THE DEVELOPMENT OF A THEORY OF AGRICULTURAL
PRICE ADMINISTRATION SINCE 1930

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CHAPTER I

INTRODUCTION

During the 30's the economy was in a chaotic condition. Before this breakdown of the economic price structure as a whole, a part of the economy was already in a depression. Though it depended upon orthodox price theory to solve its problems, it seemed that agriculture could produce more than the market could absorb. But, orthodox price theory assumed that this could not happen. The market, complicated economic device for disposal of goods, was assumed to prevent the accumulation of unsalable surpluses. Say's Law of Markets was a definite part of this theory. Under this law, there could be no over-production or over-supply because all commodities created a demand and market for all other commodities. This demand (purchasing power) enters the market simultaneously with the product.\(^1\) It was further declared by Classical economic theory that after the commodity enters the market, supply and demand will determine the price that will prevail. Over the long run, this price would not be less than the cost of production.

This theory assumed too much. In agriculture, the very opposite results were taking place in the 20's and 30's.

Competitive agriculture was facing an unworkable price structure. The whole economy was feeling the results of unstability in agriculture. By 1933, the situation had come to a showdown: agriculture could not survive under orthodox price theory.

It is past history that orthodox price theory was abandoned. In the place of following the well-worn path, the producers decided to strike out on new ground. This decision involved the use of government power in unorthodox ways. In so doing, the government embarked upon a policy of experimentation. This was new ground for government action, but it was necessary. The producers of agriculture were so numerous and regionally divided that without help they could never have become organized on a scale large enough to experiment.

The Federal Government undertook to sponsor this organization of the producers for the purpose of experimenting with the price and income problems of agriculture. This experimentation was started and has not stopped. With a timid beginning, agricultural experimentation with prices and incomes went forward. There were mistakes and failures but price administration as a governmental experiment has not been abandoned. The goal has been and is a workable price structure for the economy. Agricultural price administration is only a part of this goal.
This thesis is concerned with the problems of agricultural price administration. It is an examination of the different agricultural price administration experiments that have been used. These administered price experiments are the topics of discussion.

The following chapters are divided into chronological order according to the experiments of different periods. Price administration is approached from the viewpoint of changing policy.

Chapter I discusses the background of agriculture's abandonment of orthodox price theory and its adoption of experimental price administration policy.

In Chapter II the experiments of 1929 and 1933 are discussed. The economic reasons are given for these milestones of public administration. Why they did not solve the problems that prevailed is also discussed.

Chapter III deals with the experiments that promoted the concept of parity income and soil conservation. The limitations of this experiment are given as the basis for another experiment, the Agricultural Adjustment Act of 1938. These two experiments are discussed as an effort to provide workable price administration.

Chapters II and III discuss also the beginnings of minor programs that all work together as part of the system of price and income administration. These programs include
such agencies as the Commodity Credit Corporation; the Federal Surplus Relief Corporation; and the Federal Crop Insurance Corporation.

In Chapter IV a major change is shown to take place in agricultural price administration. This is the extensive use of price supports during World War II. This and other situations are discussed through the experiments of this period.

Chapter V deals with the provisions for price administration in post-war agriculture and the problems that were created and have not been solved. This guides the reader into Chapter VI and a discussion of present price administration in agriculture.

Chapter VII will include the summary and conclusions drawn from the study.
CHAPTER II

EXPERIMENTAL BEGINNINGS

The 1929 Experiment (McNary-Haugen Act)

Agriculture has usually been referred to as a classic example of competition in action. When the producers began having trouble with the market after the first World War, agriculture was described as competitive. From a later point this "competition" looks like disorganization. Since the first World War, disorganization in agriculture has been periodic. This disorganization can be attributed to the prevailing belief of the times in the doctrine of natural equilibrium, an equilibrium that could achieve parity between two groups as different as agriculture and industry.

The disorganization discussed in the present study is associated with two related concepts, prices and production. Disorganization seems to prevail when production is out of harmony with price and vice versa. To realize how this has affected agricultural price administration since 1930, it will be necessary to look at the decade prior to this date.

The decade from 1920 to 1930 is usually thought of as the great boom period for the whole economic system. Agriculture was included in this boom during short intervals but, over the long run, was excluded from sharing favorably
in the proceeds of the national income. This was the "jazz age" of business with business calling the tunes. T. W. Arnold says that industrial activity was stimulated by "selling foreign bonds to dump surplus goods abroad."¹ This industrial surplus removal kept prices at desired levels in the domestic market, but agriculture had "a great surplus of agricultural products in terms of purchasing powers."² What could be done about agricultural prices?

Many were beginning to think that price administration was needed to combat the disorganization that prevailed in agriculture. They reasoned that this disorganization was caused by the first World War and its abnormal demand for increased production. The producers responded to high war prices and the amount of acreage devoted to production increased accordingly. When hostilities ceased, production did not drop, and with a "normal" demand, a great surplus glutted the market. With already over-expanded production, the producer was compelled to produce double units to receive the former money value of one unit. This situation led to the 1920 slump. The 1920 slump was a short one and A. B. Gemung declared that: "From 1921 to and including 1925, one could say definitely . . . that a sick industry [agriculture] was

²Ibid., p. 234.
improving." 3 After 1925, the agricultural wagon turned off the main road and headed again "down the back roads to nowhere."

From 1925 to the New Deal experiment, the purchasing power of the producers was low; surplus products were a drug on the market; and agriculture was in a depression in relation to the other groups of the economy. No centralized public planning was in existence but it was advocated. As this condition prevailed for some time, strong demands were being voiced. The McNary-Haugen bill was introduced but was defeated. This proposal was similar to the policy that business was pursuing and its strongest voice was George N. Peek. George Peek was connected with the Moline Plow Company and eleven years later he was the Administrator of the AAA.

Peek's policy was centered around a sort of price administration that would use an "equalization fee" for the purpose of financing "the exportation of crop surpluses at world prices while maintaining domestic prices." 4 To solve all price problems, just dump the surplus on the world market and keep it disorganized thus enforcing a rigid scarcity system on the domestic market that would provide high prices. These higher prices to producers were to be provided by "taxation for a stabilization fund which would make up to the farmers the difference between domestic and foreign


prices when they sold their products abroad.\textsuperscript{5} As mentioned above, this bill was defeated but its strongest principle, surplus removal, has been used almost consistently.

By 1928 and 1929, the voice of agriculture was becoming stronger with pleas for some type of agrarian price policy. The Federal Government refused to accept the responsibility to provide price administration; so the producers organized themselves into private cooperatives. These cooperatives\textsuperscript{6} were organized along commodity lines for a purpose. Just as Christianity fights "sin," the cooperatives were to fight the "marketing problem." O. W. Kile defines this over-all concept as "a term covering complaints of low prices as well as high handling costs and various trade abuses."\textsuperscript{7} This private administration of prices was doomed as a solution, for no control over production was provided. While attempting to stabilize commodity market prices by cooperative action there was no means or ends to pursue restriction of production. This was the private attempt being pursued when the 1928 election put Herbert Hoover in the White House.

Private administration of prices was decentralized to too great an extent to be effective but the basic principle

\textsuperscript{5}Arnold, \textit{op. cit.}, p. 284.

\textsuperscript{6}The actual commodity cooperatives as well as farm organizations.

\textsuperscript{7}Kile, \textit{op. cit.}, p. 82.
became the basis of a public price administration policy. The problem of price administration was now on the domestic level because foreign export of agricultural commodities was restricted by trade barriers. The basis for public administration of prices came in the form of the McNary-Haugen (Agricultural Marketing Act) of 1929. This legislation intended to "stabilize" commodity prices by holding surpluses off the market until they could be "orderly marketed" at desired prices.

