POSTWAR WORLD WHEAT CARTELS

AND COMPETITIVE THEORY

APPROVED:

R. B. MILLER
Major Professor

ROSS CORRINGTON
Minor Professor

J. A. JOHNSON
Director of the Department of Economics

JACK JOHNSON
Dean of the Graduate School
POSTWAR WORLD WHEAT CARTELS
AND COMPETITIVE THEORY

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By

Thomas Virgil Gates, B. A.
168426
Huntington, Texas
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CHAPTER I

INTRODUCTION

The Problem

The general problem examined in this study is that of competition versus administration in the determination of the price of wheat. The problem will be approached by an inquiry into the historical development of the present trend toward world cartelization of the wheat market. Traditional economic theory holds to the concept of price determination through the interacting forces of a free competitive economy. Moreover, contemporary economic theory puts a great deal of faith in this doctrine, and businessmen continue to shout the praises of the 'law' of supply and demand in its ability to set a fair price in the market and the great part that it plays in the determination of output. Furthermore, the national government has been following an anti-trust, anti-monopoly, and anti-cartel policy toward private business, while on the other hand it has been doing all in its power to organize a world cartel in the wheat market.

The Purpose and Scope of the Study

It is the purpose of this study to examine this paradox of activity in an effort to discover the explanation of
such inconsistent behavior. We are asking the question as to whether the government, in following its present policy in respect to wheat, is departing from accepted economic theory in solving the wheat problem. Is the government, as a matter of fact, attempting to solve an economic problem the solution for which cannot be provided in the framework of generally accepted economic theory?

The scope of this study will be confined to tracing the development of the wheat problem. We are concerned with the importance of wheat in the world trade picture as well as its place in the national economic picture. Consequently, even though the majority of the study is confined to the national problem, it was necessary to go beyond national area in order to present the complete picture. However, we did not deal with the development of the anti-trust and anti-cartel policy of the government, since that is common knowledge to all who are interested to any extent whatsoever in current policies of the government.

The Method and Source of Data

The method of this study was to do research in the historical development of the growth of the importance of wheat in the national economy. This includes the evolution of the United states from an importer to an exporter of wheat. The study then progressed to an examination of the various attempts by the government to solve the wheat price problem. At this point it was necessary to inquire into the economic
effects of the interrelationship and interdependence of the field of agriculture and the field of business enterprise.

The data for this study came from three general sources. First, much useful information was found in general books on agricultural economics written by various scholars in the field. Especially beneficial were the studies made under the auspices of The Brookings Institution dealing primarily with wheat under the AAA Program. The second source of information is the pamphlets and reports of various governmental agencies. The third source consists of current periodicals presenting data in news articles.

Contents of the Chapters

The first chapter contains a presentation of the problem including the purpose and scope of the study, the method of procedure and the sources of the data, a brief comment on the contents of each chapter, a validation of the study, and an orientation to the problem.

The second chapter presents the various attempts of the government to administer the price of wheat prior to the end of World War II. This chapter also includes a brief evaluation of these efforts.

The third chapter deals with the efforts at wheat price administration following the second World War, and including the general aspects of the Food and Agricultural Organization of the United Nations.
The fourth chapter examines the problem of wheat price administration in its relation to the general field of agriculture and the whole economy. Specifically, this chapter deals with the complexity and importance of a unified plan.

The fifth chapter contains the summary and the conclusions to be drawn from the study.

Validation of the Study

It is not at all difficult to see the validity of a study such as has been undertaken here. The problem studied is a current one, and certainly it is valid to spend time on research into a problem that is currently demanding solution. Wheat has been in the headlines of the daily press continually, and has kept the United States Department of Agriculture flexing its muscles, both mental and physical, in efforts to deal with the troubles of the wheat farmer.

However, the fact that a problem is a current one does not necessarily validate it as a worthy subject for extensive research. The wheat problem, however, is a problem that has been with us for many years, and it is one that has been growing in intensity. The problem did not come into being over night, but has been in the process of development from the time the American farmer first began raising wheat on a large scale. Furthermore, it has international
implications and complications that raise it to one of our foremost international problems.

Also, the validity for the study can be found in the implications that it carries for economic theory. The actions followed by those who are attempting to solve this problem are not consistent with what we are told are valid economic principles. Neither is there harmony in the policies of the government whereby it conducts a campaign of anti-trust and anti-cartel prosecution on the one hand, and instigates a world cartel in the wheat market on the other. In the first instance they are trying to force competition in industry, and in the second instance they are admitting the unworkability of competition in wheat either on a national or an international scale. Certainly such a paradox of activity should be studied, for its repercussions on economic theory are tremendous.

And finally, any problem that is as far reaching in both its extent and importance is worthy of study. A problem of such extent and complexity should be studied in the hope that some degree of light may be thrown upon it. Complex problems are solved only by empirical studies into their nature and structure, and not by theorizing alone. It was with the desire to throw some light on some of the aspects of this problem that this study was made.
Early Background and Orientation

Before examining the various measures used in the efforts to deal with the wheat problem, perhaps it is necessary that we look briefly at the situation as it developed up to the point where it became recognized as a national problem. In this way we will be able to orient ourselves to the situation in order that the precise nature and importance of the problem may be seen in its full perspective. Let us look at some comments and historical data compiled by able scholars in the field.

Wheat has been a staple foodstuff and a major food crop of the United States since early days, and it has grown in importance and prominence continually since that time. International trade in wheat was very small until the middle of the nineteenth century, and as it grew by leaps and bounds the United States was in most years the world's greatest exporter.¹

Joseph S. Davis has this to say specifically about the early developments of international trade in wheat:

When international shipments of wheat and flour came to average some 400 million bushels a year in the 1890's, our net exports averaged about 44 per cent of the total trade and represented a third of our wheat production. In 1879, 1891, and 1897 the coincidence of good crops here with short crops in Europe led to large exports at attractive prices and gave a pronounced stimulus to business in this country, twice facilitating revival from depression and once (1891-92) helping materially to reverse a recession under way.²

¹Joseph S. Davis, Wheat and the AAA, p. 2. ²Ibid., p. 2.
The United States continued to export the most wheat until about the turn of the century, with our exports from 1897-98 to 1902-03 averaging 219 million bushels a year and constituting about half of the world trade in wheat and flour. 3

Joseph Davis says:

In the first decade of the twentieth century the volume of international trade rose to a level exceeding 500 million bushels; but the United States contribution tended irregularly downward as Russia rose to pre-eminence among grain exporters, and as Argentina, Canada, and Australia in turn assumed increasing importance. Our harvested wheat acreage tended downward from the 1899 peak of 52 million acres, and with rapidly expanding population and consumption at home, it seemed to many observers only a question of time before the United States would cease to be a net exporter and become a net importer instead.

In the five years 1909-13 our crop averaged hardly any larger than in the preceding eleven years. To the net exports of net exporting countries, which averaged some 664 million bushels a year in the late pre-war period, Russia contributed about one-fourth while the United States contributed less than one-sixth—on the average 105 million bushels a year or barely 15 per cent of our production. Our wheat acreage, however, had expanded sharply between 1909 and 1914. Under conditions then prevailing, what are now called 'parity' prices for wheat appear to have stimulated the expansion; and it is impossible to say what further changes would have come if the great war had not radically altered the course of economic history. 4

The table below indicates the drift of United States exports of wheat from 1873 to 1931. 5

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3 Ibid., p. 3.
4 Ibid., pp. 3-4.
5 Joseph M. Goldstein, The Agricultural Crisis, p. 7.
TABLE 1

NET WHEAT EXPORTS FROM THE UNITED STATES

<table>
<thead>
<tr>
<th>Annual Averages, for Years Beginning July 1</th>
<th>Million Bushels</th>
<th>Annual Averages, for Years Beginning July 1</th>
<th>Million Bushels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1875-76</td>
<td>80</td>
<td>1903-05</td>
<td>90</td>
</tr>
<tr>
<td>1876-78</td>
<td>100</td>
<td>1906-08</td>
<td>144</td>
</tr>
<tr>
<td>1879-81</td>
<td>164</td>
<td>1909-11</td>
<td>79</td>
</tr>
<tr>
<td>1882-84</td>
<td>133</td>
<td>1912-13</td>
<td>145</td>
</tr>
<tr>
<td>1885-87</td>
<td>125</td>
<td>1914-16</td>
<td>252</td>
</tr>
<tr>
<td>1888-90</td>
<td>104</td>
<td>1917-19</td>
<td>199</td>
</tr>
<tr>
<td>1891-93</td>
<td>198</td>
<td>1920-22</td>
<td>261</td>
</tr>
<tr>
<td>1894-96</td>
<td>142</td>
<td>1923-25</td>
<td>160</td>
</tr>
<tr>
<td>1897-99</td>
<td>213</td>
<td>1926-28</td>
<td>180</td>
</tr>
<tr>
<td>1900-02</td>
<td>223</td>
<td>1929-31</td>
<td>125</td>
</tr>
</tbody>
</table>

Joseph S. Davis summarizes the situation from 1914 to 1919 as follows:

When war broke out in Europe in 1914, the United States chanced to have a high yield on a record acreage. A bumper crop here coincided with a short crop in Europe, sub-normal crops in Canada and India, a crop failure in Australia, and war conditions interfering with shipments from Russia's moderate crop and Argentina's big one. In consequence, United States exports in 1914-15 made an all-time record of 335 million bushels, over 60 per cent of all international shipments. The big crop and heavy exports at good prices helped to counteract factors making for industrial depression here before the war boom started, and seemed also to stimulate sowings for the next crop. In 1915, with acreage and yield still higher, the United States harvested an all-time record crop now reckoned at 1,009 million bushels. This, however, happened to coincide with large crops in other overseas exporting countries and better crops in Europe. Consequently, our net exports of 240 million bushels were far smaller than in 1914-15, though still as large as the largest in any preceding crop year.

With very poor crops in 1916 and 1917 due mainly to adverse weather affecting both acreage and yield, the big surplus carried over from the crop of 1915 was readily absorbed. Exports declined sharply, and wheat prices advanced in extreme degree even in relation to the rising level of commodity prices. After the United States entered the war in April 1917, the economic stimulus was
reinforced by official propaganda to induce concentrated efforts to increase wheat production. The slogan was, "Food will win the war." With more favorable weather, the immediate results were a sharp increase in harvested acreage in 1918, to above the 1915 level; a crop of 913 million bushels; and net exports of 227 million bushels. Continuation of the same pressures, coupled with favorable weather in the autumn and winter, brought the 1919 harvested acreage to an extraordinary peak of 73.7 million acres. Even with yield below average the 1919 harvest proved second only to the huge crop of 1915. At the high prices then prevailing this crop had a farm value slightly exceeding 2 billion dollars, more than double that of the 1915 crop and about treble that of the 1909 crop, which was the most valuable prior to 1914.

Another result of war conditions, however, was to bring about a sharp contraction in per capita consumption of wheat in the United States, which had been tending slightly downward for some years before the war. High prices, propaganda to use substitutes to save wheat for exports, increased mechanization, and changes in age and occupational distribution of the population, all contributed to this end. After the war other forces prevented recovery of per capita consumption.6

Dr. J. M. Goldstein has this to say about the wheat situation during the years 1914 to 1919:

The World War, which created a tremendous demand for foodstuffs, naturally provided a new stimulus for increased exportations, which in 1914-16 reached a new high record of 282 million bushels. After a new temporary decline to 199 million bushels in 1917-19, the wheat exports again attained a record of 261 million bushels in 1920-22, followed by another decline to 160 million bushels in 1923-25. . . .7

The following table of wheat acreage and production figures for the United States very clearly presents the picture during the first thirty years of the twentieth century.8

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6Davis, op. cit., pp. 4-6.
7Goldstein, op. cit., p. 7.
8Ibid., p. 10.
TABLE 2

AVERAGE YEARLY WHEAT PRODUCTION AND ACREAGE IN THE UNITED STATES

<table>
<thead>
<tr>
<th>Years</th>
<th>Wheat Acreage Harvested Million Acres</th>
<th>Production Million Bushels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901-05</td>
<td>50.2</td>
<td>700</td>
</tr>
<tr>
<td>1906-10</td>
<td>45.8</td>
<td>675</td>
</tr>
<tr>
<td>1911-14</td>
<td>49.8</td>
<td>751</td>
</tr>
<tr>
<td>1914-18</td>
<td>54.2</td>
<td>805</td>
</tr>
<tr>
<td>1919</td>
<td>75.7</td>
<td>968</td>
</tr>
<tr>
<td>1920-25</td>
<td>62.0</td>
<td>809</td>
</tr>
<tr>
<td>1926-30</td>
<td>58.8</td>
<td>859</td>
</tr>
</tbody>
</table>

The following comment by Joseph Davis completes the wheat picture up to 1930.

War-time demands not only stimulated westward expansion of wheat growing but also, particularly for the crop of 1919, led to marked revival of wheat culture in sections where wheat land had been converted to other uses. The revival was purely temporary, however, and at no time since the war has total seeded or harvested acreage approached the 1919 peak. Wheat acreage and production remained, nevertheless, far above pre-war levels; on the whole, fresh expansion in the western part of the Great Plains more than offset continued contraction east of the Mississippi. The average harvested area in the decade 1920-29 was little short of the high mark of 1915 and 25 per cent larger than the average in 1900-09. Wheat production in the later decade averaged 822 million bushels, according to revised estimates, or 23 per cent larger than in 1900-09. Even the short crop of 1925 was up to the pre-war average, and the average post-war crop was above the pre-war peak prior to 1914.9

With this as an orientation and introduction to the situation let us turn our attention to a study of the efforts

9Davis, op. cit., pp. 6-7.
made toward control and regulation of the wheat market prior to the end of World War II.
CHAPTER II

EFFORTS TO ADMINISTER WHEAT PRICES PRIOR TO
THE END OF WORLD WAR II

The first effort of the government to do something about the price of wheat was in the year 1921. Plagued by agitation for farm relief at the onset of the 1921-24 depression, with special emphasis on price raising measures on behalf of wheat growers, the government passed a tariff act in 1921 with the hope of halting the downward trend in wheat prices which had dropped from $2.40 per bushel in 1920 to $1.50 in 1921. J. S. Davis has this to say about this act.

The Emergency Tariff Act of May 27, 1921 imposed a duty of 35 cents a bushel on wheat, which the Tariff Act of 1922 reduced to 30 cents, effective September 21, 1922; but on April 6, 1924 President Coolidge raised the rate to 42 cents, at which it has since remained. . . . It gave more or less substantial protection to Northwestern growers of hard red spring wheats, particularly of premium grades and also to growers of hard wheats in the Pacific Northwest; but it ordinarily had no considerable influence on prices or production of other wheats. Hence agrarian leaders loudly proclaimed that the duty was ineffective and must be reinforced by other measures.1

The Agricultural Marketing Act

The next effort at wheat price stabilization occurred

1Joseph S. Davis, Wheat and the AAA, p. 9.
in 1929. After a brief upturn in wheat prices in 1924 caused by short crops abroad, prices began to slide downward in 1925 and continued downward. Attempts to make changes in the Emergency Tariff Act of 1921 failed in 1927 and 1928, but with the situation becoming critical in 1929 Congress was forced to act. The 1929 measure was known as the Agricultural Marketing Act.²

Karl Brandt gives a good summary of the Agricultural Marketing Act.

The Agricultural Marketing Act of June 15, 1929, created the Federal Farm Board assigning to it the job of solving the "surplus" problem by placing the industry of agriculture on a basis of economic equality with other industries. It was charged with the responsibility of preventing and controlling surpluses in any agricultural commodity through orderly production and distribution, so as to maintain advantageous domestic markets and prevent such surpluses from causing undue and excessive fluctuations or depressions in prices for the commodity. The Board was equipped with a revolving fund of $500,000,000 to enable producers to get a high degree of control.³

Later events proved the inadequacy of this measure, though the Farm Board did all in its power to alleviate a dangerous situation. It seemed that forces completely impossible of man's control were combining to make the problem an unsolvable one. J. S. Davis summarizes the situation in this fashion:

The world wheat crisis was aggravated in 1930-31. Again the world crop, ex-Russia, was greatly

²_Ibid., pp. 8-11.

