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Agriculture and the Hoover Commission

By Hamill Varner

The American farmer is highly productive today; in fact, some say too productive, when they cite Uncle Sam's 7 billion dollar inventory of surplus production. However, we all agree that our problem of surpluses is far better to have than a problem of feeding and clothing our 165 million people. Certainly none of us would trade positions with those people in the deficit-production areas of the world.

You know that in this country farm prices have dropped one-fourth since the Korean War peaks, while prices paid by farmers for the industrial products of our free enterprise system have come down very little.

You know farm debts are low, that farm real estate valuations have remained high, and that basically most farmers are in a strong economic position.

You know, too, that farmers cannot stand a continual decline of their prices or a dwindling of their incomes. In 1955 total net farm income may be down as much as 5 percent from 1954.

The American farmer in 1955 is a big businessman. In order to operate he must not only have large investments in land but in machinery, which is a product of American labor.

As a businessman the farmer must look for reasons why his net income is declining. When the management of my firm finds profits shrinking they look for reasons why this is happening. They use research in a different way than many of you have applied the term; but behind any problem, whether it be one of economics or of production, research is the approach to finding ways to reduce unit cost of production.

We have found that behind the increases in farm machinery, transportation, fuel, and other costs of production, are the recent round of increases in industry of wages and fringe benefits, such as pension plans, double time for overtime, guaranteed annual wages, more paid holidays, etc. Last week, Charles Shuman, President of the American Farm Bureau Federation, said "85 percent of all the costs in manufacturing goods bought by farmers goes for labor." Some labor unions today are even pressing for a thirty-hour week. Could the American farmer survive on a thirty-hour week every week of the year?

The group I am representing here today has used research in studying indirectly another important cost of production—taxes, both direct and hidden.

If we analyze the tax picture, we find that taxes are so high because of excessive government spending due to waste caused by nonessential government activities and overlapping of authority within the essential activities.

The farmers in your area do not have to go to Washington to see why taxes are excessive, as they can find out right in their own communities, just as one farmer did in DeKalb County in my home state of Illinois. This farmer found that 25 of the best farmers in his county were asked this question: "What would be your rough guess as to the number of federal farm agency employees, either part or full time, in DeKalb County in 1949?" Their average guess was 56 federal hired hands in their midst. And 21 of the 25 farmers went on to say this was too many. They were flabbergasted when told the right answer was more than three times their guess. For 178 men and women were working for the federal government in DeKalb County in 1949, just to tell farmers what they should do, what they can do, and in some instances, what they cannot do.

These 178 persons put in part or full time and were paid from $8.00 a day up to $5,350 a year. They worked only on the various federal farm service programs inside that one county. One hundred twenty-three of them actually lived right in the county; 55 of them lived outside the county but regularly visited it as part of their duties. Jobholders in state, regional, and national bureaus who influence but never see DeKalb County were not counted.

Only a few farmers realized big government is not all in Washington. Few had stopped to analyze the numbers of federal-hired farm hands under their very noses at the county level. "I've been disturbed by this growing feeling to 'let the government do it.' But this is worse than anything I ever dreamed of," was the shocked comment of a prominent cattle feeder who saw this report. "No matter how good a job these agencies are doing for us, someday, if this continues, we'll wake up and find our freedom gone. Never even knew my township PMA committeemen got $8.00 a day," exclaimed one surprised farmer. "Maybe we should have just one for a township instead of three."

A Missouri farmer who sought advice on fertilizer received conflicting advice on the same subject from five different field services of the government. In one cotton producing county in Georgia

47 employees attached to seven separate field service offices of the Department of Agriculture were working with 1,500 farmers.

Only last week I was in a government office in Dallas, and the gentleman I was talking to mentioned that he had approved the first government loan on wheat back in 1938. At that time his office consisted of himself and a secretary. Today there are 560 employees in the same office.

Fortunately for all of us, back in 1947 the first Hoover Commission, known as the Commission on Organization of the Executive Branch of the Government, was formed. Its duties, assigned by Congress, were to make studies and recommendations which would:

1. Limit expenditures to the lowest amount consistent with the efficient performance of essential services, activities, and functions of the United States Government.

