HISTORY AND DEVELOPMENT OF LEGISLATION AFFECTING PRICES AND PRODUCTION OF UPLAND COTTON IN THE UNITED STATES

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CHAPTER I

INTRODUCTION

Production and price policies for American upland cotton have been in effect during most of the last forty years. These programs have represented major efforts to improve the income position of U. S. cotton producers. However, general public agreement has not been attained on the type of program which is most acceptable. While numerous alternatives have been tried, each program has included features which either (1) did not solve the problem for which it was designed or (2) did not meet the approval of the numerous and diverse groups which have interests in U. S. cotton. Frequently, old programs have been abandoned and new programs initiated because the production, income, or cost effects were not the same as those anticipated.

The lack of public agreement and logical development may best be explained by the following observation:

> An action program, when adopted, presupposed that a problem existed and that some agreement had been reached as to the relative efficiency of this program as compared with alternative programs. However, the mere fact that the democratic process was used in the selection and adoption of this program is not assurance that agreement was substantial. It could have represented a very small minority agreement. One can say only that an organized majority did not explicitly agree to oppose the program.

> The basis for agreement is usually the result of compromise or arbitration. It involves differences in the amounts of information available to the various groups involved, differences in the interpretations of the so-called 'facts' and differences in beliefs concerning what 'ought to be'.[1]

In addition, the accumulation of major legislation and subsequent amendments has caused both agricultural and non-agricultural individuals to voice concern and demonstrate confusion over just what the present cotton program is, how it developed, and possible future directions it might follow. Since the program has been developed over an extended period of time, one who attempts to understand it or predict future legislation would do well to keep in mind the following words of Justice Oliver Wendell Holmes, Jr.:

> The life of the law has not been logic: it has been experience. The felt necessities of the time, the prevalent moral and political theories, intuitions of public policy, avowed or unconscious, even the prejudices which judges /_ and Congressmen_/ share with their fellow-men, have had a good deal more to do than the syllogism in determining the rules by which men should be governed. The law embodies the story of a nation's development through many centuries, and it cannot be dealt with as if it contained only the axioms and corollaries of a book of mathematics. In order to know what it is, we must know what it has been, and what it tends to become. We must alternately consult history and existing theories of legislation.[2]

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[1]Leo V. Blakley, A Concept of Goals and Values, Agricultural Economics Paper No. 662, Oklahoma Agricultural Experiment Station (Stillwater: Oklahoma State University, 1966), p. 1.

[2]Oliver Wendell Holmes, Jr., The Common Law (Boston: Little, Brown & Co., 1923), p. 1.

Objectives

The major purpose of this study was to provide a history of past cotton legislation which could permit a better understanding of the present and potential future cotton programs. Particular emphasis was placed on production and price legislation that affects the income of cotton producers.

Specific objectives of this study were: (1) to present the historical development of governmental programs designed to achieve income objective through specific means of price support, production controls, and export programs; (2) to present the interrelationships existing between the specific programs and the prices and production of cotton as related to the development of subsequent legislation.

Scope of Study

The study is essentially an historical analysis designed to add perspective to the present and future cotton programs. Not all legislation affecting the U. S. cotton industry was considered. Instead, primary emphasis was placed on specific agricultural legislation directly related to cotton. Generally, an attempt was made to develop historically all legislation directly pertaining to a specific means such as price supports. As background for the consideration of specific means, legislation in an historical and theoretical economic framework is presented in Chapter II. Legislation directly related to price supports for cotton is considered in Chapter III. Chapter IV contains the legislative history associated with production controls. Legislation involving multiple pricing plans and surplus disposal is presented in Chapter V. Finally, the summary and conclusions are presented in Chapter VI.

CHAPTER II

LEGISLATION IN PERSPECTIVE

In the private sector of the U. S. economy, the market is the connecting link between the producer and the consumer. On the one hand, consumers' tastes, preferences, needs, and abilities to purchase determine the demand. Consumers take for granted that the products they want will be available in the quantities and qualities they desire at the time and place they are needed. On the other hand, resources utilized and the production environment determine the supply of products to be sold. Producers expect the market to accept their products when they are ready to sell. Market price reflects the interaction of the forces of demand and supply. Price, therefore, becomes the crystallizing instrument of the market operation and determines both the consumer cost and the producer income for individual products.

The theoretical "perfect market", with its many buyers and many sellers having complete information and knowledge and all sellers dealing in absolutely uniform products with completely flexible resources, is presumed to provide the economic climate which would give the greatest individual and social welfare. The flexible prices (influenced by supply and demand) help the consumer in deciding on purchases and guides the producer in making production plans. In the economy as it exists, however, there are many imperfections in the markets for individual commodities. Human judgment can be in error, information and knowledge are incomplete, products are not uniform, resources are inflexible, and some prices are administered.

Early Government Programs

There has been a trend over the years toward increased governmental participation in economic activity. This is exemplified by the fact that during the past forty years, significant legislation affecting agricultural production and marketing has been passed in practically every session of Congress. Why this has happened may be explained by the following quote:

> Governmental participation in economic life probably is not an explicit goal or value in the American economy. It is more likely to represent one of the alternative means of achieving certain goals or values.[3]

Therefore, to the extent that this participation met the desires of the community, it reflected dissatisfaction with the adequacy of the market economy in obtaining the desired economic goals.

The evolutionary process that resulted in low agricultural prices following World War I brought on an era that produced the framework for present programs. Between May, 1920, and May, 1921,

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[3] Leo V. Blakley, A Concept of Goals and Values, Agricultural Economics Paper No. 662, Oklahoma Agricultural Experiment Station (Stillwater: Oklahoma State University, 1966), pp. 11-12.

prices received by farmers declined approximately 54 percent, while prices paid by farmers declined only 27 percent. The obvious result was an appreciable drop in the net incomes of farmers. Fortunately, general farm prices, including cotton prices, recovered somewhat during the next few years. Yet the relationship between prices received and prices paid by farmers remained below the pre-war levels. This price and income environment prompted farmers to seek federal government aid in order to modify and regulate agricultural commodity markets.

On June 15, 1929, Congress passed the Agricultural Marketing Act[4]. With the passage of this Act came an attempt to support agriculture prices by orderly distribution or the establishment of an "ever-normal granary" type of program. The Federal Farm Board was established and received an appropriation of $500 million to finance cooperative marketing associations that would perform loan-storage functions during years of surplus production. The surplus crops were to be stored but when there was a reduction in the quantity or an increase in the demand, the surplus stocks would be moved back into the market. It was the belief that this procedure would stabilize farm prices and income.

In regard to cotton, the Federal Farm Board established a Cotton Stabilization Corporation. Loan operations on cotton were begun in October, 1929, the month of the devastating stock

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[4]U.S., Statutes at Large, XLVI, Public Law 10, 11.

market crash. The loan level was 16 cents a pound. However, by July, 1931, the average loan price on cotton had declined to approximately 6 cents a pound. By 1932, a large part of the \$500 million fund of the Farm Board had been utilized in loans on cotton and wheat (plus small proportions on several other commodities), and by 1933, the funds were exhausted. However, the supplies of cotton and other commodities had not been reduced enough to offset the decrease in demand and prices were at extremely low levels. The Farm Board did not have the power to control output and, through storage alone, found itself unable to stabilize prices. Congress did not vote additional funds to carry out the loan-storage program and the Board was abolished in May, 1933.

Since 1933, many farm bills have been debated in Congress. All have rested upon one or a combination of three basic economic concepts: (1) price supports, (2) production controls, and (3) multiple pricing.

Price Supports

Price support is the application of an administered price. It can be accomplished only by a single seller with some degree of monopoly control setting the price of the commodity. The result is price stability with varying quantities sold in final consumption outlets. A variation of the direct price support program is the direct payment program. With direct payments, the quantity sold to consumers would equal the quantity produced and the size of the payment would depend on the apparent excess stocks which would exist at the "desirable" prices.

Objectives

The usual objectives of price supports are: (1) to raise the level of agricultural income, (2) to provide greater economic security for farmers, and (3) to induce production adjustments. Cotton price policy has been concerned primarily with the first objective. Price supports reduce excessive price variability, reduce uncertainty in the interests of better resource allocation, and restore and maintain a certain balance in terms of trade between various groups of commodities in their price relationships. However, they do not necessarily improve the income distribution among producers or result in the most efficient utilization of resources.

Effects

The theoretical framework for evaluating support prices is illustrated in Figure 1.[5] Let D and S represent the Demand and Supply curves, respectively, for cotton in a one year period. Demand is defined as price-inelastic; supply is defined as perfectly inelastic in order to reflect the fact that producers could place the whole crop on the market for whatever price

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[5]Paul A. Samuelson, Economics: An Introductory Analysis (4th ed. rev.; New York: McGraw-Hill, 1958), pp. 414-15.

it would bring. The equilibrium price would be OP_1. If the support price is OP_2, the government would have to acquire amount Q'Q. The cost to the government would be Q'Q multiplied by the support price of OP_2 or the rectangle Q'ABQ. Returns to farmers would be OP_2BQ. The governmental cost would be greater under elastic demand conditions than under highly price-inelastic demand conditions. Given Q, the more elastic demand, the larger the purchase necessary to achieve any given price higher than equilibrium price.

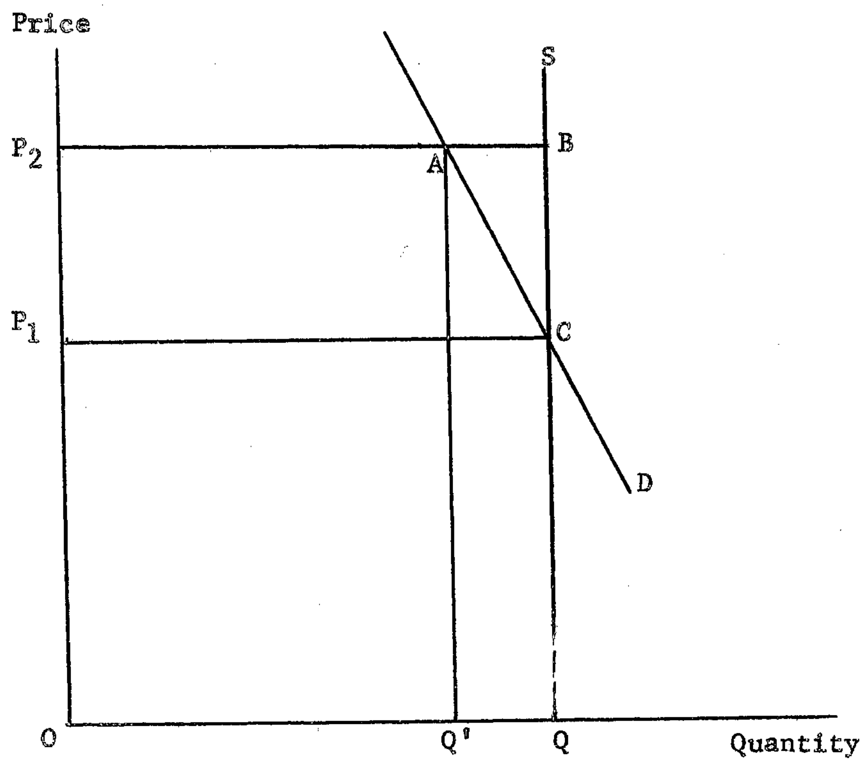

Figure 1. Hypothetical Demand and Supply Schedule for Cotton

Under direct payments, the equilibrium price and the market price would be OP_1 and the support price could still be OP_2. In this case, however, the total supply would be sold at OP_1 and the government would make up the difference between OP_1 and OP_2. Each producer would get a payment equal to OP_2 minus OP_1 multiplied by the size of his crop. The total cost to the government of this kind of subsidy would be P_1P_2BC, and total returns to farmers would be OP_2BQ. The relative size of the governmental outlay, under direct payments as compared with direct price supports, would depend on the price elasticity of demand. With a given quantity produced and a given price support level, costs under direct payments would remain constant but government purchases under the price support program would increase as the price elasticity of demand increased.