³Karl Brandt, _The Reconstruction of World Agriculture_, p.75.
underestimated. It eventually proved second only to that of 1928; and, with heavy carry-overs, total wheat supplies were even larger than in 1928-29. By a notable coincidence the U.S.S. R. chanced to have excellent yields on a large acreage and the best crop since 1913. Since the Soviet government urgently needed foreign exchange to meet heavy commitments for imported equipment and supplies, Soviet exports during the crop year reached 114 million bushels—more than in all the previous post-war years combined. Australia too had officially stimulated wheat acreage expansion as a means of meeting her financial commitments abroad, and had a record crop and export surplus. These forces accentuated price declines that would otherwise have occurred. Tariff increases, milling quotas, and other import barriers were multiplied in Europe and elsewhere. While these served to protect domestic growers, they also restricted imports and consumption, and thereby contributed to depress wheat prices further in free import markets and in exporting countries.

Under the influence of these forces, world wheat prices fell, by the end of 1930, to levels below the historic lows of the middle 90's, and to levels unprecedentedly low in terms of other commodities. In the United States, the Federal Farm Board intervened with full force. Its own explanation, as given in its third annual report (page 64) ran thus:

"This collapse of wheat prices created a national emergency. The low price was already beginning to force wheat pledged against loans upon the market. Farmers' marketing agencies with interests of any sort in grain were faced with bankruptcy. The Board was the only agency equipped to act to protect the interests of grain growers and the whole structure of business institutions throughout grain-growing regions. It therefore decided to throw the full weight of its resources in support of domestic prices. This decision was in full agreement with urgent appeals which had been made by representatives of all groups concerned with the welfare of wheat farmers, and was generally approved by persons and agencies engaged in wheat production or marketing."

From its operations earlier in 1930, the Grain Stabilization Corporation held on June 30 at least 57.4 million bushels. By the end of October it held 66.4 million, and the Farmers National Grain Corporation held additional quantities purchased with Farm Board support, ostensibly for drought relief. Beginning in mid-November, the Grain Stabilization Corporation virtually pegged wheat prices in the principal domestic markets for the rest of the crop year. In the process it raised its holdings to 256 million bushels out of a record total
carry-over of 340 million bushels. These operations seemed to restrict our exports, to increase our carry-over, and to support wheat prices here above levels to which they would have fallen. In the absence of such operations, however, it is highly probable that other influences would have operated in the same direction, though not to the same extent. Farm prices of wheat, moreover, were not as effectively supported as market prices; and benefits to wheat growers were further limited by the fact that well over half the marketed crop had been sold before prices were pegged at levels themselves regarded as cruelly low.4

However, the Federal Farm Board had neither the power nor the facilities to handle the situation effectively for a long period of time. As a result of this inadequacy its former stabilizing measures and facilities eventually had a reverse effect.

The Federal Farm Board, with the balance of its 500 million dollars revolving fund tied up, had to begin liquidation. Early in the crop year 1931-32 the Grain Stabilization Corporation sold 47.5 million bushels of its wheat holdings to the governments of Brazil, Germany, and China. Another 60 million bushels it sold by degrees—at the rate of 5 million a month in July-October, 7 million in all in November-February, and 33 million in all in March-June. In March 1932, under a Congressional resolution, 40 million bushels were transferred to the American Red Cross for relief disposition.5

Under the impact of this failure prices of wheat took a terrific drop and reached a low of 36 cents per bushel in July, 1931. This failure and the development toward a worsening situation led to a new program. Sherman Johnson describes as follows the failure of the Farm Board’s Operations.

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4 Davis, op. cit., pp. 21-23.

5 Ibid., pp. 23-24.
The bold and costly efforts of the Federal Farm Board merely alleviated the farm disaster for a time without correcting the situation, and its advice to growers to reduce their acreages met with very little response. During the depression European importing countries increasingly adopted all sorts of protective devices, which effectually restricted their imports of wheat. The Union of Soviet Socialist Republics, hard pressed to meet its commitments for imported plant and equipment, exported more wheat in 1930-31 than in all the preceding decade, and again exported heavily in the summer of 1931 after a small Russian crop.

Despite heavy diversion of wheat to feed use and to China, huge surplus stocks piled up and remained high, especially in the United States and Canada. World wheat carry-overs averaged 600 million bushels in 1922-26, and 1,000 million in 1929-33. Carry-overs of United States wheat in North America, which had averaged 126 million bushels in 1922-26, were nearly 400 million in 1932. The surplus above a reasonable normal exceeded our aggregate net exports in the two preceding years. Holding by farmers, speculators, and especially by the Federal Farm Board kept United States' prices so far above export parity in 1932-33 that our net exports were only 32 million bushels; hence our carry-over rose to a new maximum of over 1,100 million bushels.

At weighted average farm prices for the marketing year, the values of United States wheat crops of 1921 to 1928 ranged from 703 million dollars to 1,048 million, and averaged over 918 million. For the crops of 1929 to 1932, the values were 850 million, 596 million, 364 million, and 282 million dollars respectively. Since farm feeding of wheat was heavy and farm carry-overs increased, farmers' cash income from wheat shrank even more drastically during this four-year period. World wheat prices in terms of gold sagged to new low levels in the winter of 1932-33. Between June 1932 and March 1933 monthly farm prices in the United States ranged between 31.6 and 38.5 cents a bushel, as compared with a pre-war five-year average of 88.4 cents and lows in 1923 and 1929 of 86.4 and 86.8 cents.

The earlier plans for aid to American wheat growers were evolved when world wheat trade and consumption were expanding and when no large carry-overs had piled up. None took in contemplation such extreme restraints of international trade as have since been applied, or made provision for restriction of acreage or production. The Federal Farm Board nearly became convinced that such restriction was essential to effective control and prevention of surpluses, but it had no machinery to use for this purpose. The ineffectiveness of its advice to
growers, and the cessation of its stabilization opera-
tions, paved the way for a new plan to meet new condi-
tions.  

The Agriculture Adjustment Act of 1933

The apparent and obvious failure of the Agricultural
Marketing Act of 1929 indicated that a much more extensive
program was needed if the wheat situation, as well as the
agricultural situation as a whole, was to be dealt with effec-
tively. Though the Act was inadequate, it can not be wholly
condemned, for it served well as a first experiment with the
problem. It also brought to light a more complete picture
of the problem, and provided a base on which broader programs
could be built. If nothing else, it showed the definite
need for an effective method of production control, and also
the need for a money fund sufficient to buy up the surplus
until it was needed on the market. In the face of these
shortcomings of the previous Act and in realization of the
critical nature of the problem, the Agricultural Adjustment
Act was passed May 12, 1933. The Act was passed with the
intention for it to attack a broader problem than that of
wheat, or even of the whole Agricultural picture, as it also
set up the Farm Credit Administration to deal with farm mort-
gages as well as giving the President broad powers to manipu-
late the currency; but we will confine our inquiry to its
application in the wheat picture.

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6Sherman Johnson, Wheat Under the Agricultural Adjust-
ment Act, pp. 2-3.
The wheat program as it has been developed by the Agricultural Adjustment Administration, thus far, combines five major attacks upon the problem of accumulated supplies and low prices: (a) direct payment to farmers, and control of wheat acreage, through application of the "Wheat adjustment plan"; (b) cooperation with other countries in an attempt to limit wheat exports and remove restrictions on imports; (c) reduction of accumulated supplies in the Pacific Northwest by facilitation of exports from that region; (d) reduction of supplies by purchase of wheat for distribution in wheat channels; (e) regulation of trade practices through establishment of codes of fair competition.

The plan . . . had these immediate objectives: (a) early additions to the cash incomes of the distressed wheat growers; (b) contraction of wheat acreage; and (c) a resulting curtailment of the out-turn of wheat so as to reduce the year's carry-over, with consequent effects on wheat prices. Funds for adjustment payments and administrative costs were to be raised through a processing tax on wheat. The marketing of the product was otherwise to be left substantially free from government control . . . To finance the wheat adjustment program a 30-cent per bushel processing tax was levied on wheat and made effective July 9, 1933.7

The extent to which the program was to reduce the production of wheat can be seen from this comment by J. S. Davis.

The maximum reduction in wheat output to be expected under the first statement of the program was about 345 million bushels in two years—if 20 per cent reduction from the base acreage were required in each year, if all eligible growers signed contracts and complied with them in letter and spirit, if no new growers came in, and if yields as good as but no better than in 1928-32 should be secured. On these radical assumptions, the crops of 1934 and 1935 could each be expected to yield a surplus over probable domestic uses; and exports would have to be depended on for reducing the carry-over and even for preventing its increase above that of July 1, 1934. Reduction in new crop surpluses available for export and carry-over might be expected to help toward raising world wheat prices, but corresponding prices in the United States were expected to come into adjustment with world prices so that exports would flow out naturally. The scheme

7Ibid., pp. 4-6.
itself therefore carried no assurance that it would even reduce our surplus wheat stocks, much less raise our wheat prices to "parity" or to profitable levels.8

That this program was more than an attack on the wheat, or even the agricultural problem, can be seen from the assumptions upon which it was based. This program was clearly one of the government stepping into economics with something of the whole economy in mind. It was a case of the government essentially taking over in a large segment of the economy and laying down the rules and regulations of procedure for that segment. The extensiveness of the assumptions under which the program was set up can be seen from these comments by Carl T. Schmidt.

The assumptions that were the bedrock of the early construction of this policy may be summarized as follows:

1. Restoration of the farmers' purchasing power is essential to national recovery. For then industry must benefit from greater farm purchases of manufactured goods. In one of his campaign speeches the President said, "Industry can never progress unless the agricultural market is restored and farm buying power returns."

2. American agriculture ought to be maintained on the traditional basis of the "family farm." Our farms must be capable of supporting rural people on a plane of living comparable to that of the urban population, and not on a "peasant" basis.

3. Farmers in 1933 were at great disadvantage as compared with other groups in our economy. Manufacturers had been able during the depression to curtail production and thus to maintain their prices in considerable degree; labor unionists had resisted wage-cuts by excluding competitive workers from their ranks. But farmers had no such monopolistic powers, and so they continued to produce bountifully regardless of falling prices. Inasmuch as they sold goods in markets where prices were moving downward rapidly and bought goods in markets where prices were relatively rigid, they had suffered unduly during

8Davis, op. cit., p. 62.
the depression. Many farm leaders contended that this disparity was aggravated by the protection given to manufacturers and labor unionists by import tariffs and immigration restrictions, whereas farmers were given no comparable aid. Furthermore, it was argued that the economy must be brought back to some previously existing balance.

4. Farm prices and incomes can be increased by restricting agricultural production. Implicit here is a belief that the demand for most farm products are inelastic, and that consumption will fall relatively little in the face of higher prices.

5. Many of the troubles of agriculture can be traced back to the unduly wide spread between the prices received by farmers and the prices paid by consumers. Wasteful distribution and exorbitant profits by middlemen prevent the farmers from obtaining their rightful share of the consumer's dollar.

6. The required adjustments can and should be made through democratic action on the part of farmers. Other interests may have to be coerced for the benefit of the agrarian community, but outright coercion of farmers must be avoided. However, certain organized agricultural groups held that "outside" farmers must be prevented from upsetting plans acceptable to the majority of farmers.9

The production control features of the Agricultural Adjustment Act were distinctly novel to that act, and were designed to perform a function that the previous acts had not provided for. Farm leaders did not accept this provision readily, and did not give it support until after the election of President Roosevelt, refusing to accept it as a part of the previous farm relief plans. The importance of this provision can be seen from these remarks by Administrator Chester C. Davis.

I can see no way out of our dilemma except through an adjustment of production to demand. . . . If you

9Carl T. Schmidt, American Farmers in the World Crisis, pp. 121-123.
insist on having agricultural prices fixed at parity without regard for the quantity you produce, then fire your farm leaders; discharge those of us who are temporarily trying to serve you in Washington - and hire some magicians. We don't know how to do it.10

This, of course, is outright control of production on the part of a government that was, and still is, vigorously prosecuting such activities by private businesses. It is a very strange procedure for intelligent and logical men to be following. This action in regard to wheat is admitting that the "law" of supply and demand does not function where production is divided among many producers who behave individually. Would it not seem probable that the same chaos would develop in industry as developed in wheat if producers were forced to operate without information as to the actions of their competitors, and without the right to control the output of their product? It is a very strange situation indeed.

Before taking up another phase of the program let us look at the broad outline of the plan announced on June 16, 1933. It was approved by the President and made public the following major decisions:

(a) Allotment benefits would be paid to cooperating wheat producers in 1933, 1934, and 1935.
(b) To qualify for such benefits a grower had to agree to reduce his wheat acreage for 1934 and 1935 by not more than 20 per cent of his average acreage in a three-year base period, and to sow enough acres to yield, at an average rate, at least the number of bushels in his allotment.
(c) Such allotments would be proportionate to the individual growers' share in the total amount of wheat "domestically consumed."

10Davis, op. cit., pp. 46-47.
(d) Cooperating wheat producers should organize into county wheat production control associations, with directorates of their own choosing, expenses of local operation to be deducted pro rata from benefit payments made within each county.

(e) Two-thirds of the first years' allotment benefit would be paid about September 15, provided the plan gets underway; and the balance on evidence of fulfillment of contract as to acreage planted for the 1934 harvest. Growers failing to comply were to forfeit rights to further payments in 1934 and 1935.

(f) A processing tax was to be proclaimed beginning with the 1933 marketing year.\textsuperscript{11}

The Pacific Northwest Export Agreement

Such was the wheat adjustment plan proper, but it also had other aspects to it. One of these was that it must take special measures to solve the problem as it existed in the Pacific Northwest. The problem here was specifically an export problem and the government did not hesitate to take the steps necessary to relieve the situation.

Both wheat growers and handlers in the Pacific Northwest were practically unanimous in urging some measure of government assistance to export trade. Rather than accept extremely low export prices in 1932-33, growers there had held wheat firmly. The Pacific Northwest had not been participating as fully as had other sections in the sharp rise in wheat prices which took place from April to mid-July as a result of crop damage in the winter-wheat and part of the spring-wheat belt and as a result of the stimulating effects of inflationary and speculative forces growing out of other developments of the New Deal . . . .\textsuperscript{12}

Faced with this climate of opinion on the part of all parties immediately concerned the Secretary of Agriculture

\textsuperscript{11}\textit{Ibid.}, pp. 53-54.

\textsuperscript{12}\textit{Edwin G. Nourse}, \textit{Marketing Agreements Under the AAA}, pp. 67-68.
instituted the necessary action to formulate an export arrangement.

To facilitate exports, the Secretary of Agriculture entered into a Marketing Agreement for the removal by export of the wheat surplus of the Pacific Northwest. This region in the past has depended on export outlets for a large part of the wheat produced. A nearly average crop there in 1933, added to a large carry-over from the 1932 crop, caused congestion of storage facilities. Even though prices in the market area were much below their usual relationships to Chicago prices, they were so far out of line with world prices that this wheat could not move into export in the usual manner. Grain and flour exporters in that area joined producers in urging some form of export subsidy agreement.

