

Interviewee: John N. Luft

Interviewer: T. Harrison Baker

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B: This is an interview with John N. Luft, the manager of the Federal Crop Insurance Corporation. Mr. Luft can we begin by my asking you to outline briefly your career, starting with born in Kansas, 1902.

L: That's right, born on a farm in Kansas in 1902 and was reared on a farm through my younger days up to high school days. I spent my summer vacations on the farm, later continued my schooling. From farming I went into the selling business--selling automobiles in the retail trade and implements, employed by J. I. Case Company as a retail salesman, out of the Kansas City office for a couple of years.

B: Is that the Case Farm Implements?

L: J. I. Case, at that time was known as the J. I. Case Threshing Machine Company; present time the J. I. Case Company. After spending about two and a half years with Case I decided to go back to the farm where I was born and reared and go into farming. But hard times came along in the 30's, the low prices--

B: What sort of farm was it?

L: General livestock and grain, mostly wheat. That's the heart of the wheat belt, the winter wheat belt of the United States. I gradually got into other work. Farm prices, especially wheat, went down, down, until in 1931 we sold wheat for as low as 23 cents a bushel. I became extremely interested in what could be done for the farmer because I was personally involved. So we started working on what we might do to better farm prices--increase wheat prices. Of course, livestock prices and everything else was at the

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bottom. This was at the depths of the depression.

B: And no form of insurance available?

L: No form of insurance. At that time we hadn't thought of insurance. We were just primarily thinking of price. In 1932, when Franklin Delano Roosevelt was elected, of course one of his first acts was to call in farm leaders. I was not one that was called to Washington. I was rather young but people I knew from Kansas were called to Washington to discuss what might be done to increase farm prices.

When they returned to Kansas I was one of the farmers that was called to a meeting and we discussed what might be done. I'll not go into the farm program. The Agricultural Adjustment Act was passed by the Roosevelt Administration. From that time on I became very actively engaged in the farm program activities, being elected first to a township committee, then to the county committee, served on the county committee. Along about 1934--if I remember correctly--the production credit associations were organized--farm credit under the Intermediate Credit bank. I was appointed I guess, or selected as the first inspector for the Production Credit Association in my seven or eight county area.

B: May I ask here, was there a kind of excitement in those days? Here something was finally being done about the farmers.

L: That's right, great interest. Much greater interest from all the farmers than there is today.

B: Was government service then in the area of farm policy generally attractive to young men like yourself at the time?

L: Yes, I believe [so]. Of course you had to have a deep interest in farm problems to involve yourself. There were many young farmers who had dropped out of farming because they couldn't make a living. They were working digging ditches; they were cutting weeds under WPA; they had lost interest.

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The few of us that remained, why of course we became deeply interested.

So from working for Production Credit for a number of years, plus the county work--this was work what we called when actually employed WAM government terms. I was appointed as a farmer field man for the Agricultural Adjustment and served until 1942. The war came along and I was transferred to the Federal Treasury and given the position of Agricultural War Bond Administrator in Kansas. So my work continued along that line until the end of the war, then I went into private business.

In 1945 I resigned from the position with the Federal Treasury and went into private business. In addition, all during this time I had operated my farm. My wife and hired help were out at the farm trying to keep the farm going. Upon resigning from the Federal Treasury I went into private business. I had an automobile agency and implement agency--also connected with the bank as vice president of the Banking and Agricultural Community. The operations I continued until about 1957, when I sold out.

All during these years, being interested in farming, I was also interested in politics. And especially so along in the 50's on.

B: Were you active in partisan politics? Campaigning in elections?

L: Yes sir, I was County Democratic Chairman in 1958, 59, and 60. It was during the period of 1960, the campaign--prior to the campaign--that I might say I watched politics more closely. We had a lot of candidates at the time I think, if I recall. I'm just taking this off the top of my head.

The campaign was Senator Symington, Humphrey, Johnson, and Kennedy. They had the four people.