Production Controls

Production controls involve supply management.[6] Supply management is the practice whereby, given certain conditions, the total quantity of a commodity marketed is limited to the effective market demand at a price deemed acceptable to both producers and consumers. If effective, the production control program will increase gross farm income under price-inelastic demand conditions because the percentage increase in price will be greater than the percentage decrease in production. In fact,

[6] Ibid., pp. 412-13.

effective production controls can achieve the same price and income targets as direct price supports, although both production controls and price supports may be used concurrently. However, the ultimate success of production control programs will depend upon the production control features used, i.e., acreage restriction, quantity produced restrictions, etc.

Objectives

The major objectives of production controls are to: (1) increase farm prices and income; (2) increase resource efficiency by limiting agricultural production to current needs; and (3) reduce or minimize government costs of price and income support programs. The third objective has, at times, appeared to be most important. When surplus stocks and government costs mount, voices are raised in favor of decreasing costs and excess production. Excess production is usually defined in terms related to "current needs" of the country. Current needs include domestic requirements, export requirements, and a possible national defense stockpile. By limiting production to this level, storage of additional stocks would not be required by the government.

Effects

If the demand for a commodity is inelastic, production controls will result in higher total receipts to producers. Since production costs likely would decrease as quantity produced decreases, net returns should increase relatively more than total receipts. Graphically, the effects should be the same as illustrated in Figure 1 for price supports. Total returns to farmers would be OP_2CB and government costs would be limited to the expense of administered controls.

Supply can be controlled directly by restricting output or indirectly by restricting inputs. The emphasis in agricultural legislation has been on input restriction. The restriction of inputs has been applied chiefly to one factor - land. This has been administered in two general types of programs: (1) those which control land for a specific crop, such as the present acreage allotment and marketing quota programs, and (2) those which control cropland in general, such as the Soil Bank Program.

Multiple Pricing

Multiple pricing, or price discrimination, is the practice of charging different prices for a homogeneous commodity in different markets.[7] A seller possessing some degree of monopoly power may practice price discrimination by artificially restricting the quantity sold in particular markets while increasing the quantity sold in other markets. The result is a set of price differentials in different markets which exceeds the cost of transfer to different markets. Multiple pricing also could be applied to producers in setting the prices they receive for quantities entering different markets.

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[7] Preston LaFerney, "Analysis of Multiple Pricing Plans for Food Commodities Produced in the South" (unpub. Ph.D. dissertation, Oklahoma State University, 1963), pp. 5-22.

Objectives

The usual objectives under price discrimination are to: (1) increase total returns; (2) stabilize total returns; and (3) influence consumption patterns. Total returns above those which would be received under a single price can be obtained under multiple pricing if certain conditions, discussed later, are fulfilled. If a given supply is divided into subparts for different markets, the price effect of supply fluctuations may be reduced and total returns stabilized. However, price discrimination can result in unstable consumption in the secondary markets which, under certain conditions, can lead to less stability in total returns to the seller. Influencing consumption patterns may involve surplus disposal as well as foreign and domestic assistance.

Conditions Necessary for Multiple Pricing

Certain conditions are necessary to practice price discrimination. The basic conditions include:

1. Monopoly power - A seller must be able to control the supply of the commodity. In the case of two-price programs for cotton, legislation has been the source of monopoly power.
2. Two or more sub-markets - The market must be capable of being divided into one primary sub-market and one or more secondary sub-markets. In order to increase returns, a significant part of total supply must be sold in the higher priced primary sub-market and the secondary

sub-markets must be able to absorb varying or expanding quantities. In addition, the sub-markets must be kept separate, otherwise buyers will buy in the low priced market for resale in the high priced market. In the case of cotton, the separation has been accomplished by restrictions on imports of raw cotton.

3. Different price elasticities of demand in the sub-markets - Demands must differ among outlets so that decreasing sales in one outlet, to achieve more nearly equal marginal revenues in each market, will yield higher aggregate returns. For producers, the question of relative elasticities in the domestic and foreign markets may be irrelevant in the short-run if producers receive a single predetermined price on all units sold. However, the amount of government subsidy would depend on the elasticity of demand in the export market. The more elastic the export demand, the lower will be government costs in moving a given quantity into the export market by use of the export subsidy.

Effects

The effects of multiple pricing plans may be considered with reference to Figure 2. Let the left half of the diagram represent the secondary market and the right half represent the primary market. D_s and D_p represent the linear net farm demands for the secondary and primary markets respectively. The vertical axis, therefore, indicates prices at the farm level.

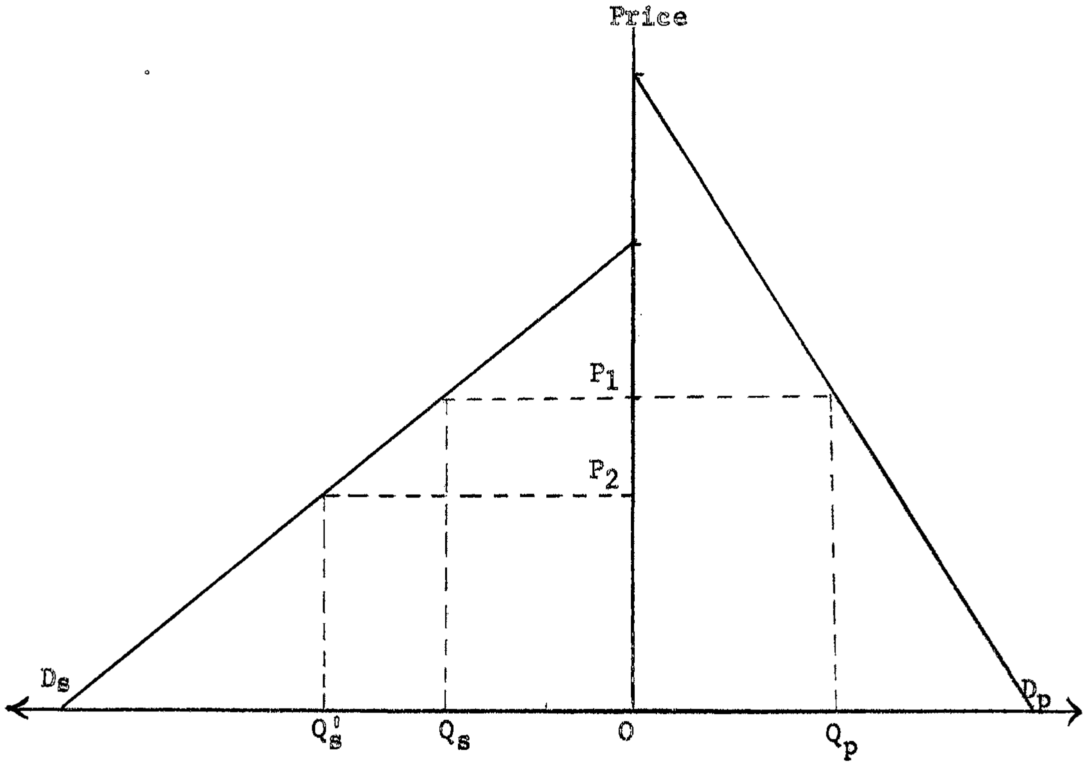

Figure 2. General Case: Equilibrium Quantities and Prices under a Multiple Pricing Plan.

Assume that price supports are effective at the price P_1. At price P_1, the quantity demanded in the secondary market will be Q_s. If more than $Q_p + Q_s$ is produced, then the government must buy and store the cotton in order to maintain P_1, thus incurring costs.

The outcome could be altered by use of a multiple pricing plan which would subsidize cotton sales in the secondary market. Assume that cotton was sold in the secondary market at price P_2 with a subsidy equal to P_1 minus P_2 per pound. The quantity sold in the secondary market would increase by $Q_s' - Q_s$ while the quantity sold in the primary market would remain at Q_p. Assuming production was restricted to $Q_p \neq Q_s$, previous to the enactment of this plan, and $Q_p \neq Q_s$ afterward, producers' incomes would increase by $P_1(Q_s' - Q_s)$ and government costs of the subsidy would be $Q_s'(P_1 - P_2)$.

Without benefit of price supports or special subsidies, price discrimination could be practical on behalf of producers. If production were $Q_s' \neq Q_p$, the price in the primary market could be set at P_1 and the price in the secondary market could be set at P_2. For these prices, total returns to farmers would be $P_1(Q_p)$ plus $P_2(Q_s')$ which would be greater than the equilibrium prices times the aggregate quantity $(Q_p \neq Q_s)$. Government costs in this case would be limited to that incurred in administering price supports in the primary market.

Cotton Market Situation

The market situation for U. S. cotton may best be described as a price-inelastic lagging demand versus an increasing supply. The lagging demand has resulted because man-made fibers and foreign cotton production have tended to offset potential demand expansion from increased consumer income and population growth. Technological innovations such as mechanization and irrigation have been major influences in shifting cotton supply. This combination has caused a continuous downward pressure on cotton prices and producers' incomes.

Initially, price supports and production controls were implemented to improve cotton producers' incomes through higher cotton prices. The very nature of the shifting cotton supply, however, limited the effectiveness of this approach. In later years, multiple pricing plans were incorporated to make the program more effective by providing a means of relieving surplus accumulations and reducing government costs.

CHAPTER III

THE LEVEL OF PRICE SUPPORTS

A primary objective of price support programs as outlined in Chapter II is to maintain farm prices higher than they might be on the free market. To accomplish this objective, a program is initiated which would purchase from farmers any and all supplies of the supported commodity or make a differential payment to producers sufficient to guarantee a predetermined price level. The historical development of the price support programs pertaining to cotton is reviewed in this Chapter.

