UNITED STATES AGRICULTURAL POLICIES AFFECTING THE WHEAT INDUSTRY 1914-1954

By

NELLIS AUSTIN BRISCOE
Bachelor of Science
Fort Hays Kansas State College
Hays, Kansas
1948

Master of Science
Fort Hays Kansas State College
Hays, Kansas
1952

Submitted to the faculty of the Graduate School of the
Oklahoma Agricultural and Mechanical College
in partial fulfillment of the requirements
for the degree of
DOCTOR OF PHILOSOPHY
August, 1955

UNITED STATES AGRICULTURAL POLICIES AFFECTING THE WHEAT INDUSTRY 1914-1954

Thesis Approved:

Thesis Adviser

Dean of the Graduate School

PREFACE

An inquiry into agricultural policies and programs affecting the wheat industry of the United States must start at some date. It could start in 1938 when the concept of price supports within a specific range of parity was written into legislation. However, there have been earlier attempts to help farmers which have cast a profound and enduring influence upon the philosophy regarding the role of Government in the economic affairs of agriculture. Thus, such an inquiry might properly start in the 1920's when the McNary-Haugen proposals became a controversial issue in farm legislation. It appears to be more logical, however, to begin the study with the outbreak of World War I because the advent of that war marked a significant turning point in American agricultural development and in public policy affecting agriculture.

The wheat industry could be studied independently of other agricultural enterprises. However, an approach to the study in this restricted sense could not provide the most useful perspective of the true situation. It is also erroneous to assume problem situations confronting the wheat industry to be independent of those confronting nonagricultural industries. A study of past policies and programs provides a frame of reference for formulating future governmental measures designed to alleviate current and future problem situations in that industry.

The objective of this study is to review and appraise the more important measures which have been proposed or adopted to alleviate problem situations in the wheat industry, to analyze major changes in policy, and to appraise the influences of the various measures. It is hoped that this study will serve as an aid toward the analysis of the constantly changing farm program developments.

I express my deep appreciation to Professor Adlowe L. Larson, Chairman of the Advisory Committee, and to Professor Geoffrey P. Collins, member of the Advisory Committee, for their counsel, their criticisms, and their interest in the preparation of this study and in all matters pertaining to my work. My appreciation is also extended to Professor Richard H. Leftwich, member of the Advisory Committee, for his suggestions on some of the theoretical aspects of inquiry. I am grateful to Professor Raymond D. Thomas and Professor Franklin Graybill for serving as members of the Advisory Committee.

I wish to thank the library staff for their assistance in securing historical materials used in preparing this manuscript.

And to my wife, Margaret, who spent many tedious hours typing the finished manuscript, I express my sincere gratitude.

Nellis A. Briscoe

TABLE OF CONTENTS

LIST OF FIGURES

CHAPTER I

A GENERAL VIEW OF AGRICULTURAL POLICIES AND PROGRAMS

The role of government as a promoter of agricultural development is not a recent one in the United States. The attempt to shape national policy with a view to protecting and promoting agricultural interests began with the formation of our Federal system. The sphere of government activity in agriculture, however, has been vastly extended in the last 35 or 40 years. Behind the evolution of this expanding activity is a long story of agitation and organization on the part of both agricultural and nonagricultural groups operating through political parties.

The Nature of Policies and Programs

A country's total agricultural policy is not stated in a single law, or in a system of laws dealing directly with current agricultural problems. Rather, it is expressed in a complexity of laws and attitudes which are constantly subject to change and displacement. The present policies which reflect the national attitude toward agriculture have emerged by a process of evolution of ideas and beliefs, and have been taking shape throughout the nation's history.[1] They are expressed in a

---

[1] Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), p. xi.

great mass of legislation dealing with matters such as landholding, conservation of natural resources, transportation, credit, and marketing.

Policies cannot be static in a highly dynamic world. Conditions at home and abroad which policy is required to meet are constantly changing; therefore, a nation cannot have a fixed and complete agricultural policy. Agriculture is currently faced with complex problems that were undreamed of a few decades ago. Our system of agricultural laws and organizations must be subject to change if we are to "solve" our farm problems.

John D. Black of Harvard University has defined the term "policy" as ". . . a more or less carefully considered and fundamental course of action followed consistently for a period of years."[1] Agricultural policies may be thought of as slowly evolving mass attitudes, stemming from social, political, and economic pressures, which reflect the philosophy of the people throughout the complete period of a nation's agricultural development. If they are to be successful, they must be based on sound

---

[1] John D. Black, "The Problem of Determining an Economic Policy for American Agriculture," Economic Policy for American Agriculture, Edward A. Duddy, editor (Chicago, 1931), p. 1.

principles and designed to achieve ends compatible with general economic welfare.[1]

Economic welfare has been evaluated with respect to two basic norms or ideals, namely, maximum social product and optimum income distribution. According to Professor Schickele, these norms are achieved under the following conditions:

Maximum social product, or national income, is achieved if a certain kind of labor, capital, or land resource yields the same marginal returns or, roughly, the same wage, interest, and rent in every line of production to which it is suited. Socially and economically the most serious violation of the productive norm is unemployment. Any specific economic policy should increase or, at least, not seriously depress the social product.

Optimum income distribution is achieved (a) if everyone has access to an adequate minimum standard of subsistence regarding food, clothes, housing, medical care, and education, the subsistence norm; and (b) if everyone can earn incomes above this minimum living floor commensurate with his efforts and abilities contributed to the production process, the contributive norm.

Any specific economic policy should reduce or, at least, not increase the number of families living below adequate subsistence

---

[1] According to a noted British economist, A. C. Pigou, the concept of economic welfare is ". . . restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money." By restricting economic welfare to this concept, it becomes possible to give it empirical content. Pigou points out that ". . . though no precise boundary between economic and non-economic welfare exists, yet the test of accessibility to a money measure serves well enough to set up a rough distinction. Economic welfare, as loosely defined by this test, is the subject-matter of economic science." A. C. Pigou, The Economics of Welfare (London, 1924), p. 11.

standards and should assist and induce individuals to earn incomes proportional to their actual or potential productivity. [1]

Public policies pertaining to agriculture should be shaped and directed to improve not only the economic welfare of farmers and rural communities, but of all society. In a complex society such as ours, however, not all policies are completely in the public interest. There are usually some policies in effect which are more or less beneficial to special groups and, at the same time, detrimental to the interests of others. The fact that not all policies are in the public interest does not invalidate the principle that the end of any economic program should be compatible with general economic welfare. Rather, it gives specific reason and purpose for studying public policies and detecting those which, in the aggregate, tend to depress the social product or worsen the income distribution. [2]

Notwithstanding imperfections, the fundamental intent of public policy, of which agricultural policy is only a part, is presumed to be

---

[1] Rainer Schickele, Agricultural Policy (New York, 1954), pp. 56-57. Schickele explains that although these two norms belong to distinctly separate kinds of problems, they are closely interrelated. The productive norm refers to problems of resource allocation, and the distributive norm refers to problems of distributive justice. However, in most practical situations and in modern industrialized economies, these two policy ends complement, rather than conflict with, each other. Ibid., p. 57. For further discussion of this problem, see T. W. Schultz, "Economic Effects of Agricultural Programs," American Economic Review, XXX (February, 1941), pp. 128-131. See also T. W. Schultz, Production and Welfare of Agriculture (New York, 1949), pp. 20-29.

[2] Schickele, Agricultural Policy, p. 61.

the improvement of the economic welfare of all society. This is the master-end or ultimate objective. Failure to completely achieve this objective does not necessarily mark a policy as a poor one or as a failure. Achievement of the ultimate objective is not a matter of all or nothing. Rather, it is a matter of degree. The success of a policy depends upon whether or not the problem situation has improved as a result of the specific measures employed to implement the policy. [1]

In order to achieve its goal, or to approach it, general policy is broken down into specific units or acts designed to achieve somewhat narrower objectives or ends. These specific acts are commonly referred to as programs. A program is ". . . a single act or a group of related acts, ordinarily extending over a rather short span of years, which commonly reflects some sort of policy, and gives concrete expression to it." [2]

The choice of programs, and in turn the choice of measures to implement them, largely determines the degree of success of a policy. Regardless of the soundness of a policy, it may be judged a failure if the program measures chosen are inappropriate or insufficient. In such an instance a sound policy may be unduly criticized, whereas the

---

[1] Ibid., p. 61.

[2] Black, "The Problem of Determining an Economic Policy for American Agriculture," Economic Policy for American Agriculture, p. 5.

real trouble lies in the program measures employed to implement it.[1] A variety of different programs, each with its own specific objective, is usually necessary to give expression to general agricultural policy. All the various program objectives should converge toward the dominant public policy end of promoting and improving the general economic welfare of society.

There may be several proposals, or programs, for attaining what is essentially the same objective. Our own experience with farm legislation indicates that sharp differences often arise as to methods when there is little significant disagreement about the specific or basic objective itself. For example, during the ten-year period, 1923-33, several proposals were made to achieve a specific policy objective, namely, "equality for agriculture." The supporters of the McNary-Haugen plan, the Federal Farm Board, and the Agricultural Adjustment Administration, all hoped to raise the prices of agricultural products.

---

[1] Schickele points out that since policies and programs are made in the face of uncertain expectations, their failure may be due to external, as well as internal, causes. They may fail, not because they were ill-conceived, but because external events, that is events external to the policies themselves, turned out otherwise than expected. The Steagall amendment to the Agricultural Adjustment Act of 1938, for example, was based upon the assumption that farmers would be reluctant to expand their operations because of fear of a postwar slump in the prices of those products in which they were asked to make an all-out production effort during the war. Although this expectation did not materialize, the policy makers responsible for the Steagall amendment cannot rightfully be blamed for the unexpected turn of events in the immediate postwar period. Schickele, Agricultural Policy, pp. 242-244; 254.

However, the various methods or programs proposed or used were quite different.

The American people are desirous of and need public policies that are conducive to an expanding and prosperous national economy. Agricultural policies and farm programs should be designed with these objectives in mind. Farm programs should be constructed in such a manner that they will help maintain prosperity in the whole economy, not in agriculture alone. They must be based on sound principles and fairly represent the interests of both producers and consumers in order to reduce the risk of failure. If they are to be successful, the American people, both city and farm, must understand, desire, and give them their wholehearted support. The problem of maintaining prosperity in agriculture is broad and complex and involves many different lines of action, not only in agriculture but also in other segments of the economy.

In general, all national public policies have some degree of effect upon the farming industry. Government policies in respect to international trade, for example, affect the export markets for agricultural products. These effects are eventually reflected in the prices that farmers receive for their products. Policies adopted to meet wartime needs have pronounced effects upon the agricultural economy. During periods of war, the government may encourage the expansion of agricultural production, especially with respect to specified "basic" commodities. On the other hand, with the return of peace and the loss of a good portion of the foreign outlets for the increased production, additional

production may be discouraged, or at least not encouraged. As a result, agriculture is required to make drastic production and price adjustments.

Since agriculture has a vital interest in general economic stability, another public policy of grave importance is that of stabilizing the general price level. Violent fluctuations in the general price level which contribute heavily to economic uncertainty can be tempered by appropriate fiscal, credit, and monetary policies. Changes in the general price level may be amplified in the fluctuations of farm prices; therefore, these policies are extremely important to agriculture, as well as to other sectors of the economy.[1]

The greatest market by far for the United States' farm production is the American Consumer. Farmers are going to have better prices when employment is at a high level than they will at low levels. Any public policy, agricultural or otherwise, which encourages production and employment in either agricultural or nonagricultural lines, or both, will be of benefit to farmers. On the other hand, anything that tends to lower the general economic level, either in industry or in business, will have a tendency to depress agriculture.

Discussing the need for high-level employment and production, the Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities reported:

---

[1] For a concise discussion of the importance of fiscal policy to agriculture, see William H. Stead, "Your Stake in Fiscal Policy," Farm Policy Forum, II (January, 1949), pp. 29-33.

Towering above all other considerations is our need for . . . full employment and unrestricted production. These are important to everyone, and not the least to farmers. The amount of money that urban people have to spend largely determines how good customers they are for farm products. In addition, high-level industrial production brings a large supply of goods to farmers at reasonable prices, and it also provides job opportunities for those who are not needed in agriculture. Urban people in turn are benefited by good farm income and high-level farm production.

High-level employment in non-agricultural industry means very much more to farmers than any "farm-program" the government may attempt. Manipulations of agricultural production and prices are no substitute for good consumer markets.

Enlightened self-interest for all economic groups makes it essential that they promote continuously large employment and production, even though to achieve it sometimes may require reductions in certain prices and wages. [1]

Political Implications of Farm Programs

Farm programs, which are designed to give concrete expression to farm policy, are both political and economic in nature. They are economic in that they involve such things as prices, markets, allocation of resources, stocks, and the distribution of income. They are political in that they require government action to become laws. Under a representative government such as ours, governmental decisions are reached through political processes, and farm programs are effectuated by legislative action.

Farmers have always been an important factor in the political life of our nation. They have had much to do with the shaping of our public

---

[1] Association of Land-Grant Colleges and Universities, Postwar Agricultural Policy (October, 1944), p. 8.

policies, especially those pertaining to agriculture and the agricultural industry. Earlier in our history the farm population was so thoroughly predominant that those in public position were keenly sensitive to the needs of agriculture. In more recent years, however, the urban industrial groups have gained a marked preponderance, and there has been a growing political divergence between their interests and those of agriculture.[1] However, the farm vote is still an important one, occasionally crucial, in national politics.[2]

Henry C. Wallace, writing in 1924, was very much aware of the political importance of the agricultural group. He pointed out that if for no other reason than because of the size and latent power of this group, the manner in which their interest and welfare may be affected by national policies, legislative or administrative, always should be considered. He stated:

> It is not in the national interest to disregard so important a group or to give it merely such attention as will keep it at work. Such an attitude is insufferable and is certain to stimulate a group conciousness which soon develops into group prejudice. As this feeling gathers power, the group attracts smaller discontented elements, and finally compels action much more extreme than would have satisfied it a short time before. Failure to give needed assistance to such a group, whether engaged in farming or any other industry, when it is struggling under economic difficulties, especially when such difficulties are due in part

---

[1] Wilson Gee, The Social Economics of Agriculture (New York, 1954), pp. 18-19.

[2] For a stimulating discussion of the role of farmers in politics, see Carl T. Schmidt, American Farmers in the World Crisis (New York, 1941), pp. 98-119.

to national policies, is a sure way to breed discontent and resentment not conducive to the national good.[1]

It is difficult to separate any national farm program from politics because, after all, the farm laws are written by Congress. We elect our representatives to Congress, and law making is their responsibility. Presumably, all laws are made with the welfare of the nation at heart; therefore, even legislation pertaining to farm price supports should take consumers into consideration.

There is general agreement that no particular group such as farmers, for example should be permitted to write its own farm program. But even if farmers were allowed to develop their own farm program, they probably would never arrive at a workable one. At least progress would be slow. For example, how would a special interest group such as some cattlemen, which opposes price supports, reconcile its views with those of farmers who are clamoring for high guaranteed prices for corn and wheat? It is obvious that the problem can best be handled by Congress. We must recognize and accept the political implications of farm programs.

The Dominant Question

The obstacles that face the American farmer of today are formidable, but they are not completely new. Likewise, program proposals to alleviate agriculture's problems are not new. The nation-wide debate on

---

[1] Henry C. Wallace, Our Debt and Duty to the Farmer (New York, 1925), pp. 11-12.

how to support prices and the extent of the Government's responsibilities to give direct assistance to the farming industry embody some of the same arguments, both pro and con, that were carried on back in the 1920's when the McNary-Haugen proposals were the controversial issues. The dominant question then, as now, was how to get "equality for agriculture." Similarly, the reason for the debate then, as now, was that no one had come up with the ideal answer to the problem.

Then came the Great Depression and the severe drought of the early 1930's. This created a different, and more difficult, situation than that of the 1920's. There were various attempts to support farm prices during the early part of this period. Finally, the loan program and ever normal granary were placed into effect just before the outbreak of the last war.

During the period of World War II the Government made urgent appeals to farmers to produce more and more so as to meet adequately current needs and prepare our country for a prolonged war or any eventuality that might develop from the war. The need for agricultural production was the greatest that we had ever experienced, and goals were set that challenged our productive capacity. Encouraged by support prices which were to extend well into the postwar period, farmers responded favorably and record levels of production in some commodities were reached. After the war was over Congress was reluctant to withdraw the support provisions even though the war demands had ceased.

The outbreak of the Korean conflict in June, 1950, again changed the need for some agricultural commodities. Once more the Government

urged farmers to produce more and more so as to meet current additional requirements and build surpluses as a safeguard in the event of a large-scale and prolonged war. As a result, a surplus of farm products was acquired.

Surplus Wheat

The agricultural industry in this country is currently characterized by surplus[1] stocks of some commodities, especially wheat. This commodity constitutes the Government's most serious current agricultural surplus problem. At the present time the Government has more than 2.5 billion dollars invested in surplus wheat. This accounts for a third of all the money that the taxpayers have tied up in surplus farm products.[2]

Additional supplies are soon to appear on the market. This will, of course, cause surpluses to soar to even higher levels. Even if

---

[1] The principal connotation of the term "surplus," as used here, is economic; that is, a market surplus as distinguished from a physical surplus. Surplus, in this usage, is the amount by which supplies offered for sale are greater than the amount that will bring producers a "normal" income. A normal income is one that will bring comparable rewards to producers of like ability in both agriculture and industry over a period sufficient in length to make adjustments to major changes in technology and demand, but excluding extreme peaks of boom and depression. See J. P. Cavin, Hazel K. Stiebeling, and Marius Farioletti, "Agricultural Surpluses and Nutritional Deficits," Yearbook of Agriculture, 1940 (Washington, 1940), pp. 329-341. For an additional discussion of types of surpluses, see E. A. Stokdyk and Charles H. West, The Farm Board (New York, 1930), pp. 57-68.

[2] "Too Much Wheat, More Coming," U. S. News and World Report (March 11, 1955), p. 46.

farmers did not harvest any wheat this year, there would be plenty to meet our present requirements for flour and bread, livestock feed, seed, and exports. At the current rate of disappearance, all of these requirements could be met by utilizing Government owned wheat now on hand.

Since 1953 the Government has cut wheat acreage seeded from 79 million acres[1] to 55 million acres,[2] a decrease of almost one third. Still we are faced with a surplus. It is estimated that the carry-over on July 1, 1955, will be around 975 million bushels, 75 million bushels larger than the previous year.[3] Total wheat supplies for the 1954-55 marketing year are estimated at 1877 million bushels, consisting of 902 million bushels carried over from 1954, new production of 970 million, and an allowance for imports of about 5 million bushels.[4] Total domestic disappearance is estimated at between 640 and 660 million bushels and exports at 250 million, a total demand for approximately 900 million bushels.[5] This means that the carry-over on July 1, 1956, will be approximately 975 million bushels, more than a years supply at current rates of usage.

---

[1] United States Department of Agriculture, The Wheat Situation (Washington, December, 1954), p. 5.

[2] United States Department of Agriculture, The Wheat Situation, June, 1954 p. 4.

[3] United States Department of Agriculture, The Wheat Situation, February, 1955, p. 3.

[4] Ibid., pp. 3, 6.

[5] Ibid., p. 3.

Extent and Degree of Control

There is general agreement that some kind of wheat program is needed to cope with the acreage-price-surplus problem which now confronts the wheat farming industry. There is much disagreement, however, concerning the type of program that would best serve the interests of all concerned. It is doubtful if a farm program can be developed that will be the perfect solution to all the problems of all the farmers. On the one extreme, some urge the abandonment of all attempts to control wheat prices. This group believes that free-market prices continuously adjust current consumption of farm products to the available supplies. That is, in periods of scarcity prices rise and consumption decreases, and, conversely, in periods of abundance prices drop enough to induce consumers to purchase larger quantities. Therefore, since free-market prices vary inversely with production, they result in fairly stable incomes to farmers.

At the other extreme, others contend that free-market prices are often inadequate guides in making production plans and cannot be relied upon to "solve" the problem. Furthermore, the problem is complicated by the uncertainties of weather and other uncontrollable factors affecting production. They point out that when the price of a commodity is high, a preponderant percentage of the farmers decides to expand production. This results in overproduction[1] and low prices by the time that the

---

[1] Overproduction, in this usage, means production greater than the market will absorb at satisfactory prices.

increased output can be marketed, which may be a year's time with most crops, or as much as several years with livestock products. Conversely when prices of a particular commodity are low, a great percentage of the farmers decides to contract their production. As a result supplies drop to low levels, prices increase sharply, and consumers complain that they are being penalized. Even though prices are at a high level, farmers suffer because their volume of production is so low that they cannot realize a high total return.[1]

This group recommends strict Government production and marketing controls and guaranteed minimum prices. Carried to its extreme limits, this theory would result in the Government eventually becoming the only market and the source of all farm income. As the only market, the Government would be forced to control production. In between these two extremes--free-market prices and completely controlled prices--are several proposals with various degrees of control for meeting the overall problem of surplus wheat production.

The current wheat surplus is not without its advantages, as well as its disadvantages. Both of these aspects must be carefully considered in the formulation of an overall wheat program. Certainly, a surplus is not the curse that a scarcity would be. Agricultural surpluses, as long as they are not allowed to reach unmanageable magnitudes, may prove

---

[1] Association of Land-Grant Colleges and Universities, Postwar Agricultural Policy, pp. 24-25.

to be assets, not liabilities. They constitute valuable national insurance against the extraordinary demands of famine and war. We were thankful for heavy surplus supplies of wheat, as well as certain other commodities, to help meet the crucial food demands of World War II.

On the other hand, if surpluses are allowed to grow beyond normal substantial reserves, they will have a depressing influence on prices. Regardless of the particular measures adopted, a farm program will have a better chance to function if the surplus is maintained at a manageable size. It would, of course, be illogical to adopt a national farm program directed toward maintaining wheat stocks at a dangerously low level, and extremely illogical to adopt one dedicated to completely abolishing reserves of a raw-food product as universally important as wheat. The development of new outlets and the expansion of old ones, both foreign and domestic, along with a reallocation of resources in agriculture so as to adjust production to fit the market demand that actually exists, would be more logical measures to consider as possible means to a solution of the current wheat surplus problem.

The core of the dominant issue in the farm-price controversy is whether to adopt a more or less permanent system of governmentally administered prices, or whether to allow more and more opportunity for free-market prices to function, eventually completely abandoning all government price controls in the agricultural industry. In any serious consideration of this grave problem, it is important to remember that there is no compelling force demanding an all-or-nothing approach in

respect to government controls. Fortunately, neither complete control nor complete absence of control of production and prices are our only alternatives. Neither approach will give absolute, or even reasonable, assurance of a practical and workable solution to the wheat problem.

Objective thinking and calm consideration of the complete problem, along with alert and unbiased minds for discovering solutions to fit other problems that are constantly occurring, are badly needed if an answer is to be arrived at, or even if the situation is to be ameliorated. A complete and thorough understanding of all phases of the overall problem and the wise adaptation of lessons gained from past experiences are fundamental measures for a meaningful and effective farm program. Efforts to hold prices on any commodity too high, when there is no real economic reason for doing so, have a tendency to complicate, rather than solve or simplify, the problem situation in respect to that particular commodity. A synthesis of freedom and control, tempered by unbiased judgment and constant adjustment to fit changing needs, is probably the best approach to our wheat problem.

CHAPTER II

WHEAT IN THE WORLD WAR I PERIOD

Early Economic Influences of the War and Adjustments to Wartime Demands

The advent of World War I marked a significant turning point in American agricultural development and in public policy affecting agriculture. Although the United States did not enter the conflict until 1917, economic influences began to bear upon American farmers with the outbreak of hostilities in 1914. The war introduced an urgent need for great quantities of food and fiber, and military developments soon made America the Allied Powers' chief source of these supplies. The warring European nations' demands for munitions and other supplies stimulated our manufacturers and placed a premium upon labor which was felt on the farm. The withdrawl of farm labor was among the first effects of the war upon our agriculture. In an extremely short period of time our agricultural industry was forced to adjust itself to an altered pattern of trade and consumption. [1]

---

[1] The major agricultural problems of the pre-war period, 1900-1914, were production problems. At that time we were still a debtor nation and service charges on the debt were met largely through the export of agricultural products. The production of an exportable surplus was not only of great importance to our economy in general, but was considered to be a cornerstone of our agricultural system. A. B. Genung, "Agriculture in the World War Period," Yearbook of Agriculture, 1940 (Washington, D. C., 1940), p. 278.

At first only slight and temporary adjustments in our agriculture appeared as a consequence of the war stimulus. However, as the war progressed and developed into a gigantic and world-engulfing struggle, the lure of high prices and the possibility of exceptionally great profits caused these changes to assume a deeper and a more complex character.

General farm production was stimulated by wartime demands. There was a great increase in demand for basic foods and fibers such as flour, heavy meats, fats, sugar, and wool. These products were considered imperative for the successful prosecution of the war. However, of all the agricultural enterprises stimulated by the war, the wheat industry received the first and by far the greatest impetus.

In the decade preceding the outbreak of World War I this country had harvested annually an average of about 47 million acres of wheat. The United States had been a wheat exporter ever since the founding of the country, and the acreage and yield had increased steadily from 1866 until about 1900. From that year to the outbreak of World War I, however, wheat acreage had shown some tendency to decline. Also, wheat and flour exports had declined considerably during this period. The peak of wheat and flour exports had been reached in 1901 with 239 million bushels being exported. Exports of these commodities dipped to 146 million bushels in 1913, but had been as low as 44 million in 1904 and averaged less than 80 million during the three year period, 1909-1911.[1]

---

[1] United States Department of Agriculture, Agricultural Statistics, 1936 (Washington, D. C., 1936), pp. 5-6.

Although wheat exports had dropped off considerably in the decade preceding World War I, in 1914 we were one of the four chief wheat-exporting countries. Russia, Canada, and Argentina were the other three. For the period 1909-1913, Russia had been exporting about 162 million bushels a year, Canada 92 million, the United States 105 million, and Argentina about 90 million.[1] The countries of Western Europe were and had been the great import market.

Bread is a basic component of the diet of the people of Western Europe. Major interests with respect to foodstuffs, therefore, centered around wheat and wheat products. With the exception of Russia, Rumania, Austria-Hungary and Bulgaria, all of Europe was highly dependent on imported wheat and other small grains before World War I. Early in the war Great Britain's supply of wheat from Russia was completely cut off by the Central Powers. At the same time, Germany's submarine warfare was reducing shipping to a point where vessels could not be spared for the long hauls from India, Australia, and Argentina. Furthermore, grain production had been greatly reduced in France, Italy, and Belgium. These countries, along with the United Kingdom, produced slightly less than 350 million bushels of wheat in 1917. This was about 60 per cent of their average total production during the pre-war period, 1909-1913.[2]

---

[1] Frank M. Surface, The Grain Trade During the World War (New York, 1928), p. 22.

[2] United States Department of Agriculture, Yearbook, 1920 (Washington, D. C., 1921), p. 548.

To have bread rations equal to those to which they had been accustomed, the Allied Powers would have had to import about 600 million bushels of wheat. None of this could be obtained from Russia or the Balkan countries and only comparatively small amounts from India, Australia, or Argentina. Thus an urgent demand was to be placed upon the United States and Canada to supply every possible bushel of wheat.[1]

At the outbreak of the war in Europe in 1914 the United States was blessed with a bumper crop. Other countries were not so fortunate. Europe had a short crop, the Australian crop was almost a complete failure, and sub-normal crops prevailed in Canada and India. Argentina had a big crop, and the Russian crop was fair.[2] Wartime conditions, however, made shipments from these countries extremely difficult. As a result wheat exports from the United States in 1914 rose to an all time high of 355 million bushels and comprised over 60 per cent of all international shipments.[3]

The bountiful harvest and heavy exports at good prices stimulated sowings for the next crop. Acreage harvested increased from 55 million in 1914 to over 60 million in 1915. The increased acreage, along with a record breaking yield of 16.7 bushels per acre, produced our first

---

[1] Surface, The Grain Trade During the World War, p. 21.

[2] For production figures see United States Department of Agriculture, Agricultural Statistics, 1936, p. 11.

[3] Joseph Stancliffe Davis, Wheat and The AAA (Washington, D. C. 1935), p. 4.

billion bushel wheat crop.[1] Our bumper crop, however, was not an exception. The 1915 wheat crops were good in most of the exporting countries and Europe also produced a fair crop. Consequently our exports dropped to 240 million bushels and prices declined to about their pre-war level.[2] Our agriculture had not yet felt its strongest economic impact from the war.

Because of adverse weather affecting both acreage harvested and yield, the United States' 1916 wheat crop was very poor. Acreage harvested dropped to 53 million acres and the yield was a mere 11.9 bushels per acre; total production was only 634 million bushels.[3] With a short world crop and an increased demand for wheat from abroad, prices advanced sharply in the fall of 1916. The big surplus carried

---

[1] United States Department of Agriculture, Agricultural Statistics, 1952 (Washington, D. C., 1952), p. 2. Since 1915 we have produced several wheat crops exceeding one billion bushels. Also, yields have exceeded that of 1915. See United States Department of Agriculture, Agricultural Statistics, 1953 (Washington, D. C., 1953), p. 1.

[2] United States Department of Agriculture, Bureau of Agricultural Economics, The Wheat Situation (Washington, D. C., September-December, 1949), p. 21; United States Department of Agriculture, Agricultural Statistics, 1936, p. 6.

[3] The average yield per harvested acre was lower in 1916 than in any other year between 1890 and 1933. See United States Department of Agriculture, Agricultural Statistics, 1952, pp. 1-2.

over from the crop of 1915 was soon absorbed and by July, 1917, we had only 80 million bushels of wheat in stocks.[1]

In the early spring of 1917 each of the European Allies, as well as several of the neutral countries, was constantly in the American market placing competitive bids for all of the cash wheat and flour available. The price of wheat received by farmers advanced from an average of about $1.55 per bushel in December, 1916, to nearly $2.50 in May, 1917.[2]

Competitive bidding for our rapidly declining supply of wheat, however, was not the only factor responsible for this spectacular advance in price. At the same time that the Allied Powers were bidding for cash wheat, they entered the futures market and purchased heavily in May futures on the Chicago Board of Trade. They desired delivery of the grain in fulfillment of their contracts. Futures dealers were frantic in an effort to cover their "short sales" and, in consequence, prices of spot grain rose to hitherto unknown values. On May 11, No. 2 Red Winter wheat sold in Chicago for $3.45 per bushel. On the following day the Chicago Board of Trade suspended operations in May futures and forced the settlement of outstanding contracts at agreed upon prices.[3]

---

[1] The average carry-over for the five-year period 1909-1914 was 105 million bushels. The carry-over from the 1915 crop was 225 million bushels. United States Department of Agriculture, The Wheat Situation, September-December, 1947, p. 11.

[2] United States Department of Agriculture, The Wheat Situation, January-March, 1952, p. 2.

[3] Surface, The Grain Trade During the World War, p. 28.

This sharp increase in price was not indicative of farmer profits. Farmers had marketed the bulk of their crop before the price advances occurred. Out of a total of 620 million bushels of the 1916 crop leaving the farms, 570 million bushels had been marketed by April, 1917. Thus about 90 per cent of the 634 million bushels produced was out of wheat growers' hands before the spectacular rise in price began. During May and June, 1917, when wheat prices were at their peak, only 5 per cent of the 1916 crop was marketed by farmers.[1] Consequently they realized only a small part of the profits from the high prices of May and June.

The United States Enters the War

The United States entered the war in April, 1917. Our entry more definitely crystallized public policy with respect to food supplies. The economic stimulus to produce more wheat was reinforced by official propaganda which was designed to induce concentrated efforts to increase our production. The slogan was, "Food will win the war." But the 1917 growing season for wheat was poor and only 46 million acres were

---

[1] United States Department of Agriculture, Yearbook, 1918 (Washington, 1919), p. 680. The average price received by farmers for wheat rose from 93 cents per bushel in July, 1916, to nearly $1.65 in February, 1917. During this time farmers marketed 545 million bushels, 88 percent of total marketings from the 1916 crop, at an average price weighted by sales of $1.29 per bushel. See Ibid., pp. 468, 680.

harvested. Total production was a mere 620 million bushels, even less than the poor crop of 1916.[1]

Although wheat growers realized only small profits from the high prices that prevailed in the spring of 1917, these same prices caused consumers to suffer severely. The price of flour, as would be expected, closely followed the price of wheat. The average wholesale price of flour in Chicago advanced from $8.30 per barrel in December, 1916, to slightly over $16.00 in May, 1917, an increase of better than 90 per cent.[2] Surface has estimated that consumers in this country paid $200 million more for flour during the first half of 1917 than would be justified by reasonable margins above the price which the farmers received for their wheat.[3] These price advances emphasized the importance of wheat in the war program and demonstrated clearly the immediate necessity for measures to protect consumers from any unscrupulous speculation which might accompany skyrocketing prices.[4]

---

[1] United States Department of Agriculture, Agricultural Statistics, 1952, p. 2. Abandonment of fall-sown wheat was exceptionally heavy in 1917, 31 percent of the acreage sown was not harvested. See United States Department of Agriculture, Yearbook, 1917 (Washington, D. C., 1918), p. 620.

