Mr. RHODES. At the end of the loan period, if the farmer has not paid off the loan, plus interest and carrying charges, they take over the commodity. On the 1st of August 1966, they took over about—nearly 6 million bales of cotton and they already had 8 million bales from prior years.

Mr. STEPHENS. In other words, the Government increased the inventory of cotton in warehouses.

Mrs. SULLIVAN. If the Government had not done it, what would have happened? Would the price of cotton have gone down?

Mr. RHODES. Present law which the Congress passed in 1965 changes the way it is handled. Now the payments are made to the producer directly and the cotton is allowed to move through channels of trade and be handled as it is normally in other commodities.

Now, I, as a cotton farmer sell my cotton to anyone I can sell it to for the best price. I get my additional income in the direct payment from the Government, not by having the inflated loan rate and having them take over the commodity.

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. I just wanted to pursue a little bit with Dr. Gray the question that Mr. Williams raised about the cotton and sugar international agreements, particularly in regard to coffee. I do not know whether you intended to suggest that you were opposed to the coffee agreement, Dr. Gray, did you?

Mr. GRAY. I have no ax to grind in this matter, Mr. Bingham. If one assesses these agreements in terms of their economic efficiency, I should say that they are not very efficient economically.

Mr. BINGHAM. May I suggest that there are other considerations?

Mr. GRAY. That is why I limited it to just that consideration.

Mr. BINGHAM. The stability of the country producing these commodities, for example.

Mr. GRAY. I am not opposed—I say if we limit our consideration, because the question which came to me was as to the effect of price on consumers. If we limit it to that consideration we would have to say it is inefficient economically.

Mr. BINGHAM. Is there not also a very good argument to the effect that if you do not try to regulate, for example, the prices governing coffee, in Brazil, that you may have such wild swings in prices, such wild swings in production that you end up not serving the interests of anybody, not even the consumer of the United States?

Mr. GRAY. This is, sir, an argument that is made in defense of this type of agreement. I should say in general the answer must be that the extent to which the producers in such a country as Brazil do give their response to market prices and who respond rationally to higher or lower prices producing less from the prices lower and more from the price that is higher, to that extent the most efficient thing would be to rely on the free market system, assuming there is adequate financing here, and so on.

But to the extent that that is not true and to the extent that other considerations such as considerations of political stability, considerations of hemispheric relations coming into play, then these obviously must be weighed into the total attitude about this.