

COTTON AND THE AAA

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COTTON AND THE AAA

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BY

HENRY I. RICHARDS

WASHINGTON, D.C.
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DIRECTOR'S PREFACE

This is the sixth and last of the commodity studies which constitute the second phase of our concurrent study of the Agricultural Adjustment Act. In drawing this phase of our study to a close, a word of explanation may be in order. We have endeavored to follow inductive methods of study, to approach the agricultural adjustment experiment without bias or preconceived opinions but with receptive attitude. Suspending judgment as to the merits of the plan, we have sought to acquire a thorough understanding of the objectives aimed at in the various phases of the adjustment undertaking, of the actual methods and procedures through which it was sought to attain these ends, of the way in which these devices and efforts have actually worked in practice, and of the reasons for the success or failure so far as available techniques of economic analysis make this possible.

Owing to the enormous complexity of the undertaking, it has been found necessary to departmentalize our study along commodity lines, each in charge of a man who has specialized in a particular field. These men have been accorded the fullest measure of academic freedom and the several volumes thus reflect not merely the individual differences between the several parts of the adjustment effort but also the different training, experience, line of interest, and craftsmanship of the individual authors. We have not sought to secure complete uniformity of view or consistency of analysis throughout the series. For this we must look to the final volume in the series.

Necessary as the commodity approach was, it inevitably led to a certain sense of incompleteness in each of

the separate volumes. In spite of the high degree of commercial specialization to be found in American agriculture, there is a very considerable degree of overlapping and intermingling of the various lines of production, and it is impossible to complete the analysis of the effects of the several programs even upon agriculture in terms merely of single commodities.

This situation is so marked in the case of corn and hogs that both commodities were treated under a single adjustment program and are covered by a single volume in our study, which includes also a general treatment of the cattle problem. However, corn and hog production is also much involved in the problem of cotton production, dairy production, and the like. It would be desirable in some ways if we could round out this second level of our study with a synthetic analysis of the effect of the adjustment program on agriculture as a whole before proceeding to our final volume of appraisal of the broader effects of the adjustment effort on our economic life as a whole. Limitation of time and funds prevents any such undertaking in a really comprehensive way though we shall of course do something in this direction in our final volume. We can only hope that other students in the field may in the not too distant future undertake the task in more detailed fashion. If so, we trust that these six volumes prepared while the several efforts were in their initial stages may be of some assistance.

This volume has been prepared under the general supervision of John D. Black of Harvard University and Joseph S. Davis of the Food Research Institute, who have been associated with me in the conduct of the AAA study. Charles O. Hardy has also read and criticized the

DIRECTOR'S PREFACE

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manuscript as a representative of the regular staff of the Institute of Economics. While their criticisms and suggestions have been of great assistance, the author alone is responsible for the conclusions arrived at.

EDWIN G. NOURSE
Director

Institute of Economics
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The author makes grateful acknowledgment of the splendid co-operation given him by the Washington and field staffs of the Agricultural Adjustment Administration, particularly by members of the Division of Cotton and the Cotton Producers Pool, in the preparation of this volume. Its members discussed the program and its problems freely with the author and with resident observers of The Brookings Institution, and at all times the author has been given full access to any information available. Cully A. Cobb, Ivy W. Duggan, LeRoy A. Reynoldson, Thomas L. Gaston, Thomas L. Ayres, J. N. Lipscomb, Lawrence Myers, C. C. Farrington, James O. Lamkin, Alfred D. Stedman, Paul A. Porter, and other members of the AAA read all or parts of the manuscript and contributed many helpful suggestions.

Members of the Bureau of Agricultural Economics, particularly Maurice R. Cooper, have also been of great assistance. Mr. W. L. Clayton, of Anderson, Clayton and Company, has read and commented on certain parts of the manuscript. For the book in its present form, however, including all errors and omissions, the author must assume full responsibility.

HENRY I. RICHARDS

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CHAPTER I

LEGISLATIVE FOUNDATION OF THE COTTON PROGRAM

The first comprehensive legislative move toward a "planned agricultural economy" by direct governmental means was consummated on May 12, 1933, when the Agricultural Adjustment Act was approved.¹ In the past, Congress had been content with stimulating or retarding our agricultural development by subsidies, bounties, liberal homestead laws, appropriations for agricultural research, education and extension work, high tariffs, credit measures, and other indirect legislation. Such measures probably affected our agricultural development a great deal, but none of them attempted even for an economic emergency (and there have been such emergencies in the past) to place the control of agricultural production in the hands of a central governmental agency such as was provided by the Agricultural Adjustment Act. This striking departure was frankly admitted by the Administration. President Roosevelt, in recommending the bill to Congress, stated:

Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good

¹ 48 Stat. L. 31. For a complete record of the original act and its amendments, see *Compilation of Agricultural Adjustment Act as Amended and Acts Relating Thereto*, AAA, June 29, 1934; see also the same, Aug. 27, 1935. The important benefit payment and processing tax provisions of the act as of Aug. 24, 1935 are given in Appendix A of this book.

For a history of the development of the Agricultural Adjustment Act and a fuller analysis of the legislative powers granted under it, see J. S. Davis, *Wheat and the AAA*, Chap. II; H. B. Rowe, *Tobacco under the AAA*, Chap I; E. G. Nourse, *Marketing Agreements under the AAA*, Chap. I.

results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture. If a fair administrative trial of it is made and it does not produce the hoped for results, I shall be the first to acknowledge it and advise you.²

After two and a half years of operation, however, the experiment was checked abruptly, not because of having failed to "produce the hoped for results" but because its major feature, that of production control, was declared unconstitutional by the United States Supreme Court in a decision rendered on January 6, 1936. New legislation has been enacted to provide a substitute in the form of a soil conservation program, but its effects upon cotton production cannot be predicted at this time. Regardless of the legal outcome of the early experiment, however, there remain important questions as to its economic results. Were the methods used effective in controlling cotton production? Did such control increase or give promise of increasing the income of cotton farmers? What were its other significant effects? To arrive at answers to these questions a careful study of the operations under the cotton program is essential.

Having declared the existence of an emergency "in part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities," the Agricultural Adjustment Act by Section 2 (1) declared the policy of Congress to be:

To establish and maintain such balance between the production and consumption of agricultural commodities and such marketing conditions therefor, as will re-establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles farmers buy, equiva-

² *Cong. Record*, Mar. 16, 1933, p. 488.

lent to the purchasing power of agricultural commodities in the base period.³ The base period in the case of all agricultural commodities, except tobacco, shall be the pre-war period, August 1909 to July 1914. . . .

In order to effectuate this policy, the Secretary of Agriculture was given a wide variety of powers by the original act, amendments thereto, and supplementary acts. Section 8(1) of the original act gave the Secretary power,

To provide for reduction in the acreage or reduction in the production for market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith or upon that part of the production of any basic agricultural commodity required for domestic consumption, in such amounts as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments. . . .

Since cotton was declared a basic crop,⁴ the Secretary of Agriculture was thus given a large measure of control over its production by the unique method of offering rental or benefit payments to individual cotton growers who agreed to reduce their acreage or production of cotton by a specified amount. Amendments of August 24, 1935 authorized the Secretary to make rental or benefit payments to producers "for such adjustment in the acreage or in the production for market, or both, of any basic agricultural commodity as he finds . . . will tend to effectuate the declared policy of this title,"⁵

³ By amendment of Aug. 24, 1935, taxes and interest payments on farm real estate indebtedness were to be considered in determining "equivalent" purchasing power.

⁴ Besides cotton, the list of "basic" commodities named in the original act included wheat, corn, hogs, rice, tobacco, and dairy products. The amendments of 1934 and 1935 added sugar beets and sugar cane, cattle, grain sorghums, rye, flax, barley, peanuts, and potatoes.

⁵ Sec. 8(2) (a). See Appendix A, p. 341.

thus allowing him to use benefit payments for increasing, as well as decreasing, production.

A special method for making benefit payments applying only to cotton was also authorized by Part 1 of Title I (Cotton Option Contract) of the original act and amendments thereto in the National Industrial Recovery Act of June 1933. The original act directed the various governmental agencies (not including the Federal Intermediate Credit Banks) to acquire title to all cotton held as security for loans or advances and transfer it together with that already owned by them to the Secretary of Agriculture "at such prices as may be agreed upon, not in excess of the market price." The amendments authorized the Secretary of Agriculture in turn to sell such cotton to cotton producers in such amounts and upon such terms as he deemed advisable in combination with rental or benefit payments.⁶

Money to finance a program of control by voluntary agreements with producers was to be obtained primarily from "processing taxes" on cotton. The Agricultural Ad-

⁶ Sec. 221 of the National Industrial Recovery Act, amending Sec. 6 of the Agricultural Adjustment Act. The method of procedure specified in the earlier act for disposing of cotton acquired by the Secretary under this act was not well co-ordinated with other parts of the act. For instance, Secs. 6 and 7 of Part 1 (Cotton Option Contract) provided for the sale of this cotton to growers who agreed to reduce their production of cotton in 1933 below their production in 1932, by not less than 30 per cent, "at the average price paid by the Secretary for the cotton procured under Sec. 3." Each grower could buy only an amount "equivalent to the amount of his agreed reduction," and in no event was the producer "to be held responsible or liable for financial loss incurred in the holding of such cotton or on account of the carrying charges thereon."

Similar arrangements were authorized for 1934. It was specified, however, that all cotton held by the Secretary must be disposed of by Mar. 1, 1936. Only the cotton not needed to comply with these provisions could be used in combination with benefit payments under the Agricultural Adjustment Act.

justment Act authorized the Secretary of Agriculture to levy such taxes in accordance with the following process:

Sec. 9(a) To obtain revenue for extraordinary expenses incurred by reason of the national economic emergency, there shall be levied processing taxes as hereinafter provided. When the Secretary of Agriculture determines that rental or benefit payments are to be made with respect to any basic agricultural commodity, he shall proclaim such determination, and a processing tax shall be in effect with respect to such commodity from the beginning of the marketing year therefor next following the date of such proclamation. The processing tax shall be levied, assessed and collected upon the first domestic processing of the commodity, whether of domestic production or imported, and shall be paid by the processor. The rate of tax shall conform to the requirements of subsection (b). Such rate shall be determined by the Secretary of Agriculture as of the date the tax first takes effect, and the rate so determined shall, at such intervals as the Secretary finds necessary to effectuate the declared policy, be adjusted by him to conform to such requirements. . . .⁷

Sec.9(b) The processing tax shall be at such rate as equals the difference between the current average farm price for the commodity and the fair exchange value of the commodity. . . .

Sec. 9(c) For the purposes of Part 2 of this title, the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power with respect to articles farmers buy as such commodity had during the base period [August 1909 to July 1914 for cotton]. . . .

Amendments to the act approved in August 1935, however, added the requirement that the fair exchange value reflect changes in interest and tax payments per acre since 1909-14.⁸

In addition the Agricultural Adjustment Act appropriated 100 million dollars "for administrative expenses

⁷ See Appendix A, p. 343, for amendments to this section.

⁸ See Appendix A, p. 348, for the exact wording of amendments to Sec. 9(c).

. . . and for rental and benefit payments made with respect to reduction in acreage or reduction in production for market." The National Industrial Recovery Act of June 16, 1933 (Sec. 221) authorized the President to allocate "not in excess of 100 million dollars as he may determine to be necessary for expenditures in carrying out the Agricultural Adjustment Act" and for other purposes. However, no specific amount of these funds was allocated to the control of cotton production.

The powers thus conferred upon the Secretary of Agriculture to control production were limited to the use of voluntary methods. On April 21, 1934, however, the President approved the Bankhead Cotton Control bill (H. R. 8402) providing for semi-compulsory restriction of cotton production through the use of the federal taxing power. It provided for a large tax levy on the ginning of cotton in excess of specified quotas or allotments to individual producers in 1934-35. Provision was also made for its continuance during 1935-36 under specified conditions, and the amendments approved August 24, 1935 sought to extend the life of this act to include the crop years 1936-37 and 1937-38.

Besides offering to recompense farmers for adjusting their production of cotton, the Agricultural Adjustment Act provided that money collected from taxes levied on the processing of any basic agricultural commodity might be used to pay a bounty or subsidy on exports of that commodity. Section 12(b) stated that:

In addition to the foregoing, the proceeds derived from all taxes imposed under this title are hereby appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products. . . .

This is the old McNary-Haugen plan^o dressed up in

^o Passed by Congress in 1927 and again in 1928 but vetoed by President Coolidge.

new clothes. The essential idea of that plan was that "the surplus above domestic consumption was to be sold in the export market at world prices, and the losses recouped by 'a differential loan assessment on each pound or bushel when and as sold by the farmers.'"¹⁰ In the Adjustment Act the loan assessment has been replaced by a processing tax.

The use of the McNary-Haugen plan by itself, however, was not authorized by the original act, since the only provision made for levying processing taxes was "where the Secretary of Agriculture determines that rental or benefit payments are to be made with respect to any basic agricultural commodity" in connection with reduction in acreage or reduction in production for market or both. This plan could, therefore, be used only as a supplement to production control. Amendments to the Adjustment Act approved August 24, 1935, however, definitely authorized the Secretary of Agriculture to levy processing taxes and pay bounties on exports of cotton independently of production control.

These amendments also appropriated 30 per cent of the gross receipts from customs duties for use by the Secretary of Agriculture to pay cash benefits or bounties on exports of agricultural commodities and products and for other purposes. They could not, however, be used for the payment of benefits in connection with the exportation of unmanufactured cotton. The payment of export bounties from customs receipts was the essential feature of the Export Debenture plan.¹¹ Under the amendment

¹⁰ J. D. Black, *Agricultural Reform in the United States*, 1929, p. 233.

¹¹ "The essential principle of this plan is the paying of a bounty on exports of farm products in the form of negotiable instruments, called 'debentures' which can be used by importers in paying customs duties." (Black, *Agricultural Reform in the United States*, p. 255.) This plan had been sponsored particularly by the National Grange as an alternative

the government was merely to pay bounties in cash rather than in "debentures" which could probably be sold at their full face value only as long as import duties exceeded the volume of "debentures."

It has also been maintained by some people that Section 8 (1) of the original act authorized the Secretary to make benefit payments to producers in proportion to their production during some past period without requiring them to reduce or adjust their production—in other words, the original Domestic Allotment plan.¹² There is reason to believe that those favoring the use of this plan supported the act because they thought it authorized the Secretary to adopt their plan. Nevertheless, the Legal Division of the AAA maintained that the making of rental or benefit payments without any restrictions on production would not aid in carrying out the declared policy of Congress in passing the act "to establish and maintain such balance between the production and consumption of agricultural commodities . . . as will re-establish prices to farmers" at parity levels.

The Domestic Allotment plan, however, was definitely authorized by the 1935 amendments to the act. Under these amendments, processing taxes could be levied and payments made without requiring producers to reduce or adjust their acreage or production of cotton. No agreements or contracts with producers were required. The amendments simply stated that payments might be made "in connection with the production of

to the McNary-Haugen plan. It was embodied in several bills introduced in Congress but was never passed.

¹² A distinction is made here between the original Domestic Allotment plan and the production control plan authorized by the Agricultural Adjustment Act. Both are sometimes called by the same name. The essential difference between them is that one provides for production control, and may appropriately be called by that name, while the other does not. Benefit payments are a feature of both plans.

that part of any basic agricultural commodity which is required for domestic consumption."¹³

Reviewing the several powers conferred in the Agricultural Adjustment Act, it appears that the Secretary of Agriculture was given practically blanket authority to adopt the significant features of any one or all of the major lines of farm relief urged upon Congress since 1920.¹⁴ Although controlled reduction in agricultural production through voluntary agreements with producers was the main line of attack authorized by the original act, during practically all of the period under study in this book it could have been supplemented by the McNary-Haugen plan and other devices advocated by many people in the South and elsewhere and authorized by amendments to the act.

In order to evaluate from an economic standpoint the success or failure of this experiment in the planning and control of cotton production and marketing, it is necessary to understand the situation of cotton farmers and others in the South when the Agricultural Adjustment Act was passed, the cotton program that was formulated, how this program was administered, and the results attributable to it. We shall then be in a position to consider the economic results that could have been expected from the continuation of a cotton control program along the lines authorized by the Agricultural Adjustment Act and the Bankhead Act.

¹³ Sec. 8(3) (c) as amended. See Appendix A, p. 342.

¹⁴ Besides the features mentioned, the Agricultural Adjustment Act included provisions for marketing agreements and licenses. Since no application of these marketing adjustment features has been made to cotton, they are not discussed in this book.

CHAPTER II

THE COTTON SITUATION IN THE SPRING OF 1933

As a first step in our analysis of the cotton experiment we shall consider the conditions which prevailed in the Cotton Belt at the time the Agricultural Adjustment Act was passed. By so doing the reader will be in a better position to judge of the efficacy and wisdom of the program as planned and carried out.

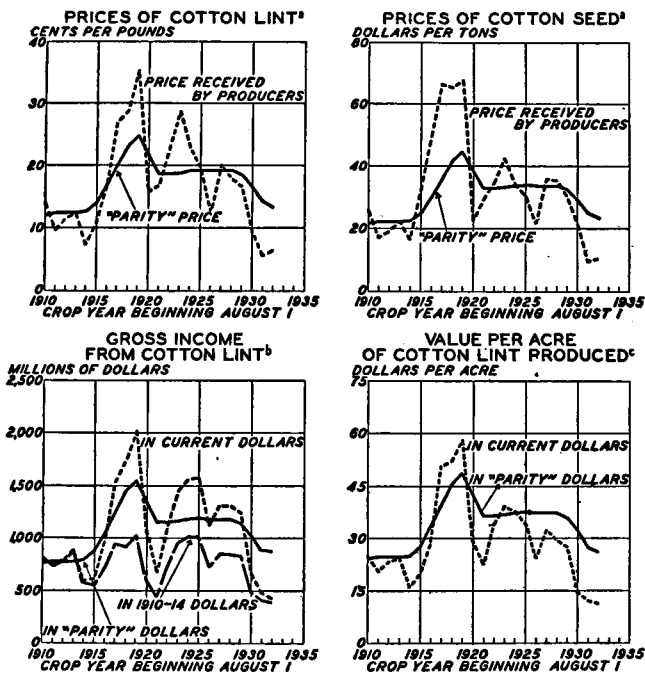
INCOME AND PRICE SITUATION

Cotton farmers were in desperate financial straits in the spring of 1933. Most well-informed persons, even those who were antagonistic to the pending cotton program, admitted that something was wrong; but the circumstances did not point clearly to the source of the trouble. Some analysis of the underlying factors affecting the situation of cotton farmers is therefore needed as a basis for intelligent consideration of the cotton program.

In the first place it should be noted that cotton farmers had received "parity"¹ prices, as defined in the Agricultural Adjustment Act, for their cotton and cottonseed during most of the post-war period until 1930. Cotton prices were on a considerably higher level during this period than were the prices of most other farm products. It was not until 1930 that farm prices of lint cotton and cottonseed dropped materially below the "parity" level for more than one year, as shown by the chart on page 11. Nevertheless, average farm prices received for the

¹ Called "fair exchange value" in the act. See p. 2.

COMPARISON OF ACTUAL AND "PARITY" PRICES AND VALUES, 1910-32



^a Data on prices received by producers for lint and cottonseed from *Crops and Markets*, December 1934, p. 515. "Parity" price computed by multiplying average price received, 1910-14, by the index of prices paid by farmers.

^b Income in current dollars charted from data furnished by Bureau of Agricultural Economics, U. S. Dept. of Agriculture. Income in 1910-14 dollars computed by dividing current dollar income by the Bureau of Agricultural Economics index of prices paid by farmers. Income in "parity" dollars computed by multiplying the average income in current dollars during 1910-14 by the index of prices paid by farmers.

^c Value per acre in current dollars computed by multiplying average per acre yields, as given in *Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1935, p. 459, by weighted average annual prices received by producers, as given in *Crops and Markets*, U. S. Dept. of Agriculture, December 1934, p. 515.

Value per acre in "parity" dollars computed by multiplying average value per acre in current dollars during 1910-14 by the index of prices paid by farmers.

1931 and 1932 cotton crops were further below "parity" than was the average of all farm prices.

These relatively high prices for cotton, however, are somewhat deceptive. Post-war yields of cotton had been below pre-war levels due to the boll weevil and to growing cotton in drier areas, and the average value of lint cotton per acre harvested had also been considerably below what may be called the "parity value."² This is shown by the chart on page 11. The annual value of cotton produced from 1921 to 1930, however, corresponded quite closely to the "parity value."

In the spring of 1933 it was estimated that the 1932 crop of cotton and cottonseed would bring only 465 million dollars, as compared with 1,389 million dollars received for the 1929 crop, and an average annual value of 1,504 million dollars for cotton produced from 1924 to 1929 inclusive. Besides, the 1930 crop had brought only 751 million dollars, and the large 1931 crop only 528 millions.³ While the decline in income from cotton was not as great in terms of the prices of things farmers buy as in terms of dollars (see the chart on page 11), it was nevertheless severe. These three years of exceedingly low incomes from cotton, the main cash crop of the South, had severely taxed the financial stability of cotton farmers.

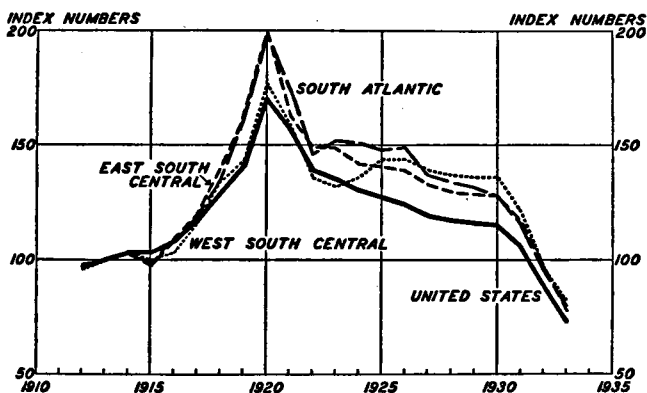
Farm income from other sources in the South declined

² "Parity value" as used here represents the average value of lint cotton per acre harvested, or the average annual value of lint cotton produced during 1910-14, times the corresponding average annual index numbers of retail prices paid by farmers throughout the United States for commodities used in living and production. The national index is presumably in some degree inaccurate and misleading as applied to the Cotton Belt, but corresponding regional indexes have not been computed. For a further discussion of "parity value" as well as "parity price," see pp. 334-335.

³ *Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1935, p. 672.

after 1929 almost as much as that from cotton. The estimated total cash income from farm production of all farmers in the ten major cotton states in 1932 was only 929 million dollars, as compared with 2,418 million in 1929. Comparable figures for 1930 and 1931 are 1,586

LAND VALUES IN THE UNITED STATES, 1912-33^a
(Average value per acre, 1912-14, = 100)



^a Data from "The Farm Real Estate Situation, 1933-34," U. S. Dept. of Agriculture Circular No. 36, p. 8; *Crops and Markets*, U. S. Dept. of Agriculture, May 1935, p. 181.

and 1,167 million dollars respectively.⁴ Taxes and interest charges declined much more slowly than income. For the country as a whole they declined only 10 to 20 per cent. In 1932 they constituted 24.5 per cent of the total cash income from farm production in the United States, as compared with only 12.7 per cent from 1927 to 1929 inclusive.

⁴ "Cash Income from Farm Production," *Crops and Markets*, U. S. Dept. of Agriculture.

This precipitous and prolonged drop in farm income shook the industrial and financial structure of the agricultural South. Land values, after declining steadily in the areas included in the Cotton Belt from the boom levels of 1920, dropped sharply from 1929 to 1933, as shown by the chart on page 13. The number of foreclosures on farm mortgages increased enormously, and bank failures on a wholesale scale accompanied the decline in farm income and land values. The income of merchants and others throughout the South declined along with that of farmers. The South was faced with a huge prospective carry-over of American cotton on August 1, 1933. Estimates placed this at 12.5 million bales—more than the average annual world consumption of American cotton during the previous three seasons. And during the first four months of 1933 farm prices of cotton were hanging around the 6-cent level.

THE DEMAND SITUATION

The drop in farm income from cotton after 1929 was only natural during a severe depression. Cotton goods last a fairly long time and purchases for personal use may be delayed for a considerable period in times of reduced incomes. Furthermore, about 40 per cent of the cotton consumed in the United States is used for industrial purposes, such as automobile tires, the demand for which is closely related to business activity and the national income.

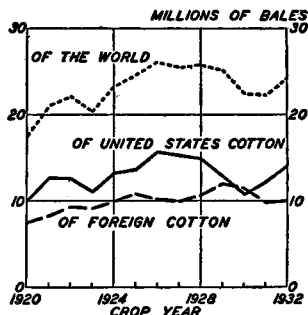
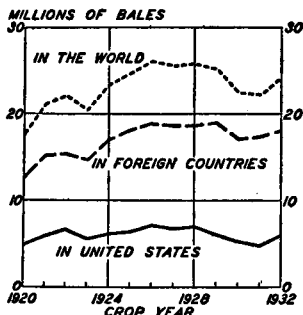
Prior to the depression, per capita world consumption of cotton was at practically pre-war levels, and cotton prices in the United States were approximately at "parity" levels. After the 1929-30 season, however, there was a sharp decline in both. During the following two

seasons consumption was about 3 million bales a year below previous levels, as shown by the accompanying chart; and, although it increased markedly during 1932-33, it was still about a million bales below pre-depression levels.

ANNUAL CONSUMPTION OF COTTON, 1920-32
(Crop year beginning August 1)

Domestic and Foreign Consumption of All Cotton^a

World Consumption of Domestic and of Foreign Cotton^b



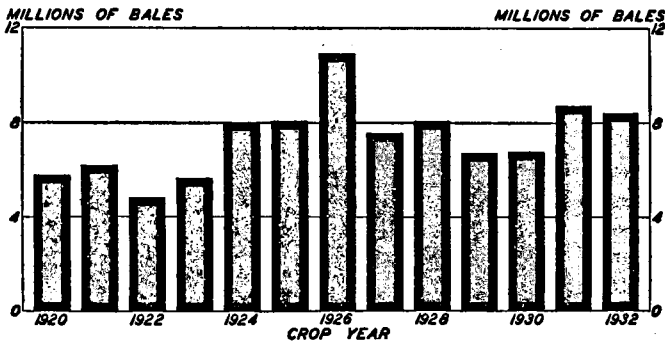
^a Data from mimeographed release of May 18, 1935, Division of Statistical and Historical Research, Bureau of Agricultural Economics, U. S. Dept. of Agriculture.

^b Data from *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Tables 1, 2, and 3, p. 3.

The decline in cotton consumption in the United States came somewhat earlier and was much greater than in foreign countries. In 1929-30, for instance, domestic consumption declined 14 per cent from the preceding year while foreign consumption increased 2 per cent to a new high record. During the two following years consumption in the United States was 27 per cent below the 1925-26 to 1928-29 average compared with a decline of only 7 per cent in foreign countries. Consump-

tion in this country is naturally more affected by a business depression than is consumption abroad, because here a larger proportion of cotton is used industrially. Besides, the price-pegging activities of the Federal Farm Board may have held cotton prices in the United States on a slightly higher level than in foreign countries.

EXPORTS OF COTTON FROM THE UNITED STATES, 1920-32*
(Crop year beginning August 1)



* Data from *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Table 1, p. 3.

Also, the decline in consumption of American cotton was much greater than that of foreign cotton, as shown by the chart on page 15. This resulted from a number of factors, the most important of which was probably the holding and lending activities of the Farm Board, which maintained prices of American cotton at artificially high levels during the 1929-30 and 1930-31 marketing seasons. Largely as a result of this policy there was a marked shift in the consumption of foreign and American cotton. That of American cotton dropped from 15.1 million bales in 1928-29 to 13.0 million in 1929-30 and 10.9 million in 1930-31. That of foreign cotton, on the

other hand, increased from 10.8 million bales in 1928-29 to 12.2 million in 1929-30 and 11.6 million in 1930-31. During the following two seasons consumption of American cotton increased considerably and that of foreign cotton declined, but for the four-year period from 1929-30 to 1932-33 inclusive the consumption of American cotton was 16 per cent below that of the preceding four years while the consumption of foreign cotton was 4 per cent above. Exports of cotton from the United States reflected these changes to a large extent, as shown by the chart on page 16. For an analysis of further changes attributable to our foreign trade policy, see Chapter XIII.

PRODUCTION

World production of cotton was practically the same from 1930-31 to 1932-33 inclusive as during the preceding three seasons, as shown by the chart on page 19. This stability in world production resulted from opposite changes in the United States and in foreign countries—an increase of 4.2 per cent in the United States being offset by a decrease of 4.5 per cent in foreign countries.

Strangely enough, the changes in foreign and domestic production of cotton were accompanied by opposite changes in acreage. In foreign countries the acreage of cotton planted was 2.3 per cent larger from 1930-31 to 1932-33 than in the preceding three years, whereas the acreage planted in the United States was 5.6 per cent smaller. Yield changes, of course, account for the difference between acreage and production changes.

In the United States cotton growers reduced their plantings during 1930-33 enough to have offset a large part of the decrease in demand, if yields per acre planted had not exceeded the preceding six- or nine-year average

(165.4 and 156.8 pounds respectively). From 1929 to 1933 inclusive, plantings, yields, and production were as follows:

Year	Acres Planted (In millions)	Average Yield per Acre Planted (In pounds)	Production (In millions of bales)
1929	44.5	159.4	14.8
1930	43.3	153.7	13.9
1931	39.1	209.0	17.1
1932	36.5	170.1	13.0
1933	40.9	205.3 ^e	13.0

From 1930 to 1933 inclusive 57.0 million bales of cotton were harvested. If average yields per acre planted from 1924 to 1929 had been obtained during 1930-33 on the entire acreage planted (including that plowed up), production would have been only 55.2 million bales, or 1.8 million bales less than that actually harvested after plowing up over 10.5 million acres in 1933. If the nine-year average yield per acre planted from 1921 to 1929 had been obtained, production would have been 51.5 million bales, or 5.5 million bales less than that actually harvested.⁶

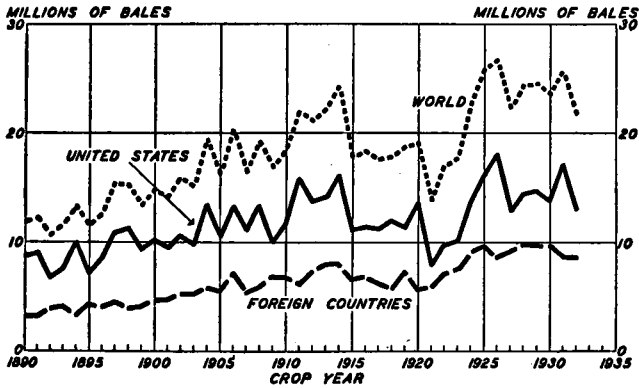
Some of the reduction in acreage shown in the table on this page was the result of high yields. For instance, after the big crop in 1931 farmers planted less than they would have planted if the crop had been smaller and prices higher. Nevertheless, in spite of the price-pegging activities of the Farm Board, although perhaps due in part to the Board's advice, in 1931 and 1932 respectively farmers reduced their plantings 2.5 and 12.0 per cent below the acreage planted in 1929.

^a Actual production divided by acreage planted less 10.5 million acres plowed up under government contract.

^e See note 11, p. 28, for the effect upon carry-over.

In other words, cotton farmers made a surprisingly large acreage adjustment to changes in demand. It is, of course, easy to look back and see that as things turned

WORLD PRODUCTION OF COTTON, 1890-1932^a
(Crop year beginning August 1)



^a Data (in 478-pound bales) supplied by the Division of Statistical and Historical Research, Bureau of Agricultural Economics, U. S. Dept. of Agriculture. Production in China excluded.

out an even larger reduction might have been advisable; but, at the time of planting this cotton, future developments could not be foretold. Numerous economists were predicting an impending upturn in business during most of this period.

In making adjustments to changes in demand, farmers are in a position quite different from that of manufacturers of industrial products. A manufacturer typically produces his products with employees who may be discharged as demand declines. Farmers, on the other hand, have few employees to discharge. If they reduce their production by working shorter hours it means that they

receive a smaller income than they would by working harder unless, of course, all other farmers make corresponding reductions. Their net income might, however, be increased by shifting from one crop or product to another. If cotton, for instance, were unusually low in price, farmers might find it advisable to grow more food and feed crops for home use, thus cutting down on their cash expenses.

Furthermore, the total value of agricultural commodities produced during a depression tends to decline less than that of many industrial commodities. This is clear from the accompanying table showing the percentage decrease in price, production, and value for ten major industries from 1929 to the spring of 1933.⁷

Commodity Group	Price	Production	Value
Agricultural implements . .	6	80	81
Motor vehicles	16	80	83
Cement	18	65	71
Iron and steel	20	83	86
Automobile tires	33	70	80
Textile products	45	30	62
Food products	49	14	56
Leather	50	20	60
Petroleum	56	20	65
Agricultural commodities .	63	6	65

These figures do not indicate that farmers as a whole have fared worse during the present depression than many industrial groups, including both employers and laborers, even though they reduced their production only 6 per cent.

In foreign countries the acreage of cotton planted in 1930-32 was 2.3 per cent larger than during the pre-

⁷ 74 Cong. 1 sess., *Industrial Prices and Their Relative Inflexibility*, S. doc. No. 13, p. 8. The last column of the table was not shown in the Senate table. It was calculated from price and production changes.

ceding three years. Foreign acreage outside of Russia, however, where plantings have little relation to current levels of world prices for cotton, declined 4.0 per cent during this period. (See the chart on page 272.) Exclusive of Russia and China, the decline in foreign acreage was 6.0 per cent as compared with a decline of 5.6 per cent in the United States.⁸

The trends of cotton production for the United States and for foreign countries (excluding China) have also been very much the same since 1890, as shown by the chart on page 19. Both have responded to price rises by turning upwards. Foreign production increased a little but not much faster than cotton production in the United States from 1890 to 1920. From then until 1933, however, the trend in the percentage of world cotton produced in the United States has been somewhat difficult to ascertain.

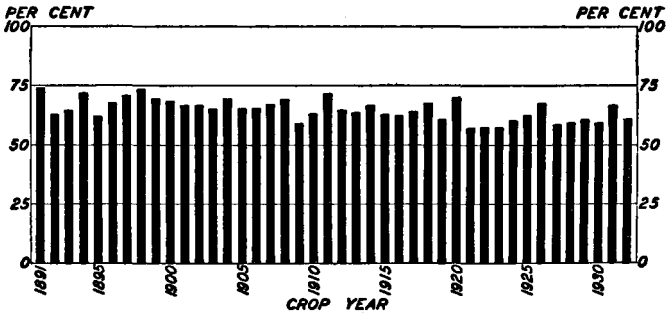
During the war, cotton production declined both in the United States and in foreign countries. A further marked drop in cotton production also occurred in the United States after the war, particularly in 1921, 1922, and 1923, largely because of the ravages of the boll weevil. Following 1923, production in this country took a big jump. Foreign production also increased, but at not quite so rapid a rate as in the United States. After 1926 cotton production in the United States receded somewhat more than foreign production.

From 1924 to 1933 the trend of cotton production in the United States and in foreign countries as a whole was about the same. The percentage of the world's cotton produced in the United States remained nearly constant. If anything, it increased a little. Nevertheless,

⁸ It is more or less customary to exclude China from such analyses of trends because its data on acreage and production over a series of years are not very reliable, and usually Russia also, for the reasons stated above.

the average of these percentages for 1930-32 inclusive, when yields in the United States were above average, is in line with the slight downward trend from 1891 to 1920 shown by the accompanying chart. It is consequently impossible to distinguish any definite trend in these percentages for recent years.

PERCENTAGE OF WORLD COTTON PRODUCTION
GROWN IN THE UNITED STATES, 1891-1932^a
(Crop year beginning August 1)

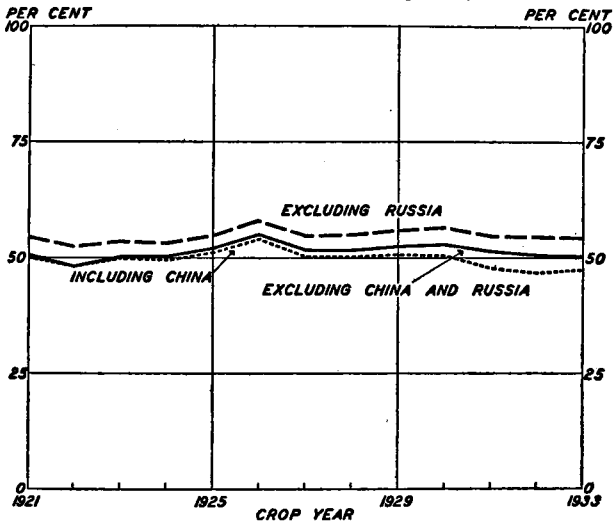


^a Data computed from *Cotton Statistics and Related Data for Agricultural Workers*, Bureau of Agricultural Economics, U. S. Dept. of Agriculture, p. 43; *Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1934, Table 113, p. 460. Chinese production excluded.

Trends in acreage of cotton from 1921 to 1933, however, indicate that the United States was holding its own in world competition and perhaps gaining a little on foreign countries, as shown by the chart on page 23. There is no indication here that the United States was suffering from any shift to foreign countries of the advantage of producing cotton. There is a distinct upward trend in the percentage of the world's cotton acreage harvested in the United States from 1922-25 to 1930-31, particularly if Russia or Russia and China are excluded. Furthermore, the acreage of cotton planted in

the United States in 1923 exceeded all previous records. This upward trend consequently started from a relatively high base acreage in the United States. From 1930-31 to 1933-34 (using the acreage planted in the United States less average abandonment for 1933-34),

PERCENTAGE OF WORLD COTTON ACREAGE HARVESTED
IN THE UNITED STATES, 1921-33^a
(Crop year beginning August 1)



^a Computed from data in *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Table 5, p. 4.

however, the trend was reversed, cotton acreage declining somewhat more in the United States than in foreign countries.

Many unusual factors, however, have been affecting trends of cotton acreage in the United States and foreign countries during the depression period. In the first place, as noted on page 18, farmers in the United States prob-

ably reduced their cotton acreage because of unusually high yields. The United States held its own in competition with foreign countries in the production of cotton from 1930 to 1933. In the second place, currency depreciation in some countries tended to stimulate foreign production of cotton. The Bureau of Agricultural Economics, in a preliminary report released April 29, 1935, stated that:

The acreage of cotton in many foreign countries during recent years has been influenced by currency depreciation. The producers of cotton in China and Brazil have not felt the depression to the extent that the American producers have felt it because prices in those countries did not follow the course of cotton prices down through 1931 and 1932.

To a considerable extent this greater decline in United States acreage than in foreign acreage following 1929 was due as already indicated to the fact that cotton prices in most of the important foreign producing countries did not drop so low as prices in the United States.⁹

In July 1935 Secretary Wallace called attention to the fact that foreign governments in recent years had been trying to stimulate cotton production by subsidies and other devices.¹⁰ In any case, these trends do not indicate that the proportion of the world's cotton acreage grown in the United States from 1930 to 1932 was too large, and that it would have been likely to decline if no attempt were made to control production. If anything, they indicate that perhaps it was too small.

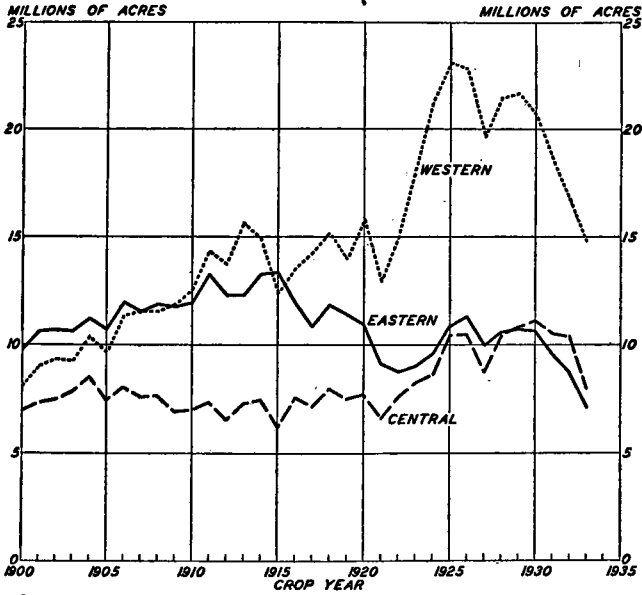
The decline in cotton production in the United States from 1914 to 1924 and the following sharp increase were accompanied by a marked shift in the areas of produc-

⁹ "Foreign Cotton Production, *The World Cotton Situation*, pp. 11-12.

¹⁰ Henry A. Wallace, "The World Cotton Drama," *Foreign Affairs*, July 1935, Vol. 13, No. 4.

tion, as shown by the accompanying chart. In the eastern part of the Cotton Belt, where the boll weevil did the

SHIFTS IN PRODUCTION OF COTTON IN THE
COTTON BELT, 1900-33*
(Crop year beginning August 1)



* Data compiled from revised estimates of the Crop Reporting Board, U. S. Dept. of Agriculture, as of May 10, 1933, and additional data furnished by the Division of Crop and Livestock Estimates. The states included in the areas designated are: Western—Oklahoma, Texas, New Mexico, Arizona, and California; Eastern—Virginia, North Carolina, South Carolina, Georgia, Florida, and Alabama; Central—Missouri, Tennessee, Mississippi, Arkansas, Louisiana, and all cotton-producing states not listed under the other areas.

most damage, the acreage of cotton harvested declined from an average of about 12.0 million acres in 1910-14 to 8.8 million acres in 1922. There was a slight increase

during the years of high prices following 1922, but by 1932 the acreage was again 8.8 million. In the western part of the Cotton Belt, the acreage of cotton harvested remained fairly constant from 1910 to 1922, but in the following four years it increased from 12.9 million acres in 1922 to 23.1 millions in 1925. This peak was followed by a slight decline until 1930, and a rather marked drop to 16.8 million acres in 1932.

The acreage of cotton harvested in the central part of the Cotton Belt, which includes the Mississippi Delta, has followed a more consistently upward trend. The peak of acreage harvested was not reached until 1930, when 11.1 million acres were harvested—an increase of 68 per cent above the 6.6 million acres planted in 1921. Furthermore, there has been little decline during the depression. In 1932, 10.4 million acres were planted.

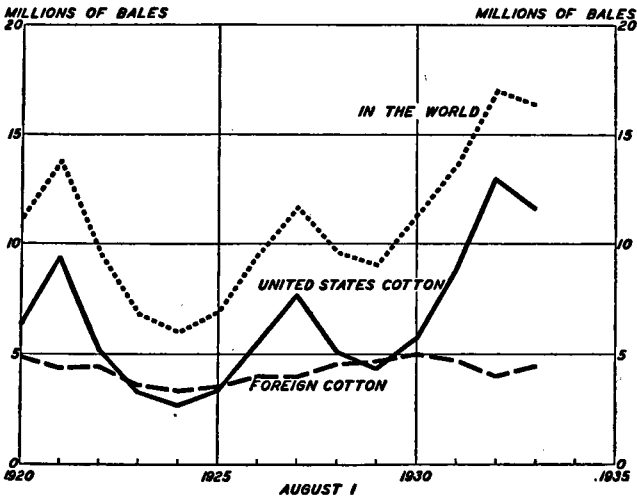
This shift in the production of cotton within the United States is a striking illustration of what may occur in the future. In this case the shift resulted largely because boll-weevil damage was less in the central and western parts of the Cotton Belt than in the eastern part, and because recent improvements in the methods and means of producing cotton were not so well adapted to the eastern part of the Cotton Belt as to the western part. It is also generally recognized that if a mechanical cotton picker is perfected it will be adapted much better to the large level fields in the western and central part of the Cotton Belt than to the eastern part. Farmers growing cotton on small irregular fields are faced with the possibility of such competition in the future.

CARRY-OVER

Continued high production of cotton in the face of a decline in demand drove world cotton stocks to a record

height of 17 million bales on August 1, 1932, as shown by the accompanying chart. This was the equivalent of 76 per cent of world cotton consumption during the 1931-32 season. Nevertheless, stocks were smaller in relation to the prevailing level of world production

WORLD CARRY-OVER OF UNITED STATES, FOREIGN, AND ALL COTTON, 1920-33*



* Data from *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Tables 1, 2, and 3, p. 3.

than the carry-over of 14 million bales on August 1, 1921. The 1932 carry-over was only 65 per cent of the average annual production during the preceding five years as compared with 67 per cent for the earlier depression period.

All of the excess world carry-over in 1932, however, was American cotton, as shown by the chart on this page. Each year of the depression, production had ex-

ceeded consumption and stocks of American cotton piled up until on August 1, 1932 there were 13 million bales carried over as compared with from 3 to 5 million bales annually during 1922-26. Stocks of foreign cotton, on the other hand, were slightly below previous levels on August 1, 1932, largely because of the decrease in foreign production mentioned above and because the lending and holding policies of the Farm Board tended to stimulate the consumption of foreign cotton at the expense of American.

In the spring and early summer of 1933 cotton farmers were therefore faced with the prospect of a large carry-over of American cotton (forecast at 12.5 million bales),¹¹ a large 1933 crop, and little probability of a sufficient increase in demand in 1933-34 to raise farm prices of cotton materially without government assistance. On the whole, the situation within itself did not augur well for the already depressed incomes of cotton producers. However, there was some possibility that cotton prices would be increased by other government measures, particularly depreciation of the dollar in terms of foreign currencies. The United States had already abandoned the gold standard (as of April 19, 1933), and on May 12, 1933 the President was authorized to decrease the gold content of the dollar by "not more than 50 per cent."¹² Naturally any depreciation of the

¹¹ If no cotton had been plowed up in 1933, and the consumption of American cotton had remained the same as in 1933-34, the world carry-over of American cotton on Aug. 1, 1934 would have been 8.8 million bales if yields from 1930-33 had equalled the six-year average for 1924-29 and only 6.0 million bales if they had equalled the nine-year average for 1921-29. The actual carry-over on Aug. 1, 1934 was 10.6 million bales. See pp. 17-26 for production data for these years.

¹² 73 Cong., Public No. 10 (48 Stat. L. 31), Title III (Financing—and exercising power conferred by Sec. 8 of Art. I of the Constitution: To coin money and to regulate the value thereof). "Agricultural Adjustment" constituted Title I of this act.

COTTON IN THE SPRING OF 1933 29

dollar in foreign exchange would tend to increase prices of cotton in the United States, since more than half of our crop is normally exported. This was in general the situation that confronted the Agricultural Adjustment Administration in the development of a cotton program.

CHAPTER III

THE COTTON PROGRAM

The major elements of the cotton program developed by the government since May 1933 to improve the situation of cotton farmers and others in the Cotton Belt were as follows:

1. Voluntary contracts between individual cotton farmers and the government in which (a) the cotton farmer agreed to reduce his acreage or production of cotton a specified amount below that in a specified base period, and to restrict the use of land thus taken out of cotton to the production of food and feed crops for home consumption and of soil-improving and erosion-preventing crops; and (b) the government agreed to make rental or benefit payments to contracting farmers for taking the specified amount of land out of cotton production.

2. A tax on the first domestic processing of cotton and compensatory taxes on the processing of cotton substitutes to raise funds to cover rental payments, etc.

