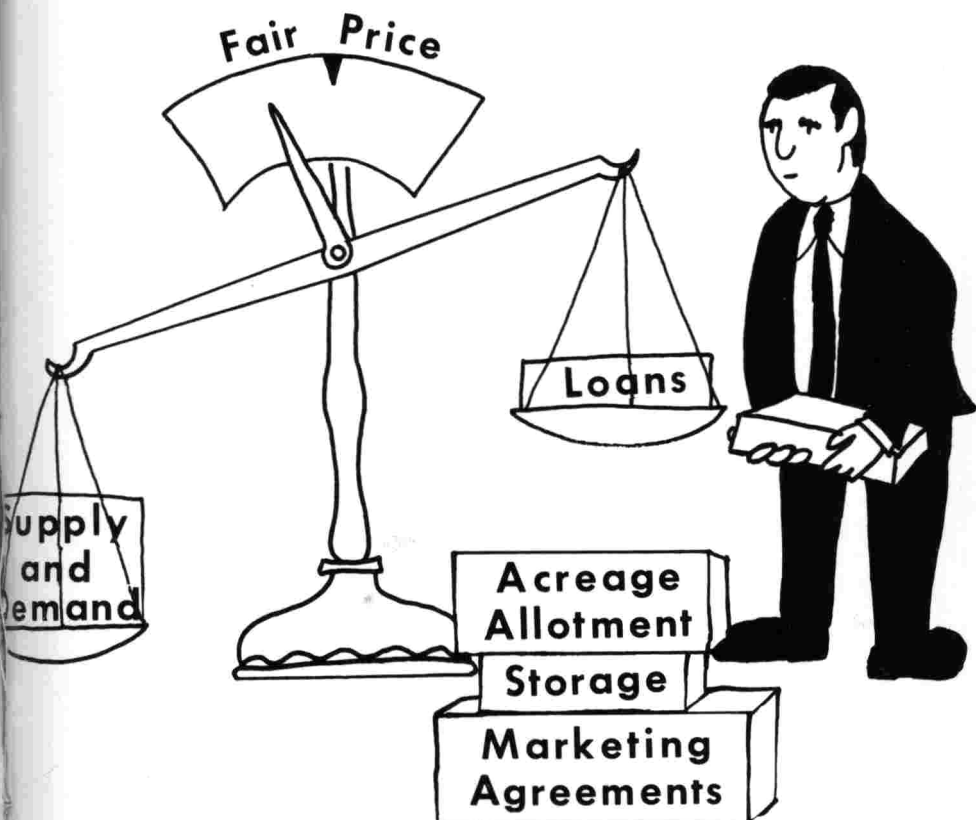


American Farm Price and Income Policies : Main Lines of Development, 1920-1973

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SOURCES OF FARM DIFFICULTIES¹

American farmers, traditionally, have had inferior bargaining positions in the two important sets of markets in which they do business. These are the markets in which they buy so many of the items used to produce farm products, and the markets in which they sell the products that they produce. These inferior bargaining positions resulted not only from the large size and relatively small number of sellers of farm supplies and buyers of farm products with whom they dealt. They also resulted from the unique technological and competitive conditions under which agricultural production and marketing take place.

Farm production is a series of continuous biological processes that cannot be turned on or off at will during the production period. Also, each set of these production processes has some seasonal pattern—causing a seasonal pattern of farm marketings. These seasonal patterns of production and farm marketings can and do cause marked seasonal price movements that can be quite unfavorable to farm producers. Then, too, there are the many natural sources of risk and uncertainty in farm production—extreme variation in temperature and rainfall, and such disasters as floods, hailstorms, tornadoes, and insect and disease infestation.

As to competitive conditions, farmers are generally unorganized for purposes of affecting prices they receive in most of the markets in which they sell their products. In the event of price declines, the technology of farm production makes it economically unfeasible to curtail output until prices improve.

Furthermore, the unusually high ratio of overhead costs to direct costs in most lines of agricultural production encourages the individual farmer to produce to the limit of his capacity. Once a farmer makes his production decisions, it is to his individual advantage to produce as much as he can with the resources that he has committed—even though such action by all producers of a given commodity may be to their mutual disadvantage.

Finally, farmers do not have the protection of trademarks (except perhaps

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¹This section is based on the following source: Irving Dubov, "Market Power Problems of Agricultural Producers," *Journal of Marketing*, 26: 48-53, April, 1962.

in a few limited instances) or patents to give them the market power that is based on successful product differentiation.