[2] United States Department of Agriculture, Yearbook, 1917, p. 622.

[3] Surface, The Grain Trade During the World War, pp. 28-29.

[4] The six months preceding the passage of the Food Control Act had been a period of uncontrolled speculation in all foodstuffs. In 1917, when the Act was passed, the retail cost of food was 52 per cent higher than in 1913 and 35 percent high than it was in 1916. Frank M. Surface, The Stabilization of the Price of Wheat During the War and Its Effect Upon the Returns to the Producer (Washington, 1925), p. 12.

The Food Control Act

The Food Control Act was passed on August 10, 1917. Through this Act the President was given extensive powers to control the entire food supply of the nation. On the same day that the Food Control Act became a law, the President issued an executive order creating the United States Food Administration. An appropriation of $150 million was made for use by the Food Administrator.[1]

The Food Control Act contained a multitude of regulations and provisions. Surface states:

> Among other things this Act provided for co-operation with the Allied Governments in food supply; the control of profiteering in food trades; a guarantee of a minimum price of $2.00 per bushel for wheat of the 1918 crop, and authorized the President to purchase, to store and to sell for cash "wheat, flour, meal, beans and potatoes" and to carry out the provisions for a guaranteed price for wheat. . . .[2]

Section 2 of the Food Control Act authorized the President for the purpose of implementing the Act ". . . to create and use any agency or agencies. . . ."[3] Section 11 authorized him ". . . from time to time to purchase, to store, to provide storage facilities for and to sell for cash at reasonable prices, wheat, flour, meal, beans and potatoes. . . ."[4]

---

[1] This appropriation was inadequate to meet the needs of the Grain Corporation. It was necessary to raise $385 million of private capital in addition to the original appropriation. Ibid., p. 17.

[2] Ibid., p. 11.

[3] Surface, The Grain Trade During the World War, p. 496.

[4] Ibid., p. 499.

Acting under this authority the President, in order to check speculation and bring wheat supplies and prices under control, issued an executive order on August 14, 1917, creating the Food Administration Grain Corporation. This corporation was to serve as part of the administrative machinery necessary to carry out the provisions of the Food Control Act. The Food Administration Grain Corporation was capitalized at $50 million out of the $150 million appropriated to the Food Administrator. This capital was increased from time to time by later executive orders.

The essence of the plan under which the Grain Corporation operated was to establish definite government buying prices at the terminal markets and then, by cooperation with the trade, to insure that wheat growers would receive a fair reflection of this price at their local elevators. As soon as adequate supplies had been accumulated, the Grain Corporation stood ready to sell or buy wheat at the established price, thus effectively stabilizing the price at that particular level.[1] In order to put this plan

---

[1] Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), p. 166. While a primary purpose of the Grain Corporation was to provide a method of putting into effect the Congressional guarantee of the price of wheat to the producer, it also had other objectives. "The Grain Corporation also undertook to see that wheat supplies were equitably distributed to American mills, and to control the prices at which flour and other products were sold by the mills to the consumer. It also controlled cereal supplies for export to Allied and neutral governments. This control was handled through the War Trade Board, which would not issue export licenses unless these were approved by the War Food Administration and by the Treasury, which had a committee to coordinate all Allied buying in the United States. The Grain Corporation sold its cereals and cereal products (for export) to the Wheat Export Company in New York, which was a part of the Allied Wheat Executive established by the Allied governments in London." Ibid., p. 166.

into operation for the 1917 wheat crop, the Grain Corporation faced the problem of determining the price at which Government agencies would purchase the crop.

Congress, in the Food Control Act, had provided a definite guaranteed minimum price of $2.00 per bushel at the principal interior markets for the 1918 wheat crop, but no reference was made to the 1917 crop. However, because of efforts on the part of the Allied Governments to fix prices for American wheat, it was soon evident that price provisions had to be made for the 1917 crop.[1] Section 14 of the Act authorized the President, whenever he found an emergency existed requiring the stimulation of wheat production, to fix a reasonable guaranteed price in order to insure producers a reasonable profit.[2] However, since the Act was not passed until August, 1917, it was impossible to stimulate production for that year. Consequently there was no direct authority by which the President could set a guaranteed minimum price for the 1917 wheat crop, but indirect authority did exist. Indirect

---

[1] Before we came into the war the Allied Governments had consolidated their purchasing of world wheat into a single buying agency, thus abolishing competition among themselves. Since they had control of world shipping, this agency was the sole buyer of our export wheat. The domestic price of our wheat was fixed by the price which could be realized for the export surplus. Since export buying was all in one hand, the price of wheat to our farmers was, therefore, determined by the price which the Allied Powers' agency determined was necessary to insure continuing supplies. Domestic prices started falling rapidly toward that level. Surface, The Stabilization of the Price of Wheat During the World War and Its Effect Upon the Returns to the Producer, pp. 7-8.

[2] Surface, The Grain Trade During the World War, pp. 501-502.

authority was found in the provisions of the Food Control Act which gave the President power to buy and sell wheat and flour; to enter into voluntary agreements and to license and prescribe regulations for licenses; to requisition food and other supplies needed for public use.[1] On August 30, 1917, the President announced a "fair" price for the 1917 crop.[2] It was set at $2.20 per bushel for No. 1 Northern Spring wheat and equivalent grades at Chicago with differentials for other grades and markets.[3]

The Congressional guarantee of $2.00 per bushel for the 1918 crop stimulated fall seeding of wheat. The seeded acreage of winter wheat rose to 43.3 million acres as compared with 37.9 million the preceding fall and an average of 32.9 million for the five-year period, 1909-13.[4] However, early in the spring of 1918 the food situation of the Allies was so serious that it was considered advisable to extend additional inducements to further stimulate the seeding of spring wheat. It was also believed that the price of $2.20 determined by the President's committee for the 1917 crop would be a fairer price for the 1918 crop than would the

---

[1] Ibid., p. 64.

[2] The fair price was defined as one which was high enough to yield a reasonable return to the producer but which would not cause the consuming public to suffer unduly. This price was determined by an independent committee of twelve men, none of whom were connected with either the Grain Corporation or the Food Administration. For an excellent discussion of the determination of the "fair" price for the 1917 wheat crop see: Ibid., pp. 64-75.

[3] Ibid., p. 72.

[4] United States Department of Agriculture, Agricultural Statistics, 1936, p. 7.

lower price of $2.00 authorized by Congress. Therefore the President, in February, 1918, issued a proclamation extending to the 1918 crop the same prices that had been in effect for the 1917 crop.[1]

In order to offset increased operating costs, the railroads, in June, 1918, were granted a horizontal increase in freight rates of 25 per cent. This increase would have penalized wheat growers to the extent that freight had to be paid to terminal markets. To minimize the effect of this advance on wheat growers, the President increased the guaranteed price at the principal markets. This raised the basic price of No. 1 Northern at Chicago from $2.20 to $2.26 per bushel.[2] There were, of course, proportionate increases at other markets and for other grades.

A record breaking acreage of some 61 million acres was harvested in 1918. Total production was some 904 million bushels, our second largest crop up to that date.[3] It appeared that we had wheat enough to meet our own needs and those of the Allies. We exported about 277 million bushels that year.[4] This was a situation completely different from the one that had confronted us in 1917. It was possible, therefore, to

---

[1] Surface, The Grain Trade During the World War, pp. 113-114, 520-521.

[2] Benedict, Farm Policies of the United States, 1790-1950, p. 166.

[3] United States Department of Agriculture, Agricultural Statistics, 1936, p. 6.

[4] Ibid., p. 6.

make fundamental changes in wheat control and production policy. However, since there was reason to believe that the war might continue for many months, or even years, it was considered advisable to accumulate a substantial wheat reserve to meet possible future needs.

In July, 1918, the President requested the Agricultural Advisory Committee to study the wheat situation and to make recommendations regarding a price guarantee for the 1919 crop. The Committee, on August 9, 1918, submitted a resolution proposing that a minimum price of $2.46 per bushel for No. 1 Northern Spring wheat or its equivalent, based on Chicago delivery, be fixed for the 1919 crop. This proposed increase over the Congressional guarantee of $2.00, as had been provided in the Food Control Bill for the 1918 crop, was opposed by consumer groups. It was their opinion that the farmer was receiving a fair return for his efforts and that such an increase in price would constitute an undue burden upon consumers in this country and, also, upon the Allied Powers. Herbert Hoover, Food Administrator, suggested that the President compromise by extending the 1918 Chicago market guarantee of $2.26 to the 1919 crop instead of the $2.00 as provided in the law under the Food Control Bill. On September 2, 1918, President Wilson issued a proclamation extending the price guarantee of $2.26 per bushel based on No. 1 Northern at Chicago to all wheat harvested in 1919 and marketed

before June 1, 1920.[1] The Armistice was signed in less than three months after this proclamation was issued.

Early Postwar Developments

The extension of the guaranteed price, backed by its success in two previous years and the increased returns to farmers, along with war propaganda calling for more production, resulted in a greatly increased seeded acreage for the 1919 crop. The area planted to all wheat (winter and spring) amounted to over 77 million acres, by far the largest ever seeded in the United States.[2] Wartime demands stimulated expansion of wheat growing and led to a marked revival of wheat culture in sections where wheat land had been converted to other uses. This expansion was accomplished at the expense of other small grains, flaxseed, and corn; also by "breaking" grassland in the west.[3]

In the spring of 1919 the prospects were for a record-breaking crop. With large stocks of wheat in Australia and Argentina, along with a release of shipping facilities making it possible to place it on the market,

---

[1] Surface, The Grain Trade During the World War, pp. 146-147. For text of this proclamation see pp. 525-526. For a detailed account of legislative attempts to raise the guaranteed price of wheat for the 1919 crop above the guarantee for the 1918 crop see Ibid., pp. 315-355.

[2] United States Department of Agriculture, Agricultural Statistics, 1952, p. 2.

[3] Henry C. Wallace, "The Wheat Situation," Agriculture Yearbook, 1923 (Washington, 1924), pp. 130-137.

it appeared that the world price of wheat might fall below the guaranteed price. The Government, if it were to maintain its pledge to the wheat producers, would lose considerable money and would need additional storage facilities to handle the crop. This situation resulted in Congress passing the "Wheat Guarantee Act." This Act amplified the powers of the President in respect to controlling the marketing and distribution of wheat and provided an appropriation of one billion dollars for carrying out the price guarantee for the 1919 crop.[1]

The Food Administration Grain Corporation had been designated to carry out only the guarantee for the 1918 crop; this guarantee expired on June 1, 1919. It was therefore necessary for the President to create or designate an agency to carry out the 1919 guarantee. On May 14, 1919, the President issued an executive order creating the position of United States Wheat Director. The Director was given such powers as might be required to effectuate the 1919 wheat price guarantee. This executive order also discontinued the Food Administration Grain Corporation, effective June 30, 1919, and created its successor, the United States Grain Corporation.[2]

---

[1] Surface, The Grain Trade During the World War, pp. 149-155. The official title of the "Wheat Guarantee Act" was: "An Act to enable the President to carry out the price guarantees made to producers of wheat of the crops of 1918 and 1919 and to protect the United States against undue enhancements of its liabilities thereunder." Ibid., p. 154.

[2] Surface, The Stabilization of the Price of Wheat During the War and Its Effect Upon the Returns to the Producer, pp. 36-37.

The 1919 harvest of 952 million bushels was our second largest, though far from the 1,250 million bushels predicted early in the growing season. At the high prices prevailing in 1919 this crop had a farm value of over $2 billion, more than twice the dollar value of the 1915 record crop.[1] This relatively large crop was marketed with fewer problems than had been anticipated. Foreign markets were more receptive than had been expected, and, since shipping was not released from war activities as rapidly as had been anticipated, the movement of accumulated wheat stocks from the Southern Hemisphere was delayed.

Another factor which contributed to the successful disposal of the 1919 crop was a temporary increase in domestic consumption of wheat and wheat products.[2] After the Armistice, partly as a reaction against the restrictions of the war period, there was a greatly increased demand for wheat flour, especially of the better grades. This was augmented by the high purchasing power of consumers during the post-war boom. Total domestic consumption of wheat for food rose from a pre-war average of 474 million bushels to 566 million.[3] Net exports of wheat and flour were

---

[1] United States Department of Agriculture, Agricultural Statistics, 1952, p. 2.

[2] In 1919 domestic consumption of wheat was 6.9 bushels per capita, .7 bushel more than the preceding year. By 1920 the per capita consumption had dropped to 4.6 bushels. U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, 67 Congress, 1 sess., House Report No. 408, Part I, October 15, 1921 (Washington, 1921), p. 157.

[3] Surface, The Grain Trade During the World War, p. 159.

equivalent to about 216 million bushels.[1] These factors enabled the Grain Corporation to dispose of a considerable portion of our surplus wheat and to maintain the guaranteed price without any loss to the Treasury.[2] However, without the support of the guarantee the price would have fallen. Surface points out that

> . . . the Grain Corporation found it necessary, in the protection of the guaranteed price, to purchase more than 138,000,000 bushels of wheat. If this quantity of wheat had been offered on the market, without the protection afforded by the Grain Corporation buying, the price would inevitably have gone well below the guaranteed level.[3]

The Wheat Guarantee Act had provided ". . . that after June first, nineteen hundred and twenty, neither the President nor any agency acting for him shall purchase or contract for the purchase of wheat flour."[4] In order to comply with the law it was, therefore, necessary to terminate the functioning of the United States Grain Corporation as of June 1, 1920. After a three-year period in which individual interprise had been highly restricted, the wheat market was returned to commercial channels. Trading in futures on the Chicago Board of Trade was resumed on July 15, 1920.[5]

---

[1] United States Department of Agriculture, Agricultural Statistics, 1936, p. 6.

[2] Surface, The Stabilization of the Price of Wheat During the War and Its Effect Upon the Returns to the Producer, p. 18.

[3] Ibid., p. 18.

[4] Surface, The Grain Trade During the World War, pp. 512-513.

[5] Benedict, Farm Policies of the United States, 1790-1950, p. 166.

CHAPTER III

AGRICULTURAL CONDITIONS AND LEGISLATIVE PROPOSALS IN THE EARLY 1920's

The Postwar Boom

During 1919 and the first half of 1920 many of the wartime forces continued to operate in the agricultural market. Europe, hungry and ill clothed, presented an enormous demand for our agricultural products. European purchasing power, supported by generous extensions of credit from the United States, provided an effective and active market for many of our agricultural products. Farmers continued to produce in abundance and, despite large crops, prices continued to rise. Prices of farm products reached their highest level in July, 1919, when they rose to 246 per cent of the 1913 base. Approximately a year later, May, 1920, the highest point of the all-commodity index, 272 per cent above the 1913 base, was reached.[1]

Domestic trade flourished and farmers bought expensive cars, trucks, tractors, and farm machinery. Farm land was in great demand and active speculation carried prices to extremely high levels. This was accompanied by a heavy increase in the amount of mortgage debt. There

---

[1] U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, 67 Congress, 1 sess., House Report No. 408, Part I, October 15, 1921 (Washington, 1921), p. 29.

was a similar boom in the purebred livestock industry and fantastic prices were paid for breeding animals.[1]

The Postwar Slump

In the fall of 1920, the postwar boom-market which had endured while credits granted to Europe remained unexpended and while, at home, citizens were using bonds to buy goods, came to an end.[2] European buyers not only reduced their purchases in this country, but they also turned to other sources of supply. Agricultural prices in the United States dropped severely and land values plunged downward. Farmers had used credit freely in buying more land and equipment and had set aside little as a surplus to offset any possible losses in commodity prices. They found themselves, shortly, with over-expanded acreages and heavy burdens of debt and taxation.[3]

The Secretary of Agriculture reported a shrinkage in the total value of all crops from $16 billion in 1919 to nearly $13 billion in 1920.[4]

---

[1] Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), p. 168.

[2] Chester C. Davis, "The Development of Agricultural Policy Since the End of the World War," Yearbook of Agriculture, 1940 (Washington, 1940), p. 299.

[3] For an excellent discussion of the causes and extent of the depression which began in 1920, see Henry C. Wallace, Our Debt and Duty to the Farmer (New York, 1925), pp. 26-89; also see G. F. Warren, "The Agricultural Depression," Quarterly Journal of Economics, XXXVIII (February, 1924), pp. 183-213.

[4] United States Department of Agriculture, Yearbook, 1920 (Washington, 1921), p. 17.

At the same time there was a tremendous increase in taxes which, along with smaller incomes, added a burden that was extremely difficult for farmers to carry. In 1921 taxes were approximately one-third of the farm receipts less expenses other than taxes. In 1913, they were only about one-tenth of these farm receipts.[1] Furthermore, old debts had to be paid with income from products that brought sharply lower prices.[2] Confronted with this array of contracting economic perspectives, farmers began to turn to the Federal Government for relief.

The Joint Commission of Agricultural Inquiry

In June, 1921, Congress created a Joint Commission of Agricultural Inquiry which was directed to investigate and report to Congress upon the following:

(1) The causes of the present condition of agriculture.

(2) The cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer.

(3) The comparative condition of industries other than agriculture.

---

[1] United States Department of Agriculture, Yearbook, 1922 (Washington, 1923), p. 7.

[2] The farmer's condition in 1920, measured by the purchasing power of his dollar (including food and farm products with all other products), was only 89 per cent of its 1913 magnitude. This was worse than in any other year since 1901, with the exception of 1903 and 1906. U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, p. 31. By April, 1921, the purchasing power of all farm products in terms of all commodities (excluding food and farm products), was down to 63 per cent as compared to prewar. Ibid., p. 27.

(4) The relation of prices of commodities other than agricultural products to such products.

(5) The banking and financial resources and credits of the country, especially as affecting agricultural credits.

(6) The marketing and transportation facilities of the country. [1]

In October, 1921, the Commission submitted a voluminous analysis of the situation. The inquiry was divided into four main parts: The Agricultural Crisis and Its Causes; Credit; Transportation; and Marketing and Distribution. [2]

The Commission attributed the distress of agriculture primarily to the general business depression which began in 1920. Overproduction or overmarketing of farm products in 1920 was not deemed to be an important cause of the subsequent price decline. [3] In its report the Commission remarked that "business cycles of alternating great prosperity and succeeding great depression, such as that from which we are now emerging, have occurred in a more or less regular way among all modern highly organized nations." [4] Commenting upon the Commission's interpretation

---

[1] Ibid., p. 9.

[2] U. S. Congress, House, Report of the Joint Commission of Agricultural Inquiry, 67 Congress, 1 sess., House Report No. 408, Part I, October 15, 1921 (Washington, 1921); Part II, October 14, 1921 (Washington, 1922); Part III, October 15, 1921 (Washington, 1922); Part IV, October 15, 1921 (Washington, 1922).

[3] Chester C. Davis, "The Development of Agricultural Policy Since the End of the World War," Yearbook of Agriculture, 1940, p. 300.

[4] U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, p. 11.

of the difficulties in terms of business cycle phenomena rather than of world-wide disorganization resulting from war, Benedict states:

> The Commission . . . missed the point of the whole inquiry . . . . It had not yet recognized that this was no ordinary business cycle nor that farmers would have little patience with proposals to let the situation be worked out through the slow and painful process of uncontrolled economic forces. [1]

The Commission submitted recommendations for legislation which, in its opinion, would tend to remedy the existing difficulties. The recommendations placed emphasis upon a conservative long-term program of agricultural legislation, not upon measures to deal with emergency situations. The Commission's foremost recommendations were for clarification of the legal position of farmers' cooperatives beyond that provided by the Clayton Amendment of 1914, legalizing cooperative combinations of farmers, for the creation of intermediate credit banks, and the lowering of freight rates on agricultural products. [2] It was the Commission's belief that improvement in conditions could not ". . . be brought about by legislative formulas, but must be the result for the most part of the interplay of economic forces." [3]

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 201.

[2] For a summary of the Commission's findings and their recommendations see U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, pp. 10-25. The legislative proposals made by the Commission were in keeping with those of the major farm organizations, possibly in the main merely a reflection of the views then held by the leaders of the various farm groups. See Benedict, Farm Policies of the United States, 1790-1950, p. 201.

[3] U. S. Congress, House, The Agricultural Crisis and Its Causes, Report of the Joint Commission of Agricultural Inquiry, p. 11.

The Farm Bloc

Although organized farmers were not a significant factor in policy making during the years of World War I, the increasing severity of distress in farm areas during the early postwar years soon brought the farm organizations to grips with the farm problem. Seeking a panacea for the farmers' plight, they did not overlook the possibility of federal aid.

In May, 1921, Grey Silver, Washington representative of the American Farm Bureau Federation, met with a group of senators from the dominantly agricultural states to consider ways of effectuating the legislative programs desired by the agricultural organizations. This meeting resulted in the formation of a "farm bloc," which was to wield much power and exert a powerful influence upon the course of farm legislation in the succeeding years.[1]

Pressure from the Bloc resulted in the enactment of a number of measures which farm leaders hoped would promote the more profitable

---

[1] Grant McConnell, The Decline of Agrarian Democracy (Berkeley & Los Angeles, 1953), p. 57.

marketing of agricultural products.[1] According to Hicks, the principal measures promoted by the Bloc had as their purpose either the easement of rural credits or the promotion of cooperative marketing.[2]

The Capper-Volstead Act

As a result of wartime overexpansion of productive capacity and the subsequent loss of foreign markets, as well as other factors, agriculture was faced with readjustments of major proportions after the price collapse of 1920. This situation precipitated a crisis in agriculture which led to a multitude of attempts to improve and stabilize agricultural prices. In the early 1920's the idea of "orderly marketing" had become popular in agricultural circles. This interest was given further impetus by the widely publicized "Sapiro" campaign for the organization of cooperative selling agencies on regional, national, and commodity-wide bases.[3] The attack on the California Associated Raisin Company in 1920, under the Sherman law, along with the elements of monopoly

---

[1] Farm group pressure was strong and the Bloc soon became important politically. Within a period of only three months after its organization, five measures advocated by the Bloc were passed. These were: (1) The Packers and Stockyards Act; (2) The Futures Trading Act; (3) The Emergency Agricultural Credits Act; (4) An amendment to the Farm Loan Act raising the interest on Federal Land Bank bonds, to the investor, from 5 to 5 1/2 per cent, without increasing the rate to the borrower; (5) Another amendment to the Farm Loan Act increasing the capital of the Federal Land Banks and authorizing an increase in the maximum size of loan. Benedict, Farm Policies of the United States, 1790-1950, pp. 182-183.

[2] John D. Hicks, The American Nation (Boston, 1949), p. 547.

[3] Benedict, Farm Policies of the United States, 1790-1950, pp. 184, 194-195.

principle embodied in the Sapiro approach, gave rise to the demand that agricultural cooperatives be given greater protection against the operation of the antitrust laws and that the legal standing and limitations of cooperative associations be more clearly defined. [1]

These influences were instrumental in the passage of the Capper-Volstead Act in February, 1922. This Act strengthened the legal position of cooperatives with respect to antitrust legislation and set forth the conditions under which they might engage in interstate commerce. [2] To reap the benefits of the Act, it was necessary that members conform to one or both of two requirements: (1) that no member be allowed more than one vote because of the amount of stock or membership capital owned by him, and (2) that the association not pay dividends on stock or membership capital in excess of 8 per cent per annum. It was also necessary that the cooperative association should not deal in the products of nonmembers to an amount greater in value than that which was handled for members. The Secretary of Agriculture was to administer the Act. [3]

The Agricultural Credits Act

Agitation for marketing reform was paralleled by demands for further improvement in credit facilities for agriculture. Agricultural

---

[1] Dudley F. Pegrum, The Regulation of Industry (Chicago, 1949), pp. 255-256.

[2] Henry H. Bakken and Marvin A. Schaars, The Economics of Cooperative Marketing (New York and London, 1937), pp. 281-283.

[3] For a copy of this Act see Ibid., pp. 555-556.

leaders contended that contraction of credit had been a principal factor in the drastic price decline of 1920 and 1921. They were strongly of the opinion that the farmers' financial problem could have been alleviated substantially if operating credit, providing loans for terms corresponding to the length of the production period, and at rates comparable to those paid by businessmen, had been available. This resulted in the passage of the Agricultural Credits Act in 1923.

This Act provided for the establishment of twelve Federal Intermediate Credit Banks designed to tap the money market of the nation through the sale of short-term debenture bonds secured by the general assets of the Banks and chattel mortgages on farm property. The proceeds from the sale of these debentures were to be loaned to commercial banks and other credit agencies on the security of agricultural paper held by the local lenders. These banks were to be intermediate not only in the sense of standing between the investment markets and the local lending agencies but intermediate also in the maturity terms of the loans. Commercial banks up to this time had been able to rediscount agricultural paper with Federal Reserve Banks with maturities not to exceed six months. The Intermediate Credit Banks were empowered to make loans having maturities from six months to as long as three years to meet the liquidation characteristics of farming and also to make loans to agricultural cooperative business associations.

The basic function of the Federal Intermediate Credit Banks was soundly conceived but in their early years they failed to provide the

degree of assistance to agriculture which had been expected of them. They could not lend directly to individual farmers. Loans had to be made through local agencies such as finance corporations, commercial banks, or livestock loan companies. The Act made specific provision whereby local groups could form agricultural credit corporations for the sole purpose of obtaining funds through the Intermediate Credit Banks, but comparatively few were formed.[1] This was partly because the capital stock requirement was rather high for farmer groups and partly because commercial bank credit became more readily available soon after the passage of the Agricultural Credits Act.

The volume of loans made by the Intermediate Credit Banks to commercial banks was small. Murray cites four reasons for this: (1) Many of the loans in the commercial banks were not suitable for purchase by the Intermediate Credit Banks; (2) the commercial banks were not interested in having their profit margins limited to the 1.5 per cent limit at first provided by the Act; (3) the practice of submitting to certain examination requirements of the Intermediate Credit Banks was not entirely acceptable to the commercial banks; (4) commercial banks which could meet the conditions imposed by the Intermediate Credit Banks could usually obtain credit from other banks,[2] and, most important, the Act

---

[1] Emil Samuel Troelston, The Principles of Farm Finance (Saint Louis, 1951), p. 108.

[2] William G. Murray, Agricultural Finance (Ames, Iowa, 1953), pp. 320-322.

which created the Intermediate Credit Banks also amended the Federal Reserve Act to allow Reserve Banks to rediscount agricultural paper having maturities up to nine months instead of the original six.

Although in the 1920's these banks did not succeed in lending the volume of funds which had been anticipated, they nevertheless did make up part of the deficiency in farm production credit and eventually provided an important channel through which funds from the central money markets were made available for non-real estate credit needs.

A More "Radical" Approach to the Farm Problem

During the early 1920's, action on the part of legislators and farm leaders was along traditional lines. The Administration did not encourage direct assumption of responsibility for the well-being of agricultural interests by the Federal Government. In his opening address to the National Agricultural Conference which was held in Washington in January, 1922, President Harding said:

> It cannot be too strongly urged that the farmer must be ready to help himself. This conference would do most lasting good if it would find ways to impress the great mass of farmers to avail themselves of the best methods. By this I mean that, in the last analysis, legislation can do little more than give the farmer the chance to organize and help himself. [1]

Such was the philosophy of the Administration so far as the farm problem was concerned.

---

[1] U. S. Congress, House, Report of the National Agricultural Conference, 67 Congress, 2 sess., House Document No. 195, Vol. 115, March 3, 1922 (Washington, 1922), p. 10.

Throughout the early 1920's, farm production remained high and foreign markets continued depressed. To many it seemed logical that American farm markets should be insulated from the depressing effects of these foreign markets. Pressure from representatives of the western farmers resulted in the enactment of the Emergency Tariff Act of 1921. This Act provided for sharp increases in the duties on wheat as well as several other agricultural products. It also prohibited the dumping of foreign goods in the United States. This Act was merely a stopgap measure. A more thoroughgoing tariff revision was effected by the Fordney-McCumber Act, passed in 1922. This particular Act placed the tariff on wheat at 30 cents per bushel.[1]

These measures, however, did not seem to be alleviating the farmers' problems. Agrarian leaders began to search for a "scheme" that would boost prices and help the farmer receive a fair share of the national income. It was apparent that more radical measures were needed--Federal Government aid directly available to farmers--to cope with the maladies of the agricultural industry.

During the early years of the decade, there was a continuous attempt to get the Federal Government to shoulder responsibility for aiding commodity markets. It was the belief of many that the exportable surplus was the chief cause of the farmers' problems. The wheat surplus was a

---

[1] For discussion of these Acts see Hicks, The American Nation, p. 529; Benedict, Farm Policies of the United States, 1790-1950, pp. 202-205.

prime example of this belief. Wheat production in the United States greatly exceeded amounts required for domestic consumption, and the surplus had to be sold on the world market in competition with other wheat producing nations. Consequently, prices received by wheat farmers were dependent upon world-wide conditions of demand and supply. Prices in the United States differed from world prices only by the cost of transportation to a given foreign port.

It was recognized that an adjustment of farm production to the new conditions of demand was in order. At the National Agricultural Conference of 1922, the committee on agriculture and price relations reported in part:

> The manufacturer has in the past quickly adjusted his production to price recessions while the farmer has not. When farm production is so large that the product can not [cannot] be sold for prices that will maintain a reasonable standard of living on the farms, the supply is too large. We recommend that the farmers and the farm organizations consider the problem of world supply and demand and make comprehensive plans for production programs so that they may be able "to advise their members as to the probable demand for staples, and to propose measures for proper limitation of acreage in particular crops," as pointed out by the President of the United States. [1]

Thus it was recognized that demand had shrunk from its wartime level. However, little effort was directed toward reducing output, or to increasing the food-buying power of our own low-income groups, or to making possible larger nonagricultural imports so as to increase the

---

[1] U. S. Congress, House, Report of the National Agricultural Conference, pp. 137-138.

purchasing power of still hungry foreign nations.[1] Instead, the main emphasis of the proposed legislation was on artificial supports for the weak foreign market which was confronting farmers.

A number of legislative proposals for raising farm prices were put forward during the early years of the 1920's. Among them were the Norris Bill which proposed establishing a Government corporation to buy farm products in the United States for cash and sell them abroad on time; the Christopherson Bill which proposed that the Government establish a price for each major farm product, and buy up any surplus not sold at that price; the Ladd-Sinclair Bill which proposed that the United States Grain Corporation buy up sufficient quantities of specified commodities to make it possible for producers to sell at fixed minimum prices (which were to cover production costs plus a "reasonable" profit); the Gooding Bill which proposed the formation of a Government capitalized corporation to buy wheat produced in 1923, 1924, and 1925; and the Little Bill which proposed the appropriation of Federal funds with which the Secretary of Agriculture was to buy and store wheat at a price of $1.40 to $1.50 per bushel, providing the price fell below that level.[2] There were also others.

The most publicized proposal for an advantageous disposal of our exportable surplus, however, was embodied in a price-raising plan

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 207.

[2] For a summary of the proposals provided in these bills see Ibid., pp. 198-199, 207-208.

developed by George N. Peek, president of the Moline Plow Company, and Hugh S. Johnson, his assistant and general counsel. Peek and Johnson believed that they had developed a plan for "equality for agriculture." Their ideas, outlined in a pamphlet entitled Equality for Agriculture, later became the basis for the celebrated McNary-Haugen Bills which were highly controversial issues in farm legislation during the second half of the decade of the 1920's.