3. A tax on the ginning of cotton, and the issuance of tax exemption certificates for the desired national amount of cotton to individual producers in proportion to their production during a specified base period. (This is the essential feature of the Bankhead Act which is discussed in Chapter X.)

4. Government loans to farmers on cotton. (See Chapter XI.)

LINES OF ATTACK

Government control over production has been the most significant feature of the cotton program. It was

first effected under the Agricultural Adjustment Act by the unique method of levying a tax on the first domestic processing of cotton and offering the money collected to cotton growers as rental or benefit payments if they would make specified reductions in their acreage of cotton. Since the program was adopted after the crop had been planted in 1933, farmers signing contracts the first year were required to plow up a portion of their cotton crop. In 1934 and 1935, however, the acreage of cotton which contracting farmers were permitted to plant was limited. Restrictions were also placed upon the use of land thus taken out of cotton production. Later, on April 21, 1934, this voluntary procedure was supplemented by the Bankhead Cotton Control Act which made reductions in cotton production more nearly compulsory by placing a heavy tax on the ginning of all cotton produced in excess of specified allotments made to individual growers.

The government has used these methods to secure a large reduction in cotton production.¹ In 1933, farmers were offered benefit payments for plowing up from 25 to 50 per cent of their growing cotton, the amount of the payment per acre being in proportion to the yield per acre of the land plowed up. In 1934 they were offered rental and "parity" payments for reducing their cotton plantings 35-45 per cent below the amount of cotton planted on the same farm during the base period.² They were given certificates of exemption from the cotton ginning tax levied under the Bankhead Act for about 62 per cent of their average annual production during the same period. In 1935, contract sign-

¹ The amount marketed may have been reduced by these methods even more than the amount produced because of cotton held by farmers to avoid paying the ginning tax.

² In general from 1928 to 1932. See also pp. 49 and 57.

ers were required to reduce their plantings 25-35 per cent below their base period plantings and were issued certificates of exemption from the cotton ginning tax for about 64 per cent of their production during the same period. The 1934 cotton crop, however, was about 800,000 bales less than the volume covered by certificates issued in that year, and the unused certificates were declared acceptable in payment of the ginning tax in 1935. The total supply of certificates available for use in 1935 was consequently about 69 per cent of the estimated base production of all producers.

Had the program been continued in 1936, according to plans announced in December 1935, farmers were to be offered adjustment payments for reducing their cotton plantings 30-45 per cent below their base acreage.

This cotton reduction program, which got under way in June 1933, was soon supplemented by a huge program of loans to cotton farmers. In the fall of 1933, when there was an insistent demand for currency inflation and considerable expectation that the cotton program and other recovery measures would lead to a substantial advance in cotton prices, the Administration decided under pressure to lend cotton farmers 10 cents per pound on cotton produced in 1933, without liability for more than the cotton tendered as security for the loan. This was in order to enable the farmers to benefit from any increase in cotton prices resulting from currency inflation, further reductions in production, or other causes. In 1934 and 1935 the lending program was continued. But the amount lent without risk of loss to the borrowing farmer was increased to 12 cents per pound in 1934 and then reduced to 10 cents per pound in 1935, with an additional provision making it possible for farm-

ers to receive 12 cents for cotton sold.³ This lending program enabled farmers to carry over a larger amount of their own cotton and consequently tended to increase their immediate gain from a reduction in the amount of cotton produced. Any increase in price resulting from reduction in production would, of course, be received by farmers not only for their current crop but also for any cotton they had carried over.

Only negligible attention has been paid to the stimulation of cotton exports by means of loans to foreign countries, or to increasing domestic consumption by relief purchases. (See page 208 for further information.) Little attempt has been made to reduce the cost of marketing cotton or to raise cotton prices through marketing agreements. In fact, the textile and other codes relating to cotton established under the NRA have increased the cost of marketing cotton. Considerable unavailing effort has been made, however, to formulate a ginners' marketing agreement which might have improved the quality of ginning and consequently increased the price received for cotton.

OBJECTIVES

The immediate objective of this program was to increase the current income of cotton farmers. It was planned to accomplish this objective chiefly by making rental or benefit payments to growers for taking land out of cotton production. It was expected that the processing taxes levied to finance such payments would be paid by the consumer.⁴ The original act limited the

³ See Chap. XI for further details of the government's cotton loan program.

⁴ Secretary Wallace in his annual report to the President (Nov. 15, 1933) stated: "The [cotton] processing tax is intended to defray the

initial rate or amount of this tax to the difference between the current average farm price of cotton and the fair exchange value, commonly called the "parity price," which was defined in the act as the price which would give cotton the same purchasing power in terms of things farmers buy as it had from August 1909 to July 1914. Additional increases in producers' incomes were expected to result from reductions in cotton production, government loans on cotton held off the market, loans to foreign countries for the purchase of cotton and cotton goods, and relief purchases of cotton.

There were also certain long-time objectives which were remotely connected with the current income of cotton farmers. The cotton program was designed to adjust current production to the current demand schedule without impairing and perhaps even while increasing the capacity of the South to produce cotton in the future. Benefit payments would naturally tend to prevent the abandonment of some cotton farms. And great effort was made to avoid a reduction in the number of tenants and laborers on cotton farms. Furthermore, farmers were encouraged to increase or maintain the productive capacity of their land by planting crops which would improve the soil and prevent erosion—particularly on land rented to the government. A more diversified, more self-sufficing system of agriculture, with less cotton and more commodities for home consumption, advocated for years by the Extension Service (particularly in the eastern Cotton Belt states), was also encouraged for the same and other reasons. Other government agencies

costs of the acreage reduction. . . . It is expected that these taxes [on cotton], in the main, will be passed on to consumers, whose power to pay them will be increased by the government's general recovery program." *Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1933, p. 31. For further discussion of the processing tax, see Chap. XII.

were, it is true, planning to buy up poor farm land and put it into forests and uses other than the current production of farm products. But such plans, if carried out, were not expected to curtail materially the producing capacity of cotton farms in the United States.

The basic idea underlying the cotton program, as well as most AAA control programs, was that the productive capacity of our farms was too large for *current* needs. For years many of our leading agricultural economists had pointed out this fact, and it was emphasized time after time by Secretary Wallace and many officials of the AAA. They claimed that our agricultural plant was about 40 million crop acres too large for current demand prior to the depression, and that the depression merely made a bad situation worse by reducing the demand for agricultural products.⁵ The major cause of this overcapacity, according to Secretary Wallace and many officials of the AAA, was the loss of foreign markets,⁶ although the shift from horse-power to motor power and

⁵ Secretary Wallace said in an address at the 15th annual convention of the American Farm Bureau Federation, Chicago, Dec. 12, 1933: "When we turn our attention to national planning, and reconcile ourselves to the idea that there never again will be the foreign purchasing power which before the war came from 200 millions in annual interest payments from abroad and which since the war has temporarily come from loans we have made abroad at the rate of 500 million to a billion dollars annually, we find ourselves confronted with the necessity . . . of retiring permanently from agricultural use perhaps 40 million acres of farm land." Other statements by Secretary Wallace indicate that by "permanently" he meant a number of years, perhaps five or ten. See also p. 85.

⁶ "It seems to me that there can be no difference of opinion on the part of anyone who has given the slightest thought to the balance sheet between this country and other nations as to the absolute necessity of a long-time program to control very effectively the area producing products formerly sold abroad until such time as a sound foreign market is restored." ("The Re-opening of Foreign Markets for Our Agricultural Products," address by Secretary Wallace at the American Institute of Co-operation, Madison, Wis., July 11, 1934.)

the increased mechanization of farms were considered important contributing factors.

If, however, agriculture were allowed to adjust itself to the level of demand existing during and immediately prior to or following the present depression, it was maintained that the capacity of our agricultural plant in the not distant future would be relatively too small. Such "automatic" reductions in our agricultural plant would come about by the migration of people from farm to city, abandonment of farms, and the depletion of soil resources principally by soil erosion, all of which would affect future as well as current productive capacity. The demand for cotton and other agricultural products was increasing almost every year because of population increases in the United States and foreign countries. Furthermore, as business recovered from the depression, there would tend to be an increased industrial demand for cotton and other products. Then too, it might be possible to increase foreign demand by reducing international trade barriers, although the AAA and NRA up to that time had tended to strengthen rather than weaken those barriers, and the possibilities of material reductions in the very near future seemed small.

There was, therefore, no fundamental conflict between the efforts of the AAA to increase the productive capacity of our farm land even while reducing current production, and the basic ideas of oversupply and of over-capacity held by Secretary Wallace and most officials of the AAA. There was the immediate objective of increasing farm incomes and the long-time objective of preserving our agricultural resources. Stabilization of the use of our agricultural resources as well as stabilization of farm income from year to year were important long-time objectives of the cotton and other AAA programs.

In his annual report to the President on December 12, 1934, Secretary Wallace stated: "Essentially, agriculture needs production control to prevent the mass swings that lead to recurring cycles of over- and under-production."

PROBLEMS TO BE MET

In formulating a program designed to attain these objectives, numerous difficulties had to be met. When the Agricultural Adjustment Act was approved on May 12, 1933, about half the cotton acreage had already been planted. The provisions of the act for reduction of cotton acreage could, therefore, be applied to the 1933 crop only by destroying growing cotton. However, a bounty could also have been paid on cotton exports from funds collected by processing taxes on cotton and cotton substitutes. Some also maintain that under the original act benefit payments could have been made to cotton producers without requiring any reduction in the amount of cotton produced. Nevertheless, the Secretary of Agriculture decided upon a cotton reduction program intended to reduce the world carry-over of American cotton to normal dimensions within a short time because "the essential thing is to raise prices by adjusting supply to demand"⁸ and because "we want to sell at a living price, and produce only for a market that will buy at that price."⁹ Furthermore, "if he [the farmer] is to get a decent price for his crop, he must adjust production to the market that actually exists, and he must have at his disposal some machinery for making that adjustment."¹⁰ This objective was sought in 1933 by

⁸ *Yearbook of Agriculture*, 1935, p. 2.

⁹ "Co-operation and the Program of the Administration," *American Co-operation*, 1933, p. 8.

¹⁰ Address delivered at Salina, Kan., June 28, 1933.

¹¹ The same.

plowing up cotton and in 1934 and 1935 by a reduction in the acreage of cotton planted. No attempt has been made to subsidize exports of cotton or to make benefit payments without restriction of production.

A second difficulty arose in connection with determining the amount of reduction in cotton production to be secured. All voluntary phases of the cotton control programs undertaken were apparently designed to secure as large a reduction of the cotton crop as possible with the funds available. But although all of the funds collected by means of processing taxes on cotton and compensatory taxes on cotton substitutes have been expended, the unit rental or benefit payments for reducing cotton production have been insufficient in themselves to induce a large enough number of farmers to sign contracts when a 25-50 per cent reduction in acreage was involved. Cotton land covered by contract with the government represented only 73 per cent in 1933 and only 90 per cent in 1934 of the cotton planted in the base period. This was in spite of the pressure of public opinion, appeals to patriotism, restriction of government credit, and threat of a drastic tax on the ginning of cotton grown by non-co-operators.

A third difficulty grew out of the possibility that reductions in cotton production in the United States might tend to stimulate foreign production of cotton and cause the United States to lose part of its foreign market for cotton. This danger was regarded by government officials as slight, however, in view of the huge stocks of American cotton on hand. Moreover, the reduction program was at first presented as a temporary measure, intended to furnish emergency relief to cotton farmers and to be discontinued when the carry-over of cotton had been reduced to normal proportions and

foreign demand had improved. As late as May 3, 1934 Secretary Wallace stated:

It is to be hoped that within two years the world carry-over of American cotton will be down to normal dimensions and that world trade in cotton by that time will be sufficiently active so that the South will again find it possible to produce her normal supply of cotton without control, with the prospect of selling a normal quantity on the world market at a price high enough to enable the South to contribute her normal share to the nation's purchasing power.¹¹

It was further asserted that the United States had advantages in cotton growing which no temporary reduction in output would destroy.

A fourth difficulty was presented by the fact that certain businesses and individuals in the South would be injured by a cotton reduction program. The volume of business of cotton ginners, factors, brokers, exporters, and cottonseed millers would naturally be reduced. These industries, as well as cotton picking, would need to employ a smaller number of men. There was also serious danger that many tenant families would be displaced. Administrators of the cotton program, however, claimed that such losses would be small while the immediate gains for cotton farmers would be large.

A further difficulty was encountered in protecting farmers who raised crops other than cotton. If the reduction in cotton acreage and production secured by government aid resulted in increased production of other farm products for market, it would tend to reduce the income of other farmers. It was therefore considered necessary to restrict the use of land rented by the government.

The formulation of a program which would secure

¹¹ "America Must Choose," radio address, May 3, 1934.

as large a reduction as possible with the funds available, and at the same time cause as little disruption of the existing economic and social organization of the South as possible, was not a simple task. One essential requirement was a very large sign-up of cotton farmers. Non-signers would naturally tend to increase their cotton acreage in response to expected increases in price resulting from reductions made by co-operating farmers. Their number, therefore, needed to be kept small.

Another essential requirement was a limitation on the percentage reduction in cotton acreage for which individual cotton farmers would receive rental or benefit payments. Some limitation was particularly necessary for farms operated by tenants in 1934 and 1935. Otherwise, practically all of the cotton land in some areas might have been rented to the government. This would have destroyed the business of some local industries, such as ginning, which are wholly dependent upon the volume of cotton produced locally. Furthermore, limits had to be set on the amount of cotton land that could be rented to the government by individual farmers, because only a limited amount of funds was available and it was essential that a very large proportion of the cotton farms be covered by contract. By setting limits on the acreage in each farm that could be rented, the government could pay a rental per acre high enough to induce most cotton farmers to sign contracts. Naturally payments from the same amount of funds could be made at twice as high a rate on 20 per cent of the cotton acreage as on 40 per cent.

Still another essential requirement was to get the lowest rate of rental or benefit payments which would secure a very large sign-up. A low rental would enable the

government to finance the renting of a large acreage but might not be sufficiently attractive to secure the large sign-up deemed necessary. In general, these payments had to give promise of greater returns to farmers who signed contracts than to those who did not. The rate of such payments would naturally have to be higher per pound of cotton for a large sign-up than for a small one, assuming the same percentage reduction in cotton acreage for contract signers, since the expected increase in the price of cotton produced would be greater. When the rate of payment was established in 1934, cotton farmers not signing contracts were presumably going to be free in 1934 and 1935 to expand their cotton acreage in response to the expected higher price. In 1933 the payments needed to approximate the expected price times the expected yield of cotton plowed up, less any resulting saving in picking and ginning costs, in order to give contracting farmers as good a deal as non-signers; in 1934 and 1935 the payments needed also to offset the potential gains from expansion of cotton acreage.

In establishing these rates of payment it was not necessary, when the sign-up was very large, to make them entirely offset the potential increase in net income from cotton of farmers not signing. As the proportion of cotton farmers signing contracts in a community increased, the pressure of an unfavorable public opinion on non-signers could be expected to increase, particularly towards those non-signers who attempted to increase their acreage of cotton. Communities where the possibilities of expansion were greatest, however, would tend to have a low sign-up.

These problems indicate to some extent the difficulties

involved in attempting to control the production of cotton by government effort through voluntary agreements with producers. The entire economic organization of the South and the nation as a whole is affected to some extent by this effort. Indeed, it is a national program having international significance.

CHAPTER IV

COTTON CONTRACT OFFERS

The exact nature of the government's cotton control program under the Agricultural Adjustment Act was expressed, to a large extent, by the terms of the cotton contracts offered to producers. These contracts, by the offer of rental or benefit payments, attempted to secure a reduction in the acreage and production of cotton and at the same time to control the effect of such reductions on different classes of cotton growers, producers of other crops and products, and the agricultural resources of the South. In this chapter we shall analyze the terms of the cotton contracts offered to producers during the last three seasons.

GOVERNMENT OFFERS IN 1933¹

When plans for the 1933 plow-up campaign were being formulated, prospective supplies of cotton were so large that administrators of the act decided to obtain as large a reduction in cotton production as possible. In working out the terms of offers that would secure this primary objective, they had three major factors to consider:

1. The amount of cotton obtained by the Secretary of Agriculture from the Farm Credit Administration which could be offered to farmers.² This was estimated to be about 2.4 million bales at the time of making the contract offers. Its cost to the Secretary of Agriculture was 5 cents per pound.

¹ For a fuller discussion of the 1933 plow-up, see H. I. Richards, *Cotton under the Agricultural Adjustment Act*, pp. 5-14.

² See p. 196 for a discussion of this cotton.

2. The amount of money available for cash rental and benefit payments. This was limited mainly to the receipts expected from processing taxes on cotton and compensatory taxes on competing products during the crop year 1933-34.³

3. The schedule of payments that would secure as large a reduction in cotton production as possible with the funds available. Since the amount of cotton available to the Secretary was less than the estimated reduction in production which could be financed with the funds available, it was deemed advisable to make two offers, one of cash only and the other a combination offer of cash and an option⁴ to buy from the Secretary of Agriculture at 6 cents per pound a quantity of middling $\frac{7}{8}$ -inch staple cotton estimated to be equal to that which the cotton grower agreed to plow up. In 1933 the schedule of cash payments per acre under the respective plans, arranged according to the estimated yield per acre of the land taken out of production (in pounds) was as follows:

Estimated Yield per Acre	Cash-Only Plan	Cash-and- Option Plan
100-124	\$ 7	\$ 6
125-149	9	7
150-174	11	8
175-224	14	10
225-274	17	11
275 and over	20	12

³ Funds for making these payments were advanced to the Secretary of Agriculture by the U. S. Treasury in anticipation of estimated receipts from processing taxes on cotton, but not from compensatory taxes, during the crop year ending July 31, 1934.

⁴ The cotton on which these options were issued is commonly termed "option" cotton. See pp. 199-212.

The cotton on which growers obtained an option under the cash-and-option plan was to be sold by the Secretary on any date specified by the grower between December 1, 1933 and May 1, 1934. The cotton option contract stipulated that the Secretary could sell the stated amount of cotton from stock held by him on any recognized spot market or an equivalent amount of futures contracts held by him. If cotton futures were sold the price was to be based upon the current quotation of the New York Cotton Exchange. The difference between this price and 6 cents per pound was to be paid to the grower.

These offers were open to all cotton farm operators, whether they owned the land which they were farming or rented it on a cash or other basis. The test as to who could make contracts was the legal ownership of the crop. Where legal ownership was vested in more than one person, all who were interested as owners had to sign the contract either as principal or consenting parties before it could be accepted by the Secretary. It was assumed that an agreement between landlord and tenant would provide for division of payments in proportion to the interest of each in the crop. Such an arrangement would, of course, favor the tenant, since his costs for picking and ginning would be reduced much more than those of the landlord. All payments were to be made only after satisfactory evidence of compliance on the part of the operator with the terms of the contract had been received.⁵

The cash-only and the cash-and-option offer were both limited to growers who agreed to plow up not less than 25 per cent and not more than 50 per cent of their total cotton acreage (except under special circumstances

⁵ See Chap. VIII on compliance.

approved by the state director of extension). This land was to be a fair average, as to estimated yield per acre, of the crop on all of the operator's land planted to cotton. The offer also limited the use of the cotton land plowed up to the production of soil-improving or erosion-preventing crops or of food or feed crops for home use.

Growers desiring to participate in the program were required to sign an "offer to enter into cotton option-benefit or benefit contract" with the Secretary. These offers were irrevocable until July 31, 1933. Growers, however, were told that their offers to take cotton acreage out of production would not be accepted unless a large enough acreage was offered to accomplish the ends sought. No definite acreage was specified, but it was said that "only if a large majority of cotton farmers agree to help can the plan be carried out."⁶

GOVERNMENT OFFERS IN 1934 AND 1935⁷

In 1934 and 1935 the AAA requested farmers to keep land out of cotton production rather than to plow it up. In 1934 farmers were offered a two-year contract in which the Secretary agreed to pay approximately 4.5 cents per pound of the estimated average yield on land kept out of cotton production, and the producer agreed to reduce his 1934 cotton acreage 35-45 per cent⁸ below that in the base period and his 1935 acreage by 25 per cent. Later, an amendment provided for reductions

⁶ "The Agricultural Adjustment Act Applied to Cotton," *AAA Press Release No. 182374* 0-33.

⁷ For a full statement of a tentative plan for reducing cotton acreage in 1934 and 1935, announced by the AAA in September 1933, see Appendix B.

⁸ "Provided that the total reduction of all producers offering to enter into 1934 and 1935 cotton acreage reduction contracts within the above-named county or parish shall not exceed 40 per cent of the total base acreage of such producers." 1934 and 1935 Cotton Acreage Reduction Contract, par. 1.

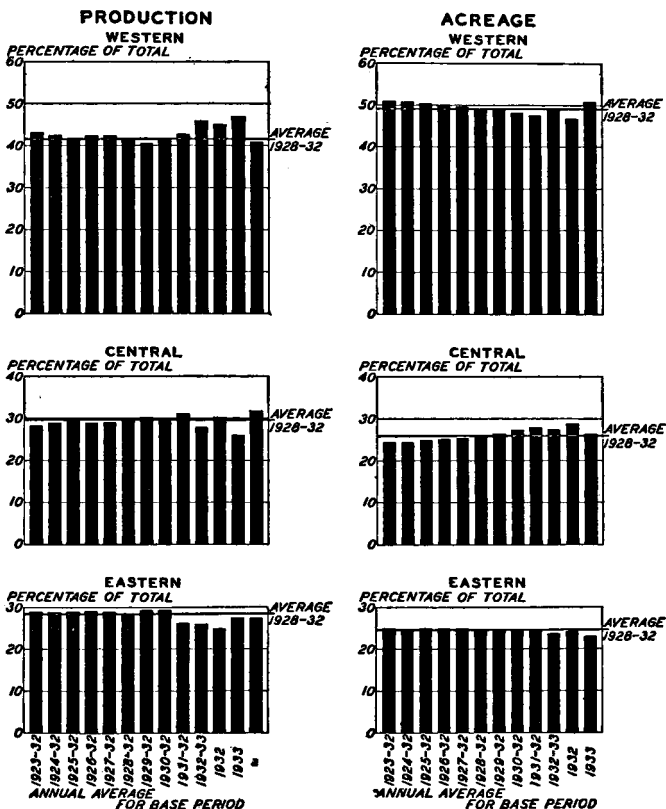
ranging from 25 to 35 per cent in 1935. Producers not signing contracts in 1934 were also offered a one-year contract in 1935 under substantially the same terms as the earlier signers. Both contracts specified that the rented acres should not include "waste, gullied, or eroded land." They were required to be "tillable land suited to the growing of cotton" and to "represent in productivity a fair average of the cotton land" on the farm.

In formulating the terms of these offers it was necessary to work out a definite basis for calculating the percentage reduction made by individual farmers. Various proposals were made, but the only ones seriously considered provided for historical acreage and production bases of some kind. There was rather general agreement that acreage and production quotas should be established for each state and county equal to their average annual acreage and production of cotton during the preceding five or ten years, with certain exceptions, as estimated by the United States Department of Agriculture. There was, however, considerable difference of opinion over the method of procedure to be used in apportioning the county quotas thus established among the individual farms in each county. Some maintained that yield estimates should be for a five- or ten-year period but that the county acreage quota should be apportioned to individual farms in accordance with their average acreage of cotton during 1932 and 1933, because for these years more accurate data could be obtained and because the acreage of cotton planted would more accurately reflect existing conditions than for a longer period, as well as for other reasons.

A five-year base, 1928-32, however, was adopted for the establishment of all acreage and production quotas, with certain exceptions. Representatives of some states

COTTON AND THE AAA

REGIONAL COTTON PRODUCTION AND ACREAGE DURING VARIOUS BASE PERIODS AS PERCENTAGES OF CORRESPONDING DATA FOR BASE PERIOD SELECTED (1928-32)*



a 1928-32 annual average production per acre multiplied by 1932-33 annual average acreage

* See note a to chart on p. 25 for source of data and states included in each area.

and counties, and some individuals, complained that the use of this base discriminated against them. Naturally it was more favorable to some than to others, as explained later. As among the three major regions of the Cotton Belt such a five-year base seems to have been fair enough. The percentage of the cotton crop grown in each of these regions during the past five to ten years did not vary materially, as shown by the chart on page 48. Neither did it vary materially from the percentage distribution calculated on the basis of the average acreage in 1932 and 1933 times the five-year average yield in each region.

The contract offer in 1934, however, specified that:

Any producer who is an owner, landlord, cash tenant, or managing share tenant and who operates or controls a cotton farm may be a party to a 1934 and 1935 cotton acreage reduction contract covering such farm, provided that on the land now in such farm:

(a) Cotton was planted at least four years of the base period 1928 to 1932 inclusive, or

(b) Cotton was planted for three years of the base period, one of which years was either 1931 or 1932, or

(c) Cotton was planted in both of the years 1931 and 1932. Except that—

(d) In the event that the producer failed to grow cotton in the years specified in any of the above clauses (a), (b), and (c), but fulfilled an acreage reduction contract with the Secretary of Agriculture in 1933 and will farm the land in 1934 on which such a contract was fulfilled, he may enter into a contract covering such farm and shall have as his base acreage the acreage planted to cotton on such farm in 1933 or, if cotton was planted in both years, the average acreage so planted in 1932 and 1933, and the average yield per acre shall be fixed by the county committee in accordance with the 1928 to 1932 yields of other similar lands in the community

And provided in any event that—

(e) The reduction in 1934 shall not be less than two acres and

(f) On land now in the farm planted to cotton for which—

ever of the above periods is applicable, the average annual production for such period shall not have been less than 100 pounds of lint cotton per acre.⁹

Amendments to Administrative Ruling No. 1 issued on January 20, 1934 reduced the minimum yield on land eligible to be rented to the Secretary from 100 to 75 pounds of lint cotton per acre, and allowed

. . . any producer on a farm having a base acreage of not more than five acres but not less than two acres to sign a contract for the reduction of any whole number of acres not in excess of the base acreage for such farms, except that in no instance may the reduction be less than two acres.¹⁰

All farms on which cotton was grown only during the first three years of the base period 1928-32, or during only one of these years and in 1931 or 1932 but not in 1933, were thus declared ineligible for a cotton contract in 1934. All farms covered by a plow-up contract in 1933, however, were declared eligible regardless of their production in any year of the regular base period. Only a very small number of farms on which cotton was grown at any time during 1928-32 were unable to qualify for a 1934-35 contract.

In 1935 a one-year contract was offered to

Any producer who is an owner, cash tenant, standing or fixed rent tenant, or a managing share tenant (jointly with the landlord) and who operates and controls a farm on which cotton was planted in 1933 and/or 1934 and on which cotton will be planted in 1935 . . . and which was not covered by a 1934 and 1935 cotton acreage reduction contract in 1934.

Provided also that all farms offered for a 1935 cotton contract must have a base acreage of not less than one acre.¹¹

⁹ "Administrative Rulings and Instructions Relating to the 1934 and 1935 Cotton Acreage Reduction Plan," *AAA Form No. Cotton 5*, December 1933.

¹⁰ *AAA Form No. Cotton 5-A, 37453*^o-34.

¹¹ "Administrative Rulings Applicable for 1935 to the 1934 and 1935 Cotton Acreage Adjustment Plan," *AAA Cotton 106*, Ruling 1. "Except

For the 1935 contract the base acreage of farms which had been eligible but not covered by the two-year contract was calculated in the same manner as in 1934. The base acreage of other farms eligible in 1935 was in general calculated on the basis of the acreage of cotton planted from 1932 to 1934.¹² In case a farm was eligible

that any such producer operating a farm on which cotton was not planted in 1933 and 1934 because such farm was in 1933 and 1934 planted to perennial crops in a regular rotation or because such farm was covered by an agreement with the government to eradicate the pink bollworm, but on which farm cotton was planted during the period 1928 to 1932 (in some combination of years set forth in Administrative Ruling No. 2 herein) and on which cotton will be planted in 1935 (subject to Administrative Ruling No. 10) may become a party to a 1934 and 1935 cotton acreage reduction contract covering such farm for the year 1935.¹³

¹³“Administrative Rulings Applicable for 1935,” *AAA Cotton 106*, provided the following method of calculating the base acreage of such farms:

Cotton Planted Only in	Base Acreage
1932 and 1933	} Average acreage planted to cotton in 1932 and 1933
1928, 1929, or 1930, and in 1932 and 1933	
1932 and 1934	} Average acreage planted to cotton in 1932 and 1934 ^b
1928, 1929, or 1930, and in 1932 and 1934	
1933	} Acreage planted in 1933
1928, 1929, 1930, and 1933	
1934	} Acreage planted in 1934 ^c
1928, 1929, or 1930, and 1934	

^a Farms with such a cotton history were eligible to sign a cotton contract in 1934 only if they had been covered by a 1933 plow-up contract. In 1935 this restriction was removed.

^b The acreage allowed for 1934, however, could not exceed one-third of the acreage cultivated in 1934 and still in the farm.

^c Provided, however, that it could not exceed one-third of the acreage cultivated in 1934 and still in the farm; and provided further that if the acreage rented to the Secretary by contract signers in the county in 1934 plus the acreage rented to the Secretary of Agriculture in 1934 was less than one-third of their cultivated land, the base acreage allowed should not exceed the acreage represented by such average percentage.

under more than one of the bases for either the 1934 or the 1935 contract, rulings stipulated the use of the longest base period for which it could qualify.

The average yield per acre used in calculating the farm allotment and the rental payments was expected to represent the average yield during 1928-32 of *all* cotton land on the farm. The method of determining this average yield varied with the years included in the base period. Each farm for which the acreage planted to cotton in 1932 and/or 1933 and/or 1934 served as the base was assigned an average yield by the community committee, subject to the approval of the county committee. This yield was to be a fair and equitable average for land of similar character in the particular community for the period 1928-32. The average yield of every farm for which the base period was stated as 1928-32 was determined by dividing the total production of cotton during this period by the total acreage planted.

As has been pointed out, signers of the 1934-35 contract agreed to reduce their cotton acreage in 1934 by 35-45 per cent of their base acreage, and in 1935 by 25 per cent of their base.

For land kept out of cotton production in 1934 the Secretary offered to pay 3.5 cents per pound on the average yield of lint cotton per acre on the entire farm in the years 1928-32, provided, however, that the maximum rental should not exceed \$18 per acre. An additional "parity payment" of not less than one cent per pound was to be made on the "farm allotment," which was defined as 40 per cent of the base acreage times the average yield per acre on this acreage during the base period. The rate of rental payment (3.5 cents per pound) remained the same in 1935, but the "parity payment" was increased to 1.25 cents per pound.

Specific provision was made for the division of payments between landlord and tenant.¹³ Cash tenants with farm leases for 1934 and 1935 were to receive all of the rental and parity payments. Managing share tenants signing the contract with the owner or his legally authorized agent were to receive half of the rental payments and their usual crop share of the parity payments. Non-managing share tenants and share croppers were to receive none of the rental payments but were to receive their usual crop share of the parity payments. Division of the parity payment, however, was placed in the hands of the landlord.¹⁴

The rental payments were to be made in two equal installments: the first between March 1 and April 30 (immediately before planting), and the second between August 1 and September 30 (immediately before harvest). These were expected to reduce the amount of production and store credit used by cotton producers and thus enable them to reduce or eliminate the high interest charges paid on such forms of credit. This was intended to act as an additional inducement to producers to sign contracts. The parity payments were to be made in December 1934, providing a form of Christmas savings.

¹³ Only cash (including standing or fixed-rent) and managing share tenants could sign contracts as producers. Cash tenants without leases for both 1934 and 1935 were required to secure the signatures of landlords. In the case of farms operated by managing share tenants, both the landlord and tenant were required to sign. In all other cases the landlord signed alone. The definition of a managing share tenant caused considerable difficulty. In the contract such a person is defined as "a share tenant who furnishes the work stock, equipment, and labor used in the production of cotton and who manages the operation of this farm."

¹⁴ See pp. 138-46 for the effect of these provisions upon compliance with the terms of the contract covering landlord-tenant relationships.

An additional reason for providing early payment of one-half of the rental was to increase the purchasing power of cotton producers with as little delay as possible.¹⁵ Such an advance, however, increased the danger that contract signers would violate their contracts. A few producers, the bad actors, might decide to accept the first half of the rental payments and then proceed to plant their usual acreage of cotton or even increase their acreage. If even a very small percentage of cotton producers adopted this practice, a tremendous enforcement problem would develop. Payment of the rental benefits only after the performance of each contracting producer had been checked would have made enforcement much easier. Such a procedure would have placed the county agents and the committees in a position to withhold all payments to producers who failed to conform to the terms of the contract. This was the fortunate position of the county agents during the 1933 plow-up campaign, and doubtless was one reason for the relatively small amount of enforcement difficulties then encountered.

OFFERS CONTEMPLATED FOR SUCCEEDING YEARS

In December 1935 plans were announced for offering a four-year contract in 1936 which could be terminated at the end of any year by the Secretary of Agriculture or the contracting farmer by giving appropriate notice of such termination.¹⁶

This contract provided for a single adjustment payment in 1936 of not less than 5 cents per pound on the

¹⁵ It was also expected to have some inflationary effect, since rental and benefit payments preceded to some extent the collection of processing taxes.

¹⁶ "AAA Announces New Four-Year Cotton Adjustment Program," *AAA Press Release No. 993-36*, Dec. 3, 1935.

average yield of lint cotton on land withheld from cotton production under contract in 1936. This rate of payment per acre was approximately the same as in 1935, but farmers were permitted to rent 30-45 per cent of their base cotton acreage to the government at this rate in 1936 compared with only 25-35 per cent in 1935. The payments in 1936 were to be made as soon as practicable after compliance was determined, and the work of checking compliance was to be started as soon as the planting season was over in each county.

In 1936 the division of payments between landlords and tenants on farms under contract was to be as follows: 37.5 per cent of the payment was to be made to the person furnishing the land; 12.5 per cent to the individual furnishings the work stock and equipment; and the remaining 50 per cent was to be divided according to the proportion that each received of the cotton produced or of the proceeds from it. This division of the benefit payment would have increased the proportion received by tenants above that received by them in 1935. Furthermore, separate payments were to be made direct to the tenant and landlord unless a joint payee was designated by them.

Numerous changes were also planned for the determination of the base acreage for each state, county, and farm in 1936. In the first place, a total base acreage of 44.5 million acres—estimated to be approximately equal to the total base acreage of contract signers and non-contract-signers in 1935—was proposed. This base or national acreage quota was to be allocated by the Cotton Section of the AAA among the various cotton-producing states upon a basis corresponding to the total of the base cotton acreages established for all farms, including those not covered by contract in 1935. Ninety per cent of each

state quota was to be allocated to the individual counties by the method used in allocating the national quota to the states. The remaining 10 per cent was to be set aside as a state reserve for apportionment to counties and individual producers by a state cotton board.

In apportioning the county quota to individual producers it was planned to permit each state cotton board to select one of five base periods for this purpose. The bases from which the choice could be made were 1928-32 inclusive, 1931-33 inclusive, 1932-34 inclusive, 1933-35 inclusive, and 1935. The base selected, however, was to be applied uniformly throughout a state.

Considerable freedom was to be given the state cotton board in apportioning the state reserve. For instance, a state board might have used it to make the county quotas conform to the total cotton acreage bases established for all farms on the basis selected by the state board.

VARIATIONS IN ADVANTAGES OF GOVERNMENT OFFERS

The economic advantage of signing a 1934-35 contract in 1934 varied with the relation of current acreage and production, or of existing facilities for producing cotton on a farm, to the acreage and production base allowed. As an extreme case, assume that a farm on which only 15 acres of cotton had been grown in 1932 and 1933 received a base of 25 acres. It is obvious that a 40 per cent reduction could be made from such a base without reducing the acreage of cotton planted below that in 1932 or 1933. Any rental and parity payments received by the owner or operator of such a farm would be in the nature of a gift. On the other hand, if 45 acres of cotton had been grown on this farm in 1932 and 1933, and if the operator was equipped to continue producing this acreage of cotton, a contract permitting the planting

of only 15 acres of cotton would mean an actual reduction of 30 acres, but government payments would be calculated on the basis of a reduction of only 10 acres.

Such extreme variations were possible under the administrative rulings issued in 1934. These rulings defined the base acreage and production for eligible farms as their average planted acreage and production during the years of the base period in which cotton was actually planted. Farms on which cotton had been grown only one, two, or three years of the base period, however, were relatively few in number. A large percentage of them had a four- or five-year acreage and production base. Nevertheless the result of this definition was that farms varying widely in acreage of cotton planted received the same base acreage. This is indicated more clearly by the following table, in which farms having different acreage records are represented by letters:

Year	A ¹⁷	B	C	D	E	F	G	H	I
1928	—	—	—	25	25	10	45	15	35
1929	—	—	25	25	25	10	40	20	30
1930	—	—	25	25	25	20	20	25	25
1931	—	25	25	25	25	40	10	30	20
1932	—	25	25	—	25	45	10	35	15
1933 ¹⁸	25	—	—	—	—	—	—	—	—
Average acreage,									
1928-32	0	10	20	20	25	25	25	25	25
Base acreage	25	25	25	25	25	25	25	25	25

While examples of all of these cases are actually on record, the extreme cases, such as A, B, F, and G, are few in number and relatively unimportant.

Farms and areas having a downward trend in acreage

¹⁷ Farm covered by a 1933 cotton contract.

¹⁸ Except in the case of A, any acreage could have been planted in 1933.

of cotton (Farm G) tended to receive a base relatively high in relation to their acreage in 1932. The opposite was true of farms and areas on which the acreage of cotton had been increasing during the base period (Farm F). Naturally farmers having an upward trend considered their base unsatisfactory. Nevertheless, those with a downward trend in acreage received a lower base than they would have if their early level of acreage had been maintained, and those with an upward trend received a higher base as a result of increasing their acreage of cotton during the depression. Cotton farmers who had made reductions in acreage prior to the passage of the Agricultural Adjustment Act, whether in response to low prices or to the advice of the Agricultural Extension Service, were thus given a base relatively lower than those who were supposedly causing "the breakdown of the old economic system."

Farms which had grown cotton intermittently received a higher base in relation to their average acreage during the base period than those which had produced cotton each year. Thus, in the hypothetical example, Farm F with 10 acres of cotton in 1928 and 1929, 20 acres in 1930, and nearly twice as large an acreage as Farm B in 1931 and 1932, was only entitled to the same base acreage as Farm B. Only 50 acres of cotton were planted on Farm B during the base period compared with 125 acres on Farm F, yet the base acreage of both was the same.

In effect, in determining the base acreage, greater weight was given to the acreage of cotton grown in 1931-33 than in 1928-30. If a farm on which cotton was grown for the first time in 1933 was covered by a plow-up contract, it was placed on equality with farms on which cotton had been grown every year since 1928. Farm A,

for instance, on which 25 acres of cotton had been planted for the first time in 1933 was entitled to the same base as Farm E on which 25 acres of cotton had been planted each year from 1928 to 1932 inclusive, regardless of the acreage of cotton planted in 1933.

A very large proportion of the cotton planted in 1932 and 1933, however, was undoubtedly on farms growing cotton during four or five years of the base period 1928-32. On most farms, the acreage of cotton planted in 1931, 1932, and 1933 was considerably below that planted on the same farms in 1928, 1929, and 1930. The acreage of cotton in cultivation in the United States on July 1 each year of the base period was as follows (in thousands of acres):

1928	43,735
1929	44,458
1930	43,339
1931	39,109
1932	36,542
1933	40,852

Nevertheless, by tending to favor the farms which began producing cotton after 1930, a larger proportion of the farms most able and likely to increase their acreage and production of cotton may have been induced to sign cotton contracts in 1934.

Another cause of variation in the economic advantage of government offers to farmers for reducing their production of cotton was the lack of any provision for differences in quality or location of cotton produced. The same offer was made to growers of long-staple cotton as to growers of short-staple, and to growers of cotton in southwestern Oklahoma as to growers near the cotton mills of North and South Carolina. Yet the average premium paid at New Orleans in 1930-31 for cotton

of $1\frac{1}{8}$ -inch staple was 1.83 cents per pound over that of $\frac{7}{8}$ -inch middling grade cotton (contract grade); and the premium on $1\frac{3}{16}$ -inch staple was 3.08 cents per pound.¹⁹ In 1929-30 prices of middling $\frac{7}{8}$ -inch white cotton in northwest Texas and southwest Oklahoma were 1.0 to 1.5 cents per pound below those for the same grade and staple cotton in the ten major spot markets of the United States, as compared with local prices in North Carolina only 0.16 cents per pound below. For these two reasons the government offer in 1933 was much more favorable to cotton growers in southwestern Oklahoma, northwestern Texas, and southern Alabama and Georgia than to cotton growers in the Mississippi Delta, North Carolina, and the irrigated areas.

The government offers for plowing up cotton in 1933 also provided somewhat higher payments per pound of estimated yield on the average for relatively low-yield cotton land than for high-yield land, as shown in the table on page 61. This definitely favored the western part of the Cotton Belt.

The government offer for reducing cotton acreage in 1934 and 1935, however, favored the eastern section of the Cotton Belt. It provided for a fixed payment per pound of estimated yields during a specified base period (with a maximum payment per acre of \$18) regardless of the normal cash and other costs of obtaining those yields. For instance, the average yield of cotton per acre

¹⁹ The weighted average price received by producers for cotton sold during the 1930-31 season was 9.5 cents per pound, according to estimates by the U. S. Dept. of Agriculture, or about the same as the prices prevailing during the sign-up campaign. For the years 1928-31 inclusive, 39.5 per cent of domestic cotton was of contract grade, 13.5 per cent below contract grade, and 47.0 per cent above. Lawrence Myers and Maurice R. Cooper, *Cotton Statistics and Related Data for Agricultural Workers*, U. S. Dept. of Agriculture, 1932, pp. 20, 26.

in North Carolina from 1928 to 1932 inclusive was 253 pounds as compared with only 142 pounds in Texas and 145 in Oklahoma. For these yields the rental and parity payments would be roughly \$11.38, \$6.34, and \$6.52 per acre respectively. Cash costs per acre of producing cotton in North Carolina, however, are considerably higher than in Texas or Oklahoma. In 1934 and

CASH-ONLY AND CASH-AND-OPTION PAYMENTS
(In cents per pound of estimated cotton yield per acre)

Estimated Yield per Acre (In pounds)	Payment for Average Yield in Group		Payment for Upper and Lower Limits of Yield Group	
	Cash-Only Plan	Cash-and- Option Plan	Cash-Only Plan	Cash-and Option Plan
100-124.....	6.30	5.40	7.0-5.6	6.0-4.8
125-149.....	6.60	5.15	7.2-6.0	5.6-4.7
150-174.....	6.80	4.95	7.3-6.3	5.3-4.6
175-224.....	7.12	5.10	8.0-6.25	5.7-4.5
225-274.....	6.90	4.45	7.6-6.2	4.9-4.0
275 and over...	5.65 ^a	3.40 ^a	7.3-4.0 ^b	4.4-2.4 ^b

^a Assuming a maximum yield of 500 pounds per acre.

^b For a 500-pound yield per acre.

1935 the average cost of fertilizer per acre of cotton grown in North Carolina was \$4.53 compared with only 5 cents per acre in Texas and Oklahoma.²⁰ North Carolina growers also have other cash costs, such as for weevil control, larger than do western growers. Partially offsetting these larger savings in cash costs in North Carolina is the higher price normally received for cotton grown. The December 1 farm price of cotton in 1932 and 1933 was 0.5 cents higher per pound in North Carolina than in Texas and 0.85 cents higher than in Okla-

²⁰ *Crops and Markets*, U. S. Dept. of Agriculture, August 1935, p. 319.

homa.²¹ With these price differences the average yield of 253 pounds of cotton produced in North Carolina would be worth on the average \$1.26 more than the same number of pounds produced in Texas and \$2.15 more than in Oklahoma. Such price differences did not nearly offset the average saving in cash cost of commercial fertilizer alone in North Carolina.

These offers were intended to give the contract signer a better deal than the non-signer. This objective was attained, on the average, by the cash-and-option offer for plowing up cotton in 1933, since the contract signers received options to buy, at 6 cents per pound, cotton equivalent in amount to that estimated to have been destroyed by them and worth approximately one cent more per pound on the average, and in addition received a cash payment averaging about 5 cents per pound for the cotton destroyed. If actual yields were the same as estimated yields, signers selecting this plan benefited as much on the average as non-signers from any price rise resulting from the plow-up program or from other causes.

There was not the same assurance that the cash offer in 1933, 1934, or 1935 (without considering the effect of the Bankhead Act) would prove to be a better deal for the signer than for the non-signer. When converted into cents per pound, as noted above, cash payments offered under the cash-only plan in 1933 varied from 8 cents for yields of 175 pounds per acre down to 4 cents or less for yields of 500 pounds or more. Yet farm prices for cotton during the sign-up campaign were averaging about 10 cents per pound—8.7 cents on June 15, 1933

²¹ This price spread for all cotton grown in each respective area should not be confused with the price spreads mentioned on p. 60 for cotton of a particular grade and staple in the two areas.

and 10.6 cents on July 15. However, just two or three months earlier farm prices had been about 6 cents per pound, and there was a possibility that they would again decline to that level. If this occurred, growers accepting the cash-only offer would fare better than non-signers. On the other hand, if cotton prices continued around a 10-cent or higher level, whether because of the success of the program or for other reasons, the non-signer would be favored.

Under the 1934-35 cotton acreage reduction contract, cotton producers renting 40 per cent of their base acreage were offered a minimum payment for land rented of 4.5 cents per pound on the average yield of lint cotton in 1928-32 on the entire farm, regardless of its location (rental payments of 3.5 cents plus a parity payment of one cent per pound on 40 per cent of the production during the base period). This may be compared with an average farm price of cotton in the United States on December 1, 1932 of 5.7 cents per pound. A rental of 4.5 cents per pound is the equivalent of one-fourth of the gross value of the crop with average yields when cotton prices are 18 cents per pound and of one-third of it with cotton prices at 13.5 cents. It also represents a return of \$6.30 per acre for land yielding 140 pounds of lint cotton per acre and \$9.90 for land yielding 220 pounds. In 1935 the payments per acre were increased. For instance, a farm having an allowed average yield of 140 pounds of lint cotton per acre and a base of ten acres, three of which were rented to the government, received a total payment of \$21.70 or \$7.23 per acre. Had the program been continued in 1936, it was planned to pay \$7.00 per acre for taking such land out of cotton production.

The average rent of cotton land producing these amounts of cotton has been estimated by the Division of Farm Management and Costs of the United States Department of Agriculture to have been \$3.46 and \$3.97 respectively in 1931 and 1932.²² These returns per acre, however, are not strictly comparable with those under the cotton program. The government payments were not only for land rental but also in effect for the rent of labor and equipment that would ordinarily have been used in the production of cotton on this land. However, the payments appear to have been distinctly remunerative rentals, except for perhaps two groups: those who would otherwise have planted more than their base acreage, and those who received a relatively low acreage and production base.

Nevertheless, the advantages of these offers depended to a considerable extent upon the total reduction in production secured. When the 1933 plow-up campaign was undertaken, practically all of the cotton had been planted, and the AAA assured farmers that their offers would not be accepted unless a large enough acreage was offered to accomplish the ends sought. Since these offers were limited to growers who agreed to take out of production not less than 25 per cent and not more than 50 per cent of their cotton acreage, except with the approval of the state director of extension, the effect of the program on cotton production could be calculated within reasonable limits in 1933. Besides, there was not the possibility that individual growers would expand their acreage of cotton in 1933 in response to the higher prices expected to result from the program.