After an informal hearing at Portland on August 21, and a formal hearing of September 16, the Secretary of Agriculture signed the Marketing Agreement for the Disposal of North Pacific Wheat Surplus which became effective on October 11, 1933. Entered into under the Authority of Sections 8 (a) and 12 (b) of the Act, this provided for setting up a North Pacific Emergency Export Association, in which growers, millers, and exporters are represented, and the representative of the Secretary of Agriculture (Douglas McIntyre, working under the supervision of the Grain Processing and Marketing Section of the AAA) has an active part. The association is authorized to purchase wheat in Washington, Oregon, and Northern Idaho and to permit its members to sell wheat or flour in the foreign market in competition with other countries. The difference between the domestic price paid for the wheat and the price received by sellers in foreign markets, plus fixed handling and processing charges, is settled for out of a 2-cent reserve from the wheat processing tax.

Up to the close of business May 9, 1934 the association had purchased 25,758,000 bushels of wheat. It had sold for export 25,451,000 bushels including 4,218,000 bushels in the form of flour. The average differential payment between domestic and world prices had been approximately 22.75 cents per bushel.

Wheat and flour have been sold under the agreement to a number of countries, but principally to those in the Orient. The Chinese government was granted a loan of 10 million dollars on June 5, 1933 by the Reconstruction Finance Corporation for the purchase of wheat and flour from this country. About half of the exports (almost entirely wheat) has gone to China under the terms of this loan. Thus far in 1933-34 nearly all of the wheat and flour exports from this country, except flour
milled in bond from Canadian wheat, have been under the North Pacific Agreement. The exports from the United States are running well below the quota fixed in the international market.\textsuperscript{13}

International Wheat Agreement of 1933

As is indicated in the last sentence of the above quotation, the Pacific Northwest export agreement was not the only entrance of the government into the foreign aspects of the wheat problem. It was recognized by Secretary Wallace and the planners of the wheat program that the wheat problem of the United States was part and parcel of a world wheat problem. Consequently, efforts to form an effective international agreement were considered vital elements in the AAA program. However, the international wheat agreement which came out of negotiations in 1933 was the culmination of efforts expressed in a series of international conferences extending over several preceding years.\textsuperscript{14} Let us review the negotiations which led to the final agreement, the first of which was in 1927.

At the International Economic Conference held at Geneva in 1927 under the auspices of the League of Nations, the financial position of agriculture and methods of improving it received serious consideration, and the conference recommended lowering international trade barriers as a partial solution of price disparities between agricultural and industrial products. In subsequent conferences wheat figured with increasing prominence as restrictive wheat measures multiplied after the middle

\textsuperscript{13}Johnson, \textit{op. cit.}, pp. 8-9.

\textsuperscript{14}Davis, \textit{op. cit.}, pp. 303-304.
of 1929 and as the world wheat crisis developed in 1930 and 1931.\textsuperscript{15}

Several conferences were held among the European nations that were pressing for arrangements to rid themselves of grain surpluses. Of special importance was the second conference under the auspices of the Commission of Enquiry for European Union of the League of Nations which met in February 1931. This conference was called to consider the disposal of future cereal surpluses in Central Europe, and reached the conclusion that this was "not merely a European but a world problem, and that a wholly satisfactory solution could be reached only by an understanding between all parts of the world concerned."\textsuperscript{16}

As a result of this conference and a World Wheat Conference called in March 1931, by the International Institute of Agriculture which met in Rome, it was decided to hold a conference including delegates from all the main wheat exporting countries. "Such a conference was duly held in London on May 18-23, 1931, by invitation of the Canadian government. The four chief overseas exporters, the four Danube Basin exporters, Poland, the U.S.S.R., and India sent delegates."\textsuperscript{17}

Various conferences were held during the remainder of 1931 and 1932, but agreement on a world program was not formulated. Russia insisted on too large an export quota for herself. Argentina refused to consider acreage reduction, and

\textsuperscript{15}\textit{Ibid.}, p. 304. \textsuperscript{16}\textit{Ibid.}, p. 305. \textsuperscript{17}\textit{Ibid.}, p. 306.
the United States delegates could not commit themselves because of the lack of constitutional power sufficient to commit the government to such an export control program. However, with the election in the United States of a new administration to take office in 1933, the various countries were contacted as to their feelings concerning an export and acreage control program. And with the passage of the Agricultural Adjustment Act on May 12, 1933, a new conference was called for July 27.18

Late in August 1933, the conference completed its work with the successful formulation of a World Wheat Pact between the principal wheat exporting and wheat importing nations. The agreement set up exporting quotas for the various exporting countries for the years 1933-34 and 1934-35, and the exporting countries agreed to reduce wheat acreage 15 per cent for the 1934 crop. The importing countries agreed not to encourage any extension of the area sown in wheat, agreed to adopt every possible measure to increase wheat consumption, and also agreed that wheat price improvement should lead to reduction of tariff duties and that they were prepared to begin such adjustment of tariffs. The importing nations also agreed to relax the various forms of import restrictions as to amount.19

Sherman Johnson has this to say about the World Wheat Pact.

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The international wheat agreement was signed in London on August 25, 1933 by most of the important wheat-exporting and wheat-importing countries. Its objective was to raise wheat prices through reduction of supplies and increase of consumption. The measures agreed upon included, on the part of the exporting countries, temporary limitation of exports, and reduction of output; and on the part of importing countries, gradual removal of import restrictions and adoption of measures designed to promote increased consumption of wheat.20

It is apparent that the United States government took the lead in the conference that finally resulted in the world agreement.

In this country it was recognized that world wheat prices could not be effectually dealt with by reducing production in the United States alone, since other countries might then increase their production to fill the gap left open by our retirement from the export field. The United States representatives at the 1933 wheat conference were therefore active in support of measures which would eventually relax restrictions on imports and make for increased wheat consumption.

In order to make effective the provision for limitation of exports, all of the important wheat-exporting nations except the Union of Soviet Socialist Republics agreed to accept the export quotas for the years 1933-34 and 1934-35. The U.S.S.R. agreed to negotiate further with respect to its exports, and indicated its intention of assisting in the general policy of preventing excessive pressure upon international wheat markets. The export quota for the United States was fixed at 47 million bushels in 1933-34 and 90 million bushels in 1934-35.

The agreement provided that exporting countries take steps to control their production and/or exports to make the assigned quotas effective. Canada and the United States pledged a reduction of acreage or production, while Argentina and Australia agreed to limit exports without increasing stocks in storage. The United States pledged a reduction in production equivalent to 15 per cent of the acreage of the crop years 1931-33—a base period one year later than that of the acreage reduction program.

Importing countries agreed not to encourage further increases in domestic acreage and production; and to

20 Johnson, op. cit., p. 6.
take steps to increase wheat consumption, partly by removing measures tending to lower the quality of breadstuffs. They also agreed to a gradual removal of import restrictions, beginning when prices of British imported parcels had been for 16 weeks at or above 63.02 gold cents per bushel. 21

Wheat Supports in Foreign Countries

In order to throw light on the great amount of interest shown in the international wheat conferences, perhaps a brief glance at the wheat situation in other countries would be of aid.

Wheat and other grains go hand-in-hand in the over-all picture and some countries were forced to put forth most of their efforts on other grains than wheat, but the situation seems to be much the same. Let us look at some of these countries and the programs they used.

As is shown in the following quotation, marketing schemes were put into effect in England between 1931 and 1933.

... For the wheat grower a different device was invented to guarantee them a satisfactory return. The government guaranteed a fixed 'standard price' to growers that sold wheat in the market at whatever prices they could obtain. The government paid a bonus to all growers at the end of the wheat year in the form of a 'deficiency payment.' The bonus was the difference between the average price offered by all farmers and the standard price. 22

In Germany, where the depression had hit earlier, farming was welded into an airtight cartel. This fact is further

21 Ibid., pp. 6-7.
22 Karl Brandt, The Reconstruction of World Agriculture, p. 98.
illustrated in the following reference as to how the situation existed in that country during the period.

The Reichsnahrstand, literally translated as the 'Reich Food Estate,' comprises the entire sector of the national economy that produces, handles, or distributes food. It is an all-embracing national cartel whose powers cover the relation of 'man to agriculture,' the farms as productive units as well as the entire market chain from wholesale buying through processing, shipping, storing, and retailing. A dual setup, a political organization which reaches from the top down to the last individual farm, farm laborer, food processor, or retailer, and an elaborate system of nation-wide vertical commodity cartels, constitutes the administrative machinery for the economic dirigee of the Nazis.23

Elsewhere in Europe the picture was essentially the same. Governments turned to varying degrees of cartelization to deal with the problem.

Switzerland, Holland, and Denmark, three of Europe's and the world's agricultural-exporting leaders in efficiency and in the quality of their products, developed their own strategy for keeping their farmers in the saddle. Their predepression policies had differed considerably; Switzerland had pursued a course of high agricultural protectionism for its animal products ever since 1891; Holland and Denmark were both convinced free traders. All three were bulwarks of political freedom and democracy. Yet when in 1932 the world's economic sky seemed to collapse, all three accepted a strong portion of planned economy as at least a temporarily inevitable evil. They developed their own policies of "agricultural adjustment" without following American, British, or German precedents.24

Although for some forty years prior to the depression Switzerland pursued a policy of agricultural protectionism, when the depression developed the government found it necessary to extend and enlarge its program to include grain

23Ibid., pp. 99-100. 24Ibid., pp. 102-103.
producers. The following quotation reveals the extent of the measures taken in this respect.

... Grain production was not only heavily subsidized (in Switzerland) by a guaranteed price which had been twice or three times as high as the world market price, but by a paid bonus to farmers for all flour milled for their own domestic consumption as well.

As a result of these measures, Swiss agricultural production in general, but specifically that of grain, expanded in spite of unfavorable climate and soil conditions. In 1931 the government paid 17,000,000 francs grain subvention; and in 1934 no less than 35,000,000 francs.25

Evaluation of the AAA

Let us look now at some of the effects of governmental policies in relation to the wheat market in the United States. There were confusing forces operating during this period, including the unpredictable effect of weather on crops, but perhaps some evaluation of the program can be useful. Joseph S. Davis has a brief analysis of the program which is worth our attention.

What we have called the supplementary elements in the wheat program proved of secondary importance. These operations were handled with considerable circumspection, and if they afforded no major positive aid in improving the national wheat situation, they gave rise to no fresh problems or serious embarrassments. Interference with ordinary market forces was by no means avoided, as the authors of the wheat program had represented to be their aim. For the most part, however, government interposition was limited in time or scope and, in the main, was carried out in cooperation with representatives of the trades.

The international wheat agreement gravely disappointed high hopes. Whatever may have been its influence on the course of wheat developments, it made no appreciable

25 Ibid., pp. 103-104.
contribution toward solving the world wheat problem. Efforts to strengthen the agreement in 1933-34 were in vain; and in 1934-35, with world crops and surplus stocks reduced by natural forces, attempts to make it effective and to extend it were unsuccessful.

The Pacific Northwest export arrangement, by contrast, was successful within certain limits. It contributed toward relieving a regional surplus to the net profit of wheat growers in the Pacific Northwest, though at considerable cost to AAA wheat funds. No attempt was made to carry these operations far, and the net influence on wheat prices and the wheat situation in the rest of the country was relatively slight. The experiment did not test the practicability and national advantage of resort to subsidized exports of wheat and flour on any considerable scale.

Surplus relief operations were undertaken only in order to dispose of limited quantities bought in a brief series of market stabilization purchases beginning October 17, 1933, and the temptation to extend these operations on a major scale was effectively resisted. Most of the wheat so bought was disposed of for feed use, and no resort was made to extensive disposition of flour for relief. A limited experiment with subsidized domestic shipment of Pacific Northwest wheat for feed use in drought areas and New England may be undertaken, but at most can be of slight national significance in 1935...

The domestic wheat adjustment program, by all odds the dominant part of the AAA's wheat plan, was successfully launched and safely guided through its troublesome early stages. Complications, difficulties, and delays proved far greater than most sponsors of the scheme had anticipated; but in spite of these, the administrative achievement surprised many who had expected the task to prove almost or quite impossible...

A considerable "bureaucracy" was built up, yet a considerable degree of decentralization of administration was achieved. Heavy drafts were made upon the time and energy of the extension service, federal, state, and county - which was enlarged for the purpose. This work seriously interfered with regular extension programs, yet it had incidental value apart from the wheat program and often put county agents in a stronger position for their regular duties...

Adjustment payments to wheat growers, not quite 100 million dollars in the first year, fell far below early optimistic estimates by proponents of the plan and were distributed far more slowly than had been planned or than growers had been led to expect. They sufficed as intended, however, to induce a large signup, improve the financial
position of the recipients, contribute to business recovery and social stability in major wheat sections, and attack cooperating growers to the program. 26

More specifically, let us look at the effects on acreage and output of wheat during this period. The following table in millions of acres and bushels should suffice. 27

<table>
<thead>
<tr>
<th>Period</th>
<th>Sown Acreage</th>
<th>Harvested Acreage</th>
<th>Production Bushels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928-32 average</td>
<td>67.1</td>
<td>59.9</td>
<td>860</td>
</tr>
<tr>
<td>1930-32 average</td>
<td>65.9</td>
<td>59.0</td>
<td>855</td>
</tr>
<tr>
<td>1933...</td>
<td>67.0</td>
<td>47.9</td>
<td>529</td>
</tr>
<tr>
<td>1934...</td>
<td>60.4</td>
<td>42.2</td>
<td>496</td>
</tr>
</tbody>
</table>

The effect of the program on the price of wheat and its products is more difficult to discover due to the overlapping of the various economic recovery measures taken by the New Deal. The price of bread advanced about 2 cents per pound, but much of this was due to the processing tax levied on millers. The Pacific Northwest agreement played a big part in raising the price of wheat there 6 to 8 cents per bushel. It is thought that the overall effect of the AAA operations was to raise the price of wheat in 1933-34 by some 2 or 3 cents a bushel above what it would have been otherwise. The difficulty here is how much rise to credit to the short crop because of unfavorable weather, and how much to credit to the AAA. 28

26 Joseph S. Davis, Wheat and the AAA, pp. 344-347.
27 Ibid., p. 347.
28 Ibid., pp. 359-365.
The effect of the program on the incomes of wheat growers, however is not so elusive. The increase in cash income from sales can be partly credited to a short crop, but benefit payments were direct additions to income from the AAA wheat fund. Davis makes this observation:

More than half of the increase in the wheat income of farmers in 1933-34 was due to AAA benefit payments, if one ignores the fact that only about two-thirds of the amount due had been paid before the end of the crop year. The cash income from wheat production is now estimated at 275.4 million dollars; to this, gross benefit payments of 98.6 million dollars added a supplement of about one-third. With these included, the cash income of wheat growers as such was over 90 per cent larger than at its lowest point in 1932-33. An increase from 195 million dollars in 1932-33 to 374 million in 1933-34 was most gratifying to wheat farmers, even though the latter figure was lower than in almost every year of the present century prior to 1931-32.29

Perhaps it should be noted here that the AAA program was flexible in that it was enacted for short periods of time and could be discontinued on the desire of the President. Consequently the program was virtually inactive from 1936-37 when there seemed to be no real need for its measures. The act was modified in 1938 because of the unconstitutionality of its production control features, and with the advent of World War II the emphasis was changed from that of reducing production to that of increasing production. Actually, the program during the war was one of coordination and allocation in order that the maximum possible amounts of the various

29 Ibid., p. 367.
farm products might be obtained. This included price supports in the form of parity payments as well as ceiling prices on the products in the market.

The following quotation indicates some of the changes in emphasis and function.

A series of events culminating in the bumper crop of 1937 tended to make the agricultural program unsound and devoid of substance. The great droughts of 1934 and 1936 pointed to dangers inherent in acreage adjustment. The bumper crop of 1937 with the prospects of another record crop in 1938 threatened to ruin the farmers by reason of unmarketable surpluses. The Agricultural Adjustment Act of 1933, supplementing earlier congressional enactments, was designed to counteract these forces of nature. By providing for the storing up of larger reserves of agricultural commodities than in previous years, it would circumvent the worst effects of droughts. By encouraging, through liberal conservation payments, the planting of a large acreage of soil-building crops, it would furnish ready cash for the farmer and enrich his soil for far more abundant harvest when it should be needed. By substituting surplus-control methods for the production control approach of the original Agricultural Adjustment Act of 1933, it evaded the unconstitutional features pointed up in the Hoosac Mills case. By providing for Federal crop insurance for wheat the act of 1933 aimed to eliminate for the individual farmer the worst effects of drought, flood, hail, wind, insect infestation, and plant disease.30

For some of the implications of such a program as the AAA, the following comments by Karl Brandt are worthwhile.