Other factors contributing to the general price-income difficulties in agriculture are the low price and income elasticities for most farm products. Estimates of the price elasticity of demand at retail for all food in the United States range from $-.20$ to $-.81$. Similar estimates of the income elasticity of demand range from $.04$ to $.37$.²

The low price elasticities explain the recurring difficulty of "a large crop being worth less than a small crop." And the low income elasticities explain why a rise in per capita incomes may be associated with only very modest increases in the demand for many farm products.

In response to these difficulties, a number of remedies were proposed and considered by farmers, farm leaders, and members of the executive and legislative branches of the Federal government. The remainder of this paper details the origins and highlights of the proposals dealing with price and income supports that were adopted and implemented through legislative enactment.

ORIGINS AND BASES OF CURRENT POLICIES³

Ever since the early days of the First New Deal, the **parity** concept has permeated every single farm program enacted by the U.S. Congress. For more than 40 years, therefore, the U.S. Department of Agriculture has faithfully published, every month, the latest calculations of the **Parity Index**, and **Parity Ratio**, and **Parity Prices** for a host of farm products.⁴

The parity idea itself is a terms-of-trade concept that specifies that the price of any farm commodity should give one unit of that product the same

²Richard J. Foote, **Price Elasticities of Demand for Nondurable Goods With Emphasis on Food**, U.S. Agricultural Marketing Service, AMS-96, Washington, D.C., March 1956, p. 22. See also, Willard W. Cochrane, **Farm Prices: Myth and Reality**, University of Minnesota Press, Minneapolis, 1958, pp. 38 and 86.

³Based largely on: Murray R. Benedict, **Farm Policies of the United States, 1970-1950**, Octagon Books, New York, pp. 168-275.

⁴The **Parity Index** is the Index of Prices Paid by Farmers for items used in family living and production, including interest, taxes, and farm wage rates. It measures movements in prices of an aggregate bundle of these items. Since the index has a 1910-1914 base, and since the object of Federal price support policy is to maintain the overall relation between farm and nonfarm prices of that period, the value of the index is an integral part of all formulas used to implement this policy. The **Parity Ratio** is the Index of Price Received by Farmers divided by the Index of Prices Paid by Farmers, both with a 1910-1914 base, and adjusted back to percentage terms. Therefore, if the Parity Ratio is less than 100% then the purchasing power of farm products in overall terms is less than what it was in 1910-1914. If the ratio is greater than 100% then the purchasing power of farm products, according to this measure, is greater than it was in the base period. Finally, the **Parity Price** is a price that will, according to the parity concept, give one unit of a farm commodity the same purchasing power as it had during the base period.

purchasing power today in terms of items used in family living and production as it had in the base period. What it says, in effect, is this: If the price of wheat was \$1 a bushel during the base period, and if the price of a pair of farm work shoes during the same period was \$3, then 3 bushels of wheat was equal in exchange to one pair of work shoes. But if the price of work shoes doubled, to \$6 a pair, the parity concept then requires that the price of wheat should also double (to \$2 a bushel), to assure that 3 bushels of wheat will still be equal in exchange to one pair of work shoes.

The parity concept appeared first under the name "Fair Exchange Value," in the period immediately following the Armistice that ended World War I. Farmers had fared well economically while the shooting was on. Demand increased enormously to meet both foreign and domestic requirements for food and fiber. Food prices rose rapidly and steadily, as did employment and wage rates. Using 1910-14 as the base period, the all-commodity index of wholesale prices rose from 99 in 1914 to 225 in 1920. Farm prices rose faster and reached a peak a year earlier—221 percent in 1919. Gross farm income moved similarly—from a 1919-14 average of \$7.5 billion a year to a peak of \$17.7 billion in 1919. The bulk of this increase resulted much more from the inflationary price increases just noted than from real increases in output. Between 1915 and 1919, the volume of agricultural output increased by only 6%.

By and large, these gains were dissipated by widespread farmer involvement in the land price boom that occurred between 1916 and 1920. This resulted in a massive increase in farm mortgage indebtedness from \$4.7 billion in 1914 to \$10.2 billion and higher in the early 1920's. Farmers had borrowed large sums when prices were high, and they were squeezed through a harsh wringer, trying to pay off these debts after the severe drop in farm prices that occurred in 1920 and 1921.