CHAPTER IV

THE McNARY-HAUGEN PROPOSALS

The Plan

Peek and Johnson emphasized that agricultural tariffs did not afford protection to farm crops of which the United States produced a surplus. In order for a tariff to be effective, they argued, domestic producers had to be able to determine prices behind tariff walls. Our tariff was not giving that kind of protection. Fite explains their point:

> For instance, the world price of wheat determined the domestic price, despite the tariff, because American surpluses forced the home market down to world levels. But while producers of surplus farm commodities had to take world prices, they were required to buy manufactured goods in a protected market, where industrial tariffs were effective and caused higher prices. In other words, farmers were buying in a protected market and selling in the competitive markets of the world. The result was a marked disparity . . . between agriculture and industry.[1]

Peek and Johnson proposed a two-price plan for surplus agricultural products. They summarized the principal features of their proposals as follows:

> The doctrine of protection must be revised to insure agriculture equality of tariff protection and a fair exchange value with other commodities, on the domestic market, or the protective principle must perish.

---

[1] Gilbert C. Fite, George N. Peek and the Fight for Farm Parity (Norman, Oklahoma, 1953), pp. 38-39.

It can be so revised only by some plan, in respect of surplus crops, to equalize supply with demand on the domestic market, at not to exceed fair exchange value with other commodities, to protect that value by a tariff, and to divert surplus to export and sell it at world price.[1]

The McNary-Haugen plan which proposed a legal framework for the ideas outlined by Peek and Johnson, was designed to make the agricultural tariff effective by establishing a two-price system for American agricultural products, a tariff-protected price for the home market and a world price for the foreign market. An agricultural export corporation, working with a capital of $200 million supplied by the Government, was to be established. This corporation was to be empowered to buy and to sell specified surplus agricultural commodities[2] on a scale great enough to raise the domestic price up to the "ratio-price."

The ratio-price was to be based on pre-war averages and was defined as the amount which would bear the same relation to the general price level as the price of the commodity supported had borne to the general price level in the period just prior to the World War. The ratio-price was free to increase or decrease as the general price level increased or decreased. Prices were free to go as much above the ratio-price as supply and demand would determine. Thus, in the strict sense

---

[1] Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), p. 209, quoting from George N. Peek and Hugh S. Johnson, Equality for Agriculture, 2nd edition (Moline, Illinois, 1922), p. 3.

[2] In the first McNary-Haugen Bill, the commodities specified were wheat, flour, corn, raw cotton, wool, cattle, sheep, and swine--or any food product manufactured from cattle, sheep or swine. See Darwin N. Kelley, "McNary-Haugen Bills, 1924-1928," Agricultural History, XIV (October, 1940), p. 174.

of the term, the plan was not a price-fixing scheme as was claimed by some of its opponents. However, it was price-fixing to the extent that prices were not to be allowed to fall below the ratio-price in the home market.

Whenever the domestic price of a basic farm commodity, wheat for example, became lower than the ratio-price, the corporation was to purchase the surplus at the ratio-price. By buying on large enough scale, the domestic price of wheat would be brought up to the ratio-price. The corporation would then sell the wheat abroad at whatever price prevailed in the world market. The corporation would suffer a loss on the wheat exported by an amount equal to the difference between the domestic price (the ratio-price) and the world price. The loss sustained was to be paid by the farmers themselves through the payment of an equalization

fee on each bushel of wheat they sold.[1] The plan included a flexible tariff provision which authorized the President to raise the rate sufficiently to protect the corporation in its operations. The tariff was to be at least equal to the difference between the domestic ratio-price and the

---

[1] The original McNary-Haugen Bill, as introduced in the House, provided a scrip device for collecting the equalization fee. According to this plan, the purchaser of each basic commodity was required to pay the amount of the fee in scrip, which could be purchased at any postoffice. However, before Congressional debate started, the House Committee voted to eliminate the scrip provision. Instead of forcing buyers of farm commodities to purchase scrip with which to pay part of the selling price, farmers were to be paid cash for their products and receive an "equalization certificate" for the amount of the fee. If the losses incurred through exporting the surplus were less than the corporation had estimated, they (the farmers) would be paid a pro rata amount on their certificates. Actually, the substitution of equalization certificates for scrip made little difference in the final analysis. In either case the objective remained the same--to provide farmers the "ratio-price" less a proportionate share of the loss on the quantity exported. According to Fite, ". . . the change was made for political reasons, since there was bitter opposition to the term 'script' [scrip] ." Fite, George N. Peek and the Fight for Farm Parity, p. 63. Also see Ibid., p. 61. For an excellent description of how the scrip plan was to operate see Benedict, Farm Policies of the United States, 1790-1950, pp. 213-214.

The second McNary-Haugen Bill, as introduced, dropped the provision for the use of scrip as the means of collecting the equalization fee. This bill did not come to a vote in Congress. See Black, Agricultural Reform in the United States, pp. 71, 234.

The third McNary-Haugen Bill, 1926, often referred to as the "Committee Bill," provided that losses from surplus disposal operations were to be financed through an initial revolving fund of $375 million. This fund was to be maintained by means of equalization fees assessed against each of the commodities handled, either when sold to first handlers or when processed. Under this plan a tax would be levied on each unit of the commodity sold. The proceeds of these "taxes" would go into a fund to be used in absorbing losses resulting from sales abroad at less than the domestic price. See Benedict, Farm Policies of the United States, 1790-1950, pp. 224-225.

price on the world market.[1] This provision was essential, otherwise wheat could be imported at a profit. The proposal made no provision for control of production of surplus commodities.

The McNary-Haugen plan was complicated, but Peek had a "knack" of making it sound both simple and convincing, especially when applied to the marketing of wheat. Explaining how wheat growers could secure the advantage of the tariff in the domestic market, i.e., world price plus the amount of the tariff, Peek wrote:

". . . America raises about 800,000,000 bushels of wheat. Of this production we use at home about 650,000,000 bushels. The remaining 150,000,000 must be marketed abroad. If the world price is $1 a bushel, then the farmer gets not merely $1 on 150,000,000 bushels, but on 800,000,000 bushels. His total crop revenue is $800,000,000 and the

---

[1] Peek had at first emphasized the principle of making the tariff effective for agriculture, but the first McNary-Haugen Bill stressed the ratio-price idea. Proponents of the bill were not anxious to raise the general tariff problem (which was political dynamite at that time) and hoped to avoid it by concentrating on principles of equality and fair exchange value. Fite, George N. Peek and the Fight for Farm Parity, p. 61.

In the second McNary-Haugen Bill, 1925, the price objective shifted from the ratio-price plan to the policy of making existing tariff duties effective in domestic prices. This would simply give farmers the world price, plus the tariff. The ratio-price feature was dropped in hope of avoiding charges of price-fixing. Peek explained later that the change was made for political reasons. However, he (Peek) was never satisfied with the change because domestic price plus tariff might not be equal to the ratio-price and, in his estimation, nothing less than the ratio-price was fair to American agriculture. Ibid., p. 108. Also see Black, Agricultural Reform in the United States, p. 234.

Commenting on this change, Benedict states: "World price plus the tariff might be higher or lower than the 'ratio-price,' but was more easily understood and more in keeping with the prevailing policy of tariff protection for American industries" Benedict, Farm Policies of the United States, 1790-1950, p. 225.

existence of a 42-cent tariff does not alter the case practically. But let us assume that the McNary-Haugen plan is operating, that the surplus is segregated in the market, and that the price rises to $1.40 a bushel. The total revenue now would be $1,120,000,000, an improvement of $320,000,000. However, there would still . . . [be] 150,000,000 bushels of wheat that would have to be sold abroad at $1 a bushel, the assumed world price. It is plain that a loss would be suffered on this surplus wheat of 40 cents a bushel, or $60,000,000 in all, plus costs of administration. Now the question arises where this money is to be found. . . . A charge would be placed against each bushel of wheat brought to market at the most convenient point of collection . . . . To arrive at this charge, costs and losses would be spread out over the whole crop. A total loss of $60,000,000 on 800,000,000 bushels means that each bushel is liable for 7 1/2 cents. A fee of 8 cents a bushel would be ample to cover all possible costs and losses on the operation. The elevator man, therefore, being subject to a charge of 8 cents a bushel, would be able to bid, not the full $1.40, but only $1.32. The farmer would thus get $1.32 for his wheat, instead of only $1 and his crop would be worth $1,056,000,000 instead of $800,000,000, a net gain of $256,000,000. [1]

It can readily be seen that under this plan the average price received by wheat farmers, so long as a surplus was produced, would have been less than the world market price plus the tariff. However, if no more wheat was produced than that required for domestic consumption, wheat growers would have received the world price plus nearly all the tariff. Thus the tariff would have been effective.

Endorsement of the Plan

On November 14, 1923, the Secretary of Agriculture, Henry C. Wallace, gave his first public endorsement of Peek's export proposal in an address before the Chicago Association of Commerce. [2] Additional

---

[1] George N. Peek, "The McNary-Haugen Plan for Relief," Current History, XXIX (November, 1928), pp. 275-276.

[2] Fite, George N. Peek and the Fight for Farm Parity, p. 57.

and stronger endorsements were to follow.[1] On November 23, the Secretary delivered to the President a report on the wheat situation in which he officially recommended that the Government set up an export corporation to handle surplus agricultural crops. The closing paragraphs of the report stated:

> Inasmuch as the first step looking toward increasing the domestic prices requires the disposition of the surplus over and above domestic needs, and inasmuch as the facts presented in the foregoing pages indicate that the world production of wheat will probably be over-large for another year or so, the suggestion that the Government set up an export corporation to aid in the disposition of this surplus is worthy of the most careful consideration. Such a corporation necessarily would need rather broad powers. It would not be necessary that it should undertake to handle the entire crop, and it could probably carry on its activities in cooperation with existing private agencies. If it should be found necessary to arrange for the sale of the surplus exported at a price much lower than the domestic price, the loss so incurred would properly be distributed over the entire crop.
>
> The prime duty of such an export corporation would be to restore, so far as possible, the pre-war ratio between wheat, and other farm products of which we export a surplus, and other commodities. Its activities would therefore expand or contract according as the relative prices for farm products varied with other commodities, and it would cease to function as pre-war ratios become fairly well restored.[2]

---

[1] See Henry C. Wallace, Our Debt and Duty to the Farmer (New York, 1925), pp. 192-213.

Wallace, later, received severe criticism from a colleague for his endorsement of the McNary-Haugen proposal. Herbert Hoover, who thought of the bill as a dangerous change in the traditional relationship between economics and government, wrote in his Memoirs, "My colleague, the Secretary of Agriculture [Henry C. Wallace], was in truth a fascist, but did not know it, when he proposed his price-and distribution-fixing legislation in the McNary-Haugen bill." See Herbert Hoover, The Memoirs of Herbert Hoover, The Cabinet and the Presidency, II (New York, 1952), p. 174.

[2] Henry C. Wallace, "The Wheat Situation," Agriculture Yearbook, 1923, p. 150.

The McNary-Haugen Bills in Congress

The McNary-Haugen proposals were repeatedly before Congress during the Coolidge Administration. The bills, in one form or another, were introduced in Congress five times.[1] Due to committee discussions, group pressures, and presidential vetoes, the mechanism for implementing the plan varied considerably in the several bills. However, at no time did the advocates of McNary-Haugenism abandon what they considered the essential ideas; (1) that the centralizing power of the Federal Government should be used to assist farmers to dispose of the surplus abroad and raise prices to the desired level in the domestic market, and (2) that the loss on the segregated exports was to be paid by the farmers themselves by means of an equalization fee.[2]

Although earlier drafts of the McNary-Haugen Bill met defeat at the hands of Congress, the last two versions, introduced in the 69th Congress, 2nd session, 1927, and the 70th Congress, 1st session, 1928, were passed by both the House and the Senate.[3] President Coolidge,

---

[1] The bills were introduced as follows: First bill, 68th Congress, 1st session, 1924; second bill, 68th Congress, 2nd session, 1925; third bill, 69th Congress, 1st session, 1926; fourth bill, 69th Congress, 2nd session, 1927; fifth bill, 70th Congress, 1st session, 1928. Benedict, Farm Policies of the United States, 1790-1950, p. 212.

[2] Chester C. Davis, "The Development of Agricultural Policy Since the End of the World War," Yearbook of Agriculture, 1940, p. 307.

[3] The first and third McNary-Haugen Bills, 1924, and 1926 respectively, were voted down in Congress. The second McNary-Haugen Bill, 1925, did not come to a vote. See Benedict, Farm Policies of the United States, 1790-1950, p. 219; Black, Agricultural Reform in the United States, pp. 70-73, 234-236.

however, condemned both bills in blistering veto messages to the Congress.[1]

In his veto message of the fourth bill, February 25, 1927, the President stated:

It is axiomatic that progress is made through building on the good foundations that already exist. For many years--indeed, from before the day of modern agricultural science--balanced and diversified farming has been regarded by thoughtful farmers and scientists as the safeguard of our agriculture. The bill under consideration throws this aside as of no consequence. It says in effect that all the agricultural scientists and all the thinking farmers of the last 50 years are wrong, that what we ought to do is not to encourage diversified agriculture but instead put a premium on one-crop farming.

The measure discriminates definitely against products which make up what has been universally considered a program of safe farming. The bill upholds as ideals of American farming the men who grow cotton, corn, rice, swine, tobacco, or wheat, and nothing else. These are to be given special favors at the expense of the farmer who has toiled for years to build up a constructive farming enterprise to include a variety of crops and livestock that shall, so far as possible, be safe, and keep the soil, the farmer's chief asset, fertile and productive.

The bill singles out a few products, chiefly sectional, and proposes to raise the prices of those regardless of the fact that thousands of other farmers would be directly penalized. If this is a true farm relief measure, why does it leave out the producers of beef cattle, sheep, dairy products, poultry products, potatoes, hay, fruit, vegetables, oats, barley, rye, flax and the other important agricultural lines? So far as the farmers as a whole are concerned, this measure is not for them. It is for certain groups of farmers in certain sections

---

[1] Although President Coolidge was quick to veto the McNary-Haugen Bills, he was reluctant to state what kind of a farm relief plan he wanted. In respect to this point, Gilfond states: "Since the President turned down the McNary-Haugen plan of farm relief, some of its sponsors tried to find out what he did want. Nothing could have been less fruitful: the President was not one to relish other people's jobs. 'Let Congress do whatever they want,' he replied, 'and send the bill over. I'll look at it and either sign it or veto it.'" Duff Gilfond, The Rise of Saint Calvin (New York, 1932), p. 251.

of the country. Can it be thought that such legislation could have the sanction of the rank and file of the Nation's farmers?[1]

Following this vigorous condemnation of the bill, the President continued with further objections to the measure. They were: (1) that it involved governmental fixing of prices; (2) that the plan would be impossible, or at least difficult, to administer; (3) that the equalization fee was not a true tax, but was a tax for the special benefit of particular groups and represented an unconstitutional delegation of the taxing power of Congress.[2]

A revised measure of the bill, the fifth McNary-Haugen Bill, was introduced in the spring of 1928. It was designed to meet the objections raised in the President's 1927 veto message. Despite the objections of the President, the equalization fee mechanism for exporting the surplus was retained. However, it was to be assessed only if it was impossible for the cooperatives to cope with the situation through other methods. Also, the legislation was to cover all commodities, not merely those designated as basic.[3]

The new proposal was passed by the Senate and House, but, just as its predecessor, was vetoed by the President. In his veto message

---

[1] U. S. Congress, Senate, Surplus Control Act, message from the President of the United States, 69 Congress, 2 sess., Senate Document No. 214, February 25, 1927 (Washington, 1927), pp. 1-2.

[2] Ibid., pp. 2-23.

[3] Benedict, Farm Policies in the United States, 1790-1950, p. 229.

the President stated that although the bill was less objectionable than its predecessor, it still contained the equalization fee and other features which were ". . . prejudicial . . . to sound public policy and to agriculture . . . ."[1] Furthermore, he declared that the revised bill in its entirety was ". . . little less undesirable than the earlier measure."[2] He further stated that the measure was unconstitutional, and was ". . . as repugnant as ever to the spirit of our institutions, both political and commercial."[3] Some of his arguments against the bill, undoubtedly, were valid. On the other hand, many of them were irrelevant and somewhat naive.[4] Regardless of the validity of his arguments, the veto message reflected a definite point of view regarding the function of government in economic affairs; namely, the Federal Government should not meddle with agricultural prices.

The President believed that we should avoid seeking in laws the solution to the ills of agriculture. "This mistake," he said, "leads away from a permanent solution, and serves only to make political

---

[1] U. S. Congress, Senate, Veto Message Relating to the Agriculture Surplus Control Act, message from the President of the United States, 70 Congress, 1 sess., Senate Document No. 141, May 3 (calendar day, May 23), 1928 (Washington, 1928), p. 1.

[2] Ibid., p. 1.

[3] Ibid., p. 2.

[4] John D. Black, "The McNary-Haugen Movement," American Economic Review, XVIII (September, 1928), pp. 411-412.

issues out of fundamental economic problems that can not [cannot] be solved by political action."[1] He advised Congress to follow his farm program. In his own words:

> I have believed at all times that the only sound basis for further Federal Government action in behalf of agriculture would be to encourage its adequate organization to assist in building up marketing agencies and facilities in the control of the farmers themselves. I want to see them undertake, under their own management, the marketing of their products under such conditions as will enable them to bring about greater stability in prices and less waste in marketing, but entirely within unalterable economic laws. Such a program, supported by a strong protective tariff on farm products, is the best method of effecting a permanent cure of existing agricultural ills. Such a program is in accordance with the American tradition and the American ideal of reliance on the maintenance of private initiative and individual responsibility, and the duty of the Government is discharged when it has provided conditions under which the individual can achieve success.[2]

The President summarized the bill's major weaknesses as follows: (1) its attempted price-fixing fallacy; (2) the tax characteristics of the equalization fee; (3) the widespread bureaucracy which it would set up; (4) its encouragement to profiteering and wasteful distribution by middlemen; (5) its stimulation of overproduction; (6) its aid to our foreign agricultural competitors.[3]

One of the strongest and most impelling reasons for the veto was stated by Secretary Mellon in June, 1926, and was scarcely mentioned by Coolidge in either of his veto messages.

---

[1] U. S. Congress, Senate, Veto Message Relating to the Agriculture Surplus Control Act, p. 10.

[2] Ibid., p. 10 (italics not in the original).

[3] Ibid., p. 2.

Foreign consumers under the proposed plan will secure American commodities at prices below the American level. European labor could purchase American products at a lower price and could live more cheaply than American labor. Foreign industrial costs would be lowered and the foreign competitor assisted in underselling American products abroad and in our home market.[1]

Thus, the position of industry should not be subjected to any possible increase in competition which might result from legislation to relieve an agricultural crisis.

Although the second veto was not a surprise, the finality with which it was accomplished, along with the tone of the message, completely stunned farmers and agrarian leaders. Clearly, the veto sanctioned the position of industry--it was both the political and the economic boss--and denied that the Federal Government had definite responsibility for maintaining a prosperous agriculture.

Criticisms by Economists

The McNary-Haugen proposals received considerable criticism from professional economists. For the most part, they argued against the bill's economic feasibility. As would be expected, some were extremely critical of the measure, while others were more sympathetic to its aims and purposes.

One of the earliest critics of the bill was Eric Englund, then of Kansas State College. In an article entitled "Fallacies of a Plan to Fix Prices of Farm Products by Government Control of the Exportable

---

[1] Quoted in John D. Black, Agricultural Reform in the United States, p. 248.

Surplus," Englund cited a heavy burden on the public treasury, higher taxes, higher cost of living, public opposition, and over stimulus in certain lines of agricultural production as major short comings of any government program to increase farm prices.[1] He warned that ". . . the proposed plan of fixing prices of farm products, instead of being helpful to the farmer, would be a boomerang to him and harmful to society as a whole . . . [and] would be worse than the disease which it is designed to cure."[2]

Rexford G. Tugwell, who was more favorable to social planning than were many of his professional colleagues, admitted that the protective features of the tariff favored manufacturers and that the agricultural industry needed special consideration. However, he criticized the McNary-Haugen plan because it aimed at extending the same favoritism to agriculture as was already being enjoyed by the manufacturing industry. He did not feel that the status quo, which was unfair to agriculture, could long be maintained. Attacking the economic nationalism implicated in the bill, he declared:

> The fundamental mistake of the McNary-Haugen bill's proponents is their failure to see the implications of the ideas embodied in it. A closed national system, defiance to the world, legislative jobbery for industrial advantage with the burden of expense falling on unrepresented consumers, are the most obvious of these implications. Nor would the system

---

[1] Eric Englund, "Fallacies of a Plan to Fix Prices of Farm Products by Government Control of the Exportable Surplus," Journal of Farm Economics, V (April, 1923), pp. 86-101.

[2] Ibid., pp. 100-101.

introduced by the bill ultimately strengthen the farmers except at the expense of some other class. We may seek to make progress at the expense of our fellows; but in the modern interrelated world we shall not find it. What is needed is the statesmanship that looks across industrial lines, even across national boundaries, and legislates for the welfare of the peoples. But the McNary-Haugen bill is not that kind of legislation. [1]

Some four years later, 1928, Tugwell modified his views to a considerable extent. He believed that the McNary-Haugen plan might have succeeded if a way could have been found to prevent higher prices from increasing production. "I should have liked to have seen it tried as a beginning," he said, ". . . the more I study the Bill of 1928 the deeper my admiration becomes. As a piece of social legislation it surpasses anything an American Congress ever framed." [2]

As stated previously, some economists were more sympathetic to the McNary-Haugen plan than were others. Although he did not officially and openly endorse the plan, John D. Black of Harvard University was one of its more sympathetic critics. Discussing the merits of the plan, Black states:

A form of attack commonly employed by the administration is to call the plan "economically unsound." The answer made to this is something upon which economists may well ponder. It is that economic soundness may be taken either to assume certain ends as given, in which case the issue is whether the measure in question will obtain these ends; or it may go clear back to the question of the value of the

---

[1] Rexford Guy Tugwell, "The Problem of Agriculture," Political Science Quarterly, XXXIX (December, 1924), p. 591.

[2] R. G. Tugwell, "Reflections on Farm Relief," Political Science Quarterly, XLIII (December, 1928), p. 497.

ends. The end set up by the McNary-Haugenites is to increase the purchasing power of farm income. If the measure will accomplish this, then on such a basis it is economically sound . . . . If economic soundness implies the value of the ends, then reasons enough in terms of broad national policy can easily be found for asking the cities to subsidize the country a little for a few years. If it has been good policy to subsidize industrial developments for so long, why is it not good policy to subsidize agriculture for a change, in view of its recent history and present status?[1]

Although sympathetic to a degree, Black was not unmindful of possible consequences of the plan. While he felt that there was not any fallacy about the equalization fee idea, he questioned whether it could be made to work as smoothly as was planned. ". . . the plan may work so badly as to discredit the whole farmers' movement for a generation, and therefore the plan should be simplified and toned down . . . before it is approved."[2] He was confident, however, that if it could be made to work, it would attain its ends. "The attendant consequence most to be feared," he warned, "would be expansion of production in the newly subsidized lines, followed by abandonment of the plan, leaving the growers in worse plight than now."[3]

Another well known economist, B. H. Hibbard of the University of Wisconsin, was of the opinion that the McNary-Haugen scheme was not adequate to fit the complexities of the market. He was practicularly concerned with the many kinds and grades of farm commodities for

---

[1] John D. Black, "The McNary-Haugen Movement," American Economic Review, XVIII (September, 1928), pp. 425-427.

[2] Ibid., p. 427.

[3] John D. Black, Agricultural Reform in the United States, p. 254.

which index relationships would have to be figured. "There would have to be index relationships figured on all of these separately," he said, "and no provision is made, and hardly could be made, allowing for variations among grades."[1]

If prices were raised on a few selected commodities, as provided in the McNary-Haugen proposal, he believed that the growers of other products would also demand the direct benefit of the measure. "Carried to its logical limit," he said, "it means that the government shall extend protection to all, which in logic is paradoxical."[2] He believed the passage of the bill ". . . would prove to be the insertion of the camel's nose under the tent . . . and the government of the United States would become the greatest dealer of the world . . . in agricultural products."[3]

Two well known economists, Joseph S. Davis and Alonzo E. Taylor, were highly skeptical of the net outcome of the proposal. They argued that the price differential provided in the bill would stimulate expansion of wheat acreage, and that this expansion would have important reactions upon wheat prices.[4] In fact, they regarded the effect upon wheat acreage

---

[1] Benjamin H. Hibbard, "Legislative Interference with Agricultural Prices," Proceedings of the Academy of Political Science, XI (January, 1925), p. 42.

[2] Ibid., p. 44.

[3] Ibid., p. 45.

[4] Alonzo E. Taylor and Joseph S. Davis, "The McNary-Haugen Plan as Applied to Wheat: Operating Problems and Economic Consequences," Wheat Studies of the Food Research Institute, III (February, 1927), p. 220.

as the crucial point of the entire proposition. They felt that the adoption of the policy

> . . . would afford a profound stimulus to expansion of acreage. The greater the initial success in administration, the less the opposition from consumers, the higher the satisfaction of the grower with the enhanced price, the greater would be the influence upon wheat acreage . . . . The result might easily be that within a few years, the net price received by American wheat growers, would be little or no higher, [because of greater exportable surplus, lower world prices, and increased equalization fees to cover the resulting higher losses], and might even be lower, under the operation of the scheme than if no such measures were adopted . . . . Its net outcome . . . would be to the serious disadvantage of wheat growers and would create fresh maladjustments in American agriculture. [1]

They concluded with the warning that the greater the early success of the proposed plan, the greater would be the prospect for its ultimate failure to achieve the desired results, and the necessity for painful readjustment after the disappointment was recognized and admitted. [2]

Trends in the McNary-Haugen Bills

Writing in 1928, John D. Black expressed the opinion that "the seriousness of this movement has not been realized generally. It is inadequately discussed in terms of economics only; its significance is far more political than economic." [3] Black further stated:

> The issue involved is more fundamental than McNary-Haugenism itself. It is agriculture's stand against the domination of its affairs

---

[1] Ibid., p. 234.

[2] Ibid., p. 234.

[3] John D. Black, "The McNary-Haugen Movement," American Economic Review, XVIII, p. 405.

and the affairs of the country by the commercial and industrial interests . . . . The agricultural interests of the country for a long time have felt the need of protecting themselves politically against the business interests. The formation of the "agricultural bloc" in May, 1921, was a visible expression of that feeling. But the bloc needed some vigorous measure around which to rally the forces of agriculture. The McNary-Haugen plan proved to be that measure. [1]

The chief trends in the McNary-Haugen Bills, from the first in 1924 to the fifth in 1928, were as follows:

The first bills were emergency measures whereas the later ones suggested a permanent policy; the equalization fee remained the basic feature, although cooperative marketing was added in 1926; all important agricultural products were finally brought into the plan; the collection of the fee was shifted closer to the export market; there was a working away from the charge of price fixing; reference to tariff effectiveness was replaced with emphasis on orderly marketing; and, in the later bills, more recognition was given to the probable necessity of controlled production. [2]

Enduring Effects of the Debates on Agriculture

Although agriculture's major programs were rejected in the 1920's, the debate on the agricultural problem was not without important results. The rural credit system was strengthened and agricultural experiment stations received more support for economic research under the Purnell Act, 1925. Packer and stockyard companies and the grain exchanges were brought under more effective control. The highway system was

---

[1] Ibid., p. 405.

[2] Darwin N. Kelley, "McNary-Haugen Bills, 1924-1928," Agricultural History, XIV (October, 1940), p. 175. For a more complete comparison of the first and last versions of the McNary-Haugen Bill and the significant trends that developed see John D. Black, Agricultural Reform in the United States, pp. 252-254.

greatly enlarged and improved, particular improvement being made in farm to market roads. Farmer cooperatives were strengthened, and a start was made in the dissemination of outlook material. Probably more important than these gains was the awakening of the public to the realization that agriculture's problems carried effects reaching far beyond the farmer and his family. It was not until 1932, however, that the nation in general, and the farmers in particular, recognized that some governmental program for the relief and rehabilitation of agriculture was necessary to save the agricultural industry from a complete collapse during the more critical depression which had developed.

The McNary-Haugen movement, though defeated, accomplished more than was realized at the time. The effort to make the tariff effective for agriculture gave farmers a sense of unity and brought them to realize, that with proper organization and a common cause, they could win the attention of Congress and thus have an effective voice in national agricultural policy. At the same time, the movement brought to the surface conflicting interests within agriculture. Indicative of this was the failure of the cotton farmers to give unlimited support to "tariff equality."[1] Probably the most important accomplishment of the McNary-Haugen movement was that it imbued the thinking of many farm leaders,

---

[1] Theodore Saloutos and John D. Hicks, Agricultural Discontent in the Middle West (Madison, 1951), p. 553. For additional discussion of this point see Henry C. Wallace, Our Debt and Duty to the Farmer, pp. 206-207.

as well as others, with the two-price idea. It laid a foundation for a new philosophy regarding the role of government in the economic affairs of agriculture.[1]

---

[1] For an additional appraisal of the McNary-Haugen plan, see Infra., Appendix.

CHAPTER V

OTHER PRICE-RAISING PLANS

The Export Debenture Plan[1]

Although the McNary-Haugen movement was the dominating farm proposal during the 1920's, several other price-raising ideas were formulated during this period. While none of these ideas were enacted into laws, some not even voted upon, they became, to a degree, seeds for agricultural legislative programs in the early 1930's.

The second most popular plan of these years was the export debenture proposal of Professor Charles L. Stewart of the University of Illinois. Stewart, who modeled his work upon a German plan, had outlined and discussed its main features in university lectures as early as May, 1924. A bill embodying the essential features of this plan was brought to the attention of Congress in the form of the McKinley-Adkins bills in 1926.[2]

---

[1] For a detailed exposition and analysis of the export debenture plan see Joseph S. Davis, The Farm Export Debenture Plan (Stanford California, 1929).

[2] Joseph S. Davis, "The Export Debenture Plan for Aid to Agriculture," Quarterly Journal of Economics, XLIII (February, 1929), p. 250; Theodore Saloutos and John D. Hicks, Agricultural Discontent in the Middle West 1900-1939 (Madison, 1951), p. 390; John D. Black, "The McNary-Haugen Movement," American Economic Review, XVIII (September, 1928), p. 424.

The debenture plan was based upon practically the same philosophy as the McNary-Haugen plan. Both plans viewed our agricultural difficulties as being fundamentally due to price disparities caused by the fact that American farmers had to sell on a world market and had to buy in a protected market. Furthermore, both plans were devised to resolve those difficulties by raising domestic prices of agricultural commodities of which we produced an export surplus.[1]

The essential feature of the export debenture plan was the paying of a bounty on exports of surplus farm products in the form of negotiable instruments called "debentures" which could be used by importers in paying customs duties. Under this plan the price of domestic agricultural products was to be raised to the extent of the bounty.[2] The plan did not provide for purchasing and storing of any surplus.

Exporters were to be given government debentures having face values equal to all or part of the difference between the value of the farm commodity in the world market and a domestic value based on the world market price plus the tariff on the product. The exporters might sell these debentures to importers bringing in foreign commodities who, in turn, could present them in payment of tariffs levied on

---

[1] See Joseph S. Davis, "The Export Debenture Plan for Aid to Agriculture," Quarterly Journal of Economics, XLIII, p. 251. For a discussion of how the export debenture plan would work see Journal of Farm Economics, X (January, 1928), discussion by Charles L. Stewart, pp. 28-32.

[2] John D. Black, Agricultural Reform in the United States (New York, 1929), p. 255.

goods imported. It was believed that the debentures would sell for approximately their face value, unless more than enough of them were issued to pay all import duties. Exporters of farm products were expected to pay a domestic market price equal to world price plus the value of the debentures issued to them. [1]

Proponents of the plan claimed for it such advantages as these:

1. That the principle of this bill--that of an export bounty on agricultural products--was originally suggested by Alexander Hamilton as an organic part of the scheme for a protective tariff.

2. That the plan is simple and direct, requiring the collection of no fees, and no Government appropriations except a small one for the expenses of the board, which is an ex officio body.

3. That rates are adjustable to meet conditions.

4. That it is not a subsidy but is comparable to the drawback or the differential provisions of the present tariff. That the lessened receipts from the tariffs would not be large as compared with total Federal income, and that, anyway, the principle of the existing tariff system is not income but protection.

5. That it would not encourage overproduction, because the bill provides for reducing or removing the debenture on a crop that is overplanted.

---

[1] Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), pp. 226-227.

6. That it is not only constitutional but follows established practice in tariff administration, that of the drawback.[1]

The export debenture plan was sponsored by the National Grange and received a great amount of active support from that organization. The nearest this proposal came to being enacted into law was on a motion in the House on May 3, 1928, to substitute it for the McNary-Haugen Bill. The motion was defeated by 39 votes.[2]

The Domestic Allotment Plan

The domestic allotment plan was another version of the two-price idea. It was proposed prominently after the export debenture and McNary-Haugen plans had been set aside by the creation of the Federal Farm Board.[3] This plan had been presented and briefly discussed during the last stages of the struggle over the McNary-Haugen proposals, but was widely discussed during the years in which the Federal Farm Board was in operation.