B: As I recall, there was a good deal of activity in the Kansas primaries--

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- L: Yes sir, these four men came to Kansas and we had the pleasure of meeting all four of them. To begin with, during this period, I'd have to say I would lean towards Mr. Johnson--President Johnson. This was prior to the primaries because I was very closely acquainted with our local congressman, who was a very close friend of Johnson's, and had been a Johnson man throughout the years.
- B: Who was that?
- L: Floyd Breeding, Congressman Floyd Breeding [J. Floyd Breeding, D. Kansas]. So naturally during that period we leaned toward Johnson. Of course prior to the primaries we didn't want to choose any sides until after the primaries. Well then President Kennedy was nominated and later elected. I was a great admirer of President Kennedy.
- B: Incidentally, the current Undersecretary Mr. Schnittker [John A. Schnittker] was active in Kansas politics at the same time, did you have any relationships with him?
- L: No, sir. I personally did not know the Undersecretary. I knew that John Schnittker's name appeared in some of the material put out by the college on economics. I knew he was a professor at Kansas State. Other than that I did not know Mr. Schnittker, the Undersecretary. But before I came in I met him and found that he had been--after the primaries--had been campaigning very strongly around Kansas State for President Kennedy.
- B: What did you think of the ticket that eventually emerged from the Democratic Convention, the Kennedy-Johnson ticket?
- L: Well, like I said before, prior to that time I would have to say I leaned toward Johnson. I didn't know him personally but I knew him following him in the Congress and knew his record. But I think we generally in Kansas--of course the Democrats--thought it was a very strong ticket. We felt

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that Kennedy had made a wise decision in selecting President Johnson as his running mate, and I think many of us still feel that it was a wise decision.

B: Was there anything known definitely about the farm policies of either one of those men at that time?

L: I'd have to say that at this time I don't believe that we knew definitely what their farm policy would be, but personally I felt that with President Johnson's background and his knowledge of agriculture and his close relationship with Franklin Delano Roosevelt through the years when these farm programs were started that we'd get a fair shake for agriculture.

B: In other words, it would almost certainly be a change from the policies of the Eisenhower Administration?

L: Yes. Getting back a little bit on how I happened to become manager of the Federal Crop Insurance Corporation. The Act was passed in 1938 by Congress.

B: Part of the second Agricultural Adjustment Act?

L: Yes. It had been considered for several years and studied for several years. The Act was finally passed in 1938. As I said before, I was a former fieldman for the Agricultural Adjustment Administration at that time. The insurance covered wheat only at that time, and winter wheat is seeded, as you know, in the fall of the year. As I recall this was August and farmers at that time didn't know a thing about an all-risk crop insurance program. So I was selected as one of two former fieldmen who would make a hurried trip through the state, call in our county committees, arrange meetings and explain the program to them. I had about 40 counties, almost half of the state. We would have meetings morning, afternoon and evening with county committees explaining--

B: That's a lot of farmers to cover in a fairly brief time.

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L: Yes it was. It was a very hurried program. This is part of the history of the program. A crash-program--so the experience in the early days of crop insurance without any underwriters, without any actuarial information, the corporation did pay out some heavy indemnities. We insured crops at probably--wheat is all we insured at that time--

B: I was wondering about that. I assume now you have what amounts to actuarial tables to base your premiums versus indemnities on. In those days it must have been just guesswork.

L: Now we have a division that's devoted entirely to the underwriting part of it, and this is the greater part of our program. This is the difficult thing.

B: Because you're bound by law, I believe, not to pay out more indemnities than you take in in premiums.

L: Bound by law, that's right. We use ERS's figures to establish our rates, then of course when we go into new crops we have to write a new program. There's been a lot of progress made since the fall of 1938. Really, when we talk about insurance, '39 was the first crop insured. But it was insured in the fall of '38, because winter wheat is planted in the fall. So '39 to the present time is the life of the present crop insurance program.

B: Now did you stay with the Crop Insurance Corporation from that experience on?