Other factors contributed to the agricultural distress of the 'twenties. In international accounts the United States was no longer a creditor nation that paid off its foreign obligations in part by export of agricultural products. American financial involvement in financing its allies caused the nation to emerge from the war as the world's largest creditor nation. And the termination of wartime loans and credits to foreign countries caused sharp decreases in export demand and prices for farm products. The export demand for farm products was further throttled by the resumption of a high tariff, protectionist trade policy that lasted through the entire decade, and culminated in enactment of the Smoot-Hawley Tariff in 1930.

In any case, the parity idea first appeared in the early 'twenties as the "Fair Exchange Value" concept. The basic idea was first introduced formally at a conference on agricultural policy convened in early 1922 by Henry C. Wallace, U.S. Secretary of Agriculture at the time. Coincidentally, a pamphlet titled "Equality for Agriculture" was published by two officials of the Moline Plow Company—George N. Peek and Hugh S. Johnson. This publication defined a fair exchange value as ". . . one which bears the same ratio to the current

general price index as a 10-year pre-war average crop price bore to the same index for the same period. If the 10-year pre-war base period (1905-14) is cut to a 5-year base (1910-14), and if the general price index is replaced by the Index of Prices Paid by Farmers (the "Parity Index"), then the "Fair Exchange Value" becomes the "Parity Price" of the 1933 Agricultural Adjustment Act.

In response to the unfavorable economic conditions that faced farmers, the decade of the 1920's was marked by widespread political activity on their behalf. Many avenues of action were explored—beginning with efforts to roll back freight rate increases and to improve the availability of farm credit, through expansion of cooperative marketing programs under sanction of the Capper-Volstead Act, and culminating in five attempts to enact the McNary-Haugen Plan.

The basic proposal embodied in the McNary-Haugen Bills first appeared in 1922 as the "Peek Proposal." It began with the "Fair Exchange Value" noted above. To achieve this price goal for any commodity, a certain portion of the crop would have been withheld and fed into the domestic market only in such amounts as would be required to meet domestic demand at the "fair exchange value" price. The excess was to be sold abroad at the world price, and "losses" incurred in selling at the lower world price spread evenly over all producers by means of a general tax on sales of the commodity, or some similar arrangement.

Five versions of the McNary-Haugen proposals were put forward for enactment by Congress. The first three failed of enactment. The last two were vetoed by President Calvin Coolidge, on the advice of his Secretary of Commerce, Herbert C. Hoover.

When Mr. Hoover, himself, assumed office as President in March, 1929, he knew that some alternative for the McNary-Haugen Proposal was needed. The one selected and enacted was the Agricultural Marketing Act of 1929—which was passed in July of that year. The approach was milder and much less radical for the time than was the two-price, export-dumping McNary-Haugen Plan. It was reluctantly accepted by farm interest groups as the best they could hope for at the time.

As enacted, the Agricultural Marketing Act provided for: 1) a Federal Farm Board of eight members to be appointed by the President; 2) a \$500,000,000 revolving fund; 3) vigorous encouragement for organization of large farmer cooperative marketing associations; 4) facilitating loans to cooperative marketing associations at a 3½% interest rate; and 5) commodity loans to the marketing cooperatives. The general approach taken was to emphasize cooperative marketing as the solution to the farm price-income problem. It was argued that to cure agricultural ills and to achieve "equality," agriculture was to be organized into highly centralized commodity organizations to obtain a degree of monopoly power in the marketing of farm products. The slogan used was "Orderly Marketing."

In 1930, stabilization corporations were established to purchase supplies of wheat and cotton in an attempt to stabilize prices of the two commodities.

However, in the matter of production control, the Farm Board acted only in an advisory capacity. Once prices began to slide, the Board turned to land-use planning to try to control the amounts reaching the market. But neither the stabilization operations nor the land-use planning were able to stem the downward slide of prices in the setting of generalized, deep economic depression all over the economy. The operations of the Board were finally liquidated with large losses after the Commodity Credit Corporation was established. By that time, it was clear that something more drastic than the Federal Farm Board's approach was required to meet the drastically changed situation. And so, the stage was set for the enactment of the Agricultural Adjustment Act of 1933.

1933 — THE BIRTH OF PARITY⁵

The first Agricultural Adjustment Act (AAA) was enacted into law in the setting of 1933, the lowest point of the economic depression that started with the Stock Market Crash of 1929. It was the most significant single landmark ever in the development of American farm price policies and programs. Among other things, it was the first legislative enunciation of a Parity goal in terms of 1910-1914 relations. It was the culmination of more than a decade of discussions and activities by groups concerned with farmer interests. Importantly, it was the first direct governmental action in the pricing of farm products on a national level. And the passage of this act was possible only because of the setting of the time—i.e., the severe economic depression that beset the entire nation. It was a time of drastic circumstances, and drastic remedies were acceptable.