2. Eliminate duplication and overlapping of services, activities, and functions.

3. Consolidate activities, services, and functions of a similar nature.

The Commission began by enlisting 24 expert research groups which it called task forces, to explore almost every major field of governmental activity. Serving on them were over 300 outstanding experts in the various technical fields, most of whom accepted no compensation. Some of you may have been members of some of these task forces. The Chairman of the Task Force on Agricultural Activities was Dean H. P. Rusk of the University of Illinois. Also serving on the task force were:

Dean H. W. Martin of Rutgers University

D. Howard Doane of the Doane Agricultural Service, St. Louis

F. W. Peck, Managing Director of the Farm Foundation

Professor John Gaus of Harvard University

Dean W. A. Shoenfeld of Oregon State College

Chester Davis of the Federal Reserve Bank, St. Louis

Rhea Blake of the National Cotton Council, Memphis

When the task forces, after months of research and investigations, submitted their reports to the Commission, the Commission did not consider itself bound by the recommendations; however, all recommendations were considered in the preparation of the Commission's reports to Congress.

As a result of a Hoover Commission recommendation, the Department of Agriculture has been reorganized to bring the agricultural programs closer to the farmer. The adoption of the reorganization plan has simplified and improved the efficiency of the Department's operations; has taken the administration of farm programs out of Washington and placed them at the local levels; and has adapted federal programs to regional, state, and local conditions. Specifically the Secretary of Agriculture was empowered to transfer functions from one agency to another through consolidation or merger of agency units. Two additional Assistant Secretaries and one Administrative Secretary were added. These represented new titles for existing offices whose responsibilities and duties warranted this recognition. However, the creation of these new offices did not increase the existing personnel, and both the number employed and the total salary budget of the immediate office of the Secretary were substantially reduced.

These were a few of the results of the first Hoover Commission, and since the first Hoover Commission proved to be such a success, Congress realized that there was still unfinished business and that reorganization is a never-ending process. As a result of the Korean War new problems arose and old problems were made more complicated. Therefore, the second Hoover Commission was organized in 1953 along the lines of the first Commission.

The second Commission was instructed to study the possibility of eliminating nonessential services, functions, and activities which are competitive with private enterprise. It questioned not only whether a government function is being properly conducted but whether it should be conducted by government at all. The first Commission had, to cite an illustration, authority to see if the Navy's business enterprises, like coffee roasting and rope making, were well organized. The new Commission could and did recommend that the Navy buy its coffee and rope just like everyone else.

While the second Hoover Commission had no single report that dealt exclusively or primarily with agriculture, as was the case with the first Commission, at least four of its reports touch upon agriculture.

Agricultural lending agencies had in 1954, $5,719,000,000 of loans outstanding and commitments to loan another $2,571,000,000. The federal government held $371,000,000 of capital stock in these agencies and had loaned to them $6,443,000,000.

In the case of a number of these lending corporations, there is a hidden subsidy that the Commission desired to have terminated.

This subsidy results from the investment of excess capital subscribed by the government in United States bonds. This capital was obtained from the public by the government through loans in the first place. Through investment in government bonds, the government pays a hidden subsidy in the form of interest. For example, in the Banks for Cooperatives the government has more than 62 million dollars invested in their capital stocks, and the banks have 150 million dollars invested in government bonds.[4] Obviously if the banks can invest this much in government bonds, the government has invested more capital in them than necessary. The interest on these bonds provides a subsidy of about a million dollars a year. The Commission urged that these banks deposit government bonds with the Treasury at least to the value of the United States stock interest, and receive back non-interest-bearing evidences of indebtedness.

The Commodity Credit Corporation is a wholly government-owned corporation. It is not primarily a lending institution but an institution to maintain farm prices. In the main, the commodity price levels to be maintained are stipulated by Congress based upon a computed "parity." The CCC uses several different methods in its price-support operations: (1) outright purchases, (2) conditional purchases, (3) loans without recourse on the borrower, (4) purchase agreements, and (5) guarantees to private lenders. It purchases and leases storage facilities and makes loans for expansion of farm storage.

The total loans on commodities which can be canceled by surrender of the commodities were, on June 30, 1954, almost 2.5 billion dollars. There was a loss reserve of 96 million dollars against these loans. Of the commodity loans 2 billion dollars was held by lending agencies, primarily commercial banks. For the most part these loans are paid off by CCC, which takes ownership of the farm products which were held as collateral. Loans for storage facilities and equipment were 30 million dollars. The purchase of commodities represented 3.75 billion dollars, against which were carried loss reserves of almost a billion dollars. During the fiscal year just ended Uncle Sam lost 799 million dollars in supporting farm goods — almost $5.00 for each of the 165 million people in the United States.