L: No, I didn't. After I went with the Federal Treasury I did not go back with the government until I was appointed to the job as Manager in '61. I was approached shortly after the election in the fall--the election of President Kennedy. I was approached by some people who had deep interests in crop insurance [and] felt the program had been restrictive and practically to the point of being abolished. They wanted someone that had at least some knowledge of the program and also farmer oriented and business experience--and any other experience. They felt I was a policy holder. I was a policy holder from the beginning.

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B: For your farm in Kansas?

L: For my farm in Kansas. So that was one thing they based their judgment on, I guess. The next thing was I had business experience and banking experience. They knew that I believed in all-risk type of insurance.

B: This matter of recruiting good men into ranking government positions is one of the things we're interested in. Do you recall exactly who contacted you about the job? For example, was Congressman Breeding involved?

L: I would have to say--I guess at this time it's all right to say this--these were people from within the corporation--people employed by the corporation and career people--so I'd rather not mention any names. But they were so deeply interested. They were dedicated people to the program. They have been in it from the beginning. They believed in it, but they had not had the right leadership under the previous eight years when they were trying to abolish the program. And the way they were trying to abolish the program was by increasing the premium rates to the point where they were prohibitive and decreasing the coverage and farmers dropping out each year to where the premium income was down to less than 18 million dollars per year.

B: This was the permanent Civil Service staff here that were interested--

L: These were people from somewhere within the permanent Civil Service that came to me and asked me whether I would be interested. After I became interested in it, of course, they had no part in it. I then worked through other angles. Congressman Breeding was a beginning. I'm sure if it had not been for Congressman Breeding getting me involved with the political end of it that I--since it is strictly a political appointment--I would not have been here as Manager of the Corporation.

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B: Presumably then it was Congressman Breeding who carried the word on up to the new Kennedy Administration?

L: To the Kennedy Administration. Of course, I knew many people in politics through my years, politics and farm organizations--especially the Farmer's Union, the Grange, not so much the Farm Bureau if any.

B: I was going to say, the Farm Bureau is not known for its friendliness to Democratic--

L: No, no. This is why I say I did have the local country Farm Bureau people indirectly say a good word for me, but that's as far as it went.

B: Incidentally, I don't mean to imply anything unethical, but is it unusual that the permanent Civil Service staff would involve themselves in the selection of the agency chief like that.

L: I feel this way. I think perhaps this goes on throughout government when there's a change. When they're dissatisfied with people who are their leaders, or the administrator or the manager, that indirectly some of this is going on. If they get caught maybe they get Hatched, if it doesn't work out. The Hatch Act catches them, but I think perhaps when there's dissatisfaction with the people who are their administrator, the career people are working on it. I think perhaps its a common thing.

B: They are after all among the most directly concerned.

L: They're directly concerned. They work with the people, but they're very cautious, I'll say that much, and more so today than 20 years ago.

B: Oh, really, what makes the difference?

L: Well, of course, the Hatch Act when it was passed, it really put the fear in them. Then a few people have been terminated due to political activities so they're very careful. I don't believe they could bring charges against

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a career employee for seeing someone and asking whether he'd be interested in a position. I don't believe the Hatch Act can really get them on that.

B: You were formally appointed by John F. Kennedy. Did you ever meet Mr. Kennedy on the occasion of your appointment or at any other time?

L: No, I was appointed by Secretary Freeman. This is not a presidential, it's a cabinet appointment, but I did meet President Kennedy in Kansas--twice in Kansas--when he was campaigning. I believe they had one occasion at the White House to go through the line when he had some dignitaries over there.

B: Did the new administration, from your point of view would be the Kennedy-Freeman Administration, I guess, did they take off in new directions in the Crop Insurance Corporation?

L: Yes sir. I was briefed by some of Freeman's right-hand people about the program, we discussed what we'd do. In fact, before I was appointed I wrote a letter to Secretary Freeman as to what my policy would be if he appointed me, and I tried to carry out the policy I had outlined in my letter. At no time was there any restriction put on me after I was appointed, as far as the Secretary was concerned. There were some budget matters that no one can avoid, budget limitations and limitations of employees and all of that.