This plan, based upon ideas supplied by Dr. W. J. Spillman of the United States Department of Agriculture, was first presented in February,

---

[1] Kenyon L. Butterfield, "The Farmers' Problems and Proposed Solutions," Current History, XXIX (November, 1928), pp. 269-270. There was no express limitation on the amount of debentures issuable in any one year. However, provisions were made to reduce debenture rates in order to check a possible stimulus to production of any one commodity. See Joseph S. Davis, "The Export Debenture Plan for Aid to Agriculture," Quarterly Journal of Economics, XLIII, pp. 254-255.

[2] Black, "The McNary-Haugen Movement," American Economic Review, XVIII, p. 425.

[3] The Federal Farm Board is discussed in a subsequent section.

1926, by Harry N. Owen, editor of Farm, Stock and Home, Minneapolis, in an article in that journal called "Getting the Tariff to the Farmer."[1] Dr. Spillman's final version of the plan appeared in his Balancing the Farm Output, which was published in January, 1927.[2] Spillman referred to his proposal as the "limited debenture" plan.

Professor John D. Black of Harvard University became interested in the plan and presented his version of it in detail in his Agricultural Reform in the United States.[3] Black referred to his plan as the "transferable rights" plan.[4]

According to Black's analysis:

> The essential principle of the domestic allotment plan is paying producers a free-trade price plus the tariff duty for the part of their crop which is consumed in the United States and this price without the tariff duty for the part of it that is exported, this to be arranged by a system of allotments to individual producers of rights to sell the domestic part of the crop in the domestic market.[5]

---

[1] Black, Agricultural Reform in the United States, p. 271.

[2] Ibid., p. 271.

[3] See John D. Black, Agricultural Reform in the United States (New York, 1929), chapter 10. Black first brought the "transferable rights plan" to public attention in testimony before House and Senate Committees on Agriculture in the spring of 1929. Joseph Stancliffe Davis, Wheat and the AAA (Washington, 1935), pp. 30-31; Theodore Saloutos and John D. Hicks, Agricultural Discontent in the Middle West 1900-1939 (Madison, 1951), pp. 453-454.

[4] Subsequently, the transferable rights plan was acknowledged to have been originated by Beardsley Ruml who was then director of the Laura Spelman Rockefeller Memorial Foundation. It resembled an earlier plan presented unofficially by W. J. Spillman of the Department of Agriculture. Davis, Wheat and the AAA, p. 30.

[5] Black, Agricultural Reform in the United States, p. 271 (italics omitted).

The general outline of Black's version of the plan,[1] at least as applied to wheat, was that an administrative agency would determine periodically the probable quantity of wheat which would be consumed in the domestic market at a price equivalent to the free-trade price plus the tariff. Through a system of allotments individual producers would be issued certificates giving them the right to produce up to the amount allotted. The allotments would be determined upon the basis of their past production; yields would be more important than acreages.

These allotment rights would be transferable and would be salable to millers for approximately the amount of the tariff duty. Millers would be required to show allotment rights for all domestic wheat milled and sold as wheat products in the domestic market. If too few allotment rights were issued, millers would import actual wheat, paying the duty upon it, to supplement the domestic supply. Since the allotment rights would sell for approximately the amount of the tariff duty, the cost of the imported wheat would be comparable to that of the domestic wheat purchased plus the cost of the allotment rights. On the other hand, if too many allotment rights were issued, they would sell at a discount and wheat imports would cease. Wheat not covered by allotment rights would be sold at the free-trade price on the world market.

Thus, while the general objective was similar to that of the McNary Haugen plan, the mechanics were different. In the event that production

---

[1] See Black, Agricultural Reform in the United States, chapter 10.

was greater than would be needed for domestic consumption, under either plan, wheat growers would not receive the world price plus the tariff for their entire crop. In both instances the average price received by growers would be less than that amount. However, in instances of surplus production under the McNary-Haugen plan, the entire crop would move in domestic channels at the free-trade price plus the tariff. The export subsidy was to be met through the assessment of an equalization fee on each bushel of wheat entering the marketing channel.[1]

The domestic allotment plan would have required elaborate administrative machinery, including an "allotment commission" in each wheat-growing state and, also, county and township "allotment committees." These agencies were to determine, on the basis of past acreages and production, the base sales allocation for each wheat grower. Each producer would subsequently receive allotment rights for the portion of his base allocation as would accord with his proportionate share of the domestic market.[2] Such allocations would not have been necessary under the McNary-Haugen plan. Each grower, under that plan, would have been free to sell any amount he chose to market, all of it on the same basis.

The domestic allotment plan offered partial insurance against poor crops or crop failure. Since allotment rights would be issued in relation

---

[1] See Benedict, Farm Policies of the United States, 1790-1950, p. 268.

[2] Black, Agricultural Reform in the United States, pp. 272-274.

to normal expectations, any grower having a complete or partial crop failure would still have allotment rights to sell and, therefore, some income regardless of the yield. Also, if total production was so large that prices would be depressed to a low point, the addition of the tariff (42 cents per bushel at the time of the proposal) to the wheat grower's allotted production would have caused a smaller proportional reduction in the price he received. Thus there would be insurance against price decline as well as against crop failure.[1]

The domestic allotment plan did not provide the stimulus to increase production which was characteristic of the other plans. In contrast, it involved rigid control of domestic allotments and therefore provided the farmer with a stimulus to control production. However, farmers were not ready at the time and it did not receive serious consideration in Congress. For the time being it was set aside but it

---

[1] Ibid., p. 285.

was resurrected and incorporated, at least in part, in subsequent legislation to attack the more critically acute depression of agricultural prices in the 1930's. [1]

---

[1] Merle Fainsod and Lincoln Gordon, Government and the American Economy (New York, 1941), p. 114.

During 1931 and 1932 the domestic allotment plan was widely publicized by M. L. Wilson of Montana State College, and was largely associated with his name. Wilson headed a group that came forward with a radically different version of the Ruml-Black transferable-rights plan, which became known as the "voluntary domestic allotment" plan. Wilson became adviser on agricultural matters to Franklin D. Roosevelt and was influential in formulating administration policy in regard to agriculture throughout the early New Deal period. See Saloutos and Hicks, Agricultural Discontent in the Middle West 1900-1939, pp. 454-457.

CHAPTER VI

THE FARM BOARD VENTURE

The Business Men's Commission on Agriculture

While Congress was debating the McNary-Haugen proposals, the export debenture plan, and other farm legislation, agrarian dissatisfaction continued to mount to ever higher levels. The burden of mortgages and other debts contracted when prices were higher reached intolerable limits with the falling prices of 1929. The passage of the Hawley-Smoot Tariff, July, 1930, further complicated the situation by restricting the flow of trade between the United States and the world markets and therefore reducing the demand for United States farm products in those markets.[1] This resulted from both the reduced purchasing power of the importing nations and the retaliatory measures on the part of their governments. The concurrent deterioration of foreign and domestic demand contributed to a further widening of the gap between farm and nonfarm prices. As in the 1920's Congress continued to search for a remedy.

During the campaign of 1928 Herbert Hoover promised, if elected, to call a special session of the Congress in the spring of 1929. Fulfilling

---

[1] The Hawley-Smoot Tariff raised the general level of protection by about 7 per cent. For a discussion of this tariff see John D. Hicks, The American Nation (Boston, 1949), pp. 581-583.

this promise, Congress met on April 15, 1929, to consider measures for agricultural relief and limited changes in the tariff. President Hoover believed that the primary assistance which government could render agriculture was through improvement in marketing machinery. [1]

It was evident that Hoover was following the suggestions embodied in the report of the Business Men's Commission on Agriculture. This Commission had been organized and financed jointly by the National Industrial Conference Board and the United States Chamber of Commerce. The Commission recommended the establishment of a Federal Farm Board to aid in the stabilization of prices and production in agriculture by advising farmers and farm organizations fully and promptly regarding the planning of production and the marketing of crops. It also recommended the establishment of stabilization corporations to engage in the buying and selling of farm products for the purpose of stabilizing prices. The Commission believed that eventually it might be possible for these corporations to announce a specific forward price at which it would stand ready to purchase any surplus of specified crops. The announcement would be made in advance of planting, would apply only to cotton, wheat, and perhaps corn and the purchase would be made only

---

[1] Merle Fainsod and Lincoln Gordon, Government and the American Economy (New York, 1941), pp. 114-115.

after the current harvest of the crops. This price was to be one that would induce the desired production of each of the crops concerned.[1]

The Commission condemned legislative action which would artificially and arbitrarily alter the relation between supply and demand in agricultural commodities and affect the market for them. The Commission found

> . . . it impossible to support any of the legislative proposals of the type represented by the McNary-Haugen bill . . . which, by artificially restricting the supply of agricultural products in the home market, or by the payment of export bounties on farm products, aim to raise the domestic price of agricultural commodities above the world market price.[2]

The new Congress was sympathetic with the President's views on farm relief, and in two-months' time had embodied his recommendations in a comprehensive marketing plan which, in the main, placed reliance upon farmer controlled cooperative associations for solving the farm problem.

The Agricultural Marketing Act of 1929

The Agricultural Marketing Act of 1929 declared it to be the policy of the Congress

> . . . to promote the effective merchandising of agricultural commodities in interstate and foreign commerce, so that the industry of agriculture

---

[1] For a discussion of these proposals see Business Men's Commission on Agriculture, The Condition of Agriculture in the United States and Measures for Its Improvement (New York and Washington, 1927), pp. 32-33, 176-188.

[2] Ibid., pp. 162-163.

will be placed on a basis of economic equality with other industries, and to that end to protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural commodities and their food products . . . .[1]

Four broad methods were specified to attain these ends: (1) minimizing speculation, (2) preventing inefficient and wasteful methods of distribution, (3) encouraging the organization of cooperative associations, and (4) ". . . aiding in preventing and controlling surpluses . . . through orderly production and distribution . . . ."[2]

The Act created a Federal Farm Board of eight members, and provided it with a $500 million revolving fund from which it could lend to cooperative associations to assist in: (1) the effective merchandising of agricultural commodities, (2) the construction or acquisition of physical marketing facilities, (3) the formation of clearing house associations, (4) extending membership of the cooperative associations, and (5) enabling the cooperative association applying for the loan to advance to its members a greater share of the market price of the commodity delivered to the association than could be provided through other credit agencies.[3]

The Board was also authorized to make loans to any stabilization corporations it might set up for the purpose of buying, storing, and

---

[1] U. S. Federal Farm Board, First Annual Report for the Year Ending June 30, 1930 (Washington, 1930), p. 64.

[2] Ibid., p. 64.

[3] Ibid., sec. 7, p. 66.

selling surpluses. If earnings and reserves of such a corporation were not adequate to repay the loan, the amount of the delinquency would be carried by the Board as a continuing loan from the revolving fund. [1]

The Federal Farm Board in Operation

During the first few months of its existence the Board's efforts were directed to the creation of a series of national cooperative selling agencies organized along commodity lines. It was believed that the agencies would facilitate producer bargaining power through control of volume and through sound merchandising policies, would get for their members the full market value of their products.

The first of these selling agencies was the Farmers National Grain Corporation, which was incorporated on October 29, 1929. [2] This agency sought to unite under a central board of directors three types of existing grain marketing cooperatives, namely: farmers' elevator associations, terminal sales agencies, and grain pools. In regions where no large-scale cooperatives existed, regional cooperatives were formed by the producers of those regions with the assistance of the Farmers National

---

[1] Ibid., sec. 9, pp. 67-68.

[2] Ibid., p. 7. This corporation was farmer-owned and farmer-controlled within the definition of the Capper-Volstead Act. Its main office was in Chicago, Illinois, but branch offices were established in all of the principal terminal markets. The corporation had an export department, which made possible the control of farmers' grain until it reached the purchaser in a foreign country. Storage facilities were acquired in most of the principal domestic markets. Ibid., pp. 8-9.

Grain Corporation. In some localities existing agencies consolidated and formed new regionals. [1]

Wheat Stabilization Measures [2]

In its first year of operation the Board took several steps to prevent "undue and unwarranted depression" of wheat prices. Early in August, 1929, a sharp fall occurred in both cash and futures prices of wheat. The Board felt that this was due, primarily, to unprecedented marketings of wheat in this country causing congestion at terminals. The Board urged farmers not to rush their wheat to market and, temporarily, the decline in price was checked.

In view of the outlook for an enlarged world supply, the Board, in September, offered qualified grain cooperatives supplemental commodity loans as an aid in holding grain off the market. The price of wheat, however, continued to decline. From October 15 to October 25 wheat declined 15 cents a bushel and on a single day, October 24, it dropped 10 cents. In an effort to prevent a disastrous decline in prices, the Board, on October 26, offered loans to cooperatives at approximately

---

[1] Ibid., p. 8.

[2] The material in this section is drawn largely from the following reports of the U. S. Federal Farm Board: First Annual Report for the Year Ending June 30, 1930; Second Annual Report for the Year Ending June 30, 1931; Third Annual Report for the Year Ending June 30, 1932.

the closing prices for October 25.[1] For a short time this move appeared to be successful. Wheat prices made a partial recovery in the next two months, but weakened again in January and February of 1930.

In January, 1930, the Farmers National Grain Corporation began buying country-run wheat at the loan value.[2] These purchases served for a time to partially support wheat prices to farmers. However, by February it could be seen that the Farmers National Grain Corporation had too great a burden to carry. The Grain Stabilization Corporation, on the recommendation of the Wheat Advisory Committee, was activated

---

[1] These prices were: $1.15 per bushel for No. 1 Hard Winter, basis, Kansas City and Omaha; $1.25 per bushel for No. 1 Northern Spring, basis, Minneapolis; and appropriate prices at other markets. U. S. Federal Farm Board, First Annual Report for the Year Ending June 30, 1930, p. 27.

[2] The Farmers National Grain Corporation first offered to buy wheat at the loan value on December 19, 1929, but no wheat was obtained. In January, when the offer was repeated, some wheat was acquired. U. S. Federal Farm Board, First Annual Report for the Year Ending June 30, 1930, p. 28.

and authorized to purchase wheat. Also, efforts were made to ease the pressure on the cash grain market.[1]

Influenced by market news and new-crop prospects, wheat prices in world markets advanced from the middle of March until late in April. Under the influence of this recovery, prices in the United States again fell into line with world markets. This recovery appeared to justify the general policy of the Board and the actions of the Grain Stabilization Corporation. Also, it permitted the corporation to reduce its holdings somewhat.

As a consequence of wheat stabilization operations in 1929-1930, the Grain Stabilization Corporation held on June 30, 1930, a total of some 65 million bushels of cash wheat and contracts for future delivery. In spite of stabilization measures, wheat prices declined heavily in June

---

[1] Shortly after the Grain Stabilization Corporation started buying wheat it was discovered ". . . that others than producers were taking advantage of this type of buying, and some who earlier had purchased wheat from the farmer and hedged it were selling it to the Grain Stabilization Corporation at an unwarranted profit." Ibid., p. 29. This brought a sharp reaction from the Farm Board and "thereupon, such general purchasing was discontinued, and for a brief period, ending March 1, the purchases of country-run wheat were made only from qualified cooperatives and their members." Ibid., pp. 29-30. In the meantime the stabilization corporation undertook to support the market by buying cash wheat at market prices and by buying May futures.

The Grain Stabilization Corporation was faced with an acute storage problem. In order to cope with this situation, the aid of millers was sought ". . . to permit the Grain Stabilization Corporation to place wheat in positions where it would presumably be used rather than have it concentrate at terminal markets, such as Chicago. Cooperation under this agreement was an important factor in reducing the volume of wheat on which deliveries had to be accepted in Chicago in May, in preventing uneconomical movements of wheat and in averting threatened congestion at Chicago." Ibid., p. 31.

and July as new winter wheat began to move to market. In July prices reached lower levels than had prevailed since before World War I.[1]

Nineteen-thirty was an extremely dry year and a serious shortage of all feed crops was anticipated in many parts of the country. The Board expected that large quantities of wheat, as well as other grains, would need to be shipped into drought areas. However, the additional demand for feed grains did not develop to the extent that had been anticipated and the Board continued to be burdened with heavy stocks of wheat.[2]

---

[1] During July, 1930, the average cash price of No. 2 Hard Winter wheat in Kansas City was 80 cents per bushel. This was the lowest it had been since July, 1914, when the average price was 78 cents. See United States Department of Agriculture, Bureau of Agricultural Economics, The Wheat Situation (Washington, January-February, 1950), p. 22.

[2] As late as August, 1930, adequate organization for drought relief did not exist, but there was ample evidence that such organization would have to be effected. While it was not intended that the Grain Stabilization Corporation should function as a drought-relief agency, the Board wished to place it in a position to cooperate effectively with any agencies that might be organized for relief purposes. With this thought in mind, the Board authorized the Grain Stabilization Corporation to accumulate stocks of cash grain at certain strategic points. In September, 1930, after reaching the conclusion that the Stabilization Corporation could not appropriately undertake to sell grain other than wheat, the Farmers National Grain Corporation was authorized to organize a Drought-Relief Department. This department did not have any connection with the normal operation of the Farmers National Grain Corporation and was financed by special loan commitments from the Board. The newly organized department immediately took over the grain accumulated for drought-relief purposes. Additional demands for feed grains, however, did not develop to the extend that had been anticipated and the Drought-Relief Department was able to sell only small quantities of coarse grains. In the spring of 1931 it was requested to liquidate its holdings and make an accounting to the Board. The losses incurred in this operation were nearly $790,000. See U. S. Federal Farm Board, Second Annual Report for the Year Ending June 30, 1931 (Washington, 1931), p. 38.

A further collapse of world wheat prices developed in the latter months of 1930.[1] World supplies of wheat were at high levels and many countries had more wheat than their domestic markets could handle. Several European countries increased their import duties and intensified milling restrictions in an effort to protect their own growers from the pressures of low world prices. Shipments to the principal European markets from overseas were exceptionally heavy. Australia, especially, was exporting large quantities of wheat at that time.

The Danube countries and Russia were also shipping large quantities of wheat to European ports. Much of this wheat was shipped on consignment and, for a considerable length of time, remained unsold. This resulted in a congestion of European ports with great quantities of wheat and a further demoralization of the already glutted world markets. The end result was a virtual collapse of world wheat prices. By November, contract wheat at Chicago was down to 70 cents in contrast to a corresponding quotation of over a dollar a few months earlier. The sharp break in world prices convinced the Farm Board that an emergency existed which, if domestic prices were to be prevented from further decline, could be met only by increased stabilization purchases.

---

[1] Due to the severe drought, corn prices advanced sharply in late July and early August, 1930. In view of the prospect that large quantities of wheat would be substituted for corn, wheat prices also advanced somewhat at that time. However, wheat prices did not hold at higher levels long and were soon experiencing further declines. Ibid., p. 38.

The Stabilization Corporation, in the hope that it could check the decline in price, purchased large quantities of wheat during the week ending November 15, 1930. This move did not have the desired effect, consequently the Board decided that more drastic action must be employed if the domestic market was to be saved from the effects of the collapse in the world wheat market. It was the opinion of the Board that additional declines in our wheat prices were unwarranted by domestic conditions and, despite weak world markets, domestic prices could be checked from further decline. On November 16, 1930, the Stabilization Corporation was authorized to purchase as much wheat as was needed in order to prevent further price declines.[1]

In February, 1931, the Board took more drastic steps to ease the wheat situation. Thirty-five million bushels of wheat had accumulated at Atlantic, Gulf, and Pacific ports. This wheat had to be moved in order to make room for the new crop which would soon be arriving. Approximately 21.5 million bushels of this wheat were sold on the world market during the next four months.[2]

Wheat prices on the world market continued to decline during 1931 and 1932. The Farm Board continued its attempt to maintain domestic prices, but it was a losing battle. However, there is clear evidence that domestic prices were held much above the usual relationship to

---

[1] Ibid., p. 40.

[2] Ibid., pp. 41-42.

Liverpool prices for a few months. From the latter part of November, 1930, when the Board began its stabilization program on a large scale, until the latter part of June, 1931, Kansas City wheat prices gained relative to Liverpool prices and even exceeded them during the first six months of 1931.[1]

On July 1, 1931, the Stabilization Corporation held 257 million bushels of wheat, 65 million bushels of which had been acquired in the previous season.[2] This surplus amounted to nearly one-third of a normal year's crop and its ownership constituted a grave responsibility on the part of the Farm Board. The Board was not bound to any definite sales policy and was, therefore, free to dispose of the surplus it had acquired according to its own judgment. Thus, actually, these stocks were not completely withdrawn from the market. Private trade could never be certain just when part, or all, of this surplus might be sold. This atmosphere of uncertainty tended to dampen the price-supporting effects of the stabilization measures.

In view of its limited resources, the Board decided that wheat farmers had been given as much assistance through stabilization

---

[1] See Ibid., pp. 42-46; U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932 (Washington, 1932), pp. 64-66.

[2] This was not the total of all wheat purchased by the Stabilization Corporation. Purchases up to July 1, 1931, totaled 329,641,052 bushels. Sales for export, milling, and other purposes, totaled 72,504,481 bushels, leaving 257,136,571 bushels owned by the Corporation on June 30, 1931. U. S. Federal Farm Board, Second Annual Report for the Year Ending June 30, 1931, p. 43.

purchases as was possible and, on March 23, announced that no purchases from the 1931 crop would be authorized. This decision became effective on June 3, when the new harvest had begun and sales of new crop wheat were being made at country points. Domestic prices dropped sharply from a level above that of Liverpool prices to one somewhat below them.[1] From approximately 52 cents in June, the average farm price dropped to about 36 cents in July and slightly lower in August and September.[2]

In an effort to minimize the effects of this change in policy, the Farm Board announced on June 30, 1931, that sales of stabilization stocks would be made in a manner that would impose as small a burden as possible upon domestic and world prices. The sales policy adopted by the Board tended to control the movement of wheat. On the one hand it restricted sales to those commercial channels in which they would not depress the domestic price, and on the other hand it negotiated sales to foreign governments in countries which would not otherwise use our wheat.[3] Sales in the open market from July 1, 1931, to July 1, 1932, were to be limited to 5 million bushels per month.[4]

---

[1] U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932, figure No. 1, p. 65.

[2] U. S. Department of Agriculture, The Wheat Situation, September-December, 1949, p. 21.

[3] U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932, p. 66.

[4] Sales to foreign governments which would move American wheat into consumptive channels which it could not otherwise reach were not subject to this restriction. U. S. Federal Farm Board, Second Annual Report for the Year Ending June 30, 1931, pp. 42-43.

The Board made unusual efforts to find outlets for wheat held by the Grain Stabilization Corporation. A Brazilian transaction, in 1931, called for an exchange of wheat for coffee. The Grain Stabilization Corporation received 1,050,000 bags of coffee in exchange for 25,000,000 bushels of wheat.[1] This transaction proved profitable to the Stabilization Corporation.[2] Fifteen million bushels of wheat were sold to China and 7.5 million bushels to Germany against long-term notes.[3] Under Public Resolution No. 12 of the Seventy-second Congress, 40 million bushels were donated to the American National Red Cross for relief purposes.[4]

---

[1] U. S. Farm Credit Administration, First Annual Report, 1933 (Washington, January 25, 1934), p. 56.

[2] Under the terms of the Brazilian transaction, 25,000,000 bushels of wheat valued at the current market price were to be paid for in coffee valued at its current market price. The coffee was to be delivered to New York with storage paid until November 1, 1932. The Stabilization Corporation, beginning in September, 1932, sold the coffee at the rate of 62,500 bags per month. The first sales, in September, October, and November, netted the Stabilization Corporation more than it would have received from the cash sale of the wheat at the time the exchange was arranged. See U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932, p. 68.

[3] U. S. Farm Credit Administration, First Annual Report, 1933, p. 57.

[4] Ibid., p. 57. For a copy of the text of the Resolution see U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932, p. 82.

By the end of June, 1932, unsold stocks had been reduced to 108 million bushels, but the carry-over was at a record level.[1] A second donation to the Red Cross reduced wheat stocks an additional 45 million bushels.[2]

During its last period of operation, July 1, 1932, to May 26, 1933, the Board was relatively inactive. Little in the way of constructive action was possible during this period of operation. Nearly all of the half-billion-dollar revolving fund was tied up in farm products, having been committed during the first three years of operation. Consequently there was little the Board could do in further support of prices.

The farm depression had been bad before 1930, but after that year it had grown much worse. The domestic demand for agricultural

---

[1] For details of the disposition and inventory of stabilization supplies at the end of the fiscal year, June 30, 1932, see Ibid., p. 70.

It seems that the United States wheat carry-over would have reached its peak in the middle of 1931 when the Grain Stabilization Corporation ceased purchasing wheat; however, such is not the case. The peak was reached in July, 1932, after the Board had liquidated 147 million bushels of its holdings. In July, 1933, when stabilization holdings had been completely liquidated, stocks were only slightly below the 1932 peak.

As the Farm Board liquidated its holdings in 1931, other holders took up the burden of carrying wheat. Many farmers, merchants, and speculators preferred to hold wheat rather than to sell freely at prices that seemed too low. Wheat prices rose above the extremely low levels of July, August, and September, 1931, and stood too high to permit liberal exports. This resulted in a carry-over of 400 million bushels.

Again in 1932-33, as the Grain Stabilization Corporation continued its liquidation, other holders took up the burden. Once more our wheat prices were not low enough to permit liberal exports, and our net exports plus shipments to our possessions shrank to 36.5 million bushels, the smallest since 1868-69. See Joseph Stancliffe Davis, Wheat and the AAA (Washington, 1935), pp. 24-27.

[2] U. S. Farm Credit Administration, First Annual Report, 1933, p. 57.

products had fallen off sharply as the depression affected industry, and prices of most farm products had reached levels that had not been seen since the depression of the 1890's.[1]

Farmers received an average price of only 31.6 cents per bushel for wheat on December 15, 1932, and the average for the crop year was but 37.5 cents.[2] The farm value of the crop was put at $283.75 million, the lowest since 1895.[3] Meanwhile, industrial prices declined far less sharply than agricultural prices. By February, 1933, the exchange value of farm products for industrial goods was only 50 per cent of the pre-war average, and their value in terms of taxes and interest was even less.[4] It became evident that the country was faced with a very serious agricultural crisis. Under such conditions as these, it was virtually a certainty that further farm legislation would be enacted soon.

The Federal Farm Board Is Abolished

The stage was set for large-scale government intervention when the Democratic administration took office in March, 1933. In a

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 264.

[2] United States Department of Agriculture, The Wheat Situation (Washington, September-December, 1949), p. 21.

[3] United States Department of Agriculture, Agricultural Statistics, 1936, (Washington, D. C., 1936), pp. 5-6.

[4] Chester C. Davis, "The Development of Agricultural Policy Since the End of the World War," Yearbook of Agriculture, 1940 (Washington, 1940), p. 313.

presidential order of May 26, 1933, the Federal Farm Board was abolished and on May 27, the Farm Credit Administration was organized.

The executive order creating the Farm Credit Administration provided that the powers and functions of all Federal agencies dealing primarily with agricultural credit should be consolidated within the new agency.[1] The function of financing cooperatives and the remaining assets of the Farm Board were taken over by the Farm Credit Administration. The assets remaining in the Agricultural Marketing Act revolving fund were used in capitalizing the newly created banks for cooperatives, and in establishing a loan fund for their use. Thus, although the Farm Board was abolished and its stabilization corporations placed in liquidation, the function of making commodity, facility, and operating loans to cooperatives was preserved.[2]

The Farm Board in Retrospect

Unfortunately, the Federal Farm Board experiment was launched at the worst possible time, with the occurrence of the financial panic of 1929 and the beginning of the Great Depression. Furthermore, the Canadian Wheat Pool for several years had been trying to maintain world wheat prices by withholding supplies from the market and the

---

[1] U. S. Farm Credit Administration, First Annual Report, 1933, p. 4.

[2] Benedict, Farm Policies of the United States, 1790-1950, p. 264.

consequent substantial surpluses from this source overhung the market when the Farm Board experiment was started.[1]

The Farm Board program was predicated on the view that agriculture's principal need was for a better organized marketing system developed along cooperative lines. Measures for surplus control and prevention were to be of secondary importance. However, after one year of operation the Board had become convinced that production control was essential if farm prices and farm incomes were to be stabilized. In its first annual report the Board stated:

> . . . the board regards measures for prevention of surpluses, through control of excessive production, as absolutely essential to stabilizing farm prices and farm incomes. Cooperative associations and stabilization corporations, supplemented by other devices, may prove able to deal with temporary or occasional surpluses. But none of these, nor all together, nor any government agency can protect farmers from the consequences of repeated or continuous production in excess of market requirements. Adjustments of production to market requirements are indispensable, in agriculture as in industry, to the solution of surplus problems.[2]

After two additional years of experience with surplus control methods, particularly through "stabilization" operations to hold commodities off the market, the Board was even more convinced that production control measures were needed to make the program effective. In its third, and last, report the Board concluded:

---

[1] Fainsod and Gordon, Government and the American Economy, p. 115.

[2] U. S. Federal Farm Board, First Annual Report for the Year Ending June 30, 1930, pp. 25-26.

> Experience with stabilization . . . demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more definite control of production than has been achieved so far . . . . For the great staple products . . . the problem still remains for future solution. [1]

Although the Farm Board was not able to obtain its objective of placing the agricultural industry on a basis of economic equality with other industry, it is not fair to pronounce its program a failure, certainly not a complete failure. As previously stated, the Farm Board program was launched at the worst possible time, therefore its outcome was partly due to unfortunate timing. At that time no one could forsee the deteriorating economic conditions and the multitudinous problems that were to be brought about by the Great Depression.

The Board's funds were too small. If Congress had voted it additional funds, perhaps it could have carried some of the bumper wheat crop of 1931 over into the less productive years of 1933-1936. But at that time the American public had not yet become accustomed to thinking of appropriations for farm programs or any domestic programs short of war, in terms of billions of dollars. Even one-half billion dollars was a startling amount to be used for such purposes.

The Board experienced a huge dollar loss, but as Professor Schickele states, "from the viewpoint of the economy as a whole, no real losses were suffered . . ., since all the surpluses were actually

---

[1] U. S. Federal Farm Board, Third Annual Report for the Year Ending June 30, 1932, p. 62.

channeled into appropriate uses."[1] The program, inadequate to achieve its objective, demonstrated the futility of attempting to control prices through marketing adjustments without effective authority to control production. This belief became the basis for succeeding legislation. By 1933, Congress, businessmen, farmers, and the general public were ready to abandon orthodox approaches to the agricultural dilemma, such as those made by the Farm Board, and were willing to accept an agricultural program of unprecedented proportions.

---

[1] Rainer Schickele, Agricultural Policy: Farm Programs and National Welfare (New York, 1954), p. 190.

CHAPTER VII

FROM THE AAA OF 1933 TO WORLD WAR II

PART I

THE AAA OF 1933

The Plight of the Farmer

The agricultural situation had reached near crisis proportions by 1932. Farmers' purchasing power had been drastically decreased, and they were struggling with the lowest prices in decades. Many people believed that our agricultural economy was about to collapse. Industrial workers and businessmen were also facing difficult situations. Farm prices, however, had fallen further than those of nonfarm goods and services. In 1932, using the 1910-1914 base as 100, the prices of farm products stood at 65. A mere three years earlier, 1929, they had stood at 148--over twice as high. On the other hand, the prices of things bought by farmers for production and family maintenance had fallen only about one third, from 150 to 102, during the same period. The ratio of prices received by farmers to prices paid, using the 1910-14 base as 100, stood at 58.[1]

The plight of the farmer and the need for taking immediate action for his relief was emphatically depicted by Business Week. The farmer

---

[1] United States Department of Agriculture, Agricultural Statistics, 1952 (Washington, 1952), pp. 682, 685.

was pictured as a "worn veteran" in misfortune's army alongside whom businessmen were but mere "raw recruits." Relief had to come quickly if the farmer were to be saved. Among the more specific remedies advanced were: shifting taxes from the farmer's back; mortoria on tax, interest, and mortgage payments; writing down of mortgages; credit for crop production; stabilization of crop prices at higher levels. These things, the editorial continued, "must be done--through sound measures if possible, through less worthy schemes if no better can be contrived quickly enough."[1]

A New Farm Plan

Shortly after the inauguration of President Roosevelt, the new Secretary of Agriculture, Henry A. Wallace, called a meeting of farm leaders to draft a farm-relief bill. Farm leaders representing every shade of opinion, every commodity, and every locality, descended on Washington. There were nearly as many "remedies" offered for relief as there were groups present. And to add to the complexity of the gathering there came ". . . the forces of opposition--the grain dealers, the meat packers, the millers, the cotton converters, and the hundreds of business elements that . . . [were] affected by farm legislation."[2]

A wide diversity of opinions was represented, and it was almost impossible to reach a final agreement among the various conflicting

---

[1] "Three Farm Roads," Business Week (February 15, 1933), p. 32.