This was something new in public planning. Congress declared that the government policy would be:

- to promote the effective merchandising of agricultural commodities in interstate and foreign commerce, so that the industry of agriculture will be placed on a basis of economic equality with other industries, and to that end to protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural commodities . . .

This declared policy was to be achieved by the operations of the Federal Farm Board (created by this Act). This board was authorized to carry out the following provisions:

1. to promote education in the principles and practices of cooperative marketing of agricultural commodities and food products thereof.
2. to encourage the organization, improvement in methods, and development of effective cooperative associations.

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8 Elmer A. Lewis, Farm Relief and Agricultural Adjustment Acts, p. 1.
9 Ibid., p. 3.
To finance these and other operations (see below) a revolving fund of $500,000,000.00 was made available to be used in marketing commodities effectively, providing marketing facilities, organizing cooperatives, and to make loans on commodities delivered to the cooperatives for storage.\textsuperscript{10} In addition to these indirect price administration measures, the Federal Farm Board was also authorized "upon the application of cooperative associations, to enter into agreements . . . for the insurance of the cooperative associations against loss through price decline in the agricultural commodity handled by the associations and produced by the members thereof."\textsuperscript{11}

The preceding policy was a limited experiment. Could prices be raised and maintained by just surplus removal and orderly-marketing? The Act made no provisions whatsoever for restricting production. There was no machinery except loans and storage to divert the surplus. The result of this limited experiment of price administration was lower prices and unlimited production encouraged by loans of the Federal Farm Board. By 1931, O. M. Kile states, "Farm crop prices were moving steadily downward and the Federal Farm Board was openly threatening to dump its entire wheat holding on the market if farmers did not take action to reduce

\textsuperscript{10}Ibid., p. 4
\textsuperscript{11}Ibid., p. 7
production."\(^{12}\) This moral suasion did not have any effect; the producer that could produce the most received the highest loan (price) or income. By this time (1931) the market price was low and loans were the chief source of income. This state of affairs ran its course and arrived at its logical conclusion in 1932 with the collapse of farm and non-farm prices.

**The 1933 Experiment (Agricultural Adjustment Act)**

Politics and price administration were both ripe for change. The failure of price administration under this early experiment can be attributed to the lack of production control that eroded the other programs. Because of the depression, this erosion was quicker. That "The farm income problem demands radical and far reaching measures for its solution"\(^ {13}\) became an accepted truism. The failures of this limited price administration made the problem become one of first rank. Franklin D. Roosevelt and the Democratic party moved on the national scene in 1933 with a broad and far-reaching economic program of public planning called the "New Deal." Radical policies were enacted and agricultural problems received their share of attention. The planning of a new experiment for agriculture capitalized upon past

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\(^{12}\)Kile, *op. cit.* p. 179.

failures and mistakes. This new experiment was the Agricultural Adjustment Act, enacted May 12, 1933.

The so-called radical policies of the AAA were different from the preceding price administration because there were other problems to be dealt with besides the concept of price. This is to say, it had become recognized that price administration would make necessary the establishment of many programs to fit different roles but all working in harmony with one another.

Price administration under the Agricultural Adjustment Act of 1933 introduced a new concept to experimentation in agriculture. Producers had long been demanding some type of economic guarantee that would prevent them from being at a disparity with other groups of the economy. This demand was behind the creation of parity (equalization) and its application to price. The provision for parity prices for agricultural commodities was written into the Act and has survived with modifications until the present. Parity price was blessed and became the goal of government price administration. The goal was stated as follows:

To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions thereof, as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period.\(^{14}\)

\(^{14}\)Lewis, *op. cit.*, p. 20.
The reestablishment of prices involved other programs which will be discussed presently. Prices were to be determined or based upon past years. These years were defined in the Act to be the period from August, 1909, to July, 1914, for all basic commodities except tobacco. These years were selected because they "had long been considered by farm economists as the period with the most satisfactory relationship between the farm group and other major producing groups."15 Each basic commodity—wheat, cotton, field corn, hogs, rice, tobacco, and milk, plus other commodities later added by amendments—had a parity price. The parity price determined as the goal was defined to be "that price for the commodity which will give to the commodity a purchasing power with respect to articles that the farmers buy equivalent to the purchasing power of such commodities during the base period."16 The purchasing power or parity price was based upon the base period. The base period included "changes in interest payments per acre of farm indebtedness, secured by real estate, tax payments on real estate and freight rates."17 All the preceding criteria were to be used by the Secretary of Agriculture to determine parity prices.18 The parity price was applied "to a commodity . . . and . . . sought equality of purchasing power . . . through

15H. A. Wallace, New Frontiers, pp. 163-4
16E. A. Duddly and D. A. Revzan, Marketing, p. 597.
17Ibid., p. 597.  
18Lewis, op. cit., p. 25.
increase [ing] total income.\textsuperscript{19} Parity prices were just one of the programs of price administration, and alone it would have been devoid of any influence. Parity depends heavily upon the influence of other programs. These are to be discussed below.

\checkmark Restricted production was one of the major policies under this experiment. The Secretary of Agriculture was to effectuate the declared policy by providing for the "reduction in the acreage or reduction in the production for the market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith or upon that part of the production of any basic agricultural commodity required for domestic consumption, in such amounts as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments."\textsuperscript{20}

To make this financially possible, the Government compensated the producer according to the amount of acreage taken out of production. Restricted production was invoked against commodities in over-supply and when the producer followed the declared policy he was entitled to receive benefit payments. This form of subsidy was a new factor in price administration because it was a form of administered income

\textsuperscript{19}Edwin Nourse, \textit{Three Years of the AAA}, p. 35.

\textsuperscript{20}Lewis, \textit{op. cit.}, p. 23.
to the producers. This cash income provided two other benefits: it restricted the supply of over-supplied commodities and pumped cash into agricultural regions that were exceptionally hard hit by price declines. The administration of production was an experiment and did not adequately reduce surpluses. The reason for this can be attributed to the limited powers of the law. The producer could receive compensation for restricting his present particular crop output, but the law left him with the alternative of producing another cash crop if he so desired. This failure was rectified under the later experiment of 1936.

With limited restriction of production, the operations of loans and storage had a chance of being effective. This action was carried through under the Commodity Credit Corporation, created under the 1933 experiment. The CCC was the logical outcome of the Federal Farm Board and pursued a similar policy. Price administration was based upon loans. When a low market price prevailed, the producer could store the commodity with the CCC and receive a loan. This loan was cash income to the producer and also prevented the commodity from entering the market. Depending upon our knowledge of the scarcity system and how it operates, the logical conclusion is that the smaller the amount of the commodity that enters the market, the higher the price of the supply already in the process of exchange. This is particularly true in regard to agricultural commodities. Loans prevented
a supply of a designated commodity from becoming a surplus on the market by pursuing the preceding operations. For further discussion upon price activities and loans of the CCC, see Chapter III.

As a result of the CCC action through loans and storage operations, the stabilization of the supply entering the market could be achieved with some degree of success. Stabilization of the supply was done upon the basis of orderly marketing for agricultural commodities by subjecting them to quotas. Marketing quotas were inaugurated by marketing agreements. Under this experiment of 1933, the Secretary of Agriculture had the authority: "To enter into marketing agreements with processors, associations of producers, and others engaged in the handling . . . of any agricultural commodity or product thereof, after due notice and opportunity for hearing to interested parties." The marketing agreements that were made by the Secretary of Agriculture "shall not be held to be in violation of any of the antitrust laws of the United States." Because of the opposition toward the restraints and control exercised under this proviso, orders were substituted for marketing agreements under later amendments to the AAA of 1933.