Initial Developments

The Agricultural Act of 1933

The economy of the United States was in the depths of a severe depression and all major segments of the economy, including agriculture, were experiencing difficult business conditions after 1929. For example, the price of cotton dropped from 16.31 to 6.09 cents per pound between 1929 and 1933 (Table I). The depressed economic conditions stimulated new efforts to obtain government assistance for agriculture and resulted in the enactment of the Agricultural Adjustment Act of

TABLE I

PRICES AND PRICE SUPPORT LEVELS OF MIDDLING 15/16 INCH COTTON, UNITED STATES 1929-64

Year	Price	Price Support	Price as % of Parity
1929	16.31	16.00	76
1930	9.99	-	50
1931	6.09	-	35
1932	7.29	-	47
1933	11.00	10.00	67
1934	12.68	12.00	76
1935	11.88	10.00	72
1936	13.25	-	77
1937	9.09	9.00	52
1938	9.00	8.60	56
1939	10.09	8.95	63
1940	11.00	9.15	66
1941	18.31	14.22	98
1942	20.14	17.22	100
1943	20.65	19.26	96
1944	21.86	21.08	97
1945	25.96	21.09	105
1946	34.82	24.38	122
1947	34.58	27.94	108
1948	32.15	30.74	98
1949	31.83	29.43	96
1950	42.58	29.45	124
1951	39.42	31.71	109
1952	34.92	31.96	97
1953	33.55	32.70	92
1954	34.02	33.23	93
1955	34.47	33.50	91
1956	32.47	31.59	86
1957	33.04	31.16	78
1958	33.08	33.63	83
1959	30.33	32.60 (A); 26.90 (B)	79
1960	29.50	30.77 (A); 24.98 (B)	77
1961	32.53	31.49	82
1962*	32.26	31.22	80
1963*	31.85	31.22	78
1964*	29.72	29.30	72

*Averages for designated spot markets.

Sources: U.S., Department of Agriculture, ERS, Statistics on Cotton and Related Data, 1925-1962, SB 329 and Supplement, January, 1964; and U.S., Department of Agriculture, ERS, The Cotton Situation, 1933-1965.

1933.[8] This program was only a part of the broad program designed to improve the entire economy.

The Agricultural Act of 1933 was an attempt to establish the same ratio between the commodities sold by farmers and the commodities purchased by farmers as existed during the period from August, 1909, through July, 1914, a period considered satisfactory for relating agricultural prices to non-agricultural prices. Primarily directed at output control, the Act provided for: (1) the transfer of cotton owned by the Federal Farm Board and other agencies to the Secretary of Agriculture; and (2) direct benefit payments to participating farmers in return for acreage cuts. The benefit payments, although coming initially from the Treasury, were to be recovered from taxes levied on the first domestic processor of cotton. The control features were strengthened by the Cotton Marketing and Control Act (popularly known as the Bankhead Act) which brought non-cooperators as well as cooperators under the program.[9]

It became apparent within a matter of months, however, that enhancement of prices through control of acreage would be a slow process and that immediate action was needed. On October 16, 1933, under the President's emergency powers, the Commodity Credit Corporation (CCC) was established.[10] As a wholly federally-owned corporation, chartered in Delaware, the purpose of the CCC was to carry out price

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[8]U.S., Statutes at Large, XLVIII, Public Law 10, 31.

[9]U.S., Statutes at Large, XLVIII, Public Law 169, 598.

[10]U.S., President, President's Executive Order, No. 6340, October 16, 1933.

support and other agriculturally related operations under the direction of the Secretary of Agriculture. Its non-recourse commodity loans were essentially government purchase contracts. If the price of cotton went above the loan rate, the farmer could redeem the cotton, sell it, and benefit from the price advance. If the price of cotton declined below the loan rate, the CCC could not recover from the farmer and had to foreclose on the unredeemed cotton. The loan rate was therefore the support price.

This program appeared to be having some success with the difficult economic conditions. The price of cotton rose from 7.29 cents per pound in 1932, to 13.25 cents per pound in 1936. Final success or failure, however, became an academic question early in 1936. On January 6, 1936, the Supreme Court's ruling in the Butler vs. the United States case[11] invalidated as unconstitutional the control and tax features of both the Agricultural Adjustment Act and the Bankhead Act. As a result, Congress acted promptly to repeal the Bankhead Act[12] and enacted special legislation[13] to enable the Secretary of Agriculture to meet the obligations incurred under the Agriculture Act of 1933.

Interim Legislation

The Supreme Court ruling temporarily disrupted plans of Congress

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[11] Butler v. U.S., 56 S. Ct. 312 (1936).

[12] U.S., Statutes at Large, XLIX, Public Law 433, 1106.

[13] U.S., Statutes at Large, XLIX, Public Law 440, 1108.

and farm organizations to establish an equitable relationship between commodity prices and the prices paid by farmers. The CCC continued the price support program through its non-recourse loans.

On February 29, 1936, Congress passed the Soil Conservation and Domestic Allotment Act (SCDA Act) to provide for federal aid to farmers.[14] This Act may be considered technically as an amendment to the Soil Erosion Act of 1935,[15] an Act that provided for the protection of land resources against soil erosion, but had somewhat different and broader objectives. Generally speaking, the principle purpose was to enable the federal government to continue acreage controls and income payments to farmers without contradicting the restrictions set out by the Supreme Court's ruling on the AAA of 1933.

The interest of the SCDA Act was to restrict the use of land for basic crops through specific payments for adjustments to other uses. This was accomplished by substituting income parity for price parity and providing for farmers to join the program on their own initiative and for their entire farms.

The SCDA Act and the price support features of the CCC found little success, however, with the existing situation. The 1937 cotton crop was the largest ever produced in the U. S. and cotton prices dropped to an average of 9 cents per pound.

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[14] U.S., <u>Statutes at Large</u>, XLIX, Public Law 461, 1148.

[15] U.S., <u>Statutes at Large</u>, XLIX, Public Law 46, 163.

The Basic Foundation

The Agriculture Act of 1938

The Agriculture Act of 1938 was the first comprehensive legislation dealing with price supports.[16] It was enacted by Congress as a long-term program to aid agriculture, in contrast to the AAA of 1933 which had been enacted as a short-term emergency measure. The program provided for the use of price supports and production control features.

When it appeared that certain major crops, such as cotton, might be in surplus, causing prices to drop close to or below the break-even point, the Secretary could take counter action. He could support prices by means of price supports alone through the CCC at not less than 52 percent nor more than 75 percent of parity when (1) the market price of middling 7/8 inch cotton was below 52 percent of parity on August 1, or at anytime thereafter during the marketing year, or (2) the August estimate was in excess of the normal year's domestic consumption and exports. Alternately, the Secretary might impose acreage allotments or marketing quotas, or a combination of either with price supports. In addition, the Secretary was authorized to make production payments, based on parity, to help make up the difference between the market price and the support price.

The 1938 Act marked the first official use of the word "parity". Like the SCDA Act of 1936, the Act referred to income parity and not

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[16] U.S., Statutes at Large, LII, Public Law 430, 78.

price parity. The legislation stated that "parity, as applied to income, shall be that per capita net income of individuals on farms from farming that bears to the per capita net income of individuals not on farms, the same ratio as prevailed during the period August, 1909 to July, 1914."[17] This equity ratio was easy to compute since it merely required comparing a present ratio of per capita net income with a similar computational standard in the base years.

The Act, plus amendments in 1938 and 1939, reversed the decline in agriculture prices but cotton remained in a depressed condition. For the 1938 crop, prices averaged 63 percent of parity and a 3.0 cent per pound parity payment was made to producers. The 1939 crop prices averaged 66 percent of parity but through legislative amendment, parity payments were reduced to 1.6 cents per pound.

Wartime Changes

World War II changed the agriculture situation from one of acreage controls and price supports to one of encouraged production and price ceilings. In 1941, Congress passed legislation that: (1) directed the CCC to make loans available to cooperators on the 1941 crop at 85 percent of parity, and to non-cooperators at 60 percent of the rate applicable to cooperators on that part of their crop subject to penalty if marketed;[18] (2) appropriated the funds for parity payments and authorized an adjustment in parity payments in relation to farmers'

[17] Ibid., p. 79.

[18] U.S., Statutes at Large, LV, Part 1, Public Law 74, 203.

returns and parity prices;[19] and (3) extended the period for which payments would be made at 85 percent of parity through the crop year 1946.[20]

The Emergency Control Act,[21] passed early in 1942, provided that no ceiling price on cotton could be established below the highest of: (1) 110 percent of parity; (2) the prevailing market price of October 1, 1941; (3) the prevailing market price on December 15, 1941; or (4) the average price of cotton between July 1, 1919, and June 30, 1929. The Stabilization Act[22] which followed in October, 1942, provided for loans to cotton cooperators at 90 percent of parity for a period of two years from January 1, following the declaration that hostilities had terminated.

In June, 1944, special legislation[23] raised the loan rate to 92.5 percent of parity. In addition, the CCC announced a cotton purchase program under which purchases were made at parity. Even under these conditions, increases in CCC stocks were slight.

During 1945 and 1946, prices were still supported at 92.5 percent of parity and the CCC continued to make purchases at parity. Nevertheless, carryover and CCC stocks of cotton declined.

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[19]U.S., Statutes at Large, LV, Part 1, Public Law 144, 408.

[20]U.S., Statutes at Large, LV, Part 1, Public Law 374, 860.

[21]U.S., Statutes at Large, LVI, Part 1, Public Law 421, 23.

[22]U.S., Statutes at Large, LVI, Part 1, Public Law 729, 765.

[23]U.S., Statutes at Large, LVIII, Part 1, Public Law 383, 632.

The wartime amendments for production incentives just modified and did not change the basic provisions of the Agriculture Act of 1938. The Secretary of Agriculture retained discretionary power to support crop prices and impose production limitations. As it turned out, market prices in most cases were above support levels and government acquisitions were slight to non-existent. With the termination of war, Congress passed de-control legislation which was intended to enable the relaxation of maximum price controls when the Secretary of Agriculture determined the commodity no longer in short supply.

Post-War Amendments and Legislation

The high price supports of World War II were designed to increase supply to satisfy demands brought on by the war. They were originally planned to terminate two years after the official end of hostilities as declared by either the President or Congress. The President made such a declaration[24] on December 31, 1946, in which he stipulated that as of December 31, 1948, the authority of the CCC to dispose of cotton would be subject to the Act of 1938, and that its obligation to make cotton loans at 92.5 percent of parity would terminate.

Agriculture, like other industries when the war terminated, faced the possibility of a sharp price decline brought on by a decrease in demand. To prevent this potential decline, farm leaders and Congressmen worked on peacetime legislation which was passed before the President's proclamation date deadline. Accordingly, in 1948, Congress extended

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[24] U.S., Statutes at Large, LXI, Part 2, Presidential Proclamation 2714, 1049.

high price support programs with slight modification through 1949.[25]

In addition, other provisions of the Agriculture Act of 1948: (1) redefined parity; (2) provided a modern parity formula; and (3) provided for a transition parity price. The Act stated that parity, as applied to income, would be that gross income from agriculture that would provide the farm operator and his family with a standard of living equivalent to that afforded persons dependent upon other occupations. This definition was never implemented because of the difficulty in actual measurement and calculation. It depended upon the measurement of gross income, the determination of a parity gross income, and the measurement of different levels of living between farm and non-farm people. Also, statistically, who and what should be included in "other occupations"? Even though the new definition was never used, the new formula and transition parity were incorporated and further modified by the Agriculture Act of 1949.[26]

The Agriculture Act of 1949 classified agricultural commodities into four main groups for purposes of price support, namely, the basic commodities, special commodities, storable non-basic commodities, and other non-basic commodities. Cotton was classified as a basic commodity.

The Act also raised the level of cotton price supports to a range from 75 percent of parity if the total supply was 130 percent of

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[25] U.S., Statutes at Large, LXII, Part 1, Public Law 897, 1248.

