to permit the Congress to pass a subsidized crop insurance bill. We will, however, accept an amendment to the 1977 Act that extends the disaster payment authorities to April 1, 1980.

Normal crop acreage

The Food and Agriculture Act of 1977 authorizes the Secretary to require producers to plant within their normal crop acreage as a condition of eligibility for farm program benefits when there are set-aside or diversion programs in effect.

It has become evident this year that such a provision is even more important in years when there are no set-aside or diversion programs. Such is the case for 1980, and therefore the Administration would support an amendment that would permit the Secretary to require producers to plant in their normal crop acreage as a condition of eligibility for farm program benefits when there are no set-aside or diversion programs in effect.

Mr. Chairman—members of the Committee—I will try to respond to your questions. Thank you.

QUANTITIES AND PRICES OF SELECTED CROPS IN THE FARMER-OWNED RESERVE, BY CROP, UNITED STATES, SEPTEMBER 1977 TO OCTOBER 1979¹

Year and month	Wheat		Corn		Sorghum		Barley	
	Quantity million bushels	Price dollars per bushel	Quantity million bushels	Price dollars per bushel	Quantity million hundred weight	Price dollars per hundred weight	Quantity million bushels	Price dollars per bushel
1977								
September	14.6	2.16						
October	21.7	2.30						
November	35.6	2.46						
December	55.8	2.47						
1978								
January	75.6	2.53						
February	91.5	2.59	0.9	2.03	0.4	3.20	0.9	1.98
March	142.6	2.67	3.0	2.15	.7	3.37	2.2	1.89
April	234.4	2.82	6.9	2.24	1.4	3.62	13.5	1.93
May	333.5	2.82	51.3	2.29	3.3	3.87	22.5	2.15
June	349.1	2.81	90.2	2.28	4.7	3.64	24.2	2.04
July	367.0	2.81	114.1	2.16	9.3	3.50	25.6	1.84
August	384.0	2.88	167.8	2.01	13.2	3.37	28.7	1.87
September	396.2	2.92	256.8	1.98	21.8	3.23	31.4	1.84
October	400.4	2.99	386.0	1.97	33.9	3.36	33.4	1.88
November	405.7	3.04	520.6	2.02	40.3	3.44	36.2	1.92

QUANTITIES AND PRICES OF SELECTED CROPS IN THE FARMER-OWNED RESERVE, BY CROP, UNITED STATES, SEPTEMBER 1977 TO OCTOBER 1979 ¹—Continued

Year and month	Wheat		Corn		Sorghum		Barley	
	Quantity million bushels	Price dollars per bushel	Quantity million bushels	Price dollars per bushel	Quantity million hundred weight	Price dollars per hundred weight	Quantity million bushels	Price dollars per bushel
December	407.8	3.01	658.0	2.09	42.3	3.63	36.8	1.89
1979								
January	411.5	2.99	726.0	2.11	43.3	3.54	38.4	1.95
February	411.2	2.99	733.0	2.18	43.3	3.55	38.9	1.87
March	411.3	2.97	735.4	2.22	43.3	3.57	39.3	1.89
April								
May								
June	361.3	3.72	710.0	2.49	41.1	4.30	39.0	2.30
July	291.7	3.89	682.6	2.64	34.3	4.46	38.4	2.22
August	264.9	3.74	586.3	2.54	28.9	4.27	34.2	2.23
September	255.9	3.87	552.0	2.51	27.3	4.24	31.5	2.36
October	248.0	3.90	535.0	2.42	26.7	4.03	31.0	2.34

¹ Quantities in the reserve are middle of the month telephone reports, generally between the 13th and the 18th of the month. Prices are ESCS monthly average prices.

GOVERNMENT OUTLAYS—FISCAL YEAR 1981

[1980-81 crop year in millions of dollars]

Item	Current program	7 percent increase in 1979 targets	7 percent increase with NCA	14 percent increase in 1979 targets	14 percent increase with NCA
Deficiency payments:					
Feedgrains		114	91	499	307
Wheat		179	97	769	599
Total		293	188	1,268	906
Reserve storage:					
Feedgrains	146	151	149	156	153
Wheat	82	83	83	83	79
Total	228	234	232	239	232
Net loan and inventory:					
Feedgrains	+403	+365	+385	+290	+380
Wheat	238	250	240	250	200
Total	+165	+115	+145	+40	+180
Total government outlays excluding disaster payments:					
Feedgrains	+257	+100	+145	365	80
Wheat	320	512	420	1,102	878
Total	63	412	275	1,467	958
Disaster payments for wheat and feedgrains extended 6 mo	50	50	50	50	50
Total outlays including 6-mo extension	113	462	325	1,517	1,008
Disaster payments for wheat and feedgrains extended entire crop years	392	448	387	479	449
Total outlays including 12-mo extension	455	860	662	1,948	1,407

STATEMENT OF RAY WAX, SECRETARY-TREASURER AND PAST PRESIDENT, NATIONAL ASSOCIATION OF FARMER ELECTED COMMITTEEMEN

Senator Talmadge, Chairman, and Members of the Agricultural Committee, I am Ray Wax from Newman, Illinois in Douglas County, a farmer, landowner, and Secretary-Treasurer of the National Association of Farmer Elected Committeemen. I have spent my entire life in farming except three years in the United States Army and two years teaching Vocational Agriculture.

Today, our relatively new NAFEC organization being organized in 1965, represents all major commodities grown in this country and it certainly represents the nation's farmers through the 3,000 county ASCS offices. NAFEC membership is composed of voluntary, non-salaried, dedicated men of agriculture.

I am here today in the interest of our nation's farmers in regard to their incomes and the continued production of food and fiber for our consumers here and abroad. My testimony will be very brief, but I wish to bring the facts to this Committee because the financial status of our nation's farmers seems to be so unrealistically appraised by those who benefit from our production. There is no segment of our society that receives a lower standard of income for their increased production. It seems to me that when a nation calls for all out production that a pricing formula seems to come into being to manipulate the farmers' income.