The mechanisms used to implement the objectives of the 1933 AAA were these:

- 1) **Production Control:** This called for enhancement of agricultural prices through widespread restraints on production and/or the removal of supplies from the market.
- 2) **Benefit Payments:** This sought to enlarge farmers' incomes by making direct payments for participation in production control programs.
- 3) **Processing Taxes:** Excise taxes were levied on processors to help defray the costs of the "adjustment" operations.
- 4) **Marketing Agreements:** The marketing of farm products was regulated through voluntary agreements among processors and distributors or through compulsory licensing (if adopted by the industry) to eliminate so-called "unfair" practices or charges. The idea was that if price cutting among processors and distributors was eliminated, there would be less pressure to reduce prices that were paid to farmers for the raw products.

In the course of what became known as the battle between President Franklin Roosevelt and the U.S. Supreme Court, the Court declared the key

⁵Based largely on Benedict, *op. cit.*, pp. 276—348.

provision of the 1933 AAA as unconstitutional. It ruled in January, 1936 that the use made of the processing tax constituted "control of agricultural production," and was therefore unconstitutional, because this was an invasion of rights reserved to the states. The ruling did not end the entire agricultural program, but it precluded further use of contracts between the Secretary of Agriculture and individual producers that tried to obtain production adjustments.

In summary, the mission of the 1933 AAA was twofold—emergency and recovery. The emergency objective was concerned with keeping farm properties intact and aiding farmers in making outlays necessary for farm production and farm family living. This was achieved by the immediate dispatch of benefit payments to qualified farmer-recipients. The longer term goal of recovery—to which the production control programs were directed—was a supply and demand situation that would yield "parity prices" for farm products. After the burden of price (and income) support was transferred back to the market through adjusted production and attainment of a "parity" price level, the recovery mission of the 1933 AAA would have been accomplished. Then it would have been incumbent on the President to terminate the Act as a whole, or, at least, its operation for any particular commodity whose price had been restored to the parity level.

The Soil Conservation and Domestic Allotment Act was enacted in 1936 as an emergency measure to shore up the gap left by the Supreme Court's ruling on the processing tax provisions of the 1933 AAA.⁶ In brief, a national policy of soil conservation was used as the basis for providing farmers with benefit payments. The primary **stated** purpose was conservation of soil fertility. In addition, the policy of seeking an economic balance between agriculture and the rest of the economy was retained. In implementing the Act, crops were classified as **soil depleting** or **soil building**, and direct payments were made for following soil conserving practices and soil building practices. It should be noted in passing that many of the commodities that had been in "surplus" supply were in the soil depleting category.

Another innovation of the 1936 Act was the introduction of a **Parity Income** concept—which aimed at maintaining the same relationship between purchasing power of farm and nonfarm per capita income as existed in 1910-14. The major methods for implementation of the objectives of the Act were programs for soil conservation, expansion of markets, and domestic production allotments.

In summary, soil conservation was used as the pretext for transferring incomes and supporting farm prices. Very serious questions can be raised regarding the advisability of this mixture of objectives. In any event, the Administration of the time used the widespread public concern over the droughts and dust storms of the period. These natural and resulting economic and social disasters had been very graphically depicted in the literature, drama, and news

⁶*Ibid.*, pp. 349–352.

media of the time, and it was highly feasible politically to use this "back door method" to cope with the economic problems then confronting American agriculture.

1938 AGRICULTURAL ADJUSTMENT ACT⁷

This was a more detailed and comprehensive measure than was the stopgap 1936 Act. The stated objectives of the law were: 1) to conserve national soil resources; 2) to assist in the marketing of agricultural commodities for domestic consumption and for export; 3) to provide an orderly, adequate, and balanced flow of cotton, wheat, corn, tobacco, and rice in interstate and foreign commerce; 4) to assist farmers to obtain parity prices for such commodities and parity incomes; and 5) to assist consumers in obtaining adequate and steady supplies of such commodities at fair prices.

Implementation called for programs of acreage allotments, storage, reserve supplies, loans on commodities in storage, and marketing quotas.