The concept of "orders" was created under the Potato Act of 1935. When the "interested parties" were concerned

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21 Duddy and Revzan, op. cit., p. 597.

22 Lewis, op. cit., p. 25.
over the plight of a particular price of a commodity, a hearing was held to determine if orderly marketing was needed. If the evidence introduced at the hearing warranted it, an "order" was issued by the Secretary of Agriculture. Orders were more in the nature of gentlemen's agreements which were substituted for the rigid obligations of marketing agreements.

To facilitate this discussion, below is a description of how four basic agricultural commodities were administered under these experimental measures.

The wheat program was announced as the first commodity to be subject to a marketing agreement. The 1933 experiment offered to wheat growers three years of allotment benefits to induce them to sign an agreement. These allotments were something like thirty cents a bushel. To secure this guarantee, the individual producer had to sign a contract to curtail his acreage. In 1933, the Department of Agriculture also made code agreements with the grain exchanges to administer prices. This experiment with wheat was abandoned in 1935. The AAA was declared unconstitutional and marketing agreements were not resorted to again until 1937 under Agricultural Marketing Act.

1933 was a year of abundant yields in corn and hogs. The grower committees suggested to Henry Wallace that the

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23 Ibid., p. 36.  
24 Nourse, op. cit., pp. 93-95.
Department of Agriculture sanction the slaughter of surplus hogs. The object of this policy was to reduce hog production and "furnish immediate additions to hog producers' income." The surplus hogs were slaughtered and sold to the Federal Surplus Relief Corporation to be distributed for relief purposes. The remainder went to the market. In the case of corn, "the CCC made loans." This measure was "designed to facilitate a prompt flow of cash into the corn belt, to enable corn growers to hold their corn for an anticipated advance in prices."\(^2\)

A restricted program was also needed in the field of dairy products. The magnitude and complexity of this problem and the opposition of the dairy interests caused the 1933 plans to be abandoned. The movement was revived again in 1935 in response to the "insistent demands of the fluid milk producers and distributors." The application of regional marketing agreements sought to "regularize the marketing of fluid milk in the territories covered and to eliminate 'unfair' trade practices." This first attempt at price administration in milk attempted to set retail prices, but this became impossible and was abandoned. The two most important factors that this price administration depended upon were "surplus removal" purchases and a two-price system of different grades of milk.\(^3\)

\(^2\)Ibid., pp. 102-104. \(^3\)Ibid., p. 196.
To this point, we have been dealing with price administration experiments concerning commodity prices which attempted to guarantee parity. The next discussions are centered around other governmental measures that provided income and security to indebted producers.

Money costs money; that is to say, money breeds more money in the form of interest. The acute position of the producers during the depression found many of them in debt. To provide financial aid for agricultural debt, the Farm Credit Administration was to function under the 1933 experiment. This agency operated with federal funds to finance the producers at a lower interest cost than would be possible under privately administered interest rates. In 1933, these low interest rates were "in effect, a mixture of credit and relief."27 The provisions for a low interest rate to producers is, in effect, lowering the cost of money. When the cost of money is lowered, the producer is in a better position to borrow funds. Administering the rate of interest means an administered price upon money.

The Reconstruction Finance Corporation was established before the New Deal. This was another agency that entered into price administration for agriculture. Under the experiment of 1933, the RFC was "authorized and directed to advance money to make loans to the Secretary of Agriculture to acquire

27 *ibid.*, p. 906.
such cotton and to pay the classing, carrying and merchandising costs thereon, in such amounts and upon such terms as may be agreed upon . . . with such warehouse receipts as collateral security."28 This proviso was made to apply to only one agricultural commodity: cotton. For the price administration of other commodities that were subject to marketing agreements, the RFC was to facilitate the agreements by lending money to producers. The amount could not "be in excess of such amounts as may be authorized by the agreements."29

To provide a program of surplus removal for agricultural commodities in over-supply, the Federal Surplus Relief Corporation was created in October of 1935. This Corporation was organized for the purpose of being "a mechanism through which the surplus could reach the hungry."30 Indirectly, the action provided a method for higher market prices by reducing the over-supply of price-depressed agricultural commodities on the market.31 The reduction of over-supplied agricultural commodities operated along three principles. These are stated by Edwin Nourse:

(1) the diversion of a part of a given product into lower value uses . . .
(2) diversion to foreign markets through direct subsidies . . .
(3) domestic relief use (a novel way to withdraw the supply to some non-competitive outlet)."32

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28 Lewis, op. cit., pp. 21-22. 29 Ibid., p. 22.
30 Wallace, op. cit., p. 183. 31 Nourse, op. cit., p. 196.
32 Ibid., p. 206.
This agency was a definite and necessary part of agricultural price administration. Its two chief contributions were surplus removal operations and relief distribution.

The reason for price administration in agriculture under this experiment can best be seen by the disorganization that prevailed in production and prices when the government first embarked upon the New Deal. Henry Wallace said at this time, "The farm problem is peculiarly difficult because the people of the United States during the past twelve years [prior to 1933] have resolutely refused to face certain fundamentals." These fundamentals were disparities in production and prices in markets.

Disparity of production and prices in markets was combated by the New Deal. This action was effected by the following method: "Awarding premiums for acreage and crop reductions, financed by processing taxes, and through other agreements and methods for controlling production and by removing some of the surplus from the market for storage of the distribution among relief clients." In the place of disorganization, centralized public planning for agriculture grew up under this experiment. David C. Coyle says the New Deal proceeded "to organize the farmers so that they could control production in the same way that large scale

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industry was controlling production." The primary reasons price administration was applied in agriculture were the depression, the neglected price problem, and the problems created as an aftermath of neglect. This experiment was a step in the direction of public planning but opposition was such that the administration of prices was hampered.

Limitations of the 1933 Experiment

The restricted production provisions of the experiment provided loopholes for increased production. As described earlier, restriction of acreage applied to one crop, but left the producer the alternative of producing another cash crop. This plus the relaxing from time to time of the other programs caused disorganizations in prices and production throughout this experiment.

Opposition from some quarters was strongly against such radical public planning and the climax of this opposition was reached with the Supreme Court decision that declared the Agricultural Adjustment Act of 1933 unconstitutional. This left agricultural price administration with no legal basis. This situation did not last long because from "January 6, 1936, to November 4, 1936, they [the producers] quietly and solidly accepted the Soil Conservation and Domestic Allotment

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35n. C. Coyle, Uncommon Sense, p. 97.
The next experiment and the amendments thereof, as well as other price and income administration measures, are discussed in the following chapter.

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CHAPTER III

MORE EXPERIMENTATION

The 1936 Experiment (Soil Conservation and Domestic Allotment Act)

The experiments to be discussed here were enacted as a basis from which to administer an effective agricultural program. These experiments were an outgrowth of the failures of the AAA of 1933. The two experiments of 1929 and 1933 were primarily concerned with agricultural commodity prices and how to administer them effectively. Perhaps the most influential outcome of these two earlier experiments was the recognition of the relationship between government aid and producers' income. This relationship was more fully developed under the Soil Conservation and Domestic Allotment Act. The reason for this switch can be attributed only in part to the adverse decision handed down by the Supreme Court. If the government could not administer prices, then only one policy remained: to administer the incomes received by the producers. This was a problem just as complicated as price administration. Under the experiment of 1933 there was a small degree of administered incomes but nothing like the scale needed or the scale provided in later legislation. This legislation will be discussed below.
The Soil Conservation and Domestic Allotment Act was enacted February 29, 1936. Under this legislation, the government was to carry out the following policy: "promote the conservation and profitable use of agricultural land resources by temporary Federal aid to farmers and by providing for a permanent policy of Federal aid to states for such purposes." The Act declared that it was the policy of Congress to promote conservation, but the important policy of this experiment was to effectuate the "reestablishment . . . of the ratio between the purchasing power of the net income per person on farms and that of the income per persons not on farms." Purchasing power was still a goal but it was now sought through parity incomes rather than parity prices. This was the major difference between the 1936 and 1933 experiments.