Today on our farms the cost of fuel has increased 100 percent, plowdown fertilizer for 1980 crop increased 31 percent, propane gas used for drying crops in 1979 increased 83 percent, seed corn will be \$50 per bushel next year, interest rates jumped from 9 to 13 percent and will possibly be 15 percent by spring, labor has increased by varying percentages, parts and machinery will definitely be higher due to their employees' recent gainful strike. Add to these costs an increased land tax of 25 percent, increased freight rates and other transportation costs and inspection fees, all of which have decreased the farmer's net income.

I testified before this distinguished group in the spring of 1976 with 5,000 farm account books from the state of Illinois showing the average cost of production of corn was then \$2.43 per bushel. Upon my recommendation, you, Senator Talmadge, caused a cost of production data summary to be compiled to represent the cost of production across this nation. The range of costs was from \$2.08 to \$2.81. In Illinois this allowed less than a 3 percent return on the land with a tax rate of \$15 per acre. Averaging the results of your corn study proved my testimony to be accurate. We have had five continuous years of increased costs since 1976 with very little increase in prices received for our product.

As I stand before you today, I wish to inform you that this country—this nation and its consumers must come to the realization that these increased costs must be met in some way—either by a direct subsidy or by a loan price guarantee. The farmers of this nation do not want a hand-out. They are honorable people. If the Office of Management and Budget wants to subsidize the consumer for the cause of inflation—so be it—but I feel the farmer is entitled for a direct payment for his increased costs of production. I say this in respect to all farm organizations, commodity groups, and consumers that if the farmers are not kept financially solvent, our country is in peril.

I pledge you our support, but I respectfully request yours and that of the Members of this Committee in being fair to those who produce the food and fiber so needed by our nation and the world.

The National Association of Farmer Elected Committeemen wishes to thank you for this opportunity for me to appear before this Committee on behalf of our nation's farmers. I will answer any questions the Committee may have.

96TH CONGRESS
1ST SESSION

S. 1696

To further the purpose of the Food and Agriculture Act of 1977 in providing price and income protection for farmers and assuring consumers of an abundance of food and fiber at reasonable prices.

IN THE SENATE OF THE UNITED STATES

AUGUST 3 (legislative day, JUNE 21), 1979

Mr. DOLE (for himself, Mr. MCGOVERN, Mr. YOUNG, Mr. ZORINSKY, Mr. MELCHER, Mrs. KASSEBAUM, and Mr. BOSCHWITZ) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To further the purpose of the Food and Agriculture Act of 1977 in providing price and income protection for farmers and assuring consumers of an abundance of food and fiber at reasonable prices.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, effective for the 1980 and 1981 crops, section 1001 of
4 the Food and Agriculture Act of 1977 (7 U.S.C. 1309) is
5 amended to read as follows:

1 "NORMALLY PLANTED ACREAGE AND ESTABLISHED

2 PRICES

3 "SEC. 1001. (a) Notwithstanding any other provision of
4 law, effective for one or more of the 1980 and 1981 crops of
5 wheat, feed grains, upland cotton, and rice, the Secretary of
6 Agriculture may require, as a condition of eligibility for
7 loans, purchases, and payments under the Agricultural Act of
8 1949, that producers not exceed the acreage on the farm
9 normally planted to crops designated by the Secretary, ad-
10 justed as deemed necessary by the Secretary to be fair and
11 equitable among producers. The acreage for any farm nor-
12 mally planted to crops designated by the Secretary shall be
13 reduced by any set-aside or diverted acreage.

14 "(b) Notwithstanding any other provision of law—

15 "(1) Whenever the Secretary requires that pro-
16 ducers not exceed the acreage on the farm normally
17 planted to crops designated by the Secretary in accord-
18 ance with subsection (a) of this section for one or more
19 of the 1980 and 1981 crops of wheat, feed grains,
20 upland cotton, and rice, the Secretary may increase the
21 established price for any such commodity by the
22 amount the Secretary determines appropriate to com-
23 pensate producers for participation in the program for
24 the commodity.

1 “(2) In determining the amount of any increase in
2 the established price for any commodity under this sub-
3 section, the Secretary shall take into account changes
4 in the cost of production resulting from participation in
5 the program for the commodity involved.

6 “(3) The established prices for the 1980 and 1981
7 crops of wheat, feed grains, upland cotton, and rice
8 shall be not less than the established prices for the pre-
9 vious year's crop of the respective commodities, and
10 shall be adjusted to reflect any change in the inflation
11 rate, as determined by the percentage change in the
12 Bureau of Labor Statistics' Consumer Price Index, for
13 the crop year immediately preceding the crop year for
14 which the determination is made.

15 “(4) If the established price is increased for any
16 commodity under this subsection, the Secretary may
17 increase the established price for any other commodity
18 in such amount as the Secretary determines necessary
19 for effective operation of the program.

20 “(5) The Secretary shall adjust any increase in
21 the established price under this subsection to reflect, in
22 whole or in part, any land diversion payments for the
23 commodity for which an increase is determined.”.

24 SEC. 2. The provisions of this Act shall become effective
25 October 1, 1979.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY—STAFF
EXPLANATION OF S. 1696

S. 1996 amends the Food and Agriculture Act of 1977 to—

(1) require that the target prices for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice be not less than the target prices for the crops of the respective commodities for the previous year, adjusted to reflect any change in the inflation rate;

(2) authorize the Secretary of Agriculture to require as a condition of eligibility for loans, purchases, and payments for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice that producers not exceed the acreage on the farm normally planted to crops designated by the Secretary (under existing law, the Secretary may require compliance with the normal crop acreage only when a set-aside is in effect for the respective commodity);

(3) authorize the Secretary to increase the target prices for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice above what they would otherwise be whenever the Secretary requires that producers of the commodity not exceed the acreage on the farm normally planted crops designated by the Secretary (under existing law, the Secretary may increase the target price only when a set-aside is in effect for the respective commodity); and

(4) continue existing law under which the Secretary may increase the target price for any of the other target price commodities in such amount as he determines necessary for the effective operation of the program whenever he adjusts the target price for one of such commodities (however, under existing law, the authority to adjust other target prices may be exercised only when an increase is made in the target price for a commodity for which a set-aside is in effect).