In wheat alone CCC suffered a loss of 128 million dollars and still had at the end of June a wheat inventory of 2.5 billion dollars. Although the Commission had no recommendation as to the broad

[4]The Farm Credit Act of 1955 provides for the retirement of government capital from the Banks for Cooperatives. Ninety-two percent of the government capital in Production Credit Associations has been retired and the proposed Farm Credit Act of 1956 will provide for retiring the government capital from the Production Credit Corporations and the Federal Intermediate Credit Banks.

policy of price supports, they said the work of the CCC could be greatly simplified, a considerable amount of administrative expenditure saved, and the use of Treasury loans diminished by a change in its method of handling price-support operations.

To achieve these ends, instead of the Department's making loans to the farmer based on price-support levels pending his decision as to when he wishes to sell the commodity, the CCC should enter into contracts to purchase the commodities from the farmer at the support level and leave to him, as before, the determination of when he sells them. This would result in no change in the farmer's situation, but for the CCC it would reduce the enormous detail of managing the multitude of loans, and it would enable the farmer to obtain from private banks any advances he needs within the limits of the level of the price-support program.

The Commission's report on federal medical services briefly touched on the Food and Drug Administration, which has some connection with farmers. The Food and Drug Administration of the Department of Health, Education, and Welfare is conducting activities which, in the present state of manufacturing and processing, are not worth the time, effort, and money. As a result, other important phases of its work, such as enforcement of the food and drug laws, suffer. Its inspectors can visit annually no more than a very small percentage of the 96 thousand establishments that manufacture or distribute large quantities of products subject to its basic act. About a million dollars could be saved annually through elimination of nonessential functions of the Food and Drug Administration and elimination of conflicts and unnecessary duplication of activities between the various agencies involved in this field.

The Commission's report on food and clothing includes information on the procurement and use of food by the armed services that will interest farmers. Although the American farmer is interested in increasing the consumption of food, he does not like to see waste from deterioration in storage because of overbuying on the part of our armed forces. In 1954, the 14 Navy supply depots in the United States had on hand 886,000 pounds of canned hamburger. At the present rate of consumption of 1,233 pounds per month this supply would be enough for 719 months. The Navy also had enough canned beef and gravy to last for 79 months. The Manual of the Bureau of Supplies and Accounts of the Navy states that the estimated keeping life of canned meats and poultry is 24 months at an average temperature of 40 degrees and 12 months at 90 degrees.

Until the study of the task force the Navy had no information on the age of its over-all stocks of foods. It had no program for utilization of excess and over-age rations, and the custom had been to throw rations overboard after they had passed their allowable life. The task force stated that according to the Bureau of the Budget the value of these rations mentioned totaled 10 million dollars as of August 1954.

I hope that when you go back to your respective colleges you will try to inform your faculty and your students of the work of the Hoover Commission and that you will point out to them the serious problem of excess government spending and its effect on their net incomes. The only way we can pay for this spending is through taxes – and every tax is a tax on the producer and consumer. It raises the price the consumer must pay if he wants to buy the product, and it reduces the amount the producer nets for his production.

To give you an example of the spread between farmer and consumer and how it has increased in the last few years, I would like to quote some figures released as a result of a study made in cooperation with the National Grange and the Grocery Manufacturers of America. This study on white bread showed that the average price of a one-pound loaf increased from 9.5 cents in 1945 to 16.7 cents in 1952. This was an increase of 7.2 cents per loaf, which was made up as follows:

Higher wage costs	3.2 cents
Higher costs of taxes, transportation, etc.	2.3 cents
Removal of government subsidy	0.7 of a cent
Higher farm prices	0.9 of a cent

Compared with these increased costs the total increase in combined net profits of ingredient manufacturer, miller, baker, and retailer averaged only 0.1 of a cent per loaf.

None of us would want the stockholders of our free enterprise system to see the return on their investments decrease, while the cost of their purchases increases. However, taxes are causing this very situation. Many of the stockholders in the United States are people living on fixed incomes. While they pay more every day for the things they buy, their purchasing power is diminishing. Their incomes have not kept up with price levels due to higher costs, principally labor and taxes. Before the stockholders receive any income the companies in which they hold stock must pay 52 percent of their earnings in taxes; it has thus become more difficult for these stockholders to maintain their accustomed standard of living.

Also, the corporations processing and manufacturing goods have to include the 52 percent for taxes in their sales price; the consumer again has had to pay more for the things he buys. So you see, even these corporation taxes, which many of us are inclined to disregard, are paid by us, in addition to our regular income taxes.

The forgotten man in our economy is the pensioner or the man living on a fixed income who has seen his purchasing power dwindle with every rise in the price level. When my company set up a pension plan a number of years ago, the pension was designed to provide an income of 60 percent of the employee's wage at the time of his retirement. Today the purchasing power of these people is only about half of their income at retirement, because of higher prices due to increased labor costs and taxes.