[26] U.S., Statutes at Large, LXIII, Part 1, Public Law 439, 1051.

normal supply, to 90 percent of parity if total supply was not more than 108 percent of normal. This provision for flexibility of supports was largely nullified, however, by an additional stipulation that the cotton crop would be supported (by non-recourse loans) at 90 percent of parity in 1950, 80 to 90 percent in 1951, and 75 to 90 percent thereafter. The exact level was to be fixed by the Secretary of Agriculture in accordance with various factors including the size of surpluses. These supports were manditory except when marketing quotas had been rejected in a producer referendum.

Under the 1949 Act, parity was computed under the modern formula (including hired labor costs and wartime subsidies) taking into account changes in the market price of different farm goods in the ten preceding years. In addition, the Act stipulated that parity price was not to be less than the parity price as computed by the old formula until December 31, 1950. This was known as the dual parity system.

Other general provisions of the Act were: (1) compliance with acreage allotments and marketing quotas could be required as a condition of price supports; (2) supports could be increased to alleviate a short supply; and (3) all CCC loans were to be non-recourse.

The Secretary was also directed to announce the level of price supports before the crop year began. This provision was extremely important to the sliding scale method of supports when surpluses appeared; prior announcement of reduced price supports would permit farmers to alter production.

The Decade of Conflict

The main objective of cotton programs immediately following World War II was to stabilize farm prices and income. The future of such programs, however, was hampered by a buildup of CCC stocks during 1948 and 1949. With the onset of the Korean Conflict, there was a possibility of wartime increase in demand. Congress once again authorized price ceilings for agricultural commodities by enacting the Defense Production Act of 1950.[27]

In accordance with administrative action taken because of the war situation, price supports were maintained at 90 percent of parity through 1951, and an amendment to the Defense Production Act[28] set a ceiling at not less than parity price or 90 percent of the price on May 19, 1951. This was continued in 1952, however, the question arose as to whether the sliding scale should be permitted to come into effect in 1953. A subsequent amendment,[29] in 1952, continued loans at 90 percent of parity for 1953 and less than a month later, an amendment to the AAA of 1949 set the same level for both 1953 and 1954.[30]

As the Korean Conflict drew to a close, demand for cotton started to decline while production continued high. Market prices dropped and the government began acquiring heavy stocks. By the

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[27]U.S., Statutes at Large, LXIV, Part 1, Public Law 774, 798.

[28]U.S., Statutes at Large, LXV, Public Law 96, 131.

[29]U.S., Statutes at Large, LXVI, Public Law 429, 296.

[30]U.S., Statutes at Large, LXVI, Public Law 585, 758.

fall of 1953, the supply conditions for cotton indicated a need for action on the part of the administration and Congress. The final version of the Agricultural Act of 1954[31] re-established a sliding scale for cotton ranging from 82.5 to 90 percent of parity in 1955 and 75 to 90 percent thereafter. In addition, it was stipulated that transitional parity would begin January, 1956. The drop in parity price from the old to the new formula was limited to 5 percentage points per year, in order to prevent drastic drops in support prices as a result of formula changes.

To further alleviate problems of the surpluses acquired under the price support program, Congress passed the Agricultural Trade Development and Assistance Act, which, among other things, permitted the sale of surplus stocks in foreign countries for local currency.[32] This is better known as Public Law 480 and is treated more extensively in Chapter V - Multiple Pricing Plans.

The cotton situation seemed to get worse in 1955 when carryover reached a record high of 14.5 million bales and farm income continued to decline. In an effort to relieve the situation, Congress passed a resolution which called for the restoration of 90 percent of parity price supports. The President declared the legislation self-defeating and exercised his veto power.

After a series of concessions, Congress passed and the President

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[31] U.S., Statutes at Large, LXVIII, Part 1, Public Law 690, 897.

[32] U.S., Statutes at Large, LXVIII, Part 1, Public Law 480, 454.

signed into law the Agricultural Act of 1956.[33] Even though this Act's chief effect on cotton was through the provision related to surplus disposal, it also froze transitional parity for one year and put new emphasis on supporting prices through production adjustment. It provided for voluntary reduction of cotton acreage below that required by allotments through acreage and conservation reserve programs. This was the Soil Bank Program under which land was removed from production on short-term (one year) and semi-permanent (three to fifteen years) bases.

Marketing conditions continued to be hampered by excess supply through 1957. Price supports for cotton were 81 percent of parity and production controls were in effect. On January 16, 1958, the President, in his message to Congress, made a proposal for lowering supports to a scale of 60 to 90 percent of parity. Congress responded with a one-year freeze on price supports to prevent them from dropping below 1957 levels. The President promptly vetoed the measure.

A compromise resulted in the enactment of the Agricultural Act of 1958.[34] The Act embraced the new approach of treating each major crop separately. For cotton, each producer was given these choices: A. price supports at 80 percent of parity for 1959 and 75 percent of parity in 1960 by planting his regular acreage allotment; or B. price supports at 65 percent of parity in 1959, and 60 percent in 1960, if

[33] U.S., Statutes at Large, LXX, Part 1, Public Law 540, 188.

[34] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-835, 988.

he planted between 100 and 140 percent of his acreage allotment. Price supports to farmers who elected choice A were made through a purchase program, while non-recourse loans were used under choice B. After 1960, price supports were to be determined by the Secretary of Agriculture within the following limits: for 1961, the level would be not less than 70 percent, and not more than 90 percent of parity; after 1961, the level could not be less than 65 percent nor more than 90 percent of parity. (Table I)

Recent Developments

The 1950's had been a decade of administrative and legislative conflict with regard to agricultural programs. Price supports had declined from 124 percent of parity in 1950, to 77 percent of parity in 1960. Government costs, nevertheless, rose and surpluses were a continuous problem.

Under the leadership of a new administration, a new long-range program was presented to Congress in 1961. The basic objective was to raise farmers' incomes and preserve the smaller farmers while at the same time cutting down federal acquisitions of surpluses. The technique to achieve these ends was supply management - a stringent system of production controls and marketing quotas that would prevent surpluses from reaching the market. Congressional opposition, however, killed the proposal in committee. Particularly at issue was the technique for setting up a program for each commodity and the increasing authority of the Secretary of Agriculture. The final outcome was the enactment of an omnibus farm bill complying with many of the President's minor requests to continue existing programs.[35]

The following year, the President again presented an overall farm program. This time, Congress partially responded with the enactment of the Agriculture Act of 1962.[36] Its major effect on price supports was in the form of supply adjustment. This was accomplished by the initiation of pilot programs for placing unneeded farmland in non-agricultural uses and providing loans and technical assistance to encourage recreational developments.

Future attempts at major commodity legislation found persisting resistance to manditory controls. Therefore, no cotton price support legislation was enacted until Congress, with the support of the administration, passed the Cotton and Wheat Act of 1964.[37]

The goal of the 1964 Act was to maintain the income of cotton producers, especially the small producers, while increasing the consumption of cotton. It provided for three price support levels. The producers who planted only their domestic allotments received the market price or the support loan purchase price plus a parity payment on the normal yield per acre established on the farm. Producers who planted their effective allotments were entitled to only the market price or the loan price. Producers who signed up for export acreage were entitled to the same loan price on all except the production credited to export acreage. Production on export acreage had to be sold

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[35] U.S., Statutes at Large, LXXV, Part 1, Public Law 87-128, 294.

[36] U.S., Statutes at Large, LXXVI, Part 1, Public Law 87-703, 605.

[37] U.S., Statutes at Large, LXXVIII, Part 1, Public Law 88-261, 173.

on the world market without government assistance.

In an attempt to make domestic mills competitive with foreign mills and domestic producers competitive with foreign producers in the world market, the Act also authorized the Commodity Credit Corporation to carry out a program under which equalization payments were made to cotton handlers. A cotton handler, under this program, was any person or firm: (1) who was engaged in buying and selling cotton, exporting cotton, or domestically using cotton; and (2) who had entered into an agreement with the Commodity Credit Corporation. The payments were determined by the Secretary of Agriculture on the basis of the difference between domestic market prices and world market prices of cotton.

Since the 1964 Act was for only two years, Congress began during the next session trying to work out a more desirable long-range program. On November 3, 1965, the Food and Agriculture Act of 1965[38] was signed into law.

With regard to price supports, the new Act:

1. Set price support loans to cooperators at not more than 90 percent of the estimated world price (for 1966, 21 cents) on the actual production of cotton;
2. Provided price support payments to cooperators who reduced their acreage to their domestic allotment and to small farmers with (a) an allotment of 10 acres or less, or (b) whose farm allotment times its projected yield was 3,600 pounds or

[38]U.S., Statutes at Large, LXXIX, Public Law 89-321, 1187.

less. This payment, when added to the loan rate, would reflect no less than 65 percent of parity for the projected yield of the permitted acreage and could not be less than 9 cents a pound.

The Act also discontinued equalization payments to domestic mills and, in essence, terminated parity as a direct basis for price supports. In addition, differential payments moved to the forefront as the major price support mechanism.

CHAPTER IV

PRODUCTION CONTROL PROGRAMS

Price support programs alone could present a major danger of stimulating production and adding to government surpluses. Therefore, additional measures have been developed to facilitate adjustment and make price supports effective.

The production control approach to handling the farm problem is based on evidence that the demand for most U. S. farm goods is highly inelastic. This implies that a slight decrease in market supplies will cause prices to rise sufficiently to achieve price and net farm income targets. Cotton had long been hampered by highly variable supplies from year to year. Production controls, combined with a storage program, attempted to keep supplies from reaching levels (either high or short) that would cause sharp changes in prices.

Early Legislation

The problem of farm surpluses initially became acute in the 1920's. It was first thought that two solutions were possible: (1) orderly distribution, and (2) production controls. With farmers accustomed to unlimited production, it was only natural that orderly marketing was tried first. However, when the operations of the Federal Farm Board resulted in heavy losses, pressure arose for a program to hold production in line with quantities demanded at acceptable prices.

The Agricultural Act of 1933

Acreage allotment provisions were a part of the Agricultural Act of 1933.[39] Cotton producers signed contracts with the government to reduce acreage in return for benefit payments. These payments were financed by a tax of 4.2 cents a pound levied on the first domestic processor of cotton and were designed to provide income relief while adjustment was being made.

Cotton producers who did not sign contracts, however, were free to produce without restrictions. Therefore, cooperating producers soon began asking for marketing quotas with a penalty tax to force non-cooperating producers into line. This was accomplished through the Cotton Marketing and Control Act[40] (the Bankhead Act) which stipulated that cotton ginned in excess of individual quotas was to be taxed at 50 percent of the average price of 7/8 inch middling spot cotton on the 10 principal spot markets, but not less than 5 cents per pound. Small producers (up to 5 acres) were given tax exemption certificates covering their entire crop, and other growers received the same certificates for their past performance. Tax exemption

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[39] U.S., Statutes at Large, XLVIII, Public Law 10, 31.

[40] U.S., Statutes at Large, XLVIII, Public Law 169, 598.

certificates, however, were not issued to persons not engaged in cotton production before 1934.[41] This measure was manditory for the 1934-35 crop year but was to be extended for a second year if two-thirds of the cotton farmers, voting by referendum, expressed a desire for its continuance.