The methods of providing parity income were carried out by "an elaborate system of payments . . . to induce farm operators to devote their energies to the production of certain crops." Certain crops" were defined in the Act as non-soil depleting crops. This action was aimed at curtailing the amount of acreage devoted to the production of cash crops, and therefore curtailing the supply of these commodities that entered the market. When this program was

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1 Lewis, op. cit., p. 152.  
2 Ibid., p. 152.  
3 Edwin Nourse, Government in Relation to Agriculture, p. 919.
first started, there was no immediate danger of surpluses due to the influence of widespread droughts. The producers were compensated by the system of domestic allotments determined by the amount of acreage devoted to producing soil building crops and the amount of acreage withdrawn from production of cash crops. This restriction of production was carried on under the name of "soil conservation." The Department of Agriculture prescribed the "acreage that must be put into soil conserving crops for a county as a whole, leaving it to the local [county] committee to decide what individual farmers must do to come within the county quota."  

This experiment could only directly administer two programs: soil conservation and direct Federal aid to provide parity incomes to producers. Indirectly, by the preceding action, restricted production would be of aid in raising market prices. For a temporary period this type of administration was possible, but by the end of 1936, Henry Wallace admitted a fatal flaw in this experiment. The flaw was the policy of only allowing the "cultivation of part of the farm area." This policy offered a high premium for the producers to promote "more intensive cultivation of the remainder" of the land area.  


6Ibid., p. 6.
In 1936, Secretary Wallace stated that "the present soil conservation program was inadequate to prevent the accumulation of excessive surpluses and that one year of normal weather might recreate the over-production of 1933." These were the limitations of this experiment that demanded more agricultural administration of prices, production, incomes, and surpluses. The limitations created the need of another experiment. To fill this need the Agricultural Marketing Act of 1937 was enacted.

The 1937 Experiment (Agricultural Marketing Act)

In December of 1936, Secretary of Agriculture Wallace stated, "Permanent agricultural policy should achieve soil conservation, consumer protection and crop control together." The Agricultural Marketing Act of 1937 embarked upon the trail of the marketing problem in agriculture. Under this experiment, marketing agreements and orders were reinstated to take their respective place in agricultural price administration. They have remained on reserve for some commodities and are still active for others up to the present (1951).

The provisions of this experiment were made to combat the depressed prices that result from the over-supply of a particular agricultural commodity or commodities on the

7Ibid., p. 6.

market. When the price of an agricultural commodity or commodities became depressed, the Secretary of Agriculture had the authority to "enter into marketing agreements with processors, associations of producers and others . . . after due notice and opportunity for hearing to interested parties." The control over the commodity or commodities was to be carried out by "limiting the total quantity of the commodity that may be marketed." This price administration program utilized marketing agreements in order to enhance prices. The Secretary of Agriculture was to issue an order if he had "reason to believe that the issuance . . . will tend to effectuate the declared policy." The declared policy was defined in the Act as the "orderly exchange of commodities in interstate commerce." This may have improved the workability of agricultural price administration, but it did not provide for an over-all program. The 1937 experiment was similar to the 1929 experiment with the exception that the former was backed by production control. Price administration involved three policies: soil conservation (restricted production), orderly marketing (marketing agreements and orders), and administered income (by government

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9E. A. Duddly and D. A. Revzan, Marketing, p. 597.  
10Ibid., p. 599.  
11Ibid., p. 599.  
payments). These three price administration policies were not abandoned but utilized with the 1938 experiment.

The 1938 Experiment (Agricultural Adjustment Act)

In 1938, amendments were added to the Soil Conservation and Domestic Allotment Act. These amendments were to be cited as the Agricultural Adjustment Act of 1938. On August 24, 1937, Congress expressed its views on the subject of a program for agriculture. A Joint Resolution was adopted by Congress. This was a preview of coming experimentation. This Joint Resolution is stated as follows:

Whereas the whole Nation suffers when agriculture is depressed; and Whereas the Nation has felt and still feels the unfavorable economic consequences of two different kinds of misfortune in agriculture; and Whereas the first of these misfortunes was the ruinous decline in farm prices from 1929 to 1932; and Whereas the second kind of misfortune was the drought of 1934 followed by the drought of 1936; and Whereas a permanent farm program should (a) provide not only for soil conservation but also for developing and improving the crop-adjustment methods of the Agricultural Adjustment Act, (b) protect agriculture and consumers against the consequences of drought, and (c) safeguard farmers against the consequences of farm-price decline.\(^{15}\)

One of the permanent farm policy principles was a declaration that the "farmers are entitled to their fair share of the national income."\(^{14}\) How to convey the farmer his fair share of the national income was a future problem and a past failure.

\(^{15}\) Lewis, op. cit., pp. 160-161.

\(^{14}\) Ibid., p. 160.
The experiment of 1938 declared it to be the policy of Congress to "continue the Soil Conservation and Domestic Allotment Act, as amended, for the purpose of conserving natural resources ... to assist in the marketing of agricultural commodities ... through storage of reserve supplies, loans, marketing quotas, assisting farmers to obtain, insofar as practical, parity income, and assisting consumers to obtain an adequate and steady supply of such commodities at fair prices."\(^{15}\)

Title I of this Act dealt with amendments to the Soil Conservation and Domestic Allotment Act. The basic program to be followed remained intact. Acreage allotments and government aid and grants were determined by the same method as in the original 1938 version. This method was based upon "payments and grants ... classified on two bases: (a) Soil-depleting crops and practices, (b) soil-building crops and practices."\(^{16}\) Acreage allotments were determined for the individual counties as a whole: the local growers' committees determined proportions for the individual producers. As cited above, this experiment was an administration of income measure designed to compensate the producers for reduction and restriction of production.

At this point, a word of explanation and introduction is offered concerning what is to follow. The remainder of

\(^{15}\)Tbid., pp. 162-163.  \(^{16}\)Tbid., p. 162.
this experiment will be dealt with immediately below. The discussions are based upon agricultural programs already in existence and a later experiment than the 1938 experiment.

With the sweeping experiment of 1933 an effort was made to attack all the problems of agriculture. One of these problems was railroad rates. They were declared to be unworkable administered prices as far as producers were concerned. No major steps were taken other than the use of freight rates as a partial basis of parity price. Railroad rates continued to be a price administration problem. In 1934, Henry Wallace described how producers had always had "personal devils" and the railroads were high on their list. He also noticed that agricultural prices fluctuated violently during the depression while railroad rates remained fairly stable. 17 This state of affairs was overlooked for many years, but the 1938 experiment made definite provisions to grapple with the problem. The Secretary of Agriculture was authorized to: "make complaint to the Interstate Commerce Commission with respect to rates, charges, tariffs, and practices relating to the transportation of farm products, and to prosecute the same before the Commission." 18 This provision places the question of workable price administration before two groups. The one with the

17 Wallace, op. cit., p. 49.
18 Lewis, op. cit., p. 168.
most bargaining power can determine what prices will prevail or possibly a compromise price will be arrived at. The Commission has two duties in regard to rate administration. One, mediate the decision of the two parties, acting in the capacity of mediator. Two, promote as workable a price as possible between agriculture and the railroads.