The Agricultural Adjustment Administration (AAA) policy of the New Deal persisted from 1933 to 1940, when an all out wartime production program supplanted it. Under the AAA, America's Agriculture was reorganized in line with the necessities of an economy steered by

continuous government intervention, if not planned economy. As a result farm prices, production market sales, carry-over, and farm income were all subject to centralized political guidance or control. The policy initiated by the Agricultural Adjustment Act of May, 1933, comprised various groups of measures designed to combat specific maladjustments. At the same time, all of them were supplementary to each other as well as to the energetic efforts to revive a normal flow of business and employment. 

Brant goes on to say:

\[31\]

... The other major price-supporting policies under the AAA included the planned curtailment of crop acreage on a historical quota basis and indemnities to be paid to farmers, marketing agreements and codes, and direct authoritative price regulations. ... As the years went by, the initial emergency action of farm relief as a part of the national recovery policy evolved into one of permanent agricultural planned economy. From the temporary goal of regulating commodity prices toward parity of the 1909-14 base period, congress gradually shifted to the more lasting regulation and guarantee of income parity for agriculture, again according to the pre-World War I base. ... Domestic markets were gradually brought under control through the activity of the AAA, whose great bureaucracy, with offices in 3,200 counties, became more and more competent with experience. However, this policy was carried out with relatively little absolute compulsion, although it could not fail to change the foundation of the agricultural economy. AAA planning operated through persuasion, financial inducements to cooperators, in many instances direct penalties for non-co-operation, and technically through voluntary contracts between the federal government and individual farmers.

In conclusion to this chapter one should note the evaluation of the government program by Carl T. Schmidt.

It must be said that—so far as the great staples are concerned—the basic dilemma remains. And this, as

\[31\] Brant, op. cit., p. 93.
\[32\] Ibid., pp. 93-95.
we have seen, is finally a dilemma of our entire economy. Large potential supplies and inadequate demands, at home and abroad, still tend to hold prices at levels unprofitable to many farmers. Not only have underlying weaknesses of our agriculture been perpetuated, but new strains and stresses have appeared. In the absence of subsidies, many farmers' incomes are likely to remain inadequate.

To be sure, the AAA has effected some reductions of current market supplies—and it must be kept in mind that its controls were virtually suspended in 1936-37. Moreover, much good is likely to flow from the AAA's encouragement of shifts of acreage from cultivated crops to pasture crops, not least because this reduces soil depletion and erosion. But at the same time other forces—chiefly technological and biological—are tending to increase agricultural yield. And there is always the question whether farmers will agree to further reduction of output, so long as they see a political possibility of obtaining subsidies. True, in years of bumper crops farmers may approve of governmental efforts to withhold stocks from the market, but they are not so likely to support subsequent sale of these stocks.

On the whole, our farm programs have concentrated on short-term problems, those that can be expressed in terms of prices and incomes over a period of a few years. . . . But the dilemma of a far-flung agriculture whose foreign markets are fast ebbing away has not been faced directly or completely. No effective answer has been given to the primary question of how many of our people we wish in agriculture, and what role we wish agriculture to play in our evolving economy. Perhaps this concentration on more immediate problems and tasks is inevitable in a democracy where political pressure from powerful and selfish groups is constantly prodding government into paths of least resistance.33

33 Carl T. Schmidt, American Farmers in the World Crisis, pp. 310-311.
CHAPTER III

EFFORTS TO ADMINISTER WHEAT PRICES FOLLOWING
THE END OF WORLD WAR II

As was indicated in the preceding chapters the program for wheat during the war years was characterized by an emphasis on maximum production with the price being regulated in relation to all other prices in the economy. Under this situation maximum prices were set for wheat along with ceiling prices for nearly all commodities. The minimum price for wheat was a "parity" price which assured that the supply of wheat produced would not fall below the estimated requirements. Needless to say, this price was also keyed to the prices of livestock and to the other feed crops. This was necessary in order to assure the movement of wheat into the food market rather than divert it into the feed market for meat production.

In other words, the administration of the price of wheat during the crucial years of the war was a part of the administration of practically all phases of the economy. Wheat was an all-important commodity during the war and its importance has been even more emphasized since the cessation of hostilities. Immediately after the war the emphasis was still upon production and "parity" continued to be figured
on the 1910-14 base period. The program during and immediately following the war has thus been guided by a fear of too little production, but this was a temporary situation and it was realized to be such. Consequently, in 1948 steps were taken to set up a program, through modification of the previous Acts, to deal with the rapid development of a new situation in the wheat market. First, let us look at some of the changes that were contemplated.

The Agricultural Act of 1948

The Agricultural Adjustment Act of 1948 made some specific changes in the method of "parity" price determination. Kyle Randall has this to say pertaining to the act:

The Agricultural Adjustment Act of 1948 so revises the parity-price formula, effective 1950, that the price relationships among the commodities are based on the last 10-year period preceding the year for which parity prices are being calculated. The over-all relationship between prices received by farmers and prices paid by farmers is still determined from the 1910-14 period.¹

Although many of the provisions of the above act do not go into effect until 1950, some of its provisions apply to the present period.

... The act extends existing price support legislation with some important changes through 1949. Prices received by cooperating producers of basic commodities harvested before June 30, 1950, are to be supported at 90 per cent of the parity price. Price supports to noncooperators are to be 54 per cent of

parity and only on as much of the commodity as would be subject to penalty if marketed. . . .

It might be interesting to look at some of the specific changes in the act which will go into effect in 1950. Kyle Randall explains these changes as follows:

Parity income is redefined in the Agricultural Act of 1948. Parity income as now defined in the Agricultural Adjustment Act of 1938 is the per capita net income to persons on farms from farming that bears the same relationship to per capita income of persons not on farms as prevailed in 1910-14. This definition was more or less tailored to fit the available statistics. . . .

The definition of parity income in the Agricultural Adjustment Act of 1948 is as follows:

"Parity as applied to income shall be the gross income from agriculture which will provide the farm operator and his family with a standard of living equivalent to those afforded persons dependent upon other gainful occupations." 3

In Randall's second article he explains the new method of determining parity prices of commodities as follows:

Several important changes in the farm program were made by the Agricultural Act of 1948 passed during the last session of Congress.

The new act amends the parity price formula, changes the definitions of carry-over, normal supply and total supply and provides a new price support program.

These changes will not go into effect until January 1, 1950. In the meantime, the act extends the existing price support legislation to cover basic commodities harvested before June 30, 1950, and, with some important modifications, Steagall commodities marketed before January 1, 1950.

The new act makes the first important change in the definition of parity prices since the first Agricultural

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Adjustment Act was passed in 1933. Under the old law, the parity price of any agricultural commodity is defined as a price which has changed the same percentage since the base period as have prices paid by farmers. For the more important field crops and livestock items, the base period is 1910-14. The parity price for a farm product is calculated by multiplying the average price for the product during the base period by the parity index.

For example, this is the way the parity price for wheat on June 15, 1948, was calculated. On that date, the index of prices paid by farmers including interest and taxes was 281, or about two and one-half times the average for 1910-14. Multiplying 68.4 cents, the average price received by farmers for wheat in 1910-14 by this index gives $2.22 per bushel, as the parity price for wheat.4

From the above quotations it is clear that the parity price of wheat from 1950 will be figured somewhat differently. Although the over-all relationship of prices received by farmers and prices paid by farmers is still determined from the 1910-14 period, the price of wheat or any other particular farm commodity will be determined from the ten-year period preceding the year for which the price is being calculated. For example, the 1950 index would be determined by the period 1940-49.

Randall goes on to say:

One of the important changes in the price support program is that the minimum support prices for the basic commodities—wheat, corn, cotton, tobacco, rice, and peanuts—are tied directly to the supplies of these commodities. The act changes the definition of normal supply, total supply and carry-over that were included in the Agricultural Act of 1943:

"Normal supply: The normal supply of corn, cotton, rice, wheat, and peanuts for any marketing year is defined as the domestic consumption of the commodity during the preceding marketing year plus the estimated exports of the commodity for the marketing year for which normal supply is being determined, plus an allowance for carry-over. The Secretary is directed to take into account current trends in consumption and unusual conditions in determining normal supply. . . ."

"Total supply: Total supply for basic commodities other than tobacco is defined as the carry-over of the commodity at the beginning of the marketing year plus estimated production and imports. . . ."

Minimum support prices for the basic commodities range from 60 per cent of parity when the total supply is more than 150 per cent of normal to 90 per cent of parity when the supply is less than 70 per cent of normal. Whenever acreage allotments or marketing quotas are in effect, the minimum support price is automatically increased 20 per cent except that it shall not exceed 90 per cent of parity. 5

Thus, a second attempt is being made to restrict production by tying the price to the supply of the product. This is in anticipation of over production as soon as the high demands created by the war have been satisfied and the war-torn nations get their production back to normal. An indication of this is contained in the following quotation from Raymond P. Christensen.

Farmers have increased their capacity to produce food to the highest levels in United States history and prospects are that they will produce even more in the future. What will happen to the market for food products in the years ahead is one of the important problems facing postwar America.

The problem poses some important questions. Will food production increase more or less than population? What production-consumption pattern will be necessary to enable us to make full use of our expanded production capacity? How can we meet our temporary food shortages

5 Ibid., pp. 3-4.
and surpluses that may develop? What does it all mean in terms of the living the farmer can make from his land?

During the 30-years before World War II, food output increased about the same as the population. Stimulated by strong war and postwar demands, production increased even more rapidly after the conflict began.

As the wartime shortages disappear, farmers will be better able to adopt improved methods of food production that have already been developed. Further advances in technology such as mechanization, the development of improved varieties of plants and animals, and better methods of insect and disease control also will help farmers boost their output.

Over the long-run, the prospects indicate that food production is likely to increase at least as much as population if prices remain high. Even if prices decline, production probably would not be reduced much. On most farms a reduction in output would mean larger reductions in cash returns than in cash outlays. The production methods that have raised output per acre and per worker will continue to be profitable for individual farmers.

A higher level of food consumption than in pre-war will be necessary in the years ahead to make full use of our expanded production capacity. For example, if the tendency of food output to expand at about the same rate as population is resumed and if about the same proportion of our food is imported and exported as before the war, enough food would be available for consumption per person to average a fourth higher than in 1935-39. This would be 15 per cent above wartime levels and 10 per cent higher than in 1947.6

The problems raised by Raymond Christensen are being attacked by the United States, but the attack is not being confined on a national scale. The increased consumption desired by Christensen is in the process of being attained on an international basis. Confronted with a problem of distribution of the available supplies, it was necessary to

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6Raymond L. Christensen, "Food Pattern for the Future," The Agricultural Situation, XXXII (September, 1948), 1.
set up the organizational machinery to bring about maximum distribution. This step was taken in preference to restriction of production as long as there were areas in the world that were suffering from a lack of wheat and other food products. The attempt to solve the problem on a national basis in the 20's resulted in the international trade war that ended in catastrophe. The same problem is presenting itself, but this time a new solution is being tried.

Paul H. Mitze points this out very clearly.

The combination of these and other factors had led to an increase of economic planning and nationalization of industry in the domestic field and of state trading in the international field. These influences in the main lead away from the determination of trade channels on the basis of market considerations and away from the correction of trade imbalances by internal deflation and price level adjustments, as was characteristic of the nineteenth century system of trade. For the private trader and his government, they have created new problems of increasing importance which have to be reckoned with.

As World War II drew to a close, many people in the United States, the British Empire, and other countries felt that the absence of fair rules of trade in the decades after the First World War had contributed significantly to the economic warfare that "dried up" world trade in the 1930's. Then, each country traded on the basis of the law of the jungle, and the devil took the hindmost. As one European statesman put it:

"We competed with one another in devices to restrict the volume of world trade and then fiercely competed with one another for a greater share of the smaller total." 7

With this feeling paramount in most of the major countries, a special organization, The Food and Agricultural

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Organization, was set up in the United Nations. This organization has played such an important role in handling the world cereal problem that it is essential to examine its activities.

The Food and Agricultural Organization

The Food and Agricultural Organization is a complex piece of administrative machinery and it is necessary that one should go into detail as to its structure and functions. However, it is necessary that we see the extent of its activities and its relationship to other international organizations. The FAO, though not an integral part of the International Trade Organization of the United Nations, is very closely related to it, and the functions of the two organizations are complementary and somewhat overlapping. That the two organizations are overlapping in function and purpose can be seen by looking at some of their aspects. For example, James F. Byrnes says in his proposal to set up the ITO:

"We intend to propose that the efforts of all countries to maintain full and regular employment should be guided by the rule that no country should solve its domestic problems by measures that would prevent the expansion of world trade, and no country is at liberty to export its unemployment to its neighbors. We intend to propose that an International Trade Organization be created, under the Economic and Social Council, as an integral part of the United Nations."  

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It is the purpose of the ITO, therefore, to sponsor international trade agreements in an effort to expand world trade. The FAO has as part of its program this same aim. The FAO is concerned with food commodities and consequently we find it emphasizing international trade agreements to better the distribution of food.  

We are interested in developing this point further because the Cereals Committee of the International Emergency Food Council, under the FAO, is the immediate committee dealing with the wheat problem. Thus, the wheat problem and its solution is part and parcel of a far larger program, which seems to amount to the cartelization of practically all international trade. That this over-all approach is based on the desire and assumed necessity to eliminate competition is shown in this exposition by Robert B. Schwenger.

During the 1930's most farm products exported from the United States were in world surplus. The importing countries put up tariffs and quote systems to protect their farmers. The exporting countries responded with subsidies. Many of them made bilateral deals with importing countries. "Cut-throat" competition was widespread. Governments in most agricultural producing countries imposed controls over their agricultural trade. United States farm exports declined seriously. During the war, our farm production expanded more than one-third. We exported at an unprecedented rate even shipping large quantities of some items we normally import such as cheese and dried eggs. Some of the importing countries also expanded farm production. By the end of the war, it appeared that postwar surpluses might be even worse than those of the 1930's. . . .

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The charter (of the ITO) would set up a code of fair dealing in international trade calculated to avoid cut-throat competition and to establish multilateral, nondiscriminating trading. It would encourage countries to reduce artificial trade barriers. Perhaps most important of all for agriculture, it would require governments to sit down and discuss their trade policies with other countries who might be injured by them.10

The above discussion has been concerned with organizations which deal with all commodities rather than merely wheat. The main interest of this study is wheat, however, and it is one of these commodities. As shall be seen later wheat is a most important commodity. Therefore, elimination of competition through the above organizations would eliminate competition in the wheat market.

Now the activities of the Cereals Committee and its relation to the problem will be considered. It must be kept in mind that this organization has been interested primarily in expediting the distribution of wheat and other cereal grains, rather than in the price of these commodities. It has been concerned with gathering statistics and data as to the available supply and the requirements and demands of these products, rather than with price determination.

The IEFC Cereals Committee was confronted in December by total stated requirements of 38,000,000 tons as compared with a total estimated export availability at that time of somewhat over 25,000,000 tons, of all grains. Of this 25,000,000 tons, about 18,000,000 only

is in wheat and wheat flour in terms of wheat as compared to some 24,000,000 last season, or about three-fourths as much. Additional requirements have since been received which bring the total of officially stated import requirements to about 39,000,000 tons. Thus availability as calculated in December extends to only about 60 per cent of requirements as presently stated. . . .