When the 1934 and 1935 cotton acreage reduction

²² Myers and Cooper, *Cotton Statistics and Related Data for Agricultural Workers*, p. 94.

contract was presented to farmers early in 1934, however, non-signers were supposed to be free to increase their cotton acreage although pressure of public opinion and threat of a tax under the proposed Bankhead bill may have made plans for an increase seem unwise. There was at least an opportunity to increase the acreage of cotton planted. Consequently the government offer for 1934 and 1935 must be considered not merely as a rental for a specified acreage of cotton land, but also as compensation to the farmer for not increasing his acreage of cotton above his base acreage. For instance, a farmer with a base of 20 acres might compare his estimated income from 12 acres of cotton, plus rental and benefit payments with the income from 20, 25, or 30 acres of cotton, making allowance for the estimated difference in his expenses for fertilizer, cotton picking, ginning, and purchases of food, feed, and other products.

Many of the factors involved in actually determining the profitableness of signing or not signing a contract were exceedingly difficult to measure. A 40 per cent reduction in acreage of cotton meant a great deal less work, even if food and feed crops were increased as much as the acreage of cotton was reduced. Then, too, a reduction in acreage of cotton would probably result in better care of the acreage grown. Soil conditions might also be improved by planting less cotton and more food, feed, or soil-improving crops.

The effect on a farmer's expenses of a 40 per cent reduction in acreage of cotton would naturally vary a great deal. As pointed out above, those normally applying large amounts of commercial fertilizer would be saved this expense on the reduced acreage. There would also be a saving in the picking, ginning, and other costs of large producers who did not depend upon family

labor for any of this work. The government offer was therefore less advantageous to the small producer than to the large grower.

Naturally the economic advantage of signing such a contract would decrease in proportion to the success of the sign-up campaign. With a large sign-up and a reduction in 1934 cotton acreage of approximately 40 per cent, the individual farmer would obviously stand to gain more by not signing than with only a small sign-up. This is true of all reduction programs by means of voluntary contracts; but it was particularly true of the cotton program because it required such a large reduction by each contract signer.²³

In appraising these features of the so-called voluntary control program it should be appreciated that the AAA was pioneering in the field of production control and was laying the foundation for a program that might be continued over a longer period of years. Once satisfactory acreage and production bases were established for each cotton farm they might be continued unchanged over a long period of time.

The hurried initiation of such a program, however, necessitated the adoption of measures which were not expected to be continued. Uniform rates of payment for taking land out of cotton production in all parts of the Cotton Belt were not expected to be continued indefinitely. Neither were uniform percentage reductions. These provisions were considered temporary measures.

²³ See Chap. IX for a consideration of the variation in advantage of government offers to landlords and tenants.

CHAPTER V

ADMINISTRATIVE ORGANIZATION

The attempt to reduce cotton production outlined in Chapter III was a tremendous undertaking. The policy itself had to be formulated and worked out in detail. The reasons for such a drastic program had to be explained to more than 2 million cotton growers as well as to the general public, and the terms of the contracts explained in detail to each grower. Each contract had to be inspected by persons familiar with the production history of the farm, checked for errors, and properly signed and witnessed.

In the 1933 cotton plow-up program, for instance, it was necessary to inspect the acreage of cotton grown by each farmer desiring to participate, to select representative fields to be plowed up, and to estimate their prospective yields. When a tenant or cropper desired to sign a contract, the consent of the landlord was required. Likewise a grower having outstanding liens against his crop had to make satisfactory arrangements with each lien holder. In the 1934-35 program the acreage, yield, and production of cotton from 1928 to 1932, and in some cases 1933 as well, had to be obtained for each farm and adjusted for inaccuracies. Finally, the compliance of each contract signer in both programs had to be checked and payments made. Supplementary phases of the program included administration of the Bankhead Cotton Control Act, collection of processing taxes on cotton and certain competing products, a tax on the ginning of cotton, the making and handling of 10- and 12-

cent loans, and the handling and marketing of cotton acquired from the Farm Credit Administration.

In order to carry out these widely divergent undertakings simultaneously and quickly, special administrative machinery had to be called into action. Although heavy drafts were made upon old-line government services, new local as well as federal units were incorporated into the organization built up to carry out the cotton program. To begin with, we shall consider what ways and means of accomplishing the desired results were in existence at the time the program was inaugurated.

AVAILABLE FACILITIES

While the adjustment program was in many respects an extreme departure from previous activities of the United States Department of Agriculture, it nevertheless represented a departure in the direction this Department had been moving for a number of years. The term "a state directed agriculture" had been familiar to some members of the Department, particularly in the Bureau of Agricultural Economics, ten years before the passage of the Agricultural Adjustment Act. The term was used, however, merely as an expression of a point of view in the consideration of agricultural economic problems. These problems were being analyzed from the standpoint of the economic welfare of the people in the state, the region, or the nation as a whole, as well as of the individual farmer. There was, for instance, the question whether the production of dairy products, wheat, or cotton was too large or too small, and whether it would be to the best interest of farmers and of the nation as a whole to expand or contract these enterprises. But it was not proposed to influence or speed up agricultural adjustments except through educational processes.

"Agricultural Outlook" reports were made each year to advise farmers regarding probable trends of production and prices, and the character and sometimes the amount of change they could advantageously make in their production program in the ensuing year. The preparation of such reports involved intensive research into the relation of prices of individual farm products to supplies and other factors, and the relationship of production to prices.¹ The results of this research work formed the foundation for much of the program. Moreover, the Bureau of Agricultural Economics was called upon frequently by the AAA for special economic and statistical reports pertaining to current acreage, removal of surpluses, and marketing agreements.

Equally important from the standpoint of operating the adjustment program was the work of the Division of Crop and Livestock Estimates. Its reports on production and prices, in connection with those of the Division of Statistical and Historical Research, furnished the basis for the analysis of supply-price relationships referred to above. Its county, state, and national esti-

¹ Attempts were also made to direct, by education and suggestion, the year-to-year changes in production of farmers in different areas that should be made in view of the agricultural price outlook. A number of states were divided into areas, called type-of-farming areas, within each of which farming conditions were fairly uniform and where most of the farmers were following a similar type of farming. A number of representative farms were usually selected in each of these areas, and changes in their organization worked out that appeared to be profitable in view of the agricultural price outlook. Such changes were taken as an indication of the changes that should be made in the entire area represented. The whole United States has now been divided into type-of-farming areas, on the basis of 1930 census data, a knowledge of local conditions, and other factors. This work, which was well under way at the time the Adjustment Act was passed, was done under the direction of F. F. Elliott who, as director of the Division of Program Planning of the AAA, later attempted to use it in planning the adjustments that should be made in the production of agricultural products in the United States.

mates of acreage, yield, and production of cotton furnished the means for checking and holding in line the production estimates of contracting farmers. All of this research work and the research men formerly engaged in it played a vitally important role in the formulation of the cotton and other programs of the AAA.² Besides, the methods of procedure developed in this Division for determining bias, checking inaccuracies, etc., proved exceedingly valuable in formulating the methods of procedure to be followed in checking individual contracts.

The educational agencies built up over a long period of years by the Department of Agriculture in co-operation with state and county governments and farmers were almost ideally adapted to carrying out the cotton program. At its inception, 733 or 77 per cent of the cotton-growing counties participating in the cotton plow-up campaign already had county agricultural extension agents who regularly helped farmers with their production, marketing, and organization problems. Many of these had been in the same counties for a number of years. They knew the farm leaders and the men who could be depended upon to put the program across effectively. Their activities were guided by the state agricultural extension services and the Agricultural Extension Service of the United States Department of Agriculture.

² A number of the men who had much to do with the formation of the AAA and many of the key men in the organization were formerly contemporaries in farm management research work in the Bureau of Agricultural Economics. They include M. L. Wilson, assistant secretary of agriculture; H. R. Tolley, formerly director, Division of Program Planning; Mordecai Ezekiel, economic adviser to the Secretary; Jesse W. Tapp, director, Division of Marketing Agreements and Licenses; J. B. Hutson, director, Division of Tobacco, Sugar, Rice and Peanuts; and F. F. Elliott, director, Division of Program Planning.

In addition to the county extension workers, local communities in 522 or about 65 per cent of the important cotton-growing counties also employed one or more vocational agriculture teachers whose activities were guided by state and federal boards of vocational education. These workers taught agriculture in the schools and conducted educational work for adult farmers. In the year ending June 30, 1933, more than 50,000 farmers were regular attendants at their evening classes, and a much larger number attended irregularly. These teachers evidently had the confidence of many farmers and were in an excellent position to explain the cotton program to them and assist in other ways.

The experience and aid of the Bureau of Internal Revenue of the Treasury Department were invaluable in connection with the collection of taxes levied under the program. Other government agencies which had had experience in lending money on cotton, or in handling and marketing it, were likewise called upon for aid in formulating and carrying out the cotton program.

NEW FEDERAL ORGANIZATIONS

The supervision and direction of all activities under the Agricultural Adjustment Act, the Bankhead Act, and other related legislation were placed in charge of the Agricultural Adjustment Administration, a new organization set up within the Department of Agriculture under the Secretary. The diagram on page 73 shows the component parts of this new unit, together with their relation to other branches of the Department of Agriculture. The Division of Cotton shown in this chart (prior to the reorganization of 1935 known as the Cotton Production Section and commonly referred to as the Cotton Section) was charged with major responsibil-

ity for the formulation and direction of the cotton production control program.³

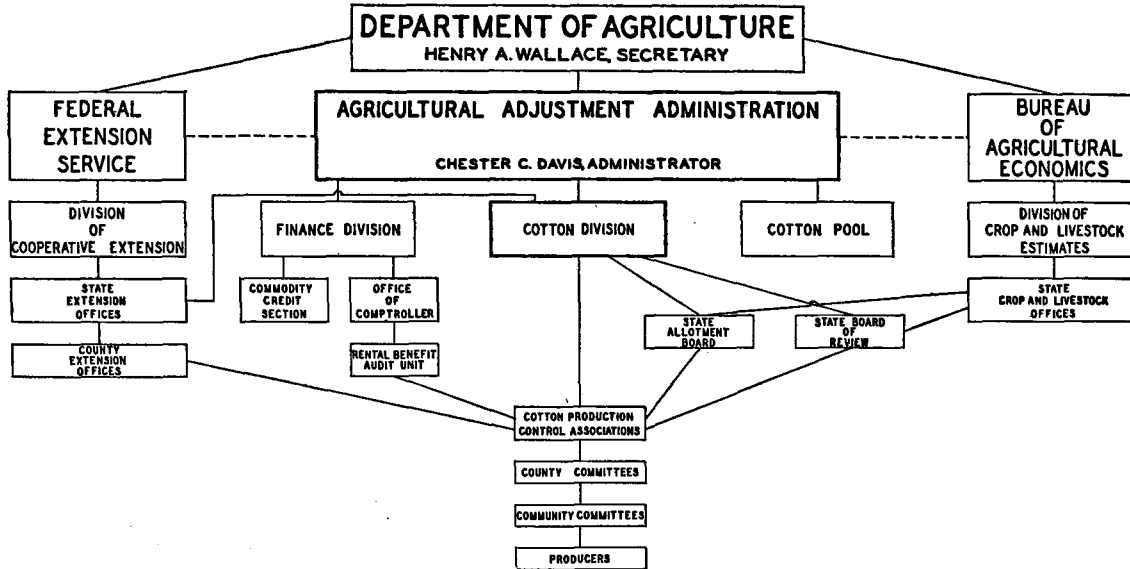
Since the cotton program was only one part of a larger undertaking, other sections and divisions of the AAA, together with other government units, played an important part in its formulation and execution. Many details of the program such as those relating to use of land taken out of cotton production, landlord-tenant relationships, etc., had to be more or less closely co-ordinated with other crop control programs. Also, each cotton contract and each record of compliance had to be analyzed, checked, and tabulated by a contract record unit set up in the AAA under the general direction of the Comptroller's Office before rental, benefit, or parity payments were made. Furthermore, the Cotton Section was not officially responsible for the government policy of lending 10 and 12 cents on cotton, even though this policy vitally affected the production control program. These loans were handled by the Commodity Credit Corporation.⁴ The cotton obtained through the Farm Credit Administration on which producers hold options was handled by the Cotton Producers Pool, which is responsible to the Administrator of the AAA and to the Secretary of Agriculture. As stated in the preceding section, the processing taxes on cotton and certain competing products as well as the tax on cotton ginning were collected by the Bureau of Internal Revenue.

³ Cully A. Cobb, formerly co-editor of the Georgia-Alabama edition of the *Progressive Farmer*, was director of the Division and served as chief of the Cotton Section from the date of its creation.

For a discussion of the reorganization of the Agricultural Adjustment Administration as a whole, see D. A. FitzGerald, *Livestock under the AAA*, pp. 42-46.

⁴ See Chap. XI.

ADMINISTRATIVE ORGANIZATION FOR THE 1935 COTTON REDUCTION PROGRAM



THE SET-UP FOR FIELD SERVICE

The field work connected with the cotton program was carried on mainly under the general supervision of the Agricultural Extension Service. At the time of announcing the cotton program in 1933 the Secretary of Agriculture, under instructions from the President, drafted the Agricultural Extension Service and its force of state and local workers to form this field organization. The state directors of extension in the South, or persons appointed by them, were placed in charge of the campaign in their respective states, and the county agents were assigned to the county work, an arrangement which was continued with few changes in carrying out the acreage reduction program and the Bankhead program during 1934 and 1935. In so far as possible all directions and instructions from the Cotton Section to extension workers engaged in acreage reduction were transmitted through the state director or his designated representative.

There was no provision for state boards of any kind to assist with the 1933 plow-up campaign. The contract offers were sent directly to Washington when approved by the county officials. In 1934 and 1935, however, the director of extension in each state was instructed to appoint, subject to the approval of the Cotton Section, a state board of review consisting of three or more members. The federal statistician for each state acted as an adviser to the board. It became the duty of this board to review the summaries of contracts in each county and to determine whether the total production, acreage, and yields reported by the producers were in line with the official figures for each county. If they were not, the board instructed the county committee what action to take.⁵

⁵ "Administrative Rulings and Instructions Relating to the 1934 and 1935 Cotton Acreage Reduction Plan," *AAA Form No. Cotton 5*, p. 3.

The general scheme of organization included a county committee of three members and a system of community committees composed of three members each. The county committees were expected to review all offers or contracts, secure adjustments or corrections where necessary, and make recommendations to the Secretary concerning the advisability of entering into a contract with each producer. Community committeemen were expected to assist in obtaining, preparing, checking, and approving all offers or contracts, checking compliance, and doing other work connected with the program.

In 1933 county agents in cotton counties were instructed to appoint both the county and the community committees. This was mainly to avoid the delay which would have attended their election by producers. However, some members of the Cotton Section considered appointment the better procedure in any case. In 1934, nevertheless, each county agent was directed to create a production control association "for the purpose of co-operating with the Secretary of Agriculture in making effective the provisions of the Agricultural Adjustment Act . . . in their application to cotton and for no other purpose."⁶ This association was designated as the agency for the administration of the act in relation to the production of cotton in each county and was required to operate under the general supervision and direction of the Cotton Section.⁷

⁶"Articles of Association of the Cotton Production Control Association," *AAA Form No. Cotton 3*, Nov. 29, 1933.

⁷There was some fear that these county production control associations would form state and national organizations which would compete with existing farm organizations in influencing farm legislation or the AAA program, particularly with respect to government payments and loans on cotton and other agricultural commodities. Such possibilities may have been the reason for including the following declaration in the articles of association of the cotton production control associations:

"It is a fundamental principle of the organization of the association that the Secretary of Agriculture may, in his sole discretion, at any time

All producers who became parties to a 1934-35 cotton contract were declared members of this association during the life of their contracts. But the county agents were instructed to appoint as charter members those producers "eligible to participate in the 1934 and 1935 cotton acreage reduction plan and in so far as possible . . . those committeemen who served in the 1933 cotton acreage reduction campaign."⁸ The number of charter members, although not expressly stated, was expected to equal the number of committeemen needed to carry out the program—about one for every hundred cotton growers. These charter members, instead of the county agent, were authorized to elect a county committee of three members from their own number. This committee and the county agent then divided the county into an appropriate number of communities with approximately 300 cotton producers each, and assigned a committee of three charter members to each community. If any vacancies occurred in the county committee they were filled by election from charter members of the association. Vacancies in the community committees, however, were to be filled by election, from all members of the association in the respective communities. Thus the charter members of the association appointed by the county agent were placed in control of the association during 1934.

when it shall appear to him that the conduct of the association or its further existence is not furthering the purpose or intent of such acts, or that the association is no longer necessary to effectuate the declared policy of such acts, withdraw his approval, whereupon the association shall cease to exist. The Secretary, at his discretion, may order the organization of a new association to take the place of any association that has ceased to exist." The same.

⁸ "Instructions for 1935 for the 1934 and 1935 Cotton Acreage Adjustment Plan," *AAA Cotton* 105, Feb. 20, 1935, p. 5.

In 1935 the more democratic procedure of electing community committeemen by popular vote of all members of the association in each respective community was adopted for cotton. But the privilege of voting on county committeemen was reserved for the elected community committeemen, and even this privilege was strictly limited. It was provided that two members of each county committee in 1934 were to be continued in 1935, and the elected community committeemen were merely permitted to select these two by vote. A third member was then elected by majority vote of the community committeemen from their own number and the remaining member or members of the county committee who served in 1934.

The new articles of association for cotton production control associations issued in December 1935, when it was expected that the program would be continued in 1936, provided that two members of each community committee serving in 1935 were to serve in 1936 also. The selection of the two members to be carried over, as well as of the third member, was to be by popular vote. The county committee was to be chosen in the same manner as in 1935.

These changes in method of selecting committeemen did not materially affect the working of the cotton program. The principal function of community committeemen after 1934 was to check compliance and handle the routine work of filling out the required forms. Practically all of the acreage and production bases for each farm were established in 1934 in connection with the acreage reduction and Bankhead programs. These bases largely determined how much each farmer was permitted to plant, the amount of rental or benefit payments he would receive from the government, and the amount

of cotton on which he would be issued tax exemption certificates. Furthermore, all requests for changes were handled by the county committee.

The procedure followed in selecting committeemen was criticized by those who favored election by farmers or contract signers (as in the wheat and corn-hog programs). The reasons for appointing committeemen in 1933 have already been noted. After that year it was considered advisable to retain a fairly large number of experienced committeemen but at the same time to work toward a plan under which all committee members would be elected. The result was that the cotton program in each county was in charge of committees selected chiefly by charter members of the association, who in turn were appointed by the county agent.

In general, the committeemen selected, particularly the county committeemen, were relatively large farmers and landowners. In eight representative counties⁹ in the central part of the Cotton Belt all 28 of the county committeemen in 1933 were landowners or were engaged in occupations other than farming. Only two of them owned no land and they were dropped in 1934. Fifteen were large landowners, having an average of 1,268 acres in crops in 1933, and having no occupation other than farming. All of these men continued to act as county committeemen in 1934. The remaining eleven committeemen were landowners engaged in farming and other occupations. Three of these men having an average of only 88 acres in crops were dropped in 1934. Those retained were larger farmers, having an average of 604 acres in crops in 1933.

The community committeemen in these counties were also large operators, as shown by the table on page 79.

⁹ Data reported by the county agents in these counties.

While 20 per cent of the total were classified as renters, they were operating considerably larger farms in 1933 than the owners. In all or most cases they sub-rented a large part of the cotton land to croppers and other tenants.

Of the total number serving as community committeemen in 1933, 148 were dropped in 1934 and 68 new committeemen appointed. Both those dropped and those added operated considerably smaller farms than the average of those appointed in 1933 and retained in 1934.¹⁰

FARMING STATUS OF COMMUNITY COMMITTEEMEN*

Farming Status	Serving in 1933			Serving in 1933 but not in 1934			Serving in 1934 but not in 1933		
	Number	Average Acres in Farm	Average Crop Acres in Farm	Number	Average Acres in Farm	Average Crop Acres in Farm	Number	Average Acres in Farm	Average Crop Acres in Farm
Owner.....	163	640	421	93	470	262	47	469	316
Renter.....	44	1,287	749	14	347	291	17	300	183
Owner and renter.....	12	635	522	1	720	430	—	—	—
Neither.....	9	...	...	40	...	...	4	...	...
Total.....	228	...	...	148	...	...	68	...	...
Engaged in other occupations also.....	41	...	...	42	...	...	5	...	...

* Data reported by the county agents of eight representative counties in Mississippi, Louisiana, and Arkansas.

Administration of activities under the Bankhead Cotton Control Act, other than the collection of taxes, was placed under the immediate supervision of the Cotton Section and its organization for handling the cotton acreage reduction plan. County and community committeemen handled the receiving, checking, and adjusting of producers' applications for tax exemption certificates

¹⁰ Similar data for a county in Georgia and one in northwest Texas showed much the same farming status of committeemen. A larger proportion of renters would, of course, be found on committees in areas where the proportion of managing share tenants is large.

in much the same manner as they did cotton contracts. They sent approved applications to a state allotment board of three members appointed by the state director of extension with the approval of the Chief of the Cotton Section.¹¹ These boards computed allotments and issued tax exemption certificates on the basis of the information submitted in the applications, notified each producer of his allotment of certificates, and mailed the certificates to the cotton production control association for distribution. They also kept such records and accounts as were prescribed by the Cotton Section.¹² They were given a freer hand in handling these applications for tax exemption certificates than were the state review boards in handling the cotton contracts. The applications were not sent to Washington for approval but were approved by the state allotment boards.¹³

After the passage of the Bankhead Cotton Control Act, directors of extension in the cotton states were authorized to employ, subject to the approval of the Chief of the Cotton Section, an assistant in cotton adjust-

¹¹ Some of those appointed had also served on the state review board. None of the federal statisticians, however, were appointed.

¹² "Instructions and Regulations pertaining to the Cotton Act of Apr. 21, 1934," *AAA Form No. B.A. 19*.

¹³ These adjustment programs greatly increased the work of county agents and the demand for agents in counties formerly without them. A total of 247 emergency agents for counties not having agents and assistant agents for heavy producing counties were appointed in 1933 to supplement the 733 already employed in the cotton counties of these states. Many of these emergency assistants were former employees of the Federal Extension Service; some were experienced vocational agriculture teachers; and others were experienced in lines of work which qualified them to assist in a campaign of this kind. All of them were required to take "unassembled" civil service examinations. Since the 1933 campaign, many of these emergency agents have been replaced by more or less permanent agents. By June 1935 the number of regular agents employed in cotton counties was greater than in May 1933. Negro extension workers were assigned groups of counties where they aided in holding meetings for negro growers.

ment for each county in which cotton was produced on 250 or more farms as indicated by the 1930 census. These assistants worked under the immediate supervision of the county agent and the cotton production control association. Their duties were to keep such records as were delegated to them by the county agent, the cotton production control association, and the Cotton Section.¹⁴

A number of vocational agriculture teachers were appointed during the plow-up campaign as special inspectors serving under state supervision to check out-of-line yield estimates of farmers and local committeemen, make investigation of complaints, and carry on other work of a similar nature. Some of them were also used as special inspectors or investigators under regional supervisors appointed by the Cotton Section in Washington to check the compliance of farmers with their contracts. As a rule, each special inspector covered three counties. The remaining vocational teachers assisted in other ways during the plow-up campaign, by acting as county or local committeemen, holding meetings, and the like. They did not take as active a part in the 1934 and 1935 programs as in the preceding one, but nevertheless were an excellent medium for informing farmers in regard to the program.

¹⁴ On Dec. 31, 1935 there were 836 assistants in cotton adjustment working in 1,525 counties.

CHAPTER VI

PROMOTIONAL CAMPAIGNS

Each important phase of the cotton program was presented to cotton farmers and other people in the United States amid a tremendous flood of facts and theories. The process has been called "Informing the Public about the AAA." It might as appropriately be called "Selling the AAA to the Public," and in the case of cotton high-pressure salesmanship has not been barred, although sometimes frowned upon. Great effort was made from the start to create a strong public opinion favorable to the program. Many farmers were unquestionably induced to sign a 1933 cotton contract by pressure of public opinion. Although such pressure was not so strong in 1934, other forms of persuasion were substituted for it.

The AAA was not unmindful of some of the dangers involved in this course of developing sentiment for the program among farmers by appealing to their individual desires for financial gain, their interests in the "good of the South," and their spirit of co-operation. Nevertheless a strong, favorable public opinion was essential to the success of the so-called voluntary program. As the degree of its success increased, the degree of compulsion could also be expected to increase. A voluntary cotton program calling for reduction in acreage of 30 to 45 per cent by co-operating producers, at the rates of payment specified in Chapter IV, could not be expected to avoid causing antagonism towards non-co-operating producers.

For years, cotton growers have believed that their

immediate income from cotton would be increased by reducing the amount of cotton produced in the United States. But prior to the AAA their attempts to secure reductions had been handicapped by the fact that non-co-operating cotton growers would profit more than co-operating growers from such efforts. This limitation was partially removed by government offers of rental or benefit payments under the cotton program of the AAA, which were intended to give the co-operating producer at least as good a deal as the non-co-operating producer. But as noted on page 66 the financial advantage of co-operating in a cotton reduction program declines as the proportion of cotton growers co-operating increases. Under such conditions the contracting farmers might be expected to exert all possible pressure on non-signers to prevent them from expanding their production. This pressure, over which the AAA could have little control, might be applied in varying degrees and by a wide variety of methods, including, in some and perhaps many communities, both social ostracism and physical violence.

The extent to which abuses of this character might develop under the so-called voluntary method of controlling cotton production, although indicated by events in 1933, has not been fully determined. The passage of the Bankhead Act early in 1934 removed practically all possibility that non-co-operating growers would fare better than co-operating growers. Thus by adopting what is usually considered a compulsory cotton control program the government removed an important cause of local antagonism between contract signers and non-signers.

The danger of such abuses was much greater under the cotton program than under the wheat or corn-hog programs. Under the wheat program the reduction in

acreage required of co-operating producers and the expected effect on wheat prices were small. Under the corn-hog program the benefit of any reduction in production by co-operating producers was expected to be largely offset so far as non-co-operators were concerned by the effect of the processing tax upon prices. There was consequently little reason for antagonism to develop between co-operating and non-co-operating producers under either of these programs.

ECONOMIC JUSTIFICATION CLAIMED FOR COTTON PROGRAM

The Adjustment Administration's view of its "educational" program has been expressed by Mr. Stedman, assistant administrator, as follows:

Devising a program requires reasoning from the facts, and presenting a program to farmers involves interpretation and the placing of greater emphasis upon some facts than upon others, according to experience and judgment of their relative importance. Hence, while we try at all times to keep the facts conspicuously in the foreground, we do depart from the objective attitude by devising and supporting a positive plan of co-operative action which is intended to improve the economic condition of agriculture. We are not neutral about carrying out the purposes declared by Congress in the Adjustment Act.¹

One of the central theories about which discussion of the cotton program revolved was that the "old economic system" of unrestrained competition (unrestrained at least for farmers) was breaking down. Low cotton prices were not resulting either in increased consumption or decreased production. Stocks of American cotton had piled up to record levels—enough to last a year without additional production—in spite of low cotton prices. As a matter of fact, low cotton prices were said to be causing

¹ "Informing the Public about the AAA," address at annual meeting of American Political Science Association, Chicago, Dec. 27, 1934.

farmers as individuals to increase their production of cotton in order to obtain sufficient income to pay taxes, interest on debts, and other more or less fixed expenses. Administrator Davis of the AAA expressed the prevailing opinion as follows:

Did 7-cent cotton, or 6-cent cotton, or at length 5-cent cotton, put the brakes on over-production? Anything but: Low prices proved on the contrary, a powerful and poisonous stimulant to further competitive plantings; and so long as the individual cotton farmer had to stand and fight the thing alone, it was certain that overplanting would go on to the bitter end. For this, quite plainly is what actually happened, and what is certain to happen again, unless you people hold fast to the production control machinery that you have now set up; and make that machinery stronger and more useful from year to year.²

A somewhat different point of view was earlier expressed by Secretary Wallace, as follows:

I venture to predict, that if our present effort to adjust production to effective demand does not succeed, the result will be food scarcity within eight or ten years. That is what always happens, if we proceed on the theory of the so-called automatic economic adjustments. The adjustment takes place, all right, but the movement always proceeds so far beyond the proper point as to involve a terrific toll in human lives and human spirit. It is our hope that the new national legislation—notably the Farm Act and the Recovery Act—can help build a social organization competent to do what the so-called automatic economic adjustments have failed to do.³

The extreme drop in agricultural prices compared with only a relatively mild decline in prices of industrial products was pointed out as evidence of the failure of the "old economic system" (see page 20 for a discus-

²"The 1934 Cotton Campaign," *AAA Press Release No. 1569-34*, Jan. 9, 1934

³"Trends and Shifts in World Agricultural Production," *AAA Press Release No. 235-34*, Aug. 3, 1933.

sion of this evidence). Manufacturers were able to maintain prices on a relatively stable level by reducing their production. Farmers, it was argued, should follow the same procedure.⁴

Secretary Wallace, Administrators Peek and Davis, Chief Cobb of the Cotton Section, and many others have pointed out that the AAA was merely seeking to enable farmers to do what industry had always done—namely, adjust production to effective demand. According to the Secretary of Agriculture:

Adjusting production downward when demand falls is not new. It is the normal, and in fact, the compulsory course. Industry follows it more generally and more successfully than does agriculture. Manufacturers immediately check or cease production when they can no longer sell their goods. They do so largely at the expense of labor, which loses its employment. Agriculture cannot quickly readjust its production downward for reasons familiar to everyone. . . . Co-operative planning under federal guidance can in part overcome these difficulties. It provides a definite mechanism through which farmers can work together for the control of production.⁵

And Mr. Peek in an early radio address stated that:

In adopting this plan, the government is adapting to agriculture a method of control which the industrialist long has

⁴In the past farmers had frequently attempted to do so through co-operative effort. In 1905, 1915, 1921, and 1927 they conducted mild campaigns to bring about a voluntary and unsubsidized decrease in cotton acreage planted in the United States. Moreover, in 1931 the Farm Board suggested that farmers plow up every third row of cotton. But these efforts, while perhaps resulting in some decrease in production, must be classified as failures, and it is obvious why they failed. Few intelligent farmers would reduce their production under such conditions because the non-co-operator would reap most of the benefit. The fact that farmers showed interest in these campaigns, however, indicated clearly that their attitude would be favorable towards a government plan that would assure co-operators benefits equal to or greater than those accruing to non-co-operators. The cotton program, with its rental or benefit payments, gave co-operating farmers that assurance.

⁵*Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1935, p. 2.

used. Rather than produce more than the market could absorb the manufacturer often has closed down his plant, or else restricted his output. This is the method now being proposed for farmers. If the plan works, the growers will receive more money for less output.⁶

Our foreign trade policy formed another widely publicized reason for a reduction program. Farmers and the public were told many times that high tariffs had protected industry but that farmers had been forced to buy in a protected market and sell in an unprotected one. It was also pointed out that our change from a pre-war debtor nation paying out about 200 million dollars in interest annually to a post-war creditor nation earning about one billion dollars a year in interest reduced the purchasing power of foreign countries for our export products. A large volume of imports was required to pay interest on these debts. Our high tariffs made such payments extremely difficult and at the same time reduced the purchasing power of foreign countries in our markets for agricultural and other export products. The simple fact that countries must either sell goods here before they can buy, or else buy on credit, has been broadcast over the country. Furthermore, it was argued, these restrictions on imports of goods into the United States— together with the high tariffs, import quotas, and other international trade barriers raised by foreign countries, partly in retaliation against our policy and partly for other reasons—have reacted more unfavorably upon agriculture than upon industry, since about 18 per cent of our agricultural products were exported as compared with only 5 per cent of our industrial products.

It was claimed that if prevailing tariffs and other foreign trade policies were continued, the production of

⁶ *AAA Press Release No. 1363-33, June 19, 1933.*

agricultural products would have to be drastically reduced, and that such a reduction by competitive processes would be too painful. Some form of control was therefore needed in order to secure the reduction at once and give farmers somewhere near a normal income. Then, when international trade barriers had been lowered, production could be stepped up and perhaps all control removed. The processing taxes which would make this control of agricultural production possible were described as "the farmers' tariff." Inquiries as to the length of time processing taxes were to be continued were sometimes answered with the statement "as long as high tariffs are continued."

Another argument for the cotton program which found ready acceptance in the South, particularly by many cotton farmers, was that by increasing the income and purchasing power of cotton farmers the whole country would be benefited by their increased expenditures. Cotton farmers were told that the government was going to give them some money to spend, partly for their own good but largely for the good of the country—to put people back to work.

Another extremely appealing idea advanced was that of "parity" prices.⁷ It seemed so simple and obvious and, besides, so hard to refute. Why should farmers not receive as much in terms of purchasing power as they had before the war? Why should it be necessary for farmers, as a group, to receive less than a "fair" price or income? City workers wanted a "fair" wage and perhaps considered such a wage above that prevailing in the years 1910-14.

All of these views were so developed and enlarged upon by the AAA that they now stand out in the public

⁷ See p. 10 for definition.

mind as the basic principles and justification for the control program. Many of them coincided with the thinking and opinions of a great body of farmers and others that existed before the origin of the AAA. They were presented to cotton farmers through "informational campaigns" planned by AAA workers. As will appear from the following section, however, public opinion sometimes became coercive collateral of these campaigns.

INFORMATIONAL CAMPAIGNS AND ATTENDANT CIRCUMSTANCES

Instruction was considered a vital necessity in all AAA production control undertakings. Administrator Davis described the whole program as a "venture in economic democracy which cannot succeed without education and without the public support that we hope will spring from that education." With regard to the cotton program the Cotton Section declared:

It was realized that if the cotton program were to succeed it would not only have to be economically sound, but it would require the support of cotton producers, based upon a knowledge of the cotton situation both in the United States and in foreign countries.⁸

In supplying producers with information the Cotton Section co-operated with established educational agencies, particularly the Extension Service and departments of vocational agriculture. County agents and other extension workers conducted district, county, and community informational meetings with producers. They also supplied material and information, and trained members of county control associations to conduct informational meetings in their local communities.⁹ Voca-

⁸ *Agricultural Adjustment in 1934*, AAA, June 17, 1935, p. 61.

⁹ See p. 75 for description of these committees.

tional agriculture teachers went over the material prepared by the Cotton Section both with farmers who attended their evening classes and with their high-school students.

Preparatory to undertaking a sign-up campaign,¹⁰ a week or more was set aside for county and local community meetings at which farmers and others were told many of the reasons for a control program—particularly the necessity for reducing the large supplies of cotton on hand. Most of the time, however, was devoted to an explanation of the details of the government offers to cotton farmers.

Few farmers openly expressed any objections to the program at these meetings. At those held preparatory to the plow-up campaign in 1933, for instance, not over one or two in each county on the average objected to the program. These commonly demurred either from the standpoint of justice to humanity or because of religious principles against destroying growing cotton. There may, however, have been considerable silent opposition to the program.

While a great effort was made to convince farmers that they would gain more by signing a contract than by not signing, these campaigns did not stop there. Every effort was made to develop public and local community opinion favorable to the program. Appeals were made to farmers to sign contracts for patriotic reasons as well as for personal gain. President Roosevelt wrote Secretary Wallace on July 8, evidently for wide publicity use:

I want you to make it very clear that I attach the greatest possible importance to the cotton adjustment campaign. It is our first major attack on the agricultural depression.

¹⁰ See Chap. VII.

PROMOTIONAL CAMPAIGNS

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There are two reasons why every cotton grower should go along with the government's national responsibility. The first is the patriotic duty of making the plan a success for the benefit of the whole country; and the second is the personal advantage to every cotton grower in helping as an individual to reduce an oversupply of cotton and thereby obtaining a better price for what he grows.¹¹

Farmers and local business men responded readily to such appeals. Local opinion became quite strong against non-signers in many instances. Frequently, expressions of this opinion were carried much further than desired or sanctioned by administrators of the program in Washington. Night riding and the destruction of non-signers' cotton occurred in few instances, but rumors of such activities no doubt caused a number to sign who would otherwise have refused. In general there was a strong feeling of resentment against non-signers throughout the Mississippi Delta, Georgia, and South Carolina, and in parts of Texas. In many localities throughout the Cotton Belt public opinion became especially strong against large growers who failed to sign. Often little effort was made to secure the co-operation of small growers. In northwest Texas, however, the offers appeared so good that producers were considered foolish for not signing.

Another factor which probably caused some farmers to sign, particularly in the central part of the Cotton Belt, was the rumor that government credit would not be granted to non-signers. The well-publicized request for names of all non-signers lent support to this rumor and made it more effective.¹²

¹¹ AAA Press Release No. 38-34.

¹² On July 11, 1933 the Chief of the Cotton Section telegraphed each extension director in the Cotton Belt stating: "In the interest of more complete co-operation on part of all growers and as a guide for future

Because of the improvement in economic conditions throughout the South in 1933, the appeal to patriotism and emphasis upon the pressure of public opinion was much less in 1934 than it had been in 1933. A more effective form of pressure, however, was available. Whereas in 1933 there were only rumors that government credit would not be granted to non-signers, early in 1934 the Farm Credit Administration announced that no loans would be made to farmers who were not cooperating in the program.¹⁸ Such a course was necessary in order to co-ordinate the agricultural credit and adjustment programs. Nevertheless, it tended to force farmers to sign cotton contracts. The government also offered eligible farmers who would agree to sign a two-year cotton acreage reduction contract a loan of 10 cents per pound on cotton produced in 1933, and on cotton options received by farmers for plowing up cotton in 1933, which was somewhat more than the current market value during 1933. Cotton farmers were told over and over again that the Secretary intended to see that signers fared better than non-signers. Threat of the high cotton ginning tax provided by the pending Bankhead bill was held as a club over the heads of those who would have preferred not to sign. Naturally the demand for such a compulsory program increased as the sign-up progressed: once a farmer had signed a contract agreeing to limit his own production he had everything to gain and nothing to lose, from a monetary standpoint, by forcing other farmers to reduce their production as much as possible.

action please communicate immediately with county and community leaders requesting that they secure and list names of growers not co-operating giving reasons for non-co-operation when possible.¹⁹

¹⁸ *Farm Credit Administration Press Release No. 4-83*, Feb. 7, 1934.

When the sign-up campaign in 1934 had been completed and the Bankhead Act had been passed, a more intensive informational campaign was undertaken. A barrage of facts and interpretations of them was laid down on the farm front. Between April 6, 1934 and January 1, 1935 seven publications "dealing primarily with the economics of the present cotton situation and with certain attempts to regulate the production of cotton" were issued under the general heading of *Cotton Production Adjustment*.¹⁴

These rather voluminous publications contained detailed data on the production, consumption, and prices of cotton in the United States and foreign countries during recent years. Annual acreage, yield, production, consumption, carry-over, price, exports, alternative crops, previous cotton reduction campaigns, and international trade barriers were reviewed and explained. These publications were intended as aids to persons acting as conference leaders in directing the discussion at meetings of the cotton production control associations, as well as to vocational agriculture teachers in conducting their evening classes. In addition to statistical data, they contained directions for leading the group discussion on various questions. A more specific idea of the content of these publications may be gained from the table on pages 94-95.

County agents, vocational agriculture teachers, county and community committeemen, and other leaders of

¹⁴ "Cotton Situation under Voluntary Program," April 6; "The Economics of the Bankhead Law," April 24; "Production and Supply of Cotton in Foreign Countries and World Production and Supply," June 11; "The Cotton Processing Tax," September 13; "How Much Cotton to Grow in 1935," September 26; "How Much Cotton to Grow in 1935," October 10; "How Much Cotton to Grow in 1935 (In the Light of the Foreign Cotton Situation)," December 12.

TYPES OF DATA AND QUESTIONS

 Data Supplied by the AAA

U. S. cotton statistics—annual acreage, yield, production, consumption, carry-over, price, and export data, 1920-21 to 1934-35.

Foreign cotton statistics, 1920-21 to 1934-35 (practically the same as for the United States).

World cotton acreage and production by countries, 1921-22 to 1933-34.

Acreage, production, carry-over, supply, and consumption of American, Indian, Egyptian, sundries, foreign, and all growths of cotton, from 1921-22 to 1933-34 (revised as of October 29, 1934).

Average monthly prices of certain grades of American, Indian, Egyptian, and Chinese cotton, 1931-32 to 1933-34.

Relative monthly prices of cotton and some important alternative crops in Egypt, India, China, and Brazil in 1933-34 as compared with 1932-33.

Acreage of cotton and some important alternative crops in India, Egypt, Russia, and Brazil, 1921-22 to 1934-35.

Relative prices of cotton and some alternative crops in Egypt, India, China, and Brazil (1933-34 as a percentage of corresponding month in 1932-33).

Indexes of business activity, 1928-32, and relative prices of cotton, various farm products, and all commodities (annually 1909-14, and monthly from 1932 to date).

Record of previous cotton reduction campaigns.

Acreage of all crops and of cotton per worker in the United States and certain foreign countries.

Price in Liverpool of specified types of cotton (Egyptian, Indian, and Brazilian) expressed as a percentage of the price of American cotton for the corresponding period.

International trade barriers for cotton: import duties, surtaxes, and other measures affecting trade in raw cotton between the United States and certain specified foreign countries as of October 1934.

Exports, price per pound received by producers, farm value of cotton exports, yield per acre, and acres required to produce quantity of cotton exported by seasons, 1900-01 to 1934-35.

American exports, domestic consumption of American cotton, and world consumption of American cotton, by months, 1933-34 and 1934-35.

* Adapted and collated from the seven informational publications of the AAA listed in note 14, p. 93.

USED IN PROMOTIONAL CAMPAIGNS*

Questions Used to Promote Discussion

To center thinking on cotton production in competing countries:

What are the principal foreign countries that compete with the United States in cotton production?

What percentage of the world's cotton crop is produced by foreign countries?

What are the factors that influence cotton production in foreign countries?

To bring out inter-relationship between domestic and foreign cotton situation (with India as an example of procedure followed for other cotton-producing countries):

How will the present price of cotton in India in terms of Indian currency affect the acreage of cotton for the 1934-35 season?

How does this price situation for Indian cotton compare with the price situation for American cotton in the United States?

How much was India's 1933-34 acreage above lowest acreage in any year for the same 13-year period?

What is the greatest increase in cotton acreage in India any one year over the previous year?

How will India's physical factors, such as ginning equipment, available land, machinery, climate, and transportation affect the 1934-35 cotton acreage in India?

How will the human factor, such as amount of labor available, knowledge of and experience in cotton production, aggressiveness, farming status, and living standards affect the 1934-35 acreage of cotton?

What was India's average yield for the 5-year period 1928-32?

Instructions to Group Leaders

Have group estimate, in light of your discussion, the probable 1934-35 acreage of Indian cotton, and record on blackboard the estimated change in acreage since 1933-34.

Use the average yield per acre in 1928-32 and the estimated change in acreage computed to estimate the change in volume of production between 1933-34 and 1934-35.

In light of information brought out, discuss the probable future trend of production in India and its effects on foreign markets for American cotton.

discussion groups in each cotton county were given special instruction in the use of these publications. Representatives from the Cotton Section in Washington met with state extension and vocational leaders at regional meetings and they in turn instructed county agents and vocational agriculture teachers at the state and district meetings. The county agents then instructed their county and community committeemen and placed them in charge of local meetings, and the vocational teachers instructed their evening classes and high-school students along the same lines. At the local meetings and in the classroom the definite problem "How Much Cotton to Grow in 1935" was stated and the discussion was directed along the following lines:

Should the acreage of cotton be determined by a consideration of the needs of each producer independently, or by a consideration of the needs of all cotton producers?

By what means may cotton producers as a group adjust the acreage and production of cotton to the best interest of the individual and of the group?

What should be the 1935 acreage of cotton in a given state,
In light of the foreign cotton situation.

In light of labor, business, and cotton situations in the United States.

In light of processing tax.

What should be the total United States cotton acreage in 1935? in a given county, on a given farm?¹⁵

These publications were later supplemented by five "Cotton Information Leaflets" which clearly stated the position of the AAA on all of the more important questions raised in the earlier reports, as follows:

Continuation of the cotton control program is necessary in

¹⁵ "How Much Cotton to Grow in 1935," *Cotton Production Adjustment*, AAA, Sept. 26, 1934.

order to prevent new surpluses, even though the total supply of American cotton for the 1934-35 season is about normal.

Consumers are paying the processing tax but are nevertheless obtaining their cotton product at a fair price. The processing tax is for the protection of agriculture, while the tariff is for the protection of industry.

The foreign production and market outlook may be summarized as follows:

a. American cotton farmers have natural advantages for cotton production which are not now equalled anywhere else in the world.

b. American growers' economic stake in foreign markets is vital because nearly 60 per cent of their crop ordinarily is sold abroad.

c. Abandonment of American production and price control measures and the probability of recurrence of 1932-33 price levels for the entire crop would not assure the maintenance of foreign markets for American cotton.

d. Maintenance of foreign markets for American cotton is dependent primarily upon the ability of foreign cotton-consuming countries to purchase and pay for United States exports of cotton. Related factors include: (1) the level of business activity abroad; (2) shifts in textile activity from Europe to the Orient; (3) the price and supply of American cotton relative to the prices and supplies of foreign cottons; and (4) trade agreements among other nations and exchange restrictions.

e. The ability of foreign customers to buy and pay for American cotton depends in a greater degree than ever before upon the amount of goods and services that this country will accept from them in exchange.

f. Foreign countries which are unable to sell goods and services to the United States are (1) turning for their cotton to other cotton-exporting nations which will accept imports, (2) seeking to develop their own production of cotton or cotton substitutes, or (3) enforcing outright restrictions on total imports.

g. The American cotton farmers' future income depends, first, upon production control to avoid piling up new surpluses and to maintain fair prices; second, upon increased buying

power of American consumers; and, third, upon revival of foreign trade with the United States.

Continuation of the Bankhead Act during 1935-36 would probably result in a United States cotton crop one million bales smaller than if it is not continued.¹⁶

One million copies of each of these five leaflets were prepared and distributed and discussed at community meetings of producers called during October and November 1934 by the local cotton production control associations. Between September 1 and December 15, 1934, over 12,500 county and local community meetings were conducted by county agents and committeemen with a total attendance of more than 855,000. Vocational teachers also conducted around 18,000 cotton informational meetings between July and December with a total attendance of 750,000.¹⁷

These meetings and the "informational" campaigns accompanying them surely stimulated discussion among farmers and others on vitally important issues in the economic life of this country. Certainly the major questions at issue were raised and a wealth of related statistics distributed to county agents, committeemen, and farmers.

There may be food for thought in all of this material, but when thrown at farmers and the general public within a short time it seems designed to force public opinion in a particular direction. There is food value in apples, but apples may also be used effectively to drive people in a particular direction if thrown in sufficient quantities and with sufficient force and skill.

Such campaigns, however, are probably an inevitable

¹⁶ "Foreign Cotton Production and the American Markets Abroad," *AAA Cotton Leaflet No. 3*, Oct. 25, 1934.