96TH CONGRESS
1ST SESSION

S. 2016

To adjust target prices for the 1979 and 1980 crops of wheat and feed grains.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 16 (legislative day, NOVEMBER 15), 1979

Mr. YOUNG (for himself, Mr. DOLE, and Mr. BOREN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To adjust target prices for the 1979 and 1980 crops of wheat
and feed grains.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That title I of the Agricultural Act of 1949 is amended by
4 adding at the end thereof a new section 113 as follows:

5 “SEC. 113. Notwithstanding any other provision of this
6 Act—

7 “(a) The established price for wheat shall be
8 \$3.63 per bushel in the case of the 1979 crop and
9 \$3.88 in the case of the 1980 crop.

1 “(b)(1) The established price for corn shall be
2 \$2.35 per bushel in the case of the 1979 crop and
3 \$2.51 in the case of the 1980 crop.

4 “(2) The payment rate for grain sorghums and
5 barley shall be such rate as the Secretary determines
6 fair and reasonable in relation to the rate at which
7 payments are made available for corn.”.



SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY—STAFF
EXPLANATION OF S. 2016

S. 2016 amends the Agricultural Act of 1949 to increase the target prices for the 1979 and 1980 crops of wheat and feed grains.

1979 crop

The 1979 target price for wheat would be \$3.63 per bushel (\$3.40 per bushel under existing law).

The 1979 target price for corn would be \$2.35 per bushel (\$2.20 per bushel under existing law).

The target prices for grain sorghums and barley would be adjusted to such levels as the Secretary of Agriculture determines fair and reasonable in relation to corn (under existing law, \$2.30 per bushel in the case of grain sorghums and \$2.40 per bushel in the case of barley).

1980 crop

The 1980 target price for wheat would be \$3.88 per bushel (under existing law and on the basis of preliminary data, \$3.07 per bushel).

The 1980 target price for corn would be \$2.51 per bushel (under existing law and on the basis of preliminary data, \$2.08 per bushel).

The 1980 target prices for grain sorghums and barley would be at such levels as the Secretary determines fair and reasonable in relation to corn (under existing law and on the basis of preliminary data, \$2.46 per bushel in the case of grain sorghums and \$2.35 per bushel in the case of barley).

96TH CONGRESS
1ST SESSION

S. 2028

To adjust target prices for the 1979 and 1980 crops of wheat and feed grains; to extend the disaster payment program for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice; and to authorize the Secretary of Agriculture to require that producers of wheat, feed grains, upland cotton, and rice not exceed the normal crop acreage for the 1980 and 1981 crops.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 19 (legislative day, NOVEMBER 15), 1979

Mr. MELCHER (for himself and Mr. MCGOVERN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To adjust target prices for the 1979 and 1980 crops of wheat and feed grains; to extend the disaster payment program for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice; and to authorize the Secretary of Agriculture to require that producers of wheat, feed grains, upland cotton, and rice not exceed the normal crop acreage for the 1980 and 1981 crops.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 TARGET PRICES FOR THE 1979 AND 1980 CROPS OF
2 WHEAT AND FEED GRAINS

3 SECTION 1. Title I of the Agricultural Act of 1949 is
4 amended by adding at the end thereof a new section 113 as
5 follows:

6 "SEC. 113. Notwithstanding any other provision of this
7 Act—

8 "(a) The established price for wheat shall be \$3.63 per
9 bushel in the case of the 1979 crop and \$4.08 in the case of
10 the 1980 crop.

11 "(b)(1) The established price for corn shall be \$2.35 per
12 bushel in the case of the 1979 crop and \$2.64 in the case of
13 the 1980 crop.

14 "(2) The payment rate for grain sorghums and barley
15 shall be such rate as the Secretary determines fair and rea-
16 sonable in relation to the rate at which payments are made
17 available for corn."

18 DISASTER PAYMENTS FOR THE 1980 AND 1981 CROP
19 YEARS

20 SEC. 2. (a)(1) Section 101(h)(4) of the Agricultural Act
21 of 1949, as added effective for the 1978 through 1981 crops
22 of rice, is amended by—

23 (A) in subparagraph (B), striking out "Effective
24 only with respect to the 1978 and 1979 crops of rice,"
25 and inserting in lieu thereof "Except as otherwise pro-

1 vided in subparagraph (D) of this paragraph, effective
2 with respect to the 1978 through 1981 crops of rice,";

3 (B) in subparagraph (C), striking out "Effective
4 only with respect to the 1978 and 1979 crops of rice,"
5 and inserting in lieu thereof "Except as otherwise pro-
6 vided in subparagraph (D) of this paragraph, effective
7 with respect to the 1978 through 1981 crops of rice,";
8 and

9 (C) redesignating subparagraph (D) as subpara-
10 graph (E) and inserting immediately after subparagraph
11 (C) a new subparagraph (D) as follows:

12 "(D) With respect to the 1981 crop of rice, coop-
13 erators on a farm shall not be eligible for disaster pay-
14 ments under this paragraph if the cooperators elect to
15 cover the rice acreage with crop insurance and part of
16 the premium for such insurance is paid by the Federal
17 Crop Insurance Corporation under the Federal Crop
18 Insurance Act."

19 (2) Section 103(f)(5) of the Agricultural Act of 1949, as
20 added effective for the 1978 through 1981 crops of upland
21 cotton, is amended by—

22 (A) in subparagraph (A), striking out "Effective
23 only with respect to the 1978 and 1979 crops of up-
24 land cotton," and inserting in lieu thereof "Except as
25 otherwise provided in subparagraph (C) of this para-

1 graph, effective with respect to the 1978 through 1981
2 crops of upland cotton,";

3 (B) in subparagraph (B), striking out "Effective
4 only with respect to the 1978 and 1979 crops of up-
5 land cotton," and inserting in lieu thereof "Except as
6 otherwise provided in subparagraph (C) of this para-
7 graph, effective with respect to the 1978 through 1981
8 crops of upland cotton,"; and

9 (C) adding at the end thereof a new subparagraph
10 (C) as follows:

11 "(C) With respect to the 1981 crop of upland cot-
12 ton, producers on a farm shall not be eligible for disas-
13 ter payments under this paragraph if the producers
14 elect to cover the upland cotton acreage with crop in-
15 surance and part of the premium for such insurance is
16 paid by the Federal Crop Insurance Corporation under
17 the Federal Crop Insurance Act."