As a result of the 1933 experiment, the goals of parity price and income were restated. Parity price for any agricultural commodity was to be "that price for the commodity which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodities in the base period . . . which will . . . reflect current interest payments per acre on farm indebtedness . . ."¹⁹ Parity income, by far the most important, "shall be that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August, 1909, to July, 1914."²⁰ These concepts were to be made possible by the following operations of administering agricultural prices and incomes.

The CCC was authorized under this experiment of 1933 to "make loans on agricultural commodities (including dairy products)." The loans as applied to cotton during any

¹⁹_Ibid., p. 170._  
²⁰_Ibid., p. 170._
marketing year were to be made on a rate basis of "not less
than 52 per centum and not more than 75 per centum of the
parity price of cotton as of the beginning of the marketing
year."21 In the case of wheat loans, the rate was to be
the same as applied to cotton.22 For loans on corn during
any marketing year—if the price of corn is below 75 per
centum of the parity price—loans could be made depending
upon the consumption and export situation and the varying
conditions of the parity price principle.

If the above provisions of price administration did
not provide for the declared policy, the Secretary of Agri-
culture was authorized to make parity payments to producers
when the commodity price was below its parity price. Pay-
ments were to "be apportioned to these commodities in pro-
portion to the amount by which each fails to reach the
parity income." The parity payments were to be "in addition
to and not in substitution for any other payments."23

The 1938 experiment also provided for marketing quotas
to be applied to any agricultural commodity in over-supply.
For any agricultural commodity in excessive supply "on the
15th day of any calendar year," the Secretary of Agriculture
"shall proclaim the amount of such total supply" and deter-
mine a marketing quota for the year following on a date

21Ibid., p. 175. 22Ibid., p. 175.
23Ibid., p. 177.
"not later than the 1st day of December." A national marketing quota was determined, and the local county growers committees determined the amount the individual producers could market.\textsuperscript{24} Acreage allotments were determined by the same method with both marketing quotas and acreage allotments being determined upon past production and marketing record.

The above discussions show how parity prices and incomes were related to each other by government policies. Each of the preceding policies has a vital role to play in the adjustment of producers' income. Let us now proceed to examine crop insurance, another administered income experiment.

Title V of the 1933 experiment was the Federal Crop Insurance Act. The purpose of this Act was expressed as follows: "to promote the national welfare by alleviating the economic distress caused by ... crop failures due to drought and other causes, by maintaining the purchasing power of farmers, and by providing stable supplies."\textsuperscript{25} A Federal corporation located in the District of Columbia was created to carry out this above policy. This program was created in response to the demand of the wheat growers. When first advanced, the program covered only wheat. However, with development, it now covers other agricultural

\textsuperscript{24}Ibid., pp. 178-181. \textsuperscript{25}Ibid., p. 207.
commodities. At the present (1951), it is an "all risk" type of insurance that covers the agricultural crop and the producers' capital equipment. The present policy of crop insurance is geared to "minimize the effect of year-to-year fluctuations in weather upon the individuals farmers income."26 This is carried through by guaranteeing "the farmer an amount per acre that is approximately equal to his cash expenses."27 Crop insurance may not provide as high a desired purchasing power during lean years as wanted, but it will provide income of a defined level.

In 1938, Secretary of Agriculture Henry Wallace, announced that consideration was being given to a two-price surplus removal program for agricultural commodities. This was to be a domestic surplus removal that would provide better diets for the lower income groups. This program materialized in 1939 under the Agricultural Marketing Administration. This agency was to carry on direct and indirect domestic surplus removal by the following methods of operations.

Direct surplus removal was to include the establishment of school lunches and provide for relief distribution by buying regional surpluses and making arrangements to have


this surplus processed and packed and transported to state welfare agencies for distribution.

Indirect surplus removal was to work under a food stamp program. Orange and blue food stamps were to be the medium of exchange. The orange stamps were for sale to any family eligible to participate in the program and blue stamps were given free with the purchase of the former. The orange stamps could be used to purchase goods from retail stores, but the blue stamps could be exchanged only for surplus agricultural commodities. The program was successful as far as its operations were concerned, and it has been estimated in communities where the plan was in action that "about 75 per cent. of those eligible participated."23

This concludes the discussion of agricultural price administration up until approximately 1940. With the exception of the last program, all the policies discussed to date have remained in active service or on reserve subject to immediate utilization. These experiments were all determining influences upon the administration of prices and incomes.

The next series of experiments represent a major change in programs and goals. We proceed at this point to examine these next experiments in the light of prosperity. This is a major difference between these next experiments and the earlier programs.

CHAPTER IV

PRICE ADMINISTRATION DURING WORLD WAR II

Economic Conditions

From 1941 to the present, experimentation of another sort went forward at a fast clip. Prosperity and the second World War were related factors in promoting higher prices for agricultural and non-agricultural commodities. This period saw the beginning of a changing agriculture, and price administration was definitely a necessity. War and inflation created the need of an experiment that would assure the producers a high price (and income) and, at the same time, directly encourage production.

The agricultural producers had not seen this type of economy since the first World War. The economy was becoming one in which maximum production and minimum restrictions were prevalent. Surplus removal was a minor problem since war is one of the greatest surplus removal projects possible.

War price administration in agriculture before 1942 was enforced under the National Defence Act of 1916. During the first World War, price administration was possible through floor prices. These support prices were applied only to a select few of the agricultural commodities. Floor prices were guaranteed prices at defined levels to encourage
production of certain commodities. This was the basic plan for the experiment which will be discussed below.

Part of the price administration experiment of this short period of four years was concerned primarily with agricultural prices and how to administer them effectively. The other programs of price administration were overshadowed by the immediate price goals. Public planning for agriculture was completely reversed; it became a problem of encouraging and directing production rather than directing the restriction of production. This shift also provided for the shift of parity prices and incomes to another policy; the policy of higher prices obtained by support prices.

Experimentation in agricultural price administration from this time to the present (1951) has been primarily concerned with how to maintain prices at the desired levels regardless of the changing economic order. In the following discussions of the experiments, this point should be kept in mind.

The CCC and Price Supports

The second World War had its immediate beginning in 1939; the influence of this cultural situation is what was important to the economic activity of agriculture. The dominant influence was abnormal demand for agricultural and non-agricultural commodities. With this high demand, it was only a matter of time before prices rose accordingly.
As demand increased, inflationary prices were becoming an economic problem. How to combat this situation and still provide for agricultural purchasing power was a problem that demanded immediate attention in 1940.

Before any major legislation was enacted to provide price administration other than the National Defence Act of 1916, Congress passed an Act in 1941 to extend the life of and increase the credit resources of the CCC. Under this Act, price administration made an appearance on stage in the costume of support price. The policy was a preview of coming things and is stated as follows:

Whenever during the existing emergency the Secretary of Agriculture finds it necessary to encourage the expansion of production of any non-basic agricultural commodity, he shall make public announcement thereof and shall so use the funds made available . . . so as to support a price for the producers of any such commodity with respect to which such announcements was made of not less than 85 per centum of the parity or comparable price thereof.\(^1\)

The "comparable price" of an agricultural commodity was determined by the Secretary "for the purposes of this section, if the production or consumption of such commodity has so changed . . . since the base period."\(^2\) This was the start of increasing production to fit demand rather than restricting production. With increasing production, price supports were established under the preceding Act at 85 per cent. of the parity price for the agricultural commodity. This means

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\(^1\) Lewis, *op. cit.*, p. 260.
parity price was the desired price goal and support price was the minimum at which the government would allow the prices of agricultural commodities to drop. This is the basic policy since followed in price administration in agriculture.