¹⁷ *Agricultural Adjustment in 1934*, AAA, p. 61.

part of a control program, particularly a voluntary program involving individual contracts with a million or more farmers. Some may consider them to have considerable educational value in themselves, irrespective of the program adopted or being carried out. Others who no doubt consider such campaigns exceedingly objectionable will need to balance their objections against possible gains or losses from other phases of the programs. Certainly it would be foolish to blame those in charge of the program. Opponents did not hesitate to use any statistics or theoretical analysis that seemed likely to hinder, obstruct, or destroy the program. It was to some extent a case of fighting fire with fire.

CHAPTER VII

THE CONTRACT SIGN-UP

The promotional campaigns were in general designed to acquaint farmers with the details of the cotton program and to induce them to sign contracts agreeing to reduce their acreage of cotton. The huge task of filling out, signing, checking, and adjusting the cotton contracts in 1933 and 1934 got under way in most counties during the second week of the campaign. In this chapter, the methods of procedure followed and the results attained are discussed.

METHODS OF PROCEDURE

In most counties one or more offices were opened where farmers could obtain contract forms and receive aid from clerks and committeemen in filling them out. Cotton farmers were invited to fill out and sign contracts at these central offices, but many failed to do so. A large number, particularly in the East, waited for committeemen to visit them and ask them to accept the government offer. In some cases committeemen made numerous trips to individual farms, because the farmer was not at home or because he was uncertain whether he wanted to sign a contract.

After a contract had been filled out and signed by a grower, with the aid of a committeeman, it had to be checked carefully and adjusted for any apparent inaccuracies. The 1933 plow-up contract, for instance, called for the location of the farm, the name and address of the signer of the contract, and his relation to the farm. It also called for the written consent of all holders of liens (including landlords or tenants) against the cot-

ton offered to the government, as well as the acreage and production of cotton in 1932 and the acreage and estimated production in 1933 on the farm. It became the duty of the local committeemen to see that these requirements were met by each contracting grower.

One member of the local committee was required to inspect personally each farm offered for acreage reduction and to estimate the yield of cotton on lands offered to be taken out of production, to fill in certain information as to planting date, stand, and condition of crop at time of inspection, and to sign such offers as he approved. Two other members of the local committee, including the chairman if he did not make the original inspection, were also required to sign the contract offer. Some of the local committees examined the contracts before signing them and some did not. Two copies of all the contract offers approved were required to be delivered to the county agent at the close of each day.

Members of the county committee in co-operation with the county agent were instructed to:

. . . check the offers sent in by the local committees, as to the merits, as to details of calculation, and as to execution; recommend the acceptance of those offers which meet their approval; and return the rejected, inaccurate, or incomplete offers to the local committees, with notations of the reasons for their return. A producer whose offer has been returned may submit a new offer, but not later than July 8, 1933.¹

In practice, in some counties the checking was done by clerks in the county agent's office, the county committeemen merely signing their names to signify their approval. In most counties, however, the clerks checked the contracts for errors and the county committees

¹"1933 Cotton Adjustment Program, Instructions to Field Workers," AAA Press Release No. 182461^o-33.

looked over the yields; and in a few counties all of the checking was done by the county committeemen.

All of the incomplete contracts and most of the contracts questioned by the county committee because of yield or acreage estimates were sent back to the local committee for completion or adjustment. A number of them, however, were turned over to special inspectors, often with instructions to work with the local committeemen and arrange an adjustment between them and the farmers.

The county agent and two members of the county committee signed all contract offers approved by them, forwarded the original copy to Washington, and placed the other copy on file in the county agent's office. The agent was instructed to prepare a report on each contract signed, to post one copy of this for public inspection, and to mail another copy to the state extension director.

In Washington the contract offers were again carefully examined and inspected before approval. If lacking in essential information they were sent back to the county agents, or letters requesting the necessary information were written to the agents. All of the calculations shown on the contract offers were proved twice, and inspected by several persons. Special attention was naturally given to the reasonableness of yield estimates, and to large offers. Each offer had to be passed by two reviewers and, if questioned by either, had to be passed upon by two expert examiners who were familiar with the conditions under which cotton was produced in different parts of the Cotton Belt. Contracts thus approved were also scrutinized by the chief expert examiner, and, if passed by him, were sent to be tabulated. Contracts rejected by the expert examiners were placed on file and the county agents notified. When the rejections were not due to

attempted fraud, however, the producer was permitted to make a new offer if the time limit had not expired.

The contract offered farmers in 1934 and 1935 called for much more production data than did the 1933 plow-up contract.² Every contract signer, for instance, was required to state the acreage and production of cotton planted each year from 1928 to 1933. He was also required to report the total acreage of the farm in 1932 and 1933, as well as the acreage in each important crop and the total crop acreage. All three members of the community committee were required to sign each contract offer and to state whether it was correct to the best of their knowledge and belief.³

The accuracy of production claims submitted by contract signers in 1934-35, therefore, could not be checked by committeemen as easily and quickly as in 1933. Most of the contract signers themselves did not know the exact acreage, yield, and production of cotton or other crops on their farm each year during the base period. Some had not personally operated the farm during the entire base period. Relatively few had actual records of acreage and production, while a somewhat larger number had kept their gin tickets or had obtained a record of their ginnings from local gin companies. The great majority of the growers, however, filled out their contracts from memory. Naturally production claims, especially for the earlier years of the base period, were subject to considerable error because of failure to remember the correct acreage and production. Local committeemen could, of course, catch many of the extreme errors in producers' claims because of their knowledge of the cot-

² See Chap. IV for a description of the contract offers.

³ "1934 and 1935 Cotton Acreage Reduction Contract," *AAA Form No. Cotton 1*.

ton planted and harvested on each farm in their community during the base period.

The county agent and county committeemen were also required to review all contract offers forwarded by the local committeemen and to advise the Secretary concerning the desirability of signing each contract. This involved a careful check of every contract offer for incorrect information or improper form. Particular attention was paid to the variation in the acreage, yield, and production of cotton from year to year on different farms in the same community. In order to facilitate such comparisons these data were tabulated on special forms in the county office,⁴ the data for farms in each community being tabulated in separate groups. When completed these forms indicated at a glance the farm-to-farm and year-to-year variations. For instance, producers who reported the same yield or acreage for all years could be picked out easily. So could those reporting high yields in years of virtual crop failure in the community. Such claims were not always inaccurate, but they required some explanation from the producer.

Such inspection and checking of producers' claims, however, were inadequate. The principal check on these claims was the official estimate of acreage, yield, and production of cotton for each county and state during each year of the base period. The use of this check, however, required that production data be obtained for all farms. Consequently a special cotton survey card was sent to every cotton farmer,⁵ requesting his total farm acreage, crop acreage, and acreage of cotton planted and harvested in 1933, as well as the acreage of cotton planted and the number of bales of cotton produced in

⁴ AAA Form No. Cotton 10.

⁵ AAA Form No. Cotton 2.

each year of the base period, or at least during 1932 and 1933. Local committeemen were instructed to collect these cards. In cases where operators refused to furnish this information, the committeemen were instructed to fill in the data for 1932 and 1933 from their own knowledge or from estimates obtained from operators of neighboring farms. The data collected for farms not covered by contract offers were tabulated in the county office and combined with the totals for farms covered by such contracts.

After completion of tabulation and adjustment in the county office, summaries of the results were sent to the office of the state board of review. Here the figures were reviewed and the aggregate totals for all contracts compared with the official acreage and production figures provided by the United States Department of Agriculture.

If the aggregate cotton acreage and production claims of all producers from whom reports could be obtained in each county as adjusted by county and community committeemen, plus an allowance for farms on which no data were obtained, did not exceed the official county totals, the contracts were usually approved and the county committee was instructed to send the contracts to Washington. If, on the other hand, they exceeded the official totals, as they usually did, the state board returned the tabulation to the county committee with instructions to make downward adjustments in producers' production claims on an individual contract basis if possible, but, if necessary, by a blanket downward adjustment of all contracts sufficient to bring the county totals in line with official estimates.⁶ All of the adjustments

⁶ All adjustments of one-year contracts signed in 1935 had to be made on an individual farm basis. In 1934, one or two state boards of review

made, of course, had to be approved and initialled by the producers affected before the contracts were acceptable in Washington.⁷

There was considerable variation from county to

also refused to approve contracts from counties where blanket adjustments had been made.

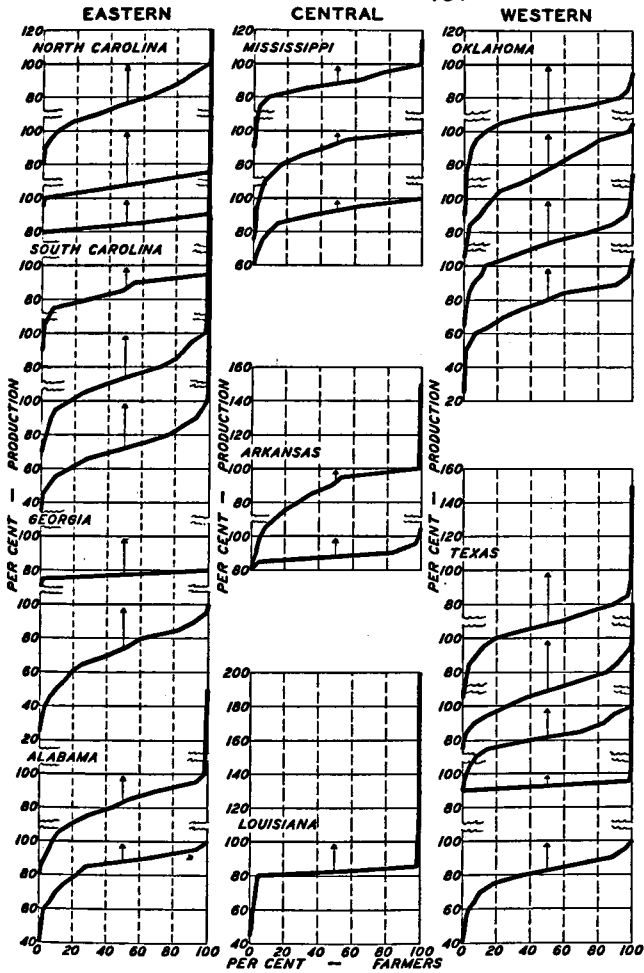
⁷This general procedure was based upon the theory that local committees, because of their intimate knowledge of the operations on individual farms in their communities, could and would adjust producers' claims so as to put them all on a comparable basis. The state board of review and the AAA in Washington were expected to compel each county and state to adjust the total claims of contract signers to a comparable basis between counties and between states by making them come within the official estimates of the U. S. Dept. of Agriculture.

Official estimates of cotton production by states and counties are considered to be more accurate than those of any other major crop. Final estimates by the Federal Crop Reporting Board are based upon the amount of cotton ginned as obtained from the cotton gin operators by representatives of the U. S. Census Bureau. The chief limitation of these estimates from a county standpoint results from inter-county ginning. A gin located in one county may gin cotton produced in other counties. Special effort has been made to determine the amount of this inter-county ginning as accurately as possible. For the 1929-30 season the amount of cotton produced as reported by farmers to census enumerators was checked against the reports of cotton ginned in each county. In November 1933 an inquiry card was left with each cotton gin operator by the representative of the Census Bureau requesting him to estimate the amount of cotton he ginned in 1930-31, 1931-32, and 1932-33, and the amount produced in each county. A positive report was received covering about 95 per cent of the gins. Similar information was requested of each cotton gin operator in 1933-34 along with the amount of cotton ginned. And in 1934-35 each cotton gin operator was required to report such information to the Bureau of Internal Revenue in connection with the Bankhead Cotton Control program.

Few changes were made in the official estimates of cotton production in each county from 1928-32, in response to the claims of contract signers, and the ones made were of a minor nature. Subsequent information received as to the volume of inter-county ginnings necessitated few changes.

Official estimates of the average yield and acreage of cotton each year from 1928 to 1932 did not rest on as solid a foundation as did estimates of total production. A number of changes were made in response to claims of producers and other information brought out after the control program was first undertaken. Such changes are of minor importance in evaluating this program.

PERCENTAGE ADJUSTMENT MADE IN THE PRODUCTION CLAIMS OF FARMERS, 1934^a



^a Data for 25 counties selected in 1933 as representative of different types of farming areas throughout the Cotton Belt. The percentage reductions are for every tenth producer as tabulated on AAA Form No. Cotton 10.

county in the method of procedure followed in 1934 in reducing production claims to the maximum permitted by the state boards of review. In the chart on page 107 the percentage reduction accepted by individual producers in 25 representative counties is shown. In some counties all producers were required to accept the same percentage reduction in their production claims. In others there was a wide variation. Ten per cent of the producers in a number of counties, particularly in the western part of the Cotton Belt, accepted a base production 40-50 per cent below their original claims, while a considerable number in the same counties were required to make less than a 10 per cent reduction. This record indicates that in most counties adjustments were made on an individual basis. Nevertheless, there was considerable dissatisfaction over the adjustments for many farms. Naturally, in counties where a uniform or flat percentage reduction was made in the production claims of all contract signers, some growers—particularly those having actual records and the more honest and sincerely cooperative ones—were penalized. While the chart on page 107 indicates that adjustments were made on an individual farm basis in most counties, even those so adjusted were often inaccurate. In numerous cases, because of the pressure of public opinion, and because the cotton program even during the 1934 sign-up campaign was to some extent compulsory, farmers agreed to accept acreage and production bases below what they were really entitled to receive. There was always the threat of compulsory control, of refusal of government credit, or of penalties of a local nature for not signing.

In 1935, however, a state adjustment board was established in each state and a national cotton adjustment board appointed by the Secretary of Agriculture was es-

tablished in Washington. A producer dissatisfied with the recommendation of his county committee regarding final figures of acreage and production could request in writing that the recommendation be reviewed by the state adjustment board. If dissatisfied with the decision of this board, under certain conditions the producer could appeal to the National Cotton Adjustment Board.⁹

Local committees were also instructed to review all contracts in effect for 1934 to ascertain whether adjustments should be made by amendment. They were told:

. . . As a result of measuring land in 1934 and securing additional information, it may be apparent that the adjusted average production, and/or base acreage, and/or yield per acre recommended by committeemen in 1934 for some contracts may be higher than the facts justify. Producers having such contracts may agree to have these figures reduced in accordance with the facts, either of their own accord or at the suggestion of committeemen. The adjusted average production, and/or base acreage, and/or yield per acre figures should, however, be adjusted downward only in those cases where the county committee is convinced beyond reasonable doubt that the figures in the contract are higher than justified by the facts. In some instances producers suffered injustices because of accepting adjustments in 1934. In such cases the county committee may recommend increasing the figure(s) originally accepted by the producer. The county committee should recommend upward adjustment(s), however, only in those cases where the producer can furnish evidence to prove beyond reasonable doubt that the average(s) accepted in 1934 was (were) lower than justified by the facts.

Limitations were, however, placed upon revisions of contracts by the requirement that "the total upward adjustments of the contracts in any county . . . cannot

⁹The number of individual producer appeals to the state boards is not known at this time, but less than 30 appeals to the national board had been received by Oct. 1, 1935.

exceed the total downward adjustments." The adjustment or revision of the base acreage and production established in 1934 and 1935 was consequently a pressing problem that would probably have increased in importance if the program had been continued.⁹

Originally, many believed that complaints by farmers about high acreage or yield estimates for neighboring farms would be effective in securing more accurate estimates. To encourage this, county agents in 1933 were instructed to post publicly the acreage and yield estimates on each offer. These instructions were not generally followed, but even where posted they seem to have had little effect. Few farmers complained, and the complaints of those who did were often the result of personal quarrels. It may be that farmers did not realize the full effect on their own contract figures of high estimates for other farms in the same county.

In any case, the publication of production data for individual farms was dropped in 1934. Any cotton production control association desiring to post such data was even required to obtain the approval of the Cotton

⁹ Dissatisfaction with the accuracy of base acreage and production established represents only one type of complaint, although a very important one. Others involve the injustice of allowing one farm a large base because it had planted an unusually large acreage of cotton during the base period, when an adjoining farm equally well adapted to cotton production was allowed only a small base because it had planted only a small acreage of cotton during the base period. Furthermore, such variations are in some cases due to accidental causes. There may have been a large family temporarily on the farm with a large base, while the other farm may have been operated by a young farmer with a small family and a small amount of working capital. Then too, as pointed out earlier, the Extension Service has for years been urging farmers to diversify their farming operations, cut down on their cotton acreage, and increase their acreage of other crops. Under the cotton program, however, those who had followed this advice were penalized for having done so. For an analysis of proposed measures for remedying this situation see p. 322.

Section in Washington. Nevertheless, the cotton acreage and production figures reported in contracts in each county were declared open at all times to the inspection of members of the cotton production control association of that county.

In 1935 this policy was again changed. County committees were instructed to furnish each community committee with a list showing the adjusted base acreage and average yield figures for each producer within the community who signed a 1934 and 1935 cotton acreage reduction contract in 1934 and the acreage and yield figures originally submitted by each producer within the community making a contract offer in 1935. The community committee was required to post these lists in a conspicuous place in the community where they would be protected from the weather and remain accessible for examination by the public.¹⁰

**OVERSTATEMENTS IN CONTRACTS AND
ALLOWABLE OVERRUNS**

Growers applying for cotton contracts greatly overestimated their production of cotton. Contract signers in 1934 claimed an average production of 16.3 million bales of cotton annually from 1928 to 1932 inclusive, or about 10 per cent more than the official estimate of 14.6 million bales produced by all cotton growers in the United States.

When allowance is made for cotton produced by non-contract signers it appears that growers applying for 1934 and 1935 cotton acreage reduction contracts overestimated their production of cotton at least 22.6 per cent on the average—6.6 per cent for acreage and 15.0

¹⁰ "Administrative Rulings Applicable for 1935," *AAA Form No. Cotton 106*, Ruling No. 13.

per cent for yields. Similar data for each state are shown in the accompanying table. Over-estimates of production were particularly large in Oklahoma and relatively small in Louisiana. Such differences, however, are ex-

OVER-ESTIMATES OF COTTON ACREAGE AND PRODUCTION BY PRODUCERS*
(As percentages of official estimates for the states)

Division and State	Acres	Lint
United States.....	6.6	22.6
Major cotton-growing states:		
North Carolina.....	12.8	24.6
South Carolina.....	16.8	26.8
Georgia.....	13.8	25.0
Alabama.....	4.9	20.6
Mississippi.....	5.1	13.0
Tennessee.....	17.8	27.3
Louisiana.....	2.7	12.1
Arkansas.....	5.9	21.6
Oklahoma.....	9.8	46.2
Texas.....	3.0	21.1
Minor cotton-growing states:		
Virginia.....	2.0	22.4
Florida.....	0.5	25.3
Kentucky.....	15.1	30.2
Illinois.....	...	...
Missouri.....	...	...
Kansas.....	...	...
New Mexico.....	0.0	5.9
Arizona.....	6.8	8.7
California.....	0.0	0.0

* Unpublished report of Joseph A. Becker, Division of Crop and Livestock Estimates, U.S. Dept. of Agriculture, June 30, 1934. These are preliminary percentages but final figures will be practically the same. They indicate the percentages by which producers' claims exceeded official figures adjusted for allowable overrun. (See the table on p. 116.)

plained largely by the fact that both yields and acreage of cotton planted in 1933 were unusually high in Oklahoma whereas in Louisiana yields were low and the acreage of cotton planted was practically the same as in 1932. Over-estimates of producers in the minor cotton-growing states, as calculated, were more erratic as a result of special circumstances.

Strangely enough, growers over-estimated their acreage claims much less than their yields, although they had more to gain by over-estimating the former as long as estimates of total production remained the same. Take the case of a farmer having the base acreage, yield, and production of cotton shown under A² below:

	A ¹	A ²	A ³
Total base production (in pounds)	2,390	2,390	2,390
Total base acreage	10	15	20
Average lint yield per acre (in pounds)	239	159	120
Percentage of base acreage rented	40	40	40
Acreage rented	4	6	8
Average payment per acre	\$10.76	\$7.17	\$5.38
Total rental and parity payments	\$43.02	\$43.02	\$43.02
Acres of cotton permitted	6	9	12

If he rents 40 per cent of his acreage to the government and reports a base production of 2,390 pounds his payments remain the same regardless of how he divides the production between acreage and yield as shown by A¹ and A³. By reporting 20 acres of cotton in place of 15 and making a corresponding reduction in yields, total production is kept the same, but he is permitted to plant 12 acres in place of 9. Furthermore, such over-estimates of acreage and under-estimates of yield would be relatively difficult to discover for individual farms—much more so than over-estimates of total production, because ginning records might be obtained for the latter. Partly for this reason, at the beginning of the 1934 sign-up campaign the Division of Crop and Livestock Estimates expected larger over-estimates of acreage than of yield.

The fact that yields were over-estimated more than twice as much as acreage suggests that cotton growers as a group did not deliberately attempt to calculate the over-estimates in yield and acreage that would be to their greatest advantage. A large part of the overstate-

ment can be attributed to other factors. For instance, many farmers in 1933 discovered that their previous estimates of the acreage of many fields were incorrect. The measurement of cotton acreage plowed under in 1933 gave farmers a more accurate basis for estimating acreage during the base period than they had for estimating yields. It also tended to make farmers conscious of the fact that their acreage of cotton could and probably would be checked. Besides, the cotton acreage on individual farms fluctuates much less than yields and can therefore be remembered more accurately. Furthermore, average annual yields of cotton in the United States from 1931 to 1933 inclusive were 23 per cent above those the first three years of the base period.

Naturally, farmers tended to base their yield estimates more on the yields of recent years than on those of earlier years. In general, over-estimates of both acreage and yield were larger for early years of the base period than for late years. Over-estimates of yield were also larger for years when yields were low than for years when they were high. Such tendencies, however, had already been noted in the reports of farmers to the Crop Reporting Service of the Department of Agriculture prior to 1933. While these tendencies may have been exaggerated in the acreage and yield claims of farmers in their cotton contracts, in large part they explain the overstatements of farmers and the variation in overstatement between acreage and yields and between states.

The aggregate base production of contracting growers was allowed to exceed the estimated production of cotton on these farms by an amount not greater than "the proportionate overrun which is attributable to the use, on some individual contracts . . . of a base period other than

the five-year base from 1928 to 1932."¹¹ For instance a farm on which 25 acres of cotton were planted each year of the base period 1928-32 and a farm on which 25 acres of cotton were planted in 1933 but on which no cotton was planted during 1928-32 were both entitled to a base of 25 acres, or a total of 50 base acres. Yet the total base for these two farms that would be comparable with official estimates for all farms was only 25 acres. Under such circumstances the allowable overrun was 100 per cent. The allowable overrun for each county was calculated in a similar manner by dividing the county total of producer's base acreage and production claims by the average annual acreage and production of cotton in the county as computed from the same data. These allowable overrun percentages varied a great deal from state to state, as shown in the table on page 116. They were considerably greater in most of the minor cotton-growing states than in the major ones because of greater fluctuations in acreage and production. They were also somewhat larger in Texas and Oklahoma than in other major Cotton Belt states, because these states contain relatively new and expanding cotton-growing areas.

The omission of production claims by many growers for years when their production was small would of course tend to increase the percentage overrun allowed. However, the deliberate omission of production claims for any year would probably be more common during the early years of the base period, and their effect may have been entirely offset by greater over-estimates of production during the early years of the base period than during the later years. The average overrun in production of 5.8 per cent allowed, therefore, seems reasonable.

¹¹ "Amendment to Administrative Ruling No. 4," *AAA Form No. Cotton 5-B*.

In Mississippi, where the record is dominated by production in the Delta, the overrun allowed was only 3.1 per cent. It seems very likely that the percentage difference between actual production on farms covered by contracts and the correct base production would be equally large.

There was not the same assurance that the acreage

ALLOWABLE OVERRUN, BY STATES*

State	Percentage Overrun Allowed	
	Acres	Lint
United States.....	5.8	5.8
Major cotton-growing states:		
North Carolina.....	4.0	3.6
South Carolina.....	3.8	3.4
Georgia.....	4.9	4.7
Alabama.....	3.9	3.6
Mississippi.....	3.3	3.1
Tennessee.....	4.6	4.7
Louisiana.....	5.1	5.0
Arkansas.....	5.6	5.7
Oklahoma.....	6.5	6.5
Texas.....	6.6	6.3
Minor cotton-growing states:		
Virginia.....	7.0	6.3
Florida.....	11.4	10.4
Kentucky.....	6.0	6.7
Illinois.....	...	...
Missouri.....	14.4	13.7
Kansas.....	...	...
New Mexico.....	23.7	17.7
Arizona.....	40.2	37.8
California.....	71.3	65.2

* Unpublished report of Joseph A. Becker, Division of Crop and Livestock Estimates, U. S. Dept. of Agriculture, June 30, 1934. These are preliminary percentages but final figures will be practically the same.

and production of non-signers were correctly estimated in 1934. While an attempt was made to secure production data for all non-signers in 1934, it was not entirely successful. No record was obtained for a considerable number of farms on which cotton had been grown dur-

ing the base period. Although most of these farms individually had been growing only a small acreage of cotton, their combined acreage was fairly large. In determining the base acreage of contract signers in 1934 it was estimated that an average of 5.1 million acres had been planted on the farms of non-signers each year from 1928 to 1933 inclusive. This is equivalent to a base of 5.4 million acres, if allowance is made for an average overrun of 5.8 per cent. In the same year, however, non-signers were given a base of 6.4 million acres in their applications for allotments of tax exemption certificates under the Bankhead Act.²² Even the base acreage allowed non-signers in applying for certificates may have been too low. Some of their claims were cut severely. Inspection of the cuts made in such claims in a few counties, however, does not indicate that they were materially different from the cuts made in the claims of contract signers. Contracting cotton growers in 1934 were required to reduce their production claims an average of 19.5 per cent before their contract offers were accepted.

SUMMARY OF THE SIGN-UP CAMPAIGNS

In reviewing the results of the sign-up campaigns, some attention must be given to the confusion and delay incident to getting the cotton program under way. Most of those connected with the sign-up campaigns worked long hours under pressure. Yet the preparation of forms and instructions was always behind schedule. There were also delays in printing and many of the forms and instructions were mis-sent in the mails. Co-ordination of the printing and the sending out of AAA forms was particularly poor. Often the Cotton Section could not find out what forms had been sent out or to whom they

²² See Chap. X for further details.

had been sent. Complaints from the field were often the first indication that forms had not been sent according to schedule. Some of this difficulty was due to the procedure of sending the forms and instructions direct to the county agent in 1934 in order to save time. Later the policy was adopted of sending them direct to the state offices, from which they were distributed to counties. A more important cause of delay, however, was the fact that during 1933 and 1934 each copy of most multiple forms was made up in a different color. For instance, the copy to be sent to Washington was one color, the copy to be retained by the county committee another, and that to be given to the farmer still another. This procedure was expected to facilitate the handling of these forms. Actually, it increased the confusion in mailing and handling them. Some counties received a large supply of forms of one color and none of the others.

There was also considerable confusion over the determination of policies to be followed and interpretations of them. Landlord and tenancy problems probably caused the most difficulty, but there were many others. Even where policies were clearly defined in the instructions issued there were many misinterpretations or mistakes. County agents and others in the county were working under pressure. Many of them did not have sufficient time to study instructions carefully. In most counties more than one program was under way at the same time. Besides, policies had to be developed in response to situations that arose during the campaigns. This was true in both 1933 and 1934, because the problems involved were quite different. The contract offered in 1934 and the problems related to it were much more complicated than in the 1933 program.

Furthermore, the personnel of a great many county

offices was not trained to handle a large volume of contracts and related material. Few county agents had had previous experience in organizing work of this kind. Many of the local offices had inadequate space and office equipment for the efficient handling of a large volume of schedules and contracts.

Under ordinary circumstances such handicaps might have been fatal to the program. But circumstances were not normal in 1933 or 1934. As pointed out earlier, farmers were in desperate financial circumstances in the spring of 1933. They were, as a group, willing to cooperate in a program that gave such promise of aiding them, and were impatient with those who attempted to disrupt it. Furthermore, the county agents and local and national officials were willing to work long hours under pressure, and often under very trying circumstances, to put the program across. This was partly because it meant saving their position and income but also because many of them felt that it was to the best interest not only of themselves and of farmers but also of the nation as a whole. The official figures on sign-up may be summarized as follows:

	1933	1934	1935
Number of contracts accepted ¹⁸	1,032,000	1,004,400	1,300,000
Rented acres ¹⁸	10,497,000	14,550,000	14,200,000
Percentage of cotton land under contract	73.2	85.6 ¹⁴	94.4 ¹⁵

There was considerable variation in the percentage of cotton acreage under contract in the different states each

¹⁸ *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Table 18, p. 8.

¹⁴ See note *a* to table no p. 120 for derivation.

¹⁵ See note *b* to table on p. 120 for derivation.

COTTON AND THE AAA

year, as shown by the accompanying table. Among the ten major cotton-growing states the range in 1933 was from 50.5 per cent in North Carolina to 79.5 per cent in

COTTON ACREAGE CONTRACTED, 1933-35, AS A PERCENTAGE OF TOTAL COTTON ACREAGE PLANTED

Division and State	1933	1934 ^a	1935 ^b
United States.....	73.2	85.6	94.4
Major cotton-growing states:			
North Carolina.....	50.5	83.9	96.4
South Carolina.....	70.1	89.6	96.5
Georgia.....	72.2	88.6	96.2
Alabama.....	74.5	90.2	96.7
Mississippi.....	76.0	93.0	95.7
Tennessee.....	68.2	85.6	92.6
Louisiana.....	79.5	91.9	97.1
Arkansas.....	78.8	92.5	97.1
Oklahoma.....	72.9	73.8	90.0
Texas.....	74.6	83.3	93.2
Minor cotton-growing states:			
Virginia.....	36.4	69.0	92.7
Florida.....	45.4	80.5	97.5
Kentucky.....	...	55.4	83.8
Illinois.....	...	...	37.0
Missouri.....	71.6	84.2	94.3
Kansas.....	...	35.7	73.6
New Mexico.....	65.2	80.0	93.2
Arizona.....	45.8	80.1	94.9
California.....	20.7	61.8	87.7

^a Ratio of the base acreage allowed contract signers in their applications for allotments of tax exemption certificates under the Bankhead Act to the total base acreage allowed all applicants for allotments of tax exemption certificates in 1934 on all farms on which cotton had been grown from 1928-33 inclusive.

^b Ratio of the base acreage allowed contract signers in their applications for allotments of tax exemption certificates in 1934 plus the base acreage allowed on new one-year contracts signed in 1935 to the total base acreage allowed all applicants in 1934 for allotments of tax exemption certificates on all farms on which cotton had been grown from 1928-34 inclusive.

Louisiana, and in 1934 from 73.8 per cent in Oklahoma to 93.0 in Mississippi. Among the minor cotton-growing states the range was considerably greater than this in each

year. For the three major regions of the Cotton Belt, the percentages were as follows:¹⁶

	1933	1934	1935
Eastern	68.9	88.4	96.4
Central	76.4	91.4	96.0
Western	73.4	81.1	92.5

These figures indicate a striking change in attitude toward the government offers on the part of farmers in the three regions. The proportion of total acreage signed up in the eastern area in 1933 was quite low—only 68.9 per cent—but in 1934 it jumped to 88.4 per cent. Farmers in the western area, however, came out stronger for the 1933 program but were relatively less enthusiastic for the 1934 offer. Farmers in the central belt where the large cotton plantations are concentrated were fairly strong for both offers.

Another measure of participation is the percentage of their cotton or cotton acreage which the contracting farmers offered to destroy or rent to the government. These percentages for the United States and the three principal regions of the Cotton Belt were as follows:

	1933 (Destroyed)	1934 (Rented)	1935 (Rented)
United States	35.1	38.9	32.7
Eastern	33.8	39.5	33.3
Central	32.7	39.1	32.3
Western	36.9	38.4	32.9

In general, the participation of cotton growers seems to have been directly related to the relative advantages and disadvantages of the offers. As explained earlier,

¹⁶ See footnote to chart on p. 25 for a list of the states included in each region.

these varied rather widely from section to section of the Cotton Belt, particularly in 1933.¹⁷

In 1934 the offer favored the eastern part of the Cotton Belt, a fact which is definitely reflected in the sign-up. Only 81.1 per cent of the cotton acreage planted during the base period in the western region was on farms covered by the cotton contracts signed in 1934, compared with 88.8 per cent in other Cotton Belt states. This difference occurred in spite of a strong possibility at the time of the sign-up campaign that a semi-compulsory cotton control plan would be passed by Congress in the spring of 1934.

A lower sign-up in 1934 in the western region than in the eastern was to be expected because (1) the saving in cash outlay would be less; (2) the opportunity for expansion of cotton acreage was greater; and (3) the acreage of cotton planted in 1933 was 1.4 per cent greater than in the base period whereas in the eastern region it was 8.0 per cent smaller and in the central region 0.5 per cent smaller. In order to make the same percentage reductions from base period plantings, western cotton growers therefore had to make an appreciably larger reduction from the acreage planted in 1933 than cotton growers in other parts of the Cotton Belt.

Nevertheless the sign-up was large in all areas. Threat of a Bankhead Act was held over the heads of non-signers. They were faced with the possibility of paying a tax equal to 50 per cent of the market value of cotton produced in excess of an allotment approximately equal to their permitted acreage (55-65 per cent of their base acreage) under a cotton contract times their average yield, without receiving any government payments. Cot-

¹⁷ For an analysis of this relationship, see H. I. Richards, *Cotton under the Agricultural Adjustment Act*, pp. 37-44.

ton producers were also told that they could not obtain federal crop production loans or seed loans unless they signed a cotton contract agreeing to reduce their production or obtained a certificate from the county production control association stating that they were not increasing their production contrary to the program of the AAA. This was a powerful factor, particularly in the Mississippi Delta area, tending to force farmers to sign up. Public sentiment also tended to force some farmers to sign contracts in 1934 but was not nearly so important a factor as in the 1933 cotton plow-up campaign.

CHAPTER VIII

CHECKING COMPLIANCE

When the cotton program was adopted, a great many people were dubious as to the extent to which farmers would, or could be forced to, comply with the terms of their contracts with the government. They maintained that the number of farmers who would accept the government checks and then violate their contracts would be sufficient to break down the program within a short time. It seemed inconceivable to them that the government could adequately check on a million or more cotton farmers scattered over a third of the United States. Their skepticism appeared reasonable in the light of recent experiences in the enforcement of national prohibition.

These skeptics, however, misjudged two important factors. One was the disposition on the part of farmers to co-operate in the enforcement of the AAA program as a result of their conviction that enforced reductions in cotton production were desirable from the farmers' standpoint. The other important and unforeseen factor was the care with which the procedure for checking compliance would be planned by the AAA. The Adjustment Administration fully appreciated the fact that careless or weak enforcement of the program at the start would soon result in failure. And those in charge had been planning a long-time program and not a temporary one. The method of procedure followed in checking compliance and the results obtained during the first two and one-half years, as described in this chapter, should therefore be considered from the standpoint of

their possible continuance over a long period of time.

Each farmer's compliance with the terms of his cotton contract with the government was supposed to be checked by some person, commonly called a supervisor, having no personal interest in the farm represented. Most of these supervisors had formerly served as committeemen in the same community. In general they checked three major phases of the cotton contract—the acreage of cotton planted, the use of rented acres, and compliance with the landlord-tenant provisions.¹

THE ACREAGE OF COTTON PLANTED

The usual procedure in checking the compliance of farmers with the terms of their 1933 contract was to measure the acreage of cotton offered to be plowed up by means of steel tapes, grass ropes, and other devices, or by "stepping off" the boundaries of the fields. No definite instructions were furnished by the Cotton Section as to the method of checking the acreage of cotton destroyed on each farm. Practices consequently varied a good deal.

A more careful check on the compliance of farmers with the cotton acreage limitations of their contracts was made in 1934 and 1935. The usual procedure was to measure carefully the acreage of land in cotton with a steel tape, chain, or other device approved by the Cotton Section. "Stepping off" the boundaries of cotton fields was not considered an acceptable method of measurement. In some states the boundaries of the cotton fields were measured and the angles determined by supervisors, and these figures were reported to the county office where the acreages were calculated. Other states

¹The test of compliance with landlord-tenant provisions will be discussed in Chap. IX, where the whole tenancy problem is reviewed.

at first made such measurements but abandoned the procedure because of the high cost involved. In 1935 the acreage of cotton on farms not covered by contract was also measured.

Practically all violations of the terms of the cotton acreage adjustment contracts were officially considered as unintentional and the violators treated leniently. If a farmer was found to have planted more than his permitted acreage of cotton, he was usually given an opportunity to plow up the excess cotton; to cancel his contract and return to the government all payments already received; or, if the excess was slight, to harvest the cotton and receive a smaller adjustment payment. In 1934, a grower who harvested excess acreage received adjustment payments based on his actual reduction from his adjusted base, providing he did not grow in excess of 65 per cent of his base acreage. Thus a grower who agreed to make a 45 per cent reduction and actually reduced only 35 per cent received the smaller payment which was provided for the lower rate of reduction. The penalty for harvesting cotton from acreage in excess of 65 per cent of the base acreage was set at 6 cents per pound of cotton produced on the excess acreage, computed at the yield per acre upon which the contract was accepted. In many cases growers were allowed to harvest the acreage of cotton planted in excess of their allotments and give it to relief agencies, although this was not authorized by regulation.

Measurements of the acreage of cotton planted on farms covered by contract and all other available evidence indicate that farmers as a group destroyed the cotton offered to the Secretary in 1933 and restricted their plantings in 1934 and 1935 to considerably less than the acreage of cotton permitted by their contracts.

In 1933, 1,032,000 farmers offered to destroy cotton on 10,497,000 average or representative acres. The best evidence that we have of their having complied with the terms of these offers is provided by census data and estimates of the Crop Reporting Board of the United States Department of Agriculture. On July 8, before any cotton had been plowed up, the Crop Reporting Board estimated that there were 40,798,000 acres of cotton in cultivation on July 1, 1933. It later estimated that 379,000 acres of cotton which had not been accepted by the Secretary were abandoned after July 1 and that 29,978,000 acres had been harvested, yielding a total of 13,047,262 bales² or an average of 208.5 pounds of lint cotton per acre. Adding the acreage of cotton which farmers offered to destroy, the estimated acreage abandoned, and the acreage harvested, the total is 40,854,000 acres, or 54,000 acres more than the estimated acreage in cultivation on July 1, 1933. These two estimates are surprisingly close. They indicate that farmers actually plowed up the cotton offered to the Secretary.

Of course it may be charged that these estimates were made to agree. A 13-million bale crop might result from many combinations of acres and yields per acre. By varying the yield estimate it would be possible to bring the figure for acreage harvested in line with the earlier estimate of acreage in cultivation less the acreage offered to the Secretary or abandoned. However, the estimate of a 208.5 pound yield per acre, which was not made until May 22, 1934, was only 10.1 pounds above the August 1, 1933 estimate of 198.4 pounds. The earlier

²This estimate (as of May 22, 1934) is based upon a record of the amount of cotton ginned as obtained from the cotton gin operators by representatives of the U. S. Census Bureau. It is considered a very accurate estimate of the size of the 1933 cotton crop.

estimate was made on the basis of reports submitted by about 10,000 cotton crop reporters, most of whom had been making such reports for a number of years on land in their immediate vicinity, of the estimated condition of the crop, stand, boll weevil infestation, and fertilizer used, and on other information such as the relation of yield to weather conditions, etc. Only a small amount of cotton offered to the Secretary had been plowed up when the August 1 estimate was made, and hence these reports probably indicated the condition of the entire crop. Furthermore, revised estimates of yield for the 1933 crop, as of May 22, 1934, were lower than the August 1 estimate in six out of the ten major cotton-growing states. And in the four other states, particularly Texas and Oklahoma, where most of the increase in yield occurred, weather conditions were unusually favorable after August 1. In the central and eastern parts of the Cotton Belt, private as well as government reports indicate that the crop deteriorated to some extent.

Of course the August 1 estimate of yield may have been too high because of the cotton reduction program. Crop reporters, most of whom were farmers, may have been led to over-estimate the condition of cotton at that time. However, practically all of the trade reports indicated that the condition of the cotton crop on August 1 was considerably above normal.³

In 1934 contract signers were permitted to plant 23.5 million acres of cotton. Careful measurement of the acreage actually harvested by contract signers indicates a total of only 20.7 million acres, or 2.8 million acres less than they were permitted to plant. These farmers had agreed to reduce their cotton acreage 15.0 million acres

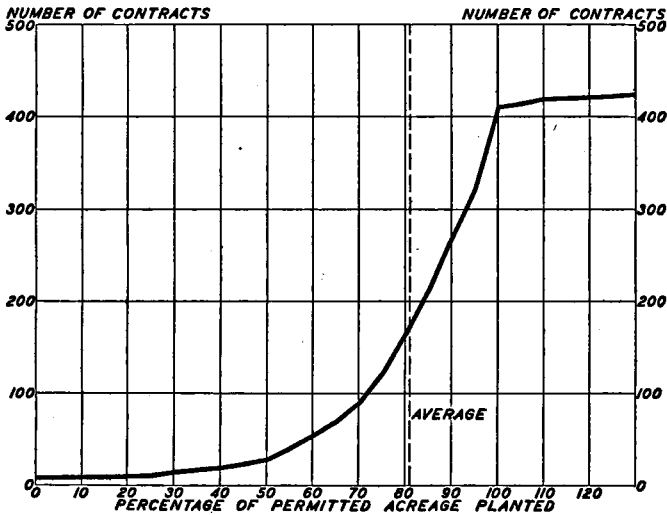
³ For a more complete analysis of compliance in 1933, see H. I. Richards, *Cotton under the Agricultural Adjustment Act*, pp. 54-59.

below that in the base period. Actually they reduced it 17.8 million acres, or 19 per cent more than necessary. It was to be expected that some farmers would plant less than their permitted acreage in order to be on the safe side, or for other reasons, and if no contract signer was allowed to harvest more than his permitted acreage, the total acreage would consequently be somewhat less than the total permitted acreage. For one Louisiana parish (the only data available) the distribution of contract farms according to the ratio of planted acres to permitted acres was as shown in the chart on page 130. Only 3.5 per cent of these farms planted more than their permitted acreage and only 1.6 per cent overplanted by more than 10 per cent. On the other hand, 1.9 per cent of these contract signers did not plant any cotton and 6.5 per cent had 50 per cent or less of their permitted acreage in cotton. As a group these farms planted 19 per cent less than their permitted acreage.

Additional evidence that farmers as a group restricted their cotton acreage in 1934 to less than that permitted under their contracts is furnished by census data and estimates of the Crop Reporting Board. On May 17, 1935 the United States Census Bureau placed final ginnings of the 1934 cotton crop at 9,636,073 bales and on May 22, 1935 the Crop Reporting Board estimated that this cotton was harvested from 26,987,000 acres yielding an average of 170.9 pounds of lint cotton per acre. Assuming the estimate of total production to be correct since it was based mainly on a record of actual ginnings, it is apparent that if the estimate of acreage harvested in 1934 was too low the yield estimate must have been too high. While no actual appraisal of the accuracy of these estimates can be attempted here, a number of pertinent facts may be cited. In the first place, the estimated yield

in 1934 was only 8.8 per cent greater than the lowest average yield since 1923—157 pounds per acre in 1930. It is true the drought greatly reduced yields in 1934, but an enforced reduction in cotton acreage tended to cause farmers to plant cotton on their better land and to

OVER- AND UNDER-PLANTING BY CONTRACTING FARMERS
IN ONE COUNTY, 1934*



* Data obtained from compliance records in the county agent's office. Number of contracts charted is cumulative.

take better care of their crop. Under normal growing conditions, better than average yields could have been expected. These circumstances do not indicate that the yield estimates were unusually high.

Assuming that 26,987,000 acres of cotton were harvested as estimated by the Crop Reporting Board, it is apparent that if contract signers planted the entire 23.5 million acres of cotton permitted under their contracts,

non-signers must have planted only 3.5 million acres. During the sign-up campaign in 1934, however, it was estimated that non-signers planted an average of 5 million acres annually in 1928-32, and additional evidence indicates that this estimate was too low. In other words, if contract signers planted their full permitted acreage of cotton or more, then non-signers must have greatly reduced their plantings. As a matter of fact non-signers are estimated to have harvested 7.1 million acres or slightly more than the base acreage granted them under the Bankhead program.

In 1935 the Crop Reporting Board estimated that the acreage of cotton in cultivation on July 1 was 27.9 million acres or practically the same as on July 1, 1934. Contract signers in 1935 were permitted to plant 28.4 million acres, and the base acreage of non-signers was estimated at 2.8 million acres. In other words, if the estimated acreage of cotton in cultivation on July 1 was correct, either contract signers as a group planted less than their permitted acreage of cotton or non-signers voluntarily reduced their cotton acreage without receiving any government payments.

USE OF RENTED ACRES

In 1933 farmers agreed to destroy cotton planted on 10.5 million acres, while in 1934 and 1935 they rented to the Secretary of Agriculture 14.5 and 14.2 million acres of cotton land respectively. In 1933 the cotton contract limited the use of the cotton land plowed under to "the production of soil-improvement or erosion-preventing crops or food or feed crops for home use." The 1934 and 1935 cotton acreage reduction contracts specified that the producer should:

. . . not increase on this farm in 1934 above 1932 or 1933
(a) the total acreage planted to crops, including the rented

acres; (b) the acreage planted to each crop for sale, designated in the act as a basic commodity, except as may be permitted under the contract between the producer and the Secretary; (c) the number and kind of livestock designated as a basic commodity in the act (or a product of which is designated) kept for sale (or the sale of a product thereof).

Use the rented acres only for: soil-improving crops; erosion-preventing crops; food crops for consumption by the producer on this farm; feed crops for the production of livestock or livestock products for consumption or use by the producer on this farm; or fallowing; or such other uses as may be permitted by the Secretary or his authorized agent.⁴

Practically no attempt was made to check on the use made by farmers of the land on which cotton was destroyed in 1933. In 1934 little attempt was made to measure or mark the acreage of land rented to the Secretary mainly because all of the restrictions on the use of the rented acres for producing feed crops were removed by an administrative ruling announced on August 2, 1934 but also because the acreage of land in food and feed crops was usually much in excess of the rented acres. Each contracting producer was merely required to certify that the terms of the contract had been complied with and to report any excess acreage of basic crops or numbers of livestock in 1934 over 1932 or 1933. It was expected, however, that the supervisors would catch any flagrant violations of the contract in these respects.

In 1935 the rented acres were measured and a few cases were found in each state where the acreage of cotton and other basic crops under contract plus the rented acres was greater than the cultivated acreage in the farm. But on most farms the acreage of food and feed crops was so much in excess of the rented acreage that actual measurement of them was of little significance in check-

⁴ 1934 and 1935 Cotton Acreage Reduction Contract.

ing compliance. Each contracting producer, however, was required to certify that he had complied with the terms of his contract, to report any excess acreage of basic crops or increase in numbers of livestock in 1935 over 1933 or 1934, and to report the acreage of wheat, rice, peanuts, and tobacco planted in 1935.