18 (3) Section 105A(b)(2) of the Agricultural Act of 1949,
19 as added effective for the 1977 through 1981 crops of feed
20 grains, is amended by—

21 (A) in subparagraph (A), striking out "Effective
22 only with respect to the 1978 and 1979 crops of feed
23 grains," and inserting in lieu thereof "Except as other-
24 wise provided in subparagraph (C) of this paragraph,

1 effective with respect to the 1978 through 1981 crops
2 of feed grains,";

3 (B) in subparagraph (B), striking out "Effective
4 only with respect to the 1978 and 1979 crops of feed
5 grains," and inserting in lieu thereof "Except as other-
6 wise provided in subparagraph (C) of this paragraph,
7 effective with respect to the 1978 through 1981 crops
8 of feed grains,"; and

9 (C) redesignating subparagraph (C) as subpara-
10 graph (D) and inserting immediately after subpara-
11 graph (B) a new subparagraph (C) as follows:

12 "(C) With respect to the 1981 crop of feed grains,
13 producers on a farm shall not be eligible for disaster
14 payments under this paragraph if the producers elect to
15 cover the feed grain acreage with crop insurance and
16 part of the premium for such insurance is paid by the
17 Federal Crop Insurance Corporation under the Federal
18 Crop Insurance Act."

19 (4) Section 107A(b)(2) of the Agricultural Act of 1949,
20 as added effective for the 1977 through 1981 crops of wheat,
21 is amended by—

22 (A) in subparagraph (A), striking out "Effective
23 only with respect to the 1978 and 1979 crops of
24 wheat," and inserting in lieu thereof "Except as other-
25 wise provided in subparagraph (C) of this paragraph,

1 effective with respect to the 1978 through 1981 crops
2 of wheat,";

3 (B) in subparagraph (B), striking out "Effective
4 only with respect to the 1978 and 1979 crops of
5 wheat," and inserting in lieu thereof "Except as other-
6 wise provided in subparagraph (C) of this paragraph,
7 effective with respect to the 1978 through 1981 crops
8 of wheat,"; and

9 (C) redesignating subparagraph (C) as subpara-
10 graph (D) and inserting immediately after subpara-
11 graph (B) a new subparagraph (C), as follows:

12 "(C) With respect to the 1981 crop of wheat, pro-
13 ducers on a farm shall not be eligible for disaster pay-
14 ments under this paragraph if the producers elect to
15 cover the wheat acreage with crop insurance and part
16 of the premium for such insurance is paid by the Fed-
17 eral Crop Insurance Corporation under the Federal
18 Crop Insurance Act."

19 (b) The Secretary of Agriculture, upon the enactment of
20 legislation authorizing the Federal Crop Insurance Corpora-
21 tion to pay a portion of the cost of crop insurance premiums
22 and after consultation with the Board of Directors of that
23 Corporation, shall, at least sixty days prior to the beginning
24 of the 1981 crop years for wheat, feed grains, upland cotton,
25 and rice, notify producers of those commodities of their right

1 to elect, with respect to the 1981 crops, between (1) declar-
2 ing the farm acreage of the respective commodity eligible for
3 disaster payments under the Agricultural Act of 1949, or (2)
4 covering such farm acreage with crop insurance, part of the
5 premium for which is paid by the Federal Crop Insurance
6 Corporation under the Federal Crop Insurance Act. Such no-
7 tice shall include a statement of the percent of crop insurance
8 premium that will be paid by the Corporation.

9 NORMAL CROP ACREAGE

10 SEC. 3. Effective for the 1980 and 1981 crops, section
11 1001 of the Food and Agriculture Act of 1977 is amended to
12 read as follows:

13 “NORMALLY PLANTED ACREAGE AND TARGET PRICES

14 “SEC. 1001. (a) Notwithstanding any other provision of
15 law, effective for one or more of the 1980 and 1981 crops of
16 wheat, feed grains, upland cotton, and rice, the Secretary of
17 Agriculture may require, as a condition of eligibility for
18 loans, purchases, and payments under the Agricultural Act of
19 1949, that producers not exceed the acreage on the farm
20 normally planted to crops designated by the Secretary, ad-
21 justed as deemed necessary by the Secretary to be fair and
22 equitable among producers. The acreage for any farm nor-
23 mally planted to crops designated by the Secretary shall be
24 reduced by any set-aside or diverted acreage.

25 “(b) Notwithstanding any other provision of law—

1 “(1) Whenever the Secretary requires that pro-
2 ducers not exceed the acreage on the farm normally
3 planted to crops designated by the Secretary in accord-
4 ance with subsection (a) of this section for one or more
5 of the 1980 and 1981 crops of wheat, feed grains, up-
6 land cotton, and rice, the Secretary may increase the
7 established price for any such commodity by the
8 amount the Secretary determines appropriate to com-
9 pensate producers for participation in the program for
10 the commodity.

11 “(2) In determining the amount of any increase in
12 the established price for any commodity under this sub-
13 section, the Secretary shall take into account changes
14 in the cost of production resulting from participation in
15 the program for the commodity involved.

16 “(3) If the established price is increased for any
17 commodity under this subsection, the Secretary may
18 increase the established price for any other commodity
19 in such amount as the Secretary determines necessary
20 for effective operation of the program.