When contracts were let early in 1934, farmers were limited to between 55 and 65 percent of their base acreage. (Table II) The base acreage was the average acres of cotton planted during the 1928-32 period. On the land kept out of production, farmers received cash rental payments of 3.5 cents per pound on the average yield of lint cotton per acre on their farms during the 1928-32 period, with a maximum rental of $18 per acre. A parity payment of 1.0 cent per pound was made on the farm allotment (40 percent of the base acreage times the average yield per acre on this acreage during the base period). Approximately 27 million acres of cotton were harvested, yielding 9.6 million bales, as compared with 29.4 million acres harvested and 13 million bales produced in 1933. The average farm price was 12.36 cents per pound. This more than doubled the 1931 price.

Congress, on August 24, 1935, passed an Act[42] which: (1) extended the Bankhead Act provisions for two additional years; (2) authorized the compulsory tax if approved by two-thirds of the voting producers;

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[41] U.S., Statutes at Large, XLVIII, Public Resolution 45, 1184.

[42] U.S., Statutes at Large, XLIX, Public Law 320, 750.

TABLE II

COTTON MARKETING QUOTAS, ACREAGE ALLOTMENTS, AND ACRES PLANTED, UNITED STATES, 1929-64

Year	Quota	Allotments	Acres Planted*
	(1,000 bales)	(1,000 acres)	(1,000 acres)
1929	-	-	44,448
1930	-	-	43,329
1931	-	-	39,110
1932	-	-	36,497
1933	-	-	40,248
1934	-	28,146	27,860
1935	-	28,146	28,063
1936	-	-	30,627
1937	-	-	34,090
1938	**	27,493	25,018
1939	**	27,863	24,683
1940	**	27,545	24,871
1941	**	27,399	23,130
1942	-	-	23,302
1943	-	-	21,900
1944	-	-	20,221
1945	-	-	10,092
1946	-	-	18,638
1947	-	-	21,786
1948	-	-	23,576
1949	-	-	28,283
1950	11,734	21,000	18,866
1951	-	-	29,353
1952	16,000	-	28,065
1953	12,500	-	26,872
1954	10,000	21,379	20,052
1955	10,000	18,113	17,991
1956	10,000	17,391	17,077
1957	11,014	17,585	14,310
1958	11,920	17,554	12,379
1959	12,500	17,346	15,833
1960	14,000	17,554	16,080
1961	16,000	18,458	16,588
1962	15,714	18,102	16,296
1963	14,367	16,250	14,856
1964	14,267	16,200	14,839

*Acreage in cultivation July 1, for the period 1929 thru 1943.
**Quotas proclaimed but data not available.

Sources: U. S., Department of Agriculture, Agricultural Statistics, 1950-1965; and U. S., Department of Agriculture, ERS, The Cotton Situation, 1933-1965.

(3) reduced the states' minimum allotment level from 200,000 to 80,000 bales; (4) set a minimum farm allotment of two bales; (5) set the maximum cotton production for the 1935-36 season at 10,500,000 bales; (6) authorized producers to transfer or assign certificates to others within the same state; and (7) authorized import restrictions on articles being imported into the United States in sufficient quantities to interfere with programs undertaken under the 1933 Act or to reduce substantially the amount of any product processed from any commodity for which a program was in operation.

Butler vs. the United States

The program was brought to a halt, however, in 1936, when in the case of Butler vs. the United States[43] the Supreme Court ruled invalid, as unconstitutional, the control and tax features of the Agricultural Act of 1933 and the Bankhead Act of 1934. As a result, Congress repealed the Bankhead Act on February 10, 1936,[44] and enacted special legislation[45] to provide, in part, for the Secretary of Agriculture to meet all obligations and commitments incurred under provisions of the Agricultural Act of 1933.

The Interim

The Supreme Court decision led to the enactment of the Soil

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[43] Butler v. U. S., 56 S. Ct. 312 (1936).

[44] U.S., Statutes at Large, XLIX, Public Law 433, 1106.

[45] U.S., Statutes at Large, XLIX, Public Law 440, 1108.

Conservation and Domestic Allotment Act[46] which shifted emphasis to soil conservation but retained the production control type machinery developed under the 1933 Act. Under the program, cotton was classified as a soil depleting crop and producers were assigned a base equal to their 1928-32 average acreage.

In return for diverting acres from their base, cotton farmers received 5 cents per pound on the average yield that would have been harvested from the diverted acres up to 35 percent of the base acreage. Payments were also made on increasing the acreage of soil conserving crops. These payments were computed on the basis of the cotton acreage and acreage on open land, and could be earned only if cotton acreage was diverted from the base. Instead of acreage adjustment contracts as provided for under the Agricultural Act of 1933, the SCDA Act called for the submission of conservation adjustment plans with payments being made on submission of proof that the plan had been carried out.

Although the Act was an aid to better use of land, it was largely impotent as an aid to continued production controls. The 1937 crop was the largest ever produced in the United States and the farm prices for cotton dropped to 8.41 cents per pound.

The Basic Instrument

The following year, Congress passed the Agricultural Adjustment Act (AAA) of 1938,[47] which provided for a dual attack on surplus

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[46] U.S., Statutes at Large, XLIX, Public Law 461, 1148.

[47] U.S., Statutes at Large, LII, Public Law 430, 78.

production. It retained the main features of the SCDA Act which called for payments to producers who diverted acreage from soil depleting crops and it authorized the imposition of marketing quotas and acreage allotments.

When the Secretary of Agriculture determined that the total supply (cotton carryover plus the estimated annual production) for the marketing year would exceed the normal supply (130 percent of the estimated domestic consumption and exports), he was authorized to proclaim a national cotton marketing quota. If the marketing quota was approved by two-thirds of the cotton producers, a national acreage allotment could be proclaimed for the next calendar year. The national allotment was then apportioned to individual farmers on the basis of their cropland and cotton acreage during the preceding three years.

Marketing quotas for the individual farmers were computed from the larger of the normal yield or actual yield per acre of the farm's acreage allotment as apportioned from the national acreage allotment. The national acreage allotment was determined as that acreage, based on the national average yield per acre for the five preceding years, required to provide the national marketing quota.

The Act was amended the same year (1938) to: (1) provide for establishing allotments for states, and for specific farms; (2) set the years to be used in determining normal yields; (3) set a 90 percent rate for special acreage allotment of soil depleting crops;[48] and (4) provide

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[48]U.S., Statutes at Large, LII, Public Law 470, 202.

for re-alloting 1938 unplanted allotments to other farms in the same county having inadequate or non-representative allotments on the basis of past records.[49]

For the 1938 crop, the national cotton acreage allotment was set at approximately 27.5 million acres. Due to the large carryover at the end of the 1937 crop year, the Secretary of Agriculture announced national and farm marketing quotas. Growers approved them by a large majority. It was believed that such quotas would be a strict device for controlling the supply of cotton because each producer could not sell more than his authorized portion of the U. S. total without being charged a tax of 2 cents a pound. Individual producers, however, were allowed to compute their marketing quotas on the basis of the higher of either the normal yield or the actual production from his alloted acreage. Thus, the entire crop produced on alloted acres could be marketed without penalty, and as a result, the supply-control features of quotas were largely ineffective.

In 1939, Congress amended the AAA of 1938[50] to: (1) include for subsequent years the provisions for reapportionment of cotton acreage allotments and minimum county allotments of acreage; and (2) provide minimum farm acreage allotments at not less than 50 percent of the 1937 planted acreage plus diverted acreage. An additional amendment[51] extended a provision for the reapportionment of cotton acreage not

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[49] U.S., Statutes at Large, LII, Public Law 557, 586.

[50] U.S., Statutes at Large, LIII, Part 2, Public Law 149, 853.

[51] U.S., Statutes at Large, LIII, Part 2, Public Law 6, 512.

planted by entitled farmers.

In attempts to improve the program in 1940, Congress provided: (1) new instructions and procedures for determining the normal yield of cotton on individual farms;[52] and (2) import restrictions on items that interfered with Section 32 programs.[53] Congress also amended the SCDA Act by: (3) restricting payments or grants to landlords, under conditions of displaced tenants or sharecroppers, except when approved by local and state committees;[54] and (4) providing for advances to producers for insurance premiums through the Federal Crop Insurance Corporation.[55]

The Post-War Situation

During World War II, the emphasis was on increased production and surpluses were no problem; however, the authority to administer production control programs was still effective. When the problem of surpluses returned, production control instruments again became important in efforts to adjust output to demand.

Quota and Allotment Adjustments

The Agriculture Act of 1948[56] continued the pre-war production control features, however, the Agriculture Act of 1949[57] classified

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[52] U.S., Statutes at Large, LIV, Part 1, Public Law 879, 1211.

[53] U.S., Statutes at Large, LIV, Part 1, Public Law 406, 17.

[54] U.S., Statutes at Large, LIV, Part 1, Public Resolution 1, 216.

[55] U.S., Statutes at Large, LIV, Part 1, Public Law 716, 727.

[56] U.S., Statutes at Large, LXII, Part 1, Public Law 897, 1248.

[57] U.S., Statutes at Large, LXIII, Part 1, Public Law 439, 1051

cotton as a basic commodity and stipulated that compliance with acreage allotments and marketing quotas could be required as a condition for price supports. Additional legislation in 1949: (1) established the minimum level for marketing quotas at not less than 10 million bales, or one million bales less than the estimated domestic consumption plus exports of cotton for the marketing year ending in the calendar year in which such quota was proclaimed, whichever was smaller - <u>provided</u> that the national marketing quota for 1950 should not be less than the number of bales required to provide a national acreage allotment of 21 million acres;[58] and (2) eliminated the use of 1949 cotton acreage planted and yields in computing cotton acreage allotments for any subsequent year.[59]

Before the 1949 legislation went into effect, Congressmen began to receive complaints that 21 million acres was too sharp a drop from the 27 million acres in 1949 and would mean unduly depressed income for cotton farmers. The result was a special Cotton Allotment Act,[60] passed March 31, 1950, which permitted producers to plant a certain minimum acreage (65 percent of the 1946-48 acreage or 45 percent of the highest acreage in any one of the three years) even if it was larger than under the 21 million acre formula. Later that year, the House passed a bill designated to establish a permanent new system of cotton acreage allotments. But when cotton acreage restrictions were

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[58]U.S., <u>Statutes at Large</u>, LXIII, Part 1, Public Law 272, 670.

[59]U.S., <u>Statutes at Large</u>, LXIII, Part 1, Public Law 28, 17.

[60]U.S., <u>Statutes at Large</u>, LXIV, Part 1, Public Law 471, 40.

lifted because of the Korean Conflict, the Senate decided not to act on the bill.

Acreage allotments and marketing quotas were not reapplied during the Korean Conflict. As a result, by 1953, the government was faced with the fastest accumulation of excess cotton in the history of the program. Marketing quotas were proclaimed by the Secretary of Agriculture and approved by referendum for cotton in 1954.