This apparent laxity in the enforcement of the contract requirements with respect to use of rented land was in large measure unavoidable, except where wheat, tobacco, or corn and hog contracts were entered into with the government. The acreage of potatoes or feed crops, or the number of cows and hogs on a farm might be greater in 1934 or 1935 than in 1932 or 1933 and the products reserved for home consumption. A supervisor could not determine the use made of these products by one visit to the farm.

The use actually made of the rented acres in the major regions of the Cotton Belt is best indicated by the published estimates of the Bureau of Agricultural Economics.⁶ These estimates indicate that the acreage of the principal crops, other than cotton, harvested in the eastern and central portions of the Cotton Belt where weather conditions were normal or better in 1934 and 1935 was about 15 per cent above that in 1932. In the western portion, where the drought was unusually severe in 1934 there was a marked drop in acreage of crops other than cotton from 1932 to 1935.

The acreage of land planted to important crops other

⁶ For cotton acreage, see *Crops and Markets*, U. S. Dept. of Agriculture, December 1935 and *Yearbook of Agriculture*, U. S. Dept. of Agriculture, 1932-35. For acreage of other principal crops, see the December issue of *Crops and Markets*, 1932-35. The states included in the various divisions of the Cotton Belt are: eastern—North and South Carolina, Georgia, and Alabama; central—Tennessee, Mississippi, Louisiana, and Arkansas; western—Oklahoma and Texas.

than cotton, however, was relatively large in 1932 in all parts of the Cotton Belt. As the acreage of cotton declined from 1929 to 1932 in response to relatively low prices, the acreage of food, feed, and other crops increased. But when cotton acreage was reduced by government action about 8.6 million acres below the acreage for 1932, farmers apparently did not consider it desirable to increase their acreage of other crops much above that in 1932. In other words, these figures indicate that of the 14.2 million acres rented to the Secretary in 1935, perhaps half were planted to other crops.

CHAPTER IX

THE LANDLORD-TENANT PROBLEM

One of the extremely difficult problems involved in the cotton reduction program was that of controlling its effects as between landlords and tenants. There were two major aspects of this problem. One was the protection of tenants from being displaced, or from having their tenure status reduced, by landlords who contracted with the government to reduce their acreage of cotton. The other was the division of government payments and other benefits resulting from the program between landlords and tenants. This problem was of particular importance in the case of cotton because of the large reductions in acreage of cotton required of contracting farmers and because of the landlord-tenant relationships which characterize the tenancy situation in the South.

LANDLORD-TENANT RELATIONSHIPS

In general, tenants on cotton farms are of three more or less distinct types, customarily called share croppers, share tenants, and cash or "standing rent" tenants. Their usual economic relationship to their landlord is well shown by the accompanying table.

While share tenants and cash or standing rent tenants are common to all parts of the United States, the share cropper, commonly called cropper, is found principally in the South. He occupies a tenure status between that of wage hand and share tenant. The typical cropper is without work stock, equipment, or other capital. The landlord furnishes him everything, including food while "making" a crop. Such advances are charged against the cropper's account and settlement is made when the crop is marketed. Only labor is furnished by the typical crop-

ECONOMIC RELATIONSHIP OF LANDLORD AND TENANT IN THE SOUTH*

Landlord-Tenant Participation	Share Cropping (Croppers)	Share Renting (Share tenants)	Cash Renting (Cash or standing renters)
Landlord furnishes:	Land House or cabin Fuel Tools Work stock Feed for work stock Seed One-half of fertilizer	Land House or cabin Fuel One-fourth or one-third of fertilizer	Land House or cabin Fuel
Tenant furnishes:	Labor One-half of fertilizer	Labor Three-fourths or two-thirds of fertilizer Work stock Feed for work stock Tools Seed	Labor Fertilizer Work stock Feed for work stock Tools Seed
Landlord receives:	One-half of crop	One-fourth to one-third of crop	Fixed amount in cash or lint cotton
Tenant receives:	One-half of crop	Three-fourths to two-thirds of crop	Entire crop less fixed amount

* E. A. Boegar and E. A. Goldenweiser, "A Study of the Tenant Systems of Farming in the Yazoo-Mississippi Delta," *U. S. Dept. of Agriculture Bulletin 337*, 1916.

per. And this labor is directed and supervised by the landlord to almost as great an extent as that of wage hands. The cropper, however, is paid a share of the crop at the end of the season in lieu of cash wages. His compensation is therefore somewhat closely related to his care of the crop.

Shifts from croppers to wage hands can be made quite easily since the landlord typically owns all of the work stock and equipment. Presumably the only change involved is in the method of paying for labor. Experience, however, has proved the cropper system to be better adapted to certain conditions existing in the South than

either the share tenant or the wage hand system. Under the wage system the landlord assumes a somewhat greater risk, exercises a slightly greater amount of supervision, and perhaps on the average has a slightly lower grade of labor.

Share tenants and cash or standing rent tenants typically furnish their own work stock, feed, equipment, and other production capital. There is, however, a wide variation in the supervision of their operations. On cotton plantations they are supervised to a large extent, although not so fully as croppers or wage hands. Advances of fertilizer, food, and other supplies are customarily made to such tenants throughout the older parts of the Cotton Belt. In the western and newer part of the Cotton Belt, however, share and standing rent tenants customarily operate an entire farming unit with little or no supervision by the landlord and without advances of food and other supplies by him. Such share tenants were called "managing share tenants" in the cotton contract for 1934 and 1935.

In 1934 applicants for allotments of tax exemption certificates who operated farms covered by cotton contracts, reported the following number of farm operators in each tenure class, by regions:

Tenure Class	Eastern	Central	Western	Total
Owners	243,913	207,490	176,943	628,346
Cash tenants	81,823	35,135	17,403	134,361
Standing rent tenants	9,128	905	437	10,470
Managing share tenants	39,957	40,326	126,920	207,203
Other tenants— principally share croppers and non-managing share tenants	285,264	377,201	113,301	775,766
Total	660,085	661,057	435,004	1,756,146

These data show that approximately 65 per cent of the total number of farm units covered by 1934-35 cotton contracts were being operated by tenants in 1934 and that about 45 per cent were operated by share croppers and non-managing share tenants. Nearly 20 per cent of these farm units were being operated by cash and standing rent tenants.

DIVISION OF BENEFIT PAYMENTS

In working out the division of benefit payments between landlords and tenants for taking land out of cotton production in 1934 and 1935 the AAA was confronted with the fact that landlords controlled the use made of their land. Their co-operation was necessary. If the reduction program was to succeed it was necessary to have a large proportion of the cotton-producing farms under contract. Naturally a larger sign-up could be obtained by making an offer that favored the landowner rather than one which favored the tenant.

Furthermore, even if a large sign-up were secured, there was still the serious and unknown possibility that a large number of tenants would be displaced or their tenure status reduced. And the greater the proportion of the benefit payments made to tenants, particularly share croppers and non-managing share tenants, the greater the danger that landlords would displace some of them in order to obtain a larger share of the payment.

Another factor that carried some weight was the claim that landlords were entitled to a relatively large share of any payments made for taking land out of cotton production on their farms. They claimed to have borne the brunt of the depression. They had had to pay taxes and interest rates that were abnormally high in relation to current income. The tenancy system is paternalistic in

a large part of the Cotton Belt and many landlords had "carried" their tenants through years when the income from the tenants' share of the crop was less than the amount of "furnish" advanced. Many tenants expected their landlord to look after them—to see them through the depression. At the same time it was argued that if the reduction program succeeded and approximately the same percentage reduction was made on each farm unit, the income of tenants would be increased by the increase in price even though they received no part of the benefit payments.

The situation was different with respect to the division of payments for plowing up cotton in 1933. At that time there was little danger of any tenant displacement. Practically all of the crop had been planted when the program was announced, and both landlords and tenants had an interest in the crop.

In formulating plans for 1936 the AAA was also confronted with a different situation from that existing when the 1934 and 1935 programs were formulated. In the first place, the Bankhead Act made it practically certain that nearly all farms would be covered by contracts if the program were continued in 1936. Besides, the AAA did not think that many cotton tenants had been displaced or their tenure status reduced during 1934 and 1935, and did not expect such developments in 1936.

It is impossible to say how these factors were weighed in formulating the provisions relating to division of payments between landlords and tenants each year. But the change in division of payments from year to year reflects the changes in basic conditions. In 1933 the payments were divided between landlords and tenants according to their interest in the crop. This division naturally favored the tenant since his labor and expenses were re-

duced much more than those of the landlord. In the government offer for 1934 and 1935, however, landlords operating with share croppers or non-managing share tenants were offered nearly 90 per cent of the total payment for taking land out of cotton production on their farms in 1934. But in the plans announced for 1936 share croppers were to receive 25 per cent of the payment for taking land out of cotton production on farms operated by them, and non-managing share tenants were to receive 50 per cent.

DANGER OF DISPLACEMENT OR CHANGE IN TENURE

The Adjustment Administration realized that even though the division of benefit payments in 1934 and 1935 favored the landlord, there was still considerable danger that tenants would be displaced or their tenure status reduced. It therefore took steps to prevent such developments. To this end, every cotton acreage reduction contract of 1934 and 1935 obligated the signer to:

Endeavor in good faith to bring about the reduction of acreage contemplated in this contract in such manner as to cause the least possible amount of labor, economic and social disturbance, and to this end, in so far as possible, he shall effect the acreage reduction as nearly ratably as practicable among tenants on this farm; shall, in so far as possible, maintain on this farm the normal number of tenants and other employees; shall permit all tenants to continue in the occupancy of their houses on this farm, rent free, for the years 1934 and 1935, respectively (unless any such tenant shall so conduct himself as to become a nuisance or a menace to the welfare of the producer); during such years shall afford such tenants or employees, without cost, access for fuel to such woodland belonging to this farm as he may designate; shall permit such tenants the use of an adequate portion of the rented acres to grow food and feed crops for home consumption and for pasturage for domestically used livestock; and for such use of the rented acres shall

THE LANDLORD-TENANT PROBLEM 141

permit the reasonable use of work animals and equipment in exchange for labor.¹

We may all agree with Professor Bruton of the Duke University School of Law that "with no stronger obligation imposed upon them to keep their tenants than that contained in this section, it is to be expected that many landlords will reduce their acreage in the easiest and most economical manner."² But just what is "the easiest and most economical manner"? What did a landlord have to gain by displacing some of his tenants or reducing their tenure status?

The potential gains of a landlord from displacement or reduction in the tenure status of his tenants varied with the landlord-tenant relationship at the time the cotton program was undertaken. These gains might be derived from two sources: (1) the tenants' share of the cash benefit payments; and (2) the tenants' share of other benefits from the program. The first may be illustrated by a single farm unit having the following contract record:

Base acreage of cotton	15 acres
Acreage rented to the government	6 acres
Acreage of cotton operator is permitted to plant	9 acres
Average yield of lint cotton per acre allowed	200 pounds
Rental payment (1,200 pounds at 3.5 cents)	\$42.00
Parity payment (1,200 pounds at 1 cent)	\$12.00
Total payment	<u>\$54.00</u>

¹ Par. 7 of the contract. According to plans which were developed for 1936, contract signers were to be required to agree "in so far as is economically practicable, to keep the number of tenants or share croppers that were kept the preceding year and to allow them the percentage of land which they had in 1935." "AAA Announces New Four-Year Cotton Adjustment Program," *AAA Press Release No. 993-36*, Dec. 3, 1935.

² Paul W. Bruton, "Cotton Acreage Reduction and the Tenant Farmer," *Law and Contemporary Problems*, June 1934, p. 290.

The division of the \$54 government payment between landlord and tenants provided in the cotton contract for 1934-35 was as follows under the specified types of tenure:

Tenure Class	Landlord	Tenant
Owner, with or without hired labor	\$54.00	-
Share croppers, receiving half of crop	48.00	6.00
Share tenants, other than managing share tenants, receiving two-thirds of crop	46.00	8.00
Managing share tenants, receiving three-fourths of crop	24.00	30.00
Cash or standing rent tenants	-	54.00

It is clear from this illustration that the landlord's share of the government payment would be increased only \$6.00 by displacing share croppers operating the farm indicated above, or by reducing them to the status of wage hands. Furthermore, the amount of government payments received by the landlord would be increased only \$2.00 by reducing share tenants (other than managing share tenants) to share croppers.

The potential gains from the second source were, of course, much greater than the tenants' share of the government payments. Landlords who displaced tenants or reduced them to a wage status might profit most from obtaining the tenants' share of other gains from the program. But the attainment of such gains was more difficult. It involved claiming a larger share of the crop from each tenant. For instance, if a landlord having a base of 150 acres and permitted to raise 90 acres of cotton reduced the number of croppers from ten to six, he would gain nothing unless he raised the rent. This would be difficult to do in secret, even though it might be to the advantage of both the landlord and the six

tenants. Nevertheless, it is conceivable that the rent paid by the six croppers retained might be increased by the amount of net income that would have been received by the four displaced croppers. In other words, if 18,000 pounds of lint cotton had been produced on this farm by ten croppers who received one-half of the crop, their average income from this cotton at 12 cents per pound would have been \$108 and the increase in rent that might have been obtained by displacing four of them would have been \$432. This is assuming, of course, that the value of the cottonseed produced would equal the cash out-of-pocket costs of producing cotton.

The potential gain to landlords from reducing their tenants to the status of wage hands on farms covered by a cotton contract was proportionately the same as the gain from displacing some of them and raising the rent demanded of those retained. In order to obtain such gain, however, a landlord either had to displace four of the ten tenants or else divide the work among the ten and pay them the usual wages of six tenant families. Such a shift either with or without displacement of any tenants would, however, have necessitated changes in management and method of farming; and it seems probable that sheer inertia, plus the penalties for contract violation, would have prevented any appreciable change of this sort during the past two seasons. Over a longer period of time, however, the probability of such shifts would be greater.

There is less danger of a net displacement of managing share tenants within a short period. Replacing such tenants with laborers would increase the landlord's share of the government payment by \$30, but the difficulties of operating individual farm units, often widely separated, with hired labor would almost preclude such a shift.

Changing from a managing share tenant to a share cropper basis would be more practicable, however, and would give the landlord all but \$6.00 of the government payment. Since there is strong competition for farms in areas where managing share tenants predominate, such tenants might well offer to accept a lower classification or to turn over all or most of the payment to the landlord in order to keep their farms. Such arrangements could be made privately in such a way as to leave little basis for checking them. This was especially true since the cotton contract did not clearly differentiate a managing share tenant from other share tenants.³ In most cases the decision as to tenure status was left almost entirely to the landlord and tenant, with the result that there were wide variations in the classification of tenants.

Another possibility was that landlords might displace managing share tenants and either discontinue operation of their farms or have them operated by neighboring farm owners. For instance, a few of these farms might be rented to sons of neighboring farmers and operated largely with work stock and equipment from the home farm. Where both farms were covered by contract with about the same base acreage of cotton, and cotton was the principal crop, the labor, work stock, and equipment required to operate the home farm would be sufficient in many cases to operate the neighboring farm also. The permitted acreage of cotton on both farms would be only slightly larger than the base acreage for the home farm, particularly if 45 per cent of the base acreage was rented to the government. Such tenants could, of course, afford to pay the usual rent for cotton and other crops produced and allow the landlord to receive all of the government payments. In fact, they could afford to pay

³ See p. 147.

additional rent for this privilege.⁴ Such competition for farms might tend to force rents up and to elicit offers of higher rents from managing share tenants, perhaps surrounded by a great deal of secrecy.

There was, of course, much greater danger of displacement or reduction in tenure status of share or standing rent tenants on plantations and on producer units closely associated with other producer units operated by the same landlord. Cotton plantations, for instance, often produce some cotton with wage hands as well as with croppers, share tenants, and cash or fixed rent tenants. Under such conditions, some tenants might be displaced and the permitted cotton acreage grown to a larger extent with wage hands. The actual acreage grown by wage hands might be no greater than during the base period. In that case no extra equipment or work stock would be needed by the landlord, and the entire reduction could be effected by displacing share tenants. Such a shift would, of course, have been in violation of the contract, but it might have been difficult to prove that the landlord forced these tenants to move.⁵

It must be evident, therefore, that the potential gains of landlords from displacing some of their tenants or from reducing their tenure status were fairly large. There was also an opportunity for some landlords to achieve a part of these gains without great risk of being detected.

⁴Take, for instance, a farmer with a 50-acre cotton base renting 20 acres to the government and planting 30 acres. He has the labor and equipment to produce 50 acres of cotton, a part of which will not be fully used if he plants only 30 acres. Furthermore, he expects the price of cotton to be fairly high because of restricted production. If under such conditions he rented 20 acres for the production of cotton from a neighbor, his additional costs would be relatively low and his returns relatively high even though he received no part of the rental payments.

⁵For penalties incurred by violation, see p. 147.

But for most landlords such gains could be attained only by obviously violating their cotton contracts and thereby endangering the benefits to be derived by respecting the contract provisions.

The cotton contracts of 1934 and 1935 unquestionably favored the landlord. As noted on page 140, those producing cotton with share tenants received about 90 per cent of the total government payment. Furthermore, if the reduction program increased the value of cotton produced such landlords would receive one-half of the increase. Many of them would also gain from the payment of old debts, otherwise uncollectible, by tenants whose income was increased.

INVESTIGATION OF COMPLAINTS

Numerous complaints were received by the AAA from tenants all over the Cotton Belt who claimed they were managing share tenants but had not been allowed to sign the contract along with the landlord. Others claimed that they had been displaced by landlords in violation of the contract; that their tenure status had been reduced; or that landlords were withholding benefit payments. Early in May 1934 an adjustment committee was established to investigate these complaints. One representative was called in from each major cotton-growing state except Texas (where complaints were handled by district agents within the state) to go over complaints and select those that seemed to need investigation. These representatives were then sent into the field to make the investigations in one or more states outside of their own.

The representatives worked closely with the county agents and committees. No public announcement of their arrival was made and the investigations were conducted with as little publicity as possible. Usually, the investi-

gator called on the complainant personally and obtained his version of the case. If there appeared to be a violation of the contract, it was discussed with the landlord and an adjustment was made if the landlord could furnish a satisfactory explanation. Otherwise, cancellation of the contract was recommended. These field representatives were active from May 1 to August 1, 1934. Since then, the county committees have taken charge of the investigations of complaints.

A large proportion of the complaints came from those who claimed to be managing share tenants but who were not permitted to sign a cotton contract as such. Many were due to misunderstandings. The contract merely defined a managing share tenant as a "share tenant who furnishes the work stock, equipment, and labor used in the production of cotton and who manages the operation of this farm." Field representatives, however, were given the following "more definite interpretation . . . as a general guide."

The term "managing share tenant," as used in the 1934 and 1935 cotton acreage reduction contract, and in the administrative rulings and instructions relating thereto, shall mean a share tenant who:

(a) occupies and operates a definite and distinct tract of land or operating farm unit, which is possible of description as required in the contract, which has its own cropping system, and which is operated independently of any other tract, regardless of whether it is a part of a larger piece of property or comprises an entire holding in and of itself, and

(b) performs or directs all labor incident to production and harvesting of crops on the tract of land described in clause (a) above, without direct supervision by the owner, being accountable to the owner only for rentals and for the general welfare and condition of the farm property according to an initial agreement or understanding; provided, however, that designation at the beginning of the year or at seasonal intervals of the acreages of crops to be grown, instructions as to time and place

of ginning and marketing cotton, by the owner or landlord, or an agent of the owner, or landlord, and occasional visits to the farm by the owner, or landlord, or an agent of the owner or landlord, to talk with the tenant about said matters shall not within themselves constitute "direct supervision" within the meaning of those words as used in this clause.⁶

Up to June 29, 1935, 3,068 complaints had been investigated. Of these 1,945 were considered unjustified and due largely to a misunderstanding of the contract. However, 836 of them were adjusted by the county committee and 249 by field representatives, while 38 contracts or 1.2 per cent of the total number investigated were recommended for cancellation.

Only a few complaints were received from most counties—probably not over three or four per county on the average. Most of them came from a few counties, particularly in the newly developed areas along the Mississippi Delta in the northeastern corner of Arkansas. About 25 per cent of all complaints on the landlord-tenant phase of the cotton program came from this small area, where the number of farms in 1935 reported by the United States Census was over 10 per cent greater than in 1930. Several factors apparently combined to cause trouble in this section. "Chief among them," according to a *New York Times* correspondent, "are the high percentage of white share croppers in this area, a surplus of labor created by the lure of the fertile bottom lands for the farmer on the submarginal land to the west, and the fact that the tradition of the soil is less deeply rooted in the share cropper of this region than it is in other cotton-growing states to the south."⁷ Normally, large

⁶ Letter from Administrator Davis to district agents and others assisting with the landlord-tenant problem, May 5, 1934.

⁷ F. Raymond Daniell, "AAA Piles Misery on Share Croppers," *New York Times*, Apr. 15, 1935, p. 62.

numbers of white people from the hills and mountains of Arkansas and adjoining states come down into the rich bottom lands to pick cotton. The drought in 1933 and 1934 caused larger numbers to migrate than usual. Many of them decided to stay, perhaps because they thought it would be easier to secure help from relief agencies. In any case the supply of tenants seems to have been greatly increased. Besides, a considerable number of negroes returned from the North after the end of the "prosperity era," and there seems to have been some tendency for plantation owners to substitute them for the white tenant. It was in this situation that the Southern Tenant Farmers Union was formed, and to a considerable extent succeeding difficulties revolved around this organization.⁸

The main issue seems to have arisen over the Union's attempt to force plantation owners by court action to keep the same tenants in 1934 and 1935 as in 1933.⁹ Such demands were rejected by the Supreme Court of Arkansas and on February 12, 1935 Secretary Wallace ruled that "Section 7 of the cotton contract does not bind owners to keep the *same* tenants."¹⁰

⁸This organization was formed shortly after the sensational charge by Normal Thomas that: "... under the operation of the AAA hundreds of thousands of them [share croppers] are either being driven out on the roads without hope of absorption into industry or exist without land to cultivate by grace of the landlord in shacks scarcely fit for pigs." (*American Guardian*, Mar. 2, 1934, p. 1.)

⁹A major contention of the Union also was that its members were discriminated against by the administrators of relief. It was on this issue, and not displacement of tenants by the cotton program, that Ward Rodgers ran afoul of the law when he declared at Marked Tree, Ark.: "Relief will not come until the government of the United States abolishes the plantation system. . . . I could lead a lynch mob. I don't want to do that. But, gentlemen, if these people are not fed I will lead that lynch mob and lynch every plantation owner in Poinsett County." (Stenographic copy in the AAA of remarks made by Ward Rodgers.)

¹⁰There was also a division of opinion on this question within the AAA, prior to its reorganization early in 1935. Various outside organizations also undertook studies of the situation, most of them being directed

CHECKING COMPLIANCE

As stated in Chapter VIII, definite provision was made for ascertaining whether or not contract signers were living up to their contract obligations. The complaints of violation of the landlord-tenant provisions of the contract, together with the dangers to tenants known to be inherent in the program, made a careful check for possible displacement or demotion of tenants doubly desirable. Although the data available for checking are not free from the suspicion of bias, or are not adequate to tell a convincing story, they are worthy of review for such light as they shed on the problem.

AAA checks. In the late summer and fall of 1934, every contracting producer was required to certify that the terms of the cotton contract had been carried out; to report the number of his tenants,¹¹ share croppers,¹² and wage hands in 1933 and 1934; and to state the reasons for any change in their number. The committeeman or other inspector checking compliance of the contracting producer was required to certify: "I am acquainted with the farm . . . and have examined and considered the representations made by the producer

at the operation of the AAA cotton program in the Arkansas section. The most comprehensive of these studies is that made by the Committee on Minority Groups in the Economic Recovery, financed by the Julius Rosenwald Fund. Others have been made by the Federal Council of Churches of Christ in America, the League for Industrial Democracy, and the Socialist party. Each group found evidence of low standards of living among share croppers, and discovered that many were on relief, as well as on the road. Each report of these studies pointed out that this situation prevailed while a cotton reduction program was in operation, and either stated or implied that the two are closely related. The Bankhead Farm Tenancy bill (S. 2367) seems to have been an outgrowth of these studies and the agitation that accompanied them.

¹¹ All tenants who had furnished their own work stock and equipment but had not signed the contract.

¹² All tenants who had not furnished work stock and equipment but had furnished labor in exchange for a share of the crop.

... and have found the statements made . . . to be correct to the best of my information and belief."¹³

Such evidence, however, is not conclusive, partly because most of the local and county committeemen in charge of checking compliance were landowners, as shown on page 79. Contracting producers who deliberately violated the spirit, if not the exact terms of the contract, would surely not have hesitated to falsify their claims as to number of tenants, particularly in 1933, when misstatements would be exceedingly difficult to check. It must be admitted, however, that local committeemen would know of most, if not all, changes in number of tenants or tenure status made by producers in their community. These committeemen, therefore, may have done an excellent job of reporting on the compliance of producers with this phase of their contract, or they may have done a very poor job. One simply cannot tell from the records.

This potential bias in compliance records was clearly recognized and the AAA has repeatedly undertaken other investigations of the problem. In the summer of 1934 it co-operated to some extent with the Federal Emergency Relief Administration in an analysis of the reasons why families were on relief in a number of selected cotton counties throughout the South. Information obtained from 100 to 200 families selected at random in each county indicated that only a small proportion claimed to be in distress as a result of the AAA cotton program. A more extensive and detailed analysis covering 52 typical cotton counties in the eleven principal cotton states was later undertaken jointly by the AAA

¹³ "Supplementary Representations of Producer to County Committee and Report of Supervisor for 1934," *AAA Form No. Cotton 21*, 16-2320, June 15, 1934.

and FERA. From the relief rolls of these counties from January 1, 1934 to March 15, 1935 were selected the names of every tenant who had operated a farm in 1933 or 1934 which was covered by a 1934-35 cotton contract. The total number of tenants and other persons on relief was also obtained. Information was then obtained as to the residence, tenure status, or displacement of these tenants, together with the tenure status of any new tenant who had replaced them each year from 1932 to 1935 inclusive.¹⁴ If any displacement of tenants or reduction in their tenure status was indicated, the landlord concerned was visited and asked to state the number of cash tenants, share tenants, share croppers, laborers, and others on his farm each year from 1932 to 1935.¹⁵ In some instances the tenants then on the farm were also interviewed.

In the 52 counties included in this survey there were 175,661 persons on relief. Of this number 86,339 were classed as rural relief cases—43,893 as tenants, 14,320 of whom were on farms in 1933 or 1934 which were covered by a 1934-35 contract. In other words, the total number of tenants and former tenants of farms covered by cotton contracts (90 per cent of all cotton farms) made up only 32.6 per cent of all persons on relief who were classed as tenants or former tenants. Furthermore, some of the 14,320 tenants on relief who, in 1932 or 1933 operated farms later covered by 1934-35 cotton contracts, may have been displaced by families returning from occupations other than farming.

While the study of tenants on relief was under way, a supplementary survey of all farms covered by a cotton contract in 1934 was made in one civil district in

¹⁴ "Tenant Schedule," *AAA Form No. D. C. 4, 8-8765*.

¹⁵ "Farm Schedule," *AAA Form No. D. C. 3, 8-8767*.

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each of 23 counties. This survey showed a net increase in the number of each type of tenant between 1932 and 1935. The following numbers were reported:

Type of Tenant	1932	1935
Cash tenants	417	571
Share tenants	1,411	1,649
Share croppers	3,960	4,155
Farm laborers	321	622
Others ¹⁸ ..	273	336
All tenants	6,382	7,333

The results of these studies furnished only a partial and inconclusive test of net displacement of tenants or reduction in their tenure status. In the first place, they were made by the AAA, which had conducted the program. In the second place, it was necessary to accept the word of landlord or tenant to a considerable extent in obtaining the data. Landlords may have forgotten some of the tenants on their farms during the period under study or may have intentionally reported them incorrectly. Furthermore, the analysis of relief cases was limited by the fact that most landlords could have operated their farms in 1934 with a smaller number of tenants than in 1933 without evicting any of them. Many tenants normally move of their own accord. Besides, some of those evicted or forced to move because of the cotton programs may have secured other farms and thus replaced tenants who failed to secure farms and were consequently forced on relief. The AAA has consequently failed to find a convincing answer to charges of tenant displacement.

Other checks. More reliable indications of the net displacement of tenants and croppers or reduction in their

¹⁸ Families not associated with cotton production.

tenure status, however, may be gained by less direct methods of analysis. Any appreciable displacement of croppers or tenants would tend to create a surplus of labor, work stock, and equipment. If there were a net displacement of share, cash, or standing rent tenants, there would tend to be a corresponding amount of displaced work stock and equipment. Even a net displacement of croppers would reduce the work stock and equipment required by landlords to produce the acreage of cotton permitted by the cotton contract. A 40 per cent reduction in cotton acreage planted by croppers on a plantation, if accompanied by a 40 per cent reduction in number of croppers growing cotton, would tend to create a corresponding surplus of work stock and equipment, whether the croppers continued to live on the place or not. Any appreciable net displacement of tenants should, therefore, be accompanied by relatively low wages and a surplus of work stock and equipment.

There has, however, been a more active market for horses and mules in the Cotton Belt states during the past two years than at any time in the last 15 years. During the year ending July 31, 1934, receipts of horses and mules at public stockyards in the Southern states were 130,807. A year earlier they had been only 67,528 and during the boom year 1928-29 only 113,800. In the year ending July 31, 1935 they increased to 172,334. Practically all of these receipts were from outside of the Cotton Belt. Furthermore, prices were relatively high. The average price of horses and mules on farms in the ten major Cotton Belt states on January 1, 1935 was \$86.77 a head as compared with \$51.03 on the same date in 1932 and \$71.67 in 1929. In other words, farmers in these states were buying more horses and mules at higher prices in 1934 and 1935 than in

1928-29, even though the acreage of cotton planted was 35 per cent less. While deferred demand from earlier years of low income could have accounted in part for this active market, it would not by any means have equalled the reduction in demand resulting from a 35 per cent reduction in the cotton acreage planted if any appreciable net displacement of tenants had occurred. It is true the number of horses and mules had been declining in the South as well as in the United States for a number of years, as the use of automobiles, tractors, and other motor-driven equipment increased, but that decline had not been any greater during the depression than in earlier years. The number of horses and mules reported on farms in the ten major Cotton Belt states on January 1, 1935 was only 3 per cent less than on January 1, 1933, as compared with a decline of 4 per cent from 1927 to 1929.

These records would appear to be reliable since there was no reason for reporters to exaggerate or reduce their estimates. So far as the evidence goes, it points toward the conclusion that there was no considerable displacement of tenants or reduction in their status to that of laborers in the Cotton Belt. We may therefore turn to our next check—that of wage rates.

In 1932 a simple average of the average wage rates paid in the ten major cotton states in January, April, July, and October was 80 cents a day. It was 75 cents in 1933 and 89 cents in 1934, an increase of 18.6 per cent. Comparable rates for the United States as a whole were \$1.29 per day in 1932, \$1.12 in 1933, and \$1.28 in 1934. The October rates in the South were 75 cents per day in 1932, 87 in 1933, and 92 in 1934, compared with \$1.19, \$1.25, and \$1.34 respectively for the United States as a whole. The percentage increase in these wage rates of hired farm labor has thus been considerably greater in the

South than in the United States as a whole during 1932-34.¹⁷ Some, perhaps all, of this gain may have resulted from the establishment by the Civil Works Administration and the Public Works Administration of wage rates that were relatively higher for the South than for other parts of the United States. Nevertheless, any surplus of farm labor created by the cotton program did not prevent farm wage rates from rising more in the South than in other parts of the United States.

As a matter of fact, the index of available farm labor published by the Bureau of Agricultural Economics shows a decline from 117 per cent of normal in January 1932 to 102.3 in January 1934 and 97.8 in January 1935. This index is based upon the estimates of a selected group of regular and special reporters, scattered throughout the South, to the Division of Crop and Livestock Estimates. While subject to considerable error and not to be considered a reliable measure of the exact amount of change, it establishes beyond much question that farmers in the Cotton Belt thought the supply of farm labor in the South to be smaller in relation to demand in January 1934 and 1935 than in January 1932. This prevalent opinion does not lend color to the belief that tenants have been displaced by the cotton program. Coupled with the fact that the total farm population in the South increased by something like 6 per cent between January 1932 and January 1935, the decline in the available supply of farm labor for hire by the day or month would seem to indicate that tenants were either

¹⁷ Estimates by the Bureau of Agricultural Economics of available supply of farm labor and average wages paid to hired farm labor per day without board tell much the same story. They do not indicate a large surplus of labor in the South.

not displaced by the AAA program or, if displaced, were not seeking employment on farms.¹⁸

Numerous empty tenant shacks in the cotton states would have been a good indication of net displacement of tenants, but there was no evidence of an increase in vacancies. In Alabama a survey shows that there were fewer empty shacks in 1934 than in 1933, and throughout the South persons familiar with the local situations seem to think that there were fewer empty tenant shacks in 1934 than in 1932 or 1933. Many of those working with the Relief Administration attempted to locate empty shacks for persons on relief but were unable to do so.

Some of the occupants of these shacks may, of course, have been displaced from regular farming operations. They may or may not have had a few acres of land for a garden and a few days' work chopping or picking cotton or doing odd jobs. Without regular tenant status, however, many of them would have been on relief. Any appreciable net displacement of tenants from regular farming operations would consequently tend to increase the total number of families on relief, particularly in the agricultural South where the industrial population is relatively small. Yet, as shown by the table on page 158, the number of families receiving emergency relief in eight of the major cotton-growing states, omitting Texas and Oklahoma where drought is known to have been the major factor affecting the demand for relief, showed no marked change between July 1933 and

¹⁸ To the extent that reporters excluded farm workers on relief rolls from the available labor supply, the index overstates the decline in the number of people able to work. The fact that the monthly relief payments were high may have caused many able-bodied men to refuse to work on farms. Consequently the reporters could not include them as available labor.

March 1935, while for the industrial Northeastern part of the United States there was a marked increase. The record is somewhat blurred by the Civil Works program but on the whole indicates fewer recipients of relief rather than more.

COMPARISON OF RELIEF RECORD OF MAJOR COTTON-GROWING AND NORTHEASTERN STATES^a

1. Cotton-Growing States^b

Quarter	Number of Families on Relief Rolls ^c			Number of Persons Employed on Relief Projects	
	1933	1934	1935	1933	1934
First.....	...	502,486	562,299	...	488,252 ^d
Second.....	703,014	524,193	534,595	...	...
Third.....	513,948	605,589	369,968	...	...
Fourth.....	483,401	534,494	...	386,881 ^e	...

2. Northeastern Industrial States^f

First.....	...	1,346,429	2,264,296	...	1,587,591 ^d
Second.....	2,102,456	1,950,099	2,126,599	...	...
Third.....	1,629,361	1,925,184	1,915,524	...	...
Fourth.....	1,534,739	2,101,770	...	1,011,525 ^e	...

^a Compiled from records of the Federal Emergency Relief Administration.

^b Texas and Oklahoma have been omitted from the analysis because the drought was the major factor creating demand for relief in these states.

^c Average of the number reported each month of each quarter.

^d Average number employed each week—Nov. 23 to Dec. 28, 1933 inclusive.

^e Average number employed each week—Dec. 28, 1933 to Mar. 29, 1934 inclusive.

^f New England, Middle Atlantic, and East North Central states.

In 1934 the average number of families on relief each month during the second and third quarters of the year, in the eight Southern states, was 6 per cent less than in 1933. While the average number reported on relief during the first quarter of 1935 is 12 per cent larger than in 1934, the two figures are not comparable because the Civil Works program was at its height during the first

quarter of 1934. The number reported on relief during the fourth quarter of 1933 is also lower than it would have been without the Civil Works program. Some of those employed on Civil Works projects were also reported on the relief rolls, and so the total of the two would not give an estimate of the relief load comparable with that for other periods. Nevertheless, these two sets of relief data do not indicate any increase in the number of families on relief in the major cotton-growing states outside the drought areas.

AVERAGE MONTHLY PAYMENTS TO FAMILIES ON RELIEF IN
SELECTED COTTON STATES, 1933-35^a

Quarter	1933	1934	1935
First.....	...	\$ 8.84	\$15.45
Second.....	\$ 7.06	12.32	16.64
Third.....	7.70	13.18	14.96
Fourth.....	9.83	14.47	...

^a Average expenditures of public emergency relief funds for direct relief and earnings of relief persons per month divided by the average number of resident families on relief. These expenditures do not represent the exact amount received by resident families reported because expenditures for single persons on relief have not been deducted. Such deductions, however, would probably not change the totals or trends appreciably. See preceding table for reference to states included.

Furthermore, the increasing liberality with which relief has been extended in the South since the early part of 1933 has no doubt kept many on relief who would otherwise have accepted available work. As shown by the accompanying table, the average monthly payment to families on relief more than doubled between the second quarter of 1933 and the second quarter of 1935. These payments may be compared with the \$10 to \$25 per month which a share cropper or tenant would have received from a plantation owner or operator as credit or "furnish" money.

From 80 to 90 per cent of those employed on Civil

Works projects in the South received 30 to 50 cents per hour. None was paid less than 30 cents an hour in an area where the average wage paid for agricultural labor was reported to be less than a dollar a day without board in 1934. It is true the days and weeks were short, but the average weekly pay on relief projects in these states was \$9.50 to \$10.00. Such earnings may appear low, but they looked very attractive to many in the South, and the shorter work period may also have been considered an advantage by many workers.

While this analysis of relief activities in the South bears only indirectly upon the question of displacement of tenants, it suggests that any displacement which occurred may have been the result of activities of the FERA rather than those of the AAA. The relatively high wages to be obtained on relief projects, together with the relatively high monthly stipend given to families on relief, served to render ordinary work unattractive to those who could benefit by the federal relief activities. Moreover, the availability of federal relief no doubt prompted landlords to shift the burden of supporting idle tenants, or even those still at work, to the government.¹⁹ High relief expenditures did not mean high property taxes for them, since over 95 per cent of the costs were paid with federal funds.

A survey of the situations of 1,703 families in five North Carolina counties by the Division of Rural Sociology, North Carolina Agricultural Experiment Station, showed: "The conditions of croppers and renters

¹⁹ Special surveys made by the FERA in representative cotton counties in the summer of 1933 indicated that landlords were refusing to "furnish" food and clothing for members of their tenant families unable to work, and that these families were being forced on relief. Other reports indicated that landlords were refusing to carry their tenants through the winter and were helping them to get on relief.

in North Carolina have been substantially improved under the New Deal. . . . There has been a marked and significant shift of such groups (renters and croppers) up the 'agricultural ladder.' Renters have been enabled to buy homes, croppers have been enabled to buy work stock and become renters. On the other hand, the number of farmers who have lost their tenure status, i.e., those who have dropped down the 'agricultural ladder,' have been relatively small during 1934 and 1935."²⁰

Taken as a whole, therefore, the available evidence does not substantiate the alarmist statements which have been widely circulated that a great number of tenants and croppers have been displaced or their tenure status reduced. While this evidence does not constitute conclusive proof, it does indicate that there has not been any appreciable displacement of tenants or reduction in their tenure status as a result of the AAA cotton program. Nevertheless, on farms operated by share croppers or non-managing share tenants, the major portion of any increase in income from cotton and government payments for taking land out of cotton production was received by the landlord, even though no tenants were displaced or their tenure status reduced.

There is nevertheless considerable uncertainty as to the prospects of tenant farmers in the South under a continued cotton reduction program. A reduction in the acreage of cotton normally means a reduction in the number of tenants. Efforts were being made to prorate the permitted cotton acreage among the usual or normal number of tenants and, at the same time, induce them to produce more food and feed for home use. Perhaps

²⁰ C. Horace Hamilton, *The Relation of the Agricultural Adjustment Program to Rural Relief Needs in North Carolina*, p. 1 (report of the North Carolina Agricultural Experiment Station).

such efforts would have succeeded over a long period of time. There are admittedly certain advantages to tenants and perhaps to landlords from such practices. Nevertheless, few realistic thinkers interested in this problem believe an appreciable reduction in cotton acreage can be secured by government action over a number of years without a significant reduction in the number of tenants. As their mules and machinery wear out, many landlords are likely to get along with a smaller number of working units.

CHAPTER X

THE BANKHEAD ACT AND OPERATIONS UNDER IT

On April 21, 1934, the Agricultural Adjustment Act was supplemented in so far as cotton was concerned by a new piece of legislation commonly referred to as the Bankhead Act.¹ Whereas the former legislation attempted through voluntary methods to give the federal government effective control of the volume of cotton produced and marketed, the Bankhead Act invoked practically compulsory measures. But both aimed at "the restoration of the cotton industry to a sound commercial basis by creating an effective balance between the production and consumption of cotton." And the underlying philosophy of the Agricultural Adjustment Administration was to the effect that "this balance . . . can only be brought about by reducing current production, in order that consumption may reduce to a normal level the supply [carry-over] of cotton that is now depressing prices received by producers."²

GENERAL METHOD OF OPERATION

The essential features of the Bankhead Act were a large tax levy on the ginning of cotton and the issue of tax exemption certificates for the desired national amount of cotton. These certificates were issued to individual growers who applied for them, in proportion to their production during a specified base period.

Section 6 of the act provided, however, that:

¹ 48 Stat. L. 598. 73 Cong., Public No. 169.

² "Instructions and Regulations Pertaining to the Cotton Act of Apr. 21, 1934," *AAA Form No. B.A. 19*, July 14, 1934, p. 1.

. . . No certificate of exemption shall be issued and no allotment shall be made to any producer unless he agrees to comply with such conditions and limitations on the production of agricultural commodities by him as the Secretary of Agriculture may, from time to time, prescribe to assure the co-operation of such producer in the reduction programs of the Agricultural Adjustment Administration. . . .

The Secretary, however, did not place any limitation on the production of cotton as a qualification for receiving tax exemption certificates. They were issued to non-contract signers on the same basis as to signers. But each grower's allotment was considerably less than his production during the base period and all cotton produced on a farm in excess of its allotment of certificates was subject to the tax, which was expected to exceed any increase in price resulting from the program.³ Consequently the cotton ginning tax was expected to prevent non-signers from profiting by an expansion of their cotton acreage or by producing their customary amount of cotton while contract signers were reducing their acreage. By thus removing the price incentive to expansion of production by non-signers on the one hand and offering benefit payments to contract signers on the other, it was expected that practically all cotton farmers would be induced to sign the cotton acreage reduction contract.

The act was also intended to deter contract signers from attempting to increase their cotton production by large applications of fertilizer, better than usual care of their crop, or by planting more than their permitted

³ It was frequently claimed that cotton prices in 1934-35 would have been about 6 cents per pound if there had been no cotton program, instead of about 12 cents. Consequently, it was maintained that a tax of 6 cents per pound, 50 per cent of the market price, would not penalize the non-signer but merely prevent him from sharing in the benefits of a program in which he refused to co-operate.

cotton acreage in violation of their contracts with the Secretary of Agriculture.

In general, operations under the Bankhead Act were made to conform as closely as possible to those under the cotton acreage reduction program of the AAA. The base period specified under each of these programs was similar and every effort was made to have the volume of tax exemption certificates issued to contract signers equal their permitted acreage times their adjusted average yield.

Administration of the Bankhead Act, other than the collection of taxes, was placed under the immediate supervision of the Cotton Section of the AAA. As in the voluntary programs, the act was administered through the extension service and the cotton production control association in each county. County and community committeemen handled the work of receiving, checking, and adjusting applications for tax exemption certificates in much the same manner as they did the cotton contracts.

As originally passed, the Bankhead Act applied only to the crop year 1934-35. Provision was made for its continuance during 1935-36, however, if the President found that the economic emergency in cotton production and marketing continued to exist and if the "overwhelming sentiment" of cotton farmers favored it.⁴ Amendments approved on August 24, 1935 sought to extend its operations during 1936-37 and 1937-38.

The act fixed the rate of the tax to be levied on the ginning of cotton at 50 per cent of the average central market price (ten spot markets) per pound of $\frac{7}{8}$ -inch middling cotton as determined and proclaimed by the Secretary from time to time, but in no event to be less

⁴ For referendum to determine sentiment, see pp. 186-93.

than 5 cents per pound. On May 25, 1934 a price of 11.34 cents per pound was announced as the base for determining the rate of tax, making the tax 5.67 cents per pound. On June 18, 1935 this cotton ginning tax was increased to 6 cents per pound on cotton produced in 1935 on the basis of a central market price of 12 cents per pound, but on October 21, 1935, when prices had declined to about 10.9 cents, the tax was reduced to 5.45 cents. No specific day, however, was used for determining the central market price used as a basis for calculating the rate of tax.

As already explained (page 163), an amount of cotton necessary to meet probable market requirements was to be exempted from this tax by the issuance of tax exemption certificates. The act provided for the issuance of a national quota of such certificates for 10 million bales of cotton harvested in 1934 and the Secretary of Agriculture set the quota for 1935 at 10.5 million bales of 500 pounds net weight of lint, or 10,460,251 and 10,983,264 bales respectively of 478 pounds each—the standard net weight of cotton bales.⁸ Besides these quotas allotted to growers in proportion to their production during a specified base period, there were four special exemptions from the tax, as follows:

1. Cotton harvested prior to the crop year 1934-35.
2. Cotton harvested by any publicly owned experiment station or agricultural laboratory.
3. Cotton having a staple length of 1.5 inches or more. (Practically all of this cotton is grown in Arizona.)

⁸ An increase in allotment of tax exemption certificates to Illinois in 1935-36 and subsequent years (see note, p. 168), provided in an amendment to the act approved Aug. 9, 1935, represented an addition to the national quota. After 1935-36, any increase in allotment of certificates resulting from the establishment of a minimum allotment for New Mexico and for small farmers in all states was to be in addition to the national and state quotas. (See note 8, p. 168, and p. 366.)

4. Lint cotton not in excess of 110 pounds produced by or for any producer and retained for domestic use in his household. (In 1935-36 and subsequent years only.)⁶

The proceeds from the cotton ginning tax as well as the tax exemption certificates were handled by the Commissioner of Internal Revenue. Ginners and other persons liable for the tax were required to make monthly returns under oath in a manner prescribed by the Commissioner, and to pay the tax at the time of making the reports.⁷ Any taxes collected were made available to the Secretary of Agriculture for the purpose of carrying out the cotton program of the AAA and for administration expenses and refunds of taxes under the act.

Postponement of the tax at the time of ginning was permitted on cotton to be stored either on the farm or at other places designated by administrators of the act. Such cotton, however, was subject to a non-interest bearing lien in favor of the United States for the amount of the tax, which was payable with tax exemption certificates issued in following years.

This ginning tax was not expected to yield any appreciable amount of revenue to the government, being designed rather to force all cotton growers to co-operate with the government in its effort to restrict production. The tax exemption certificates were, however, expected to be a source of income each year to farmers having less

⁶Sec. 4(h) added by Sec. 42 of Public No. 320, 74 Cong., approved Aug. 24, 1935.

⁷In effect, the ginners were made agents of the Bureau of Internal Revenue for the collection of this tax. They were required to keep detailed records of the taxes paid and the tax exemption certificates received from each farmer and report them to the Bureau. They received no compensation for this additional work in 1934-35. An amendment to the Bankhead Act approved Aug. 24, 1935 authorized the Secretary of Agriculture to make certain payments to ginners for such work but the bill containing an appropriation for this purpose was killed in the Senate.

than average yields for their farms. The act provided that "any and all certificates of exemption may be transferred or assigned in whole or in part in such manner as the Secretary of Agriculture may prescribe." They could also be used in following years. Growers having more certificates than they needed to pay the tax on their cotton could therefore be expected to sell them to others at a slight discount below the tax or to hold them over until the following year.