[2] "Farm Dictator Too?" Business Week (March 22, 1933), p. 13.

elements. There was support for practically every relief scheme ever suggested in the past. Some groups were so bold as to suggest that the President should be given coercive power to fix prices on the chief farm products, for it was argued that dictatorship was better than starvation.[1]

The bill that finally emerged met with some opposition in Congress, especially the Senate, and its passage required the enlistment of support from various groups not interested in the original proposal.[2] There was, however, unification in respect to at least one point--action. There was general agreement that it was necessary to do something for the farming population, and to do it quickly. Even those who did not believe the program was fundamentally sound did not object vigorously, but they did question its wisdom.[3]

On May 12, 1933, about two months after the new Administration had taken office, the bill became a law under the title Agricultural Adjustment Act.[4] Considering the complexity of the problems involved, this was a remarkably short time. The terms of the new legislation gave the administration broad powers and a wide choice of methods for

---

[1] Carl T. Schmidt, American Farmers in the World Crisis (New York, 1941), p. 120.

[2] Ibid., p. 121. Also see Theodore Saloutos and John D. Hicks, Agricultural Discontent in the Middle West, 1900-1939 (Madison, 1951), pp. 467-470.

[3] "Farm Dole," Business Week (March 29, 1933), p. 32.

[4] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, 73 Congress, 1 sess., XLVIII (May 12, 1933), p. 31.

meeting the agricultural emergency. It was, to say the least, a startling and ambitious program. A new era had arrived.

The Act

The Agricultural Adjustment Act (AAA), which was concerned with improving the financial position of agriculture in general, involved sweeping innovations in the Government's relation to agriculture. The philosophy underlying the Act was similar to that which underlay earlier plans. Agriculture was regarded as an industry of fundamental importance which had been effectively discriminated against. "Surplus" farm commodities were viewed as the heart of the difficulty, and governmental aid was considered essential if farmers were to get their "fair share" of the national income.[1]

This Act marked a distinct departure from the Agricultural Marketing Act of 1929. It was much more specific in its objectives and in the measures necessary to bring them about. For example, the commodity loans under the AAA, in contrast to those under the Federal Farm Board, were made to farmers upon the condition that they participate in a

---

[1]Joseph S. Davis, Wheat and the AAA (Washington, 1935), p. 38.

production control program whenever such a program was in effect for the respective commodity.[1] This was an outright attempt to boost prices by restricting production. The Act authorized a fresh attack on the problem of increasing the purchasing power of farmers by raising the prices of farm products. The McNary-Haugen bills, the export debenture plan, the domestic allotment plan, and the Agricultural Marketing Act all had been designed to solve this same problem.

The Act proper began with a "Declaration of Emergency" which stated that the acute economic emergency in agriculture was ". . . in part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities, . . ." which had seriously impaired the farmers' purchasing power and resulted in a breakdown of the orderly exchange of commodities. These conditions, in turn, had affected transactions in agricultural commodities with a national public interest and had burdened and obstructed the normal currents of commerce, calling for the enactment of legislation.[2]

---

[1] The original Agricultural Adjustment Act did not stress commodity loans. However, shortly after the passage of the Act, the pressure for immediate and effective price support became so great that a loan program for specified commodities was announced in the fall of 1933. The Commodity Credit Corporation (CCC) was created by executive order on October 16, 1933, for the purpose of making nonrecourse commodity loans to farmers. It acquired legal status under the 74th Congress in January, 1935. Rainer Schickele, Agricultural Policy (New York, 1954), p. 191; Edwin G. Nourse, Joseph S. Davis, and John D. Black, Three Years of the Agricultural Adjustment Administration (Washington, 1937), pp. 151-157.

[2] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 31.

The objectives of the Act, in part, were:

> (1) To establish . . . such balance between the production and consumption of agricultural commodities . . . as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the prewar period, August 1909-July 1914 . . . .
>
> (2) To approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible . . . .
>
> (3) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the prewar period, August 1909-July 1914.[1]

In view of the thoughts set forth in the above quoted passages and the Declaration of Emergency, it is evident that the framers of the Act were convinced that: (1) agriculture was a (or the) "basic industry"; (2) the depressed condition of agriculture was part of the cause of general depression; (3) general economic recovery was dependent upon government aid to agriculture; (4) the heart of the trouble was the existing disparity between the prices of agricultural and other commodities; (5) the national emergency called for emergency measures to deal with these problems.[2]

---

[1] Ibid., p. 32.

[2] For discussion of these points, see Davis, Wheat and the AAA, pp. 40-41.

The Agricultural Adjustment Act was not limited to a definite duration, nor was it a permanent act. It was subject to termination whenever the President proclaimed the national economic emergency in relation to agriculture had ended.[1] The Act was primarily an emergency measure and gave little or no emphasis to long-range agricultural planning. "It is clearly impossible to find a philosophy of long-run economic planning for agriculture explicit or even plainly implicit in the Agricultural Adjustment Act as it became law on May 12, 1933."[2]

In order to make possible an adjustment in production, Section 8 of the Act empowered the Secretary of Agriculture:

> . . . To provide for reduction in acreage or reduction in the production for market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith or upon that part of the production of any basic agricultural commodity required for domestic

---

[1] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 39.

[2] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, p. 27. It soon became clear that longer-term economic plans and more settled policies were needed. This led to the development of a Program Planning Division. At first the Division gave its main attention to assembling and analyzing statistics relating to the program, but it later shifted emphasis to longer-term objectives and methods. Murray R. Benedict, Farm Policies of the United States, 1790-1950 (New York, 1953), pp. 302-303, 346-348.

For a discussion of this Act as an emergency measure and as a long-range plan, see Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, pp. 20-31.

consumption, in such amounts as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments.[1]

Money for benefit payments was to be obtained mainly from a "processing tax" levied on the marketing of the basic commodities. The tax was to be levied, assessed and collected upon the first domestic processing of each commodity or product.[2] In the case of wheat, it was to be collected from flour millers.[3] The amount of the tax was to be the difference between the prevailing average price of the commodity and its fair exchange value, unless the Secretary should determine, after appropriate hearings, that the levying of a tax of that magnitude would reduce consumption unduly.[4]

---

[1] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 34. The basic commodities were wheat, cotton, field corn, hogs, rice, tobacco, and milk and its products. Ibid., p. 38. An amendment to the Agricultural Adjustment Act, the Jones-Connally Act of April 7, 1934, added rye, flax, barley, grain sorghums, cattle, and peanuts. An additional amendment (May 9, 1934) brought into this classification, sugar beets and sugar cane, and the Warren Potato Act, included in the amendments of August 24, 1935, added potatoes to the list. Benedict, Farm Policies of the United States, 1790-1950, p. 302.

[2] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 35.

[3] Ibid., p. 36. Wheat milled for the producer's own use (and the use of his household) was exempt from the tax, and the tax was refunded on products milled from wheat if they were turned over to some recognized agency for distribution among the needy unemployed. The tax was also refunded on flour which was exported. No tax was imposed upon the processing of wheat for feed for livestock. For a discussion of these points, see United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment, A Report of Administration of the Agricultural Adjustment Act, May, 1933 to February, 1934 (Washington, 1934), p. 60.

[4] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 36.

Interest Centers on Wheat

Throughout the evolution of the Agricultural Adjustment Act, wheat and wheat growers held the center of interest. Davis reports that

> many of the provisions were considered most fully in advance as they might apply to wheat, and wheat was named first on the restricted list of "basic" agricultural commodities to which alone certain outstanding provisions could be applied. [1]

L. J. Tabor, Master of the National Grange, voicing a common view of the wheat growers' support of the Act and their enthusiasm for the adoption of a wheat program, stated:

> . . . Wheat is the keystone in the food arch of our civilization. It is also basic in much of the agriculture of the nation. Lifting wheat prices and increasing the purchasing power of the wheat-producing farmer will have the larger effect of influencing favorably general agricultural prices. Wheat has been for centuries not only essential in the life of much of the world's population, but it has also been a symbol of value. The positive effect of lifting wheat prices would be far-reaching, and the indirect benefits accruing to agriculture would also be substantial. [2]

The Wheat Program

The wheat program was the first commodity program to be announced under the new Act. The wheat adjustment plan, June 16, 1933, offered wheat growers three years of allotment benefits and two years of acreage restrictions under contracts by individual farmers with the

---

[1] Davis, Wheat and the AAA, p. 28.

[2] Ibid., p. 28, citing Minutes of Informal Public Conference of Wheat Growers, Handlers, and Processors (held by the AAA, May 26, 1933), p. 31. This statement was submitted after the close of the conference.

Secretary of Agriculture.[1] In order to be eligible for benefit payments, the individual wheat grower had to sign a contract whereby he agreed not to plant to wheat more than a specified percentage of his corresponding planted acreage in a given base period. This percentage was set by the Secretary of Agriculture. The restriction on the acreage was an attempt to prevent the hoped for increase in income to wheat growers from stimulating an expansion of production and thus defeating the objectives of the program.

In 1935 a second contract was offered to wheat growers to cover the harvest years 1936-1939. In 1936 growers were permitted to plant up to 95 per cent of their base acreage, but the Secretary was authorized to set this figure as low as 75 per cent in later years. The sign-up was nearly completed when, on January 6, 1936, this form of contractual

---

[1] Benefit payments, which were made out of funds derived from processing taxes, were made only to those producers who co-operated in restricting acreage. For 1933-34, eligible growers were offered a benefit payment of from 28 to 30 cents per bushel on an allotment representing 54 per cent of the average production on their wheat land in 1928-1932. To be eligible for this, however, they had to restrict their wheat acreage (sown) to 85 per cent of the average sown on their land for the crops of 1930-1932. They were also offered the prospect of further payments in 1934-35 and 1935-36, but with the understanding that they might be required to restrict their acreage sown for 1935 by not more than 20 per cent of the average for 1930-1932. Although for the 1935 crop the percentage under the contract might have been set by the Secretary of the Agriculture as low as 80 per cent of the acreage planted during the base period, it was actually put at 90 per cent for that year and 95 per cent for 1936. Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, pp. 93-95; Davis, Wheat and the AAA, pp. 60-61. For a more detailed discussion of allotments and acreage requirements for 1933-34 and 1934-35, see Ibid., pp. 63-70 and 137-140.

production control was declared unconstitutional by the Supreme Court of the United States.[1] However, arrangements were eventually made whereby those signers who had observed these provisions in their fall sowings of wheat prior to the Supreme Court's ruling, could receive benefit payments upon certification of compliance.[2]

Effect of Crop Controls and Drought on Production and Price

First year sign-ups for acreage reductions in wheat covered about 75 per cent of the acreage in the base period. Full compliance would have reduced the total acreage sown in 1934 to a level about 12 per cent below the 1930-32 average, provided nonsigners did not change their acreages sown. The total acreage sown for 1934, however, was only about 4 per cent under the 1930-32 average. This resulted from reductions of more than the required 15 per cent by the wheat growers under contract, accompanied by increases on the part of many nonsigners, some of whom were new growers.[3]

---

[1] The production-adjustment contract program for wheat was discontinued as a result of the decision of the United States Supreme Court in the Hoosac Mills case on January 6, 1936. This case is discussed subsequently.

[2] Supplemental Appropriation Act, Public No. 440, U. S. Statutes at Large, 74 Congress, 2 sess., XLIX (February 11, 1936), p. 1117.

[3] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, p. 125.

The severe drought of 1934 (extremely severe in most of the wheat and corn areas) led to relaxation of restrictions on production and made it virtually impossible to estimate with any degree of accuracy how much change in production was due to the AAA program and how much was the result of weather conditions.[1] In regard to this point, Nourse, Davis, and Black conclude that:

> In the absence of the AAA contraction efforts, the crop of 1934 would probably have been about as large as in 1933 whereas it was actually 25 to 30 million bushels less . . . . Nature was primarily responsible for reducing the crop . . . below the 1928-1932 average.[2]

The 1935 wheat crop was nearly 240 million bushels below the 1928-1932 average. Almost all of this net reduction has been attributed to adverse weather conditions.[3] Contract signers had been required to hold their acreage seeded down to 90 per cent of their base acreage, but the aggregate of nonsigners increased their sown acreage by more than contract signers reduced theirs. As a result, the overall acreage seeded to wheat (winter and spring) exceeded the 1930-32 average.[4] In the spring of 1935, when harvest prospects were poor, contract terms were greatly relaxed. This permitted winter wheat growers to harvest whatever

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 312.

[2] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, pp. 125-126. See Infra., Appendix, Table I.

For additional and more detailed discussion on this point, see Davis, Wheat and the AAA, pp. 347-354.

[3] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, p. 126.

[4] See Infra., Appendix, Table I.

they had sown, providing that they agreed to make a relatively larger reduction in acreage seeded the following year.[1]

Nourse and his colleagues report that if the AAA program had not been in force, somewhat more hard winter wheat would have been sown for harvest in 1935. But they are doubtful if the total crop of 1935 would have been more than about 20 million bushels larger than it actually was.[2] Furthermore, they considered it quite improbable that the AAA could have achieved a net reduction of the wheat crop averaging over, or even as much as, 160 million bushels a year without resort to coercive measures.[3]

Summarizing the net results of crop controls during the first three years of the Agricultural Adjustment Act, these authors, on the basis of their comprehensive study of the AAA program, conclude that:

> . . . the experience with production control in 1933-35, so far as we can observe it through the dust of the drought is that the effectiveness of these devices is such as to make them practicable in emergency periods. Should crises of similar magnitude reappear in the future and could constitutional barriers be avoided or removed, such efforts could again be used to advantage for a period of two or three years. The experience does not, however, give support to the belief that similar controls could be made practicable as a means of holding the course of production over the years close to a line laid out in accordance with a continuously operating economic plan.[4]

---

[1] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, p. 126.

[2] Ibid., p. 127.

[3] Ibid., p. 128.

[4] Ibid., p. 150.

The all-farm-products index, which had dropped to 65 in 1932, advanced to 70 in 1933 and increased sharply, to 114, by 1936.[1] The average price received by farmers in 1932 for wheat was 37.5 cents per bushel. This price advanced to 73.6 cents in 1933, 83.9 cents in 1934, and stood at 82.7 cents at the end of 1935. This was an increase from the 1932 level of better than 100 per cent.[2] It would be extremely difficult, if not impossible, to estimate the exact reason or reasons for these price advancements. Recovery in the nonfarm sector of the economy and heavy expenditures for relief gave support to farm prices. The overall price increase during the period 1933 to 1936, however, appears to have been mainly the result of short crops brought about by the severe drought. Benefit payments undoubtedly helped many farmers to maintain ownership of their farms, but they amounted to only $1,437 million during this four-year period. This was less than 5 per cent of farmers' total cash receipts.[3]

Indirect Effects of the Program

Discussing the indirect effects of the farm program during the 1933-1936 period, Benedict states:

---

[1] United States Department of Agriculture, Agricultural Statistics, 1952, p. 682.

[2] United States Department of Agriculture, The Wheat Situation (Washington, February, 1955), p. 2.

[3] U. S. Bureau of the Census, Statistical Abstract of the United States, 1948 (Washington, D. C., 1948), p. 622.

The record does not indicate any significant effect from the farm program in serving as a stimulus to recovery in the economy as a whole. For the most part the additional direct payments to farmers constituted comparable reductions in the spendable incomes of consumers since the funds were raised by means of processing taxes which, in the main, were passed on to the ultimate consumer. Money supplied in the form of loans was more generally created through deficit financing, and thus constituted new buying power. Much of it merely enabled farmers to pay off or refinance debts . . . . Broadly speaking, the farm and nonfarm segments of the economy seem to have advanced concurrently, with the nonfarm segment leading the way. There is . . . some indication that if the droughts of this period had not curtailed farm production and facilitated liquidation of the accumulated stocks of farm products, agriculture might have lagged behind much as it did in the 1920's.[1]

Thus Benedict questions the significance of the effects of the farm program as a stimulus to general economic recovery. Although he feels that the program was undoubtedly helpful in some respects, he is inclined to believe that other factors were more significant.

There is general agreement that the processing tax on wheat caused consumers' expenditures to be increased by approximately the total amount of the tax. Since the tax was not shifted to producers in the form of lower prices, benefit payments represented net additions to the incomes of wheat growers participating in the agricultural program. However, this was not true in the case of processing taxes on pork. Consumer demand for pork, for which there are many alternatives, is relatively more elastic than it is for wheat. An increase in pork prices will therefore encourage consumers to turn to substitutes for which prices are lower. Neither beef or poultry products, both of which are pork substitutes, were subject to processing taxes.

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 315.

Benedict is not in complete agreement with Nourse, Davis, and Black. They feel that the AAA exerted a significant influence toward accelerating the release of purchasing power into the general market. They state that "there would seem to be no reason to question the validity of the assertion that benefit payments and other forms of enhanced farm income moved briskly into circulation."[1] They conclude their discussion of this point with the following statement: "The experience discredited those who believe that agricultural relief could bring about complete general recovery, but support those who maintain that it was an important positive element in a co-ordinated recovery program . . . ."[2]

The AAA Declared Unconstitutional

The Supreme Court decision in the Hoosac Mills case in January, 1936, brought the production-control features of the Agricultural Adjustment Act to a sharp halt. The Court held that the use made of the proceeds of a processing tax levied under the Agricultural Adjustment Act

---

[1] Nourse, Davis, and Black, Three Years of the Agricultural Adjustment Administration, pp. 432-433.

[2] Ibid., p. 448. For a detailed discussion of the contribution of the 1933 AAA program toward general economic recovery through increased agricultural purchasing power, see United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment, A Report of Administration of the Agricultural Adjustment Act, May, 1933 to February, 1934, pp. 261-270. Also, United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment 1934, A Report of Administration of the Agricultural Adjustment Act, February 15, 1934 to December 31, 1934 (Washington, 1935), pp. 271-284.

constituted "control of agricultural production" and was therefore unconstitutional because it was an invasion of rights reserved to the states.[1]

At first farm leaders were stunned by the Court's decision. Efforts were promptly made, however, to find some way of continuing benefit payments which would be unaffected by the Hoosac Mills decision. A new approach was found in a shift in emphasis from acreage control to soil conservation.

PART II

THE SOIL CONSERVATION AND DOMESTIC ALLOTMENT ACT

Following the decision of the Supreme Court in the Hoosac Mills case, Congress quickly enacted Sections 7 to 17, inclusive, of the Soil Conservation and Domestic Allotment Act.[2] This Act led to emphasis upon soil conservation as the core of the agricultural control program. Even before the Hoosac Mills decision, severe drought and dust storms had dramatically demonstrated a definite need for soil conservation.

---

[1] United States v. William M. Butler et al., Receivers of Hoosac Mills Corporation, 297 U. S. 1 (1936).

[2] Soil Conservation and Domestic Allotment Act, Public No. 461, U. S. Statutes at Large, 74 Congress, 2 sess., XLIX (February 29, 1936), p. 1148. Technically this Act was an Amendment to the Soil Erosion Act of 1935.

The Soil Erosion Act of 1935 was a forward step in soil conservation legislation, but it was not designed and did not satisfy the demand for additional income.

The Soil Conservation and Domestic Allotment Act stemmed, in part, from long-time research and planning and probably somewhat similar legislation would have been enacted irrespective of the Hoosac Mills case. However, the decision in that case undoubtedly hastened the enactment of the new legislation and influenced the income enhancement feature of the Act. According to the 1936 report of the Administrator of the Agricultural Adjustment Administration, this legislation had been originally planned in late 1934 and represented a ". . . transition from the temporary emergency phase of the adjustment programs to a long-time phase which would give a larger place to soil conservation . . . ."[1]

Objectives of the Act

The declared objectives of the Act were to promote the economic use and conservation of the land, preserve and improve the fertility of the soil, diminish exploitation of soil resources, protect rivers and harbors against the results of soil erosion, and finally to reestablish

> . . . at as rapid a rate as the Secretary of Agriculture determines to be practicable and in the general public interest, . . . the ratio between the purchasing power of the net income per person on farms and that of

---

[1] United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Conservation 1936, A Report of the Activities of the Agricultural Adjustment Administration (Washington, 1937), p. 1.

the income per person not on farms that prevailed during the five year period August 1909-July 1914 . . . .[1]

The latter objective was in contrast to the major objective of the Act of 1933 to ". . . reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period."[2]

Thus there was a stated change in emphasis from a "parity price" objective to a "parity income" objective, which was undoubtedly a sounder goal to work toward. With "income parity" as an objective, as contrasted with "price parity," prices of farm products might fluctuate above and below their parity levels without violating the policy objective. Since income is dependent upon both price and volume, either a large crop at a lower price or a smaller crop at a higher price could be equal to an average crop at "parity price." The goal of "income parity," however, was not attained through this Act.

Procedure of Payments

Under the Soil Conservation Act, no distinction was made between "basic" and "nonbasic" commodities as had been done under the Agricultural Adjustment Act of 1933. Instead, crops were classified

---

[1] Soil Conservation and Domestic Allotment Act, Public No. 461, U. S. Statutes at Large, p. 1148.

[2] Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 32.

into two general categories, "soil-depleting" and "soil-conserving." Although the general classification varied considerably among regions, generally speaking the "soil-depleting" crops were the intensively cultivated row crops such as corn, cotton, and tobacco, and the small grains such as wheat and oats all of which were in heavy, price-depressing supply. Grasses, legumes, and green-manure crops were classified as "soil-conserving" crops.[1]

Farmers were paid for shifting acreages from soil-depleting to soil-conserving crops. The payments for shifting land out of wheat production averaged about $10 per acre. The maximum acreage on which such payments were made was limited to 15 per cent of the base acreage of a farm.[2] Seventy-three per cent of the cropland in the wheat region was under the program, and consequently, practically all of the diverted acreage in that region was diverted from wheat.[3]

---

[1] United States Department of Agriculture, Agricultural Conservation 1936, p. 42. Certain uses of land were classified as neutral. Included in such classification were: Tree fruits, vineyards, nut trees, idle cropland, etc. See Ibid., p. 42.

[2] Ibid., p. 43. For an explanation of the establishment of acreage bases, see Ibid., p. 41.

[3] Ibid., p. 48. The program was financed by funds appropriated by the Congress from the Treasury. The Act authorized annual appropriations of not more than $500 million. Soil Conservation and Domestic Allotment Act, Public No. 461, U. S. Statutes at Large, p. 1151.

Prices and Production

As a result of the combined effects of the AAA acreage restrictions and the extreme drought, wheat production was relatively low during the period 1933 through 1936.[1] Prices received by farmers for wheat in 1936 showed considerable improvement and reached their highest levels since 1928.[2] Unsatisfactory levels of income from wheat farming in 1936 were, therefore, more a result of low production than they were of low prices.

The acreage seeded for the 1937 harvest rose markedly over that seeded the previous year, and total wheat production increased nearly 40 per cent over that of 1936.[3] The return of "normal" growing conditions and better than average yields revealed some of the limitations of the conservation program. The large crop of 1937, along with a large seeded acreage and excellent crop conditions for 1938, again brought wheat growers face to face with a surplus problem and low prices. Once more the Administration was forced to reconsider its program, and once again farmers were impelled to turn to plans for more rigid control of production.

---

[1] See Infra., Appendix, Table I.

[2] See Infra., Appendix, Table II.

[3] See Infra., Appendix, Table I.

Comparison with AAA of 1933

The conservation program of 1936 and the AAA of 1933 were alike in some respects. They both sought to achieve immediate improvement in farming conditions. To attain this objective, both plans made payments to farmers which, in both instances, were conditioned upon farmers' making adjustments in acreage as compared to a base which was intended to approximate "normal."

There were differences, however, between the two approaches. The earlier plan aimed at parity of price, while the conservation plan claimed its major purpose to be conservation of soil resources. The writer does not accept this as the chief aim of the Soil Conservation Act. The new program had much to commend it as a means of stimulating farmer interest in conservation of soil resources, but it seems that the major intent of the legislation was to cut down production of major cash crops, enhance price and increase income to farmers.

There were also differences in the methods of making payments under the two Acts. Under the AAA, payments were arranged through contracts with individual producers. Under the conservation plan contracts were not used. Instead, the rates of payment and the conditions under which they could be made were simply announced to farmers. Payments were then made when it was established that the prescribed conditions had been fulfilled.

Other differences between the two programs were: (1) Production adjustment under the AAA involved the use of processing taxes whereas

the conservation plan was financed from the Federal Treasury. (2) The soil-conservation plan applied to all farms and to all commodities, but the production-adjustment plan, in contrast, applied only to the commodities designated as basic. Since the producer was permitted to determine the crop in which reduction should be made, the conservation plan was more flexible in its adaptation to individual farm conditions. On the other hand, this feature made it largely incapable of securing predetermined adjustments in the total output of any given commodity.

PART III

THE AAA OF 1938

The Agricultural Adjustment Act of 1938 became a law on February 16 of that year.[1] The background of that Act consisted primarily of four factors: (1) drought, which in 1934 and 1936 showed the need for controlled reserves of wheat and corn for food and feed; (2) the record crop of 1937 and the prospect of a large crop in 1938, a situation which threatened to ruin farmers with surpluses again; (3) the Hoosac Mills decision, which invalidated production control as a means of protecting farm prices; and (4) the inadequacy of the Soil Conservation and Domestic Allotment Act of 1936 as the means for attacking the total problem.

---

[1] Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, 75 Congress, 3 sess., LII (February 16, 1938), p. 31.

Parity Payments

Section 303 of the Act authorized the Secretary of Agriculture to continue to make "parity" payments to producers of wheat on their "normal"[1] production insofar as funds might be appropriated for that purpose. That is, if sufficient funds were available, cooperating

---

[1] "Normal production" was defined by the Act as the "normal yield" per acre for the farm times the number of acres. The "normal" yield for any farm was defined as the average yield per acre of wheat for the farm, adjusted for abnormal weather conditions and for trends in yields during the ten calendar years immediately preceding the year for which such normal yield was to be used in any computation authorized by the Act. Ibid., pp. 41-42.

producers were eligible for direct payments in amounts that would make up the difference between the prices received in the market and "parity" prices.[1]

---

[1] Parity price as defined in the Act of 1938 differed from the definition used between 1933 and 1936. In addition to the commodities that farmers buy, parity price was also to ". . . reflect current interest payments per acre on farm indebtedness secured by real estate, tax payments per acre on farm real estate, and freight rates, as contrasted with such interest payments, tax payments, and freight rates during the base period. The base period in the case of all agricultural commodities except tobacco shall be the period August 1909 to July 1914 . . . ." Ibid., p. 38.

This is in contrast to the 1933 Act under which parity price was one ". . . that will give agricultural commodities a purchasing power with respect [only] to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period." Agricultural Adjustment Act, Public No. 10, U. S. Statutes at Large, p. 32. (Italics not in the original.)

Thus if the various additional payments included in the 1938 parity computation had risen more than had the prices of commodities bought by farmers, the effect of the change would be to make the "parity" price higher than it would have been under the Act of 1933.

"Parity income" was defined as ". . . that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914." Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, p. 38. This is only a more precise formulation of the parity income definition of the 1936 Act which had used the expression ". . . ratio between the purchasing power of net income per person on farms and that of the income per person not on farms . . . ." Soil Conservation and Domestic Allotment Act, Public No. 461, U S. Statutes at Large, p. 1148.

Acreage Allotments and Soil Conservation Features as Applied to Wheat

Title I of the 1938 Act consisted of amendments to the Soil Conservation and Domestic Allotment Act of 1936.[1] The aggregate amount of conservation payments was retained at $500 million. Participation in the program remained voluntary, and specific conservation standards had to be met before farmers were eligible for benefit payments. Wheat growers were required to plant within their assigned acreage allotments in order to qualify for benefit payments under the conservation program. Deductions from these benefit payments, and loss of eligibility for maximum commodity loans and for parity payments were provided for in cases of planting beyond the acreage allotments.[2]

National wheat acreage allotments, which were calculated to meet domestic, export, and reserve needs, were to be announced each year not later than July 15. These allotments were then broken down by states, counties, and individual farms. The national acreage allotment for any crop of wheat was defined by the Act as the acreage which at average yields would produce, with the carry-over from the previous year, not less than 130 per cent of a year's normal domestic consumption and export requirements.[3]

---

[1] Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, p. 31.

[2] United States Department of Agriculture, Agricultural Adjustment, 1937-38, p. 108.

[3] Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, pp. 53-54.

It was provided that wheat allotments were to be on the basis of ". . . tillable acres, crop-rotation practices, type of soil, and topography."[1] Up to 3 per cent of the allotment for a given county might be assigned to farms on which wheat had not been planted in the preceding years.[2] This provision modified the base-acreage plan of the 1933 Act which tended to freeze allotment rights in the hands of those who were already in the wheat-growing business.

Wheat Marketing Quotas

The Act provided for marketing quotas for wheat, to be effective after July 1, 1938.[3] This was a new feature in AAA legislation. The Secretary of Agriculture was required to determine not later than May 15 of each year the total United States supply of wheat as of the beginning of the next marketing year. If this supply exceeded a normal year's domestic consumption and export requirements by as much as 35 per cent, a national marketing quota indicating the amount that could be marketed was to be proclaimed for the following marketing year.[4]

---

[1] Ibid., p. 33.

[2] Ibid., p. 33.

[3] Ibid., p. 54. The marketing quota is a device for regulating the marketing of specified commodities in the event that supplies become excessive. The marketing quota for an individual farm is, in effect, the quantity produced on the acreage allotment.

[4] Ibid., p. 54. A "normal" year's domestic consumption in the case of wheat was to be the yearly average quantity of the commodity, wherever produced, that was consumed in the United States during the ten marketing years immediately preceding the marketing year in which such consumption was determined, adjusted for current trends in consumption. Ibid., p. 41.

The national marketing quota was to be expressed in terms of bushels of wheat and allocated to producers in terms of the number of acres which, at average national yields, would produce the amount of the quota.[1] If carried into effect, the quota would mean that each grower would be authorized to sell not more than a specified amount representing his authorized portion of the total amount that could be marketed without tax. If more than this amount was marketed, the excess was subject to a penalty tax of 15 cents per bushel. This applied to any farmer, regardless of whether he was a cooperator in the production control program or not.[2]

Within a specified date after proclamation of a marketing quota, the Secretary was required to conduct a referendum among the growers to determine whether they opposed or favored the quota. If more than a third of the wheat growers voting were opposed, the quota would not become effective.[3]

Wheat Loans[4]

The 1938 Act authorized the Commodity Credit Corporation, upon the recommendation of the Secretary and with the approval of the

---

[1] Ibid., p. 54.

[2] Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, p. 55.

[3] Ibid., p. 55.

[4] Ibid., p. 43.

President, to make available to cooperators loans upon wheat providing that certain conditions existed. If the price of wheat was below 52 per cent of parity on June 15, the close of the crop year, or if the current year's estimated production was in excess of a normal year's domestic consumption and exports, loans were to be available at not less than 52 per cent nor more than 75 per cent of the parity price of wheat at the beginning of the marketing year. The exact point at which the loan was to be set was left to the Secretary of Agriculture. Loans were to be made only to cooperators in the program except when marketing quotas were in effect. In that case noncooperators' loans were to be limited to 60 per cent of the rate applicable to cooperators, and they were to be made only on as much of their crop as would be subject to penalty if marketed under the marketing quota. In years when supplies reached levels at which the application of marketing quotas was authorized by the Act, loans were not to be offered if more than one-third of the wheat growers voting in the referendum were opposed to such marketing quotas.[1]

The loans were designed to help hold price-depressing influences in check and to enable producers, without financial hardship, to carry over supplies from years of unusually large production to be marketed in years of crop shortage. It was believed that the carrying over of supplies

---

[1] United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment 1938-39, A Report of the Activities Carried on by the Agricultural Adjustment Administration (Washington, 1939), p. 33.

would help maintain for consumers an adequate supply of wheat at fair prices. It was also believed that such a program would help stabilize farmers' incomes by avoiding alternate oversupplies and scarcities with consequent severe price fluctuations.[1]

The loans were to be of the nonrecourse type. That is, if the market price rose sufficiently, and the farmer could pay the storage on his wheat and the interest on the loan, he could sell it and realize the resulting profit on the transaction. On the other hand, if the price fell below the support level, the borrower could surrender his wheat in satisfaction of the loan and would not be liable for any loss that might accrue to the government if the value of the security surrendered was insufficient to cover the amount of the loan. This arrangement afforded protection to the wheat grower in the event of either a declining or a rising market.