B: This is the kind of thing that's a matter of working it out within the Department among the several agencies?

L: Yes, among the agencies in the Department of Agriculture. But from the standpoint of Secretary and Undersecretary, our relations were the very best. We were given the authority to go ahead and do what we thought.

B: You may have answered a question indirectly. I was going to ask you your opinion of Secretary Freeman as a Secretary of Agriculture.

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L: I would have to answer in this way: I don't believe I've been around any one person ever in my lifetime who's a harder worker, who put in longer hours and [was] more sincere in what he tried to accomplish. He had the interests of the farmer at heart, but he also knew the consumer is involved. In order to get farm legislation passed he knew that he would have to have the cooperation of city representatives in government--in Congress. So he had to work both sides, and I think he did a marvelous job.

B: You must see farmers fairly regularly. Is their opinion of Secretary Freeman fairly high, too?

L: The opinion of Secretary Freeman, I think, is much better than it has been of several Secretaries that I've known in my time. However, there was quite a difference between the opinion of a Secretary way back when farm prices were low when everybody was willing to do something. Farm organizations were working together. At the beginning of the Roosevelt Administration you had the American Farm Bureau Federation under Ed O'Neil. He had them working together--all the farm organizations. Today you don't have that. And the farmers are divided. Most farmers, I think, today are young people who have not gone through a period of 25 cent wheat.

B: And there's no general crisis atmosphere?

L: There's no general crisis. This is right. However, the farmer is not making it. Now I'm speaking of my own personal experience. The cost is high, especially where you deal with hired help and labor is the highest item that we have. Of course equipment is high, everything else is high, but the cooperation of the farmer from the grassroot level is not as good as it was 30 years ago.

B: And that presumably applies not only to individuals but to the various farm organizations?

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- L: Farm organizations--they can't get together.
- B: Incidentally, do you still have your farm in Kansas?
- L: Yes sir, still own it and operate it. I intend to retire to Kansas shortly. I've been here--in March it will be eight years when I was appointed Manager. I think perhaps it's the longest tenure of any Manager in the history of the corporation. I had planned to retire regardless of what happens.
- B: You mean regardless of who won the election?
- L: Yes.
- B: What was the general policy you outlined in your letter to Secretary Freeman, and I assume, have followed in those years?
- L: To expand the program as rapidly as possible.
- B: May I ask, does that mean to expand it in numbers, in crops covered?
- L: In participation and crops covered. And I think this we've accomplished. Well, in my letter of policy to the Secretary, if I were appointed Manager, was that I would expand the county programs as quickly as permitted by law to as many agricultural counties in the United States as possible. At the time I came in we had offered insurance in 847 counties with the premium income of approximately 18 million dollars. Then I also told the Secretary that I'd bring up to date the antiquated actuarial structure, which was really at the bottom of our problems, you see.
- B: I would suppose that's the key to your whole operations?
- L: The whole program. This was the primary reason for lack of participation. This is what we thought. I knew that as a farmer there had to be some drastic changes made or we couldn't continue. I also knew that some drastic changes had taken place in farming methods in the last 15-20 years which had not been considered under the old system of establishing

rates and coverages.

B: You mean in the sense of increasing use of chemicals and so on eliminates some of the things that harm crops?

L: Chemicals, equipment, fertilizers increasing the production. At the same time you were increasing costs, so we had to guarantee a man more.

B: I would suppose also that some of that eliminates some of the risk factors.

L: It does to a certain extent, of course. Of course there are many risk factors. The greatest risk factor we still have and this is weather--excessive moisture and droughts are the two heaviest risks we have.

I stated to the Secretary that we would review the premium rates and I would take immediate steps to add insurable crops to the list. At the time we were insuring about ten or twelve crops. In general we would begin a thorough study of the administration of the program, which was aimed at the consolidation of management and employees in the corporation. I think this we've done. As I said before, we have about tripled the business, and I think the future of crop insurance is very good.