21 “(4) The Secretary shall adjust any increase in
22 the established price under this subsection to reflect, in
23 whole or in part, any land diversion payments for the
24 commodity for which an increase is determined.”.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY—STAFF
EXPLANATION OF S. 2028

S. 2028 amends the Agricultural Act of 1949 and the Food and Agriculture Act of 1977 to—

(1) increase the target prices for the 1979 and 1980 crops of wheat and feed grains. Under the bill, the target price for wheat would be \$3.63 per bushel in the case of the 1979 crop and \$4.08 in the case of the 1980 crop. The target price for corn would be \$2.35 per bushel in the case of the 1979 crop and \$2.64 in the case of the 1980 crop. Target prices for grain sorghums and barley would be adjusted to such levels as the Secretary of Agriculture determines fair and reasonable in relation to corn (under existing law, the target price for the 1979 crop of wheat is \$3.40 per bushel; on the basis of preliminary data, the target price for the 1980 crop would be \$3.07. Likewise, under existing law, the target prices for the 1979 crops of corn, grain sorghums, and barley are \$2.20 per bushel, \$2.30 per bushel, and \$2.40 per bushel, respectively; on the basis of preliminary data, the target prices for the 1980 crops would be \$2.08 for corn, \$2.46 for grain sorghums, and \$2.35 for barley);

(2) extend the disaster payment provisions for wheat, feed grains, upland cotton, and rice through the 1980 and 1981 crop years. However, in 1981, producers would have the option of choosing between disaster payments on the respective commodity or participating in a shared-cost crop insurance program if enacted into law and available to producers of the 1981 crops (they would not be eligible for both);

(3) authorize the Secretary to require as a condition of eligibility for loans, purchases, and payments for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice that producers not exceed the acreage on the farm normally planted to crops designated by the Secretary (under existing law, the Secretary may require compliance with the normal crop acreage only when a set-aside is in effect for the respective commodity);

(4) authorize the Secretary to increase the target prices for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice above what they would otherwise be whenever the Secretary requires that producers of the commodity not exceed the acreage on the farm normally planted to crops designated by the Secretary (under existing law, the Secretary may increase the target price only when a set-aside is in effect for the respective commodity); and

(5) continue existing law under which the Secretary may increase the target price for any of the other target price commodities in such amount as he determines necessary for the effective operation of the program whenever he adjusts the target price for one of such commodities (however, under existing law, the authority to adjust other target prices may be exercised only when an increase is made in the target price for a commodity for which a set-aside is in effect).

S. 2029

IN THE SENATE OF THE UNITED STATES

Mr. MCGOVERN introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry.

A BILL

To extend the disaster payment program for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

3 DISASTER PAYMENTS FOR THE 1980 AND 1981 CROP
4 YEARS

5 SECTION 1. (a)(1) Section 101(h)(4) of the Agricultural
6 Act of 1949, as added effective for the 1978 through 1981
7 crops of rice, is amended by—

8 (A) in subparagraph (B), striking out "Effective
9 only with respect to the 1978 and 1979 crops of rice,"

1 and inserting in lieu thereof "Except as otherwise pro-
2 vided in subparagraph (D) of this paragraph, effective
3 with respect to the 1978 through 1981 crops of rice,";

4 (B) in subparagraph (C), striking out "Effective
5 only with respect to the 1978 and 1979 crops of rice,"
6 and inserting in lieu thereof "Except as otherwise pro-
7 vided in subparagraph (D) of this paragraph, effective
8 with respect to the 1978 through 1981 crops of rice,";
9 and

10 (C) redesignating subparagraph (D) as subpara-
11 graph (E) and inserting immediately after subparagraph
12 (C) a new subparagraph (D) as follows:

13 "(D) With respect to the 1981 crop of rice, coop-
14 erators on a farm shall not be eligible for disaster pay-
15 ments under this paragraph if the cooperators elect to
16 cover the rice acreage with crop insurance and part of
17 the premium for such insurance is paid by the Federal
18 Crop Insurance Corporation under the Federal Crop
19 Insurance Act."

20 (2) Section 103(f)(5) of the Agricultural Act of 1949, as
21 added effective for the 1978 through 1981 crops of upland
22 cotton, is amended by—

23 (A) in subparagraph (A), striking out "Effective
24 only with respect to the 1978 and 1979 crops of up-
25 land cotton," and inserting in lieu thereof "Except as

1 otherwise provided in subparagraph (C) of this para-
2 graph, effective with respect to the 1978 through 1981
3 crops of upland cotton,";

4 (B) in subparagraph (B), striking out "Effective
5 only with respect to the 1978 and 1979 crops of up-
6 land cotton," and inserting in lieu thereof "Except as
7 otherwise provided in subparagraph (C) of this para-
8 graph, effective with respect to the 1978 through 1981
9 crops of upland cotton,"; and

10 (C) adding at the end thereof a new subparagraph
11 (C) as follows:

12 "(C) With respect to the 1981 crop of upland cot-
13 ton, producers on a farm shall not be eligible for disas-
14 ter payments under this paragraph if the producers
15 elect to cover the upland cotton acreage with crop in-
16 surance and part of the premium for such insurance is
17 paid by the Federal Crop Insurance Corporation under
18 the Federal Crop Insurance Act."

19 (3) Section 105A(b)(2) of the Agricultural Act of 1949,
20 as added effective for the 1977 through 1981 crops of feed
21 grains, is amended by—

22 (A) in subparagraph (A), striking out "Effective
23 only with respect to the 1978 and 1979 crops of feed
24 grains," and inserting in lieu thereof "Except as other-
25 wise provided in subparagraph (C) of this paragraph,

1 effective with respect to the 1978 through 1981 crops
2 of feed grains,";

3 (B) in subparagraph (B), striking out "Effective
4 only with respect to the 1978 and 1979 crops of feed
5 grains," and inserting in lieu thereof "Except as other-
6 wise provided in subparagraph (C) of this paragraph,
7 effective with respect to the 1978 through 1981 crops
8 of feed grains,"; and

9 (C) redesignating subparagraph (C) as subpara-
10 graph (D) and inserting immediately after subpara-
11 graph (B) a new subparagraph (C) as follows:

12 "(C) With respect to the 1981 crop of feed grains,
13 producers on a farm shall not be eligible for disaster
14 payments under this paragraph if the producers elect to
15 cover the feed grain acreage with crop insurance and
16 part of the premium for such insurance is paid by the
17 Federal Crop Insurance Corporation under the Federal
18 Crop Insurance Act."