The proclamation for the 1954 crop caused a Congressional dispute between Southern and Western cotton producers. The dispute involved two major factors: (1) the size of the cut; and (2) the percentage decrease necessary in each of the regions. Under the existing cotton quota formula, a cut of approximately 10 million acres or about 37 percent was necessary to avoid building up additional surplus stocks. In addition, the cut would cause the largest reduction in acreage in the four Western states which had experienced an upward trend in acreage. Western Congressmen wanted a new formula for allocating acreage such as a 1951-53 production base, and they wanted a guarantee that no state would be cut more than 25 percent below its 1952 acreage.

A compromise bill finally emerged and was enacted into law.[61] Instead of the 17.5 million acres set as the national allotment for 1954 under the old law, the new law permitted 21.4 million acres and guaranteed that no state's acreage would go down more than 29.5 percent below the 1952 acreage. The first provision benefited the South and

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[61]U.S., Statutes at Large, LXVIII, Part 1, Public Law 290, 4.

both provisions reduced the severity of adjustments in the individual Western states.

Later that year, the Agricultural Adjustment Act of 1954[62] was passed. It continued to use 130 percent of domestic consumption plus exports as the normal supply and provided for the release and reapportionment of unused farm acreage allotments for the 1954 and 1955 crops. These levels of production controls were evidently not set low enough since cotton carryover reached a record high of 14.5 million bales on August 1, 1956.

The Soil Bank

The Agriculture Act of 1956[63] was an attempt to induce farmers to voluntarily reduce cotton acreage below that required by allotments. Title I of the Act set up an annual fund of 1.2 billion dollars for the soil bank. The soil bank was composed of two parts: acreage reserve and conservation reserve.

The Acreage Reserve - This feature of the soil bank program was designed specifically to reduce cotton and other crop acreage in cultivation on a temporary basis. To qualify for the acreage reserve payments in 1956, the cotton farmer had to: (1) comply with all allotments established for crops on his farm; (2) designate the specific acreage to be included in his acreage reserve; (3) enter

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[62] U.S., Statutes at Large, LXVIII, Part 1, Public Law 690, 897.

[63] U.S., Statutes at Large, LXX, Part 1, Public Law 540, 188.

into an agreement with the Secretary of Agriculture not later than July 27, 1956; (4) not graze, cut for hay, or crop any of the land designated for the program, and (5) control noxious weeds on the designated acreage.

If these general requirements were met, payments were earned by reducing the acreage below the allotment in one or more of the following ways: (1) under-planting the cotton allotment or, for 1956, certifying that the allotment was under-planted in anticipation of compliance with the 1956 acreage reserve or because of adverse weather; (2) not planting more than the cotton acreage allotment and then not harvesting part of the planted crop because of destruction by natural causes on or before August 31, 1956; or (3) plowing, or incorporating into the soil, or clipping, mowing, or cutting, thereby reducing acreage of cotton within the allotment after May 27, and not later than August 31, 1956.

The maximum cotton acreage that could be placed in the acreage reserve was not to exceed one-half the allotment or 10 acres, whichever was larger, except that the reserved acreage was not to exceed the allotment. The minimum acreage that might be placed in reserve was 10 percent of the allotment or 2 acres, whichever was larger. When the allotment was less than 2 acres, all of it could be placed in the reserve.

Farmers participated on annual bases and were compensated through the issuance of negotiable certificates redeemable by the CCC. The payment earned was based on a rate of 15 cents per pound of lint. For under-planting the payment was applied to the normal yield for the designated acres. For mowing, plowing, cutting or incorporating into the soil, the payment was applied to the smaller of the appraised yield for the field or the normal yield for the farm, but not less than $6 per acre.

In determining future allotments, acreage placed in reserve was credited to the farm as though such had actually been devoted to cotton production.

The Conservation Reserve - This feature of the program was designed to remove acreage from crop production on a semi-permanent basis (three to fifteen years). Production of cotton was to be cut back by shifting cotton acreage into long-term conservation uses. In return for meeting the requirements of the conservation reserve, the producer received: (1) part of the cost of establishing the conservation practice; and (2) an annual payment for the term of the contract, approximately equivalent to the rental value of the land placed in the conservation reserve.

Other production control provisions of the Act affecting cotton included: (1) a freeze on the 1957 and 1958 national acreage allotments at not less than the 1956 allotments; (2) a one percent limit on any state acreage allotment cuts in 1957 and 1958; and (3) a special 100,000 acre national acreage reserve to be added to the allotments of small farmers. These provisions temporarily blocked scheduled acreage cutbacks.

The acreage reserve portion of the 1956 Act was to run only three years. Nevertheless, it appeared relatively effective in reducing cotton production. Total production decreased from 14.7

million bales in 1955, to 13.3 million in 1956, 11.0 million in 1957, and 11.5 million bales in 1958. Total allotment acreage in the reserve increased from 1.1 million acres in 1956, to 3.0 million in 1957, and 4.9 million acres in 1958. A large portion of cotton producers participated in the program: 32 percent in 1957, and 42 percent in 1958.[64]

Flexible Allotments

In an attempt to further alleviate the surplus problem, the Agricultural Act of 1958[65] provided for moderate cuts in acreage allotments and gave additional authority to the Secretary of Agriculture to reduce the price supports in future years. Under the new approach of treating each crop separately, cotton producers were given a choice between: (1) regular acreage allotment and price supports at 80 percent of parity for 1959, and 75 percent in 1960; or (2) an increase of up to 40 percent over the regular acreage allotment with price supports of 65 percent in 1960. After 1960, farmers were to receive only their regular acreage allotments.

In addition, the Act provided: (1) that national marketing quotas for any year would not be below the larger of the estimated domestic consumption and exports less one million bales or a total of ten million bales; (2) that a four-year average yield instead of a

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[64] U.S., Department of Agriculture, ERS, Economic Effects of Acreage Control Programs in the 1950's, Agricultural Economic Report No. 18 (Washington: October, 1962), 9.

[65] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-835, 988.

five-year average yield would be used in converting the national marketing quota to a national acreage allotment; (3) that the minimum national acreage allotment would be 16 million acres; and (4) that any cotton acreage surrendered would be retained in the county so long as any farmer in the county desired additional cotton acreage.

Other laws enacted that year: (1) authorized the Department of Agriculture to issue official estimates of acreage planted to cotton, instead of acres of cotton in cultivation on July 1, and to remove the prohibition against reports on farmers' intentions to plant cotton;[66] (2) permitted the Secretary to authorize cotton growers who had been unable to plant their cotton because of abnormal weather conditions to move such allotments for 1958 to another farm in the same or in an adjoining county;[67] (3) authorized the Secretary of Agriculture to compensate producers for hardships suffered under the 1956 Soil Bank Program as a result of incorrect information furnished by county committees;[68] (4) extended the authority of the Secretary of Agriculture to administer the agricultural conservation program through 1962.[69]

In 1959, Congress enacted legislation to: (1) preserve acreage allotment histories;[70] and (2) compensate producers on soil bank contracts based on erroneous information.[71] The administration pro-

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[66] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-430, 149.

[67] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-456, 186.

[68] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-413, 118.

[69] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-553, 414.

[70] U.S., Statutes at Large, LXXIII, Part 1, Public Law 86-172, 393.

[71] U.S., Statutes at Large, LXXIII, Part 1, Public Law 86-265, 552.

claimed marketing quotas as in previous years but reduced the national acreage allotment to a low of 16 million acres. For 1956, 1957, and 1958, the national acreage allotment had been frozen at 17.4 million acres.

Recent Developments

Even though the programs of 1956 and 1958 seemed to be bringing production in line with demand, their effectiveness was questioned. The programs were more costly than had been expected and CCC stocks were still in excess.

All attempts to enact major legislation in 1960 met defeat. Nevertheless, minor legislation relative to cotton provided a uniform law for the transfer of acreage allotments to new farms when a farm was taken by a public agency having the power of eminent domain[72] and gave protection to acreage allotments while extending the conservation reserve program.[73]

The Secretary of Agriculture proclaimed a marketing quota of 14 million bales for 1960 and again set the national acreage allotment at 16 million acres. Production response was approximately 14.2 million bales. Total utilization was approximately 15 million bales and carryover decreased slightly to 7.1 million bales. This was the first year, however, that cotton textile imports exceeded exports.

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[72]U.S., Statutes at Large, LXXIV, Part 1, Public Law 86-423, 41.

[73]U.S., Statutes at Large, LXXIV, Part 1, Public Law 86-793, 1030.

In 1961, the new administration launched a campaign to enact a new long-range production control program. The basic objective was to set up a stringent system of manditory allotments and production quotas (based on bales) that would prevent surpluses from reaching the market. Congressional operations, however, killed the program in committee. Legislation was passed, nevertheless, that permitted the 1961 producers with flooded out cotton acreage to transfer all or part of the acreage allotment, with permission of the county committee, to another farm in the same or adjoining county operated by the same farmer,[74] and enabled temporary release and reapportionment of pooled acreage allotments on land acquired by agencies having the right of eminent domain.[75]

A marketing quota of 16 million bales was in effect for 1961, and the national acreage allotment was increased to 18.5 million acres. The increase was due to special acreage authorization and the allocation of 60,000 acres from the national reserve. Even though production was lower than expected, cotton carryover increased to 7.8 million bales.

The following year, the administration proposed legislation with strong production control features plus a new program of land conversion. Congress partially responded with the enactment of the Agriculture Act of 1962[76] which omitted the control features but enabled

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[74] U.S., Statutes at Large, LXXV, Part 1, Public Law 87-37, 84.

[75] U.S., Statutes at Large, LXXV, Part 1, Public Law 87-33, 78.

[76] U.S., Statutes at Large, LXXVI, Part 1, Public Law 87-703, 605.

the initiation of pilot programs for placing unneeded farmland in non-agricultural uses. It also amended and extended provisions enacted in 1961.

The new program was similar to the Soil Bank Conservation Reserve. It provided for: (1) long-term (up to 10 years) federal contracts with farmers for diversion of cropland to recreational and conservational uses; (2) federal technical aid and 30-year loans to local governments for broad rural renewal projects; (3) federal assumption of one-half the cost of developing recreational facilities at small watershed projects, and inclusion of recreational development and fish-farming among the purposes for which farmers might receive operating and real-estate loans; (4) inclusion of shifts of cropland to recreational uses, timber, etc., among the purposes for which farmer associations might receive soil and water loans.

Carryover of cotton continued to rise and, with respect to textiles, imports were increasing rapidly. The U. S. Department of Agriculture, in an attempt to halt the rate of increase in textile imports, requested that an equalization fee be put on the cotton content of textile imports. On September 6, 1962, the Tariff Commission rejected the proposal by a vote of 3 to 2.[77]

Conditions had reached such magnitude by 1963, that the administration altered its position and proposed a more flexible two-year program with the aim of modifying the trends in production and utilization of cotton. In addition to subsidizing domestic mills,

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[77] U.S., Tariff Commission Report, No. 69 (September, 1962), 6.

the proposal suggested flexible allotments permitting cotton farmers to over-plant their regular acreage allotment by up to 20 percent, producing only their regular allotment or producing their domestic allotment (65 percent of their regular allotment) with support payment rates varying directly with the level of acreage restriction selected by the producer. Congress enacted such a program on April 11, 1964.[78]

Because of the lack of agreement among different cotton producing and processing groups, the cotton portion of the Act was to run only two years. In essence, Congress and interested groups continued to search for a more acceptable long-range program to cope with the problems of U. S. cotton. The Food and Agriculture Act of 1965[79] embodied an attempt at this endeavor.