WORLD WAR II — CHANGING EMPHASIS⁸

Large stocks of farm commodities, notably wheat, cotton, and corn, accumulated during the time that the 1938 AAA was effective. Initially, there was great concern over the need to reduce these stocks. But, by December, 1940, USDA was anticipating large war-induced increases in demands for food, and acted accordingly. For example, American farmers were asked not to reduce pork production, but, instead, to farrow at least as many sows in 1941 as they had in 1940. Passage of the Lend-Lease Act in March, 1941—to aid the Allied nations against the Axis powers—provided additional impetus to the changed orientation of policy, away from managing surpluses, over toward stimulating production increases.

And so, the outbreak of World War II and the increasing involvement and eventual formal entry of the United States into the war brought a markedly different situation. The emphasis changed from controlling production to encouraging expanded production to meet the sharply increased needs of supplying the Allied nations and meeting our own requirements for prosecuting the war. It was recognized that the United States was extremely fortunate to have the reserve stocks that resulted from the "Ever-Normal Granary" operations of the 1938 AAA.

In this setting, representatives of agricultural interests feared a repetition of the events of the 1920's in respect to farm prices. As part of the programs passed to provide incentives to expand production of farm products needed for the war effort, farm leaders in Congress also wanted effective guarantees against

⁷ *Ibid.*, pp. 375–386.

⁸ *Ibid.*, pp. 402–459. Also see: Wayne D. Rasmussen and Gladys L. Baker, "A Short History of Price Support and Adjustment Legislation and Programs for Agriculture, 1933-65," *Agricultural Economics Research*, 18:73-75, July 1966.

sudden price declines after hostilities ceased.

The major mechanisms by which Congress achieved these guarantees were the so-called "Steagall Amendment" (enacted July 1, 1941) to the Act extending the life of the Commodity Credit Corporation and the related provisions included in the Stabilization Act of October, 1942. The Steagall Amendment provided for price supports at 85% of parity for any commodity for which the Secretary of Agriculture asked increased production in order to aid in the ongoing preparedness effort. In effect, this provided a cushion against the effects of a sudden termination of the requirements imposed by the then defense preparedness and overseas war aid programs. In October, 1942, following formal American entry into the war at the end of the previous year, longer term guarantees were provided by amendments to the October, 1942 Stabilization Act. All "Steagall Amendment" commodities now were to be supported at 90% of parity for 2 years following the official cessation of hostilities of World War II. The commodities covered included the so-called Basics—corn, cotton, peanuts, rice, tobacco, and wheat, as well as the following non-basics—manufacturing milk, butterfat, chickens, eggs, turkeys, hogs, dry peas, dry beans, soybeans for oil, flaxseed for oil, American Egyptian cotton, Irish potatoes, and sweetpotatoes.

POST-WAR LEGISLATION AND THE NEW PARITY FORMULA⁹

The major enactments in the immediate post-war years were the Agricultural Acts of 1948 and 1949. The 1948 Act provided mandatory price supports at 90% of parity during the 1949 crop year for basic commodities as well as for a number of other commodities. Also, it provided for a new parity formula and a sliding scale of price supports, ranging between 60 and 90% of parity. The sliding scale never went into effect, as its provision was superseded by the 1949 Act. However, the revised formula was adopted—with provision for transitional pricing if the new formula resulted in too drastic a change in the effective support price for a given commodity.

The change in the formula was the most important feature of the immediate post-war agricultural enactments. For, it represented an attempt to "modernize" parity, while still clinging to the old relationships of the 1910-14 period.

As indicated above, the basic ideas of parity pricing first appeared in the early 1920's as the fair exchange value notion espoused in the Peek proposal. As originally specified in the Agricultural Adjustment Act of 1933, a parity price for any farm commodity was to be that price which would give one unit of it the same purchasing power in terms of items used in family living and production as it had during the base period, 1910-1914. To attain the objective, the following formula was established:

⁹Benedict, *op. cit.*, pp. 460-490 and Rasmussen and Baker, pp. 74-75.

$$\begin{array}{lcl} \text{Parity Price} & & \text{Current Value of the Index} \\ \text{at 100\% of} & = & \text{of Prices Paid (1910-14 = 100)} \\ \text{Parity} & & 100 \end{array}$$

The question arises, why was a return to 1910-14 the goal of the parity formula? First, at the time the basic terms of trade concept was first discussed (the early 'twenties), 1910-14 was the last "normal" peacetime period so far as American agriculture was concerned. It was still the case in 1933 when the first AAA was enacted. Second, it was the earliest period for which adequate data were available to use in constructing the price indexes (mainly the indexes of prices received and paid by farmers) used to calculate parity prices in the formula and to calculate the purchasing power of farm products by means of the parity ratio. Finally, and importantly, 1910-14 was a favorable period for agricultural prices relative to non-agricultural prices.