19 (4) Section 107A(b)(2) of the Agricultural Act of 1949,
20 as added effective for the 1977 through 1981 crops of wheat,
21 is amended by—

22 (A) in subparagraph (A), striking out "Effective
23 only with respect to the 1978 and 1979 crops of
24 wheat," and inserting in lieu thereof "Except as other-
25 wise provided in subparagraph (C) of this paragraph,

1 effective with respect to the 1978 through 1981 crops
2 of wheat,";

3 (B) in subparagraph (B), striking out "Effective
4 only with respect to the 1978 and 1979 crops of
5 wheat," and inserting in lieu thereof "Except as other-
6 wise provided in subparagraph (C) of this paragraph,
7 effective with respect to the 1978 through 1981 crops
8 of wheat,"; and

9 (C) redesignating subparagraph (C) as subpara-
10 graph (D) and inserting immediately after subpara-
11 graph (B) a new subparagraph (C), as follows:

12 "(C) With respect to the 1981 crop of wheat, pro-
13 ducers on a farm shall not be eligible for disaster pay-
14 ments under this paragraph if the producers elect to
15 cover the wheat acreage with crop insurance and part
16 of the premium for such insurance is paid by the Fed-
17 eral Crop Insurance Corporation under the Federal
18 Crop Insurance Act.".

19 (b) The Secretary of Agriculture, upon the enactment of
20 legislation authorizing the Federal Crop Insurance Corpora-
21 tion to pay a portion of the cost of crop insurance premiums
22 and after consultation with the Board of Directors of that
23 Corporation, shall, at least sixty days prior to the beginning
24 of the 1981 crop years for wheat, feed grains, upland cotton,
25 and rice, notify producers of those commodities of their right

1 to elect, with respect to the 1981 crop, between (1) declaring
2 the farm acreage of the respective commodity eligible for dis-
3 aster payments under the Agricultural Act of 1949, or (2)
4 covering such farm acreage with crop insurance, part of the
5 premium for which is paid by the Federal Crop Insurance
6 Corporation under the Federal Crop Insurance Act. Such no-
7 tice shall include a statement of the percent of crop insurance
8 premium that will be paid by the Corporation.

○

96TH CONGRESS
1ST SESSION

S. 2036

To adjust target prices and loan and purchase levels for the 1979 and 1980 crops of wheat and feed grains; to extend the disaster payment program for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice; and to authorize the Secretary of Agriculture to require that producers of wheat, feed grains, upland cotton, and rice not exceed the normal crop acreage for the 1980 and 1981 crops.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 20 (legislative day, NOVEMBER 15), 1979

Mr. BOSCHWITZ introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To adjust target prices and loan and purchase levels for the 1979 and 1980 crops of wheat and feed grains; to extend the disaster payment program for the 1980 and 1981 crops of wheat, feed grains, upland cotton, and rice; and to authorize the Secretary of Agriculture to require that producers of wheat, feed grains, upland cotton, and rice not exceed the normal crop acreage for the 1980 and 1981 crops.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 TARGET PRICES AND LOAN LEVELS FOR THE 1979 AND
2 1980 CROPS OF WHEAT AND FEED GRAINS

3 SECTION 1. Title I of the Agricultural Act of 1949 is
4 amended by adding at the end thereof a new section 113 as
5 follows:

6 "SEC. 113. Notwithstanding any other provision of this
7 Act—

8 "(a) The established price for wheat shall be \$3.63 per
9 bushel in the case of the 1979 crop and \$3.88 in the case of
10 the 1980 crop.

11 "(b)(1) The established price for corn shall be \$2.35 per
12 bushel in the case of the 1979 crop and \$2.51 in the case of
13 the 1980 crop.

14 "(2) The payment rate for grain sorghums and barley
15 shall be such rate as the Secretary determines fair and rea-
16 sonable in relation to the rate at which payments are made
17 available for corn.

18 "(c)(1) The Secretary shall make available to producers
19 loans and purchases on the 1979 and 1980 crops of wheat at
20 a level not less than \$2.51 per bushel.

21 "(2) The Secretary shall make available to producers
22 loans and purchases on the 1979 and 1980 crops of corn at a
23 level not less than \$2.14 per bushel."

1 EXTENSION OF DISASTER PAYMENT PROGRAMS

2 SEC. 2. (a)(1) Section 101(h)(4) of the Agricultural Act
3 of 1949, as added effective for the 1978 through 1981 crops
4 of rice, is amended by—

5 (A) in subparagraph (B), striking out “Effective
6 only with respect to the 1978 and 1979 crops of rice,”
7 and inserting in lieu thereof “Except as otherwise pro-
8 vided in subparagraph (D) of this paragraph, effective
9 with respect to the 1978 through 1981 crops of rice,”;

10 (B) in subparagraph (C), striking out “Effective
11 only with respect to the 1978 and 1979 crops of rice,”
12 and inserting in lieu thereof “Except as otherwise pro-
13 vided in subparagraph (D) of this paragraph, effective
14 with respect to the 1978 through 1981 crops of rice,”;
15 and

16 (C) redesignating subparagraph (D) as subpara-
17 graph (E) and inserting immediately after subparagraph
18 (C) a new subparagraph (D) as follows:

19 “(D) With respect to the 1981 crop of rice, coop-
20 erators on a farm shall not be eligible for disaster pay-
21 ments under this paragraph if the cooperators elect to
22 cover the rice acreage with crop insurance and part of
23 the premium for such insurance is paid by the Federal
24 Crop Insurance Corporation under the Federal Crop
25 Insurance Act.”.