Crop Insurance for Wheat[2]

Title V of the Act created a Federal Crop Insurance Corporation which was authorized to offer crop insurance to wheat farmers, beginning with wheat harvested in 1939. Premiums and losses were to be calculated in terms of bushels of wheat, and payments of either could

---

[1] United States Department of Agriculture, Agricultural Adjustment 1937-38, pp. 118-119.

[2] Ibid., pp. 116-117. For details of this part of the Act, see Agricultural Adjustment Act of 1938, Public No. 430, U. S. Statutes at Large, pp. 72-77.

be made in wheat or in cash. During the first three years of operations, contracts were not to be for more than one year at a time, and farmers could insure for either 50 per cent or 75 per cent of their average yield. The Board, in December, 1944, was authorized to limit the issuance of insurance by specifying that insurance could not be offered in any county unless a certain minimum number of applications for insurance was received from farmers in that county. This was, no doubt, to avoid the inconvenience and resulting high costs of administering widely scattered contracts.

The results of crop insurance were disappointing. Loss claims paid during all of the first three years of operation amounted to more than premiums collected. This was true even though national yields in these years exceeded the fifteen-year average by 2, 14, and 32 per cent respectively.[1]

In 1941 the Federal Crop Insurance Corporation's Board of Directors decided to enlist the services of an outside, disinterested committee to study the operations of the Corporation and make recommendations. Approximately a year later the committee submitted its report, stressing the following criticisms and recommendations:

> Contracts should be for more than one year to avoid adverse selection in prospectively bad years. Termination should be permitted only after a fairly long advance notice, also for the purpose of avoiding adverse selectivity in coverage. The farm data available were not adequate. Alternate plans of coverage should be offered and publicized.

---

[1] Benedict, Farm Policies of the United States, 1790-1950, p. 383.

The committee also recommended that farmers participating in any of the wheat programs be required to carry crop insurance. Though favoring operation through the county AAA committees it urged increased control by the Corporation over the state crop insurance supervisors and closer supervision of the formulae and procedures in checking yields.[1]

In 1948 a plan for "investment insurance" was offered on wheat. Insurance coverage was set at levels not to exceed the investment in the crop. Coverage and premium rates were expressed in dollars and cents per acre. If the average yield multiplied by the price specified in the contract was less than the insured value, the farmer would receive an indemnity.

Sincere efforts have been made to make all-risk crop insurance work, but results have been disappointing. There is considerable doubt that crop insurance can be designed to attract the large majority of farmers and that it can be made self-supporting over several years' operations. It is generally believed that actuarial structures are the basic difficulty.[2]

Carry-overs of Wheat Increase

The Agricultural Adjustment Act of 1938 failed largely in its attempt to achieve production control in the wheat industry.[3] Large

---

[1] Ibid., p. 384.

[2] For additional discussion of crop insurance see: Harold G. Halcrow, Agricultural Policy of the United States (New York, 1953) pp. 407-420 and "Actuarial Structures for Crop Insurance," Journal of Farm Economics, XXXI (August, 1949), pp. 418-443.

[3] For an excellent discussion of why acreage reduction may have only a small effect upon total crop production, see Rainer Schickele, Agricultural Policy (New York, 1954), pp. 202-205.

stocks of wheat overhung the market when the Act was passed. Despite reductions in acreage, they continued to rise and, with a carry-over of 250 million bushels, the "ever-normal" granary was well filled when World War II began in 1939.[1] The carry-over had risen to 632 million bushels in 1942, much greater than it had been at any time during the Federal Farm Board regime.[2] Without the supporting influence of Commodity Credit Corporation loans in 1942, prices probably would have dropped to the levels of 1931 and 1932.

The Commodity Credit Corporation was originally designed to ease the impact on prices from abnormally high production or severe decreases in demand. Eventually it came to have a second function of maintaining prices continuously at favorable levels. It is obvious that the two functions were not compatible. This second function was the underlying cause of the large accumulation of wheat stocks in the late 1930's and early 1940's. Without the heavy demand for farm products that grew out of the war, the CCC could easily have suffered the fate of the Federal Farm Board.

---

[1] United States Department of Agriculture, Agricultural Statistics, 1945 (Washington, 1945), p. 19.

[2] Ibid., p. 19.

PART IV

SUMMARY

The farm depression had been bad before 1930, but after that year it grew considerably worse. As the depression affected industry, the domestic demand for many agricultural commodities fell off sharply. The loss of foreign markets further complicated the problems facing agriculture. Agricultural prices, compared with prices of industrial products, were disadvantaged and farm commodities moved only at extremely low price levels. As long as these "price disparities" continued agriculture was unable to regain a favorable economic position. There was widespread belief that public action was desirable. Governmental aid was regarded as essential, both to correct the economic pressure on agriculture and to strengthen the complete national economy. "Surpluses" of important farm commodities were viewed to be the heart of the problem.

In an attempt to cope with this problem, the Government placed chief reliance on a combination of subsidies and efforts to control agricultural output. This program undoubtedly resulted in some benefits for agriculture. Although prices received by farmers did not show consistent improvement during the 1930's, the cash farm income situation improved considerably and in 1940 was only about 20 per cent

below that of 1929.[1] Debt burdens were also lightened and improved land use and increased farm efficiency were promoted.

Despite monetary gains and other benefits, the over-all problem of providing an adequate commercial outlet for the existing productive capacity of United States' agriculture remained unsolved. New technical developments in farming continued to be introduced, and it became increasingly apparent that fewer farmers, cultivating fewer acres, were able to supply the market available to United States' producers.

"Surplus" and marginal farmers, bolstered by subsidies, remained on the farm. They had practically no alternative; agricultural policy was not directed toward shifting them into other occupations. At that particular time other segments of the economy were not in a position to absorb additional workers. Therefore, shifting marginal farmers to urban "occupations" probably would have meant supporting them entirely by relief funds. By giving them aid on the farm they could, in part, support themselves by subsistence farming.

Legislation in the latter part of the 1930's evidenced a gradual transition from an emergency policy of cushioning the agricultural market against severe price declines to a more permanent one of price pegging above the level of the free market. Acreage restriction programs were not able to reduce production much, and storage stocks

---

[1] U. S. Bureau of the Census, Statistical Abstract of the United States, 1949 (Washington, D. C., 1949), p. 641.

under Commodity Credit Corporation loan or owned by the Corporation accumulated rapidly. Wheat stocks had risen to over 600 million bushels in 1942.[1] However, because of the great demand for wheat during World War II and the postwar period, these large stocks did not prove to be embarrassing. Rather, they turned out to be a material asset in the war effort.

---

[1] United States Department of Agriculture, The Wheat Situation, February, 1955, p. 20.

CHAPTER VIII

WHEAT LEGISLATION, 1940-1954

PART I

THE WORLD WAR II PERIOD

In the early years of World War II the Government did not especially encourage wheat production.[1] Since 1938 the wheat market had been burdened with heavy surpluses, and in the early days of the war farmers were receiving unsatisfactory prices. Congressmen and AAA administrators were more concerned with overproduction than they were with the possibility of shortages. In early 1940 the war seemed remote, and in view of rapidly mounting wheat stocks it was their policy to limit rather than to expand wheat acreage. The points of view and the laws developed during the 1930's were not easily cast aside. However, despite heavy surpluses, Congressmen continued to press for higher prices for wheat growers.

---

[1] This was a marked contrast to the World War I period when expansion in the wheat industry was a major item in the war-food program. However, production in the World War II period exceeded that of World War I. Yields per acre were considerably higher in the latter period. These were probably due to two factors: (1) weather conditions, and (2) better seed, more fertilization, and more mechanization. For statistics on production and yields during these two periods, see: United States Department of Agriculture, Agricultural Statistics, 1952 (Washington, 1952), p. 2.

Support Raised to 85 Per Cent of Parity

On May 26, 1941, Congress approved legislation which directed the Commodity Credit Corporation to make loans on wheat at 85 per cent of parity. This higher loan rate applied to the 1941 and subsequent crops providing marketing quotas were not disapproved.[1] This new legislation required the Commodity Credit Corporation loan rate on wheat in 1941 to increase 48 per cent over the 1940 rate.[2]

The Steagall Amendment

On July 1, 1941, the Steagall Amendment to the Agricultural Adjustment Act of 1938 was passed.[3] This Act provided that whenever during the existing emergency the Secretary of Agriculture found it necessary to encourage the expansion of production of an nonbasic[4] agricultural commodity, he should provide support prices at not less than 85 per cent of parity. Such support activities were to be continued until the Secretary had given sufficient public announcement to permit

---

[1] Public Law 74, U. S. Statutes at Large, 77 Congress, 1 sess., LV (May 26, 1941), p. 205.

[2] Walter W. Wilcox, The Farmer in the Second World War (Ames, Iowa, 1947), p. 41.

[3] Public Law 147, U. S. Statutes at Large, 77 Congress, 1 sess., LV (July 1, 1941), Section 4, p. 498. Public Law 147 was an Act extending the life and increasing the credit resources of the Commodity Credit Corporation. Section 4 was a "rider" sponsored by Respresentative Steagall of Alabama and is commonly referred to as the "Steagall Amendment."

[4] Nonbasic commodities were those other than corn, wheat, cotton, tobacco, and rice. Ibid., p. 498.

producers to make readjustments in production. This amendment authorized what was in effect a system of forward prices on a selective basis. Although it did not contain any clear-cut provision for price support after the war, there was an implication that it was intended to cushion the shock in the event of a sudden termination of the war. These provisions were elaborated and made more specific in later amendments.

Parity Price is Extended

On December 26, 1941, the loan rate on wheat at 85 per cent of parity was extended to cover crops for the years 1942 to 1946 inclusive.[1] This also applied to the other basic commodities and was very important legislation inasmuch as it meant that forward price floors were to be in effect for basic commodities for a considerable length of time. Therefore, farmers were placed in a better position to make more definite farm plans.

Emergency Price Control Act

In the latter half of 1941 inflationary influences were becoming evident in the farm sector of the economy. Spendable income in relation to available supplies of some food products was increasing rapidly. The cost of urban living was advancing at an accelerating rate, and the fear of inflation was causing a great deal of unrest among wageworkers.

---

[1] Public Law 374, U. S. Statutes at Large, 77 Congress, 1 sess., LV (December 26, 1941), p. 860.

This situation resulted in Congressional debate directed toward price control legislation which proposed ceiling prices for farm products. Agricultural leaders, however, reflecting over the long years of extremely inequitable farm prices as compared with nonfarm prices, were reluctant to place ceilings on the prices of farm products.

Following a rigorous debate of the issue, during which agricultural leaders stood their ground, Congress allowed provisions in the Emergency Price Control Act which stipulated high ceiling prices for agricultural products.[1] It stipulated that no maximum price could be established on any agricultural commodity below the highest of any of the following prices: (1) 110 per cent of parity; (2) the market price prevailing for such commodity on October 1, 1941; (3) the market price prevailing for such commodity on December 15, 1941; (4) the average price for such commodity during the period, July 1, 1919 to June 30, 1929.[2]

Stabilization Act of October 1942

In the fall of 1942, President Roosevelt appealed to Congress to pass legislation to protect farm prices against the possibility of sudden and disastrous price declines in the period following the close of the war. He also asked for a lowering of price ceilings on farm products. It was the belief of many that if proper action were taken in respect to

---

[1] Emergency Price Control Act of 1942, Public No. 421, U. S. Statutes at Large, 77 Congress, 2 sess., LVI (January 30, 1942), p. 23.

[2] Ibid., p. 27.

agricultural production and prices, and taken soon enough, a price collapse such as that which followed World War I could be prevented.

Stimulated by these points of view, Congress passed Public Law 729, usually referred to as the Stabilization Act.[1] With respect to price ceilings, Section 3 of the Act provided that no maximum price was to be established for any agricultural commodity below a price which would reflect to producers of agricultural commodities the higher of the following prices: (1) The parity price for the commodity or (2) the highest price received by producers for the commodity between January 1, 1942, and September 15, 1942.[2] There was, however, a clause which permitted the President, without regard to the limitation contained in the second of these criteria, to adjust any maximum price to the extent necessary to correct gross inequities, providing it did not lower the price of the commodity below its parity price.[3]

With respect to postwar price guarantees on wheat, the Act provided that loans would be provided by the Commodity Credit Corporation at 90 per cent of the parity price of wheat during the two-year period beginning the first day of January following a presidential or congressional

---

[1] Public Law 729, U. S. Statutes at Large, 77 Congress, 2 sess., LVI (October 2, 1942), p. 765. The official title is "An Act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes." Ibid., p. 765.

[2] Ibid., p. 766.

[3] Ibid., p. 766.

declaration that hostilities had terminated. Loans at this level were to be limited to wheat growers who were operating in accordance with acreage allotments and/or marketing quotas announced by the Secretary of Agriculture and accepted by the growers.[1]

The Act also contained measures which applied to the "nonbasic" commodities. Section 9 was an amendment to the Steagall Amendment of July 1, 1941 (Public Law 147). This amendment raised the support level on the nonbasic commodities, often referred to as Steagall commodities, from 85 to 90 per cent of their respective parity prices. It also extended to these commodities the same type of two-year postwar guarantee that it had provided for the "basic" commodities.[2]

The Wheat Program Changes

In July 1942, wheat supplies were overtaxing storage facilities. Stocks were at an all-time high of 632 million bushels,[3] and the current crop of 969 million bushels[4] was the second largest produced up to that date. In view of the heavy stocks on hand, it seemed altogether reasonable that the AAA administrators were more concerned with the

---

[1] Ibid., p. 767. This section also applied to basic commodities other than wheat.

[2] Ibid., p. 768.

[3] United States Department of Agriculture, Agricultural Statistics, 1945, (Washington, 1945), p. 19.

[4] United States Department of Agriculture, Agricultural Statistics, 1952, p. 2.

continuation of the prewar acreage-adjustment programs than with an all out effort to accumulate still larger stocks of wheat as insurance against possible war needs. The demand for wheat, however, was soon to change.

During the last half of 1942 and the early part of 1943, as a result of heavy feeding of wheat to livestock and its use in the production of alcohol, it appeared that the wheat surplus would soon be eliminated.[1] In February 1943, when it became evident that larger and larger quantities of wheat would be needed for livestock feed and for the production of alcohol, acreage and marketing restrictions were dispensed with for that year's crop.[2] Acreage allotments were not effected again until the 1950 crop, and marketing quotas were abandoned until the 1954 crop.[3]

The relaxation of production controls came none too soon. Although we had 632 million bushels of old-crop wheat carried over in 1942 and approximately 5.1 million bushels harvested from the crops of 1942 to

---

[1] Claude R. Wickard, Report of the Secretary of Agriculture, 1943 (Washington, 1944), pp. 135-136.

[2] United States Department of Agriculture, Bureau of Agricultural Economics, The Wheat Situation (Washington, August, 1943), p. 5.

[3] United States Department of Agriculture, Agricultural Marketing Service, The Wheat Situation (Washington, June 30, 1954), p. 13.

Acreage allotments for wheat have been in effect eight times since 1938, as follows: 1938, 1939, 1940, 1941, 1942, 1950, 1954, and 1955. Marketing quotas have been in effect only for the 1941, 1942, 1954, and 1955 crops of wheat. Ibid., p. 13; United States Department of Agriculture, The Wheat Situation, August, 1954, p. 3.

1946, inclusive, the carry-over on July 1, 1947 was only 83.8 million bushels.[1] Fortunately, the 1947 crop was extremely bountiful. Without the favorable yields from 1942 through 1947, we would have been unable to provide adequate supplies of wheat for our Allies and, later, a needy populace in liberated areas. We also would have been forced to apply stringent restrictions on domestic uses.[2] However yields were favorable, and we exported approximately 1.7 billion bushels of wheat from 1945 through 1948. The two outstanding years in export volume were 1947 and 1948, when 480 and 505 million bushels, respectively, were exported.[3]

Wartime Guarantees End

The Stabilization Act of 1942, as discussed previously, had provided that loans would be allowed for wheat at 90 per cent of parity for a two-year period beginning the first day of January immediately following a presidential or congressional declaration that hostilities had ended. President Truman, on December 31, 1946, by proclamation declared that hostilities had ended, thus automatically terminating the wartime price guarantee of wheat as of December 31, 1948.

---

[1] United States Department of Agriculture, Agricultural Statistics, 1953, pp. 1, 12.

[2] For a discussion of the significance of favorable wheat yields during the war years, see Benedict, Farm Policies of the United States, 1790-1950, pp. 447-449.

[3] United States Department of Agriculture, Agricultural Statistics, 1953, p. 1.

PART II

THE AGRICULTURAL ACT OF 1948 RELATIVE TO WHEAT

General Conditions

American farmers were in a much more favorable situation after World War II than they were in the period immediately following World War I. Not only were farm prices protected by government guarantees, but agriculture as a whole was in the strongest financial position it had ever known. Price supports had become a part of farmers' thinking and of national farm policy. The agricultural sector of the economy hoped to establish a long-term farm policy which would permit it to retain in peacetime the high earnings of the war years. Although there was general agreement that new farm legislation was necessary, there was considerable disagreement within the farm group as to the degree that the government should control agricultural prices and production. Some wanted a shift toward a freer economy, others preferred the assumed security of high-level price supports and relatively rigid governmental control. As a result of these sharply divided opinions, a long and bitter "battle" was waged in the Congress before an agreement was reached.

The Agricultural Act of 1948, which was limited mainly to a price support program, was essentially a compromise between a "long-range" program desired by the Senate and a "stopgap" measure desired by the House. The House version of the bill (Title I of the Act) was to become

effective January 1, 1949. The Senate version (Titles II and III of the Act), consisting of long-time flexible farm price support measures, was to become effective January 1, 1950.[1]

Title I

Title I of the Act provided that the price of wheat to cooperating wheat growers was to be supported at 90 per cent of parity until June 30, 1950, providing producers had not disapproved marketing quotas for wheat for the marketing year beginning in the calendar year in which the crop was harvested. The price support to noncooperators was to be at a rate of 60 per cent of the rate to cooperators and only on that portion of the crop subject to penalty if marketed.[2] All loan and price-support provisions authorized in the Agricultural Adjustment Act of 1938, as amended, were to be applicable in carrying out this policy.[3]

Title II

In reference to wheat, Title II of the Act amended and/or changed several sections of the Agricultural Adjustment Act of 1938.[4] It amended

---

[1] In the case of wheat, Title I remained in effect until June 30, 1950.

[2] Agricultural Act of 1948, Public No. 897, U. S. Statutes at Large, 80 Congress, 2 sess., LXII (July 3, 1948), pp. 1247-1248. There were no wheat marketing quotas or acreage allotments for the 1949-50 wheat production and marketing year.

[3] Ibid., p. 1248.

[4] Ibid., Title II, pp. 1250-1257.

the parity-price formula and changed the definitions of carry-over, normal supply, and total supply. It also provided a new set of support-price schedules and conditions for the period beginning July 1, 1950.

The New Parity Formula

The "new" parity formula was designed to reduce parity prices for some of the major crops and to increase those for most livestock products, leaving the average level of parity prices for all commodities unchanged.[1] The purpose of the "new" formula was to bring the relationships among parity prices of the various farm products more nearly in line with the relation between actual prices of these products in recent years. For example, the cost of producing wheat had been greatly reduced, in real terms, by extensive mechanization. Similar cost reductions had not been achieved in the production of beef, but the domestic demand for beef had increased greatly. If prices were to be increased in the same ratio for both of these products, the tendency would be to make wheat growing very profitable, and to discourage, relatively, the production of livestock products which were in short supply.

To overcome this difficulty, the revised parity price formula provided that "parity" price for any agricultural commodity, as of any date, would be the adjusted base price of the commodity multiplied by

---

[1] Charles F. Brannan, Report of the Secretary of Agriculture, 1948 (Washington, 1949), p. 39.

the parity index as of the date of computation.[1] The adjusted base price was to be the average of the prices received by farmers for the commodity during the preceding ten years divided by the ratio of the general level of prices received by farmers in this ten year period to the general level of prices received by farmers in the period January 1910 to December 1914, inclusive.[2] In other words, the adjusted base price was to be obtained by dividing the average price of the commodity in the ten preceding years by the average of the indexes of prices received by farmers for all commodities during the same period.

For example, under the "new" formula the parity price of wheat on June 15, 1948, would have been calculated as follows: During the ten-year period, 1938-1947, the average price for wheat received by farmers was $1.22 per bushel. The index of prices received by farmers averaged 168 for this same period. Dividing $1.22 by 168 gives 72.6 cents, the adjusted base price. Multiplying 72.6 cents by 251, the index of prices paid by farmers, gives $1.82, which would have been the parity price for wheat on that date.[3]

Under the "old" formula, the parity price of wheat on the same date was calculated in the following manner. The index of prices paid by

---

[1] Agricultural Act of 1948, Public No. 897, U. S. Statutes at Large, p. 1250.

[2] Ibid., p. 1250.

[3] C. Kyle Randall, "Many Changes in New Farm Act," The Agricultural Situation, Bureau of Agricultural Economics, United States Department of Agriculture, XXXII (Washington, August, 1948), pp. 1, 3.

farmers, 251, was multipled by 88.4 cents, the average price received by farmers for wheat during the years 1910-1914. This gave $2.22, the parity price per bushel for wheat on that date.[1]

If the "new" formula had been applied, the parity level for wheat would have dropped because wheat prices in the ten years immediately preceding 1948 were lower relative to other farm prices than they had been in the base period August 1909-July 1914. By lowering the price to $1.82, the new formula would have brought the parity price more nearly in line with the actual prices of wheat during the ten years immediately preceding 1948.

Transitional Parity

Transitional parity prices were provided for those commodities, such as wheat, for which the parity prices under the new formula were much below the parity prices under the old formula. This provision was to prevent any downward price adjustment from causing too sharp declines in parity prices at one time. If, after January 1, 1950, the parity price for any commodity as computed by the new formula was more than 5 per cent less than that as computed under the old formula, the change was to be made in transitional steps. In such an instance, the parity price was to be computed by the old formula, and the transitional parity was to be this price less 5 per cent for each calendar year after January 1, 1950,

---

[1] Ibid., pp. 1, 3.

until it resulted in a parity price lower than that provided by the new formula at which time the new formula would apply.[1]

Flexible Price Supports

The Act provided that after June 30, 1950, flexible price supports for wheat were to be substituted for the flat 90 per cent of parity support which had been so vigorously advocated and defended throughout the preceding years. These supports were to be tied to the supply factor. Wheat price supports to "cooperators" were to be determined according to a schedule of minimum price supports with a moving floor ranging from 60 to 90 per cent of parity.[2]

When the total supply was not more than 70 per cent of the normal supply, the level of support was to be 90 per cent of the parity price. For each increase of 2 points in the supply percentage, the minimum price support was to be reduced by one point. Whenever the total supply increased to a level which was more than 130 per cent of the normal supply, the support price was to be not less than 60 per cent of the parity price. When the total supply was equal to the normal supply, the minimum support price was to be 75 per cent of parity.[3]

---

[1] Agricultural Act of 1948, Public No. 897, U. S. Statutes at Large, p. 1250.

[2] Ibid., pp. 1252-1253.

[3] See Infra., Appendix, Table III.

Notwithstanding these provisions for flexible supports, if acreage allotments were in effect at the beginning of the planting season, or if marketing quotas were in effect at the beginning of the marketing year, the minimum support price was to be automatically increased by 20 per cent. In no case, however, was the support to exceed 90 per cent of parity.[1] In other words, with acreage or marketing controls in effect, the minimum support level would be 72 per cent and the maximum 90 per cent of parity. In the event that marketing quotas were voted down by producers, supports would be set at 50 per cent of parity regardless of the supply percentage. Thus the over-all provision for price support on wheat worked out to an absolute floor of 50 per cent and an absolute maximum of 90 per cent, except that a higher percentage could be authorized in case of emergency needs.

The level of the support price for wheat under this plan depended primarily upon how the "normal supply" was defined, also upon the definition of "total supply." In the case of wheat, normal supply for any marketing year was defined as (1) the estimated domestic consumption for the preceding year, plus (2) the estimated wheat exports for the current year, plus (3) an allowance for carry-over. The carry-over allowance for wheat was to be 15 per cent of the consumption in the previous year plus estimated exports for the current year.[2]

---

[1] Ibid., p. 1253.

[2] Ibid., p. 1251.

Total supply for any marketing year was defined as (1) the total carry-over at the beginning of the marketing year, plus (2) the estimated production of the year, plus (3) the estimated prospective imports during the marketing year. [1]

In the event of a business recession, with these definitions and price limitations in effect, the normal supply probably would go down and the carry-over component of the total supply would probably increase. This would mean a high total supply percentage relative to normal supply, and a low support level relative to parity. On the other hand, in the event of a general upward price swing, "normal supply" would increase, but total supply might remain at a high percentage level for a number of years as a result of accumulated heavy carry-overs. In this event support prices could remain below parity for a considerable period of time. Thus, under the circumstances described above, it does not appear that this plan would give wheat growers much protection against short-term price declines, even though they would reduce production. However, at least it would provide a floor at some level below which market prices are not likely to remain by any large margin. This is in contrast to the complete absence of any calculated floor in preloan days.

---

[1] Ibid., pp. 1251-1252.

PART III

THE AGRICULTURAL ACT OF 1949 RELATIVE TO WHEAT

The long-term features of the Agricultural Act of 1948 had reflected, to some degree, the thinking of those who wanted to return to a freer agricultural economy with less dependence on government. With the passage of the Act it was generally assumed that the first steps had been taken in that direction. Many felt confident that after January 1, 1950, the effective date for the long-term features of the Act, more reliance would be placed on free-market prices as guides to production. The congressional elections in the fall of 1948, however, replaced many of the supporters of more moderate proposals with leaders who championed high-level price supports for farm products. As a result, Title II of the Agricultural Act of 1948 was replaced by the Agricultural Act of 1949 before it could become effective.

As a substitute for the flexible-price provision of the 1948 Act, a plan was presented by Secretary of Agriculture Brannan which would relate price supports for the basic commodities directly to national farm income statistics and would allow perishable commodities to find their

free-market prices which would be supplemented by deficiency payments from the Federal Treasury. This plan created a political furor and was rejected by both political parites.[1]

Provisions of the 1949 Act

The Agricultural Act of 1949 became a law on October 31, 1949.[2] The new legislation retained in principle the flexible price-support features of the Act of 1948, but with so many modifications that it resulted in higher levels of support.

The provisions of price support for wheat in 1950 were as follows: (1) Ninety per cent of parity was mandatory to cooperators,[3] providing marketing quotas had not been disapproved and providing acreage allotments or marketing quotas were in effect. (2) If producers disapproved

---

[1] The so-called Brannan Plan was first presented to Congress in the form of a statement by Secretary Brannan. See: U. S. Congress, Senate, Congressional Record, 81 Congress, 1 sess. (April 7, 1949), pp. 4035-4040.

For a general discussion of the Brannan Plan, see: Benedict, Farm Policies of the United States, 1790-1950, pp. 484-490; Rainer Schickele, Agricultural Policy, pp. 183-186; Harold G. Halcrow, Agricultural Policy of the United States (New York, 1953), pp. 327-331.

For a short analytical treatment of this plan, see: Theodore Schultz, "That Turbulent Brannan Plan," Farm Policy Forum, III (February, 1950), pp. 5-8.

[2] Agricultural Act of 1949, Public No. 439, U. S. Statutes at Large, 81 Congress, 1 sess., LXIII (October 31, 1949), p. 1051.

[3] A "cooperator" with respect to wheat was a producer who did not knowingly exceed his acreage allotment. Ibid., p. 1055.

marketing quotas, supports at 50 per cent of parity were to be available to producers who complied with acreage allotments.[1]

The level of support to cooperators for the 1951 crop was to be not less than 80 per cent of parity nor more than 90 per cent of parity, providing producers had not disapproved marketing quotas. In the event marketing quotas were disapproved, support at 50 per cent of parity was to be available to producers who had complied with acreage allotments.[2]

Beginning with the 1952 crop, the Act provided that price-support levels were to be determined by a sliding scale similar to that provided in the Act of 1948. The scale provided a price-support range of 75 to 90 per cent of parity for wheat on supplies ranging from 130 per cent down to 102 per cent of "normal" as defined by the 1948 Act.[3] In the Act of 1948 the range in support price was to be from only 60 to 90 per cent of parity on supplies ranging from 130 per cent of normal down to 70 per cent. The higher levels of support in the Act of 1949 were, however, more apparent than real because the Act of 1948 had provided that minimum support levels would be increased 20 per cent, but not to exceed 90 per cent of parity, if acreage allotments and/or marketing quotas were in effect.

---

[1] Ibid., p. 1052.

[2] Ibid., p. 1052.

[3] Ibid., p. 1051. For the various levels of support provided by the sliding scale see Infra., Appendix, Table IV.

When the total supply was less than 102 per cent of the "normal" supply, the level of support was to be 90 per cent of the parity price. For each increase of 2 points in the supply percentage, the minimum price support was to be reduced by one point. Whenever the total supply increased to a level which was more than 130 per cent of the "normal" supply, the support price was to be not less than 75 per cent of the parity price. Section 402 of the 1949 Act authorized the Secretary of Agriculture, after proper hearings, to support any agricultural commodity at a level in excess of the maximum prescribed in the Act in order to prevent or alleviate a shortage involving national welfare or defense needs.[1]

In the event marketing quotas were disapproved, support at 50 per cent of parity was to be available to producers who had complied with acreage allotments. Price supports were to be made available to noncooperators at such levels, not in excess of the level of price support to cooperators, as the Secretary of Agriculture determined to be necessary to facilitate the effective operation of the program.[2] The latter provision was also effective for the 1950 and the 1951 crops.

Section 406 of the Act contained forward price provisions. This section provided that the Secretary, insofar as practicable, was to announce the level of price support for field crops in advance of the

---

[1] Ibid., p. 1054.

[2] Ibid., p. 1052.

planting season. The level of price support so announced was not to exceed the estimated maximum level specified in the Act. However, the announced level of price support was not to be reduced even though the maximum level, when determined, was less than the level announced.[1]

The "new" parity formula provided in the Act of 1948 was amended to include wages paid hired farm labor and incorporated in the Act of 1949. The 1949 legislation, however, provided for use of both the old and the new formulas. During the four year period beginning January 1, 1950, the parity price for any basic[2] agricultural commodity was ". . . not to be less than its parity price computed in the manner used prior to the enactment of the Agricultural Act of 1949."[3]

The "new" parity price formula provision of the Act of 1948 was contained in Title II and had not come into use by the time the Act of 1949 became effective, January 1, 1950. This meant that for any particular basic commodity, such as wheat, the old formula would apply if it would bring about a higher parity price than the new formula.

Additional Provisions

In addition to the provisions discussed above, the Act contained the routine items of definition and implementation. There was, also, a new

---

[1] Ibid., p. 1055.

[2] The basic commodities under the 1949 Act were corn, cotton, rice, peanuts, tobacco, and wheat. Ibid., p. 1056.

[3] Ibid., pp. 1056-1057.

section, 417, which amended the Farm Credit Act of 1933.[1] The amendment authorized the District Banks for Cooperatives and the Central Bank for Cooperatives to make loans to cooperative associations, in amounts up to a maximum of 80 per cent of the cost, for the construction of facilities for storing agricultural commodities. The foregoing pertained to structures other than those providing refrigerated cold storage or structures in areas in which existing storage facilities were adequate. This authorization was to apply only if the Commodity Credit Corporation made a commitment to lease, or to guarantee utilization of a minimum of 75 per cent of the storage space, for a period of at least three years if independent structures, or two years if they consisted of additions to previously existing structures.[2]

PART IV

WHEAT PROVISIONS OF THE AGRICULTURAL ACT OF 1954

Wheat Surpluses

In 1950 there was a growing concern over surpluses of wheat. Effective demand was failing to keep abreast of farmers' ability to produce, and the Government was confronted by large quantities of wheat acquired under price-support programs. The wheat carry-over on

---

[1] Ibid., p. 1058.