It has been the task of the cereals committee to allocate the available supplies to countries according to each country's needs. The FAO has gone so far as to recommend a world food production scheme—an active world plan for the production of foodstuffs, for example, in 1946, the FAO conference received a recommendation for the establishment of a World Food Board. The Board's operation would be to insure that sufficient food would be produced and distributed in order to bring the consumption of all people up to a health standard.

Gordon P. Boals has this to say concerning the activities of the Cereals Committee:

The records of the cereals committee activities indicate the wide range of problems with which it has dealt. It has been a central point for considering practically all questions relating to the wartime and postwar movement of grains and grain products in international trade. When the committee was established, grain supplies were ample to cover the existing needs of the allied countries. In fact, large quantities of


grain, including wheat, were even being used for feed and in the production of industrial alcohol for military purposes. The types of problems considered by the committee during this early period related primarily to the most effective utilization of grain supplies and of domestic and ocean transport for moving grain, coordinating such movement with other material, reviewing the milling capacity situation in various areas, and establishing stock piles in accessible positions and making other preparations for meeting military needs for civilian feeding in areas as they would be liberated. The development of export and shipping programs began in 1944.

The war in Europe ended early in May 1945, and in the Far East, in August of the same year. Requirements of claimant countries, especially in the liberated and heavily populated continents of Europe and Asia, rapidly became a major problem. Not only were they new and additional requirements, as compared with the war period, but also most of them were larger than usual due to reduced agricultural production, shifts in population, war damage to internal transport and handling facilities, and other reasons. A severe drought in the Southern Hemisphere followed by one in parts of the Northern Hemisphere, especially in the Mediterranean region and eastern Europe, sharply reduced export possibilities outside of North America. North Africa and eastern Europe, normally exporting countries, became claimants for substantial wheat imports.

Surplus stocks were rapidly depleted, and in the first half of 1946 the problem of a sizeable deficit and the need for emergency allocation programming appeared. It became accentuated by the shortage of other foodstuffs, with the demand for cereals largely expressing the food needs for claimant areas. During the 1946-1949 seasons, the major type of problems handled by the committee became that of determining the urgency of need and developing distribution programs of the inadequate available supplies among all claimant countries. The short crop in Europe in 1947 created a supply and requirement position that appeared virtually impossible to solve satisfactorily. Grain supplies were placed at around 52 million long tons as compared with an indicated 30-32 million tons available supply for export early in the season. That widespread famine conditions were avoided and no major breakdown in ration distribution systems occurred is a
tribute to the degree of international collaboration attained in this food crisis period.\textsuperscript{14}

It has been stated previously that the primary purpose and function of the FAO was to allocate and distribute food supplies. However, this is true only during the earliest part of its operation—actually, the first two and one-half years of its existence—for in the late months of 1946 the FAO took a big step toward the stabilization of world food prices. This step was contained in a proposal to set up a World Food Board responsible to the Director-General of the FAO. On September 13, 1946, the FAO set up a preparatory commission to consider this proposal.\textsuperscript{15} A conference of sixteen member nations and three nations not members was held in October 1946 and set up the general aims of the Board. Also included at the conference were non-voting representatives of the International Labor Organization, the International Bank for Reconstruction and Development, the International Monetary Fund, and the Economic and Social Council.\textsuperscript{16}

Here are the Board's objectives as approved by the conference:

1. To stabilize prices of agricultural commodities on the world markets, including provision of the necessary funds for stabilizing operations.

\textsuperscript{15}"Plans for World Food Board," (author not given), \textit{United Nations Bulletin}, I (September 23, 1946), 11.

2. To establish a world food reserve adequate for any emergency that might arise through failure of crops in any part of the world.

3. To provide funds for the disposal of surplus agricultural products on special terms to countries when the need for them is most urgent.

4. To cooperate with organizations concerned with international credits for industrial and agricultural development, and with trade and commodity policy, in order that their common ends might be more quickly and efficiently achieved. 17

Noble Clark explains this change in FAO policy in the following manner:

FAO has recognized that it should serve the interests of food exporting countries as well as the food importers. It has the general objective of stabilizing agricultural prices at levels fair to producers and consumers alike. It has the specific purpose of helping work out international agreements which will protect farmers who go all out to increase food production in times of acute shortage like the present. 18

It seems clear from the above actions by the FAO that this worthwhile organization is advocating the cartelization of all food commodities. The four objectives of the World Food Board distinctly indicate this fact. It should be noted that the chairman of the FAO is a delegate from the United States, the former Assistant Secretary of Agriculture, M. E. Dodd.

The International Wheat Agreement of 1948

The wheat picture is subject to change almost overnight. This has been the case in the past and it is no less true today. Motivated by the assurance of good prices and an assumed need for much wheat, the farmers of the United States, as well as farmers in other countries have produced more and more wheat. For example, in 1940 the wheat farmers got an average of 68 cents per bushel for their wheat. But in 1947 the average received per bushel was $2.31. This was 46 cents per bushel above the 90 per cent of parity government loan. Whereas the average wheat farmer in the great plains received $1200 as his earnings in 1940, in 1947 the USDA estimated the income of the typical wheat producer at $14,342 net.19

The change taking place in the wheat situation is indicated by Franklin L. Parsons in the following quotation:

The seeded winter wheat acreage for the years 1939-43 average less than 60 million acres. In 1948 it was 77.7 million acres. And this year it is over 80 million acres.

The step-up in 1949 seeded acreage is due mainly to two reasons: assurance given farmers that the price will be 90 per cent of parity price supports; and no acreage allotments.

Domestic demand for wheat is fairly constant at 700 to 750 million bushels. This means a half billion bushels for exports or carry-over. And much of this will be on a price support basis.20

20 Ibid., pp. 32-33.
The development of this sort of a situation, whereby large wheat producing countries were soon to be faced with the problem of disposing of their surpluses, led to a new attack on the problem. Fearing a recurrence of the international trade war of the 1930's, the wheat exporting and wheat importing nations of the world were motivated to attempt the formation of an international wheat agreement. The agreement had as one of its purposes the allocation of the market for wheat to the various exporting nations. It also had as its purpose the setting of a maximum and a minimum price for wheat on the international market.

The Canada Forum of April 1948 says:

Canada, Australia, and the United States as exporting nations, and 33 importing nations participated in an international wheat agreement. In this agreement the price and export quotas were planned for a period of five years beginning with the 1948-49 crop. The price spread is from $2.00 to $1.50 per bushel the first year, and the spread increases at the rate of 10 cents per year to $2.00 and $1.10 in 1952-53.21

Robert E. Post of the Bureau of Agricultural Economics of the United States Department of Agriculture gives the following analysis of the agreement as formulated:

Of the half billion bushels of wheat which would be exported each year under the agreement, Canada would supply 230 millions, the United States 165 millions and Australia 55 millions. These quantities include wheat moving in the form of flour.

The agreement does not affect trade with countries that are not participating. If the agreement is approved

21Canada Forum, XXVIII (April, 1948), 3.
for example, the United States would also continue to send wheat to the military occupation zones of Europe and the Pacific plus small amounts to nations that have not signed the pact. Military exports to occupied areas are now running an annual rate of more than 150 million bushels. Thus, United States exports could exceed 300 million bushels annually.

Net U. S. exports have averaged 169 million bushels a year since 1909. Only in 1915-16, 1920-21 and the three years beginning 1945-46, have net exports exceeded 300 millions. 22

Thus, these three wheat exporting nations have eliminated competition from their wheat sales by these phases of the agreement. Although some of the large wheat exporting nations are not included in this agreement, Russia and Argentina for example, it was not believed that this would upset the functioning of the agreement.

The pact provides that exporting nations maintain stocks at the end of their crop years at minimum levels—170 million bushels for the United States, 70 million for Canada, and 25 million for Australia. However, year-end stocks will be permitted to fall below these levels if exporters do not have enough wheat to meet their domestic requirements or fulfill their exports under the agreement.

In addition to setting minimum carry-overs for exporting nations, the agreement also provides for price stabilization reserves. They would be operated by both exporting and importing nations that are not chiefly flour importers. The maximum amount of wheat required for these reserves is 10 per cent of the quantity each country agrees to buy or sell under the agreement.

Price stabilization reserves are to be built up when the free-market price is below the basic minimum price. They will be accumulated first by the exporting nations. After they have filled their reserves, they may request importing nations to buy their wheat at free-market prices. Of course, no importing nation will be required to take more than 10 per cent of the amount it will purchase under the agreement.

These reserves may be sold or used only when free-market prices are above the basic maximum price set up by the government. 23

The above international wheat agreement failed of ratification by the necessary number of countries involved and was not put into effect. It is presented here only as evidence of the desire on the part of the United States government to set up a world wheat agreement that has all the earmarks of an international cartel. Perhaps it should be noted that Congress refused to ratify the agreement.

However, it is worthwhile to look at some comments on the agreements that were made before the Senate sub-committee holding hearings on it. The following conversations of Lodge and Dodd are very interesting.

SENATOR LODGE. "How does this agreement differ from an international cartel?"

SECRETARY DODD. "Perhaps as far as maximum prices are concerned, yes. Prices do not go above a certain place. Most cartels, as I understand it, do not go below a certain price. Is that not correct?"

SENATOR LODGE. "There is a ceiling price in here?"

SECRETARY DODD. "There is a ceiling price in here, and there is not in most cartels, as I understand them."

SENATOR LODGE. "I was wondering, apart from the fact that this is an agreement between governments, how it differed from private stabilization arrangements."

SECRETARY DODD. "There is no agreement here as to who sells whom any amount of wheat. The only thing is, these 35 countries have agreed to buy 500,000,000 bushels of wheat." 24

23 Ibid., p. 9.

It seems that Secretary Dodd was overlooking the price stabilization reserves provided for in the agreement. It is the function of these reserves to keep the price from going below a certain point. His statement that the agreement does not force one nation to buy from some other particular nation is actually avoiding the issue. His statement is true only in a particular instance, but in the over-all picture a nation will not be free to buy from whom it chooses.

J. T. Sanders, Legislative Counsel of the National Grange, Washington, D.C., had the following to say to the committee in part:

... At various times in the past, solutions of these mounting problems of world commodities have been undertaken by privately or semi-public organized cartels. Only once before has there been a determined effort to tackle this problem on a broad international front. The private cartel efforts have without exception proved failures because of the nature of the problem, and the defect of a private cartel as a means of coping with it. I might supplement that statement by saying that public cartels organized primarily by import countries would have about the same effect as the private cartels.

The problem calls for an international action of a widespread scope, to lay down the directing channels through which private trade and commerce can flow. It does not call for either State or privately cartelized ownership or operation. The problem calls for international agreements that will create an atmosphere, a climate in which private trade is freed of some of its mounting destructive hazards. This, we believe, is the distinct potential service of the agreement under consideration.25

Should not J. T. Sanders have called his solution to the problem an international cartel?

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25 Ibid., p. 38.
Sanders continues with some worthwhile statistics in favor of the agreement.

We should not minimize the advantage of the quantity which importing countries guarantee to take from the United States. 185,000,000 million bushels per year. Currently we are exporting around 500,000,000 bushels. From 1935-39 we exported an average of only around 60,000,000 bushels with a maximum in 1939 of 116,000,000. The maximum we exported for any year from 1930-1940 was 123,000,000 bushels in 1931.

These figures of 500,000,000 current export, of 123,000,000 maximum export from 1930 to 1940, and finally of 185,000,000 guaranteed taking from us under the agreement, are highly significant to us.

If we were compelled to adjust our production and export on the average basis of 1930-40, or an average export of only 60,000,000 bushels as compared with our current enormous export of 500,000,000, the problem of readjustment would indeed be great. 27

This statement before the committee by Dwight Wade, a farmer and small businessman of Breeze, Illinois, is enlightening.

Our government has for several years been publicly condemning monopolies and cartels, and according to the press, they think that all of the countries should outlaw cartels, and yet here they proceed to set up a political cartel which would certainly be as bad as any cartel organized by business men or by any other groups. 27

The International Wheat Agreement of 1949

As was stated above the 1948 agreement was not put into effect, but this did not dampen the spirits of our planners. In March 1949, another conference was held in Washington, D. D., which resulted in an agreement very similar to the one

26 Ibid., p. 39. 27 Ibid., p. 66.
However, the world wheat situation had changed to some extent and a world surplus seemed indicated for the immediate future. Secretary of Agriculture Brannan discussed the situation as follows:

The situation faced in this conference differed from the wheat conference a year earlier in several important respects. For one thing, a considerably larger number of nations accepted the invitation of the United States - 57 participants and observers this year, as compared with 42 last year. I think this represents an increasing international awareness of the importance of this method of attacking problems of international trade in agricultural commodities. Of particular significance in this connection was the participation of the Soviet Union, which entered the negotiations as a new exporter.

Most important, however, was the change in the world wheat situation. In the spring of 1948, when last year's agreement was negotiated, the world was still in the throes of the postwar food shortage. Europe was feeling the full effects of the severe freeze and drought of 1946-47. Wheat was at a premium. Since then, however, the world has harvested its best crop since the end of hostilities. It appeared that this year, for the first time since the war, there would be about as much wheat for export as world markets would take.

As a result of this changed supply situation, when the conference opened wheat prices in this country were about 75 cents a bushel lower than they had been a year earlier. These changes naturally weakened our bargaining power and strengthened that of importers.\*\*\*

An international wheat agreement was formulated at this conference and it has been recently ratified by the United States Congress.\*\* Here are the details of the new agreement.

\*\* For verification of this ratification see any big daily newspaper of June 13-14, 1949

trade of 456 million bushels of wheat among 41 countries within certain price ranges was concluded at a conference in Washington last March.

The pact is drawn up along the same general lines as was the 1943 agreement which was not ratified by enough countries to bring it into force. Its objective is to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices. If accepted, the agreement would run from August 1, 1949 through July 31, 1953.

A maximum price of $1.80 per bushel is set for each of the four years. The minimum price is $1.50 for the year beginning August 1949 and declines 10 cents a year to $1.20 in 1952-53. These prices are for no. 1 Manitoba Northern Wheat in bulk in store at Port William, Port Arthur, Canada. Equivalent ceiling and floor prices for other grades of wheat at various markets will be determined by a committee set up for that purpose.

Prices will be free to move within these ranges. Exporters have no obligation to sell unless buyers offer the ceiling price. Importers have no obligation to buy unless it is offered at the floor price. Member countries could buy and sell any amount of wheat outside these price ranges. However, such transactions would not count toward fulfillment of the terms of the pact.

The agreement now includes 36 importing countries which have accounted for about 85 per cent of the total wheat imports since the end of the war. Exporting countries include Canada, Australia, France, Uruguay, and the United States. Other countries may join the pact later on terms established by the International Wheat Council, the governing body for the agreement.

The 456 million bushels of wheat to be sold annually would be divided among exporting nations as follows: Canada, 203 million bushels; United States, 168 million; Australia, 50 million; France, 3 million; and Uruguay, 2 million. The amount each importing nation agrees to buy also is set by the pact.

The pact will be administered by an International Wheat Council made up of representatives of all nations which ratify the agreement. Decisions of the council will be by majority vote except in certain cases where a two-thirds majority of both exporting and importing nations is required. The United States will have 369 votes of the total of 1,000 votes held by exporters.

Administrative provisions of the pact go into effect July 1 if governments of nations responsible for not less than 70 per cent of guaranteed purchases and governments of nations responsible for not less than 60 per cent of sales have accepted the pact by that date.
Operating sections of the agreement are to go into effect not later than September 1.30.