B: When President Kennedy was assassinated, and Mr. Johnson became President, what was the immediate reaction here among the agency chiefs like yourself? Was there any thought that this might mean changes in agricultural policies or in personnel?

L: The people I was most closely associated with outside of the corporation, other agency heads, that I visited with and were more closely acquainted with, felt that President Johnson at least for a time would continue pretty well on the same lines and policy as President Kennedy. Personally, I was not alarmed. It was a shock, of course, but we were not unduly

alarmed about President Johnson not being able to do the job.

As I said before, we knew his record in Congress and we felt he would carry on.

B: The assassination did not require a formal letter of resignation from you, did it? Only if the Secretary had resigned I assumed that would have been--

L: No sir. And it's my understanding that all Schedule Cs (?) in my position--the day they were given the job or position we sign a resignation. They have our resignation at all times. In other words, I couldn't give the Secretary any trouble. If he'd say, "Mr. Luft, as of tomorrow you're terminated." I've already signed my resignation.

B: Is that a standard procedure?

L: I think it's a standard procedure. I didn't know that until recently. We're talking about what the policy should be when a new Administration takes over and this was brought up. As far as the present Administration they have your resignation and we wondered whether it was customary, and they say it is, to send a letter of resignation to the Secretary when he is appointed.

B: Then after the transition period, did President Johnson make any difference in your programs and policies here?

L: No sir. Since of course Secretary Freeman remained on the job, so there was absolutely no change.

B: Were there any intangible changes? Did it make any differences to the people with whom you worked that the President was now a man from a rural and farm background?

L: We felt that with a rural background he would certainly give as much consideration to the agricultural part of government as he would

to any other. However, he had many other problems. The greatest problem we experience was the, well, I guess I'd say the austerity program. Money became tighter. Of course there were other reasons. The Viet Nam war became a problem and needed more money. This is the thing that changed the picture so I wouldn't know exactly how President Johnson would have continued had this Viet Nam situation not changed the entire financial end of it.

B: You know, in addition to the Viet Nam war an increasing amount of Federal money going into generally urban problems. Does that ever make people here in the Department of Agriculture feel a little left out?

L: Will you repeat that again? I didn't quite follow you.

B: Well, there has been increasingly a national emphasis on urban problems, the problems of the cities. Does that ever make the people in Agriculture feel that they are being kind of left out?

L: Occasionally, yes. Occasionally you hear people when they're discussing between confidences. People in the agencies talk about maybe we are paying more attention to the urban people than we are the agriculture. This is true but this is where the bulk of the population is. We have to see both sides of the picture.

Of course, we know consumer is getting a bargain. I, personally, as a farmer--from a farming standpoint, my position in here--I feel that the farmer is getting the short end of the stick. He's producing food for almost less than the cost of producing it. If it were not for the government payments, food would be much higher than it is to pay out on the farm. Speaking of wheat, if it were not for the wheat certificates, many farmers would be bankrupt. And this comes directly from the farmers, their certificate payments have kept them in business.

- B: Do you ever participate in legislative drafting? For example, I know in '64 there was an amendment to the basic law of the Federal Crop Insurance Corporation. Did you get involved in the drafting and the Congressional liaison work?
- L: Yes, my lawyers helped write up any legislation that came from us. I don't recall at the present time what [were] some of the legislations we presented. We did want to change the method of financing. A part of our administrative costs at the present time were being taken out of premium income.
- B: I was under the impression your law was that administrative costs would be paid from appropriations.
- L: From appropriations, but in 1956 under the Bensen regime that was amended. A part of the costs can be taken out of premium income and the direct cost of loss adjustment can be taken out of premium.
- B: Is that still in effect?
- L: It's still in effect. This is legislation that we have not gone to the Hill with. I'll take that back. We went with it last year but it was tabled or--well I just can't tell you where it is. I guess it's in committee.
- B: It seems that agricultural legislation in the last couple of years has had an increasing amount of difficulty on the Hill.
- L: There were so many other things that came up that our legislation kind of fell by the wayside. I think there was legislation introduced by Congressman Findley to include all administrative costs in the premium income. Our bill was up there. All administrative costs be appropriated and, of course, with the increase in business our administrative costs have gone up. We had to come up with some kind of formula because we don't always know what our administrative costs

are until the end of the year. So we devised a formula which would have given the appropriations committee a guideline. But if I recall correctly what happened, they were both tabled for the time being.