With regard to production controls, the 1965 Act basically continued flexible allotments, provided for acreage diversion payments, and permitted the sale or lease of allotments. More specifically:

1. Producers were permitted to plant either the domestic allotment, the effective allotment, or the effective allotment plus their share of export acreage as determined by the Secretary of Agriculture;
2. Producers could divert up to 35 percent of the allotments to specific uses and receive a diversion payment of not

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[78] U.S., Statutes at Large, LXXVIII, Public Law 88-261, 173.

[79] U.S., Statutes at Large, LXXIX, Public Law 89-321, 1187.

less than 25 percent of parity on the projected yield of the acreage diverted. Diversion to domestic allotment level would receive one level of payment while additional diversion would receive another. The latter could not be more than 40 percent of parity for the projected yield of the acreage diverted;

3. Producers could choose not to plant their allotment and become eligible for diversion payments on 12½ percent of their farm allotment. The balance of the allotment could be released for reapportionment;
4. Producers could sell or lease their cotton allotments to farmers in that county and, if approved by farmer referendum, to farmers in that state;
5. Producers could exchange cotton and rice allotments within a county or adjoining counties under terms and conditions designated by the Secretary of Agriculture; and
6. Producers, under the Cropland Adjustment Provision, could retire land from production on five- to ten-year contracts.

The 1965 Act definitely modified the production control system for U. S. cotton. Whether it will prove sufficient to bring cotton production in line with the stated objectives remains to be determined by the economic forces of 1966 and future years.

CHAPTER V

MULTIPLE PRICING PLANS

The use of price supports and production controls have been only a part of the overall program designed to improve farm incomes or increase incomes to a level comparable with that enjoyed by other groups with comparable resources. A significant element in the program has been the use of multiple pricing plans.

Multiple pricing plans are used primarily to increase the sale and distribution of given commodities and products. As reviewed in Chapter II, the increased sales could result in increased producer incomes, fewer restrictions on agricultural production, and a reduction in the quantities owned and controlled by government from price supporting programs. Without doubt, some of these potential effects have been realized over time.

In past years, multiple pricing plans in agriculture covered two basically different types of activities. The first type consisted of finding ways to dispose of surplus commodities acquired by the government under price support operations. The major techniques were: (1) sales for dollars (usually at a loss); (2) outright donations to the needy at home and abroad; and (3) barter for strategic and other needed materials. Dollar sales have been, by far, the most important.

The second type was designed to increase the distribution of commodities before they were acquired by the government. The usual techniques were: (1) government-financed direct purchases of commodities to be donated to domestic institutions or sold overseas for foreign currency which was spendable only in that country; (2) export subsidies through payment-in-kind agreements with exporters.

In recent years, however, a third dimension has been added. Producers have been given the alternative of producing for export on special export acreage. When this alternative was selected, the producer was required to export the production from export acreage at world market prices without any assistance from the government.

From a long-range point of view, all the export programs have similar effects. All attempt to divert additional quantities to the more elastic demands of secondary markets, and all attempt to achieve increased utilization of agricultural products. The effects on costs to the government and on returns to farmers, however, depend on the mechanism used in each case.

Early Developments

During the 1920's, considerable interest was generated among agricultural leaders concerning the possibilities of using multiple pricing plans to decrease surpluses and increase returns to producers of agricultural commodities. The McNary-Haugen Bills considered by Congress between 1924 and 1928, contained provisions for a two-price plan.

The central idea of this approach was that the domestic or United States price for a commodity was to be pegged at a "fair" level, and all that could not be sold at this price was to be purchased by a government export corporation. The corporation was to sell this excess abroad at world market prices. To protect domestic markets from foreign imports, tariffs on imports were to approximate the difference between the pegged domestic price and the world price. The difference between the supported domestic price and the world price for a commodity was to be shared equally by the producers of that commodity.

The McNary-Haugen Bills of 1927 and 1928 passed both houses of Congress but were vetoed by the President. Even though they never became law, the Bills were an early attempt to guarantee farmers a fair price, and they contained the idea of selling at different prices in the domestic and foreign markets. The Export Debenture Plan also introduced during this period contained the features of multiple pricing.

The economic conditions of the early 1930's resulted in the failure of the Federal Farm Board and brought on excess supply and low income for cotton as well as other agricultural commodities. Multiple pricing was made an integral part of the Agricultural Act of 1933.[80] The Act: (1) gave processing and marketing firms

[80]U.S., Statutes at Large, XLVIII, Public Law 10, 31.

permission to organize to exercise a centralized control over marketing of agricultural products; and (2) authorized the Secretary of Agriculture to (a) license distributors to eliminate unfair trading practices, and (b) dispose of commodities acquired under price support programs.

The National Industrial Recovery Act[81] later that year amended the Agricultural Act of 1933 by modifying and restating the provisions relative to the disposal of cotton. On October 4, 1933, the Federal Surplus Commodity Corporation was created by the President under authority delegated by this Act, and on October 16, 1933, the Commodity Credit Corporation was created by executive order under the President's emergency powers.[82] The purpose of the Federal Surplus Commodity Corporation was to absorb surpluses in agricultural products and distribute them to alternative uses and to destitute people. The CCC was empowered by its charter to engage in buying, selling, lending, and other activities concerning agricultural commodities, products, and related facilities.

In 1935, legislation was passed[83] which: (1) replaced the licensing provision with marketing orders; and (2) earmarked 30 percent of U. S. Customs receipts from all sources each year to be used primarily by the Federal Surplus Commodity Corporation to encourage exportation and domestic consumption of agricultural commodities. The

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[81] U.S., Statutes at Large, XLVII, Public Law 67, 195.

[82] U.S., President, President's Executive Order, No. 6340, October 16, 1933.

[83] U.S., Statutes at Large, XLIX, Public Law 320, 750.

latter has become known popularly as Section 32 funds. These funds were to be used by the Secretary of Agriculture to:

1. Encourage the exportation of agricultural commodities and their products by (a) the payment of benefits in connection with their exportation, (b) payment of indemnities for losses incurred in connection with such exportation, or (c) payments to producers in connection with the production of that part of any agricultural commodity required for domestic consumption;
2. Encourage the domestic consumption of agricultural commodities or products by (a) diverting them from the normal channels of trade and commerce, or (b) increasing their utilization among persons in low-income groups as determined by the Secretary; and
3. Re-establish farmers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

Under this program, diversion programs have been undertaken to encourage the use of surplus commodities in a different way than would occur without the program. For example, cotton has been used for an insulation material under a special Section 32 program. In addition, exports have been encouraged through the payment of subsidies to commercial exporters. The exporter buys the commodity at the market price but he is able to sell to his overseas customers at the competitive world price. After exporting through regular trade channels, he receives a supplementary payment from Section 32 funds.

The Supreme Court's decision in Butler vs. the United States Case[84] resulted in the repeal of the multiple pricing features of the Agriculture Act of 1933. These provisions were re-enacted in the Agricultural Marketing Act of 1937[85] but were no longer applicable to cotton. Therefore, the authority of the CCC and Section 32 provided the only mechanism for multiple pricing of U. S. cotton.

In 1937, Congress: (1) continued the Federal Surplus Commodity Corporation as a United States agency until June 30, 1945;[86] and (2) authorized the use of Section 32 funds in the purchase and distribution of surplus agricultural commodities for relief purposes.[87] The language of the latter amendment was so broad that Section 32 became a catch-all authority and was the major source of export subsidies and donations to the needy during the remainder of the 1930's.

The Agriculture Act of 1938[88] extended both the provisions of Section 32 and the the Secretary of Agriculture's general authority to dispose of cotton acquired under price support operations by means of dollar sales. In 1939, the CCC was transferred[89] to the U. S. Department of Agriculture and Public Law 149[90] authorized the use of Section 32 funds for encouraging a wider use of surplus commodities

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[84] Butler v. United States, 56 S. Ct. 312 (1936).

[85] U.S., Statutes at Large, L, Part 1, Public Law 137, 246.

[86] U.S., Statutes at Large, L, Part 1, Public Law 165, 323.

[87] U.S., Statutes at Large, L, Part 1, Public Law 385, 323.

[88] U.S., Statutes at Large, LII, Public Law 430, 78.

[89] U.S., Statutes at Large, LIII, Part 2, Public Resolution 20, 813.

[90] U.S., Statutes at Large, LIII, Part 2, Public Law 149, 939.

among persons of low income. In 1940, limited quantities of cotton goods were distributed through the Stamp Plan and Cotton Mattress programs.

During World War II, surpluses of cotton were small or non-existent. Nevertheless, between one-half and one million bales of cotton were distributed to Lend-Lease countries and through the United National Relief and Rehabilitation Administration. (Table III)

Post-War Developments

Since the close of World War II, the base of multiple pricing plans has broadened and expanded rapidly. Plans involving cotton have concentrated primarily on export channels; nevertheless, some potential has been realized in the domestic market.

In the early post-war years, there were several foreign aid programs, such as the United National Relief and Rehabilitation Administration, The Army Civilian Relief, and the European Recovery Program which procurred and distributed cotton and other products to needy foreign countries. It was not until 1948, however, that a provision[91] was enacted which required that farm goods be purchased from the U. S. when practical and when such goods were in surplus.

The Commodity Credit Corporation Charter Act of 1948[92] authorized the CCC to sell surplus agricultural commodities to foreign governments

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[91]U.S., Statutes at Large, LXII, Part 1, Public Law 820, 1098.

[92]U.S., Statutes at Large, LXII, Part 1, Public Law 897, 1248.

TABLE III

COTTON EXPORTS BY PROGRAMS, 1938-64

Year Beg. July 1	Programs							Program Totals	Cash Sales	Total Exports
	UNRRA	Level Lease	Army Civilian Relief	National Security Act	Exp. - Imp. Bank	P.L. 480 Tit.I,II,IV	Barter			
	(Million bales)									
1938	-	-	-	-	-	-	-	-	3.605	3.605
1939	-	-	-	-	-	-	-	-	6.471	6.471
1940	-	-	-	-	-	-	-	-	1.253	1.253
1941	-	.739	-	-	-	-	-	.739	.463	1.202
1942	-	.865	-	-	-	-	-	.865	.460	1.325
1943	-	.805	-	-	-	-	-	.805	.535	1.340
1944	.055	.892	-	-	-	-	-	.937	.804	1.751
1945	*	*	-	-	-	-	-	*	*	3.629
1946	.330	.026	-	-	-	-	-	.356	3.579	3.935
1947	-	-	.071	-	-	-	-	.071	1.885	1.956
1948	-	-	.133	2.5	-	-	-	2.633	2.252	4.885
1949	-	-	.114	3.4	-	-	-	3.514	2.442	5.956
1950	-	-	.144	1.8	-	-	-	1.944	2.483	4.427
1951	-	-	.052	.8	-	-	-	.852	4.842	5.794
1952	-	-	.033	1.1	-	-	-	1.133	1.977	3.110
1953	-	-	.011	1.0	-	-	-	1.011	2.787	3.798
1954	-	-	-	1.2	.3	.1	**	1.600	2.160	3.760
1955	-	-	-	.7	.4	.5	.1	1.700	.541	2.241
1956	-	-	-	.9	.4	1.4	1.0	3.700	3.919	7.619
1957	-	-	-	.7	.8	.9	.5	2.900	3.011	5.911
1958	-	-	-	.8	.4	.6	.4	2.200	1.046	3.246
1959	-	-	-	.4	.3	.7	.1	1.500	5.333	6.833
1960	-	-	-	.3	.3	1.3	.1	2.000	5.238	7.238
1961	-	-	-	.1	.4	1.2	**	1.700	5.538	4.898
1962	-	-	-	**	.9	1.2	**	2.100	1.619	3.719
1963	-	-	-	-	.5	.9	.2	1.600	3.643	5.243
1964	-	-	-	-	.5	.8	.4	1.700	2.936	4.636

*Not shown because of inconsistent data
**Below 50,000 bales.