And so, the formula established by the first AAA was used from 1933 on, through the war years, until the passage of the 1948 Agricultural Act. Over time, however, the formula came in for increasing criticism. It did not take into account changes in demand or supply since the base period. This meant that prices generated by the formula did not reflect changes in dietary preferences, changes in productivity, or changes in production costs since the base period. This distorted the price structure for farm products. It tended to overvalue the products for which the demand had lessened or for which there had been technological breakthroughs in production practices. It tended to undervalue the products for which there had been increases in demand. Moreover, the 1933 formula tended to generate a set of frozen price relations. The only way that a calculated parity price could change was with a change in the Parity Index (the index of prices paid) or with a change in the support level. Since the calculated parity prices at any point in time were all based on the same value of the parity index, and since the same general percentage support level was provided for most commodities, the relative product price structure of the base period was perpetuated. Finally, there was the criticism that the formula was just too backward looking. The base period was too far removed in time.¹⁰

The formula established in the 1948 Agricultural Act Attempted to meet these criticisms as follows:

$$\begin{array}{lcl} \text{Parity Price} & & \text{Current Value of the Index of} \\ \text{at 100\% of} & = & \text{Prices Paid (1910-14 = 100)} \\ \text{Parity} & & 100 \end{array}$$

$$\begin{array}{lcl} \text{Adjusted} & & \text{Average Price of the Commodity During} \\ \text{Base Period} & = & \text{the Most Recent 10-Year Period} \\ \text{Price} & & \text{The Average Value of the Index of} \\ & & \text{Prices Received (1910-14 = 100) During} \\ & & \text{the Same 10-Year Period} \end{array} \quad \times \quad 100$$

¹⁰This was stated 26 years ago. Yet, the basic objective of current price support policies, no matter how disguised by conversions of indexes to 1967 base periods, is still the maintenance of the relationships of 1910-1914.

What was done was to substitute an artificial Adjusted Base Period Price for the old 1910-1914 average price. By using the average price of the most recent 10-year period, an attempt was made to introduce flexibility into the price calculations. But the formula still aimed to maintain the 1910-1914 overall relation, multiplying the adjusted base period price by a parity index with a 1910-1914 base period. Therefore, it was necessary to "deflate" the average price of the commodity for the most recent 10-year period by the average value of the index of prices received during the same 10-year period, with a 1910-14 base, to express the new "flexible" base price in terms of dollars that had the purchasing power of 1910-14 dollars. What we are left with is that the adjusted base period price says: "This would have been the price of the commodity during 1910-14 if the supply and demand conditions of the most recent 10-year period had existed in 1910-14."

The 1949 Act modified this formula further in two regards to make it more reflective of actual conditions. First, wages paid to hired farm labor was introduced as a component of the parity index. Second, payments made during World War II to producers of specified commodities were added, on a per unit basis, to prices of these commodities as used to calculate adjusted base period prices both in the 10-year average prices (in the numerator) and in the 10-year average of the index of prices received (in the denominator).

Provisions also for sliding scales of price supports were included in the Agricultural Act of 1949. The level of support for individual commodities depended on producers' acceptance of marketing quotas or acreage allotments, adequacy of supplies, and need to encourage production for national security reasons.

KOREA AND THE 1950'S¹¹

After the outbreak of the Korean War, the national security provision of the 1949 Act was used as the basis to suspend application of sliding scales for support, and to maintain a support level of 90% of parity for all commodities in 1952.

Cessation of the Korean conflict brought renewed need for some kind of action to bring supplies of farm products in line with demand at reasonable prices to producers. One of the major efforts was the approval of Public Law 480 in July, 1954. "This Act, which served as the basic authority for sale of surplus agricultural commodities for foreign currency, proved to be of major importance in disposing of farm products abroad."¹²

The next major enactment of the decade was the Agricultural Act of 1956, which established the Soil Bank. The result was an extensive program, quite reminiscent of the efforts of the 'thirties, to reduce supplies reaching the

¹¹Based on Rasmussen and Baker, *op. cit.*, pp. 75-77; Also Luther Tweeten, *Foundations of Farm Policy*, University of Nebraska Press, Lincoln, 1970, pp. 308-309.