1 (2) Section 103(f)(5) of the Agricultural Act of 1949, as
2 added effective for the 1978 through 1981 crops of upland
3 cotton, is amended by—

4 (A) in subparagraph (A), striking out “Effective
5 only with respect to the 1978 and 1979 crops of up-
6 land cotton,” and inserting in lieu thereof “Except as
7 otherwise provided in subparagraph (C) of this para-
8 graph, effective with respect to the 1978 through 1981
9 crops of upland cotton,”;

10 (B) in subparagraph (B), striking out “Effective
11 only with respect to the 1978 and 1979 crops of up-
12 land cotton,” and inserting in lieu thereof “Except as
13 otherwise provided in subparagraph (C) of this para-
14 graph, effective with respect to the 1978 through 1981
15 crops of upland cotton,”; and

16 (C) adding at the end thereof a new subparagraph
17 (C) as follows:

18 “(C) With respect to the 1981 crop of upland cot-
19 ton, producers on a farm shall not be eligible for disas-
20 ter payments under this paragraph if the producers
21 elect to cover the upland cotton acreage with crop in-
22 surance and part of the premium for such insurance is
23 paid by the Federal Crop Insurance Corporation under
24 the Federal Crop Insurance Act.”.

1 (3) Section 105A(b)(2) of the Agricultural Act of 1949,
2 as added effective for the 1977 through 1981 crops of feed
3 grains, is amended by—

4 (A) in subparagraph (A), striking out “Effective
5 only with respect to the 1978 and 1979 crops of feed
6 grains,” and inserting in lieu thereof “Except as other-
7 wise provided in subparagraph (C) of this paragraph,
8 effective with respect to the 1978 through 1981 crops
9 of feed grains,”;

10 (B) in subparagraph (B), striking out “Effective
11 only with respect to the 1978 and 1979 crops of feed
12 grains,” and inserting in lieu thereof “Except as other-
13 wise provided in subparagraph (C) of this paragraph,
14 effective with respect to the 1978 through 1981 crops
15 of feed grains,”; and

16 (C) redesignating subparagraph (C) as subpara-
17 graph (D) and inserting immediately after subpara-
18 graph (B) a new subparagraph (C) as follows:

19 “(C) With respect to the 1981 crop of feed grains,
20 producers on a farm shall not be eligible for disaster
21 payments under this paragraph if the producers elect to
22 cover the feed grain acreage with crop insurance and
23 part of the premium for such insurance is paid by the
24 Federal Crop Insurance Corporation under the Federal
25 Crop Insurance Act.”.

1 (4) Section 107A(b)(2) of the Agricultural Act of 1949,
2 as added effective for the 1977 through 1981 crops of wheat,
3 is amended by—

4 (A) in subparagraph (A), striking out “Effective
5 only with respect to the 1978 and 1979 crops of
6 wheat,” and inserting in lieu thereof “Except as other-
7 wise provided in subparagraph (C) of this paragraph,
8 effective with respect to the 1978 through 1981 crops
9 of wheat,”;

10 (B) in subparagraph (B), striking out “Effective
11 only with respect to the 1978 and 1979 crops of
12 wheat,” and inserting in lieu thereof “Except as other-
13 wise provided in subparagraph (C) of this paragraph,
14 effective with respect to the 1978 through 1981 crops
15 of wheat,”; and

16 (C) redesignating subparagraph (C) as subpara-
17 graph (D) and inserting immediately after subpara-
18 graph (B) a new subparagraph (C), as follows:

19 “(C) With respect to the 1981 crop of wheat, pro-
20 ducers on a farm shall not be eligible for disaster pay-
21 ments under this paragraph if the producers elect to
22 cover the wheat acreage with crop insurance and part
23 of the premium for such insurance is paid by the Fed-
24 eral Crop Insurance Corporation under the Federal
25 Crop Insurance Act.”.

1 (b) The Secretary of Agriculture, upon the enactment of
2 legislation authorizing the Federal Crop Insurance Corpora-
3 tion to pay a portion of the cost of crop insurance premiums
4 and after consultation with the Board of Directors of that
5 Corporation, shall, at least sixty days prior to the beginning
6 of the 1981 crop years for wheat, feed grains, upland cotton,
7 and rice, notify producers of those commodities of their right
8 to elect, with respect to the 1981 crops, between (1) declar-
9 ing the farm acreage of the respective commodity eligible for
10 disaster payments under the Agricultural Act of 1949, or (2)
11 covering such farm acreage with crop insurance, part of the
12 premium for which is paid by the Federal Crop Insurance
13 Corporation under the Federal Crop Insurance Act. Such no-
14 tice shall include a statement of the percent of crop insurance
15 premium that will be paid by the Corporation.

16 NORMAL CROP ACREAGE

17 SEC. 3. Effective for the 1981 crops, section 1001 of
18 the Food and Agriculture Act of 1977 is amended to read as
19 follows:

20 "NORMALLY PLANTED ACREAGE AND TARGET PRICES

21 "SEC. 1001. (a) Notwithstanding any other provision of
22 law, effective for one or more of the 1981 crops of wheat,
23 feed grains, upland cotton, and rice, the Secretary of Agricul-
24 ture may require, as a condition of eligibility for loans, pur-
25 chases, and payments under the Agricultural Act of 1949,

1 that producers not exceed the acreage on the farm normally
2 planted to crops designated by the Secretary, adjusted as
3 deemed necessary by the Secretary to be fair and equitable
4 among producers. The acreage for any farm normally planted
5 to crops designated by the Secretary shall be reduced by any
6 set-aside or diverted acreage.

7 “(b) Notwithstanding any other provision of law—

8 “(1) Whenever the Secretary requires that pro-
9 ducers not exceed the acreage on the farm normally
10 planted to crops designated by the Secretary in accord-
11 ance with subsection (a) of this section for one or more
12 of the 1981 crops of wheat, feed grains, upland cotton,
13 and rice, the Secretary may increase the established
14 price for any such commodity by the amount the Sec-
15 retary determines appropriate to compensate producers
16 for participation in the program for the commodity.

17 “(2) In determining the amount of any increase in
18 the established price for any commodity under this sub-
19 section, the Secretary shall take into account changes
20 in the cost of production resulting from participation in
21 the program for the commodity involved.