ALLOTMENT OF TAX EXEMPTION CERTIFICATES

The national quota of tax-exempt cotton established in a given year was divided among the cotton-producing states in accordance with the ratio of the average number of bales produced in each state during the five years 1928-32 to the average number of bales produced in all cotton states during the same period.^a Each state allotment was divided into two portions. One portion consisting of not more than 10 per cent was set aside as a "state reserve" for special classes. The remaining portion, or "regular allotment," was divided among the counties within the state in a manner similar to the apportionment of the national quota among states, although special consideration was given to counties having unusually low yields during some year of the base period because of "uncontrollable natural causes." The regular county allotments were in turn apportioned to farms then growing cotton and on which cotton had been grown at some time during 1928-32. Each farm was given an allotment basis in accordance with the pro-

^a Sec. 5(a) of the act. Every state producing 250,000 or more bales in any year of the base period, however, was given a minimum allotment of 200,000 bales. California and Missouri were the only states affected by this provision.

Amendments to the act in August 1935 also established minimum allotments of 4,000 bales for Illinois and 80,000 bales for New Mexico.

visions of the act. For farms covered by a cotton contract these bases corresponded quite closely to the maximum permitted acreage times their adjusted average yield. Allotment bases for other farms were calculated in a similar manner. Special consideration, however, was given to small producers.⁹

When allotment bases had been established by the county committee for all applicants in a county and approved by the state allotment board, allotments of tax exemption certificates to each applicant from the regular county allotment were computed. This was done by multiplying each applicant's regular allotment basis by the ratio (sometimes called the "correction factor") of the regular county allotment of certificates to the county total of these allotment bases. These ratios varied considerably from county to county. In some counties they were more than 100 per cent and in others considerably less. For the United States as a whole, the ratio was about 92 per cent. In other words, farmers signing the cotton contract in 1934 received tax exemption certificates from the regular allotment for an average of about 8 per cent less than their permitted acreage times their adjusted average yield. This created considerable dissatisfaction among farmers who could not qualify for a portion of the state reserve. In some counties such farmers received an allotment of certificates for only 80 per cent or less of their base production.

It is rather generally recognized that the use of a uniform rate of production during any past period as the basis for distributing tax exemption certificates results in injustice to some farmers. Neighboring farms equally well adapted to production of cotton may vary widely in the amount of cotton grown during any par-

⁹ For details of procedure in making allotments, see Appendix C.

ticular past period. Under a voluntary reduction program financed with benefit payments any farmer who felt that it worked hardship upon him could refuse to co-operate and still benefit by any price increase effected by the program. But under a semi-compulsory program, similar to the one in effect during the past two seasons, a farm receiving a low base might be severely penalized.

Several different bases for the allocation of tax exemption certificates (in effect, the right to grow cotton for sale) were suggested as preferable to the historical one actually applied.¹⁰ Some would have liked to distribute them in proportion to the acreage of cultivated land on each cotton farm, or in proportion to the amount of cotton each farm would have produced during a fair representative period if all cultivated land had been planted to cotton. This latter basis, in fact, was specifically authorized by the act. It would, of course, tend to penalize growers having a large proportion of their cultivated land in cotton, and favor those with only a small proportion. Some, also, suggested that the apportionment be made on a per plow, per mule, or per family basis. Others thought that farms on which the cotton acreage had already been reduced considerably, perhaps at the suggestion of the Extension Service and the Department of Agriculture, should not be penalized even though—and perhaps because—they represented the marginal cotton producers. Still others, largely for sentimental reasons, thought that farms growing cotton where the risks of production “due to uncontrollable natural causes” were great should be favored with an extra or additional allotment of tax exemption certificates. And

¹⁰ In fact, Sec. 7 (b) of the act specifically stated that after the crop year 1934-35 the apportionment should not be on the basis of “a percentage of the average annual cotton production of the farm for a fair representative period”—the basis established by Sec. 7 (a) (1). See p. 358.

finally, there were those who considered it essential to provide for the issuance of certificates to new producers even though no provision was made for increasing the allotment basis of old producers who wanted to increase their cotton acreage.

It was in response to criticisms of the historical base that the act set aside 10 per cent of each state quota of tax exemption certificates as a "state reserve" for special classes.¹¹ The types of special classes, the approximate allotment base established for each group, and the quantity of certificates allocated to each group expressed as a percentage of its total allotment base are shown in the accompanying table.

Special Classes	Allotment Base (In millions of pounds)	Ratio of Certificates to Allotment Bases
New 1933 producers	109	94
New 1934 producers	138	53
Affected by uncontrollable natural causes	211	62
Prior voluntary reduction	51	53
Less than a third of cultivated land in cotton	524	31
All special classes	1,033	48 (av.)

There was wide variation from state to state in the ratio of certificates issued from the state reserve to the allotment bases established for each special class. In some states, each of these allotment bases was considered to have an equal claim on the state reserve, while in others there was considerably more inequality. Approximate differences for the United States as a whole

¹¹ For a list of special classes and the allotment bases established for each, see Appendix C, pp. 362-65.

are shown in the last column of the table. Producers growing cotton in 1933 for the first time since 1927 were given preferential treatment in all states, whereas new 1934 producers did not fare so well. Farms on which yields were low because of uncontrollable natural causes and farms on which the cotton acreage was voluntarily reduced fared about the same, while farms having less than a third of their cultivated land in cotton received proportionately less from the state reserve than any other special group.

Nevertheless, farms with less than a third of their cultivated land in cotton received an initial apportionment of about one-half of the total state reserves. New producers received about 10 per cent, while those with low yields because of uncontrollable natural causes received about 20 per cent of the total. Only a small proportion, however, was for farms claiming to have reduced their cotton acreage voluntarily. Those classified as new producers received allotment bases in both 1933 and 1934 for about 2 per cent of the "regular" allotment bases established for all cotton producers.

Provision for all these special cases represented a more uneconomic method of distributing tax exemption certificates than that used for the "regular allotment." In general it tended to stimulate cotton production in marginal areas and to reverse such shifts in production as comparative advantages may have caused, even though some provision was made for new producers. It also tended to stimulate production in areas where yields fluctuate widely and on farms having only a small proportion of their cultivated land in cotton, even though there is no evidence to indicate that such stimulation was economically desirable.

The initial allotment of tax exemption certificates

made in accordance with the allotment bases thus set up resulted in allotments to some farms which were in excess of the maximum they were ultimately permitted to receive. This maximum was defined in 1934 as the adjusted average production of lint cotton during the base period.¹² Special provision was made for the reapportionment of the excess.¹³ It was used to equalize, so far as possible, the ratio of tax exemption certificates issued to the regular allotment bases established under Section 7 of the act for each farm and county.

All the tax exemption certificates¹⁴ were issued by the

¹² This occurred most frequently because of large allotment bases established under Sec. 8(a) for farms having less than a third of their cultivated land in cotton. For instance, if a farm with a base production of 5,000 pounds, a "regular allotment basis" of 5,000 pounds, and a special allotment basis of 9,000 pounds were issued certificates for 3,000 pounds from the regular county allotment and 2,700 pounds (9,000 times 30 per cent, the United States average) from the state reserve, it would receive 5,700 pounds. The maximum this farm could receive was 5,000 pounds, the base production. The difference of 700 pounds was called "frozen cotton."

¹³ No provision was made in the original act for reapportioning such cotton on any different basis from other tax-exempt cotton. An amendment to the act, approved June 20, 1934, however, added Sec. 25(b), as follows:

"(b) Whenever after apportionment under Sections 7 and 8 any surplus number of bales remain of the amount allotted to any county under Section 5(b) such surplus bales shall be allotted, in such quantities as the Secretary of Agriculture determines, to such other counties within the state as the Secretary of Agriculture determines have an insufficient allotment. Said bales shall be apportioned, pursuant to Secs. 7 and 8, within the respective counties to which allotted, but in no case shall any farm receive any of such allotment so as to receive a total allotment in excess of its estimated production for the crop year in which such allotment is made."

¹⁴ In 1934 these certificates were printed in the form of coupon books representing the tax on 5,000 pounds of cotton—slightly more than ten bales. Each coupon, representing the tax on five pounds of cotton, was detachable. Whenever the allotment to a producer was less than 5,000 pounds or a multiple thereof, enough coupons were detached from one of the books to make the remainder express the exact allotment to the nearest five pounds. In 1935 the coupon books contained certificates for only 3000 pounds of cotton.

state allotment board and distributed to producers in each county through a local "assistant in cotton adjustment." The percentage of exemption certificates to be received by each tenant and/or cropper and the landlord was determined by the share of each in the estimated normal production of cotton on all land planted to cotton on the entire farm during the current year. Cash, standing, or fixed rent tenants were expected to sign the application forms and receive all of the tax exemption certificates.

The certificates were not issued in 1934, however, until much of the cotton had been harvested and ginned. The Bankhead Act was not approved until April 21, 1934 and an appropriation of funds to carry out the act was not approved until May 25, 1934. The determination of allotment bases and issuance of tax exemption certificates in time for the 1934 crop was a tremendous task to accomplish in so short a time. There were also innumerable delays in printing and distributing forms. Many of them were missent in the mails. The resulting shortage of tax exemption certificates at ginning time in many counties made it necessary to issue interim certificates which were later replaced with regular tax exemption certificates.

All producers, including both landlords and tenants, were entitled to receive their share of the certificates direct from the assistant in cotton adjustment. Permission was granted, however, to landlords and share tenants or share croppers on farms having two or more producer units, to appoint a trustee to receive their certificates and use them in paying the tax on their cotton. Before such a procedure was permitted, however, a majority of the producers on a farm had to agree in writing to the appointment of a trustee, who would consent in

writing to serve. But any producer on such a farm who did not agree to the appointment of a trustee might receive his certificates directly from the assistant in cotton adjustment.¹⁵

TRANSFER OF CERTIFICATES

The allotment of tax exemption certificates to each farm in any year was not expected to correspond exactly with its current production. The national quota of tax exemption certificates was decided upon each year prior to the planting of cotton, and, as explained above, was allotted to farms on the basis of past production records. Practically every cotton grower was therefore expected to have either more or fewer certificates than were required to pay the tax on cotton produced in any given year. Those with a surplus were to be permitted to sell or transfer them, or to hold them over until the following year. Those with a deficit could pay the tax, purchase tax exemption certificates, or store their excess ginned cotton, giving the government a lien on it for the amount of the tax. Furthermore the total production of cotton could be expected in some years to exceed the national

¹⁵ The appointment of trustees was authorized in an amendment to the original regulations, issued Sept. 5, 1934, because "the physical labor of making the computations required by the *Form No. B. A. 9* (and *10* where used) cannot be performed in time to make a first issue of certificates separately to individual share tenants and/or share croppers and landlords available to them at the time needed. . . ." ("Amendment Adding Art. VIII to the Regulations under the Cotton Act of Apr. 21, 1934," *AAA Form No. B.A. 19-B*, p. 1.) The same procedure, however, was retained in 1935. Some arrangement of this kind was needed on many farms in the South in order to protect the interests of tenants, who were ignorant of the significance of such certificates. Yet arrangements for the appointment of trustees suggested by the Cotton Section were at first rejected by others in the AAA, apparently because they seemed to favor the landlord and because the act specified that "the Secretary of Agriculture may make regulations protecting the interests of share croppers and tenants in the making of allotments and the issuance of tax exemption certificates under this act." Sec. 15(b).

quota of certificates issued, and *vice versa*. When a national deficit of certificates existed, individual farmers having a surplus for sale could expect to receive a relatively high price for them—or in other words sell them for only slightly less than the amount of the tax. Many farmers having more cotton than tax exemption certificates, however, might store their excess ginned cotton subject to the government lien for the amount of the tax, thus reducing the demand for certificates. When a national surplus of certificates occurred, their sale or transfer price would tend to be low, unless the government exercised monopoly control over them.

If the plan were continued in operation many years, some farmers would tend to hold their surplus certificates over until the following year or years and others would buy up extra certificates to be used the following year. Speculators might also enter the market for them. Strict monopoly control over the sale of certificates would therefore not be essential in a long-time program of this kind although it might be desirable.

In 1934 the national quota of tax-exempt cotton exceeded production by approximately 824,000 bales. State quotas, however, exceeded production in only four states, Texas, Oklahoma, Louisiana, and Arkansas, where yields were low because of the drought. The quotas of these states exceeded production by 1,422,000 bales. In all of the other states, production exceeded the state quota, as shown in the table on page 181, by a total of 598,000 bales.

If all the surplus certificates in the four western cotton states had been thrown on the market without restriction, their price would have dropped to practically nothing. There would have been little demand for them from persons expecting to hold them over until the following year, because continuation of the program during

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1935-36 was not announced until February 28, 1935. Cotton growers in these states, where yields were low because of the drought and incomes were small, would have been unable to obtain any appreciable income from the sale of surplus certificates. Growers in other states would also have been able to purchase any additional certificates needed at a low cost, and might have expanded their acreage of cotton the following year with the expectation of again being able to purchase them at a low price. Strict monopoly control over the sale of these certificates was therefore particularly necessary in 1934-35.

The national quota of tax exemption certificates for 1935-36 plus those carried over from the 1934-35 season also promised to be greatly in excess of the amount needed to pay the tax on cotton produced in 1935. On December 8 the government estimated the 1935 crop at 10,734,000 bales. The national quota of new tax exemption certificates to be allotted to growers in 1935 was roughly 11 million bales. And, in addition, most of the 1934-35 surplus of tax exemption certificates for approximately 824,000 bales of cotton was available for use in 1935-36. Monopoly control over the sale of these certificates was therefore considered necessary during the 1935-36 season.

The price at which all certificates could be sold in both 1934 and 1935 was fixed by official regulation. On September 5, 1934 the Secretary set the price at 4 cents per pound, or 1.67 cents below the tax rate. No change in this price was made during the 1934-35 season. For the following season the price was originally set at 5 cents, or one cent below the tax. On October 21, however, when the tax was reduced to 5.45 cents, the transfer price was reduced to 4 cents.

Every effort was made to prevent sales at less than the

official price. The transfer of certificates was closely supervised and controlled. Only transfers between producers on the same farm were authorized without the approval of an assistant in cotton adjustment.¹⁶ Any one desiring to sell or transfer certificates to producers not on the same farm was required to certify that the certificates offered were in excess of the amount needed by him to pay the tax on his cotton. Such surplus certificates could be entered in a national pool or sold locally at the price fixed by official regulations. Each local sale was supposed to be approved and recorded by an assistant in cotton adjustment.

Considerable attention was also given to preventing speculation in exemption certificates. For instance, no certificate was to be received for inclusion in the national pool "except from the person to whom originally issued (or reissued) or unless the producer so offering it shows to the satisfaction of the county committee, in case it was not originally issued (or reissued) to him, that it is surplus either because his production has been lessened by natural cause . . . or because his estimate of certificates needed by him was too high."¹⁷ Furthermore, regulations were issued declaring the 1934 tax exemption certificates unacceptable as payment of the cotton

¹⁶ An amendment to the original act approved Aug. 24, 1935 provided that "no rule or regulation of the Secretary of Agriculture shall prohibit the transfer or assignment by a cotton producer of certificates issued or reissued to him if such transfer or assignment is to another cotton producer who is a resident of the same state." (74 Cong., H.R. 8492, Pub. No. 320, Sec. 41.) But regulations were issued requiring that every sale or transfer of certificates within a state be made through the county office. For instance a producer wishing to sell or transfer his surplus certificates to another producer in the same state was first required to turn them in to the county office and obtain new certificates made out in the name of the producer to whom they had been sold.

¹⁷ "Amendment Adding Art. IX and X to the 1935 Regulations under the Cotton Act of Apr. 21, 1934," *AAA Form No. B.A. 19 C*, Sept. 5, 1934, p. 3.

ginning tax on the 1935 crop but stating that all 1934 certificates turned in by producers to whom they were originally issued, or who had acquired them in accordance with the regulations issued, would be replaced by new 1935 certificates.¹⁸ These regulations made it extremely difficult for speculators who had purchased 1934 certificates to obtain new certificates usable in 1935.

A National Surplus Cotton Tax Exemption Certificate Pool was formed in 1934 and continued over into the 1935-36 season to facilitate the transfer of certificates from surplus to deficit areas and at the same time permit more effective control over their sale. This pool was operated by a pool manager under the general supervision of the Chief of the Cotton Section.¹⁹

All certificates surrendered to the pool were cancelled and reissued in the quantities purchased. Unsold certificates in the pool at the end of the season were either reissued to producers for use in 1935-36, in proportion to the amount of certificates surrendered by them to the pool, or entered in a special pool created for the sale of unsold 1934 certificates early in the 1935 season. Entrance of certificates in the special pool was optional with producers. It was also open to all producers holding 1934 certificates which had not previously been surrendered to the national pool. Any unsold certificates in the special pool when it was closed on October 21, 1935

¹⁸ The same, *AAA Form No. 219, Amendment 1*, Apr. 2, 1935, p. 2.

¹⁹ The regulations issued in 1935 authorized the formation of state surplus cotton tax exemption certificate pools, upon the recommendations of the state allotment boards, with the approval of the Chief of the Cotton Section. Any and all certificates not sold by the state pool were to be placed in the national pool and credited to producers participating in the state pool in proportion to the amount of certificates surrendered by them in the state pool. Any unsold certificates in the national pool were to be prorated to participants in the same manner as in the 1934-35 season. None of the state allotment boards, however, recommended the formation of state pools.

were prorated back to participants,²⁰ or the participants were allowed to transfer their equity to the national pool for 1935.

The volume of certificates transferred directly from farmer to farmer or to some private purchaser and reported to the Tax Exemption Certificate Section in Washington, together with the volume entering the national pool, is shown in the table on page 181. A considerable volume of direct transfers was reported in states producing more cotton in 1934 than their quota of tax exemption certificates. In other words, many farmers in local communities had a relatively small cotton crop and a surplus of certificates while other farmers in the same communities had a relatively large crop and a deficit of certificates. Even in the four western states where average yields were low because of the drought, some farmers had to buy extra certificates because of good crops. In general, the national pool acquired most of its certificates from the four drought states and sold them in the other states. Certificates of tax exemption for a total of 1,222,000 bales of cotton were surrendered to the pool. Of this number certificates for 837,000 bales were sold, compared with direct transfers of certificates for 658,000 bales. At the end of the 1934-35 season the national pool still held certificates for 386,000 bales. Certificates for 250,000 bales were entered in the special pool. If estimates of production in 1934 are correct there should have been additional certificates of tax exemption for 438,000 bales of cotton outstanding at the end of the season. Many of them,

²⁰ Certificates were entered in the special pool under an agreement that they would not be sold for less than 5 cents per pound. Consequently, when the transfer price of certificates was reduced to 4 cents on Oct. 21, 1935, it was necessary to close the pool immediately. It was originally planned to keep the pool open until Nov. 7, 1935.

TRANSFER OF TAX EXEMPTION CERTIFICATES, 1934-35^a
(Both production and certificates are in terms of thousands of bales)

States	Cotton Produced			Disposition of Transferred Tax Exemption Certificates				
	Estimated Total	Tax Exempt	Deficit (-) or Surplus (+) of Certificates	Surrendered to Pool ^b	Purchased from Pool ^b	Transferred Directly	In Pool Unsold ^b	Surrendered to Special Pool
MAJOR COTTON-GROWING STATES:								
North Carolina	629	529	-100	°	103	20	°	°
South Carolina	681	602	- 79	3	80	45	1	°
Georgia	968	875	- 93	9	111	65	3	°
Tennessee	404	337	- 67	°	68	22	°	°
Alabama	950	884	- 66	2	81	66	1	°
Mississippi	1,143	1,099	- 44	11	74	141	3	1
Arkansas	867	952	+ 85	94	62	43	30	31
Louisiana	485	525	+ 40	34	16	32	11	7
Oklahoma	317	783	+466	328	°	15	104	48
Texas	2,406	3,237	+831	734	94	188	230	163
MINOR COTTON-GROWING STATES:								
Virginia	35	32	- 3	°	4	1	°	°
Florida	28	25	- 3	1	4	2	°	°
Missouri	242	209	-33	2	36	7	1	°
New Mexico	89	64	-25	2	24	4	1	°
Arizona	117	91	-26	2	15	2	1	°
California	259	209	-50	°	55	5	°	°
All others ^d	16	7	- 9	°	10	°	°	°
Total	9,636	10,460	+824	1,222	837	658	386	250

^a Preliminary unpublished data of the Tax Exemption Certificate Section, Division of Cotton, AAA. Final figures for amount of certificates transferred will be only slightly larger than the ones shown in this table.

^b National Surplus Cotton Tax Exemption Certificate Pool.

^c Less than 500 bales.

^d Illinois, Kansas, and Kentucky.

however, may have been lost or destroyed and not replaced, or, contrary to regulations, transferred to speculators and others who were unable to exchange them for certificates usable in 1935-36.

These sales of certificates in 1934-35 were an important source of income to many farmers, as shown by the

RELATION OF INCOME FROM SALE OF TAX EXEMPTION CERTIFICATES TO VALUE OF COTTON PRODUCED, 1934-35
(Dollar items are in thousands)

States	Estimated Value of Cotton Produced ^a	Net Payments from National Pool		Net Remittance to Pool for Certificates Sold		Value at 4 Cents per Pound of Tax Exemption Certificates Directly Transferred
		Amount ^b	Percentage of Value of Cotton	Amount ^b	Percentage of Value of Cotton	
MAJOR COTTON-GROWING STATES:						
North Carolina	\$ 41,275	\$ 5	0.01	\$1,979	4.79	\$ 385
South Carolina	44,480	43	0.10	1,529	3.44	863
Georgia	62,685	119	0.19	2,124	3.39	1,242
Tennessee	25,132	1	0.004	1,306	5.20	412
Alabama	59,830	30	0.05	1,545	2.58	1,252
Mississippi	73,280	140	0.19	1,406	1.92	2,685
Arkansas	54,688	1,221	2.23	1,181	2.16	827
Louisiana	30,988	441	1.42	309	1.00	604
Oklahoma	19,175	4,256	22.20	—	—	292
Texas	150,885	9,430	6.25	1,791	1.19	3,591
MINOR COTTON-GROWING STATES:						
Virginia	2,418	1	0.04	81	3.35	29
Florida	1,722	12	0.70	74	4.30	38
Missouri	15,068	21	0.14	681	4.52	139
New Mexico	5,934	27	0.46	455	7.67	88
Arizona	7,755	26	0.34	290	3.74	41
California	16,448	4	0.02	1,054	6.41	94
All others	1,037	1	0.10	200	19.29	1
BOTH	\$612,800	\$15,778	2.57	\$16,005	2.61	\$ 12,583

^a Yearbook of Agriculture, U. S. Dept. of Agriculture, 1935, p. 427.

^b Preliminary unpublished data of the Tax Exemption Certificate Section, Division of Cotton, AAA. Final estimates from sale of certificates will be only slightly larger than the figures shown in this table.

^c Less than 500.

table on page 182. The national pool made payments of approximately 16 million dollars to cotton growers surrendering certificates to it. And if the direct transfers of certificates were made at the official price of 4 cents per pound they yielded an additional 12 million dollars. Farmers having a surplus of certificates because of a small crop, therefore, probably received close to 28 million dollars for them in 1934-35. Other farmers with a relatively large crop paid this amount in order to have their cotton ginned. In other words, this plan resulted in the transfer of something like 28 million dollars from farmers who were fortunate enough to obtain good yields to those who were less fortunate.

While this transfer of 28 million dollars amounted to only 4.6 per cent of the estimated value of cotton produced in 1934, it nevertheless represented a relatively large increase in the income of farmers with low yields. In Oklahoma, for instance, net payments from the pool amounted to 22 per cent of the estimated income from the sale of cotton produced, as shown by the table on page 182. On a large number of farms in the drought area it amounted to 50 per cent or more of the income from cotton.

THE ENFORCEMENT PROBLEM

The enforcement of the Bankhead Act, contrary to some predictions, did not prove especially difficult. Regulations issued by the Bureau of Internal Revenue governing the sale and transportation of cotton under this act made it extremely difficult to bootleg cotton. These regulations required that all cotton on which the tax had been paid or tax exemption certificates surrendered be identified by a specified non-detachable tag affixed to each bale. Lint cotton lacking such a bale tag

could not be transported (except for storing or warehousing as provided in special regulations) beyond the boundaries of the county where produced. The purchase or sale of a bale of cotton without such a tag affixed was also prohibited "unless the seller of the cotton delivers to the purchaser at the time of the sale a certificate of tagging." In other words all papers indicating ownership of cotton moving through the normal channels of trade had to be accompanied by a certificate of tagging. This provision was more effective than the bale tags themselves in preventing the movement of cotton on which the tax had not been paid.

The year 1934-35, however, did not furnish a good test of enforcement difficulties under this type of control program. The great majority of cotton farmers were issued sufficient certificates in 1934 to pay the tax on the cotton they produced.

Enforcement would probably be more of a problem in years when the volume of certificates issued was less than the amount of cotton produced in the United States, for most farmers would have cotton in excess of the amount of certificates issued to them. Even then, however, no serious difficulty should be encountered. The potential gains from bootlegging cotton would be comparatively small and the risks relatively great. Cotton is bulky and the tax per pound, particularly in the form of seed cotton, is low.

Few farmers would attempt to do their own bootlegging. In time some organizations having trucks, gins, cotton mills, and export facilities might have gone into the business. Any organization that did attempt to bootleg cotton would probably buy the seed cotton, the tax on which at the 1934-35 rate would be only \$38 per ton. But farmers having cotton in excess of the exemption

certificates issued to them would not be under pressure to sell. They could have the cotton ginned without paying the tax, store it on the farm or in an approved warehouse, and merely give the government a lien on it for the amount of the tax. Exemption certificates issued the following year could be used to pay this lien. Consequently, bootleggers would be compelled to pay farmers considerably more than the going market price less the tax. At least they would probably have to split the tax with the farmer in order to get very much cotton. This would reduce the potential gain from bootlegging to \$19 per ton of seed cotton, which can hardly be considered a sufficient inducement for "big money" to get into the game. The penalty for most types of violation is a fine of not more than \$1,000 or imprisonment for not more than one year, or both, and the risks of being caught bootlegging are great—particularly with the "overwhelming sentiment" of farmers in favor of the program. Few secret sales of untagged cotton could be made in any community. This would be particularly true if the total amount of tax exemption certificates issued to or purchased by each cotton producer were published or posted.²¹

ATTITUDE OF COTTON FARMERS TOWARD THE ACT

Demand for some form of compulsory control of cotton production came from the "grass roots," and not from the AAA. At the time plans for the 1934-35 acreage reduction program were being formulated—even after the voluntary plow-up program of 1933 had been effectively carried out—the predominating demand of cotton growers at most meetings in the South was for

²¹ There was no provision made for publishing either the allotment bases used in determining quotas of tax exemption certificates or the allotments of certificates to individual farms. See Appendix C, p. 369.

compulsory control. Particular emphasis was put upon some limitation on the amount of cotton to be ginned.²²

Although members of the Adjustment Administration were "very skeptical about approaching the agricultural problem in a compulsory manner," they realized that such an approach would present fewer administrative difficulties than a voluntary one. The Secretary of Agriculture, in fact, assured the Senate committee working on the Bankhead bill that "the moment it is demonstrated beyond all shadow of doubt that there is substantial unanimity on the part of the South, the Administration will be only too happy to help to push it along further."²³

While the Bankhead Cotton Control bills (S. 1974 and H. R. 8402) were being considered in Congress, the Division of Crop and Livestock Estimates of the Department of Agriculture sent a questionnaire to 40,000 per-

²² There had also been some earlier agitation for compulsory control. At a South-wide cotton conference on Nov. 23, 1931, called by Governor Bilbo of Mississippi and Governor Parnell of Arkansas, the principle of cotton acreage control by legislative enactment of individual cotton states was endorsed. Texas, Mississippi, Arkansas, Louisiana, and South Carolina passed laws restricting the planting of cotton in 1932 to not more than 30 per cent of the land in each farm, to become effective providing states producing 75 per cent of the cotton of the United States enacted similar laws. Other states, however, refused to pass such laws. On Dec. 29, 1932, Governor Connor of Mississippi called a second governor's conference at Memphis, Tenn., at which a gin control plan similar to the Bankhead Act was presented by Dr. Tait Butler as chairman of the steering committee. This plan was rejected in favor of acreage control by individual state enactment. Practically the same plan was later introduced in Congress by C. G. Smith and again rejected. Early in March 1933 the Louisiana Agricultural Extension Service proposed a plan for controlling cotton production by a limited issue of ginning permits to each cotton grower. See Tait Butler, "Gin Control up to Congress," *Progressive Farmer*, Georgia-Alabama ed., February 1934, p. 12.

²³ 73 Cong. 2 sess., *To Regulate the Production and Ginning of Cotton*, Hearings before the Committee on Agriculture and Forestry on S. 1974, Jan. 15-20, 1934, p. 66.

sons, chiefly cotton growers, asking the following questions:

1. Do you favor a plan of compulsory control of cotton production to compel all producers to co-operate in the adjustment program? (In 25,000 replies to this question 98 per cent of the committeemen, 99 per cent of the county agents, and 93 per cent of the crop reporters reporting answered "yes.")

2. Approximately what percentage of the cotton farmers in your community are in favor of compulsory control and would co-operate in its enforcement? (In reply the committeemen and county agents both reported an average of 87 per cent, and crop reporters 81 per cent.²⁴)

These replies, as well as reports from Department of Agriculture observers and others, all indicated an "overwhelming sentiment" among cotton growers for some form of compulsory control. Administration support was therefore swung to the Bankhead bills. On February 16, 1934 President Roosevelt wrote Honorable Marvin Jones, chairman of the House of Representatives Committee on Agriculture: "My study of the various methods of securing crop limitation suggested leads me to believe that the Bankhead bills in principle best cover the situation."

Along with the growing demand for compulsory con-

²⁴ These questionnaires were sent to the following groups of people in the South: 30,000 to government crop reporters, about 1,000 to county agents, and the remainder to committeemen. Naturally the replies from those attempting to put the 1934 sign-up campaign across would tend to be biased in favor of compulsory control. This would not be so true, if at all, of the replies from government crop reporters. But in spite of the fact that these conditions do not indicate an entirely fair test, the answers were so predominantly in favor of compulsory control as to leave little question that the majority of cotton producers favored it as a means of compelling all producers to co-operate in the cotton adjustment programs. For a copy of the questionnaire and the accompanying letter, see H. I. Richards, *Cotton under the Agricultural Adjustment Act, 1934*, Appendix.

trol of cotton production, more open skepticism was expressed of the effectiveness of voluntary measures. On February 12, 1934 Mr. Cobb, chief of the Cotton Section, frankly told the House Committee on Agriculture:

I think that the voluntary plan has been very successful, but I do not believe that the voluntary plan can be made a continued success. I believe the voluntary plan will break down, a voluntary plan which is now successful will not remain a success when a fair price for cotton is obtained. There is every evidence now to that effect.²⁵

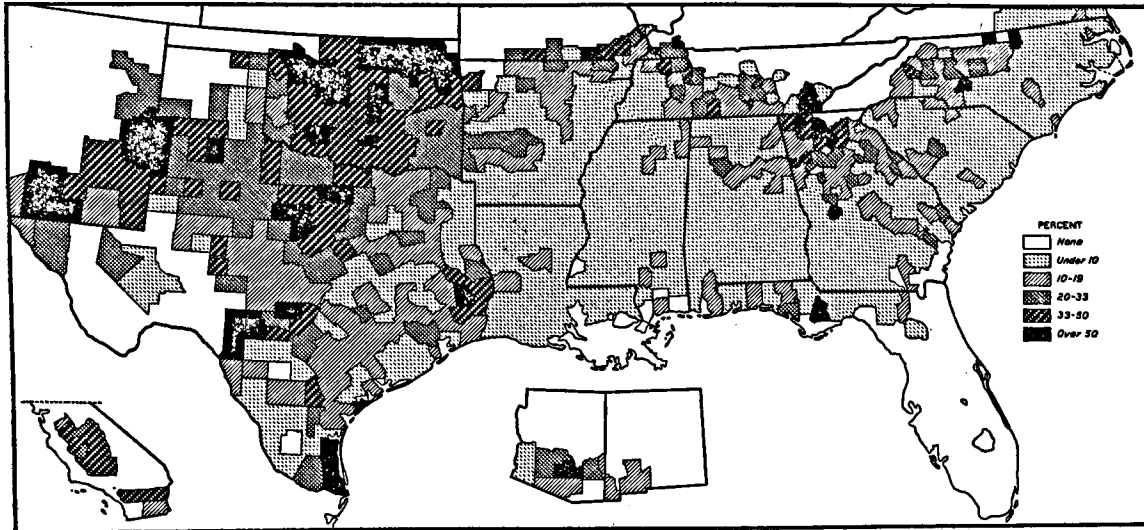
And later in the same hearings he stated: "I do not think the present voluntary plan is going to hold up in the future."

Many in the AAA, however, did not agree with this statement. They admitted, of course, that a program calling for a 40 per cent reduction in cotton acreage by contract signers in 1934 furnished a very severe test of voluntary control measures. But they held that future programs would probably not call for anything like as large a reduction. Nevertheless, after the Bankhead Act had been in effect for several months, there was general agreement that it had considerably lightened the task of reducing acreage and production even while it had considerably increased the amount of reduction obtained.

On December 14, 1934, after one season's operations under very trying circumstances, cotton farmers were given an opportunity to vote on whether or not they wanted to continue under the Bankhead Act during 1935-36. Any person having the "legal or equitable right as owner, tenant, share cropper, or otherwise to produce cotton on any cotton farm, or part thereof in the United States" in 1935-36 was entitled to vote. Of the

²⁵ 73 Cong. 2 sess., *Bankhead Cotton Control Bill*, Hearings before the House Committee on Agriculture on H. R. 8402, p. 18.

REFERENDUM ON CONTINUATION OF THE BANKHEAD
ACT DURING 1935-36^a
Votes in Opposition as Percentages of All Votes Cast



^a Map furnished by the Cotton Section, AAA.

estimated total number of eligible voters, 57 per cent (1,521,954) availed themselves of this privilege. Of this number, 90 per cent (1,361,418) voted in favor of continuing it, and only 10 per cent (160,536) voted against continuing it. Such an overwhelmingly favorable vote came as a surprise to many closely associated with the operation of the program, as well as to many of its opponents. Many thought that the delay and confusion incident to getting the plan in operation would cause more farmers to vote against such governmental interference with their activities.

More than 90 per cent of the votes in all states favored continuing the act during 1935-36. The opposition was largely concentrated in a few Oklahoma and Texas counties, as shown by the map on page 189. Most of the counties with 50 per cent or more of the votes against continuation are minor cotton counties, many of which are along the border of the Cotton Belt. It is also significant that the percentage of favorable votes in states and counties tended to increase as the percentage of eligible voters voting increased. In Oklahoma, for instance, only 60 per cent voted in favor of continuance and only 29 per cent of the eligible voters registered, whereas in the Cotton Belt as a whole 60 per cent of those eligible voted and 90 per cent of them in favor of continuance. This relationship was interpreted as evidence that a large proportion of the farmers not voting favored continuing the Bankhead program.²⁶

Arrangements for voting and for counting the votes in

²⁶ Some opponents insisted that the ginning tax could not be levied in 1935-36 unless two-thirds of the eligible voters actually voted in favor of it. The original act required the assent of "two-thirds of the persons who have the legal or equitable right to produce cotton," but amendments of August 1935 limited the requirement to "two-thirds of the producers voting."

each county were placed in charge of the county and community committeemen of the cotton production control association. The county committee was instructed to provide each community committeeman with a list of eligible voters in his community. The voting was by secret ballot. The ballot was simple and easily understood. It was accompanied by a letter from Secretary Wallace pointing out some pertinent features of the act and that "it is for the cotton farmer to choose."

There have, however, been charges that cotton farmers were influenced to vote in favor of continuing the act by the propaganda activities of the Cotton Section and others directly connected with the operation of the program. For four months prior to the referendum, an intensive, well-organized informational or propaganda campaign was carried on throughout the Cotton Belt. It has been estimated by the Cotton Section that between September 1, 1934 and December 15, 1934 over 12,500 county and local community meetings, having a total attendance of more than 855,000, were conducted by county agents and committeemen. Between July and December 1934 vocational teachers also conducted some 18,000 informational meetings having a total attendance of 750,000.²⁷ At all of these meetings farmers were told of the large carry-over of American cotton, the probable effect of the Bankhead program in reducing the supply of cotton, the probable increase in cotton production by farmers who did not sign a cotton acreage reduction contract, the low cotton prices existing prior to 1933, and the probability of low prices again if the Bankhead operations were discontinued. Most of the arguments were worked out prior to the meetings by those in charge of the program. Although some attempt was made to have

²⁷ *Agricultural Adjustment in 1934*, AAA, June 17, 1935, p. 61.

the information supplied and the discussions on a high, unbiased, educational plane, it could not be expected that both sides of the questions would receive equal attention. The answers were naturally favorable to the program.

Nevertheless, an intensive propaganda campaign, even if biased as critics charge, does not fully explain a 90 per cent favorable vote. A large proportion of cotton farmers would surely have voted for the act without any campaign. There is reason to believe that the percentage of favorable votes would have been practically as large without the meetings. But the total vote would probably have been considerably smaller, and a large vote was desirable.

The fact is, farmers controlling about 90 per cent of the cotton acreage had everything to gain and nothing to lose by continuation of the Bankhead Act during 1935-36. Their farms were covered by contracts limiting the acreage of cotton that could be planted on them. A Bankhead program would tend mainly to reduce the acreage of cotton planted by non-signers, although it would also tend to check increases in yields by contract signers and prevent violations of contracts. Reductions in production by non-signers would, of course, tend to increase cotton prices and benefit contract signers. Furthermore, on December 4, 1935 President Roosevelt announced his intention to recommend that Congress exempt small growers having a base production of two bales of cotton or less from payment of the gin tax.²⁸

²⁸ President Roosevelt on Dec. 4, 1935 issued the following statement at Warm Springs, Ga.: "If the Bankhead Act is continued in effect for another year it is my purpose to recommend to the Congress an amendment granting an exemption for the full amount of his base production to each farmer who has an established base production of not more than two bales of cotton."

An estimated 200,000 small cotton growers were thus told that they could vote on the continuation of a program which would benefit them (if the President's recommendation were carried out) by causing a reduction in the production of larger growers without affecting their own.

There is, furthermore, a strong probability that a large proportion of cotton farmers favor compulsory control of cotton production if it does not interfere too much with their individual activities. There have been a number of voluntary farmer movements in the past with the objective of controlling and reducing cotton production. A great many farmers think that they should combine and force others to pay "their" price for cotton. There is considerable logic to their position, particularly with respect to cotton. For years the Extension Service and others have been telling farmers that a small crop of cotton brings more than a large one. It is only natural, therefore, that many farmers would be willing to cut their crop 10 or 20 per cent, or even more, if given the definite assurance that all other cotton farmers would be forced to do likewise. Who wouldn't, if the small crop would bring more than the large one? Only the few who were preparing or prepared to expand their cotton acreage. The immediate short-time features of the Bankhead program were definitely favorable to the farmer, and its advantages were easily recognized by him. The unfavorable features were more intangible and more distant in their effect. They will be discussed in Chapter XV.

CHAPTER XI

GOVERNMENT COTTON AND COTTON LOANS

The cotton plow-up campaign of 1933 and the acreage reduction programs of 1934 and 1935 supplemented by the Bankhead Act tax on over-quota cotton were expected to increase cotton prices by reducing the production of cotton. These efforts were further supplemented, however, by a cotton loan and marketing program which has tended to increase cotton prices by holding cotton off the market.

While the government has been blazing a new trail in the operation of its cotton production control program, it has been conforming more closely to previous lines of government activity in its cotton loan and marketing program. The "commodity marketing" movement which began about 1922 laid great emphasis on equalization of market supplies throughout each season and from season to season by holding operations on the part of producers financed by the government through co-operative organizations. Belief in the desirability of such "orderly" marketing was one of the major influences back of the demand for passage of the Intermediate Credit Act of 1923. The movement was carried still further under the Agricultural Marketing Act of 1929, with its Federal Farm Board designed to promote national co-operative marketing organizations for the purpose of orderly marketing (and according to the text of the act "orderly production" as well) facilitated by Farm Board loans and supplemented by the still more ambitious holding operations of the "stabilization corporations."

The holding operations of the Farm Board, however, were attended with disastrous results. When cotton prices began to decline sharply in 1929 the Board offered to lend farmers, through the cotton co-operatives, roughly 16 cents per pound on their cotton. The following year it offered to lend roughly 10 cents per pound. But prices continued to decline, and the Board was left holding approximately 3.4 million bales of 1929 and 1930 crop cotton as security for its loans. Attempts to sell this cotton on the market also met with considerable opposition from farmers and the trade because they tended to depress prices. Prior to the passage of the Agricultural Adjustment Act, the Board had been able to sell only about a million bales of this cotton on the market and a large part of these sales were forced by a shortage of operating funds. An additional 844,063 bales had been given to the American Red Cross by acts of Congress in July 1932 and February 1933. The Agricultural Adjustment Act and amendments thereto sought to provide a satisfactory method of disposing of the remaining 1.6 million bales together with about 0.8 million bales held as security for seed and crop production loans in 1930 and 1931 by offering them to producers in lieu of cash for making a corresponding reduction in the production of cotton.

The Adjustment Act was therefore expected to liquidate the lending and holding operations of the Farm Board and other government agencies. No provision was made in the act for continuing the Board's lending policy. Nevertheless, the policy of offering loans to farmers on cotton for approximately the full market value was again adopted in the fall of 1933, under the authority of Section 220 of the National Industrial Recovery Act. Furthermore, amendments to the Agricultural Ad-

justment Act, approved August 24, 1935, not only authorized such loans but also provided that any cotton acquired by the government, as a result of such loans, might be offered to farmers in lieu of cash as rental payments for taking land out of cotton production. This is now known as the Ever Normal Granary plan—a term applied originally with reference to food products. Under it, production control and market control were to be closely linked together. The significance of the government's lending program is, therefore, much greater than the profit and loss that may be shown on the books for these operations alone. In this chapter these various phases of the government's lending and marketing program will be discussed.

GOVERNMENT COTTON

Procedure for disposing of government cotton. The Agricultural Adjustment Act directed the Federal Farm Board and all departments of the government, not including the Intermediate Credit Banks, "to acquire full legal title to all cotton on which money has been loaned or advanced by any department or agency of the United States, including futures contracts for cotton or [cotton] which is held as collateral for loans or advances" and to sell such cotton together with that already owned by them "to the Secretary of Agriculture at such price as may be agreed upon, not in excess of the market price."¹ Shortly after the passage of this act, however, the various government departments which had made these loans or advances on cotton were absorbed by the Farm Credit Administration.² This new organization acquired

¹ Sec. 3.

² Prior to passage of the Agricultural Adjustment Act on May 12, 1933, an act of March 3, 1933 had authorized the President to reorganize the executive agencies of the federal government. On March

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title to 2,476,311 bales of cotton from the following sources:^a

Futures:

Cotton Stabilization Corporation	19,300
Staple Cotton Co-operative Association	214,800
American Cotton Co-operative Association	221,100
Seed and crop production loan agencies	371,800

Spot:

Staple Cotton Co-operative Association	28
American Cotton Co-operative Association	1,128,774
Seed and crop production loan agencies	520,509

Spot and futures 2,476,311

27, 1933 he exercised this authority by consolidating within one organization the powers and functions of all federal agencies dealing principally with agricultural credit. This ruling did not become effective until May 27, 1933, at which time the Farm Credit Administration came into existence. See L. F. Schmeckebier, *New Federal Organizations*, pp. 24-25.

^a Unpublished data from the Agricultural Adjustment Administration and the Farm Credit Administration. Data for seed and crop production loan agencies obtained by subtracting the amount of cotton obtained from other agencies, as reported by the Farm Credit Administration, from the total amount received by the Secretary of Agriculture, as reported by the Agricultural Adjustment Administration. On May 27, 1933, when the Farm Credit Administration began to function, 797,000 bales were held as security for seed and crop production loans made prior to 1933. On June 7, 1933, when the agreement was made between the Secretary of Agriculture and the Farm Credit Administration for transfer of this cotton, it was estimated that 788,000 bales of cotton were being held as security for such loans. With the rise in cotton prices during the summer of 1933, however, some farmers wanted to pay off their loans and obtain title to the cotton or sell the cotton and apply the proceeds on their loans. By September 1, this had been reduced to 588,000 bales. It became apparent, however, that a more rapid method of liquidating these loans was needed and on September 20 it was decided to pool this cotton and sell it for the account of the producer. Later the Secretary of Agriculture agreed to accept the remaining cotton in the pool (471,340 bales) on the basis of 10 cents per pound.

Where the cotton held as security for these loans was sold to the trade either by the producer or from the pool, an equivalent quantity of cotton futures was purchased and transferred to the Secretary of Agriculture.

Transfer of this cotton from the Farm Credit Administration to the Secretary of Agriculture was made on the basis of 9.5 cents per pound for middling $\frac{7}{8}$ -inch cotton, with due allowance for differences in grade and staple⁴ and for location of the cotton delivered, in accordance with an agreement made on June 7, 1933, when central market prices were about 9 cents per pound.⁵ Of this amount, however, only 5 cents per pound was paid by the Secretary of Agriculture. The additional 4.5 cents per pound was paid out of the 100 million dollar fund appropriated by the National Industrial Recovery Act, on an order from the President allocating 60 million dollars for this purpose.⁶ By this arrangement the Secretary conformed with the terms of the Agricultural Adjustment Act, which required him to pay not more than the market price for the cotton, and the Farm Credit Administration received about 5 million dollars more than the market price.

The Secretary of Agriculture was authorized by an amendment to the original act approved June 16, 1933 to offer this cotton to producers for taking land out of

⁴ The classification of the American Cotton Co-operative Association was accepted as the basis for calculating the allowance for grade and staple of practically all the spot cotton. Most, if not all, of the cotton held as security for seed and crop production loans had been classed by this association prior to the making of the loan.

⁵ The average price on ten markets for $\frac{7}{8}$ -inch middling upland spot cotton on June 7, 1933 was 9.04 cents per pound and New York futures (July delivery) were 9.15 cents per pound. (Report of the Bureau of Agricultural Economics.)

⁶ In order to finance the initial purchase of cotton by the Secretary of Agriculture, arrangements were made with the Chase National Bank and the Guaranty Trust Co., both of New York City, for a maximum loan of 73 million dollars or 6 cents per pound on all actual cotton acquired by the Secretary at $1\frac{7}{8}$ per cent interest per annum payable at maturity. The obligation was evidenced by notes of the Secretary of Agriculture drawn to mature July 1, 1934, and secured by the pledge of the cotton acquired and to be acquired by the Secretary of Agriculture. *Agricultural Adjustment—May 1933 to February 1934*, AAA, p. 26.

cotton production (see page 4 for the terms of this amendment) or to sell it at his discretion provided "he shall dispose of all cotton held by him by March 1, 1936." He chose to offer options to buy this cotton at 6 cents per pound to growers who agreed to plow up an equivalent amount of their 1933 crop as explained on page 44. A total of 575,974 producers accepted this offer and obtained options on 2,446,929 bales of cotton. Each of these producers was then offered the following alternative methods of disposing of this cotton.⁷

1. Request the Secretary to sell his option cotton on any specified date prior to May 1, 1934.⁸ This was the only procedure stated in the specimen copy of the cotton option contract shown to producers at the time of the sign-up campaign.