The following table presents the two international wheat agreements for comparative purposes:

**TABLE 4**

**COMPARISON OF THE 1948 AND 1949 INTERNATIONAL WHEAT AGREEMENTS**

<table>
<thead>
<tr>
<th>Duration of Agreement and Quantity Covered</th>
<th>1949</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration (years)</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Quantity (bushels)</td>
<td>456,283,389</td>
<td>499,997,000</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.80</td>
<td>1.80</td>
</tr>
<tr>
<td>1949</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.50</td>
<td>1.40</td>
</tr>
<tr>
<td>1949</td>
<td>1.40</td>
<td>1.30</td>
</tr>
</tbody>
</table>

Secretary Brannon lists three basic reasons why the 1949 wheat agreement should be of great benefit to our wheat farmers:

In the first place, it will stabilize our foreign market for wheat. Under the agreement we will have a guaranteed market for 167.5 million bushels of wheat per year. In addition, we are obliged to supply large quantities of wheat to occupied areas in Germany and Japan. Together, those two obligations will amount, at

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30The Agricultural Situation, XXXIII (May 1949), 5.
the present time, to well over 300 million bushels a
year. That is about as much wheat as we feel we could
guarantee to deliver annually over a four-year period.
We expect some years to have more wheat for export than
that, but considering the possibility of unfavorable
weather, we would not want to guarantee delivery of
much more.

Second, this agreement will complement our domestic
wheat program. As you know, in our domestic agricul-
tural program we are attempting to assure an abundance
of food and fiber to our consumers, at the same time
making sure that our farmers are not penalized for pro-
ducing abundantly. This is the aim of our price support
program. Yet with a commodity which we export in large
quantities, such as wheat, it will be difficult to
support the price at home should world prices fall to
very low levels. This agreement puts a floor under the
foreign price for much of our export wheat. To the
extent that the government finds it necessary to support
the domestic price of wheat, this agreement will con-
siderably reduce the cost of that operation.

My third and last point is that this agreement, if
put into operation, will set a pattern of international
cooperation in solving agricultural problems which can
be carried over to other commodities. We have proved
to ourselves and to the world that a large body of
nations can agree on solutions to complex agriculture
problems. This is a postwar "first" in its field. We
have in the case of this commodity at least, shown that
international cooperation can be substituted for eco-
nomic warfare.32

It seems that it is extremely clear that these inter-
national wheat agreements are essentially world cartel arrange-
ments within the world wheat market. It is true that these
international agreements discussed above do not include all
of the countries that export wheat; neither do they include
all of those countries that import wheat. But the agreements
do include considerably over half of the world trade in

32 Charles F. Brennan, "Significance of New International
Wheat Agreement to U. S. Wheat Farmers," U. S. Department of
wheat and flour. With the greatest part of the trade bound to the agreement, the trading outside the pact would not upset its functioning to any great degree. The nations involved in such a pact have formed a block which serves as protection for them in the wheat market. These nations carry on their wheat trading among themselves with little regard for the situation elsewhere in the market.

Perhaps the table below will serve to emphasize the amount of planning that is involved in the international wheat agreement. It at least gives some indication of the "planned" nature of such an agreement, and the degree to which the details are worked out.

**TABLE 5**

IMPORT QUOTAS BY COUNTRIES SPECIFIED IN THE INTERNATIONAL WHEAT AGREEMENTS OF 1949
IN THOUSANDS OF METRIC TONS 33

<table>
<thead>
<tr>
<th>Country</th>
<th>Crop-Year, August 1 to July 31</th>
<th>Equivalent in Bushels for Each Crop-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Belgium</td>
<td>550</td>
<td>550</td>
</tr>
<tr>
<td>Bolivia</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Brazil</td>
<td>360</td>
<td>360</td>
</tr>
</tbody>
</table>

33United States Department of State, Documents and State Papers, I (May, 1949), 785.
### Table 5—Continued

<table>
<thead>
<tr>
<th>Country</th>
<th>Crop-Year, August 1 to July 31</th>
<th>Equivalent in Bushels for Each Crop-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceylon</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>China</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Colombia</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Cuba</td>
<td>202</td>
<td>202</td>
</tr>
<tr>
<td>Denmark</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Ecuador</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Egypt</td>
<td>190</td>
<td>190</td>
</tr>
<tr>
<td>El Salvador</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Greece</td>
<td>423</td>
<td>423</td>
</tr>
<tr>
<td>Guatemala</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>India</td>
<td>1,042</td>
<td>1,042</td>
</tr>
<tr>
<td>Ireland</td>
<td>275</td>
<td>275</td>
</tr>
<tr>
<td>Israel</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Italy</td>
<td>1,100</td>
<td>1,100</td>
</tr>
<tr>
<td>Lebanon</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Liberia</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>Netherlands</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>New Zealand</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>
### Table 5—Continued

<table>
<thead>
<tr>
<th>Country</th>
<th>Crop-Year, August 1 to July 31</th>
<th>Equivalent in Bushels for Each Crop-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td>Panama</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Paraguay</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Peru</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Philippines</td>
<td>196</td>
<td>196</td>
</tr>
<tr>
<td>Portugal</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Sweden</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Switzerland</td>
<td>175</td>
<td>175</td>
</tr>
<tr>
<td>Union of South Africa</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4,819</td>
<td>4,819</td>
</tr>
<tr>
<td>Venezuela</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12,418</td>
<td>12,418</td>
</tr>
</tbody>
</table>

It is significant that an agreement of such detail as is indicated by the above table was formulated by a group of forty-one nations.
CHAPTER IV

THE ECONOMICS OF WHEAT PRICE ADMINISTRATION

The prevalence of administered wheat prices was clearly indicated in the two preceding chapters. We have been primarily interested in the policies of the United States government, but we were compelled to examine briefly some of the activities of governments of other nations along identical lines. This was necessary to explain the willingness and, indeed, the desire of the various governments to attempt international administration of the wheat price.

In this chapter we propose to examine the necessity for such a course of action, both on a national and international scale, and to also examine the ability of governments to administer wheat prices successfully. The complexity of this task and its relation to the rest of the economy will also be examined. In making this examination it will be necessary to inquire into the application of the supply and demand theory to the price and production of wheat, for if the supply and demand forces do not operate satisfactorily in the determination of the price and output then some alternative method must be used to bring about the desired results.
It is not outside the scope of this study to examine the interrelationship between wheat, as a part of the agricultural segment of the economy, and the industrial segment. Obviously the effects of governmental measures that alter the forces in the wheat market will be felt in other segments of the economy. Consequently, the feasibility of such governmental measures as are taken must be partly determined and ultimately, perhaps, entirely determined by their overall effects.

The Importance of Wheat in the Economic Picture

Since so much emphasis has been put on improving the condition of the wheat farmer, wheat must play an important role in our economy. Certainly wheat is one of the products that is essential to the human diet. It is used as a basic food by all families in the United States in bread and cereal form. Being such a basic product then it is worthy of singling out for special attention when the economy is in trouble. But we are more interested here in the economic contribution of wheat and its products.

For example, what is the income contribution of wheat production to the producer? The following table gives some idea of the national income from wheat production.

It should be noted that during the years of World War II and at the present time the value of the wheat crop is approximately $2,000,000,000.
TABLE 6

PRODUCTION, FARM PRICE RECEIVED, AND TOTAL VALUE
OF WHEAT CROP IN U. S. FROM 1859-1937

<table>
<thead>
<tr>
<th>Year</th>
<th>Production Million Bushels</th>
<th>Price Received by Producer Per Bushel (Cents)</th>
<th>Total Value Million Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1885-59</td>
<td>457.0</td>
<td>76.6</td>
<td>350.06</td>
</tr>
<tr>
<td>1889-94</td>
<td>549.7</td>
<td>70.5</td>
<td>387.54</td>
</tr>
<tr>
<td>1894-99</td>
<td>596.3</td>
<td>62.1</td>
<td>370.20</td>
</tr>
<tr>
<td>1899-04</td>
<td>673.4</td>
<td>63.3</td>
<td>426.26</td>
</tr>
<tr>
<td>1904-09</td>
<td>654.7</td>
<td>83.3</td>
<td>545.37</td>
</tr>
<tr>
<td>1909-14</td>
<td>681.8</td>
<td>87.4</td>
<td>595.89</td>
</tr>
<tr>
<td>1914-19</td>
<td>812.8</td>
<td>149.3</td>
<td>1,213.51</td>
</tr>
<tr>
<td>1919-22</td>
<td>871.5</td>
<td>167.3</td>
<td>1,458.00</td>
</tr>
<tr>
<td>1922-27</td>
<td>789.8</td>
<td>115.9</td>
<td>915.48</td>
</tr>
<tr>
<td>1927-32</td>
<td>888.2</td>
<td>85.7</td>
<td>756.05</td>
</tr>
<tr>
<td>1932-37</td>
<td>617.6</td>
<td>78.7</td>
<td>486.05</td>
</tr>
</tbody>
</table>

The income shown in the above table goes to the producer and does not include income of processors and retailers of wheat products. Neither does it give any indication of the amount of money expended on elevators, transportation, or processing plants. When the wheat market becomes "sick" its effects are felt in practically the whole economy. It is worthwhile then that the wheat producer receives a return on his product sufficient to enable him to make a profit, for we must remember that his income from wheat production is spent for food, clothing, farm machinery, building materials, and so forth.

1 This table constructed from statistical table by Paul De Hevesy, World Wheat Planning and Economic Planning in General, pp. 664-665.
But wheat is not only important to the national economy. It also plays a big role in the world economy and in international trade. It has been calculated that in the cereal year 1929/30 all the wheat growers of the world taken together received roughly five billion dollars, and it has been estimated that in the same year all the bread eaters of the world spent thirteen billion dollars for bread.\(^2\)

As was pointed out in the preceding chapter world trade in wheat has been for a long time an important part of international trade. It is important to both exporting and importing nations alike, and both have expressed the keenest interest in working out agreements satisfactory to all parties concerned. Importing nations want to be assured of an adequate supply of wheat at fair prices, and exporting nations want to be assured of a ready market for their exportable surpluses. The question arises as to whether it is feasible to formulate such a program, and the question merits extensive examination as to its possibilities of success.

\(^2\)For a complete discussion on this point see Paul de Hevesy, *World Wheat Planning and Economic Planning in General*, pp. 15-16.
Factors For and Against the Administration of Price and Production of Wheat on a World Basis

Probably the biggest factor against a world wheat plan is the complexity of the task. It is complex because it covers so many different producers in such a wide variety of cultures. It is an enormous task, and may be an impossible one. Certainly we in the United States have found it a complex task to control production, but we have been rather successful in our efforts to do so. The following quotation indicates some of the complicating factors.

The costs and extent of production, not only in different countries but even in adjacent districts of the same country, depend a great deal upon normal conditions as well as upon a vast number of perfectly unpredictable factors, such as droughts, floods, unequal distribution of rainfall and seasonal sunlight, upon winds, hail, locusts, rust, and so forth.

The proper control of production on hundreds of farms, scattered over great distances, frequently producing in small and varying quantities, is beset with numerous difficulties; especially when the products are not shipped by rail or water, and are not exported, but are disposed of at nearby markets. 3

However, the fact that the task is complex does not relieve us of the necessity of grappling with the problem. As a matter of fact, it is very likely that the task is not as complex as it seems. The problem must be attacked on an individual nation basis as well as on a world-wide basis. This immediately reduces the complexity and size of the task, but it does not deal with the world problem. When we attempt to plan production on a national basis alone we run

3 Goldstein, Joseph M., The Agricultural Crisis, p. 228.
the risk of falling victims to unpredictable weather, but
the likelihood of this on a world basis is somewhat lessened.
It seems that in any given year there are countries in the
world that have a favorable crop year, while there are also
those that have an unfavorable year. Consequently, the
greater the area covered in the plan the more precisely the
production can be estimated. In other words, the effects
on the areas that are stricken with droughts, insects, or
other unpredictable factors, are cancelled by those areas
which have a bumper crop. This means that we are more
likely to succeed by planning on a world scale than we are
if we merely plan on a nation basis. Our errors of under-
estimation and overestimation will tend to average out. This
fact is shown very plainly in Table 7 on page 70.

It is shown in the table that over a period of 30 years
the greatest fluctuation in yield was 1.9 bushels per acre,
between the years 1924 and 1928. The over-all picture here
is one of relatively stable production for the world as a
whole. This is not to say that these variations are insig-
nificant, for a variation in yield of one bushel per acre
over the entire world would mean approximately 400 million
bushels variation in production. But contrast this with
a single farm where the yield might fluctuate as much as 100
per cent. Or contrast it with the yield of the entire United
States where variation was from a production average of 16.3
bushels per acre in 1931 to 11.2 bushels per acre in 1933.
This is a variation of approximately five bushels per acre, and with our present acreage this would mean a difference of around 400 million bushels for the United States alone. 4

**TABLE 7**

<table>
<thead>
<tr>
<th>Years</th>
<th>World Wheat Acreage (Million Acres)</th>
<th>World Wheat Production (Million Bushels)</th>
<th>Average Wheat Yield in the World (Bushels Per Acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1909-13</td>
<td>279.2</td>
<td>3,880</td>
<td>13.9</td>
</tr>
<tr>
<td>1923</td>
<td>275.6</td>
<td>4,027</td>
<td>14.6</td>
</tr>
<tr>
<td>1924</td>
<td>279.2</td>
<td>3,671</td>
<td>13.1</td>
</tr>
<tr>
<td>1925</td>
<td>290.0</td>
<td>4,180</td>
<td>14.4</td>
</tr>
<tr>
<td>1926</td>
<td>311.0</td>
<td>4,399</td>
<td>14.1</td>
</tr>
<tr>
<td>1927</td>
<td>321.8</td>
<td>4,511</td>
<td>14.0</td>
</tr>
<tr>
<td>1928</td>
<td>323.5</td>
<td>4,851</td>
<td>15.0</td>
</tr>
<tr>
<td>1929</td>
<td>325.2</td>
<td>4,309</td>
<td>13.3</td>
</tr>
<tr>
<td>1930</td>
<td>345.0</td>
<td>4,889</td>
<td>14.2</td>
</tr>
<tr>
<td>1931</td>
<td>348.4</td>
<td>4,636</td>
<td>13.3</td>
</tr>
<tr>
<td>1932</td>
<td>346.4</td>
<td>4,600</td>
<td>13.3</td>
</tr>
<tr>
<td>1933</td>
<td>333.5</td>
<td>4,820</td>
<td>14.5</td>
</tr>
<tr>
<td>1934</td>
<td>350.7</td>
<td>4,618</td>
<td>14.0</td>
</tr>
<tr>
<td>1935</td>
<td>339.2</td>
<td>4,698</td>
<td>13.8</td>
</tr>
<tr>
<td>1936</td>
<td>345.1</td>
<td>4,650</td>
<td>13.5</td>
</tr>
<tr>
<td>1937</td>
<td>359.0</td>
<td>5,060</td>
<td>14.1</td>
</tr>
<tr>
<td>1938</td>
<td>372.0</td>
<td>5,510</td>
<td>14.3</td>
</tr>
</tbody>
</table>

The comment following tends to substantiate the data presented in the preceding table.

During the past 25 years the average yield of wheat for the United States has fluctuated between a high of 16.7

4 Ibid., p. 716. See also pp. 87-88 for a more complete analysis.

5 Ibid., p. 706.
bushels per acre in 1915 and a low of 11.2 bushels in 1933. The general level, however, appears to have undergone no definite change, and the trend does not deviate far from 14 bushels per acre, except in the drought years beginning in 1932.6

The foregoing idea of planned production is actually much simpler than it seems at first glance. Especially is this so when the task is viewed with the main purpose of the plan in mind. The over-all purpose is to establish a stable market for wheat. The only way to accomplish that is to know the requirements of the importing nations, and then divide this amount among the exporting nations. The requirements are not too hard to estimate and the exports can be allotted by international agreement. It then becomes the task of each exporting nation to set up a program of its own by which the desired amount of production is obtained.