[2] Ibid., pp. 1058-1059.

July 1 of that year amounted to nearly 425 million bushels, over twice as large as it had been two years earlier.[1]

The outbreak of war in Korea in June, 1950, abruptly changed this situation. The Government soon became more concerned with the possibility of wheat deficits than it was with surpluses. Farmers were urged to increase production so as to meet current additional requirements and build surpluses as a safeguard in the event of a large-scale and prolonged war. In order to encourage production it was announced that there would be no marketing quotas or acreage allotments on the 1951 crop of wheat. They were also dispensed with for the 1952 and 1953 crops.[2] Furthermore, the price of wheat was not to be limited to less than its parity price, as determined by the Secretary in accordance with the Agricultural Adjustment Act of 1938, as amended, or the highest price paid between May 24 and June 24, 1950, whichever was higher.[3]

Farmers responded favorably to the Government's request for greater agricultural production. The acreage seeded to wheat increased from 71.3 million acres in 1950 to 78 million in 1951. It further

---

[1] United States Department of Agriculture, The Wheat Situation, August, 1954, p. 27.

[2] United States Department of Agriculture, The Wheat Situation, June, 1954, p. 13. Acreage allotments had been proclaimed for the 1951 crop but were terminated by the Secretary of Agriculture after the winter wheat crop had been planted.

[3] Defense Production Act of 1950, Public No. 774, U. S. Statutes at Large, 81 Congress, 2 sess., LXIV (September 8, 1950), p. 805.

increased to 78.4 million in 1952 and reached a peak of 78.8 million acres in 1953.[1]

Yields in 1951 were the lowest since 1939 and, despite an increase in seeded acreage, total production was smaller than it had been the previous year. The crops of 1952 and 1953 were much better; total production for those years was 1,299 million and 1,169 million bushels respectively.[2] These amounts compared favorably with the bumper crops of 1944-1950.

The Korean conflict did not develop into a large-scale and prolonged war as had been feared. Production goals for wheat proved to be larger than effective demand could substantiate, and once again the Government was facing a surplus wheat situation. The temporary increase in demand had caused the wheat carry-over to drop to 255.6 million bushels in 1952, but it rose to 562 million the following year. On July 1, 1954, it reached a record high of approximately 902 million bushels.[3]

These large supplies were not because of any lack of planning on the part of wheat growers. Rather, they were the result of definite planning based upon practical experience gained during World War II and the immediate postwar years. Regardless of the reason for the

---

[1] United States Department of Agriculture, The Wheat Situation, April, 1955, p. 20.

[2] Ibid., p. 20.

[3] Ibid., p. 22.

great surpluses, it was evident that measures were needed to discourage the further accumulation of surpluses to higher and more burdensome levels. However the legislation which was passed to modify the 1949 Act contained provisions which in fact enlarged the wheat-production base in several ways.

The "New" Act

The Agricultural Act of 1954 which became a law on August 28 of that year contained many important features.[1] Among them were the following: (1) The establishment of a "set aside" of not less than 400 or more than 500 million bushels of wheat, which was to be excluded from the computation of "carry-over" for the purpose of determining the price support level; (2) a 5 per cent per year limitation on the downward price adjustment in moving from the "old" to the "new" parity price; (3) the establishment of minimum 1955 farm acreage allotments on certain summer fallow farms; (4) an increase in the allowance for carry-over from 15 to 20 per cent of the domestic consumption and exports in the computation of "normal supply;" (5) the authorization of the Secretary of Agriculture to designate a commercial wheat area; and (6) provision for flexible price supports.[2]

---

[1] Agricultural Act of 1954, Public No. 690, U. S. Statutes at Large, 83 Congress, 2 sess., LXVIII (August 28, 1954), p. 897.

[2] United States Department of Agriculture, The Wheat Situation, August, 1954, pp. 4, 17.

Commodity Set Aside

The Act provided that the Commodity Credit Corporation, as rapidly as the Secretary of Agriculture determined to be practicable, was to set aside within its inventories not less than 400 million bushels and not more than 500 million bushels of wheat.[1]

The primary purpose of the "set aside" was to cushion the depressing effect on price support levels of existing surpluses, and to provide time for emergency measures to dispose of them. It was considered imperative for the "set aside" stocks to be disposed of in an orderly manner as rapidly as possible without serious impact on prices in order to eliminate their depressing effect upon wheat prices.

Wheat stocks set aside were to be excluded from the computation of "carry-over" for the purpose of determining the price support level. Such stocks, however, were to be included in the computation of the total supplies for the purpose of determining acreage allotments and marketing quotas.[2] This was necessary in order to avoid piling up more surpluses.

This wheat was to be disposed of only in ways which would not disturb normal trade in either domestic or foreign markets. Section 103 of the Act provided that such stocks could be disposed of only for (1) foreign relief purposes, (2) developing new or expanding markets,

---

[1] Agricultural Act of 1954, Public No. 690, U. S. Statutes at Large, p. 897.

[2] Ibid., p. 898.

(3) donation to school-lunch programs, (4) transfer to the national stockpile, (5) research, experimental, or educational purposes, (6) disaster relief purposes in the United States, and (7) sales to meet the need for increased supplies, in which case the sales price was not to be less than 105 per cent of the parity price.[1]

Commercial Wheat-Producing Area

The Act gave the Secretary of Agriculture discretionary authority to establish a commercial wheat-producing area. If, for any marketing year, the acreage allotment for wheat for any state was 25,000 acres or less, the Secretary could designate such state as outside the commercial wheat-producing area for that marketing year. No farm marketing quota or acreage allotment, with respect to wheat, was to be applicable in any area outside the commercial wheat-producing area. Also, the allotment for other states was not to be increased by the elimination of any state from the commercial area.[2]

Acreage Allotments

The Act provided for the release and reapportionment of any part of any 1955 farm wheat acreage allotment on which wheat was not to be planted and which was voluntarily surrendered to the county committee. In the reapportionment preference was to be given to farms in the same county. If all of the allotted acreage voluntarily surrendered was not

---

[1] Ibid., p. 897.

[2] Ibid., p. 903.

needed in the county, the county committee was authorized to surrender the excess acreage to the state committee to be used for "new" farm allotments.[1]

It also provided that any part of any 1955 farm acreage allotment might be permanently released in writing to the county committee by the owner and operator of the farm. In such an instance, the acreage surrendered was to be credited to the state and county in which it was reapportioned in determining future acreage allotments.[2]

The final date for proclaiming the national acreage allotment for wheat was changed from July 15 to May 15.[3] The Act also changed the date for proclaiming the national marketing quota, from July 1 to May 15.[4]

Flexible Price Supports

Mandatory price supports for wheat at 90 per cent of parity were allowed to expire with the 1954 crop. The new legislation permitted supports to cooperators, providing marketing quotas had not been disapproved, to range between 82.5 and 90 per cent of parity for the 1955 wheat crop. Thereafter price supports ranging from 75 to 90 per cent of parity, according to supply percentages as of the beginning of the

---

[1] Ibid., p. 903.

[2] Ibid., p. 903.

[3] Ibid., p. 903.

[4] Ibid., p. 903.

marketing year, were to go into effect. In the event that a state was designated as outside the commercial wheat-producing area for any crop of wheat, the level of price support for cooperators in such wheat-producing area was to be 75 per cent of the level of price support in the commercial wheat-producing area.[1]

Transitional Parity Price

Section 301 of the Act provided that after January 1, 1956, the parity price for wheat was to be adjusted downward each year by 5 per cent of the "old" parity price until the "transitional" parity reached the level of "new" parity.[2] The "old" parity was based on the price relationship which existed prior to World War I; the "new" parity took account of price relationships during the most recent ten years.[3]

Total Supply, Normal Supply, and Carry-Over

The provisions with respect to "total supply" and "normal supply" remained unchanged.[4] The allowance for carry-over, however, was

---

[1] Ibid., p. 899.

[2] Ibid., p. 902.

[3] For a comparison of the "old" and the "new" parity formulas, see Part II of this chapter.

[4] For definitions of "normal supply" and "total supply," see Part II of this chapter.

changed. It was to be 20 per cent of the consumption and exports used in computing "normal supply" instead of 15 per cent under the previous legislation.[1]

Minimum Allotments on Summer Fallow Farms

The new Act provided for an upward adjustment of acreage allotments for farms on which a summer fallow crop rotation of wheat was practiced for the 1952 and the 1953 crops of wheat. This provision was to apply only in areas where summer fallow crop rotation of wheat was a common practice, and it was to be effective for the 1955 crop only. The minimum allotment adjustment was to be applied to not more than 50 per cent of the cropland on the farm well suited for the production of wheat, or 640 acres, whichever was the smaller. It was not to apply to any acreage which in the opinion of the Secretary of Agriculture would become an undue erosion hazard under continued farming. The limitation to 50 per cent of the cropland was not to apply to farms on which at least 90 per cent of the acreage of wheat for the calendar years 1952 and 1953 was seeded on land which was summer fallowed during the years 1951 and 1952, respectively, and for which a definite and regular alternate wheat and summer fallow crop rotation practice had been determined.[2]

[1] Agricultural Adjustment Act of 1954, Public No. 690, U. S. Statutes at Large, p. 902.

[2] Ibid., p. 905.

Other Provisions

The Act provided for more stringent conditions of eligibility for payments under the Soil Conservation and Domestic Allotment Act. Beginning in 1955 any person who knowingly harvested wheat on his farm which had been determined by the Secretary of Agriculture to be in excess of the farm acreage allotment for wheat was not to be eligible for any soil conservation payment for that year.[1]

Provision was made whereby producers could adjust their planted acres of wheat at a "reasonable" time prior to harvest if the planted acres were found to be in excess of the allotment.[2]

Section 312 provided that if the Secretary had reason to believe that, because of a national emergency or because of a material increase in export demand, any national marketing quota or acreage allotment for wheat should be increased or terminated, he had authority to make the necessary increase or termination, as the case might be.[3]

PART V

SUMMARY

After the outbreak of war in September, 1939, there was a growing awareness that the need for United States' agricultural production

---

[1] Ibid., p. 904.

[2] Ibid., p. 904.

[3] Ibid., pp. 904-905.

eventually would increase. Supplies of the major farm products, however, were so plentiful and production prospects were so good that little concern was felt about the ability of the United States' farmers to meet any demands likely to be made upon them for food and fiber. This outlook was somewhat modified after the passage of the Lend-Lease Act in March, 1941. It then became evident that more foodstuffs and fiber would be needed to satisfy the growing demands of quickened export and domestic markets. However, in view of abnormally large carry-over stocks of some commodities such as wheat, agricultural leaders were reluctant to expand production at that time.

Heavy spending under the lend-lease program for military equipment and industrial supplies created additional employment and brought about higher earnings for industrial workers. Although farm commodity prices had shown some advancement, Congressmen and farm leaders pressed for still higher prices for agricultural products so that farmers would participate fully in the general price rise which accompanied the upsurge in national output. From the standpoint of those responsible for the success of the war effort, it also appeared essential that farmers should be given price inducements that would assure an ample supply of farm products to meet increases in wartime demand which, for many agricultural products, was creating a change from surpluses to shortages.

Steps were immediately taken to encourage production for World War II and the postwar rehabilitation period. Farmers were asked to make an all-out production effort, and they did. In order to make the

war production program more effective and to protect farmers against the risk of unsalable war surpluses, high-level postwar price guarantees were established for farm products for which output expansion during the emergency was requested by the Secretary of Agriculture. These postwar price guarantees were effective incentives to farmers to meet high production goals.

The guarantee theory, however, was continued after the designated postwar period and with it came a growing surplus problem. During the war and early postwar period, the United States gave billions of dollars to friendly countries. Much of this economic aid was used by these countries to buy food in the United States. This, along with an increase in domestic demand, helped keep farm prices at high levels without any "strain" on the price support program. However, as the economic rehabilitation of these countries advanced, they progressively met more and more of their own food needs. The United States continued to extend economic aid to them but they spent fewer United States' dollars for food than for other import items. This resulted in a decline in export demand for United States' food and consequent decreases in American food exports. This deterioration of demand in the face of large supplies left the prices of many agricultural products below their support levels. This was a different situation from that which had existed in the early postwar period.

The high-level agricultural price supports provided by the World War II legislation were to expire on December 31, 1948. High-level price supports, however, die hard. The agricultural sector of the

economy had been enjoying the inflationary price situation and hoped to retain in peacetime the high earnings of the war years. Many agricultural leaders were fearful of the economic and political risks involved if supports were lowered. Proposals for a return to the more competitive pattern of free markets were not warmly recieved. The high-level supports, with some modifications, were extended for another year by the Agricultural Act of 1948.

Title II of this Act contained what Congress intended to be more or less "permanent" farm legislation. This legislation constituted an attempt to recede to some extent from the high, wartime levels of support. It provided, effective January 1, 1950, for more reliance on commodity prices in the free market as guides to the use of resources in agricultural production. Sentiment for higher level supports, however, was so strong that this part of the 1948 Act was replaced before its adequacy could be demonstrated.

The succeeding legislation, Agricultural Act of 1949, retained in principle the flexible price-support features provided in Title II of the preceding act, but with so many modifications that they resulted in higher levels of support. As a result of continuing high-level supports, large quantities of farm commodities were soon confronting the Government. Then came the Korean conflict calling for more farm production. As a result of this emergency period, the return to farm business as usual was again postponed. The foreign aid program, which had been tapering off, was quickly revived and surpluses of some commodities

were lowered. Production goals were set high and farmers did an admirable job in meeting them. Because the magnitude of the Korean affair was not sufficient to sustain a full wartime demand for farm products, the Government once again faced surplus supplies of some agricultural commodities. Congress responded to this situation by passing the Agricultural Act of 1954, which again directed the agricultural industry away from high, rigid supports and controls and guided it toward free-market regulation.

The use of high-level price supports in a wartime economy is proper if such supports are necessary to induce farmers to produce in abundance those commodities needed for the war effort. However, high-level price supports, along with their peacetime companion--rigid-supply controls, are not designed for a peacetime economy. The effective use of agricultural resources necessitates price adjustments both upward and downward in accordance with the needs and desires of society. In a wartime economy, as in any controlled economy, government planning for resource use is implied. However, in a peacetime, free-enterprise economy the price system may be utilized to perform this function. The needs and desires of society change over time. Resource use must also change if the goods and services needed by society are to be available. Any attempt to keep prices related to each other in accordance with rigid, preconceived plans will curb the freedom of farmers and encumber their efforts to utilize scarce resources efficiently. In so far as resources are not utilized at optimum levels the total want-satisfaction from their use is reduced.

CHAPTER IX

AN ECONOMIC ANALYSIS OF GENERAL TYPES OF PRICE-SUPPORT PROGRAMS

There are approximately 6 million farm families in the United States. In general, each individual farm product is produced by a great number of farmers. As a consequence an individual farmer does not produce enough of any one product to affect its market price by a measurable amount. For example, one wheat farmer's production does not have much effect upon the market price of wheat. He is able to produce only such a small part of the total quantity of wheat that the demand for his wheat is infinitely elastic. Thus, he can sell all he produces without depressing the market price. This does not hold true, however, for the aggregate of wheat producers because the demand for all wheat, as will be discussed later, is highly inelastic.

The demand schedules for an individual wheat producer and for all wheat producers are illustrated in Figure 1. Equilibrium in the wheat industy is attained at point E. For the price at this point the amount demanded, DD, and the amount that farmers are willing to supply, SS, are exactly equal. A quantity of wheat equal to OQ would be exchanged at the price OP.

The demand for the individual wheat producer's production is represented by the horizontal line, dd. As mentioned previously, the influence of the individual producer's wheat on the total wheat market

is so small that it cannot be measured by the price mechanism of the market. Consequently, at price OP the individual producer would be able to sell 100, 1,000, 10,000 or more bushels of wheat without affecting the market price.

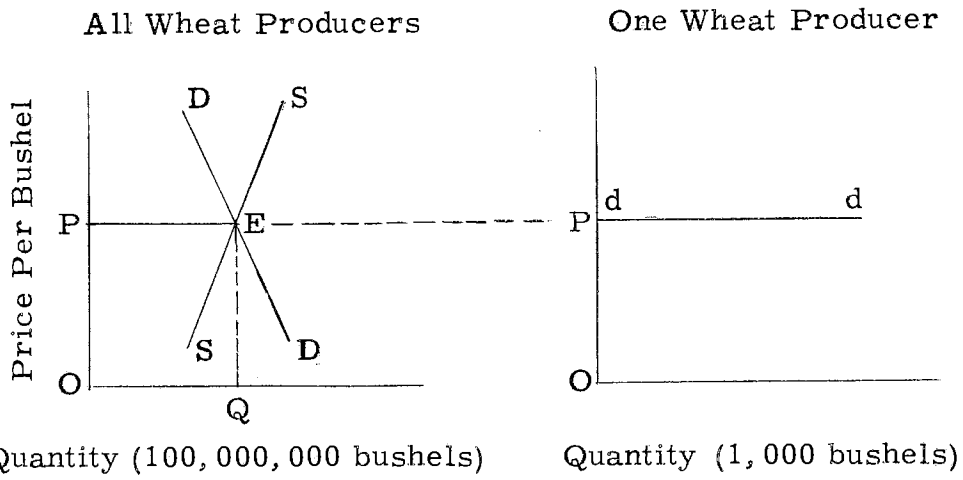

Figure 1. Illustration of Demand Curves Facing One Producer and All Producers Under Pure Competition

If the price of wheat fell, farmers might cut down on the amount of fertilizer, hired labor, and other variable inputs used. Variable costs, however, represent such a small proportion of total costs that the amount of reduction in wheat motivated by cost reduction would be small. Even though farmers are not able to cover all costs, they would continue to farm their land and to make use of other fixed factors so long as they could cover their variable costs. If returns were not sufficient to cover variable costs, downward adjustments in production schedules probably would be made. Over a long period of time, however,

returns must be sufficient to cover all costs if farmers are to continue to operate their farms.

Wheat farmers are confronted with relatively high fixed costs. They have investments in land, machinery, buildings, and equipment which during periods of general depression they usually cannot liquidate without sizeable monetary losses. Farm family labor to a great extent is also a fixed cost. Wheat farmers and their families are not easily transferred out of their chosen enterprise. This is especially true in times of general economic depression. If they can in some way meet their variable costs, they will continue to farm. In many instances the farm does not offer many alternatives. In case of general economic depression there probably would not be other jobs for them to move to, even if they wanted to move from the farm. Furthermore, if they are middle-aged or older, and especially if they are not skilled in a trade, they are almost certain to remain on the farm. They cannot afford to keep their hands, lands, or their fixed capital idle even at low prices. Given few choices, as is usually the case, they prefer to raise a crop even if they can expect no return on their fixed investment and a poor reward for their labor. Thus the reaction of farmers to general economic depression tends to drive falling commodity prices to still lower levels.

Many sections of the wheat-growing regions of the United States are suited to the production of few crops other than wheat. In some areas practically no alternatives are offered; consequently, farmers in

such areas have an extremely limited opportunity to shift from the production of wheat to that of other crops. However, even those farmers in geographic areas which afford opportunities to produce crops other than wheat may not be able to switch quickly to the production of those crops because their farming equipment may be highly specialized and limited to wheat farming. An added limitation to their inflexibility of adjustment is that it may take a year or more before crop adjustments can be made.

The relatively inelastic demand for wheat may be attributed chiefly to the lack of a close substitute for wheat flour in the American diet. In contrast, the demand for pork or beef is much less inelastic. For example, if the price of beef should increase 25 per cent, and other food products did not change in price, many housewives would substitute pork or mutton for beef. This does not hold true, however, in the case of wheat flour. If the price of flour should increase 25 per cent, housewives would continue to buy almost as much flour and/or bread as they did previous to the price increase.

Voluntary Reduction Plan

Assuming an inelastic demand for wheat, a relatively small change in the amount of wheat placed on the market will bring about a relatively large change in wheat prices. This is illustrated in Figure 2.

The production of wheat for any given crop year is a given amount; therefore, the supply curve for that year will be perfectly inelastic.[1] With the supply curve equal to SS and the demand curve equal to DD, equilibrium would be attained at point E, price would be equal to OP, and OS quantity of wheat would be removed from the market. Suppose, however, that producers are not satisfied with the market price and ask for Government advice to secure a higher market price for their wheat. Suppose further that the Government suggests that they reduce production and that producers follow this advice.

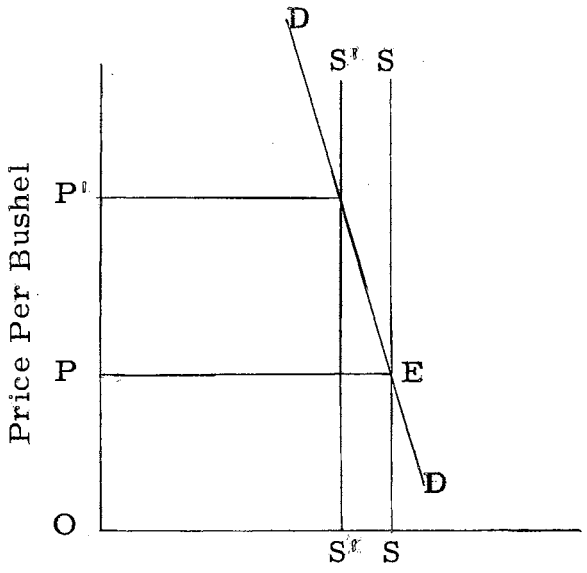

Figure 2. Effects of Change in Wheat Supply on Price, Inelastic Demand

[1] The supply curves SS and S'S' represent the total quantity of wheat in existence and actually offered for sale without reservation price.

A reduction from OS to OS' in the amount of wheat supplied would raise the price from OP to OP'. The smaller supply of wheat, OS', would be worth more to producers than the larger crop, OS. This is true because the decrease in wheat production, OS to OS', would bring about a more than proportional increase in price, OP to OP'.

The fact that the demand for wheat for human consumption is relatively inelastic--a relatively large change in the price of wheat makes little change in the quantity of flour produces for food purposes--has important implications for agricultural policy. Government production control programs involving wheat acreage allotments and marketing quotas are based on assumptions of inelastic demand.

It the Government should persuade farmers to reduce production from OS to OS', total expenditures by consumers for wheat would be larger and total farm income from wheat would be somewhat higher. Consumers, however, would have less wheat available for consumption. If the Government were expected to pay farmers who voluntarily reduced wheat acreage because of an acreage-restriction program, as was the case in the early AAA programs, this would not be the end of the matter. The taxpayers would have to pay a subsidy to farmers for not producing the quantity of wheat OS to OS'. The end result: There would be fewer bushels of wheat available for consumers to buy, they would have to

pay a higher price per bushel for the amounts they purchased, and taxpayers would be out the amount of the subsidy. [1]

Surplus-Purchase Plan

Instead of attempting to raise prices by restricting production, the Government could place a "price floor" under wheat by guaranteeing farmers a certain price such as a parity price. This is illustrated in Figure 3.

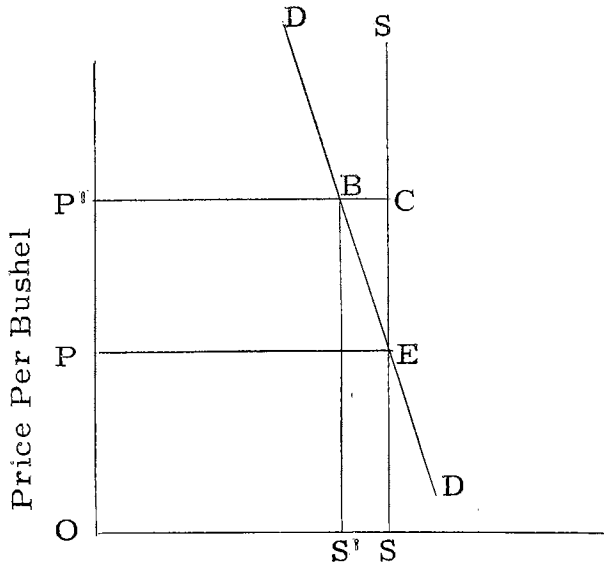

Figure 3. Effects of "Price Floor" on Farms, Government, and Consumers

In the absence of Government support, price would be equal to OP for quantity OS. Suppose however that the Government, without

---

[1] In the analysis presented in this chapter the writer has for simplicity's sake neglected the administrative costs of the various price-support plans discussed.

production control has guaranteed a price to farmers equal to OP^1, a higher price than the free-market price. Consumers would not take all the wheat offered at so high a price. They would be willing to buy only an amount equal to OS^1. This would leave a surplus of unsold wheat equal to BC. Without Government action the price would fall to point E, which is below the support price OP^1.

In order to maintain price at OP^1, the Government would have to acquire the unsold amount between B and C. It probably would either purchase the wheat outright or else place it in storage under nonrecourse loans. The price of wheat to the farmers would be increased from OP to OP^1. In this case it is assumed that the Government will take all surplus wheat at this price so that farmers would be allowed to sell all they cared to at price OP^1. Thus the increase in price, OP to OP^1, would be a windfall to them. Consumers would pay a higher price for wheat and would buy a smaller amount than they would in the absence of the high "price floor." They would now face the demand curve at point B and would take a quantity equal to OS^1. They would be obliged to pay an increase in price from P to P^1. Thus their position would not have improved over that presented by the voluntary reduction plan illustrated in Figure 2. Farmers, however, would be receiving more total revenue than they were in the former case because they would have enjoyed the increase in price without having to restrict supply.

The Government would have a greater expense than would have resulted had a subsidy been paid in the supply and price situation

illustrated under the voluntary reduction plan, Figure 2. In the case of the surplus-purchase plan the Government would make a payment to farmers equal to the number of bushels they would have to buy or loan upon, S'S, times the guaranteed price, OP'. The total Government payment would be equal to the area of the rectangle S'BCS. If price OP' were to be maintained, assuming supply remained constant, the only way the Government's payment could be lessened would be for the demand curve to shift upward and to the right. If it moved to the extent that it intersected the supply curve at point C or any point above point C, the Government would, of course, no longer have to purchase any wheat in order to maintain the market price at point P'.

The wheat programs under the Federal Farm Board and the Agricultural Adjustment Acts of 1938, 1948, 1949, and 1954 all were designed to operate according to the principles illustrated in the surplus-purchase plan. The McNary-Haugen plan was a surplus removal program but it did not involve purchase payments from the National Treasury.

The surplus-purchase plan has important implications for policy. If the guaranteed price were set at a sufficiently high level, it would lead to an expansion of wheat production and would cause greater Government payments in order to maintain the price at the guaranteed level. Therefore a guaranteed price would probably be conditioned upon the farmers' participation in a production control program.

Deficiency-Payments Plan

The Government could guarantee wheat farmers the same price that it did under the plan just discussed, but handle the surplus wheat in a different manner. Instead of the Government buying the surplus outright and/or placing it in storage under nonrecourse loans, it would be sold to the public at whatever market price it would bring. This is illustrated in Figure 4. Again it is assumed that the elasticity of demand for wheat is less than unity.

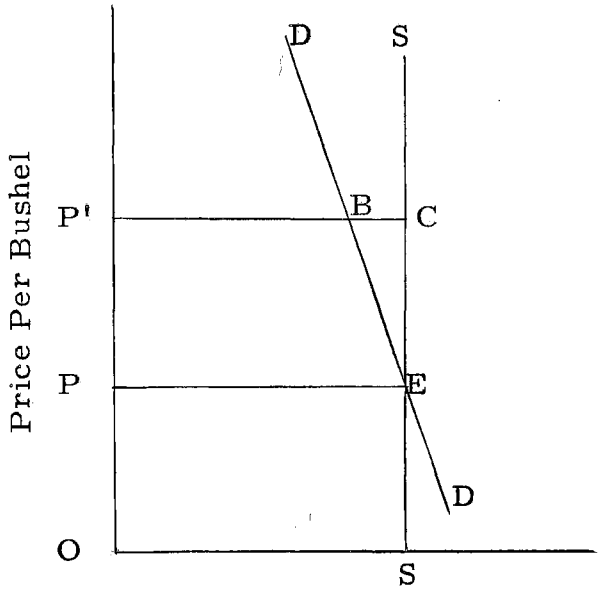

Figure 4. Effects of Price-Deficiency Payments on Government, Farmers, and Consumers

All wheat produced, as is shown by the SS supply curve, would be placed upon the market. The equilibrium price would be OP and consumers would take OS quantity of wheat. However, as in the preceding example, producers have been guaranteed a return equivalent to the

price OP' for their entire crop. At this price consumers would face the demand curve at point B and, again, a surplus would confront the Government. The Government, however, would not purchase the surplus as was illustrated in the surplus-purchase plan. Instead, it would send wheat growers a check for the difference between the guaranteed price and the equilibrium price. The total Government payment to all wheat producers would be equal to the area of the rectangle PP'CE.

Farmers would receive a return equivalent to a price per bushel equal to OP' for all of their wheat. Consumers would purchase the entire crop at price OP, and the taxpayers would make up the difference by paying each producer an amount equal to his total bushels marketed multiplied by the amount P' exceeds P.

In view of these consequences the price equivalent return could not be continued indefinitely without being conditioned upon farmers' participation in a production control program, except under the unlikely condition that taxpayers would be willing to continue paying the expanding subsidy to farmers.

A comparison of the advantages and disadvantages of the surplus-purchase plan and the deficiency-payments plan follows: Under the surplus-purchase plan producers would receive a price of OP' for their entire wheat crop. Under the deficiency-payments plan they would receive a return equivalent to a price per bushel equal to OP' for all of their wheat. The surplus-purchase plan would cause consumers to pay

a greater total revenue and receive a smaller quantity of wheat than would be the case under the deficiency-payments plan. They would be able to purchase OS amount of wheat under the deficiency-payments plan for a smaller total outlay than they could the smaller quantity, OS', under the surplus-purchase plan. In either instance, producers total revenue would be derived from consumer payments plus Government payments. Since the deficiency-payments plan would cost consumers less total dollars than the surplus-purchase plan, it follows that it would cost the Government more. This is true, however, only so long as it is assumed that the demand for wheat is relatively inelastic.

Effects of Demand Elasticity

Elasticity of demand is a crucial factor in the operation of Government price support programs. The more inelastic the demand for a commodity with respect to price, the less will be the Government cost of surplus-purchase payments. However, when the elasticity is greater than unity the Government cost of surplus-purchase programs will be greater than the cost of price-deficiency payments. This is indicated in Figure 5.

In each of the diagrams, A and B, the costs of Government deficiency payments and the costs of surplus-purchase payments are shown. The cost of Government deficiency payments are represented by the rectangular areas P'ABP. The costs of Government surplus-purchase payments are described by the rectangular areas S'CAS.

In diagram A, suppose that the Government is able to raise the price of wheat 25 per cent by purchasing only 10 per cent of the total crop. Assuming that a 900,000,000 bushel crop would sell at $2 per bushel and that the Government had guaranteed farmers $2.50 per bushel, the Government could bring the market price up to $2.50 per bushel by purchasing 90,000,000 bushels. If it could sell the wheat abroad for $2 per bushel, the net cost to the Government would be $45 million. In contrast, if the Government elected to support wheat income at $2.50 per bushel through price-deficiency payments, when the free-market price (world price) is $2 as above, it would have to pay farmers 50 cents per bushel on the whole crop. This would amount to $450 million.