¹²Baker and Rasmussen, *op. cit.*, p. 76.

market by reductions in acreages under cultivation. Two types of land retirement were established. The acreage reserve aimed to reduce acreages planted in wheat, cotton, corn, tobacco, peanuts, and rice. Farmers were paid to reduce the acres they had planted in these crops to levels below the official allotments that they held. The conservation reserve made payments to farmers for retiring land from production and transferring it instead to conservation uses.

A good assessment of the policy experience of the 'fifties is contained in the following:¹³

Two basic approaches to commercial farm policy are workable: one is to adequately control production and support prices, the other is to leave production uncontrolled and let prices fall to levels that will clear the market. A Democratic Congress and Republican Secretary of Agriculture Benson concocted an unworkable combination: price supports with ineffective controls at an inopportune time when the technological revolution had struck agriculture full force. The result was unconscionable levels of stocks. The carry-over of wheat in July, 1960 was 1.4 billion bushels; of corn in October 1961 it was 2.0 billion bushels. A major shift in policies was clearly needed.

THE 'SIXTIES¹⁴

Immediately after the Kennedy Administration assumed office in 1961, action was taken to use the bounty of American farm abundance to fill human nutritional needs both at home and abroad. First, domestic food distribution programs to the needy were expanded. A pilot program for food stamps was initiated. School lunch programs were expanded. And the Food For Peace programs were undertaken to facilitate international movement of American farm surpluses to satisfy nutritional needs abroad.

The major focus for policy innovation was centered on the attempt to gain enactment of the supply-management scheme for supporting farm prices and incomes that had been proposed by Willard Cochrane, who joined the Kennedy Administration as Director of Agricultural Economics in the U.S. Department of Agriculture. The framework of the proposal was this: 1) Congress was to establish price per unit support standards for individual commodities. 2) Then the economic analysts of the USDA would take over. They would estimate the price-quantity demand relationships for each commodity affected. Given this price-quantity schedule, they would estimate the total size of the crop that should be marketed in the given crop year in order to realize in the market place the price goal set by Congress. This total quantity, so determined, would become the **National Sales Quota** for the

¹³Tweeten, *op. cit.*, p. 309.

¹⁴Rasmussen and Baker, *op. cit.*, pp. 77-78; Tweeten, *op. cit.*, pp. 309-314, Cochrane, *op. cit.*

commodity in question. 3) The total National Sales Quota would then be prorated among all producers of the product, probably on the basis of historical production records. 4) Finally, negotiable marketing certificates were to be issued to each producer, entitling him to market a prorata share of the total national sales quota. The viewpoint of the administration on the measure was summarized as follows:¹⁵

. . . . The Administration saw the Cochrane mandatory program as the only alternative. It would at one and the same time maintain farm income, stop the growth of stocks, and hold down government cost. President Kennedy, who was strongly urban-oriented, felt pressure to cut the farm budget and release funds for other uses.

The supply-management proposal was embodied in the Food and Agriculture Act of 1962. The Senate passed the bill by a vote of 42 to 38. But strong opposition from the American Farm Bureau Federation and various cattlemen's associations combined to defeat the measure in the lower house by 215 to 205.

The first legislative enactment of the new administration was the Emergency Feed Grain Act that was approved in March, 1961. The purpose of the measure was to reduce corn and sorghum production by diverting acreages from these crops to soil-conserving uses. It was a voluntary program with financial inducements for compliance that strongly encouraged participation. An evaluation of the effects of the program was as follows:¹⁶

The program was expensive to the government, but it did restrain production and reduce the burdensome carry-over. It was also popular with farmers. For these reasons it remained the basic form of feed grain program for the remainder of the 1960's.

An amended version of the original 1962 Food and Agriculture Act was finally enacted by Congress and signed into law in September of that year. It provided for extension of the program established by the 1961 Emergency Feed Grain Act. But it also set the stage for a referendum by wheat farmers to approve or reject the mandatory production control, price support program that had been proposed in the original version of the 1962 Act. This set the stage for the great wheat referendum battle which ended in a major defeat for the Administration's attempt to redirect the orientation of price and income policies.

National referendums of wheat farmers held in previous years had always approved quotas. However, the American Farm Bureau Federation and the Administration both selected the campaign and vote on this issue in 1963 as the battleground on which to settle the deep ideological differences between them.

¹⁵Tweeten, p. 310.

¹⁶Ibid, p. 309.