The exporting nations have a great responsibility once they have entered such an agreement. Each nation is under an obligation to produce enough wheat for its domestic consumption, plus the amount necessary to fulfill its export quota, and an additional amount for a reserve against a bad crop year. Storage space should be provided by the government, and such a reserve should actually be the property of the government if it is to fulfill its purpose of market stabilization.

The statement was made above that requirements of importing nations could be estimated rather precisely, and it is also implied that the exporting nations can estimate their domestic requirements to a high degree of accuracy. This statement and implication needs to be substantiated. The principal factor making this estimate possible, according to de Hevesy, is the relative inelasticity of the demand for wheat. This can be shown by studying the per capita consumption of several countries over a period of years. Table 8 is very revealing on this point.

That Carl Schmidt holds the same idea is shown by this quotation:

... About the same quantities of bread and potatoes are bought each year by consumers. They will pay high prices in order to obtain the usual amounts, but will not purchase much more when prices are low. For example, a 50 per cent decline in the price of bread does not induce people to buy twice as many loaves as before. Thus fluctuations in wheat crops may be accompanied by wide savings in farm prices. ...

| TABLE 8 |
|------------------|------------------|------------------|------------------|------------------|
| PER CAPITA HUMAN CONSUMPTION OF WHEAT IN ARGENTINA, AUSTRALIA, CANADA, AND U. S. FROM 1909 TO 1937. |
|                  | 1932-33 to 1936-37 | 1927-33 to 1931-32 | 1922-23 to 1926-27 | 1909-10 to 1913-14 |
| Argentina        | 5.55              | 5.91              | 5.62              | 5.37             |
| Australia        | 4.90              | 4.34              | 5.09              | 5.23             |
| Canada           | 4.01              | 4.28              | 4.57              | 5.19             |
| United States    | 3.63              | 4.01              | 4.19              | 4.98             |

7Carl T. Schmidt, American Farmers in the World Crisis, p. 50.
Table 3 indicates that Argentina consumes more wheat per capita than any of the countries listed.

This is not the complete picture for much wheat is used as feed and must be taken into account when requirements are estimated. The following table presents the per capita total consumption for the same countries during the same periods as shown in the preceding table. 9

**TABLE 9**

**PER CAPITA TOTAL CONSUMPTION OF WHEAT IN ARGENTINA, AUSTRALIA, CANADA, AND U. S. FROM 1909 TO 1937.**

<table>
<thead>
<tr>
<th>Country</th>
<th>1932-33 to 1936-37</th>
<th>1927-28 to 1931-32</th>
<th>1922-23 to 1926-27</th>
<th>1909-10 to 1913-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>7.73</td>
<td>7.76</td>
<td>7.51</td>
<td>8.38</td>
</tr>
<tr>
<td>Australia</td>
<td>8.45</td>
<td>7.57</td>
<td>7.61</td>
<td>7.69</td>
</tr>
<tr>
<td>Canada</td>
<td>9.94</td>
<td>12.47</td>
<td>10.94</td>
<td>10.01</td>
</tr>
<tr>
<td>United States</td>
<td>5.29</td>
<td>5.66</td>
<td>5.35</td>
<td>5.57</td>
</tr>
</tbody>
</table>

It is apparent from the above tables that per capita consumption of wheat is not as stable as Schmidt and de Hevesy have indicated. The figures in these tables indicate a downward trend of some importance in human consumption in

---

Australia, Canada, and the United States. When the amount of wheat used for feed is considered, the downward trend is still indicated for the United States, Canada, and Argentina. The presence of this trend does not necessarily nullify the possibility of controlling production, but it does mean that such a trend should be realized and must be considered if production is to be planned.

In the preceding discussion we have in effect assumed that all the important wheat nations of the world would cooperate in production control. However, this may not be realistic. We cannot be certain that the signatories to such an agreement will abide by the plan, nor can we assume that all nations will even join the plan. Argentina and Russia, both important wheat producing nations, have not been included in the international agreements that have been attempted. Argentina was a participant in the 1948 agreement, but failed to abide by the allotted quota, and participated in the 1949 agreement only as an observer. The implications of the exclusion of Russia from such agreements are complex, and for that reason will be deferred to the latter part of the chapter.

Planning production of wheat is only one side of the picture, for it is also necessary to examine the possibility of planning the price of the product. The main goal of setting the price of wheat in the national economy is to assure the producer a fair and equitable price for his produce. By
fair and equitable price we should mean the price that gives the wheat farmer a rate of profit on his investment equal to the rate of profit earned by other business undertakings.

It was shown in the preceding chapters that this rate of profit is not forthcoming under conditions of so-called competition and the free forces of supply and demand. Under supply and demand theory it is assumed that when the price drops the supply of the product forthcoming will drop in direct proportion, thus allowing an adjustment at a new equilibrium point. But this does not happen in the case of wheat, or for that matter, in the case of any farm product.

We have previously shown in this chapter that production of wheat is relatively stable over short periods and that the amount of production does not go down along with a fall in prices. For example, from 1927 to 1935, the world’s wheat production was 4,511 million bushels in 1927, 4,851 million in 1928, 4,309 million in 1929, 4,889 million in 1930, 4,636 million in 1931, 4,600 million in 1932, 4,820 million in 1933, 4,618 million in 1934, and 4,698 million in 1935. During this period the price of wheat dropped from a high of about $1.21 per bushel in 1927 to 38 cents per bushel in 1935.\textsuperscript{10}

\textsuperscript{10}See Table 7, page 70, of this thesis and Hevesy, \textit{op. cit.}, pp. 664, 665.
Therefore, since there is no automatic adjustment in the wheat market, it is necessary to administer the wheat price. It has been administered on a national scale in the United States, Great Britain, France, Switzerland, and most other wheat producing nations at least since the big depression brought chaos to the wheat market. Attempts have been made also at administering the price of wheat in international trade. On a national basis the price has been set in relation to a pre-existing so-called normal period, whereby the producer is guaranteed a price which gives him the same relative purchasing power as he was receiving during the so-called normal period. Or, in some instances, as in Great Britain, the wheat farmer has been paid an outright bonus at the end of the year which brings his purchasing power up to normal.

One of the obvious results of such measures as these is to keep the small and inefficient farmer in the business. The small farmer is unable to buy the latest farm machinery and, as a result, he is not equipped to produce as efficiently as the large farmer. This is pointed out in the quotation which follows.

Of course, factors other than area cultivated and technical equipment affect agricultural costs. Differences in native ability, resourcefulness, experience, and soil and weather conditions are also reflected in costs of various farms. Sometimes farmers are persuaded to buy machinery, even though it is uneconomical on their particular farms. Perhaps their eyes are caught by the shiny red paint, or their fancies are intrigued by the thought of something new and different. Yet, on the
whole, it seems safe to say that the lowest-cost farms are operated with the newer techniques.\textsuperscript{11}

The point here is that it is extremely difficult, if not impossible, to set a fair and equitable price for a product by a cost of production formula. It is difficult because of the inability to establish a cost of production that is in any way fair to all producers. This can be seen by the fact that studies have shown the production cost of wheat to range from 49 cents to \$1.91 per bushel on different farms for the same year.\textsuperscript{12}

The inability to establish a cost of production is not the most important reason for avoiding that method of price determination. When we talk of cost of production we are speaking of a sum of prices that the producer paid during the course of the production period. The cost of production is itself based upon prices of other commodities and, consequently, the price of wheat arrived at in this manner would after all be set in relation to other prices. This is essentially what the parity price formula of the United States is today and it is much simpler than attempting to establish an average cost of production.

Some Considerations in Favor of Planning Wheat Price and Production

One of the principal factors that make it desirable to

\textsuperscript{11}\textit{Schmidt, op. cit.}, p. 73.

\textsuperscript{12}\textit{Ibid.}, p. 73.
plan the wheat price and production, is the relation of the farmer to the industrial economy. The wheat producer is at the mercy of industry so long as his production and price are not planned on a national basis. Each wheat producer behaving individually can not bargain with the millers and purchasers of his grain, for he would be dealing with monopolistic enterprises that are in position to dictate his selling price to him.

Paul de Hevesy states the matter in this form:

In February, 1933, the price of wheat on the farm had dropped to 32 cents per bushel. Even more important to the farmer than the actual price of wheat was its price in relation to the articles which he wished to buy. Protected by tariffs, national and international cartels and other combinations, industrial goods did not decline in price proportionately, and the discrepancy grew ever wider, until in 1933 a bushel of wheat had only one-third of its pre-war purchasing power. Consequently, farmers could not buy from the industrialists, who were thus obliged to restrict production. This meant unemployment for thousands, who in their turn could not buy agricultural products, and the vicious circle or descending spiral was complete.14

Without planning the wheat farmer is unable to protect himself. He is caught in a web of forces that are completely outside of his control, and singly he has no influence on the market. The prices which the wheat grower receives generally move in sympathy with business fluctuations, but the prices he pays for products tend to remain higher or come down slower than those for his own produce. The solution that the industrialists have found useful to themselves, that

14 Ibid., p. 651.
of restricting production and maintaining price, can work for the wheat producer only if all of the wheat growers can be organized. And that is essentially what the government has done in the United States. It is the same thing that has been done in other nations, and it is now being attempted on an international scale. But there is essentially no difference in this action on the part of the government and that of the businessmen.\textsuperscript{15}

That the wheat farmer is to a great extent helpless in his relation to the market is emphasized in this quotation.

In 1934, for example, . . . thirteen flour millers purchased 65 percent of the commercial wheat crop. . . . Thus, quite apart from the possibility of deliberate price-rigging by business, the farmer is likely to be in a weak bargaining position both as buyer and as seller.\textsuperscript{16}

It is with the goal in mind of putting the producer of wheat on an equal footing with the business economy that planned production and price is desirable. And it is desirable from the standpoint of its worth to the economic system, not merely the benefit that accrues to the wheat farmer.

It is a well known fact that the favorable position of the business community enabled it to force the enactment of protective tariffs which saddled the farmer with an unjust and impossible burden. The wheat farmer was not alone in

\textsuperscript{15} Theodore W. Schultz, \textit{Agriculture in an Unstable Economy}, pp. 128-132 for a complete analysis of this point.

\textsuperscript{16} \textit{Ibid.}, pp. 48-49.
feeling the effects of these measures, but as a producer of a basic commodity his share was great. The following paragraph points out the extent of the burden of such tariffs.

... The American Farm Bureau Federation estimated in 1923 that current tariffs on agricultural imports gave some American farmers—such as those producing sugar beets, wool, flax, and high-protein wheat—additional income of about $30,000,000 annually. On the other hand, the tariffs on nonagricultural goods burdened American farmers to the extent of $331,000,000 a year. A recent estimate places the cost of tariffs on products consumed by farmers in 1935 at about $681,000,000 or an average of $108 per farm family.17

Another factor favoring the administration of the production and price of wheat is the interrelatedness of agriculture and the business community. This is a fact that has received recognition only in the past few decades, and many of the implications of this have not been realized. It means that economic theory in the future will have to deal with this fact to a greater and greater extent. It is no longer sufficient to devise measures to correct a maladjustment in one segment of the economy without taking into account the effects of these measures on the rest of the economy. When the business community fails to furnish employment to its laborers, many of those out of work find a haven on the farm, and wheat farmers get their share of these transient laborers. With the farms already over supplied

17 Ibid., pp. 49-50.
with labor, the income realization from wheat production diminishes. The fact that farms in general suffer from an over supply of labor is pointed out by the continued migration of farm labor to urban centers.\textsuperscript{18}

This brings us to another factor that must be considered when the wheat economy is being planned, for the drift out of farming into the business community is the result of technological innovations in the production of wheat. For example, letting the man-hours required per unit of output of wheat in 1909-13 equal 100, the man-hours required per unit of output in 1934-36 was 46.\textsuperscript{19} Thus, in a quarter of a century the labor requirement for wheat production was reduced by more than half.

Carl T. Schmidt has this further comment on the effects of technology and labor requirements for wheat production.

The advance of agricultural technology is greatly changing the demand for farm laborers, as well as their working and living conditions. Here it is important to note that in some fields it already has wiped out almost entirely the need for large numbers of workers at special times during the crop season. In the wheat belt, for instance, more than 250,000 men once followed the ripening grain across the heart of the continent, shock- ing and threshing it at harvest time. Today the combine- harvester has virtually ended this great annual migration, reducing the need for harvest hands by as much as 80 per cent.\textsuperscript{20}

\textsuperscript{18}For a complete discussion of this see Theodore W. Schultz, \textit{Agriculture in an Unstable Economy}, pp. 85-112.

\textsuperscript{19}Schmidt, \textit{op. cit.}, p. 62.

\textsuperscript{20}Ibid., p. 30.
Any plan for control of production and price of wheat must take technology into consideration. Any plan that hinders the adoption of better methods of producing wheat should not be entertained, for man should be able to reap the benefits of his handiwork.

The introduction and widespread use of tractors has had a two-fold effect on the production of wheat. In the first place, it enables more production per man-hour with a resultant decrease in production costs. Second, it decreases the numbers of horses and mules on the farm with a resultant decrease in the requirements of wheat for feed use. The extent that this has progressed is evident from the following quotation:

Directly increasing productivity per worker, power farming has also indirectly increased production by re-leasing some 35,000,000 acres of land formerly needed to produce feed crops for animals for the production of crops for consumption. The number of horses, mules, and colts on farms declined from 26,500,000 in 1916 to 15,182,000 in 1939.21

Certainly not all of the feed consumed by animals was wheat, nor even the larger part of it, but a great deal of it was and much more land is now available for wheat production. The manpower that is no longer required on the farm has to be absorbed by the industrial economy, which means that the industrial economy must continue to expand. A large part of this necessary expansion will depend upon the

21 Carey McWilliams, Ill Fares the Land, p. 306.
wheat farmer getting his share of the national income so that he will be able to purchase the increased output of industry.

An important factor that must be taken into consideration when administering the price of wheat is the close relationship between wheat and other farm products. The price of wheat should be set at such a point that agricultural resources are guided into those specific areas where needed. Since agricultural resources are relatively slow to move from one commodity to another, then the price must be relatively stable for a shift in resources to come about. Extremely erratic prices, and this has been the case with wheat in the past, prevent the necessary shifts in agricultural resources. This point is made clear in the following quotation:

Another hurdle to the reallocation of resources, especially within the firm (farm), is the uncertainty of the relationship of one product price to another—for example, cotton to livestock products, cotton to peanuts, and wheat to corn and barley. These relative prices are notoriously erratic. It may take years before farmers can formulate a judgment about changes in the relative prices of products that they happen to produce. Wheat and corn relationships are an excellent illustration. Wheat can be used for feed or, alternatively, a considerable part of the acreage devoted to wheat may be used to grow feed grains. In the years immediately preceding World War I, the farm price of wheat (United States Average) was fully 25 per cent higher than that of corn, the leading feed grain in the United States. Now let us suppose that the conditions underlying the supply and demand of wheat have pulled the relative prices of wheat and corn closer together, so that wheat has a value about 10 per cent above corn. At this lowered price, it becomes profitable to use some wheat as feed and to shift some wheat land to the growing
of feed. This is essentially what the developments in wheat and corn occurring during the twenties and thirties called for. But with the rapid shifts in the ratio of wheat to corn prices, this long-run drawing together of wheat and corn prices gave the farmer little guidance in allotting his acreage. The price of wheat galloped from 22 per cent above that of corn in 1931 to 4 per cent in 1934 and to 27 per cent in 1935. In 1936 corn prices actually averaged higher than wheat prices, only to be followed by a year in which wheat prices were virtually twice as high as corn. It should be apparent that under the existing system of farm-product pricing, little can be expected from this erratic mechanism of relative prices in guiding or inducing necessary shifts in production.22

Wheat prices administered wisely could alleviate this erratic shift in relative prices and thus facilitate the shift of productive resources among the various commodities. Another aspect of erratic prices is that abrupt changes in the price of a particular product causes an erratic flow of the product to the market. For example, the slump in wheat prices in the spring of 1943 caused a veritable flood of stored wheat to the market. The flow of stored wheat was so great that the Commodity Credit Corporation announced a new buying schedule of 1,000,000 bushels maximum per day, and doing all of its buying in one hour, 11 a. m., to 12 noon. This new schedule also served to keep down rumors of government buying which frequently upset the market.23

Thus, a correctly administered wheat price would not only serve to allocate the proper amount of resources to the production of wheat by establishing a relatively stable price, but it would also make possible an orderly flow of

22 Schmidt, op. cit., pp. 159-160.
23 Time, March 29, 1948, p. 92.
the product to the market. Another aspect of the production ratio between the various feed crops is their influence on the production of livestock and livestock products. Planned production, which is fully possible only with administered price, prevents the creation of surpluses that may upset the desired production of livestock. The quotation which follows explains this relationship.