2. Request the Secretary to extend the option from May 1, 1934 to May 1, 1935.⁹ If such a request were

⁷The specimen copy of the option contract shown producers during the plow-up campaign stated that the options could not be exercised prior to Dec. 1, 1933 at less than 9.5 cents per pound. As a matter of fact, growers were given no opportunity to do so until after Dec. 18, 1933 owing to delay in sending out the option contracts. Since the market price of cotton in September, October, and November was below 9.5 cents this delay made no difference.

⁸"Request of Exercise of Option," *AAA Form No. C-5-A*. This formal request stated that the Secretary at his discretion might sell for the account of the producer either:

a. Cotton held by the Secretary in an amount covered by this option, on any recognized spot market at the earliest practicable date, having in view the condition of the spot markets, at any time after the date indicated in the notice; or

b. Future contracts held by the Secretary covering an amount of cotton specified in this option. If future contracts were sold, the price was fixed as of the close of the New York Cotton Exchange for the nearest generally quoted cover month on the date specified in the notice, unless the notice was received after 4:30 P.M. eastern standard time on the date specified, or unless the Exchange was closed on the date specified, in either of which events the price was fixed as of the first opening of the exchange thereafter.

⁹"Request for Extension of Option," *AAA Form No. C-5-B*.

made, the producer agreed to accept a charge of 40 cents per bale for each month or fractional part of a month for which the option was extended. He further agreed that the Secretary of Agriculture might, at his discretion, at any date after May 1, 1934 sell the cotton represented by the extended option at not less than 12.5 cents per pound. In announcing the provisions for the extension of the cotton option on July 25, 1933, shortly after the close of the sign-up campaign, the Director of Finance of the AAA (Oscar Johnston) stated:

As in the cotton reduction campaign, the Administration is placing the handling of the options directly up to the producers themselves. The Secretary of Agriculture, under the terms of the contract as now revised, has made it possible for producers to withhold this cotton from the market for a longer period.¹⁰

3. Request the Secretary to enter the option cotton in the 1933 Cotton Producers Pool at any time prior to January 15, 1934 (later extended to February 5) and obtain an advance of 4 cents per pound together with a transferable participation trust certificate entitling him to share ratably in any profits from the sale of the cotton held by the pool, after the actual cost to the pool and all liens against the cotton had been paid off.¹¹ In order to

¹⁰ *AAA Press Release No. 156-34*, July 25, 1933.

¹¹ "Cotton Pool 1933," *AAA Form No. C-5-C* and *AAA Form No. C-5-D*.

When the 12-cent cotton loan was adopted on Aug. 21, 1934 (see p. 217), an additional advance of 2 cents per pound was offered to pool members. A carrying charge of \$2.40 per bale (30 cents per bale per month from Feb. 1 to Oct. 1, 1934) was to be deducted. *AAA Press Release No. 1403-35*, Jan. 17, 1935.

In order to finance the 4-cent advance, arrangements were made with the Commodity Credit Corporation for a maximum loan of 48 million dollars. This loan has all been repaid. Since July 1, 1934, the cotton pool has been borrowing from New York banks, at 0.5 per cent, the money needed for operating expenses and for carrying its cotton. This extremely low rate was the direct result of an amendment to the Agricultural Adjustment Act approved June 19, 1934 authorizing the Secretary of the

obtain this advance, which amounted to \$20 per bale, the option holder, if eligible and requested so to do, was required to execute the 1934-35 cotton acreage reduction contract. Each producer entering cotton in the 1933 pool gave the following authority to the manager of the pool:

In the event that the cotton held by the pool or any part thereof including cotton futures contracts can be marketed on the basis of 15 cents per pound middling $\frac{3}{8}$ -inch cotton, to sell and make delivery of such cotton upon such basis subject to the approval of the Secretary, and after July 31, 1934, to sell and make delivery of all or any part of the cotton including cotton futures contracts held by the pool at such price, upon such terms, and under such conditions as he with the approval of the Secretary may deem proper.

4. Pledge his option contract and authorize the Secretary of Agriculture to "settle with the said pledgee in accordance with the terms of the contract."¹² Originally the AAA planned to prevent any transfer of these options in order to prevent producers from selling them at less than their full value. The specimen copy of the option contract shown to producers during the sign-up campaign stated: "The option is non-transferable." Nevertheless, the option contracts finally issued allowed

Treasury "to advance, in his discretion, out of any money in the Treasury not otherwise appropriated, the sum of \$100,000,000 to be available, until Mar. 1, 1936, to the Secretary of Agriculture, for paying off any debt or debts which may have been or may be incurred by the Secretary of Agriculture and discharging any lien or liens which may have arisen or may arise pursuant to Part 1 of this title [Cotton Option Contracts]. . . ." (The time limit on this advance, Mar. 1, 1936, was later eliminated by an amendment approved Aug. 24, 1935.) In other words, if any losses are incurred as a result of the advance of 6 cents per pound (12-cent loan), they will be paid from the United States Treasury.

¹² "Notice of Exercise of Option," *AAA Form No. C-5-A*. Assignment was not formally set up by the AAA as a procedure whereby the producer could convert his option cotton into cash. The clause in the contract itself which allowed the holder to pledge it, however, automatically provided for this fourth method of exchanging an equity in option cotton for cash.

them to be "pledged or used as collateral." As a result of this provision assignment of a large number of contracts became *de facto* sales and led on January 9, 1934 to a protest from Mr. Johnston as follows:

There has come to my attention reports from throughout the South that various persons are engaged in buying cotton options from the holders. In some instances, I am advised, these purchases have been made at a loss to the optionee of as much as 100 points under March quotations. I would call public attention to the fact that the sale of these options is prohibited. The Secretary of Agriculture is not required to recognize pledgees and where it appears a pledge has been made as a cloak to conceal an actual assignment, suitable investigation will be made to determine the circumstances surrounding such pledge or assignment. Where advantage has been taken of the producer, proper action will be contemplated to remedy the situation.¹³

This position, however, was somewhat modified on January 11 by the supplementary statement:

Department prefers options be exercised and sent in by producer to whom option originally issued. Will recognize exercise of option by *bona fide* pledgee where producer will receive full benefit of proceeds of option. In view of fact that some options have heretofore been purchased, Department has ruled that if purchasers will exercise options prior to January 18 settlement will be made on basis January New York contract and proceeds remitted by check to properly authorized and designated assignee. This will only apply to options purchased prior to January 11. Assignments after that date will not be recognized.¹⁴

Under this ruling, purchasers of a relatively small number of options were permitted to exercise them. The assumption was that in these cases the transfer had probably been an accommodation to the optionees rather than a source of profit to the purchasers. Not all who had purchased a large volume of contracts, however, were per-

¹³ AAA Press Release No. 1572-34.

¹⁴ AAA Press Release No. 1590-34.

mitted to exercise them, even though they had paid full market value for them.¹⁵ Practically all landlords and other pledgees or assignees who agreed to sign a cotton acreage reduction contract were permitted to receive the 4-cent advance and to enjoy the privileges and benefits afforded by the pool agreement on any options acquired by them.

While intended to protect the rights of the producers entitled to receive options, these restrictions on their sale actually have been a protection and perhaps a source of profit to landlords, local bankers, merchants, and other local creditors and buyers. They have limited the effective market for contracts and thus curtailed a grower's opportunity to sell them advantageously. Although any grower could obtain the full market value for his option cotton by instructing the Secretary of Agriculture to sell it, receipt of his proceeds would be delayed. In cases where money was needed immediately, such sales did not afford relief. In many cases creditors probably insisted upon a pledge or assignment of the option contracts. With no other market for options the holders were forced to meet creditors' demands and face the possibility of sale on a restricted market.¹⁶

¹⁵ Comptroller General McCarl ruled on Jan. 19, 1934 that no objection would be raised to the recognition of assignments of a small number of option contracts but required that a thorough investigation be made of all cases where a considerable number of such assignments were in favor of one individual, firm, or corporation.

A number of large transfers had been made prior to this ruling. And on Aug. 24, 1935 amendments to the act were approved stating that "notwithstanding any provisions contained in option contracts heretofore issued and/or any provision of law, assignments made prior to Jan. 11, 1934 of option contracts exercised prior to Jan. 18, 1934, shall be deemed valid upon determination by the Secretary that such assignment was an assignment in good faith of the full interest in such contract and for full value and is free from evidence of fraud or speculation by the assignee."

¹⁶ An investigation by the AAA of purchases by one large cotton firm which had been erroneously informed that the option contracts were

This experience brings into clear relief two divergent views with respect to protection of producers' interest in benefits resulting from government action. One view is that the government should by regulation prevent any transfer or assignment of the rights to such benefits. The other is that such transfers cannot be prevented and that producers should consequently be accorded the protection of a freely competitive market. Either view would seem more tenable than a combination of the two. There is, however, something to be said for the procedure adopted. When producers had cotton for sale their creditors could take steps to protect their interests. Creditors would have had more difficulty in protecting their interests if the option contracts received by growers for plowing up cotton in 1933, for instance, could have been sold freely to anyone.

The only one of these plans under which growers could obtain an advance of 4 cents per pound (equivalent to a loan of 10 cents per pound since the government already held a lien of 6 cents per pound on this cotton) required them to enter their option cotton in the cotton pool. Since the average price of middling $\frac{7}{8}$ -inch spot cotton at ten markets in the United States was less than 10 cents per pound when these plans were formulated, it is obvious that they were designed to force most producers to enter their option cotton in the pool where its marketing would be under government control. Cotton prices on these markets did not rise materially above 10 cents during January 1934.

The reason sometimes given for forming this pool was that it would prevent the sudden dumping of option

transferable, disclosed the fact that in communities where such purchases had been made the market value of options had been substantially increased.

cotton on the market by people "who wanted their money."¹⁷ The formation of a government operated pool, however, was not necessary to accomplish this result. An advance of 4 cents per pound under the 10-cent loan plan, without any pool agreement, would have enabled growers to obtain approximately the current market value for this cotton and still retain title to it. Such an offer would surely have prevented the sudden dumping of this cotton on the market.

Results and conclusions. Options on 2,446,929 of the 2,476,311 bales of cotton obtained from the Farm Credit Administration were sent to 575,974 producers. The remaining 29,382 bales have been sold and the receipts turned in to the cotton account of the Secretary of Agriculture in the United States Treasury.

Producers receiving options on this cotton have exercised them as follows:

Plan Chosen	Number of Producers	Number of Bales
Sale by Secretary prior to May 1, 1934	123,685	452,500
Extension of option	6,495	29,700
Pooling of cotton	443,419	1,951,465
Not heard from by October 31, 1935 or otherwise undetermined	2,375	13,264

Approximately 80 per cent of the option cotton was entered in the pool. Most of the remainder was sold by the Secretary prior to May 1, 1934. Options on only one per cent of this cotton were extended until May 1, 1935. Since participants in the pool were offered approximately the current market value for their option cotton and yet permitted to share in any further rise in cotton prices, it may seem strange that 20 per cent of this cotton was not

¹⁷ See Mr. Johnston's statement in 73 Cong. 2 sess., *Agricultural Department Appropriation Bill for 1935*, Hearings before the House Committee on Appropriations, p. 1040.

entered in the pool. It will be remembered, however, that some options were assigned or sold by the original holders, and that purchasers were required to have option cotton thus acquired sold by the Secretary prior to January 18, 1934. Data on the volume of option cotton transferred or assigned that was affected by this ruling are not available, but in the short time between December 18, 1933 when the AAA began sending out the option contracts, and January 18, 1934, a total of 68,181 options covering 242,031 bales of cotton were exercised by a request that the cotton be sold. It is likely that a considerable part of these sales resulted from the private assignment or sale of option contracts. No doubt some growers also declined to enter their cotton in the pool because of the necessity of agreeing to sign a 1934-35 cotton acreage reduction contract. Still others may have thought that cotton prices would continue to rise and thus enable them to get more by holding the option cotton than by entering it in the pool.

The net returns received by producers thus far under the different plans have varied considerably. Those requesting that their cotton be sold prior to May 1, 1934 received a net payment of 5.1 cents per pound after deducting the cost of the option (6 cents per pound). The few growers having their options extended received the largest net payment—6.7 cents per pound.¹⁸ Those entering their cotton in the pool have already been advanced 5.52 cents per pound¹⁹ and are still entitled to share in any profits made by the pool. Total advances

¹⁸ All option contracts outstanding on Mar. 22, 1935 were called by the Secretary at 12.5 cents per pound less the carrying charge of 40 cents per bale per month agreed to by producers who requested option extensions. The charges were reckoned from May 1, 1934.

¹⁹ Four cents per pound when entered in the pool and an additional 2 cents per pound less accrued carrying charges of \$2.40 per bale (30 cents per month per bale from Feb. 1, 1934 to Oct. 1, 1934) early in 1935.

on option cotton in the pool, under the 10- and 12-cent loan plan, plus payments made to producers on option cotton not entered in the pool, had amounted to \$66,012,052.24 by November 1, 1935, and holders of options on cotton in the pool were entitled to an additional \$1,005,115.08.

Some participants in the pool have, however, realized more than 5.52 cents per pound on their option cotton. When the announcement was made in September 1934 that the 12-cent loan plan would be applied to cotton in the pool, the pool manager offered to buy participation trust certificates at the price quoted on the Cotton Exchange for October futures until October 15, 1934, and thereafter until December 15 at the market price for December cotton, less carrying charges of 30 cents per bale per month since February 1, 1934.²⁰ This offer has since been extended on the basis of market price for near-month futures. Certificates for 342,888 bales were purchased in this manner. As these certificates were purchased, the pool manager sold a corresponding amount of spot cotton and cotton futures.

When these plans were announced on September 21, 1934, closing prices for October futures were quoted on the Cotton Exchange at 12.78 cents per pound. In other words, on this day holders of participation certificates were offered an advance equivalent to 12 cents per pound if they continued to hold them, and 12.78 cents if they sold them to the pool. And during the fall of 1934 the price of near-month cotton futures hung around the same level. It is, therefore, not surprising that the sale of certificates or exchange of them for cotton in the pool was relatively small. Furthermore, most of the transactions

²⁰ Oscar Johnston, *What to Do with Your Cotton Producers Pool Certificates*, radio talk, Sept. 21, 1934.

that were made resulted from a set of circumstances similar to those causing the sale of option cotton prior to May 1, 1934. As a result of making the participation trust certificates transferable, some five or six firms of cotton shippers acquired certificates covering about 221,000 bales. When it came time to make an advance of 2 cents per pound on cotton in the pool, it did not seem advisable to make it on option cotton held by these firms. Some persons also claimed that there was a "possible danger to the market from the accumulation of a considerable quantity of participation trust certificates."²¹ On December 6, 1934 Mr. Johnston entered into an agreement with these shippers in which they agreed "to turn these certificates over to me immediately allowing me to call them and fix the price at the market, and at my discretion, when, as, and if the certificates can be absorbed by the market without injurious effect."²² All of these certificates had been called by January 8, 1935.

In general, the marketing rate of pool cotton has been limited to the sale of certificates to the pool or exchange of them for pool cotton. Of the 1,951,465 bales of cotton entered in the pool there had been a net sale of only 342,775 bales by October 31, 1935, as shown by the table on page 209. The Federal Surplus Relief Corporation took 50,000 bales of low-grade cotton for use in making mattresses and other products. The remaining net sales were covered by certificates surrendered to the pool as indicated above.²³ A large part of the spot cotton

²¹ *Cotton Trade Journal*, Dec. 15, 1934.

²² The same.

²³ Small offerings of certificates have limited the sales of cotton from the pool. In September 1934, members of the cotton trade were invited to "submit to the cotton pool manager offers for the purchase of cotton, and at the same time to invite holders of certificates who are desirous of selling their certificates against the purchase of cotton to submit offers to the pool manager agreeing to sell, at the manager's call, participating

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entered in the pool, however, has been sold and replaced by futures. As shown by the accompanying table, on October 31, 1935 the pool still held 628,190 bales of spot cotton and 980,500 bales of cotton futures—a total of 1,608,690 bales.

	Spot Cotton (Bales)	Cotton Futures (Bales)
Entered in the pool	1,951,465	—
Sales	1,383,190	224,100
Purchases	59,736	1,204,600
Difference subject to adjustment	179	—
On hand October 31, 1935	628,190	980,500
Entry requested by producers but not yet entered by Secretary . .	250	—

The cotton to which title was acquired by the Farm Credit Administration and transferred to the Secretary of Agriculture continued to be handled largely by the American Cotton Co-operative Association.²⁴ Under a contract with the Secretary of Agriculture entered into on September 11, 1933, the association agreed to receive, insure, and warehouse this cotton²⁵ and sell it on local

trust certificates and agreeing to buy pool cotton at the manager's call." (*Cotton Trade Journal*, Sept. 29, 1934.) In response to this invitation, 160 bids were received from the trade for a total of 813,268 bales. These bids were opened on Oct. 3, 1934, at which time Mr. Johnston stated: "From the bids made, we might easily have sold at satisfactory prices 250,000 or more bales of cotton had holders of participation certificates cared to surrender their certificates to the pool." (*Cotton Digest*, Oct. 6, 1934.) Only 46,189 bales of cotton were sold, however.

²⁴ Incorporated under Delaware law in January 1930 as a central agency for marketing cotton handled by the state co-operatives. The articles of incorporation stipulated that as long as the ACCA was indebted to the Farm Board, its president, its manager, and other principal officers, and the members of its executive committee must be acceptable to the Board. (74 Cong. 1 sess., *Activities and Operations of the Federal Farm Board*, S. rep. 1456, July 29, 1935, p. 19.) It is consequently closely connected with the government.

²⁵ The Secretary reserved the right to "exclude from the terms of this contract all or any part of not exceeding 75,000 bales of long staple

spot terms (except as the Secretary might otherwise direct) where located, for a selling fee of 50 cents per bale and a carrying charge of 25 cents per bale per year payable on all cotton not sold by July 31, 1934. Storage charges and all proper expenses for "compression, insurance, freight, trustee's expenses, if any, and weighing and sampling if any" were assumed by the Secretary.

This contract permits the ACCA as a merchant to compete with the cotton trade in bidding for the cotton which it handles for the Secretary provided it does not purchase at a bid which is equal to or less than a competitor's bid. A catalogue of this option cotton giving accurate description of it by class, grade, and weight has been prepared by the association and distributed to the trade so that every person desiring to purchase any part of it may have the opportunity to do so.²⁸

The cotton trade has severely criticized this selling and handling arrangement on the grounds (1) that the co-operative is virtually acting in dual capacity of seller and buyer and has an advantage over outside bidders inasmuch as the cotton offered for sale was originally classed by its own men, and (2) that the service charges were too high. The trade seemed to favor the sale of this cotton by the AAA itself or through private factors and brokers on a competitive basis. It argued that under either of these arrangements, selling costs would be lower and more freely competitive bidding would result in

cotton now stored at Mississippi Delta points, Yazoo City, and Memphis and future contracts for cotton." As a matter of fact, the Staple Cotton Co-operative Association, whose members are largely producers of long staple cotton, has handled the sale of 105,646 bales of long staple cotton for a commission charge of 3 per cent on net sales and carrying charges estimated at 15 cents per bale per month for storage and insurance only.

²⁸ AAA Press Release No. 199-34, July 31, 1933.

higher prices.²⁷ To these criticisms Mr. Johnston replied:

1. To reclass this cotton would involve a large expense to the department, probably in excess of \$500,000, whereas the ACCA already had a complete class of the cotton.

2. . . . all of the other firms [in addition to the American Cotton Co-operative Association] who had organizations capable of handling this amount of cotton [were asked] to bid on handling and selling it for the department. They all refused to handle it with the exception of Anderson, Clayton, and Co., and they only if the Department would agree not to sell any of the cotton for export. The ACCA offered to handle the cotton for 50 cents.²⁸

The experience of the AAA in disposing of the 2.5 million bales of cotton acquired by the Secretary of Agriculture under the act has been similar to that of the Federal Farm Board. Both have been politically unable to sell very much cotton on the open market except when forced to do so by unusual circumstances. When the Adjustment Act was passed it was thought that a way had been found for disposing of this cotton, most of which the government had been holding since 1929, 1930, or 1931. But the plan of giving it back to farmers who agreed to reduce their production an equivalent amount, and letting them sell it or determine the date of its sale, has not been successful. On October 31, 1935, the government still held 1,608,690 bales of this cotton. Furthermore, the sales made have been due largely to accident or to unusual circumstances. More than half of them have probably resulted from complications arising out of two different phases of the government's pro-

²⁷ *Cotton Trade Journal*, Mar. 3, 1934. This arrangement suggested by the trade would have meant the utilization of a number of factors located at different points where cotton was stored.

²⁸ The same, Feb. 3, 1934.

gram—authorizing the transfer of option contracts and participation trust certificates and advancing 10- and 12-cent loans on cotton. It would not have looked well for the government to advance 10 and 12 cents per pound on cotton held by speculators. Consequently it was necessary to require that cotton represented by such contracts or certificates be sold. Additional sales resulted from uncertainties over the cotton reduction program, as pointed out on page 206. And 50,000 bales were sold to the Federal Surplus Relief Corporation but an equivalent amount of cotton futures was purchased. Consequently it is necessary to conclude that the AAA has not demonstrated its ability to dispose of government cotton.

GOVERNMENT COTTON LOANS

Undaunted by the Federal Farm Board experience, the government, again offered to lend more than the market value on cotton in the fall of 1933. A year later, after cotton prices had advanced, the loan offered by the government was raised to approximately the market level, and continued at the same rate after market prices had fallen below the loan value. The loan offered by the government on the 1935 crop, however, was slightly less than the current spot prices of cotton.

Conditions, however, were different. Farm Board loans, for instance, were made when prices were declining, in order to prevent a further decline. But prices continued to decline and cotton production continued large. The Farm Board had no power to control production, although in 1931 some effort was made to persuade farmers to plow up every third row of cotton. It is very likely that the Farm Board would have forced farmers to reduce their production of cotton if it had had the power.

The present lending policy, on the other hand, was originally adopted in order to enable farmers to benefit from expected increases in cotton prices in the near future. There was a general feeling of optimism in administrative circles at this time. Cotton prices had advanced about 50 per cent since the beginning of the year. More than 4 million potential bales of cotton had been plowed up in 1933 and plans were being formulated for drastically reducing the acreage of cotton planted in 1934 and 1935. The Administration was considering monetary manipulations which were expected by many to raise the general level of prices, and the normal processes of business recovery seemed to have set in. Moreover, the Adjustment Administration was in a position stronger than that formerly occupied by the Federal Farm Board. Powers to employ various measures to force cotton prices upward were embodied in the legislative measures which Congress had passed. Government loans to farmers equal to or greater than the current market value of cotton, without liability of loss to them, seemed likely to enable a large number of farmers to share in this expected increase in cotton prices.

The 10-cent cotton loan in 1933. More specifically, the 10-cent cotton loan policy of the government had its origin in the general discontent that existed throughout the South in the late summer of 1933 because of delay in sending out payments for plowing up cotton, the decline in cotton prices from recent peaks preceding cotton harvesting, and the rise in the prices of goods that cotton farmers and others in the South had to buy. Meetings expressing demands for an expansion of the currency and higher cotton prices were being held throughout the South. The movement culminated when representatives from the South met in Washington and on September

18, 1933 formally presented their demands to the President. The Administration responded by offering to lend 10 cents per pound on cotton produced in 1933 and still in the possession of the producer or on option cotton received as rental for plowing up cotton, providing the borrower, if eligible, agreed to sign a 1934-35 cotton acreage reduction contract, which at that time had not been announced.

The Commodity Credit Corporation, organized on October 17, 1933 to make loans or purchase agricultural or other commodities that might be designated by the President, was placed in charge of the cotton loans.²⁹ Its capital stock of 3 million dollars was subscribed entirely by the Secretary of Agriculture and the Governor of the Farm Credit Administration out of funds allocated by the President under authority of the Bankhead amendment to the National Industrial Recovery Act. The Reconstruction Finance Corporation authorized an initial loan of 250 million dollars and promised additional funds if needed.³⁰

The Credit Corporation agreed to make loans to cotton producers on the unsold portion of their 1933 cotton crop that classed low middling or better and was secured by approved warehouse receipts, at the rate of 10 cents per pound for cotton of $\frac{7}{8}$ -inch staple or better and 8 cents per pound for cotton less than $\frac{7}{8}$ -inch staple. Four per cent interest per annum was charged on these loans, payable at maturity (July 31, 1934) or when the cotton was sold or the loan paid.

Local banks and other lending agencies were encouraged to negotiate these loans with producers. The Credit

²⁹ This corporation was originally created by the President under authority granted by the National Industrial Recovery Act. By Sec. 7 of an act approved Jan. 31, 1935 (74 Cong., Pub. No. 1), however, it acquired legal status independent of the NIRA.

³⁰ In June 1935 the loan was increased to 300 million dollars.

Corporation, however, underwrote the loans by agreeing to purchase eligible paper at par with accrued interest at the rate of 4 per cent per annum to the date of purchase, plus an additional allowance of 5 cents per bale for each month from October 1, 1933 to the date of purchase to cover insurance charges incurred by the lending agency. Furthermore, warehouse receipts covering charges up to a specified maximum⁸¹ for receiving, tagging, weighing, storing, sampling, and turning out cotton incurred after October 1, 1933 were given a first lien on receipts from the sale of the cotton securing the notes.

The loans were especially attractive because the government undertook to bear any losses but to pass any gains on to the borrower. If the sale price of pledged cotton was less than its loan value, the borrower was not obligated to pay the difference. Contrariwise, if the sale price exceeded the loan value he was assured of the profit remaining after deduction of carrying charges and other loan costs. However, his potential profit was limited by a call provision in the note which made it immediately due and payable whenever the New Orleans spot market price of middling $\frac{7}{8}$ -inch cotton reached or exceeded 15 cents per pound.⁸²

The cotton pledged as security for these loans did not have to be entered in a pool. There was a provision, however, to the effect that after July 31, 1934 any holder of the notes could "place all or any part of said cotton in any pool or pools with any other cotton held by the holder under generally similar loan agreements, and,

⁸¹ Not more than 25 cents per bale per month, or the percentage of the total yearly charges under the warehouseman's established tariffs in existence at the date of the receipts which equals the percentage of a year during which the cotton is stored.

⁸² "Cotton Producer's Note," *Commodity Credit Corporation Cotton Form A*. The note was also made callable upon discovery of any misrepresentation by the borrower in connection with the loan, or upon his failure to sign a 1934-35 acreage reduction contract, if eligible.

either by pool or separate contract, to sell, assign, transfer, and deliver the cotton or cotton documents evidencing title thereto." The government was thus authorized to include cotton obtained as a result of failure to repay the cotton loans in a cotton pool similar to the one for option cotton.

This 10-cent loan is considered by many to have been an unqualified success. They believe that it enabled many farmers to hold their cotton and to benefit from the rise in cotton prices that resulted from the crop reduction program, drought, and other factors. At the time the loan policy was adopted, the average price of $\frac{7}{8}$ -inch middling spot cotton on the ten spot markets was approximately 10 cents. Prices, however, had been advancing steadily for a few days along with the increase in agitation for inflation. Shortly thereafter the price fell, and it was not until the middle of January 1934 that the average price reached the loan value, plus the cost of handling and moving the cotton from the warehouses to the central markets. Consequently, during the first half of the 1933-34 cotton marketing year, farmers in most parts of the Cotton Belt could obtain a loan of more than the current market value. In sections like southwest Oklahoma and northwest Texas the loan value of $\frac{7}{8}$ -inch middling cotton was at times as much as 1.5 cents per pound above the market value. The loan value of much of the cotton of higher grade and staple, however, was less than its market value.

The expected advance in cotton prices materialized. By the middle of January 1934 prices were above the loan value and by the middle of February they were about 12 cents per pound. From then until July 31, when the loans became due, cotton prices fluctuated around the 12-cent level.

Approximately 160 million dollars was lent to pro-

ducers on about 4.3 million bales. Of this amount 39 million dollars was advanced on 1,949,553 bales of option cotton at 4 cents per pound and 120 millions on about 2,339,000 bales of cotton secured by warehouse receipts. On July 31, 1934 the Commodity Credit Corporation still held cotton producers' notes for \$57,321,339.89 on 1,113,123 bales of cotton, the maturity date of which had been extended to February 1, 1935. The 4-cent advance on option cotton had been repaid but the Cotton Option Pool still held about 1,951,317 bales of cotton. Only about a fourth of the cotton securing these loans had been sold when the notes came due on July 31, 1934.³³ At the beginning of the 1934-35 marketing year the government was, therefore, financing the holding of about 3 million bales of cotton or only a little less than the peak of holdings financed by the Federal Farm Board.

The 12-cent cotton loan in 1934. The results of the 1933 loans of 8 and 10 cents did not prevent the Administration from deciding to extend and expand its loan program during the 1934-35 marketing season. On August 21, 1934 the President authorized the Commodity Credit Corporation to make 11- and 12-cent loans on practically the same basis as the 8- and 10-cent loans of the previous year. One important change was introduced, however, under which cotton produced in any year was made eligible for a loan provided it had been continuously in the hands of the producer.³⁴ Under this ruling producers holding participation trust certificates for cotton in the Cotton Producers Pool and those

³³ Including, of course, the option cotton.

³⁴ Other changes included a reduction in the rate of interest which the Commodity Credit Corporation agreed to allow in purchasing eligible cotton producers' notes. A flat rate of 4 per cent was to be allowed on the 10-cent loans made in 1933-34. In 1934-35 the CCC agreed to purchase notes evidencing 12-cent loans from the original lending

already having loans under the 1933 program could obtain an additional 2 cents per pound of cotton less carrying charges since October 1, 1933.⁸⁵

While the 1933 loan had grown out of an emergency situation, both economic and political, the 1934 loan was instituted during a relatively prosperous period for cotton farmers. There was no vociferous demand for it on the part of farmers. Little was said about it in the newspapers, and cotton shippers vigorously opposed it. The reasons given by the Administration for adopting the 12-cent loan policy in 1934 were the threat of a general strike in the textile industry, an actual decrease in cotton consumption compared with the preceding year, delay in getting tax exemption certificates to growers, and negotiations for a cotton agreement between India and Japan which might result in the loss of a good customer for American cotton.⁸⁶ In announcing the 1934 loan the President also called attention to the probability that the large surplus of American cotton would be reduced by about 4.5 million bales during the year.⁸⁷

agencies at par plus accrued interest at 3.5 per cent to the date of purchase. These notes might also be discounted with other private lending agencies. Country banks, for instance, were permitted to discount them with city banks. But if such transfers were made, the CCC agreed to allow 3.5 per cent interest only during the period the notes were held by the original lending agencies and 2.5 per cent for the remainder of the time until they were purchased. This variation in rate of interest payment was designed to keep the notes in country banks.

When the maturity date of these notes was extended from July 31, 1935 to February 1, 1936, the Credit Corporation announced that it would purchase them with interest accrued on this basis to June 30, 1935 plus accrued interest at 1.5 per cent per annum from June 30, 1935 to the date of purchase. (*CCC 1935 Circular Letter No. 6*, May 13, 1935.)

⁸⁵ As drawn originally the notes matured on July 31, 1935. This date was later extended to Feb. 1, 1936.

⁸⁶ *Cotton Trade Journal*, Aug. 25, 1934.

⁸⁷ It will be shown in connection with the analysis of the results of the control program that the actual reduction in carry-over was 1.6 million bales. See pp. 285 and 288.

When announced, the 12-cent loan seemed to have a more conservative base than the 10-cent loan of 1933. Middling $\frac{7}{8}$ -inch cotton was selling for more than 13 cents a pound whereas the 10-cent loan was announced when the central spot market price averaged 10 cents per pound. Shortly after announcement of the 1934 loan, however, cotton prices dropped to about 12.5 cents per pound and stayed at that level with no material fluctuations until they dropped below 12 cents in March 1935. They have continued slightly below this level most of the time since.

Recapitulation of 10- and 12-cent loans. In all, 1,234,558 of these loans were made covering 4,631,810 bales of cotton and totaling \$282,643,977.97. The great majority were made through banks and lending agencies and relatively few were handled directly by the Credit Corporation. By August 1, 1935, \$280,021,821.79, representing 1,230,796 loans on 4,589,413 bales of cotton, was still outstanding. Including the 1.6 million bales of spot and futures cotton in the option pool, on which 6-cent advances (equivalent to a 12-cent loan) had been made, on this date the government was financing the holding of about 6.2 million bales of cotton. This is nearly twice the peak holding financed by the Federal Farm Board.

The government is liable for all losses on these loans. By December 1, 1935, its investment in this cotton was roughly 13 cents per pound, or slightly more than one cent above the prevailing market price. A loss of one cent per pound or \$5.00 per bale on the 4.6 million bales of cotton held as security for these government guaranteed loans would amount to 23 million dollars. On the same basis the government would lose an additional 8 million dollars on cotton in the pool. If this cotton were

sold at the present time, however, the government would probably lose considerably more than 31 million dollars. But even if the losses were twice as large, this lending program would cost the government only about half as much as the benefit payments made to farmers for taking land out of cotton production in 1934.

Public announcements of the AAA assert that the lending policy is not a price-fixing scheme. Nevertheless, it tended to establish minimum prices of 10 and 12 cents per pound in 1933-34 and 1934-35 respectively. And the provisions of the loan agreement authorizing the holder of the note to declare the note due and payable when and so long as the price of middling $\frac{7}{8}$ -inch spot cotton shall be at or above 15 cents per pound, has tended to set an upper limit. The government has therefore rather effectively set the limits of cotton price fluctuations between 10 and 15 cents per pound in 1933-34 and 12 and 15 cents per pound in 1934-35.

These loans have tended to disrupt the usual relationship between spot and future prices for cotton. Spot prices have been held high relative to prices of futures, and the prices of near-month futures have been held high relative to prices for distant futures. Cotton merchants have consequently had difficulty in hedging their operations in the customary manner, as the spread between near-month and distant-month futures is usually expected to provide for carrying costs. Under such circumstances, consumers of raw cotton have tended to purchase only current requirements, and merchants have usually preferred to dispose of stocks rather than to acquire stocks for holding.

During 1934-35, 1933-34, and the ten years ending with 1932-33, the average spreads between spot prices of middling $\frac{7}{8}$ -inch cotton in ten markets and the aver-

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age price of New York futures for the nearest month have been as follows (in cents per pound):

Period	Spot	Futures	Difference
1934-35	12.36	12.17	—0.19
1933-34	10.81	10.85	+0.04
10-year average, 1923-24 to 1932-33	16.53	16.90	+.37

It is sometimes pointed out that spot prices tend to rise above futures prices in years of small cotton crops, such as 1934. Secretary Wallace explained this as follows:

The short crops of 1921, 1922, and 1923, when there was no government program in effect, were each associated with a high basis, and in each of these years the prices of futures for delivery within the crop year tended to exceed the prices of more distant futures. For example, in November 1921, the price of $\frac{7}{8}$ -inch middling cotton in the ten spot markets averaged 17.43 cents per pound, whereas the prices of the various New York futures were as follows:

December	17.61
March	17.41
July	16.76
October of the following crop year	15.94

In January 1923 the price of middling $\frac{7}{8}$ -inch cotton in the ten spot markets averaged 27.39 cents per pound, whereas prices for New York futures were as follows:

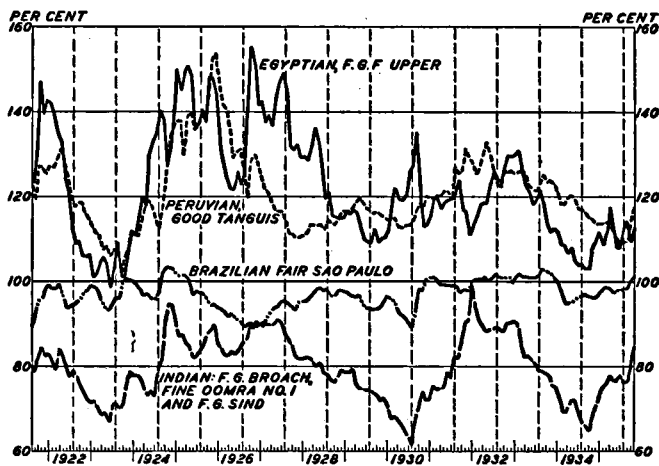
January	27.18
May	27.66
July	27.36
October	25.50
December	25.28 ⁸⁸

The Secretary, however, neglected to say that both the crop and carry-over of cotton in 1921, 1922, and 1923

⁸⁸ 74 Cong. 1 sess., testimony of Henry A. Wallace at *Hearings on the Causes of the Loss of Export Trade and the Means of Recovery*, Senate Committee on Agriculture and Forestry, Jan. 30-Feb. 7, 1935, pp. 7-8.

were small, whereas in 1934 only the crop was small, the carry-over being large and total cotton supplies normal or above. High spot cotton prices in relation to futures prices cannot, therefore, be explained by supply

RATIO OF PRICES OF FOREIGN COTTON TO PRICES OF AMERICAN COTTON, AUGUST 1921-NOVEMBER 1935^a



^a Data furnished by the Bureau of Agricultural Economics. Prices of Indian cotton are for middling and low middling; all others are for middling cotton.

Due to differences in quality, Egyptian and Peruvian cottons usually bring a higher price than $\frac{7}{8}$ -inch American, while Indian usually brings a lower price and Brazilian a price not greatly different from American. Over short periods, however, the prices of different cottons within a given market may vary materially, depending upon the supply of and demand for the particular cotton at the time.

conditions. They were caused mainly by the government's cotton loans and the holding of cotton in the pool.

These loans have also held prices of American cotton further above prices of foreign cotton than the respective supplies of each would justify in an unrestricted market,

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as indicated by the chart on page 222. Their effect on exports of American cotton is analyzed on page 265.

The tightness of the spot cotton situation in the United States in 1934-35 is indicated by the following analysis for August 1, 1935 (in millions of bales):

Total carry-over of cotton in the United States		7.2
Cotton held as security for 12-cent loans	4.4	
Spot cotton in the cotton pool	0.6	
Mill stocks and cotton in transit	0.7	
Total		5.7
Apparent "free" cotton		1.5

Another effect of both the 10- and 12-cent loans has been the congestion of cotton in interior warehouses while port warehouses have suffered a falling off in business. It was to the immediate interest of producers to store pledged cotton in the nearest accredited and approved warehouse so as to obtain the full amount of the loan without paying transportation and handling costs. Thus the government's failure to recognize location value in granting loans upset ordinary marketing practices.³⁹

The government's 10- and 12-cent loan policy has

³⁹ The loan agreement, however, did make provision for the movement or reconcentration of this cotton. In July 1935 the Credit Corporation awarded a contract to the American Cotton Co-operative Association for the handling of the reconcentration of this cotton on the following basis.

1. For the first 500,000 bales or any part thereof at a rate of 48 cents per bale.
2. For the second 500,000 bales or any part thereof at a rate of 45 cents per bale
3. For the third 500,000 bales or any part thereof at a rate of 40 cents per bale
4. For all cotton in excess of 1,500,000 bales at a rate of 35 cents per bale. *Cotton Trade Journal*, July 6, 1935, p. 1.

also favored growers far from market and producers of relatively low-grade cotton. Uniform loan rates were established for all cotton classed low middling or better and $\frac{7}{8}$ -inch staple or better regardless of location. Yet cotton in northwest Texas and southwest Oklahoma in 1929-30 was about a cent lower on the average than cotton of the same grade and staple in North Carolina. Furthermore, long-staple cotton normally sells for considerably more than cotton of $\frac{7}{8}$ -inch staple.⁴⁰

The extent of this favoritism, however, is uncertain. Growers still hold title to the cotton. If prices of middling $\frac{7}{8}$ -inch cotton rise above the loan value, producers may still receive a premium for high quality or favorable location. If, however, the government takes title to this cotton in payment of the loan, no allowance is likely to be made for location, grade, or staple.

The 10-cent cotton loan in 1935. In spite of the large holdings of cotton being financed by the government on July 31, 1935, and the effect of this cotton loan policy on foreign and domestic consumption of American cotton and on the cotton production control program, there was a tremendous demand for a 12-cent loan on the 1935 crop. Important cotton interests such as the American Cotton Co-operative Association and the Cotton Textile Institute favored a 12-cent or even higher loan.⁴¹ On the other hand, the AAA and certain sections of the cotton trade strongly opposed such a loan, which was about half a cent above the prevailing market price of cotton. In response to these divergent forces the Administration worked out a compromise policy.

⁴⁰ In 1930-31, when the average price of middling $\frac{7}{8}$ -inch cotton on the New Orleans market was 10.08 cents per pound, $1\frac{1}{8}$ -inch cotton commanded a premium of 1.83 cents per pound and $1\frac{3}{16}$ -inch cotton a premium of 3.08 cents per pound.

⁴¹ *Cotton Trade Journal*, June 22, 1935, p. 1.

On August 22, 1935 the Secretary of Agriculture and the Commodity Credit Corporation announced, with the approval of the President, a cotton loan of 9 cents per pound at the farm, without recourse on the borrower, on 1 3/16-inch low middling cotton or better. The AAA also agreed to make payments to cotton farmers to equal the amount, if any, by which the average price of 7/8-inch middling cotton on ten designated spot markets fell below 12 cents per pound during the period from September 1 to January 1. These payments were to be limited to the individual producer's actual production up to the amount of his Bankhead allotment. Only growers already co-operating in the 1935 acreage reduction program and agreeing to co-operate in the 1936 program could obtain these loans or payments.

Strong opposition to the low rate announced immediately developed in Congress and resulted in an offer of 10 cents per pound on 7/8-inch middling cotton or better.⁴² A new basis for calculating adjustment payments was also set up. Under it each eligible producer could, by making application, obtain the amount per pound by which the official average price of 7/8-inch middling spot cotton on the ten designated markets was below 12 cents per pound on the date of sale of eligible cotton.⁴³ In no case, however, could the adjustment pay-

⁴² An amendment to the third deficiency bill directing the Commodity Credit Corporation to lend 12 cents per pound on cotton and 90 cents per bushel on wheat was passed by the Senate on August 23, but was killed in the House committee.

⁴³ "In the event cotton, on which a 10-cent loan is obtained under the 1935 loan plan, is not sold by July 31, 1936 and is still under the loan on that date, an adjustment payment will be made to the producer co-operating in 1936 cotton program in the amount per pound by which the official average base price at the ten designated markets is below 12 cents per pound on July 31. However, carrying charges which include interest, storage, and insurance will be deducted from the payment and paid to the lending agency." *AAA Press Release No. 461-36*, Sept. 16, 1935.

ment exceed 2 cents per pound. The maximum amount of cotton eligible for such payments was the producer's 1935 allotment of tax-exempt cotton under the Bankhead Act. All persons by or for whom cotton was produced in 1935 on a farm covered by a contract or who agreed to participate in the 1936 cotton adjustment program were declared eligible for these payments.⁴⁴

The adjustment payments are to be made from funds made available by Section 32 of the act of August 24, 1935 amending the Agricultural Adjustment Act. Thirty per cent of the customs receipts for each fiscal year are segregated by this section and maintained in a separate fund which may be used to encourage the exportation and marketing of agricultural commodities.

When the 9-cent loan plan was announced, spot market prices of cotton dropped at once from about 11.5 cents per pound to about 10.5 cents. This drop of a cent a pound indicates conclusively that the 12-cent loan was holding up the price of American cotton. It was not until the first of December that prices rose to about 12 cents, and then the rise was partly due to reductions in the size of the United States crop.

Under the loan plan adopted it is expected that cotton will move more freely in foreign and domestic markets during 1935-36 than during 1934-35. Prices of American cotton were definitely lower in relation to prices of foreign cotton from September to December 1935 than in the same months of 1934, even though the supply of each was practically the same as in the preceding year. Exports of American cotton were also 44 per cent larger during the first five months of 1935-36 than in 1934-35. Furthermore, because of the provision for

⁴⁴ After Jan. 6, 1936, the requirement for co-operation in a control program were removed.

adjustment payments, growers will receive payment for their cotton at approximately the 12-cent level of prices.

Relatively few 10-cent loans have been obtained on the 1935 crop. On December 31, 1935 only 56,000 bales of cotton were held as security for such loans. Furthermore, there is a fairly good possibility of their being repaid in full by sale of the cotton.

While the Secretary of Agriculture and the AAA generally were opposed to a 12-cent loan on the 1935 cotton crop, they favored a continuation of "government loans without recourse to cotton farmers who agree to accept cotton in lieu of cash whenever acreage reduction is necessary."⁴⁵ They were, in fact, instrumental in securing amendments to the Agricultural Adjustment Act specifically authorizing such a procedure.⁴⁶ These amendments, however, authorized the removal of cotton from "the normal channels of trade and commerce" by direct purchases as well as by loans, whenever the average farm price of cotton was less than the fair exchange value.

The objective of such a program (commonly called the Ever Normal Granary plan) would be the same as that of the production control program: stabilization of cotton prices and farm income from cotton from year

⁴⁵ Henry A. Wallace, *New Frontiers*, 1934, p. 235.

⁴⁶ Sec. 8(3) of the act as amended states: "Subject to the provisions of subsection (1) of this section [see p. 342] the Secretary of Agriculture shall make payments, out of any moneys available for such payments, in such amounts as he finds, upon the basis of the investigation made pursuant to subsection (1) of this section, to be fair and reasonable and best calculated to effectuate the declared policy of this title: (a) to remove from the normal channels of trade and commerce quantities of any basic agricultural commodity or product thereof. . . ."

Sec. 7 provides further: "The Secretary shall have authority to enter into option contracts with producers of cotton to sell to or for the producers such cotton held and/or required by him in such amount and at such prices and upon such terms and conditions as he, the Secretary, may deem advisable."

to year—"a more uniform supply and a more uniform price."⁴⁷ When supplies of cotton are large in relation to demand, the government would be expected to maintain the income of farmers from their cotton crop by pegging the price, either by means of loans or by direct purchases. Any cotton acquired by the government as a result of this procedure would be returned to farmers in lieu of cash for taking land out of cotton production.⁴⁸

The experience of the AAA with the cotton option plan used in 1933 does not demonstrate that government cotton can be disposed of effectively by giving it to producers in payment for curtailing current production. It suggests rather that when such a plan is used, the fear that those who receive it will immediately dump the cotton on the market and depress prices leads to demands either that producers be financed in holding it off the market or that the government control the marketing of it. Either of these courses tends to bring the cotton back into the hands of the government. Furthermore, when the plan is used in combination with a loan program, political pressure may cause loans to be made so much in excess of the market value that government holdings are increased. It has already been noted that the loans in 1933 and 1934 were adopted because of this type of pressure and that, as a result, on December 31, 1935, the amount of cotton held as security for loans guaranteed by the government was approximately 4.5 million bales. This was in addition to the holdings of option cotton.

The major danger of government loans on cotton in combination with a production control program is not

⁴⁷ Wallace, *New Frontiers*, p. 235.