B: Which in a way was a kind of victory. At least you headed off--

L: Yes, we headed it off. We felt it was a victory for us. And our experience has been fairly good. We will this year have some excess premium if nothing happens to the citrus. But we have been depleting our capital, because we're using part of our premium income for administrative costs. But these costs are not included in the premium. So gradually we're taking premium income and spending it for administrative costs when it should be going in as a reserve for catastrophic years. So naturally our 40 million dollars is now down to 22 or 24 million dollars of capital. Of course we still have some unissued capital, 60 million dollars. They issued 40 million dollars and we have used about 25 million dollars of that.

B: Have you had, since '63, any personal contacts with Mr. Johnson in meetings or social affairs, or anything like that?

L: No, I haven't.

B: Incidentally, does he raise any crops down in Texas that are covered by insurance?

L: If he does, we don't offer insurance in his county, I'm quite sure. Blanco County's not on the--see we have many counties that aren't--we're only in the major crop producing counties. There are some 30 hundred counties in the United States and we now offer insurance in 1,400.

B: How big an agency is this? How many people do you have?

L: We employ at the present time, within give-or-take 8 or 10 people, 660 permanent people.

B: That includes people here and out in the field?

L: There are about 90 here in Washington, and 125 to 140 in the National Service Office in Kansas City where the machines are located, where we do all the work. Then our county or district offices in the States, our state offices. Of course, in addition to the 660 there are 65 people, permanent people we employ--have on the rolls what we call non-careered WAE, actually employed people throughout the United States who are trained and qualified as salesmen. Some of them are adjusters. Some do double duty. And they are not permanent.

B: Is that phrase WAE?

L: WAE, When Actually Employed.

B: Are these mostly part-time people?

L: They're part-time people. They work when we call on them. The sales people, depending on the crop, will work anywhere from 60 to 90 days. Then we have loss adjusters. This depends entirely on the crop losses. If they have a heavy loss, we need a lot of them on a standby basis. The requirements are that they are farmers or with actual farm backgrounds. This is in their job description.

B: Do you have any trouble getting and keeping good people?

L: Yes. Depends on where we are. As you get closer to the industrial centers our pay isn't comparable to what they pay in industry and the factories, so these people that have part-time jobs, go into the plants nearest their homes. So we have the pay problem.

B: You've not been able to increase your pay, or increase it enough?

L: We have some. We're still not high enough. The thing to remember about When Actually Employed people, WAE's, they don't get the fringe benefits a career civil service job offers. They have no vacation, no paid vacation, no sick leave and no insurances or anything of that type.

So we're able in the agriculture and rural areas, we're able to use farmers--in a little smaller operation, or where a father-son combination works--and they like to get out and do some outside work for 60 days or so, we're able to find people. But as we get in closer to the industrial areas it's very difficult to find qualified people.

B: One of the things Secretary Freeman has emphasized has been the racial integration of agency staffs. Has that applied to yours too?

L: Yes sir, a careful study was made by the Secretary's office of all agencies in the Departments to see that there was no discrimination, not only as far as employment was concerned, but as the handling of our program--whether our program was being offered to the Negroes on an equal basis. I think we came up with a very good record.

B: Did this create any problems for you, say, for example a Negro salesman or adjuster in the Deep South States?

L: We've had no serious problem, however it's a touchy situation--more so earlier than now. We are using some Negro salesmen in a few places that call on the white people, and do a very good job. In other areas a Negro salesman doesn't want to go out in the white areas. This is a local situation but what I'm primarily interested in and have, I think, made certain that where we offered insurance where it's available and the farms were insurable--all farms in the county are not insurable even though we offer insurance, due to the type of soil or what have you, maybe it's situated in the flood area, or the sand dunes or something; the risk is too high; the rate would be prohibitive, so we don't offer it. But we've tried to make certain that every farmer within our budget knows about federal crop insurance, not only through the salesman calling on them but public service on television and radio,

free service, and then we do have a small budget for paid advertising.