An annual surplus of 250 million bushels of wheat or the equivalent in wheat and other feed grains means an addition of 7.5 million tons to our normal feed supply. . . .

Suppose that 7.5 million extra tons of feed grains were fed to hogs. Hogs eat 38.3 per cent of all concentrates. So this would mean a 15.6 per cent boost in hog production.

If fed to beef cattle, an extra 7.5 million tons of feed grains would produce 2,000 million pounds more live weight of cattle or 1,100 million pounds dressed beef. This would increase the beef and veal supply by 10 per cent. Total meat supply would go up about 5 per cent per person. This assumes 750 pounds grain per 100 pounds gain on cattle, and 55 per cent dressing percentage.

Suppose the milk cows got all the 7.5 million tons of additional grain. It would increase the average concentrates fed per cow from 1500 to 2150 pounds. Milk production per cow would probably go up from 5000 to 5,433 pounds— an increase of 9 per cent. (I have assumed 100 pounds of extra feed will produce 67 pounds more milk.)

Poultry consumes 24.1 per cent of all concentrates. So an extra 7.5 million tons of feed grains fed to poultry would boost poultry and egg production 24 per cent.

Of course, not all the increase would go to one class of livestock. Perhaps the most realistic assumption is that one-half the increase will go into hog production, one-fourth into beef cattle and the other one-fourth into heavier rations for dairy cows. Such a distribution of 7.5 million tons of extra feed would increase: hog production, 8 per cent; beef and veal
production, 2 per cent; and milk production, 3 per cent. Poultry and egg production would be unchanged.

The above discussion is an excellent example of the interrelationship existing between the various commodities and emphasizes the necessity of administering the production and price of wheat as a part of a broader program. The implication here is that the precedent established by the international cartelization of wheat will lead toward the same type of agreement for the other basic commodities.

The Probabilities of Complete World Cartelization of Wheat

This section is to some extent a digression from our study, but it seems to be a necessary one. There are forces operating toward not only world cartelization of wheat, but toward a world cartelization of all agriculture. Perhaps we should say even toward a world economic system. These forces are pushing us into situations which cannot be resolved by past experience, but are compelling us to move into the area of experimentation. In short, there is a revolution taking place in agriculture, and wheat just happens to be the most vulnerable point for the purpose of attacking the problem.

Before examining the nature of the forces that are operating to make the world cartelization of wheat necessary, we

must analyze the influence of Russia in the wheat market. The point in question here is whether international wheat agreements can function if Russia is not included as one of the signatories to such agreements. Thus, we are raising the question as to the workability of the type of agreement that has been formulated up to the present time.

The big factor that may prohibit the successful functioning of the present international wheat agreement is the exclusion of Russia and the Eastern European nations from this pact. Russia and the Eastern European nations must be considered as one, for their economic policies are coordinated into a single line of action. In effect there exists between Russia and the Eastern European countries what amounts to another international wheat cartel. This can hardly be disputed in the face of the existing evidence to that effect.

On January 25, 1949, the Moscow radio announced the organization of the Council for Economic Mutual Assistance. The signatories to this protocol included Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and the Soviet Union. The council is to govern the economic relations between these nations for the next twenty years, and has as its express purpose the fostering of increased trade between the various signatories.  

Through this council Russia has negotiated trade agreements with each signatory to the pact, and has thus been able to corner the largest part of the trade of these nations. For example, on February 16, 1949, Russia and Poland signed a trade agreement that calls for a thirty-five percent increase in mutual deliveries during 1949. Similar trade agreements were negotiated with the other signatories to the pact, and the combined effect of these agreements is to bind Russia and these countries into a tight economic federation. 26

The extent to which this pact has been effective is shown in this quotation:

The trade of the Soviet Union and the Eastern European countries, amongst each other, is already twice as large by volume as in 1939; and exchanges between these countries, excluding the U.S.S.R., is now half their foreign trade (in volume), compared with one fifth in 1939. While East European trade with the U.S.S.R. is not yet as large as its former trade with Germany and Austria, exports to the Soviet Union are already ten times greater by volume than in 1939, and imports from the Soviet Union 25 times greater. 27

There are two things of importance to our study indicated by the above actions. The first is that Russia and the Eastern European nations have welded themselves into an economic bloc. The second, a result of the first, is the probable effects on the present international wheat agreement. With such a consolidation of economic power it

26Ibid., February 17, 1949, p. 8.

is possible that this bloc can bring about the collapse of the whole agreement if they are faced with a surplus of exportable wheat. It is necessary that we examine the possibility of the latter situation developing.

First, we should consider the potential wheat production capacity of this area in comparison to that of North America. Zimmerman has this to say on this point:

A ribbon of grassland soil about 200 miles wide, about 80 per cent of which is not only suitable but even ideal for wheat cultivation, stretches for 3600 miles from western Rumania to Lake Baikal. This compares with a strip of grassland of similar width extending from Corpus Christi, Texas to Edmond, Alberta, a distance of 1750 miles. . . .

Erich Zimmerman concludes from the above figures that the Eurasian area contains 685.5 million acres of suitable wheat land, while the area in North America amounts to only 134.6 million acres. Although it is likely that the difference in the two areas is not this great when all factors are considered, the final comparison is probably about three to one in favor of Eurasia.

We should next examine the possibility of this area being developed. There are indications that development of this area is going forward rapidly, and that the most modern techniques are being swiftly incorporated into this development. For example, the plan in Poland this year calls for

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28 Erich W. Zimmerman, World Resources and Industries, p. 254.
29 Ibid., p. 254.
the production of 2000 tractors and the importation of an additional 3200. According to a report issued by the United States Census Bureau the production of tractors in Russia increased from 55,200 in 1947 to 112,000 in 1948. The report stated also that production of combines had been increased appreciably. Further, on March 3, 1949 the Moscow radio reported that M. Lysenko, president of the All-Union Academy of Agricultural Sciences, had developed a new type wheat in which 8 to 16 grams (about one-third of an ounce) of grain are contained in each head of wheat. 30

It is clear that an intense program of agricultural development is taking place in Russia and Eastern Europe, and the impact of this development may be felt in the very near future. If such a potential productive capacity is developed to any great extent these nations will need a market for their increased supply of wheat, and it is possible for them to break our international wheat agreement by offering a great amount of wheat on the market.

Their desire and ability to do this is augmented by the desire of the Western European nations for a market for industrial products. This is indicated by various trade agreements that have been negotiated between nations of the East and West blocs. For example, on January 14, 1949, Great Britain and Poland signed a five-year trade agreement

with an anticipated exchange of goods of $1,040,000,000. In December, 1948, Great Britain signed a one-year pact with Yugoslavia calling for a $60,000,000 exchange of goods. Moreover, Russia has agreed to deliver 81,000 tons of wheat to India in return for castor oil, jute, and tea. Also, it was reported in June, 1949, that Russia had bought $10,000,000 of cotton from Egypt for which Russia would deliver wheat in return.

The above facts seem to indicate a definite possibility of our international wheat agreement being broken due to the fact that a very important part of the wheat producing world has been left out of the pact. The point here seems to be that a successful wheat cartel must be organized on a whole world basis rather than merely a bloc of nations. Let us turn our attention to other forces that are operating in this same direction.

The forces that I have in mind are the result of scientific advancement in the techniques of farming. As we have already seen the man-hours required for the production of wheat were reduced in one quarter of a century by over fifty per cent. The immediate result is to force labor to migrate from the farm to the factory. But in the future

31 New York Times, January 16, 1949, p. 81
32 Ibid., February 12, 1949, p. 3.
33 Ibid., June 2, 1949, p. 46.
we face the possibility of even more drastic reduction of the man-hours needed to produce the necessary quantity of wheat. The most promising factor that is operating in this direction now is the advances made in the knowledge of chemicals. Chemicals properly used will result in a colossal increase in production.

The University of California is producing tomatoe plants 16 feet high by growing them in shallow water tanks and feeding them with chemicals. The plant is held erect by wires, its root being in the liquid. He obtains 217 tons of tomatoes per acre, and by a similar method, 2,465 bushels of potatoes per acre (the United States average is 116 bushels of potatoes per acre). Other crops which appear to flourish under conditions of water culture are French beans, radishes, carrots, and lettuce, while carnations and other flowers show possibilities of cultivation by the same method. In addition to the more obvious advantages of soil-less agriculture and horticulture, such as the continuous control and adjustment which is possible throughout the growth of the plant, it is a great advantage that the absence of soil means the absence of soil pests.34

There is no doubt but that in the future this chemical knowledge of plants will be applied to all farm crops, including wheat. With such a productive capacity at our disposal, the enigmas of our present surpluses will be multiplied many times. The big problem then is one of distribution and allocation on a much larger scale than we are now facing. With the development of this situation it seems clear that world cartelization of wheat is desirable.

It is a well known fact that farmers are a rather conservative group of people, and the deduction from the

34Paul de Hevesy, op. cit., p. 289.
observation of this trait in our farm population is that such abrupt changes cannot come about in such an atmosphere of living by tradition. However, the unfolding of recent history reveals that new methods have been adopted by our farmers and that the changes wrought by these methods have been somewhat revolutionary. It is to these changes that we can attribute the need for and, indeed, the trend toward, administration of the price and production of wheat. If it is really going to be possible to produce a yield, say five times as great as today, or to produce the annual world crop on a fifth part of the present acreage, will it still be possible to let the farmer grow where and what he wishes?

It is the contention of many people that these changes are for the future generations to cope with, for changes of this nature are slow to materialize. This is a dangerous philosophy to hold even if the changes were slow, and in the face of the recent past it is even more dangerous to assume such a slowness of change. For example, though the scientific breeding of wheat seed is only as old as the century, the work performed in this field has been enormous. New varieties of early-maturing wheat have extended the wheat belt of Canada by enabling the crop to be harvested further and further north. At the same time drought-resistant types have made wheat-growing possible in the drier areas of the Middle West of the United States, of Australia and Russia.
In addition to this the National Research Council of Canada announced in November, 1935, the perfecting of a new rust-resisting wheat. Rust has been a plague to wheat-growers and this development promises to increase appreciably the average per acre production of wheat.

There is yet another development in the science of wheat which will have profound effects on the world wheat picture. This development is known as vernalization, a process by which the time between sowing and harvesting is reduced by several weeks. Scientists searched for many years for wheat strains that would mature quickly, and they reached an epoch in their search when they developed a wheat that would mature in from 90-100 days instead of the former 120 days. By the use of the process known as vernalization, whereby the wheat seed are pre-germinated, it is possible to harvest it within 60 days after sowing. This enables wheat to be grown in the Artic regions where the summers last only two months, and may possibly enable the growing of two crops per season in the temperate zones.35

The implications of these advances in the science of wheat are indicated by this quotation:

The international intricacies arising from this prospect must also be considered. We know that some European countries, hitherto great wheat importers, are desperately trying, regardless of cost, to grow their

35 For a complete discussion of this see: Ibid., pp. 280-291.
own wheat. We have seen also that the startling advances in soil chemistry indicate that the yield per acre can be greatly increased. These two factors combined confront us with the possibility that several of these densely populated industrial countries of Europe might succeed in becoming altogether independent of foreign wheat. This prospect, already a reality in some countries, should suffice to convince the great wheat-exporting States of the necessity of planning. And since one State cannot very well plan in this matter without some understanding with others, it seems to the author that, for the wheat-exporting countries, the conclusion of an international agreement is an obvious necessity. 36

We are told that our increased production of wheat will be absorbed by an increasing population, but current students of population do not predict such to be the case. With the decrease in the size of the average family that has taken place in the Western World, the nations which consume the greater percentage of wheat, increasing population does not seem to be the answer. With our future ability to produce five times as much wheat as was possible in the past, imagine the predicament if one child were born instead of five.

We must keep in mind that the man of tomorrow, just as the man of today, will have only one stomach with a limited capacity for absorption.

Perhaps a closing note such as the following will bring the entire picture into clear focus.

Sir Robert Greig, former Chairman of the Board of Agriculture for Scotland, and a Member of the Agricultural Commission to Canada and to Australia, wrote: "Common-sense procedure is to organize agricultural production and distribution on a world basis. This is clearly not practical politics for a long time to come.

36 Ibid., p. 295.
Nevertheless, this is the end to strive for, as no other policy so far as we can see at present will ultimately provide a general prosperity and ensure against famines or deficiencies of some commodity at some time or other. . . . There is a stirring in the dry bones. Straws that show the way the wind blows are such as these. A year or two ago the President of the National Farmers' Union of Scotland publicly advocated producers' cartels or international control of farm products, and published his proposal. This man was no visionary but a practical and successful farmer. Schemes are now under discussion by farmers and auctioneers for the organization of Empire meat production. These are no great matter, but no doubt the yeast is working in many parts of the world and the situation is not, therefore, so hopeless as it may appear." 

37 Ibid., p. 304.
CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

As a result of this study there are certain observations that can be made concerning the phenomena that have occurred in the wheat market. The government has administered the wheat market, without regard to the "rule" of competition, rather successfully. As far as the economics of wheat price and production is concerned, competition has been eliminated. We have observed the development of an effective national cartel under the guidance and direction of the government.

Moreover, we have seen this directorship expand its control to the extent that our government is now the principal force promoting the establishment of an international wheat cartel. The formulation of this cartel indicates the elimination of competition in the international wheat market effected by the nations participating in the agreement.

It must be concluded that the action of the government in converting the wheat market into a cartel is not compatible with its anti-trust and anti-cartel policy. In the case of the business community the government insists that competition be enforced, while in the case of the wheat market it insists that competition be eliminated. Economically
speaking, this is extremely inconsistent behavior, and traditional economic theory cannot explain such behavior.

The theory of imperfect competition has attempted to explain the existence of monopolies and cartels in the realm of private business, but this theory assumes rationality. However, the behavior of nations has shown them to be extremely irrational, and their actions are to a large extent determined by their position of power in the community of nations.

We have also noted the emergence in the world of a second wheat cartel. This cartel is directed by Russia and includes the nations of Eastern Europe. The potential capacity for wheat production possessed by this cartel has given rise to questions that are of great importance to both blocs. Will the Eurasian cartel develop to the degree that it can challenge the cartel of which we are the main director? Will the result be an international trade war between these two blocs of nations? If so, how can the Western bloc withstand the weight of such a productive capacity? Is it possible that these two cartels can exist together in a spirit of cooperation and mutual understanding? Is it possible that these two cartels can combine in aim and purpose to the extent necessary to bring into effect a unified one-world cartel? These are questions for the statesmen and economists of both blocs. Is such a combination the solution to the problem?
Recommendations

It seems clear that there is much work that needs to be accomplished toward the examination of the problems presented by the existence of two world cartels in the wheat market. The big question seems to be whether the two cartels can exist side by side in our small world, or must they be combined into one super-cartel. The pattern of international trade that has appeared calls for examination as to its promises and its dangers. The economists have ample reason here for much study and research, and the contribution made by such studies could help tremendously in preventing the development of an extremely chaotic condition.
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