22 “(3) If the established price is increased for any
23 commodity under this subsection, the Secretary may
24 increase the established price for any other commodity

1 in such amount as the Secretary determines necessary
2 for effective operation of the program.

3 "(4) The Secretary shall adjust any increase in
4 the established price under this subsection to reflect, in
5 whole or in part, any land diversion payments for the
6 commodity for which an increase is determined."

○

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY—STAFF
EXPLANATION OF S. 2036

S. 2036 amends the Agricultural Act of 1949 and the Food and Agricultural Act of 1977 to—

(1) increase the target prices for the 1979 and 1980 crops of wheat and feed grains. Under the bill, the target price for wheat would be \$3.63 per bushel in the case of the 1979 crop and \$3.88 in the case of the 1980 crop. The target price for corn would be \$2.35 per bushel in the case of the 1979 crop and \$2.51 in the case of the 1980 crop. Target prices for grain sorghums and barley would be adjusted to such levels as the Secretary of Agriculture determines fair and reasonable in relation to corn (under existing law, the target price for the 1979 crop of wheat is \$3.40 per bushel; on the basis of preliminary data, the target price for the 1980 crop would be \$3.07. Likewise, under existing law, the target prices for the 1979 crops of corn, grain sorghums and barley are \$2.20 per bushel; \$2.30 per bushel, and \$2.40 per bushel, respectively; on the basis of preliminary data, the target prices for the 1980 crops would be \$2.08 for corn, \$2.46 for grain sorghums, and \$2.35 for barley);

(2) adjust the minimum loan levels for the 1979 and 1980 crops of wheat and feed grains. The minimum loan level for the 1979 and 1980 crops of wheat would be \$2.51 per bushel, and the minimum loan level for the 1979 and 1980 crops of corn would be \$2.14 per bushel (under existing law, the loan level for the 1979 crop of wheat is \$2.35 per bushel. The Secretary has announced a loan level of \$2.50 per bushel in the case of the 1980 crop. The loan level for the 1979 and 1980 crops of corn is \$2.00 per bushel. Loans for grain sorghums, barley, oats, and rye are made available at such levels as the Secretary determines fair and reasonable in relation to corn; the 1979 and 1980 loan levels for grain sorghums, barley, oats, and rye are \$1.90, \$1.63, \$1.03, and \$1.70 per bushel respectively);

(3) extend the disaster payment provisions for wheat, feed grains, upland cotton, and rice through the 1980 and 1981 crop years. However, in 1981, producers would have the option of choosing between disaster payments on the respective commodity or participating in a shared-cost crop insurance program if enacted into law and available to producers of the 1981 crops (they would not be eligible for both);

(4) authorize the Secretary to require as a condition of eligibility for loans, purchases, and payments for the 1981 crops of wheat, feed grains, upland cotton, and rice that producers not exceed the acreage on the farm normally planted to crops designated by the Secretary (under existing law, the Secretary may require compliance with the normal crop acreage only when a set-aside is in effect for the respective commodity);

(5) authorize the Secretary to increase the target prices for the 1981 crops of wheat, feed grains, upland cotton, and rice above what they would otherwise be whenever the Secretary requires that producers of the commodity not exceed the acreage on the farm normally planted to crops designated by the Secretary (under existing law, the Secretary may increase the target price only when a set-aside is in effect for the respective commodity); and

(6) continues existing law for the 1981 crops under which the Secretary may increase the target price for any of the other target price commodities in such amount as he determines necessary for the effective operation of the program whenever he adjusts the target price for one of such commodities (however, under existing law, the authority to adjust other target prices may be exercised only when an increase is made in the target price for a commodity for which a set-aside is in effect).

96TH CONGRESS
1ST SESSION

H. R. 3398

IN THE SENATE OF THE UNITED STATES

NOVEMBER 9 (legislative day, NOVEMBER 5), 1979

Read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

AN ACT

To amend the Food and Agriculture Act of 1977 relating to increases in the target prices for the 1979 crop of wheat, corn, and other commodities under certain circumstances, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Agriculture Adjustment
4 Act of 1979".

5 SEC. 2. Section 1001 of the Food and Agriculture Act
6 of 1977 (7 U.S.C. 1309) is amended by adding at the end of
7 subsection (b) the following: "Notwithstanding any other pro-

1 vision of law, whenever a set-aside is in effect for the 1979
2 crop of wheat, the Secretary shall increase the established
3 price for such crop to \$3.63 per bushel, and whenever a set-
4 aside is in effect for any 1979 crop of feed grains, the Secre-
5 tary shall increase the established price for the 1979 crop of
6 corn to \$2.35 per bushel. The payment rate for grain sor-
7 ghums and barley shall be such rate as the Secretary deter-
8 mines fair and reasonable in relation to the rate at which
9 payments are made available for corn.”.

10 SEC. 3. The provisions of this Act shall become effective
11 October 1, 1979, and the Secretary of Agriculture shall pay
12 beginning on such date any person, who would have been
13 entitled to an increase in payments on the 1979 crop of
14 wheat and feed grains if the provisions of this Act had been
15 in effect during the period beginning on the date of the enact-
16 ment of this Act and ending September 30, 1979, an amount
17 equal to the amount of such increase.

Passed the House of Representatives November 8, 1979.

Attest: EDMUND L. HENSHAW, JR.,

Clerk.

By BENJAMIN J. GUTHRIE,

Assistant to the Clerk.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY—STAFF
EXPLANATION OF H.R. 3398

H.R. 3398 amends the Food and Agriculture Act of 1977 to increase the target prices for the 1979 crop of wheat and feed grains.

The target price for wheat would be \$3.63 per bushel (\$3.40 per bushel under existing law).

The target price for corn would be \$2.35 per bushel (\$2.20 per bushel under existing law).

The target prices for grain sorghums and barley would be adjusted to such levels as the Secretary of Agriculture determines fair and reasonable in relation to corn (under existing law, \$2.30 per bushel in the case of grain sorghums and \$2.40 per bushel in the case of barley).

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