Sources: U. S., Department of Agriculture, ERS, <u>The Cotton Situation</u>, 1933-1965; and U. S., Department of Agriculture, ERS, <u>Statistics on Cotton and Related Data, 1925-1962</u>, SB 329 and Supplement, Januray, 1964.

and to domestic, foreign, or international relief and rehabilitation agencies, or to barter them for strategic and critical materials produced abroad. The Agricultural Act of 1949[93] amended Section 32 making it primarily a flexible authority to prevent price collapses for non-price supported crops. The Act, nevertheless, extended the authority of the CCC to include prevention of waste and provision of assistance in distressed areas. The law also stated that the CCC could not sell any basic agricultural commodity or storable non-basic commodity at less than 5 percent above the current price support level for the commodity plus reasonable carrying charges. This restriction, however, did not apply to: (1) sales for new or by-products uses; (2) sales of oilseed for extraction of oil; (3) sales for feed or seed if such would not substantially impair any price support program; (4) sales for secondary uses; and (5) sales for export. The CCC thereby became a major factor in the multiple pricing of cotton.

In 1951, the concept of the European Recovery Program was expanded to include non-European countries. This program plus U. S. technical assistance, mutual military defense and defense support were combined in the Mutual Security Act.[94] An amendment[95] to this Act in 1953 earmarked the first specific amount of foreign aid funds for purchase of U. S. surplus farm goods.

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[93]U.S., Statutes at Large, LXIII, Part 1, Public Law 439, 1051.

[94]U.S., Statutes at Large, LXV, Public Law 165, 373.

[95]U.S., Statutes at Large, LXVII, Public Law 118, 152.

This type of multiple pricing was greatly broadened by the Agricultural Trade Development and Assistance Act in 1954.[96] The law was a culmination of several different tendencies already evident in U. S. farm and foreign policy. It was designed to stimulate the export and consumption of agricultural commodities as a means of reducing surpluses. Major provisions affecting cotton included:

Title I - Sales for Foreign Currencies. This authorized the CCC to finance the sale of surplus commodities for soft currencies over a three-year period ending June 30, 1957. The actual movement of the commodities operated through private merchants, exactly the same as under the special earmarking provisions of the 1953 Mutual Security Act, except that it was financed by CCC funds later reimbursed by the Treasury. Foreign currencies accruing under the Act were used primarily to finance U. S. military and civil personnel and to provide economic development loans to the nations involved. In addition, it set up a supplemental stockpile and designated that funds generated by this Title be used to purchase strategic materials for the U. S.

Title II - Donations. This Title extended, for three years, the President's authority to donate CCC goods to relieve famine and urgent food needs of friendly nations or people, even if their governments were unfriendly.

By the end of the 1955 crop year, cotton carryover had reached practically unmanageable proportions and demanded immediate legislation.

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[96] U.S., Statutes at Large, LXVIII, Part 1, Public Law 690, 897.

The Agricultural Act of 1956:[97] (1) permitted the CCC to pay ocean freight costs for overseas shipments under Title II; (2) authorized appointment of a surplus disposal administrator within the U. S. Department of Agriculture to coordinate Public Law 480 activities; and (3) opened the supplemental stockpile to all barter materials. In addition, the Act made important changes in the law governing export sales of cotton.

The Secretary of Agriculture was directed to use existing powers and authorities (primarily under the CCC charter as amended) to encourage the export of cotton by making it available at prices not in excess of the level of prices being offered by other exporting countries. The purpose of this provision was to prohibit the Secretary from placing a floor under the price at which cotton could be sold abroad.

The CCC fulfilled the intent of the Act by: (1) making cotton available at competitive prices; and (2) providing an export subsidy sufficient to make cotton competitive in world markets. The effect was an immediate increase in U. S. cotton exports. (Table III) Total cotton exports increased from 2,241 million bales in 1955 to 7,619 million bales in 1956. Cash sales rose from one-half million bales to almost 4 million in the same period.

The following year, Public Law 480[98] was extended and up to 25 percent of the local currencies acquired under Title I was earmarked

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[97]U.S., Statutes at Large, LXX, Part 1, Public Law 540, 188.

[98]U.S., Statutes at Large, LXXI, Part 1, Public Law 85-266, 592.

for loans to U. S. or foreign firms to promote expanded markets for American products abroad. In addition, the President was given the power to authorize barter transactions with the Soviet satellite nations.

In 1958, Public Law 480[99] was again extended and the United States Department of Agriculture was forced to abolish the requirement that barter traders obtain a certificate of additionality from importing countries guaranteeing that the barter transaction was not replacing cash purchases. The certificate requirement had been imposed following charges that barter traders were invading commercial markets of U. S. allies, such as Canada, Italy, Australia, and the Netherlands.

Recent Developments

Title IV was added to the Agriculture Trade Development and Assistance Act[100] in 1959 and authorized long-term dollar credits at low interest rates for the purchase of surplus farm goods by under-developed nations. This Title was amended[101] in 1962 to authorize dollar credit export sales agreements with foreign and U. S. private trade firms, banks, and other financial institutions acting in behalf of governments.

The Agriculture Act of 1964[102] added a new dimension to the

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[99] U.S., Statutes at Large, LXXII, Part 1, Public Law 85-931, 1790.

[100] U.S., Statutes at Large, LXXIII, Part 1, Public Law 86-341, 606.

[101] U.S., Statutes at Large, LXXVI, Part 1, Public Law 87-703, 605.

[102] U.S., Statutes at Large, LXXVIII, Part 1, Public Law 88-261, 173.

multiple pricing programs of cotton. For the first time, producers were allowed to plant excess acreage on the condition that it be exported without the benefit of price supports or other government programs. In addition, the CCC was authorized to make equalization payments to cotton handlers in an attempt to stimulate domestic uses and reduce cotton acquisitions by the government. The payment was made in CCC sight drafts of PIK certificates.

The 1964 program was enacted for only two years, therefore, new legislation was needed in 1965. On November 3, of that year, Congress passed the Food and Agriculture Act of 1965.[103] With regard to multiple pricing features, the Act discontinued export subsidies and equalization payments but continued the provision which enabled cotton farmers to export cotton produced on export acreage without the benefit of price supports or other government programs. This Act, plus recent expansion in Public Law 480, indicate a definite trend toward greater use of multiple pricing plans in price and production programs for U. S. cotton.

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[103] U.S., Statutes at Large, LXXIX, Part 1, Public Law 89-321, 1187.

CHAPTER VI

SUMMARY AND CONCLUSIONS

Through the years, there has been increased government participation in the production and pricing of U. S. cotton. Major legislation to this effect has been passed in practically every session of Congress over the past forty years. This participation, however, has not increased in an orderly manner due to conflicting goals and values of the groups concerned with U. S. cotton and over-all economic adjustment.

The lack of general public agreement has resulted in the implementation of various alternatives, some of which have been ineffective or even conflicting. The accumulation of legislation in this atmosphere has produced a cotton program with many facets. This diversity and complexity has resulted in confusion and misunderstanding among both agricultural and non-agricultural individuals and groups.

The major purpose of this study was to provide a history of past cotton legislation which could permit a better understanding of the present and potential future cotton programs. Particular emphasis was placed on production and price legislation that affects the income of cotton producers. Specific objectives of this study were: (1) to present the historical development of governmental programs designed to achieve income objective through specific means of price support, production controls and export programs; (2) to present the interrelationships existing between the specific programs and the prices and production of cotton as related to the development of subsequent legislation.

The farm price and income drop following World War I prompted farmers to persuade the federal government to assist with the regulation of agricultural commodity markets. The first attempt, an orderly distribution program enacted in 1929, proved to be unsuccessful due to its inability to control outputs. Major legislation in 1933, therefore, turned to production controls. It became apparent in a matter of months, however, that the enhancement of farm prices and income through acreage controls would be a slow process. The President responded by establishing the Commodity Credit Corporation to carry out price support and related agricultural operations including multiple pricing programs.

The Supreme Court ruling in Butler vs. the United States temporarily disrupted plans to re-establish an equitable price and income relationship for farmers. Price supports and production controls (in a milder form), however, were carried forward by the Agriculture Act of 1938. Even though amended numerous times, this Act has remained the basic instrument for price supports and production controls.

Cotton prices were supported at about 60 percent of parity in the late 1930's. After World War II, price supports were increased to about 92.5 percent of parity, but market prices generally were higher than this level. After 1954, price supports as percentages of parity declined moderately but tended to be near the 80 percent level for producers operating under the higher level of output restriction.

Cotton allotments have declined from 27,863,000 acres in 1939, to 16,310,000 acres in 1963.

In attempts to improve producers' incomes while more efficiently utilizing private and public resources, legislation in recent years has incorporated an increasing number of multiple pricing plans (such as export subsidies and Public Law 480) into the overall cotton program. The evolutionary development is reflected in the present multi-facet cotton program.

The logic behind each step along the way may best be explained by the nature of our democratic process. Legislation enacted presupposes only that some agreement had been reached as to the relative efficiency of this program as compared with alternative programs. The degree of agreement, however, may vary from very small to substantial. One can say only that an organized majority did not explicitly agree to oppose the program.

Agreement or disagreement involves differences in the amounts of information available to the various groups involved, differences in the interpretations of the so-called "facts", and differences in beliefs concerning what "ought to be". Therefore, legislation enacted is usually the result of a compromise or arbitration.

Whether or not government participation will continue to increase remains to be seen. Since it represents a means of achieving certain goals and not a goal in itself, much depends upon the conditions of the future. If past history is any indication, however, when major goals are involved, increased government participation is likely to be an acceptable activity.

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Master of Science

Thesis: HISTORY AND DEVELOPMENT OF LEGISLATION AFFECTING PRICES AND PRODUCTION OF UPLAND COTTON IN THE UNITED STATES

Major Field: Agricultural Economics

Biographical:

Personal Data: Born in DeQueen, Arkansas, July 8, 1936, the son of Losie and Mary Watkins.

Education: Graduated from Bennington High School, Bennington, Oklahoma, May, 1955; received Bachelor of Science Degree from Oklahoma State University, Stillwater, Oklahoma, May, 1959, with a major in Agronomy; completed requirements for the Master of Science degree in May, 1966, at Oklahoma State University, Stillwater, Oklahoma.

Professional Experience: Research Assistant, Oklahoma State University, Stillwater, Oklahoma, from September, 1962 to July, 1963.