The Experiment of 1942 (Emergency Price Control Act)

With the economy facing inflation, a policy was needed to check the trend of an unworkable price system. This check action and experimental proviso was enacted in 1942.

The purpose of the Price Control Act of 1942 was to "further the national defence and security by checking speculative and excessive price rises, price dislocations, and inflationary tendencies." The relationship between agricultural commodities and this Act is our concern here. This experiment provided a means for agricultural commodity prices to rise to a defined level before a ceiling was placed upon the price by the Office of Price Administration. The war created abnormal demand that absorbed the production of agricultural commodities at higher prices than usual. This demand, in effect, pushed prices upward above parity. With an outlook at inflationary prices, the experiment of 1942 was enacted to combat this upward swing in prices. The farmers were assured of a high purchasing power price by the following provisions:

\[\text{Ibid.}, \text{ p. 267.}\]
No maximum price shall be established or maintained for any agricultural commodity below the highest of any of the following prices:
(1) 110 per centum of the parity price;
(2) the market price prevailing on October 1, 1941; (3) the market price prevailing on December 15, 1941; or (4) the average price of such commodity during the period July 1, 1919, to June 30, 1929.4

Agricultural commodity prices were administered by supporting them at 110 per centum of parity based upon three choices of years as a basis for this experiment. This allowed prices to rise to the desired level before they were to be subject to O.P.A. ceiling prices.

Further amendments were added to the Emergency Price Control Act in October of 1942. These amendments provided that no maximum price was to be established on any agricultural commodity below the highest of the following prices:

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) . . .
(2) The highest price received by such producers for such commodity between January 1, 1942, and September 15, 1942.5

The preceding price support experiments guaranteed prices to producers by revising the parity basis. At this time the government was purchasing "surpluses off the market . . . at liberal prices for relief distribution and lend-lease shipment."6 To provide this removal program, the CCC

4Ibid., p. 267. 5Ibid., p. 283.
6"The Old Parity Policy," Business Week, June 19, 1942, p. 68.
was authorized to operate until after hostilities had terminated. Loans were to be made to producers who did not disapprove marketing quotas at the beginning of any marketing year. Loans to cooperators were to be made "at the rate of 50 per centum of the parity price of the commodity as of the beginning of the marketing year." Non-cooperators were to receive loans at a lower rate of 60 per centum.

By 1943, "Washington officials . . . [were] worried over the possibility of excess planting and breeding in the years immediately after the war unless a broad program for control is worked out by the major surplus nations." Plans were made in 1943 at the Hot Springs Conference for an international surplus removal of agricultural commodities.

Results of These Experiments

The dominant theme of these inflationary control experiments was to maintain guaranteed prices to agriculture. Throughout these abnormal demand years, agricultural income was far from the depression low. In 1943, the record agricultural income was 20 billion and by 1944 it jumped to 22 billion. The major reason for these record income years can be attributed to governmental action; such action not only allowed agricultural commodity prices to rise but supported and maintained this rise. War production need not be concerned

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7Lewis, op cit., p. 234.

8"Towards a New Farm Policy," Business Week, November 27, 1943, p. 16.
with a surplus problem and this was true during World War II. Agriculture was called upon to produce, produce, produce. What the market could not absorb, the war removed.

At the end of the War, two conditions were present in agriculture: high prices and increased production. How to maintain the former and reduce the latter while maintaining farm income at a high level called for more public planning and experimentation. Both of these conditions influenced post-war agricultural price administration greatly.
CHAPTER V

PLANS AND PROPOSALS FOR POST-WAR AGRICULTURAL
PRICE ADMINISTRATION

Abolition of the C.P.A.

Post-war agricultural price administration required renewed concern with the problems of prices and production. Both were at all time highs. There was no serious attention given the idea of abandoning price supports. Price support was an experiment combined with previous experiments to effectuate the desired goal: parity between agricultural and non-agricultural prices, and income. Emphasis was placed upon price supports as the means to the solution of the agricultural income problem. Surpluses in the absence of war removal were the chief worry and threat to price administration. Surpluses and what they could do to price administration in agriculture were well learned lessons. By the beginnings of the transitional period in 1945, the New Republic was sounding the fear of all those concerned. "If present price supports are adhered to after the war, swamp[ing] surpluses of some commodities are bound to occur."¹

July 26, 1946, the 79th Congress enacted a law for the decontrol of agricultural and non-agricultural commodities.

Because of high consumer demand and income, taking the controls off prices was declared to be economically desirable. The object of Congress was to prevent inflation by promoting the necessary "attainment of production to equal the public demand." The Office of Price Administration and other governmental agencies were to use "their price, subsidy, and other powers to promote the earliest practicable balance between production and the demand thereof." This experiment was to decontrol all agricultural commodities by June 30, 1947, "and on that date the Office of Price Administration shall be abolished."

According to this decontrol experiment, prices of agricultural commodities were assured for a time, due to the large volume of consumer purchasing power. The market outlook was good. The surplus removal outlook was further encouraging. The United States had joined the Food and Agricultural Organization of the United Nations and the latter was engaged in international rehabilitation surplus removal operations.

Agricultural commodity prices were to be decontrolled by the following method. The Secretary of Agriculture upon the first of each month was authorized to determine each agricultural commodity in short supply ("An agricultural

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2 Lewis, op. cit., p. 312.  
3 Ibid., p. 312.  
4 Ibid., p. 312.
commodity shall be deemed to be in short supply unless the supply of such commodity equals or exceeds the requirements for such commodity for the current marketing season."") and no maximum price was to be applied to that commodity. The Price Decontrol Board had the power to determine if any agricultural commodity price was too high and if it should be subject to control. The Board also had the power to determine "whether any subsidy or any part thereof in effect prior to June 30, 1946, shall be reestablished in whole or in part." The experiment was successful in decontrolling prices and encouraging higher prices. When the O.P.A. was abolished, sufficient market demand and international surplus removal prevailed that agricultural prices and incomes were maintained. In fact, prices rose to new heights by 1943, and the producers' "income and wealth . . . were greater than ever before." Agriculture was seemingly a healthy and robust economic activity by the end of 1947.

From the preceding decontrol experiment, it appears that agricultural prices were administered because of abnormal consumer demand and international surplus removal. Prices were supported by the government. However, the European economy had revived to the point where agricultural exports were no longer needed in such large amounts. The

5Ibid., p. 314.

result was a threat of more surpluses. How to support prices and remove surpluses became the direct problem. To tackle this problem another experiment was tried.

The Agricultural Act of 1948 and the Hope-Aiken Amendments

The Agricultural Act of 1948 was enacted to support prices received by the producers "through any instrumentality or agency within or under the direction of the Department of Agriculture, by loans, purchases, or other operations."

This was to apply to producers of basic and non-basic commodities if the producers had not disapproved the marketing quotas for any commodity "for the marketing year beginning in the calendar year in which the crop is harvested." Co-operators were to have a price support of 90 per cent. of parity and non-cooperators a 60 per cent. support price.

In return for this guaranteed price, the "Secretary of Agriculture shall have the authority to require compliance with production goals and marketing regulations." This experiment was to become effective January 1, 1949, to provide as far as possible the stabilization of agricultural commodity prices. It assured the producers of a profitable year by supporting the prices at the desired levels.

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7Lewis, op. cit., p. 336.

This Act also included the Hope-Aiken amendments for providing flexible price supports for agricultural commodities. These amendments were to become effective January 1, 1950, to provide a long range plan for agricultural price supports. Parity prices were to be determined upon a different basis of years than the old parity basis. The method of this calculation is as follows.