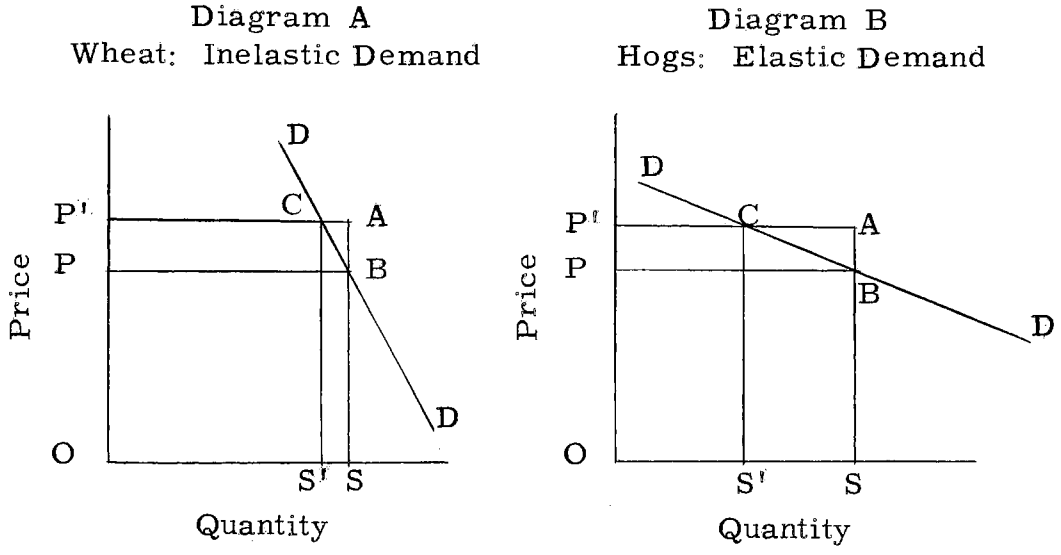

Figure 5. Effects of Demand Elasticity Upon Government Cost, Surplus-Purchase Plan and Deficiency-Payments Plan

In contrast to the demand for wheat, the demand curve for hogs is relatively elastic. This is illustrated in diagram B. Again assume that the price could be raised by 25 per cent, but to do so it would be necessary for the Government to purchase 50 per cent of the total supply of hogs offered on the market. If hogs were selling on the market at $20 per hundredweight and the supply amounted to 50 million hundredweight, the Government would have to purchase 25 million hundredweight at a cost of $625 million. Assuming that the Government's best alternative for disposing of its purchase was for tankage for $225 million, the net cost to the Government would be $400 million. In contrast, deficiency payments would cost the Government $5 per hundredweight on 50 million hundredweight, a total outlay of only $250 million.

Social Costs

Government outlays for price-support programs are not the only costs to be considered. Social costs should also be taken into consideration. The social cost of any Government program is measured by the difference between the value of the good produced under the program and the value of goods that could have been produced if the resources employed could have been allocated to higher productive uses. Therefore if the use of resources for implementing Government price-raising programs results in the sacrifice of other production which would give greater total satisfaction to society, then the programs result in a net social cost.

A SELECTED BIBLIOGRAPHY

Books

Bakken, Henry H., and Marvin A. Schaars. The Economics of Cooperative Marketing. New York: McGraw-Hill Book Company, Inc., 1937.

Benedict, Murray R. Farm Policies of the United States, 1790-1950. New York: The Twentieth Century Fund, 1953.

Black, John D. Agricultural Reform in the United States. New York: McGraw-Hill Book Company, Inc., 1929.

Business Men's Commission on Agriculture. The Condition of Agriculture in the United States and Measures for Its Improvement. New York: National Industrial Conference Board, Inc. and Washington, D. C.: Chamber of Commerce of the United States of America, November, 1927.

Capper, Arthur. The Agricultural Bloc. New York: Harcourt, Brace and Company, 1922.

Davis, Joseph Stancliffe. Wheat and the AAA. Washington, D. C.: The Brookings Institution, 1935.

Day, Donald. Franklin D. Roosevelt's Own Story. Boston: Little, Brown and Company, 1951.

De Hevesy, Paul. World Wheat Planning and Economic Planning in General. London: Oxford University Press, 1940.

Fainsod, Merle, and Lincoln Gordon. Government and the American Economy. New York: W. W. Norton and Company, Inc., 1941.

Fite, Gilbert C. George N. Peek and the Fight for Farm Parity. Norman, Oklahoma: University of Oklahoma Press, 1954.

Gee, Wilson. The Social Economics of Agriculture. New York: The Macmillan Company, 1954.

Gilfond, Duff. The Rise of Saint Calvin. New York: The Vanguard Press, 1932.

Halcrow, Harold G. Agricultural Policy of the United States. New York: Prentice-Hall, Inc., 1953.

Hickman, C. Addison. Our Farm Program and Foreign Trade. New York: Council on Foreign Relations, 1949.

Hicks, John D. The American Nation. Boston: Houghton Mifflin Company, 1949.

Hoover, Herbert. The Memoirs of Herbert Hoover, The Cabinet and the Presidency. Vol. II. New York: The Macmillan Company, 1952.

Jesness, O. B., editor. Readings on Agriculture Policy. Philadelphia: The Blakiston Company, 1949.

Johnson, D. Gale. Trade and Agriculture. New York: John Wiley and Sons, Inc., 1950.

Larson, Adlowe L. Agricultural Marketing. New York: Prentice-Hall Inc., 1951.

Lord, Russell. The Wallaces of Iowa. Boston: Houghton Mifflin Company, 1947.

McConnell, Grant. The Decline of Agrarian Democracy. Berkeley: University of California Press, 1953.

Moley, Raymond. After Seven Years. New York: Harper and Brothers, 1939.

Murray, William G. Agricultural Finance. Ames, Iowa: Iowa State College Press, 1953.

Nourse, Edwin G. American Agriculture and the European Market. New York: McGraw-Hill Book Company, Inc., 1924.

Nourse, Edwin G., and Others. Three Years of the Agricultural Adjustment Administration. Washington, D. C.: The Brookings Institution, 1937.

Peek, George N., and Samuel Crowther. Why Quit Our Own. New York: D. Van Nostrand Company, Inc., 1936.

Pegrum, Dudley F. The Regulation of Industry. Chicago: Richard D. Irwin, Inc., 1949.

Saloutos, Theodore, and John D. Hicks. Agricultural Discontent in the Middle West, 1900-1939. Madison: University of Wisconsin Press, 1951.

Seligman, Edwin R. A. The Economics of Farm Relief. New York: Columbia University Press, 1929.

Schickele, Rainer. Agricultural Policy. New York: McGraw-Hill Book Company, Inc., 1954.

Schmidt, Carl T. American Farmers in the World Crisis. New York: Oxford University Press, 1941.

Schoff, Leonard Hastings. A National Agricultural Policy. New York: Harper and Brothers, 1950.

Schultz, Theodore W. Agriculture in an Unstable Economy. New York: McGraw-Hill Book Company, Inc., 1945.

------. Production and Welfare of Agriculture. New York: The Macmillan Company, 1949.

------. Redirecting Farm Policy. New York: The Macmillan Company, 1943.

Shepherd, Geoffrey S. Agricultural Price and Income Policy. Ames, Iowa: The Iowa State College Press, 1952.

Stokdyk, E. A., and Charles H. West. The Farm Board. New York: The Macmillan Company, 1930.

Surface, Frank M. The Grain Trade During the World War. New York: The Macmillan Company, 1928.

Troelston, Emil Samuel. The Principles of Farm Finance. Saint Louis: Educational Publishers, Inc., 1951.

Waite, Warren C., and Henry C. Trelogan. Agricultural Market Prices. New York: John Wiley and Sons, Inc., 1951.

Wallace, Henry A. Democracy Reborn. Russell Lord, editor. New York: Reynal and Hitchcock, 1944.

------. New Frontiers. New York: Reynal and Hitchcock, 1934.

------. Our Debt and Duty to the Farmer. New York: Century Co., 1925.

Wilcox, Walter W., and Willard W. Cochrane. Economics of American Agriculture. New York: Prentice-Hall, Inc., 1951.

Federal Documents and Publications

Brannan, Charles F. Report of the Secretary of Agriculture, 1948. Washington, D. C.: United States Government Printing Office, 1949.

First Annual Report of the U. S. Federal Farm Board. Washington, D. C.: Government Printing Office, June, 1930.

Second Annual Report of the U. S. Federal Farm Board. Washington, D. C.: Government Printing Office, June, 1931.

Surface, Frank M. The Stabilization of the Price of Wheat During the War and Its Effects Upon the Returns to the Producer. Washington, D. C.: United States Grain Corporation, 1925.

Third Annual Report of the U. S. Federal Farm Board. Washington, D. C.: Government Printing Office, June, 1932.

Wickard, Claude R. Report of the Secretary of Agriculture, 1943. United States Government Printing Office, 1944.

United States Bureau of the Census. Statistical Abstract of the United States. Washington, D. C.: Government Printing Office, 1948, 1949, and 1954.

United States Congress, House. Report of the Joint Commission of Agricultural Inquiry. 67 Congress, 1 sess., House Report No. 408, Part I. Washington, D. C.: Government Printing Office, 1921.

------. Report of the National Agricultural Conference. 67 Congress, 2 sess., House Document No. 195. Washington, D. C.: Government Printing Office, 1922.

United States Congress, Senate. Congressional Record. 81 Congress, 1 sess., April 7, 1949.

------. Surplus Control Act, Message from the President of the United States. 69 Congress, 2 sess., Senate Document No. 214. Washington, D. C.: Government Printing Office, 1927.

------. Veto Message Relating to the Agricultural Surplus Control Act, Message from the President of the United States. 70 Congress, 1 sess., Senate Document No. 141. Washington, D. C.: Government Printing Office, 1928.

United States Department of Agriculture, Agricultural Adjustment Administration. Agricultural Adjustment, A Report of Administration of the Agricultural Adjustment Act, May, 1933 to February, 1934. Washington, D. C.: Government Printing Office, 1934.

------. Agricultural Adjustment 1934, A Report of Administration of the Agricultural Adjustment Act, February 15, 1934 to December 31, 1934. Washington, D. C.: Government Printing Office, 1935.

------. Agricultural Conservation 1936, A Report of the Activities of the Agricultural Adjustment Administration. Washington, D. C.: Government Printing Office, 1937.

------. Agricultural Adjustment, 1937-38, A Report of the Activities Carried on by the Agricultural Adjustment Administration. Washington, D. C.: Government Printing Office, 1939.

------. Agricultural Adjustment 1938-39, A Report of the Activities Carried on by the Agricultural Adjustment Administration. Washington, D. C.: Government Printing Office, 1939.

United States Department of Agriculture. Agricultural Statistics. Washington, D. C.: Government Printing Office, 1936, 1945, 1952, and 1953.

------. Crop Production. Washington, D. C.: Government Printing Office, 1954.

------. The Wheat Situation. Washington, D. C.: Government Printing Office, August, 1943; September-December, 1947; August, 1948; September-December, 1949; January-February, 1950; January-March, 1952; June, 1954; August, 1954; December, 1954; February, 1955; April, 1955.

United States Department of Agriculture. Yearbook of Agriculture. Washington, D. C.: Government Printing Office, 1917, 1918, 1920, 1922, 1923, 1936, 1940, 1945, 1952, and 1953.

United States Statutes at Large. XLVIII (1933); XLIX (1936); LII (1938); LV (1941); LVI (1942); LXII (1948); LXIII (1949); LXIV (1950); LXVIII (1954).

Bulletins and Journals

Bean, Louis H. "It Takes Lots of Time to Shift Acreage," Co-op Grain Quarterly, XII (April, 1954), 33.

Black, John D. "The McNary-Haugen Movement," American Economic Review, XVIII (September, 1928), 405-427.

Butterfield, Kenyon L. "The Farmers' Problems and Proposed Solutions," Current History, XXIX (November, 1928), 265-273.

Case, H. C. M. "The Agricultural Act of 1948," Journal of Farm Economics, XXXI (Proceedings Number, February, 1949), 227-236.

Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities. Postwar Agricultural Policy. October 25, 1944.

Davis, Joseph Stancliffe. The Farm Export Debenture Plan. Stanford, California: Food Research Institute, 1929.

------. "The Export Debenture Plan for Aid to Agriculture," Quarterly Journal of Economics, XLIII (February, 1929), 250-277.

Englund, Eric. "Fallacies of a Plan to Fix Prices of Farm Products by Government Control of the Exportable Surplus," Journal of Farm Economics, V (April, 1923), 86-101.

"Farm Dictator, Too?" Business Week (March 22, 1933), 13.

"Farm Dole," Business Week (March 29, 1933), 32.

Halecrow, Harold G. "Actuarial Structures for Crop Insurance," Journal of Farm Economics, XXXI (August, 1949), 418-443.

Hibbard, B. H. "Legislative Interference with Prices," Proceedings of the Academy of Political Science, XI (January, 1925), 34-49.

Kelly, Darwin N. "The McNary-Haugen Bills, 1924-1928," Agricultural History, XIV (October, 1940), 170-180.

Nourse, Edwin G. and conference committee of 12 others. Turning the Searchlight on Farm Policy. Chicago: The Farm Foundation, 1952.

Peek, George N. "The McNary-Haugen Plan for Relief," Current History, XXIX (November, 1928), 273-278.

Randall, C. Kyle. "Many Changes in New Farm Act," The Agricultural Situation, XXII (August, 1948), 1, 3-5.

Schultz, Theodore. "That Turbulent Brannan Plan," Farm Policy Forum, III (February, 1950), 5-8.

------. "Economic Effects of Agricultural Programs," American Economic Review, XXX (February, 1941), 127-154.

Stead, William H. "Your Stake in Fiscal Policy," Farm Policy Forum, II (January, 1949), 29-33.

Taylor, Alonzo E., and Joseph S. Davis. "The McNary-Haugen Plan as Applied to Wheat: Operating Problems and Economic Consequences," Wheat Studies of the Food Research Institute, III, No. 4 (February, 1927), 177-234.

"Three Farm Roads," Business Week (February 15, 1933), 32.

"Too Much Wheat, More Coming," U. S. News and World Report (March 11, 1955), 46.

Tugwell, R. G. "The Problem of Agriculture," Political Science Quarterly, XXXIX (December, 1924), 549-591.

------. "Reflections on Farm Relief," Political Science Quarterly, XLIII (December, 1928), 481-497.

Warren, G. F. "The Agricultural Depression," Quarterly Journal of Economics, XXXVIII (February, 1924), 183-213.

Unpublished Material

Battle, Huey J. Economic Effects of Some Major Changes in the Flour-Milling Industry. Ph.D. Thesis. Stillwater: Oklahoma Agricultural and Mechanical College, 1954.

Tontz, Robert L. The Evolution of "Agricultural Parity." Ph.D. Thesis. Stillwater: Oklahoma Agricultural and Mechanical College, 1952.

APPENDIX A

TABLE I

ALL WHEAT: ACREAGE SEEDED, ACREAGE HARVESTED, YIELD PER SEEDED ACRE, YIELD PER HARVESTED ACRE, PRODUCTION, UNITED STATES, 1919-1955

Year	Acreage Seeded 1/ (1000 acres)	Acreage Harvested (1000 acres)	Yield Per Seeded Acre	Yield Per Harvested Acre	Production (1000 bushels)
1919	77,440	73,700	12.3	12.9	952,097
1920	67,977	62,358	12.4	13.5	843,277
1921	67,681	64,566	12.1	12.7	818,964
1922	67,163	61,397	12.6	13.8	846,649
1923	64,590	56,920	11.8	13.3	759,482
1924	55,706	52,463	15.1	16.0	841,617
1925	61,738	52,443	10.8	12.8	668,700
1926	60,712	56,616	13.7	14.7	832,213
1927	65,661	59,628	13.3	14.7	875,059
1928	71,152	59,226	12.9	15.4	914,373
1929	67,177	63,392	12.3	13.0	824,183
1930	67,559	62,637	13.1	14.2	886,522
1931	66,463	57,704	14.2	16.3	941,540
1932	66,281	57,851	11.4	13.1	756,307
1933	69,009	49,424	8.0	11.2	552,215
1934	64,064	43,347	8.2	12.1	526,052
1935	69,611	51,305	9.0	12.2	628,227
1936	73,970	49,125	8.5	12.8	629,880
1937	80,814	64,169	10.8	13.6	873,914
1938	78,981	69,197	11.6	13.3	919,913
1939	62,802	52,669	11.8	14.1	741,210
1940	61,820	53,273	13.2	15.3	814,646
1941	62,707	55,935	15.0	16.8	941,970
1942	53,000	49,773	18.3	19.5	969,381
1943	55,984	51,355	15.1	16.4	843,813
1944	66,190	59,749	16.0	17.7	1,060,111
1945	69,192	65,167	16.0	17.0	1,107,623
1946	71,578	67,105	16.1	17.2	1,152,118
1947	78,314	74,519	17.4	18.2	1,358,911
1948	78,345	72,418	16.5	17.9	1,294,911
1949	83,905	75,910	13.1	14.5	1,098,415
1950	71,287	61,610	14.3	16.5	1,019,389
1951	78,048	61,492	12.6	16.0	980,810
1952	78,337	70,926	16.6	18.3	1,298,957
1953	78,789	67,661	14.8	17.3	1,169,484
1954	61,971 2/	53,712	15.6 2/	18.1	969,781 2/
1955	57,402 3/	4/	4/	4/	839,000 3/

1/ Includes acreage seeded in preceding fall for harvest in the year shown.
2/ Preliminary.
3/ April 1 estimate.
4/ Not available.

Source: Acreage seeded, yield per seeded acre, and production, United States Department of Agriculture, The Wheat Situation (Washington, D. C., April 27, 1955), p. 20. Acreage harvested and yield per harvested acre, all years except 1951 through 1954, United States Department of Agriculture, Agricultural Statistics, 1952 (Washington, D. C., 1952), p. 2. Acreage harvested and yield per harvested acre, 1951, Ibid., 1953, p. 1. Acreage harvested and yield per harvested acre, 1952, U. S. Bureau of the Census, Statistical Abstract of the United States, 1954 (Washington, D. C., 1954), p. 675. Acreage harvested and yield per harvested acre, 1953 and 1954, United States Department of Agriculture, Agricultural Marketing Service, Crop Production (Washington, D. C., 1954), p. 57.

TABLE II

ALL WHEAT: AVERAGE PRICE PER BUSHEL RECEIVED BY FARMERS, UNITED STATES, BY MONTHS, 1909-54

Year beginning July	July 15	Aug. 15	Sept. 15	Oct. 15	Nov. 15	Dec. 15	Jan. 15	Feb. 15	Mar. 15	Apr. 15	May 15	June 15
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
1909	114.0	101.2	94.9	97.2	99.2	101.0	104.2	105.0	104.8	102.2	98.8	96.4
1910	97.1	97.4	94.8	92.1	89.4	88.4	89.2	87.6	84.6	84.2	85.4	85.3
1911	83.5	83.8	86.6	90.0	89.4	87.7	89.2	90.6	91.6	96.1	101.2	100.9
1912	94.4	87.8	84.6	83.6	79.0	76.1	78.0	80.2	79.8	80.0	81.8	82.0
1913	79.2	77.1	77.5	77.4	78.4	80.4	81.3	82.4	83.6	84.0	84.2	80.6
1914	76.7	84.9	93.4	95.4	97.9	103.2	118.8	131.8	132.6	135.6	135.6	117.2
1915	104.6	100.8	93.0	92.0	92.5	97.4	108.4	108.4	100.8	100.6	101.2	96.5
1916	100.0	119.2	133.8	147.4	159.4	155.3	157.6	164.6	172.2	213.0	247.2	234.3
1917	224.5	219.3	205.2	200.3	200.4	201.4	201.6	202.0	202.6	203.1	203.0	202.8
1918	203.8	205.0	205.7	205.9	205.1	204.5	206.2	207.8	211.1	222.6	229.8	225.2
1919	219.6	211.4	207.6	211.4	214.0	223.4	233.8	231.2	230.3	242.6	250.8	256.0
1920	242.9	225.4	216.5	201.2	165.8	146.4	149.2	148.2	140.4	122.1	119.0	119.8
1921	108.5	103.0	103.4	99.9	93.4	93.0	95.2	107.0	117.0	119.0	118.8	109.6
1922	99.8	92.6	89.2	94.1	99.4	103.2	104.6	104.4	106.0	108.4	108.2	100.8
1923	89.6	86.4	91.0	94.2	93.7	94.5	96.7	98.0	98.8	95.8	96.8	98.5
1924	105.8	116.8	114.2	129.7	133.6	141.1	162.1	169.8	164.0	140.5	149.1	152.7
1925	140.3	150.4	144.4	136.4	148.8	153.7	158.1	155.5	146.0	142.2	142.1	138.9
1926	127.7	125.1	117.7	121.4	123.6	122.8	122.2	122.8	120.9	117.2	123.2	130.1
1927	127.3	123.5	119.2	113.7	111.4	113.9	115.2	116.2	121.6	129.2	144.3	132.0
1928	118.1	95.2	94.4	98.7	97.1	98.2	98.5	104.2	104.7	99.8	90.1	86.8
1929	101.6	110.0	111.4	110.7	102.8	107.3	107.5	101.3	91.9	93.4	87.5	87.9
1930	70.6	74.0	70.3	65.6	60.0	61.3	59.1	58.7	58.3	59.2	59.9	51.9
1931	36.3	35.4	35.7	36.1	50.5	44.1	44.1	44.0	44.2	43.1	42.4	37.3
1932	35.6	38.5	37.4	34.6	32.8	31.6	32.9	32.3	34.5	44.8	59.0	58.7
1933	86.9	74.7	71.1	63.6	71.1	67.3	69.4	72.0	70.9	68.7	69.5	78.9
1934	78.8	89.6	92.2	88.5	88.1	90.6	89.3	87.9	85.5	90.2	87.8	77.3
1935	76.4	80.8	85.1	94.8	87.5	88.9	92.0	91.1	89.3	85.4	81.6	79.9
1936	94.1	104.8	104.3	106.8	106.4	114.5	123.6	124.9	123.2	126.6	118.3	108.9
1937	112.8	99.4	93.0	88.7	81.9	83.6	88.5	86.6	80.3	75.0	71.4	69.7
1938	60.8	50.7	52.5	52.2	52.0	53.6	57.1	56.9	56.7	57.8	63.0	62.5
1939	55.7	54.5	72.7	70.3	73.1	82.4	84.5	84.1	85.0	88.9	80.7	67.4
1940	61.4	60.1	62.6	68.2	72.5	71.5	73.0	67.8	71.8	76.0	79.4	83.1
1941	85.6	88.5	95.8	91.0	93.4	102.2	106.1	104.9	105.1	99.7	99.8	95.7
1942	94.6	95.4	102.8	103.5	104.4	110.3	117.5	119.5	122.7	122.3	122.8	124.0
1943	126.0	127.0	130.0	135.0	137.0	143.0	146.0	146.0	146.0	147.0	147.0	143.0
1944	139.0	135.0	135.0	142.0	143.0	145.0	146.0	147.0	148.0	149.0	149.0	150.0
1945	146.0	145.0	145.0	151.0	153.0	154.0	154.0	155.0	158.0	158.0	170.0 1/	174.0
1946	187.0	178.0	179.0	188.0	189.0	193.0	191.0	199.0	244.0	240.0	239.0	218.0
1947	214.0	210.0	243.0	266.0	274.0	279.0	281.0	212.0	221.0	229.0	222.0	211.0
1948	203.0	196.0	197.0	198.0	204.0	205.0	202.0	194.0	198.0	200.0	200.0	186.0
1949	182.0	179.0	187.0	189.0	190.0	193.0	192.0	193.0	198.0	201.0	204.0	193.0
1950	199.0	197.0	194.0	190.0	194.0	202.0	209.0	221.0	212.0	214.0	211.0	208.0
1951	205.0	205.0	207.0	210.0	219.0	222.0	220.0	218.0	220.0	218.0	213.0	206.0
1952	198.0	204.0	209.0	207.0	213.0	212.0	210.0	205.0	210.0	208.0	206.0	188.0
1953	187.0	186.0	192.0	194.0	200.0	201.0	203.0	206.0	209.0	206.0	200.0	191.0
1954	200.0	203.0	207.0	208.0	212.0	212.0	214.0					

1/ Does not include bonus payment of 30 cents per bushel delivered under the Government purchase program.

Source: United Stated Department of Agriculture, The Wheat Situation (Washington, February 28, 1955), p. 2.

TABLE III

LEVELS OF PRICE SUPPORTS FOR WHEAT UNDER SLIDING SCALE FOR DESIGNATED SUPPLY CONDITIONS, AGRICULTURAL ACT OF 1948

Total Supply as Per Cent of Normal Supply	Support Level as Per Cent of Parity Price*
Not more than 70	90
More than 70 but not more than 72	89
More than 72 but not more than 74	88
More than 74 but not more than 76	87
More than 76 but not more than 78	86
More than 78 but not more than 80	85
More than 80 but not more than 82	84
More than 82 but not more than 84	83
More than 84 but not more than 86	82
More than 86 but not more than 88	81
More than 88 but not more than 90	80
More than 90 but not more than 92	79
More than 92 but not more than 94	78
More than 94 but not more than 96	77
More than 96 but not more than 98	76
More than 98 but not more than 102	75
More than 102 but not more than 104	74
More than 104 but not more than 106	73
More than 106 but not more than 108	72
More than 108 but not more than 110	71
More than 110 but not more than 112	70
More than 112 but not more than 114	69
More than 114 but not more than 116	68
More than 116 but not more than 118	67
More than 118 but not more than 120	66
More than 120 but not more than 122	65
More than 122 but not more than 124	64
More than 124 but not more than 126	63
More than 126 but not more than 128	62
More than 128 but not more than 130	61
More than 130	60

* The level of support was to be not less than the percentages stated.

Source: Agricultural Act of 1948, Public No. 897, U. S. Statutes at Large, 80 Congress, 2 sess., LXII (July 3, 1948), p. 1253.

TABLE IV

LEVELS OF PRICE SUPPORTS FOR WHEAT UNDER SLIDING SCALE FOR DESIGNATED SUPPLY CONDITIONS, AGRICULTURAL ACT OF 1949

Total Supply as Per Cent of Normal Supply	Support Level as Per Cent of Parity Price*
Not more than 102	90
More than 102 but not more than 104	89
More than 104 but not more than 106	88
More than 106 but not more than 108	87
More than 108 but not more than 110	86
More than 110 but not more than 112	85
More than 112 but not more than 114	84
More than 114 but not more than 116	83
More than 116 but not more than 118	82
More than 118 but not more than 120	81
More than 120 but not more than 122	80
More than 122 but not more than 124	79
More than 124 but not more than 126	78
More than 126 but not more than 128	77
More than 128 but not more than 130	76
More than 130	75

* The level of support was to be not less than the percentages stated.

Source: Agricultural Act of 1949, Public No. 439, U. S. Statutes at Large, 81 Congress, 1 sess., LXIII (October 31, 1949), p. 1051.

APPENDIX B

BASIC WEAKNESSES OF THE McNARY-HAUGEN PLAN

Wheat growers in the 1920's were confronted with distressing conditions principally because of an overexpansion of wheat acreage, the loss of foreign markets, and increased costs resulting from a preceding period of monetary inflation and speculation in farm lands. Coupled with these factors was a disadvantageous ratio between the prices of farm and industrial products. It is extremely doubtful if the McNary-Haugen plan would have solved these problems. Indeed, considered from a long-run viewpoint, it probably would have been more harmful than beneficial.

The successful administration and operation of a plan so complex as the McNary-Haugen proposal would have been an extremely difficult task and, if successful, an accomplishment in itself. This would have been true though applied only to a few commodities or even to wheat alone. Granting the possibility of successful administration of the plan, it would not have been a contributing factor to the solution of the farm problem.

The proponents of the plan hoped to have wheat sold in the domestic market at a higher price than abroad, at least as far above the foreign price as the tariff would permit. Any other policy would have been inconsistent with the demand for "equality for agriculture."

The major purpose of the plan was to raise wheat prices to domestic producers. In the absence of an effective control of output, a guaranteed favorable price would have stimulated farmers to expand the acreage planted to wheat. This would have happened at the very time that production was already too large for the market demand. Wheat production needed to be brought back into adjustment with the demands of a peacetime market.

Overproduction probably would have been the most serious economic consequence of the adoption of the proposal. Expansion would have been partly at the expense of other crops and partly through "new" land brought under cultivation. Labor and capital would have been drawn from other enterprises and put into the enterprise of wheat farming. Those who were already producing wheat would have expanded operations and many others would have entered the business of raising a crop backed by a guaranteed favorable price. This not only would have contributed toward a rise in land prices, but land devoted to lower uses to which it was normally better suited would have been brought into the higher use of producing wheat.

With the domestic price of wheat set at a level which was high enough to assure a monetary gain, some land which under more normal conditions was marginal or even submarginal for wheat at free-market prices would have been brought under cultivation for wheat production. This stimulus would have had a tendency to cause land prices to advance. Land located at a more distant point from market would also have been

brought into cultivation. These factors would have meant that at least a portion of the increased production would have been produced at high costs per bushel. In the absence of pertinent regulation they also might have contributed toward the production of types and qualities of wheat for which there were no advantageous domestic markets.

These developments would have led to further problems. While it is true that the scheme provided for stabilization corporations to take surpluses from the market, the scope of the corporations was inadequate to cope with the self-perpetuating nature of the wheat surplus problem. As a result, large quantities of surplus wheat, especially that of low quality and in poor condition, would have been placed for sale on the domestic market in competition with feed grains. Corn growers would have protested vigorously, even if corn were also under the operation of the plan.

Proponents of the plan claimed that the assessment of the equalization fee at increasingly higher levels as production over domestic needs increased would have discouraged wheat growers from expanding production. It appears highly doubtful that the equalization fee would have been a potent enough form of control to measure up to that accomplishment.

Proponents of the equalization fee "scheme" assumed that wheat growers would gain more through enhanced wheat prices than they would lose through payment of the losses incurred by maintaining the domestic wheat price at a level in excess of the world price. For a short period

of time this would have been true and, as mentioned previously, would have caused expansion in the wheat industry. The more efficiently the plan was administered, the greater would have been net wheat price returns to farmers, and the greater would have been the stimulus to expand wheat acreage.

What would have happened after the lapse of a longer period of time? With a greatly expanded acreage and the resulting increase in production, American wheat farmers soon would have been confronted with a much greater exportable surplus. This would have been the case even after allowance for an increase in domestic uses for wheat. According to the plan, the surplus above domestic requirements was to be placed on the world market and sold at the world market price. Assuming only a normal world crop, rather than a "bumper" one, the additional surplus wheat from American farms surely would have further depressed the world market price. In order to cover the increase in spread between the domestic price and the world price, the equalization fee would have been increased and farmers' margins above the world price would have been narrowed.

A large world crop in conjunction with increased domestic production would have further complicated this situation. Larger world supplies would have caused the assessment of a still higher equalization fee and the farmers' net price per bushel would have been further lowered.

Would wheat farmers have decreased the acreage seeded to wheat? As long as they were covering their variable costs it seems very

doubtful that they would have greatly cut production. The very nature of the wheat farming industry makes it very difficult for farmers to adjust downward when prices are lowered because they are confronted with high fixed costs. A large part of their labor, their equipment, and their land, which in many cases is not suited to the production of other crops, all represent fixed costs. In the short run, reduction in cost can only be attained through a reduction in variable costs. Since variable costs represent such a small proportion of total cost, the amount of reduction in wheat motivated by cost reduction would be small.

In so far as the surplus had continued to expand, the fee would have been increased to cover the mounting losses from the sale of additional surplus wheat on the foreign market. It is altogether possible that the fee would have been increased to the extent that the domestic price realized by farmers would have been no greater than the world price. Furthermore, in the absence of any counteracting changes in demand or in foreign supplies, the world price would have been a severely depressed one. This would have placed wheat producers in a worse position than that experienced before the adoption of the plan. Then, as now, the ill effects of agricultural overproduction could not be overcome without the removal of resources from that industry.

VITA

Nellis Austin Briscoe
candidate for the degree of
Doctor of Philosophy

Thesis: UNITED STATES AGRICULTURAL POLICIES AFFECTING THE WHEAT INDUSTRY, 1914-1954

Major: Agricultural Economics

Minor: Economics

Biographical and Other Items:

Born: September 7, 1918, at Lincoln, Kansas.

Undergraduate Study: Fort Hays Kansas State College, 1940-1942, 1946-1948; Agricultural and Mechanical College of Texas, 1944.

Graduate Study: Fort Hays Kansas State College, 1950-1951; Oklahoma Agricultural and Mechanical College, 1952-1955.

Experiences: United States Navy, 1942-1945; Farmer, 1948-1950; High School Teacher, 1952; Research Assistant, 1953-1954 and Instructor, 1955, Department of Agricultural Economics, Oklahoma Agricultural and Mechanical College.

Awarded college fellowship for study of economics at Fort Hays Kansas State College, 1951.

Member of Phi Kappa Phi, Pi Gamma Mu, The American Farm Economic Association; listed in Who's Who in American Colleges and Universities, 1947-1948.

Date of Final Examination: July, 1955.

THESIS TITLE: UNITED STATES AGRICULTURAL POLICIES AFFECTING THE WHEAT INDUSTRY, 1914-1954

AUTHOR: Nellis Austin Briscoe

THESIS ADVISER: Dr. Adlowe L. Larson

The content and form have been checked and approved by the author and thesis adviser. Changes or corrections in the thesis are not made by the Graduate School office or by any committee. The copies are sent to the bindery just as they are approved by the author and faculty adviser.

TYPIST: Margaret J. Briscoe