In the referendum, the nation's wheat farmers were asked to select between two alternatives:¹⁷

. . . . The first system provided for the payment of penalties by farmers overplanting acreage allotments and provided for issuance of marketing certificates based on the quantity of wheat estimated to be used for domestic human consumption and a portion of the number of bushels estimated for export. The amount of wheat on which farmers received certificates would be supported between 65 and 90 percent of parity; the remaining production would be set a figure based on its value as feed. The 15-acre exemption was also to be cut. The second system imposed no penalties for overplanting, but provided that wheat grown by planters complying with allotments would be supported at only 50 percent of parity.

The Farm Bureau mounted a massive effort to defeat the mandatory control alternative, focusing on the issue of "Freedom to Farm." The Administration fought back on the economic issue; defeat of the mandatory program would bring ruinously low prices.

Over 1,000,000 farmers and their wives voted, and only 48% voted to adopt the mandatory controls program.

Two factors might help to explain the defeat. One was the accumulated resentment of wheat growers over ineptitude in the administration of past wheat programs. The other was the belief that Congress and/or the Executive could not afford politically to require the nation's wheat growers "to live" with the second alternative they had seemingly selected in the referendum. This is to say, these farmers felt that their real choice was between mandatory controls and some more palatable alternative that did not appear on the ballot.

Later developments bore out the expectation that farmers would get a better deal than that presented in the alternative apparently selected in the wheat referendum. The Farm Bureau lacked enough strength in Congress to obtain a new measure tailored to its own specifications. But the Democrats in both Congress and the Executive realized that they needed some alternative, and enacted a new program that very much resembled the one rejected the previous year in the wheat vote. The Farm Bureau opposed the new agricultural act, but this time lacked the strength needed to defeat it.

The Wheat-Cotton Act of 1964 established a voluntary, two-price, certificate plan for wheat products. Farmers participating in the program had to shift acreage from wheat production to soil-conserving uses. Payments were made, also, to encourage additional acreage cuts below official allotment levels. This general framework was the basic pattern for wheat programs the rest of the decade.

The cotton portion of the 1964 Act provided for subsidy payments to

¹⁷Rasmussen and Baker, *op. cit.*, p. 77.

domestic users and fabricators of cotton materials to wipe out the advantage that foreign manufacturers derived from the lower prices at which they were able to buy cotton. Farm level acreage allotments were rewarded with price supports at 30 cents a pound. Further reductions below official allotments raised this level to 33.5 cents a pound.

The Food and Agriculture Act of 1965 extended the wheat and feed grain programs established in 1964 up into 1969. Subsequent legislation brought this extension into 1970. In the case of cotton, however, the mounting surpluses required a new policy. A voluntary program was set up to support prices up to 90% of the world price. This removed the need for subsidies to domestic mills and exporters. Eligibility for support was based on compliance with a minimum reduction of 12.5 percent in the official allotment.

The 1965 Food and Agriculture Act provided, also, for a Cropland Adjustment Program that included contracts of 5 to 10 years duration to divert cropland acres to conservation uses.

1973 — NEW PROBLEMS — NEW REQUIREMENTS¹⁸

Even before the emergence of the energy and petrochemical supply-price crisis in late 1973, fundamental change in the orientation of American agricultural price and income policy appeared in the Agriculture and Consumer Protection Act of 1973. No longer aimed at control of surpluses, the new law sought to encourage expanded production of the basic food and feed grains (wheat, corn, grain sorghum, barley, rye, and oats) and of cotton.

Expanded production was encouraged through the incentives of target, or guaranteed prices for these crops. When market prices fall below target prices, the differences will be made up by direct Government payments in the form of "deficiency payments."

Other features of the 1973 Act include the following:

Payment Limitation — The largest deficiency payment that any individual may receive from all commodity programs combined is \$20,000. The previous limit was \$55,000, and was applied to individual commodities separately.

Set-Asides — The Secretary of Agriculture suspended set-asides for 1974. If they are reimposed in 1975 or any subsequent year, an individual farmer will be required to set land aside in order to qualify for both price support loans and deficiency payments.

Minimum Plantings — Producers of wheat, feed grains, and cotton must plant at least 90% of their respective allotments to these crops or to some approved eligible substitute crop. Otherwise, they will be subject to a gradual reduction in their allotments.

Small Farmer Benefits — Cotton producers whose bases are 10 acres or less will receive deficiency payments that are 30% greater than they otherwise would be.

¹⁸S. 1888.

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