B: Some people have said that basic agriculture policies were set in the New Deal period and have not changed enough to still be applicable to the current circumstances. Is that a valid criticism?

L: I speak for my agency. We have tried, as I said before, to up-date the Federal Crop All Risk Insurance Program to the point where it is in line with today's farming. We still have some weak points where we have not been able to come up with a coverage that we feel we should have. But through experience we're rapidly reworking counties and states much more often in order to bring them up to the present level. It might be hard to believe but in the eight years I've been in here, the corn production--just in the eight years--in Illinois, I think when I came in here, a 60 bushel average was a pretty good yield for the State of Illinois, 60-65 bushel state average. Last year it was a 103 bushel.

B: I think everybody is basically familiar with this incredible productive ability of the American farmer from which a good many of his problems depend. Statistics like that are all over the agricultural area, as you say, unbelievable.

Actually, your agency has not received all that much public criticism, has it, as compared to the pricing areas?

L: No. The criticism at Agriculture is mostly on price. We have requests for insurance. As an example I'll give Maine, potato farmers. A request came in here two or three years ago for insurance to a Maine potato grower--Aroostock County, the largest producer of potatoes in the United States, and in the world. So we immediately wondered what the risks were. When our people went up there and met with the potato people, they were interested in the price insurance. They said, "Oh, weather,

we'll chance that. Normally we produce a crop, seldom we have-- we may have a little lower production due to some disease we haven't quite conquered or something, but we'll chance that. We want price insurance." Well, this is prohibited in our program. We guarantee production, either by hundred weight or bushels or--

B: Curious that they were not aware of that, because I think it, as you say, the insurance program is fairly well advertised, that it is a production insurance.

L: Well they still think because you apply the price to a hundred-weight and they felt that some way through there they could manipulate the price. Certainly our prices, we keep our price on the portion they lose at the highest level possible under the existing laws. But when they have a partial loss the part they produce doesn't bring that top price. It brings market price. They have their selection. They pay the premium on the basis of the selection, price per bushel or hundred-weight.

B: It's not possible to manipulate your insurance for that kind of thing, is it?

L: No.

B: One more question. Has again, Secretary Freeman's emphasis in rural community development--the rural urban balance, the quality of rural life emphasis--has that affected your program or rather has your program been used to that end in any extent?

L: You are referring to rural development?

B: Yes sir.

L: Appalachia and programs of that sort. It has not affected our programs too much. We are not offering insurance in areas like Appalachia. They're very, very marginal farms generally.

B: The counties in which you offer insurance are chosen as counties that have a certain level of agricultural production?

L: Certain level of agriculture and they must be a major portion of the income in the county. Of course, as we spread out and have our administrative setup we can take in some more counties because the cost is not prohibitive--the cost of the administrative program is not prohibitive. But for you to go out here in an area where you have a few hundred or a few thousand acres of crop in a large area and you set up an administrative setup, it would be prohibitive.

B: And there hasn't been any attempt to do that anyway as part of the Poverty Program?

L: The problem is that these farms are marginal--going to have to bring them up to a certain standard I think before we can offer them insurance at a reasonable cost. Yes, we can offer insurance anyway. Any insurance underwriter can give you an actuarial table, but may have to pay in 50 cents for every dollar's worth of insurance you have.

B: In other words, their problem is more basic than the kind of service you provide?

L: Yes sir.

B: Sir, is there anything else that you feel should be on this kind of record?

L: I think there is one thing we didn't mention earlier, that federal crop insurance is not generally available from private sources. Over the years, the last hundred years, private insurance has attempted to offer this type of insurance several times and they've ended up in bankruptcy.

B: Even when it is offered privately, it is generally much higher than yours, isn't it?