The base price was to be determined by the Secretary of Agriculture and adjusted as of any date by dividing the "Ratio of the general level of prices received by farmers for agricultural commodities... during the period January, 1910, to December, 1914, inclusive," into the "average... prices received by farmers for such commodity... during each year of the ten-year period ending on the 31st day of December." With the adjusted base price, the parity price for any agricultural commodity upon any specific date "shall be determined by multiplying the adjusted base price of such commodity as of such date, by the parity index as of such date." The parity index was to be determined upon any date, as the ratio between "the general level of prices for articles and services that farmers buy," to the "General level of such prices, rates, and taxes during the period January, 1910, to December, 1914, inclusive."9

Under this experiment in price support, the CCC was to play an important role. The CCC was authorized to "support

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9Lewis, op. cit., p. 366.
prices to producers through loans, purchases, payments and other operations." The price to be supported was to be determined by the level of supply for each commodity in each marketing year. Marketing quotas were the basis from which to operate; if the supply of any agricultural commodity was in excess, provisions (loans, purchases, payments, etc.) were made to remedy this situation of oversupply. These provisions were depended upon to provide a flexible price support program.

1948 and 1949 were years of unrest over agricultural policy. The small farmers were dissatisfied with their small slice of the agricultural income. Urban consumers were opposed to the high agricultural commodity prices. What to do in this situation became a political issue. Secretary of Agriculture Brannan proposed a plan that would do right by the little farmer and at the same time promote lower agricultural commodity prices to urban consumers. The Hope-Aiken amendments were over-shadowed by the political proposal called the Brannan Plan.

The Brannan Plan

The Brannan plan was based upon the principle of price support just as other post-war experiments were. Secretary of Agriculture Charles F. Brannan said, "I am convinced

10Ibid., pp. 396-398.
that through a sound price support program we can get better production.\(^{11}\) Sound price support is here meant to effec-
tuate more consumption to offset the increased production
that would have been the result of abandoning the scarcity
program of agricultural production under previous plans.

The Brannon plan "would provide production payments,
that is, subsidies, to absorb the gap between what it cost
a farmer to produce a product and what the consumer can
afford to pay." This was to apply only to perishable agri-
cultural commodities. In the case of storable commodities,
"the Government buying programs would continue as a price
support device." These price support and income administers-
ing programs were to be made in "strict compliance with con-
servation practices, and with acreage-allotments, and mar-
keting quota plans."\(^{12}\) As a whole, the Brannon plan was to
do the following:

\begin{quote}
begin by trying to set up an "income support
standard" by which farmers will be assured an
income as favorable as during the last ten years
\ldots it then translates this into a "price sup-
port standard" for specific commodities \ldots .
In the case of basic storable commodities the
Brannon plan would carry on support as at the
present. In the case of perishables \ldots the
government would allow prices to find market
levels but would pay the farmer a subsidy making
up the difference between the market price and
the \ldots official price.\(^{13}\)
\end{quote}

\(^{11}\) John N. Popham, "Farm Income Held Key to Prosperity,"

\(^{12}\) Essa Faury, "Subsidies Replace Fairty to Farmer in

The most controversial feature of the plan was the "unit system" of production. This feature would limit the amount "which big commercial growers" could expect in Federal price support aid. At this time, it was estimated that some two per cent. of the agricultural producers were large growers and were producing 25 per cent. of the crops. "No more than 1800 units of production would have been allowed to a farm, and not any more than this number would be eligible for support."14 The unit provisions upon the amount produced would sharply curtail the operations of the large producers because of the cut that would occur in their support price aid. This plan was made in "the interest of preserving the family farm and rural community life." To be more direct, it would effectuate more aid to the small producers by curtailing the production of the larger producers.

This proposal would discard the rigid price supports and also the proposed flexible price supports that were to become effective January 1, 1950. Income, not price, was the object of this small producer policy. This goal would have been realized by direct Government subsidies to the small producers and through limiting the large producers' income to the same support level as the small producer received. This was to be done by determining the amount of

14ess Furman, op. cit., p. 18: "A unit was defined to be a set quantity. For example, 1 bushel of wheat equals 1 unit, or 1 bushel of corn equals 1 unit."
production the government would support and the price which would be maintained, regardless of the size of the farm.

Naturally the large producers opposed this plan to limit their production and income. Through their sounding board, the American Farm Bureau, they expressed themselves as follows:

We aggressively oppose the Brannan plan for the following reasons:
1. Government payments to farmers are not a desirable substitute for price supports or a satisfactory means of bringing income into agriculture. . . . Under the Brannan plan, the farmer's only hope for a fair income would depend upon Government handouts . . .
2. The cost of the program would be staggering . . .
3. . . . no good reason why the Government should pay part of the grocery bill of every citizen.
4. Per-unit price goals of the plan . . . are so high as to make for certainty of continuous and rigid controls over the production, marketing, processing and distribution of agricultural products.
5. The proposal to place a unit limitation on the amount of farm production eligible for price support would place a ceiling on opportunity in agriculture.
6. The plan discards the fair-exchange concept of parity. . . .

The Brannan plan was also thought by some to be opposed to the needs of the consumer. Merely administering lower prices would not assure that the commodity would leave the market. The consumer purchasing power would also be forced to drop to some lower degree. For example, many labor contracts make provisions for wages based upon the cost-of-living index (food prices are an important part of this). In a

situation where low agricultural commodity prices prevailed and lower wage rates were in force, the purchasing power of the consumer would remain in the same condition. It may be argued that agricultural commodity prices would not be sufficiently low enough for low consumer purchasing power to remove the amount of surpluses which would accumulate as a result of the abandonment of restricted production.

Because of immense opposition, the Brannan plan was never enacted into law. Whether it would have solved the problems of agricultural price administration will never be known. No one knows what the domestic and international consequences would have been if this plan had been adopted. However, one thing remains clear, this plan would have been a major experiment in post-war agricultural price administration.

Some experiment was needed to tackle the agricultural price and surplus problems at this time. The years 1948 and 1949 were years of "ever busting granary" and the producers were becoming worried over the insecure relationship between price supports and the large commodity production. The farm problem was becoming important reported U. S. News: "U. S. is unable to eat up, sell or give away all of the food being produced."16 At this time, the CCC was busily engaged in "buying up the Nation's over-abundance and storing it in

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grain elevators, underground caves, giant refrigerators, empty hangars and vacated warehouses."17

With a surplus problem and an outlook of low market prices, some type of experiment was needed to put price administration on a better basis. The Brannan plan was a political football and was discarded. The Hope-Aiken flexible price support provisions of the Agricultural Act of 1948 were modified. Instead of trying one of these plans, the Agricultural Act of 1949 was enacted "to stabilize prices of agricultural commodities." This Act was a political compromise measure between the two previous proposals.

The Agricultural Act of 1949

The Agricultural Act of 1949 was to become effective in 1950. This experiment provided for flexible price supports connected with the percentage of the supply of any agricultural commodity at the beginning of any marketing year. The maximum price support was to be 90 per cent. of the parity price and the minimum was to be 75 per cent. This price support of definite percents of parity was available through loans, purchases, or other operations by the Department of Agriculture "to producers who have not disapproved marketing quotas for such crop." This provision was also applicable to non-basic commodities. Both basic

and non-basic commodities were to be supported only if the producers complied "with acreage allotments, production goals and marketing practices (including marketing quotas . . .) . . ." This was a necessary requirement to the condition for eligibility for price support. Marketing quotas and acreage allotments were to be utilized in making price support possible. The CCC was also to play a major role through loan activities.18

In spite of all that price support was able to accomplish, agricultural price administration was becoming an important economic and political problem. Opposition was strongly against the government supporting agricultural commodity prices too high. Consumer purchasing power was not at an all time high as in the past.

Price support was a temporary solution to administering the desired prices. However, during this experiment, grappling with the problem was unavoidable. In June of 1950, another abnormal demand period for agricultural production had its beginnings. This situation overshadowed the 1949 Act. This second abnormal demand and how it affected agriculture will be discussed below.

CHAPTER VI

EFFECTS OF THE KOREAN WAR UPON PRICE ADMINISTRATION PLANS IN AGRICULTURE

Economic Conditions

In less than a decade agriculture has again been encouraged to expand production. As a result of this agricultural planning has again changed abruptly from scarcity to full production. The June, 1950, outbreak of hostilities has again created high demand for agricultural and non-agricultural production. Again the surplus removal problem is solved temporarily by the game of war. High prices and incomes are assured.

The great game has tended to overshadow the unworkability of support prices. The problem at this time becomes one of preventing inflationary prices rather than maintaining established prices. With this situation of increased production and surplus removal, agriculture fits into the administered economic order very well. The desired goal is public planning for an economy based upon war as the solution to economic problems and price administration in agriculture.
The Defense Production Act

A short time after the beginnings of the present conflict the Defense Production Act was enacted. The purpose of this Act is stated as an Act:

To establish a system of priorities and allocations for materials and facilities, authorize the requisitioning thereof, provide financial assistance for expansion to productive capacity and supply, provide for price and wage stabilization.¹

Agricultural prices were to be administered as during the second World War under the Emergency Price Control Act of 1942. This policy was restated upon newer bases as follows:

No ceiling shall be established or maintained for any agricultural commodity below the highest of the following prices: (i) The parity price for such commodity, as determined by the Secretary of Agriculture . . . (ii) the highest price received by producers during the period from May 24, 1950 to June 24, 1950 . . . (iii) in the case of any commodity for which the market was not active during the period, the average price received by producers during the most recent representative period (will be used).²

This policy of price administration allowed the market to raise prices of agricultural commodities to new heights. When an agricultural commodity reached a high price, it was then subject to outright control by establishing a desired price ceiling.

When the price ceilings were adopted, many of the agricultural commodities were below their parity prices.

¹Lewis, op. cit., p. 423. ²Ibid., p. 423.
By placing price ceiling mandatory to high price years, prices were allowed to rise well above older price goals. The "parity index," according to the Consumer Reports, is a maze of accumulated data upon prices. With this data in hand, the prices of agricultural commodities are determined by the following method: "considerable argument between the Department of Agriculture officials and the various groups interested in each product."\(^3\) The result of this type of price administration is "largely a measure of the bargaining of those directly interested in each product."\(^4\)

The limited control over price advances under this experiment does not provide the desired price administration needed by the economy. This Act allows higher wages to labor and higher prices to non-agricultural products. With these price factors entering into the concept of agricultural parity, agricultural commodity prices are connected to escalator price administration. That is to say, as non-agricultural product prices rise, agricultural commodity prices will also rise. This is due to the concept of parity. What the long run effect of the present price administration program will be is open to debate. It is almost certain that more experimentation will be necessary.

At this point we leave the discussion of agricultural price administration with the observation that agriculture

\(^3\)"The Freeze and the Thaw," Consumer Reports, April, 1950, p. 183.

\(^4\)Ibid. p. 183.
is still confused with no definite short run or long run price policy.
CHAPTER VII

SUMMARY AND CONCLUSIONS

By examination of the different experiments in agricultural price administration certain evolutionary changes can be seen.

The 1929 experiment was a limited attempt to combat the economic ills of agriculture. The prevailing thought of the time was that the depression would run its course and the "invisible hand" would restore economic prosperity to agriculture. After four years of the 1929 experiment, agriculture was still in a depressed way. This was due to the lack of a restriction of production program. With the political change over of 1932 came another experiment.

The Agricultural Adjustment Act of 1933 set out to right the situation by attacking several problems. The concept of parity price was written into law as a goal. Restricted production was adhered to but failed to render the desired results. To control the market situation, marketing agreements and orders were established. Surplus removal was directed two ways: domestic and international. Restricted production, surplus removal, marketing agreements and orders were all supposed to function together to provide for parity prices for agricultural commodities. However, one of these
price administration tools eroded the workability of the others. This tool was the restriction of production measure. There was too little restriction and too little control over what amounts of commodities were to be restricted. Nature helped by droughts and the CCC helped by storing, but there was still more supply than the market could absorb at the prices being sought. Because of the adverse decisions of the Supreme Court a new experiment had to be drawn up in 1935.

The 1936 experiment (Soil Conservation and Domestic Allotment Act) was a very limited program. It provided for increasingly restricted production and soil conservation by promoting parity income. This was a major shift in experimentation. Income was the goal of government aid. To this experiment, marketing agreements and orders were added in 1937. In 1938 other provisions were created that composed additional parts of agricultural price administration. Restricted production, surplus removal, marketing agreements and orders, and crop insurance were all directed toward providing parity incomes and prices. This complete utilization of all known basic price administration tools marks a new beginning. However, changes were coming. World War II ushered in another boom period for agriculture.

With the War came the solution of the surplus problem. The government directed production to increase it, not restrict it. To do this the experiment of 1942 (Emergency
Price Control Act) provided support prices and production payments for the producers. This major shift from the goal of parity prices to support prices caused many post-war agricultural problems. During the war, the demand was strong enough to raise prices and the O.P.A. could not legally control or administer a fixed price until agricultural commodity prices reached high levels.

Post-war agricultural price administration faced many problems. The conversion from war to peace was a major problem that called for a vast amount of public planning. The administering of prices was carried out by support prices. In the case of many agricultural commodities price supports were higher than the commodity's parity price. The trouble came in maintaining these support prices. To administer prices by supports, the tools of price administration—restricted production, marketing agreements, CCC loans—were reestablished. Production was too high, methods for surplus removal were required. Support prices were strengthened under the two post-war experiments of 1948 and 1949. In spite of these experiments, there was still an abundant surplus. Support prices guaranteed prices and they encouraged production. To adjust this production to the market was the purpose of the proposed Brannan plan. This plan proposed that the surplus be utilized by the market by lower prices to the consumer. The large producers would be forced to cut their production because only a limited amount of farm commodities would be supported by the government.
The chaotic conditions of peacetime agriculture were overshadowed by the outbreak of hostilities in 1950. Again war was relied upon to solve the problem. The experiment to direct agricultural price administration in war has encouraged more production. This experiment is the Defense Production Act. War demand has been sufficiently high to raise agricultural commodity prices to inflationary levels but, no ceiling price may be applied to the commodity until it reaches the highest market price possible. This in itself encourages production.

With experimentation for two decades, no fixed solutions have been established. The economic situations change much too fast. The problems that agricultural price administration faced in the post-war are still present but are overshadowed. The problems vary with the economic situations. The economic situation at present is war.

Before the present conflict is over, there will be renewed concern over experimentation. With any small degree of normalcy, the prices of agricultural commodities will suffer a drop and therefore the agricultural income will drop also. To prevent too drastic a drop is the job of price administration. A gradual drop related to the condition of the economy will be necessary at times. This also is a job for administered prices.

Peacetime price administration will require an experiment that will help the little producer. However, the main
problem will be surpluses. Restriction of production during peaceful domestic situations will cause lower incomes. On the other hand, if unrestricted production is adhered to surpluses will lower prices and incomes. Some medium will have to be reached. This can only be done through experimentation.
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