L: Yes, because the cost of administration has to be in the premium. However, efforts are being made by private insurance companies at the

present time to offer a program almost like the all-risk. They still don't cover all the risks. They exclude some of them, and they tie it to crop hail insurance. In other words, in areas where hail is a very low risk part of the insurance business they require the farmer to buy crop hail insurance. Then, with that, they'll sell him a certain amount of all-risk insurance. This is being tried at the present time. But I did want to point out that at the time--the Federal Crop Insurance Act was passed in 1938--all-risk type of insurance was not available.

B: Do you feel that private crop insurance will increase--that is, is there a trend in this direction?

L: Of course, I think they've been encouraged. The recent passage of the Flood Insurance Act, which I believe at this time has not been financed. Money has not been appropriated for it, but this encourages private insurance companies to enter into this type of business and have the Federal Crop Insurance Corporation serve as a re-insurer--carry the catastrophic type of loss and the riot insurance that I don't believe has been passed as yet, but the flood insurance has passed Congress. And if they appropriate funds it will go into effect. The government will carry that, the catastrophic risk, that type of insurance. This would be a nice business for private insurance to get into--take over the corporation. Of course, they would have to add a profit, which private industry has to do. But this is risky business when you're in the crop business.

B: For private business, that would be about the best of all possible worlds, wouldn't it?

L: That's right.

B: The catastrophic aspect would be backed up by the federal agency.

L: There's one more thing I should mention, that we cover the cost of production only. We are limited by law to cost of producing a crop only, not the profit. So this takes out some of the risk for the corporation--that people farm to collect crop insurance rather than produce a crop. If they farm for crop insurance indemnities, they won't be in business too long. They might stay in for a few year; and we eliminate them. After so many years of continuous losses, we cancel them out.

B: In other words, nobody can make a living off crop insurance.

L: No sir.

B: Aren't you also limited to a percentage of the cost of production?

L: Well, the cost of production or seventy-five percent of the crop production.

B: Is there anything else, sir?

L: I do want to mention the last three years we have gone to the lending agencies--banks, regular banks, production credit, any other lending agency who lends money to farmers--and have acquainted them with the fact that they can obtain a collateral assignment on a crop insurance policy, whereby the indemnities are paid jointly in the event of a loss. This is added to the credit, the available creditor funds.

This gives the bank a greater opportunity to lend more money to the farmer. This is their business. They want to loan money, but they have to have a guarantee that they'll get it back. So if they're loaning on a crop that's insurable, a good farmer's quite certain that he'll at least get back his cost of production and be able to put out another crop without borrowing additional money. The banks are showing great interest in this and I think this is going to become a strong part of our program.

- B: If the banks loan on a crop and the crop fails, you pay the bank the portion--
- L: We make the check jointly.
- B: Oh, I see.
- L: The farmer and the bank then decide whether all of it goes to the bank or part of it. But the point is that our policy covers the costs of production--let's say the out of pocket money. The man has borrowed money to produce a crop, his labor and his gasoline and fuel, repairs, etc. and his crop is a total failure. If he doesn't have crop insurance he has to go back and borrow additional money so he's doubly indebted. Unless he was a mighty good risk to start with, he's on pretty thin ice the second or third year. But with a crop insurance policy he doesn't have to borrow additional and the bank would probably reloan him the same money, but he doesn't increase. So it's great protection and the banking examiners think it's good collateral.
- B: As you said it has the effect of making credit more easily attainable by farmers.
- L: Yes. This is the greatest thing I think we've hit on in recent years.
- B: Particularly now, I suppose, when any farmer to be halfway efficient, just has to have a source of capital for machinery and fertilizer and all of that.
- L: There are very few farmers today who are operating entirely on their own money because those who were operating on their own money have expanded, had to buy more farms, more equipment in order to keep up with the times. So there are very, very few farmers that are not borrowing money today.
- B: Anything else, sir?
- L: I think that pretty well covers what I want to say unless you have some questions.
- B: No, sir. I'm all out of questions. Thank you very much.

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By John N. Luft

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