⁴⁸ For a discussion of the limitations and possibilities of this plan see pp. 305-08.

the direct loss that may be incurred but the influence they may have upon the amount of reduction sought. The sale, at a loss, of cotton acquired by the government as security taken over when its value did not equal the amount of the loans would not look well.⁴⁹ It would resemble too closely the odious experience of the Farm Board. Therefore, having made loans on cotton in excess of its market value, political expediency would probably dictate still greater reductions in production in order to raise prices to the point where no loss would be incurred. Furthermore, since farmers would still have title to the cotton held as security for the loan, any increase in price above the loan value would accrue to them. They would have more to gain (or less to lose) from drastic curtailment of production than they would have in the absence of a loan program. Under these circumstances, they would naturally tend to use all the pressure at their command to influence the Adjustment Administration to make the fullest possible use of its power to curtail production—a tendency which already exists in the Cotton Belt, as was pointed out on page 82. The combined influence of these forces might easily lead to an abuse of the power to force prices upward by limiting acreage and production. In fact, it appears that they have been responsible to a considerable extent for the large reductions which were required in 1935 and which were planned for 1936.

When the cotton program was first undertaken it was expected, as pointed out on page 39, that large reduc-

⁴⁹ On Aug. 8, 1935, Secretary Wallace announced that "there are ample resources available to carry present stocks financed by the government for an indefinite period," and pointed out that government stocks of approximately 5 million bales would not be available to purchasers except at a price in excess of 13 cents (approximately the loan value plus carrying charges). *AAA Press Release No. 226-36*.

tions in production would be made for only one or two years, after which they would be much smaller. The cotton contract offered farmers in 1934 in fact specified that the maximum reduction that could be required of contract signers in 1935 was 25 per cent, compared with 35-45 per cent in 1934. During the summer of 1934 it seemed likely that a 10 to 20 per cent reduction in 1935 would be required of contract signers. After the 12-cent loan policy was announced, there was an increasing demand for a larger and larger cut in 1935 production because of reductions in exports and consumption of American cotton which fell off partly because of the loan. On November 28, 1934 it was announced that contract signers would be required to make the maximum reduction—25 per cent. They were also invited to rent an additional 5 per cent to the government. This was later raised to 10 per cent. In other words, the government offered to rent as much as 35 per cent of each contract signer's base acreage. Furthermore, the national quota of Bankhead tax exemption certificates was set at 10,963,264 standard weight bales—35 per cent below the base production. As a result of this program, farmers planted practically the same acreage of cotton in 1935 as in 1934. Moreover, the AAA planned to offer farmers benefit payments for taking 30-45 per cent of their cotton land out of cotton production in 1936. The experience of the past two years, therefore, indicates that government loans on cotton tend to result in larger reductions in production than would otherwise be made.

CHAPTER XII

FINANCING THE PROGRAM

Adjustment programs authorized by the Agricultural Adjustment Act were expected to pay their own way. Whenever such programs were undertaken with respect to cotton or any other basic commodity the act provided for the levy of a tax upon the first domestic processing of that commodity, and under specified conditions, upon competing products. The rates of any such taxes were to be determined by the Secretary of Agriculture in the manner prescribed by the act and the taxes were to become effective upon his proclamation of certain findings, subject to the approval of the President. In general the rates were designed to increase or decrease with the needs for adjustment in the production of each basic commodity, and the revenue from such taxes was expected to pay the cost of the adjustment programs undertaken, thus eliminating the necessity of annual appropriations for them. Some additional funds, however, were appropriated by the act, by succeeding amendments, and by related legislation.

Funds collected from processing taxes, however, were not allocated by the act to specific commodities. Therefore, it appears that proceeds from processing taxes on one commodity could have been used to finance programs for other farm products under the provisions of the law. However, in administering the legislation the AAA has followed the general policy of using the proceeds derived from processing taxes on each basic commodity in financing the program for that same commodity. Thus, budgets for the cotton program were based on the revenue expected from taxes on cotton and

on products competing with cotton, together with the funds assigned to cotton from other sources.

COST OF THE PROGRAM

The expected cost of the 1933, 1934, and 1935 cotton production control programs is shown by the following table (in millions of dollars):¹

	1933	1934	1935	Total
Rental and benefit payments	112.6	115.8	123.0	351.4
"Option" cotton	48.8	—	—	48.8
Administrative expenses:				
Cotton acreage control program	8.0	7.0	7.0	22.0
Bankhead cotton control program	—	6.5	6.5	13.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total government expenditures	169.4	129.3	136.5	435.2

Of the total amount of 435.2 million dollars, 92 per cent consisted almost entirely of payments made to farmers for taking land out of cotton production. Administrative expenses have been running about 7 million dollars a year each for the voluntary and Bankhead programs, or about 8 per cent of total expenditures.

According to data made available by the Comptroller's Office of the AAA, through October 31, 1935 these administrative expenses were incurred by the following agencies in Washington and in the field:

¹ Unpublished figures of the Ways and Means Section, Division of Finance, AAA, Nov. 20, 1935, except for "option" cotton. The estimate of 48.8 million dollars for "option" cotton given in the second line of the table is based on the assumption that the option cotton offered to farmers at 6 cents cost the government 4 cents per pound (the base price of 9.5 cents at which it was transferred from the Farm Credit Administration to the Secretary of Agriculture, plus half a cent per pound, carrying charge, less the 6 cents charged the farmers). Actually, of course, this cotton cost the government much more than 4 cents per pound, as pointed out in Chap. XI. Payments to farmers on their "option" cotton have also been larger than the amount shown here. By Oct. 31, 1935, 66 million dollars had been paid to them, and holders of trust certificates were entitled to an additional million under the 12-cent loan plan.

FINANCING THE PROGRAM

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Agency	Washington	Field	Total
VOLUNTARY PROGRAM ..	\$5,545,352.62	\$11,961,173.87	\$17,506,526.49
Division of Cotton	5,045,034.10	—	5,045,034.10
Extension Service	41,260.66	10,577,713.08	10,618,973.74
Bureau of Internal Revenue	341,003.55	1,305,015.19	1,646,018.74
Bureau of Agricultural Economics	55,709.03	78,445.60	134,154.63
United States Treasury ..	61,503.78	—	61,503.78
Bureau of the Census ...	841.50	—	841.50
BANKHEAD PROGRAM ..	\$1,442,180.61	\$ 7,952,398.38	\$9,394,578.99
Division of Cotton	1,089,506.63	—	\$1,089,506.63
Extension Service	9,645.13	7,286,061.91	7,295,707.04
Bureau of Internal Revenue	332,918.61	614,640.91	947,559.52
Bureau of Agricultural Economics	10,110.24	51,695.56	61,805.80
BOTH PROGRAMS	\$6,987,533.23	\$19,913,572.25	\$26,901,105.48

Of the administrative expense through October 31, 1935, 6.1 million was incurred by the Division of Cotton in Washington and 17.8 million or 66 per cent by the Extension Service or under its general supervision. This latter item includes the compensation of local committeemen, the hiring of extra help by the county agent and county control association, travel of county agent, and other expenses connected with the program. In the 1933 plow-up program, compensation of committeemen constituted about 75 per cent of the total expense of the Extension Service chargeable to the AAA. The rate of paying these committeemen was determined in Washington and was uniform throughout the Cotton Belt. No deduction for such local expenses were made in the payments to farmers in individual counties.

The total expense of administering the cotton acreage control program in 1933 was about \$7.75 per contract. In 1934 it was somewhat lower, being \$6.96 per con-

tract. The cost of administering the Bankhead Cotton Control Act in 1934, however, was equal to about \$6.47 per cotton contract signed in 1934. While the total administrative expense for these cotton programs in 1935 was expected to be practically the same as for the 1934 program, the number of contracts obtained was larger and the expense would probably have been somewhat smaller per contract if it had been fully carried out.

These expenses may have been somewhat larger than would be required to carry on the same general program in future years, since a large part of the work both in Washington and in the field during the past three years has been connected with the establishment of individual farm production or allotment bases. While considerable revision of these bases would probably have been necessary, once they were definitely established administrative expenses should have been considerably less.

The collection of processing taxes on cotton, jute, and paper by the Bureau of Internal Revenue has cost about 1.6 million dollars, and the collection of the cotton ginning tax nearly one million dollars.

Actual expenditures under the program through December 31, 1935, the latest date for which data are available, were as follows (see note 1, p. 232):

Rental and benefit payments	\$333,516,020.04
"Option" cotton	48,800,000.00
Administrative expenses:	
Cotton acreage control program	19,150,417.82
Bankhead cotton control program	10,596,895.10
	<hr/>
Total expenditures	\$412,063,332.96

The amount of rental and benefit payments due and unpaid on December 31, 1935 are estimated to have been about 17.9 million dollars (351.4 minus 333.5). Additional administrative expenses necessary to wind up

the program will probably be in the neighborhood of 4 million dollars.

In addition to the costs of the cotton control programs, the price adjustment payments which the Secretary has agreed to make on the 1935 cotton crop, as explained on page 225, are expected to cost about 50 million dollars, of which about 3 million will be for administrative expenses.

There is also a probability that relatively large losses will be incurred on the cotton loans.² On January 29, 1936, New York futures for October 1936 closed at 10.45 cents per pound. By October of this year the government will have an investment in cotton held as security for 12-cent loans of roughly 13.5 cents per pound, or about 3 cents per pound more than the present value of futures for that month. At this rate the loss on the 4.4 million bales held as security for such loans on December 31, 1935 would be 66 million dollars. At the same rate the loss on cotton in the pool would be about 22 million dollars. The income of the Secretary from cotton received from the Farm Credit Administration, however, had exceeded expenses by about 7 million dollars on January 1, 1936. Consequently the net loss on pooled cotton would be about 15 million dollars.³

² It was expected that any losses on cotton loans would be paid out of processing tax funds under the authority of the following provision: ". . . a sum equal to the proceeds derived from all taxes imposed under this title is hereby appropriated to be available to the Secretary of Agriculture for (1) the acquisition of any agricultural commodity pledged as security for any loan made by any federal agency, which loan was conditioned upon the borrower agreeing or having agreed to co-operate with a program of production adjustment or marketing adjustment adopted under the authority of this title . . ." 74 Cong., Public No. 320, Sec. 3, approved Aug. 24, 1935 (amendment to Sec. 12(b) of the Agricultural Adjustment Act).

³ Of course, cotton prices may rise because of inflation, improvement in business, or reduction in production; or some of the cotton may be sold in the near future while prices are somewhat above the level of

When all these estimates are combined, it appears that the total cost of the cotton program of the last three seasons is likely to be about as follows, in millions of dollars:

Rental and benefit payments	351.4
"Option" cotton (48.8 + 15.0)	63.8
Administrative expenses	33.8
Price adjustment payments	50.0
Cotton loans	66.0
	Total
	565.0

SOURCE OF FUNDS

On July 14, 1933 the Secretary of Agriculture proclaimed his determination that rental and benefit payments were to be made on cotton and that the difference between the fair exchange value and current average farm price of cotton was 4.2 cents per pound net weight. A tax on the first domestic processing of cotton therefore became effective on August 1, 1933, in accordance with the following provisions of the act.

Sec. 9(a) When the Secretary of Agriculture determines that rental or benefit payments are to be made with respect to any basic agricultural commodity, he shall proclaim such determination, and a processing tax shall be in effect with respect to such commodity from the beginning of the marketing year therefor next following the date of such proclamation. The processing tax shall be levied, assessed, and collected upon the first domestic processing of the commodity, whether of domestic production or imported, and shall be paid by the processor.⁴

October futures. Middling spot cotton was selling on the New York market on Jan. 29, 1936 at 11.85 cents per pound. But if the government began selling an appreciable quantity of this cotton at the present time, it would depress the market and increase the cost of the price adjustment plan. Consequently the calculation made seems reasonable as of Jan. 29, 1936.

⁴ *Cotton Production Adjustment 1934-35*, AAA, No. 23, May 1935, p. 4, defines domestic processing as: "First domestic processing—(a)

Sec. 9(b) The processing tax shall be at such rate as equals the difference between the current average farm price for the commodity and the fair exchange value of the commodity. . . .

Sec. 9(c). . . . the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power, with respect to articles farmers buy, as such commodity had during the base period specified in Section 2 [August 1909-July 1914 in the case of cotton]; and the current average farm price and the fair exchange value shall be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture.

The rate of tax was determined on the basis of price data for June 1933, the latest date for which data were available in time to establish a tax rate that would be effective on August 1, 1933. For this month the average farm price of cotton reported by the United States Department of Agriculture was 8.7 cents per pound and the fair exchange value or "parity" price of cotton was 12.77 cents, making the gross tax 4.07 cents per pound of cotton (including bagging and ties), and 4.2 cents per pound net weight. The "parity" price was calculated by multiplying 12.4 cents per pound, the average farm price of cotton during the base period August 1909-July 1914, by 103, the index of prices paid by farmers during June 1933.

No change was made in the rate of tax on cotton even though the margin between farm and "parity" prices varied between 5.6 cents per pound (September 1933) and 2.4 cents per pound (August 1934), as shown by the chart on page 239. In June of each year from

with respect to cotton that is to be spun, is every state of manufacture or processing up to the removal of the bobbin or cop from the spinning machine on which its yarn has been spun; (b) with respect to cotton that is not to be spun, is that amount and degree of manufacture or processing up to the point where the cotton is fashioned into an article, either to be packaged and sold as such, or to be used for further manufacturing into a different type of article."

1933 to 1935 the margin between farm and "parity" prices of cotton was as follows:

	1933	1934	1935
Fair exchange or "parity" price	12.77	15.0	15.7
Average farm price of cotton per pound	8.70	11.6	11.8
Gross margin per pound	4.07	3.4	3.9
Net margin per pound on cotton, after deducting 22 pounds from each 500-pound bale for tare (bagging, ties, and patches)	4.20	3.6	4.1

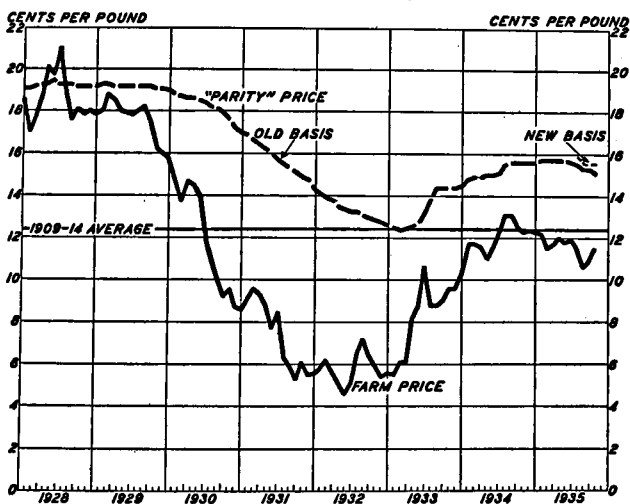
Amendments to the act approved August 24, 1935 provided that in determining the fair exchange value of cotton the index of prices paid by farmers should "reflect current interest payments per acre on farm indebtedness secured by real estate and tax payments per acre on farm real estate, as contrasted with such interest payments and tax payments during the base period."⁵ This change increased the "parity" price of cotton very little. For instance, on the old basis it would have been 15.6 cents per pound on July 15, 1935 and on the new basis it was 16.0 cents. Such an increase, however, amounted to approximately 10 per cent of the 4.07 processing tax on cotton.

No precise instructions were given in the act as to when or how often the tax rate should be changed. Section 9(b) merely stated that the tax should "equal the difference between the current average farm price for the commodity and the fair exchange value of the commodity." Section 9(a) further specified that the rate should be determined as of the date the tax first took effect, and that "the rate so determined shall, at such intervals as the Secretary finds necessary to effectuate the

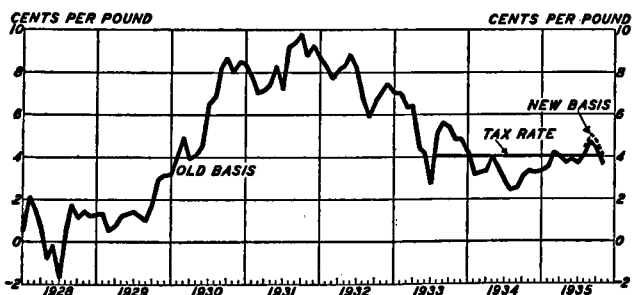
⁵ 74 Cong., Public No. 320, Sec. 1(a), approved Aug. 24, 1935.

RELATION OF THE TAX RATE TO MARGIN BETWEEN FARM PRICE AND "PARITY" PRICE*

1. Farm Price and "Parity" Price



2. Margin between "Parity" Price and Farm Price, together with the Tax Rate



* Data furnished by the Cotton Section, AAA. "Parity" price is charted on the "old basis" specified in the original act; the "new basis" specified by amendment of Aug. 24, 1935 is also indicated. See p. 238 for changes in definition of "parity" price under this amendment.

declared policy, be adjusted by him to conform to such requirements." The term "current average" farm price is susceptible of many different interpretations which would greatly affect the amount of the tax. For instance, if average farm prices of cotton on July 15, 1933, as reported by the Bureau of Agricultural Economics on July 27, had been used, the tax rate would have been only 2.7 cents per pound, or one-third less than the tax of 4.07 cents per pound established. On the other hand, if average farm prices received for the entire 1932 cotton crop and the average index of prices paid by farmers during the year ending July 31, 1933 had been used, as in the case of tobacco,⁸ the tax rate would have been 6.0 cents per pound or nearly 50 per cent larger than the tax actually levied. For the entire period from August 1933 to September 1935, however, the tax rate closely approximated the average difference between actual farm prices and "parity" prices, as shown by the chart on the preceding page.

Nevertheless, a very definite official interpretation was made of the provisions in the act regarding changes in the tax rate. In announcing—on July 31, 1934—that the cotton processing tax would be continued unchanged during the 1934-35 cotton marketing year, the AAA also stated that "with respect to the rate of tax, the act provides that the rate shall be determined by the Secretary of Agriculture in accordance with the formula prescribed as of the date the tax first takes effect, and the rate so determined shall, at such intervals as the Secretary finds necessary to effectuate the declared policy of Congress be adjusted by him to conform to such requirements. No adjustment of the rate of tax may be made unless the

⁸ H. B. Rowe, *Tobacco under the AAA*, p. 186.

Secretary finds it necessary to make such an adjustment to effectuate the declared policy of the act.”⁷

Furthermore, the formula set up merely fixed the maximum tax rate at the time of determination. Section 9(b) of the act authorized a lower rate “if the Secretary has reason to believe that the tax at such [maximum] rate *on the processing of the commodity generally or for any particular use or uses*⁸ will cause such reduction in the quantity of the commodity or products thereof domestically consumed as to result in the accumulation of surplus stocks of the commodity or products thereof or in the depression of the farm price of the commodity.” No use was made of this power in the case of cotton. Generally speaking, textile manufacturers favored either maintaining a constant tax rate or eliminating the tax entirely.

Provision was also made in Section 15(a) of the original act for refunding the tax on cotton used in the manufacture of any class of products of any commodity of low value, if the Secretary found after investigation that the processing tax would “substantially reduce consumption and increase the surplus of the commodity.” On June 12, 1934 the tax on cotton used in making cotton bags of large size was removed in accordance with this provision of the act. It seems likely that farmer opposition to this tax on bags was also an important reason for removing it.

Refund of the tax was also allowed on cotton and cotton goods delivered to any organization for charitable distribution. These refunds amounted to about 1.5 million dollars during the fiscal year ended June 30, 1935.

⁷ “Cotton Processing Tax to Remain Unchanged,” *AAA Press Release No. 234-35*, July 31, 1934.

⁸ Italicized words inserted by Jones-Costigan Sugar Act of May 9, 1934.

Cotton processed by or for producers for their own use was exempt from the tax. The amount of cotton used in this way, however, is very small.

In order to prevent processing taxes from causing excessive shifts in consumption, provision was made for levying compensatory taxes on competing products. Section 15(d) specified:

The Secretary of Agriculture shall ascertain from time to time whether the payment of the processing tax upon any basic agricultural commodity is causing or will cause to the processors thereof disadvantages in competition from competing commodities by reason of excessive shifts in consumption between such commodities or products thereof. If the Secretary of Agriculture finds, after investigation and due notice and opportunity for hearing to interested parties, that such disadvantages in competition exist, or will exist, he shall proclaim such finding. The Secretary shall specify in this proclamation the competing commodity and the compensating rate of tax on the processing thereof necessary to prevent such disadvantages in competition.

Long, expensive hearings were held at which very little information of value was obtained. They were largely a waste of time, money, and energy. The arguments presented by cotton textile manufacturers were especially weak. Largely on the basis of investigation and analysis by the Cotton Marketing Section of the AAA, compensating taxes were first levied on December 1, 1933 on jute and paper used in the manufacture of certain types of bags, twine, paper towels, and gummed paper tape.⁹ Later, on June 12, 1934, when the tax on large cotton bags was removed, the compensating tax on large paper and jute bags was also removed. At the same time, the compensating tax on jute fabric used in the

⁹ Paper Regulations, Series 1, and Jute Regulations, Series 1, AAA.

manufacture of bags and the tax on paper towels was reduced.¹⁰

Considerable effort was also made by cotton textile manufacturers to have a compensating tax levied on other products competing with cotton, particularly rayon, but this effort proved unsuccessful. An amendment to this effect, levying a tax on rayon and silk of 5 and 10 cents per pound respectively was introduced in the House of Representatives in 1935 but was defeated in the Senate.

Taxes on the processing of both cotton and competing products were levied at equivalent rates on floor stocks when the tax first became effective. Stocks in the hands of retailers but not in warehouses were exempt from this floor tax if sold or otherwise disposed of within 30 days. The original act made no provision for adjustment of the tax on stocks in the event of an increase or decrease in the rate of processing tax. Such an adjustment, however, was provided by a later amendment.¹¹ When the

¹⁰ The tax rate on paper and jute products in effect prior to Jan. 6, 1936, was (in cents per pound of jute or paper used in their manufacture):

Jute products:	
Twine, unpolished and polished	2.1
Paper products:	
Gummed paper tape	4.06
Paper towels	0.346
Open mesh paper bags	2.14

Paper bags having a sacking capacity of 4.5 pounds and over and less than 75 pounds, printed, labelled, or otherwise identified as bags designed and in form for use in the packaging of grain flours, corn meal, sugar, salt, fertilizer, feed, or potatoes, were assessed a tax at the rate of \$1.24 to \$7.91 per thousand. *AAA Press Release No. 2835-34*, June 12, 1934.

A compensatory tax (effective Nov. 1, 1935) was also levied on the processing of reinforced paper fabric into reinforced paper tape at the rate of 21.7 cents per thousand yards of one-inch reinforced paper fabric tape. *AAA Press Release No. 793-36*, Nov. 4, 1935.

¹¹ Flannigan amendment approved June 26, 1934 and applicable beginning June 1, 1934. 73 Cong., Public No. 476.

processing tax was wholly terminated a refund was to be made of the tax on existing floor stocks.

These processing taxes were not intended to affect exports or imports of cotton or cotton goods. Provision was made for refunding processing taxes paid on cotton worked into goods exported and for collecting them on goods imported.²²

All processing and related taxes were collected by the Bureau of Internal Revenue and paid into the Treasury of the United States. They did not, however, become an integral part of Treasury revenues. Section 12(b) of the act provided that "the proceeds derived from all taxes imposed under this title are hereby appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products and the following purposes under Part 2 of this title: administrative expenses, rental and benefit payments, and refunds on taxes."

These processing taxes were due and payable on or before the last day of the month immediately following the month during which the processing occurred. For example, the return for the month of November was required to be filed on or before the following December 31. Floor-stock taxes were due and payable 30 days after they became effective.

In order to temper the burden of these taxes on processors and distributors the Secretary of the Treasury was

²² In calculating refunds, or the amount of taxes to be paid on finished articles exported or contained in floor stocks, the net weight of cotton, jute, or paper in each article was first determined. The amount of raw cotton, jute, or paper used in their manufacture was then estimated by multiplying the net weight by a conversion factor which was supposed to make allowance for non-spinnable waste removed in the course of processing. The conversion factor established for cotton products was 105.2 per cent. Other factors were established for the various paper and jute products taxed.

authorized in the original act to postpone payments for not over 90 days. A later amendment increased this to 180 days. In administering this provision, the Secretary provided a blanket extension of 30 days in the date of payment. Later this was increased to 90 days by an amendment to the legislation. Processors and distributors subject to these taxes were also made eligible for loans from the Reconstruction Finance Corporation.

The penalty for wilful failure to pay these processing taxes was imprisonment for not more than ten years or a fine of not more than \$10,000, or both. Misrepresentation as to the amount of tax involved was punishable by a fine of not more than \$1,000 or by imprisonment for not more than six months, or both.

Other sources of funds included, as pointed out in earlier chapters, the 100 million dollars appropriated in the original act for administrative expenses and rental or benefit payments. No specific part of this appropriation, however, was allocated to cotton. The National Industrial Recovery Act also authorized the President to allocate 100 million dollars to the AAA and the Farm Credit Administration. A total of 60 million dollars was allocated to the Farm Credit Administration in part payment of cotton transferred to the Secretary of Agriculture. The Emergency Appropriation Act for 1935 authorized an advance of another 100 million dollars for making loans or payment of losses on option cotton in the cotton pool.¹⁸ And the 4 billion dollar Work Relief Act approved April 8, 1935 stated that: "Funds made available by this joint resolution may be used, in the discretion of the President for the administration of the Agricultural Adjustment Act, as amended, during the period of twelve months after the effective date of

¹⁸ 48 Stat. L. 1058.

their joint resolution.¹⁴ No part of the work relief fund, however, was used to carry out the cotton program. The tax levied on the ginning of cotton by the Bankhead Cotton Control Act was not expected to yield enough revenue to pay the cost of administering that act.

Amendments to the Adjustment Act approved August 24, 1935 also appropriated 30 per cent of the custom receipts each year for use by the Secretary of Agriculture to encourage by benefit payments the exportation of agricultural commodities, the diversion of such products from normal channels of trade, and adjustments in the quantity planted or produced for market of agricultural products. This appropriation amounted to from 90 to 100 million dollars per year. No specific amount of these funds, however, was allocated to cotton. In fact, the amendments specifically stated that none of these funds could be used in making benefit payments on exports of unmanufactured cotton. The price adjustment payments noted on pages 224 and 227, however, are being paid from these funds.¹⁵

¹⁴ 74 Cong., Pub. res. 11 (H. J. res. 117), Sec. 1.

¹⁵ "Sec. 32. There is hereby appropriated for each fiscal year beginning with the fiscal year ending June 30, 1936 an amount equal to 30 per centum of the gross receipts from duties collected under the customs laws during the period January 1 to December 31, both inclusive, preceding the beginning of each such fiscal year. Such sums shall be maintained in a separate fund and shall be used by the Secretary of Agriculture only to (1) encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof or of indemnities for losses incurred in connection with such exportation or by payments to producers in connection with the production of that part of any agricultural commodity required for domestic consumption; (2) encourage the domestic consumption of such commodities or products by diverting them, by the payment of benefits or indemnities or by other means, from the normal channels of trade and commerce; and (3) finance adjustments in the quantity planted or produced for market of agricultural commodities. The amounts appropriated under this section shall be expended for such of the above-specified purposes, and at such times, in such manner, and in such amounts as the Secretary of Agriculture finds will

RECEIPTS

Annual net receipts from processing taxes on cotton, paper, and jute processed, and the tax on cotton ginned (not including floor-stock taxes) during the first three years were expected to average from 100 to 120 million dollars a year, as shown by the table on page 248. This net income was not expected to equal the cost of each year's adjustment program. The deficit for the three years has been approximately 53 million dollars in addition to the cost of "option" cotton and the price adjustment payments. The deficit for each year's Bank-head program has been about 5.5 million dollars—receipts amounting to 1.0 million and expenses to 6.5 million dollars. Indeed, receipts from the cotton ginning tax have barely equalled the cost of collecting it by the Bureau of Internal Revenue.

The excess of estimated expenditures for the cotton control program over estimated net receipts from processing taxes on cotton and competing commodities occurred partly because of over-estimates of cotton consumption. In February 1934, the AAA estimates of consumption from August 1, 1933 to July 31, 1935 averaged 6.1 million bales per year, whereas actual consumption averaged only 5.5 million bales. The causes of this decrease in consumption are analyzed in the two following chapters.

tend to increase the exportation of agricultural commodities and products thereof, and increase the domestic consumption of agricultural commodities and products thereof; *Provided*, That no part of the funds appropriated by this section shall be expended pursuant to clause (3) hereof unless the Secretary of Agriculture determines that the expenditure of such part pursuant to clauses (1) and (2) is not necessary to effectuate the purposes of this section: *Provided further*, That no part of the funds appropriated by this section shall be used for the payment of benefits in connection with the exportation of unmanufactured cotton."

COTTON AND THE AAA

TAX RECEIPTS, REFUNDS, AND EXPENDITURES ESTIMATED ON THE BASIS OF OPERATIONS DURING SPECIFIED MARKETING YEARS^a
(In millions of dollars)

Item	1933-34	1934-35	1935-36	Total
TAX RECEIPTS (GROSS)	185.3	112.2	120.5	418.0
Cotton processing.....	114.0	107.2	116.0	337.2
Cotton compensating.....	1.2	1.8	1.5	4.5
Cotton floor stocks.....	59.5	—	—	59.5
Jute and paper processing.....	6.3	2.0	2.0	10.3
Jute and paper compensating.....	0.9	0.1	^b	1.0
Jute and paper floor stocks.....	3.4	—	—	3.4
Cotton ginning.....	—	1.1	1.0	2.1
REFUNDS	68.4	8.2	8.2	84.8
Cotton—exports.....	3.6	3.6	3.6	10.8
Cotton—charitable.....	1.5	1.5	1.5	4.5
Cotton—large bags.....	.4	3.0	3.0	6.4
Cotton—floor stocks.....	59.5 ^c	—	—	59.5
Jute and paper—exports.....	^b	^b	^b	^b
Jute and paper—charitable.....	^b	^b	^b	^b
Jute and paper overpayment and floor stocks.....	3.4 ^c	—	—	3.4
TAX RECEIPTS (NET)	116.9	104.1	112.4	333.4
EXPENDITURES	120.6^c	129.3	136.5	386.4
DEFICIT	3.7	25.2	24.1	53.0

^a Unpublished estimates by the Ways and Means Section, Division of Finance, AAA, as of Nov. 20, 1935.

^b Less than \$50,000.

^c These refunds were not actually made in 1933-34, but are deducted here because they do not represent an addition to net income in this year.

The net receipts from processing taxes on cotton and competing commodities to January 6, 1936, when they were declared unconstitutional, however, were considerably less than the 333.4 million dollars shown in the preceding table. This court decision in effect eliminated processing taxes on all cotton and competing commodities processed after August 31, 1935, since the tax on cotton processed after that date was not due until January 31, 1936. The decision also made it impossible to collect outstanding taxes on processing prior to August 31. It is estimated that these amounted to 51 million dollars. Refunds on floor stocks, however, will be much less than the 62.9 million dollars originally collected—

probably not over 10 million dollars.¹⁶ Net receipts from these processing taxes through December 31, 1935 were 246.8 million dollars. Since actual expenditures through December 31, 1935 for rental and benefit payments, and for administration of the Bankhead cotton control and cotton acreage control programs were 363.3 million dollars, the deficit as of this date was 116.5 million dollars. If 10 million dollars is refunded on floor stocks, however, the deficit will be 126.5 million dollars. The tax receipts, refunds, and expenditures through December 31, 1935 were as follows (in millions of dollars):¹⁷

TAX RECEIPTS (GROSS)	260.3
Cotton processing	182.8
Cotton compensating	4.0
Cotton floor stocks	59.0
Jute and paper processing	8.7
Jute and paper compensating	1.1
Jute and paper floor stocks	3.3
Cotton ginning	1.4
REFUNDS	13.5
Cotton—exports	5.3
Cotton—charitable	2.4
Cotton—large bags	4.2
Jute and paper—exports	0.1
Jute and paper—charitable	—
Jute and paper overpayment	1.5
Cotton ginning	—

¹⁶ If floor stocks on Jan. 6, 1936 consisted of cotton, jute, and paper goods processed during the past six months, a much smaller amount would need to be refunded. Mill consumption of cotton during this period was 2.8 million bales, on which the processing tax, at \$20 per bale, would have been 56 million dollars. Only \$1,630,903.92, however, had been collected through Dec. 31, 1935. Of course, some floor stocks were processed prior to July 1, 1935.

¹⁷ Data on tax receipts and refunds are those of the Bureau of Internal Revenue; expenditures are taken from the table on p. 234. Items totalling less than \$50,000 are omitted.

TAX RECEIPTS (NET)	246.8
EXPENDITURES	363.3
DEFICIT	116.5

OPPOSITION TO THE TAX

Opposition to the processing taxes on cotton grew rapidly. New England textile interests took the lead in the drive against the tax. They were backed to some extent by the cotton trade and others opposed to the entire production control program, particularly reduction in production. Pressure from these interests was probably responsible for the provision in the Works Relief Act authorizing the President to use part of the 4 billion dollar appropriation for administering the AAA program in 1935-36. After its passage, opponents of the processing tax attempted to force its abandonment and the use of work relief funds for rental and benefit payments, partially no doubt on the theory expressed by Secretary Wallace that "once the cotton processing tax is removed the end would be in sight for the cotton plan and other farm programs."¹⁸

The textile manufacturers, however, overplayed their hand.¹⁹ They not only demanded elimination of the

¹⁸ "The Cotton Program Carries On," *AAA Press Release No. 1950-35*, Apr. 13, 1935, p. 3.

¹⁹ In response to this opposition of cotton textile interests, President Roosevelt in April 1935 appointed a cabinet committee composed of Secretaries Hull, Roper, Wallace, and Perkins to hold hearings and study the effect of processing taxes on cotton textile manufacturing. On Aug. 20, 1935, this committee reported to the President that "During the economic emergency as reflected by existing price disparities, we recommend against the discontinuance of the processing tax, which, after due consideration of the alternatives, we regard as the most practical among the available means for securing to the cotton farmers of the nation a return from cotton equivalent in terms of purchasing power to that which existed in the pre-war period and which has enabled them to increase their purchases of the products of other industries, including the cotton industry, thereby benefiting the workers in these industries." 74 Cong. 1 Sess., S. doc. 126.

processing tax on cotton but also higher tariffs on imports of cotton goods. Thus they made doubly effective one of the strongest arguments for the processing tax—that it is the farmers' tariff, and that farmers are willing to give it up when industry gives up its tariffs. Secretary Wallace struck out boldly and forcefully against such opposition to the cotton program in his Maine speech in April 1935, when, speaking extemporaneously, he said "the people of the South never got their fair share of the national income and have been exploited by the New England tariff policy in a damnably unfair way."²⁰

Claims of reduction in cotton consumption because of the tax were also answered by comparison of the activity of cotton mills and non-agricultural industries. The index of cotton consumption from August 1934 to January 1935 inclusive was 87 per cent of the 1923-25 average, as compared with 57 for non-agricultural industries. Manufacturers were also on weak ground because they were operating under an order to curtail operations 25 per cent because of increased inventories. This point was made by Secretary Wallace when he charged that "the 'plowing out' of factory workers into the street by American industry in 1932 was a thousand times more unjustifiable than the 'plowing under' of cotton in 1933."²¹

Opposition to the tax on these grounds was thus effectively countered. In fact, the American Cotton Manufacturers' Association at its annual meeting in Augusta, Georgia, on April 27, 1935, adopted a resolution stating that the AAA program "of our President must be guarded, treasured, and made permanent,"²²

²⁰ As quoted in the editorial, "Mr. Wallace Speaks Out," *Commercial Appeal*, Apr. 19, 1935.

²¹ The same.

²² *Commercial Appeal*, Apr. 28, 1935.

and calling for a continuance of benefit payments to farmers.

AMENDED TAX PROVISIONS

Amendments to the Agricultural Adjustment Act approved August 24, 1935 greatly broadened its tax provisions and at the same time attempted to provide a safer constitutional basis for processing taxes.

As pointed out in Chapter I, these amendments provided for the levy of a processing tax on cotton and competing cotton substitutes, for the purpose of making (a) payments for adjustments (in place of reductions) in production; (b) loans on or purchases of cotton in order to remove any surplus from regular commercial channels; (c) export subsidies or other payments necessary to expand domestic or foreign markets; or (d) payments to producers in connection with the production of cotton for domestic consumption, usually known as the original Domestic Allotment plan. Whenever the Secretary determined that the current average farm price of cotton was less than its fair exchange value or was likely to be less during the current or next succeeding marketing year, and that any one of these plans would tend to effectuate the declared policy of the act, he might put it into effect.

These amendments also eliminated practically all possibility of processing taxes on cotton being removed prior to December 31, 1937 unless declared unconstitutional. In the first place, they provided that if the tax rates established by the Secretary of Agriculture pursuant to the original act or amendments thereto were declared unconstitutional because of improper delegation of the legislative authority, then the rates in effect on August 24, 1935 were specifically levied by Congress. In the second place, they provided a basis for continuing the

tax on cotton regardless of whether farm prices of cotton exceeded "parity" prices.

If farm prices of cotton from June 1935 to May 1936, or any corresponding period in later years, equalled or exceeded by 10 per cent or less the fair exchange value, the Secretary of Agriculture was authorized by these amendments to levy a maximum tax equal to 20 per cent of the fair exchange value. The difference between this rate and the rate existing at the time this amendment was approved was not great. For instance, on July 15, 1935, 20 per cent of the "parity" price (16.0 cents per pound) would have equalled 3.2 cents per pound compared with the actual rate of 4.07 cents. Furthermore, if cotton prices exceeded "parity" by 10 to 20 per cent, or by more than 20 per cent, a maximum tax rate of 15 and 10 per cent respectively of the fair exchange value was authorized. These tax provisions, however, applied only until December 31, 1937. After that date the rate of tax was to be determined by the Secretary of Agriculture in accordance with the margin between current average farm prices of cotton and the fair exchange value.

These amendments also tended to raise the maximum rate of tax that could be levied when farm prices of cotton were less than parity. As noted on page 238, a specified change in the method of determining the fair exchange value tended to increase it by about 10 per cent of the amount of the present tax of 4.07 cents per pound. In addition, the amendments provided that the rate of tax could be increased by such percentage of the difference between the current average farm price and the fair exchange value, but not to exceed 20 per cent, as the Secretary of Agriculture might determine would result in the collection of an amount of tax equal to the esti-

mated amount of credits or refunds that would be allowed or the amount of cotton consumed in the United States that was exempt from the tax. These refunds in 1934-35 and 1935-36, as shown in the table on page 248, were expected to be about 7 to 8 per cent of the gross receipts from processing taxes on cotton, paper, and jute, and taxes on cotton ginning.

Thus it is clear that, had not the Supreme Court ruled such taxation for the purpose of controlling production unconstitutional, there would have been a foundation for the collection of even larger taxes for some time in the future. In fact, these amendments were designed to give the adjustment program, which began as a self-liquidating measure of farm relief, a more or less permanent fiscal foundation.

CHAPTER XIII

EFFECT ON FOREIGN MARKETS

The cotton program described in preceding chapters was designed to increase the income from cotton received by farmers in the United States. The degree of success which it would have in accomplishing this objective would depend not only upon the reductions secured in the size of the United States crop and the degree to which other phases of the program were carried out, but also to a large extent upon whether there was a resulting decrease in consumption of American cotton and increase in the production and consumption of foreign cotton. If these latter changes were large, the increase in prices would tend to be small, and the income of farmers in the United States from cotton would probably be reduced. If, on the other hand, our cotton program should result in only a small increase in the production and consumption of foreign cotton, and only a small decrease in the consumption of American cotton, the income of farmers in the United States from cotton would probably be increased. As a first step, therefore, in appraising the results of the cotton program of the AAA, we shall consider its effect upon the foreign market for American cotton.

The cotton market is a world market. For many years the United States has produced more than half of the world's cotton. Usually more than half of our cotton is exported and sold in competition with foreign cotton. Mills in England, Germany, Japan, and a number of other countries have become accustomed to using large quantities of American cotton along with foreign cotton.

In general, the proportion in which each is used depends to a large extent upon their relative prices. When the price of American cotton rises relative to that of foreign cotton a larger proportion of foreign cotton is used and *vice versa*. There is, however, a certain amount of resistance to such changes. Foreign cotton is not of the same grade and staple on the average as American cotton. Furthermore, competitive processes over a period of years have caused mills to adjust their operations and equipment to the use of cotton of particular grade and staple, in the production of goods of established brands and standards. Consequently, when the supply of American cotton is decreased relative to that of foreign cotton, mills bid up the price of American relative to that of foreign cotton. But after adjustments have been made to a new set of supply conditions there is also some resistance to changing them back to the old basis. In order to recover markets already lost because of reductions in supply it would therefore be necessary to force prices of American cotton relatively low in comparison with those of foreign cotton.

The possibilities of increasing prices of American cotton relative to those of foreign cotton therefore are distinctly limited. Increases of more than one or 2 cents per pound could seldom be obtained at present price levels and even such an advantage could hardly be retained over any very long period. In general the movement of prices for American and foreign cotton are parallel within approximately those limits. Consequently any increase in prices received by cotton growers in the United States as a result of our reduction program would be shared in large part by foreign cotton producers. Our cotton program has, therefore, tended to stimulate foreign cotton production by increasing the price

of foreign cotton. It has also increased the consumption of foreign cotton and reduced that of American cotton by increasing the price of American more than the price of foreign cotton.

The direction of all these tendencies and influences is well known and generally admitted; only the relative importance of each is in question. The AAA has maintained that expansion of foreign cotton acreage and production will be small, particularly if prices of American cotton are kept "reasonable." In general, the cotton trade has maintained that foreign cotton acreage and production will increase by approximately the amount that domestic acreage and production are reduced. In this chapter an analysis of the probable effect of these forces during the first two years of the cotton program is presented, while consideration of future possibilities is reserved for Chapter XV.

COTTON CONSUMPTION

During the past two marketing seasons, world consumption of cotton has averaged a million bales a year more than in 1932-33, but consumption of American cotton has decreased while consumption of foreign cotton has increased substantially, as shown by the table on page 258. During 1933-34, the first year of the program, consumption of American cotton dropped 0.6 million bales below that of the preceding year while consumption of foreign cotton increased 1.4 million bales. Then in 1934-35 world consumption of American cotton dropped 2.8 million bales, or 20 per cent below 1932-33, while consumption of foreign cotton rose 4.2 million bales, an increase of 41 per cent above 1932-33.

These changes in consumption of American and foreign cotton correspond quite closely to changes in the

world supplies of each, as shown by the accompanying table. World supplies of American cotton (carry-over plus crop) declined from 26.0 million bales in 1932-33 to 20.3 million in 1934-35 while world supplies of foreign cotton increased from 14.9 to 19.4 million bales.

Not all of the change in consumption of foreign and American cotton, however, can be attributed to changes in actual supply. The government's 10- and 12-cent cotton loans and its restrictions on the marketing of "option"

WORLD CONSUMPTION AND SUPPLIES OF AMERICAN AND FOREIGN COTTON,
1928-29—1934-35^a

Year	Consumption		Supplies	
	American	Foreign	American	Foreign
1928-29.....	15.1	10.8	19.6	16.8
1929-30.....	13.0	12.2	19.2	16.5
1930-31.....	10.9	11.6	20.2	17.2
1931-32.....	12.3	10.0	26.0	15.3
1932-33.....	14.2	10.2	26.0	14.9
1933-34.....	13.5	11.6	24.6	18.0
1934-35.....	11.3	14.4	20.3	19.4

^a *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935
Tables 1 and 2, p. 3.

cotton have probably been equally important factors. Their influence would naturally cause a reduction in the percentage of world supplies of American cotton consumed each year, as compared with that of foreign cotton.

Normally, the percentage of American cotton supplies consumed each year should be about equal to the percentage of foreign cotton used. If the marketing of both is unrestricted there is little reason why they should differ materially over a period of years, although in individual years one or the other may be smaller if its proportionate share of the world supply is relatively large and *vice versa*. This expectation is borne out by records

of the supply and consumption of American and foreign cotton. From 1924-25 to 1928-29, the period for which most satisfactory data are available, the percentages of world supplies of foreign and American cotton consumed each year were approximately the same—the percentage for American cotton (73.9) being slightly higher than that for foreign cotton (69.6). Furthermore, during the entire period 1920-21-1929-30 a similar relationship existed, except for small variations that may have been caused by annual variations in the relative size of American and foreign supplies. When the supply of all cotton or of either American or foreign cotton was relatively large the percentage of that supply consumed tended to be smaller although the amount consumed was larger.

Since 1928-29, however, the percentage of world supplies of American cotton consumed each year has been considerably lower than for foreign cotton. From 1929-30 to 1934-35 inclusive the average for American cotton was 55.3 as compared with 68.8 for foreign cotton. A number of factors may, of course, have caused this change, but the most important one seems to have been government loans on and holdings of American cotton. As pointed out in Chapter XI, the Federal Farm Board held prices of American cotton relatively high as compared with foreign cotton in 1929-30 and 1930-31 by offering to lend 16 and 10 cents per pound on cotton. This policy naturally tended to decrease the percentage of American cotton supplies consumed during each of these years and to increase the percentage of foreign supplies consumed. Although this lending policy was not continued during 1931-32 and 1932-33, the government still continued to hold much of the cotton received as security for the earlier loans. These holdings tended to reduce the percentage of American cotton supplies con-

sumed each year. Supplies of American cotton were also large because of unusually high yields in 1931 while supplies of foreign cotton were relatively small during these two years because of small crops and a small carry-over from the 1930-31 season.

This analysis, therefore, leads to the general conclusion that the percentage of world supplies of American cotton consumed during 1934-35 would have been as large as the percentage of foreign cotton consumed if there had been no government loan on or holdings of American cotton. This conclusion seems reasonable, particularly since the supply of foreign cotton in 1934-35 was unusually large while that of American was about average. Instead, only 56 per cent of the American supply was consumed compared with 73 per cent of the foreign supply. If, however, circumstances such as foreign exchange difficulties tended to favor the consumption of foreign cotton outside of the United States, their influence would naturally affect this conclusion. But, as noted on page 266, the influence of foreign exchange on the consumption of foreign and American cotton does not seem to have been of importance in this respect. Besides, this conclusion might still be valid even though other factors did tend to favor foreign cotton a little, since the supply of foreign cotton was relatively large and the percentage consumed under circumstances otherwise normal would tend to be less than for American cotton.

If the percentage of both American and foreign cotton consumed in 1934-35 had been equal and there had been no change in the total consumption of all cotton, the consumption of American cotton would have been approximately 1.9 million bales larger than it was and consumption of foreign cotton correspondingly smaller. Not all of this estimated decrease, however, can be at-

tributed to increased restrictions on the marketing of cotton embodied in the government's 12-cent loan and its control over the marketing of "option" cotton. As noted above, government holdings of cotton in 1932-33 probably reduced the consumption of cotton in that year to some extent. Nevertheless, if the increase in percentage of foreign and American cotton supplies consumed between 1932-33 and 1934-35 had been the same, roughly 0.9 million more bales of American cotton would have been consumed. In view of the change in relative supplies of each, therefore, it seems reasonable to conclude that the government's policy of making 12-cent loans on cotton and its marketing of "option" cotton probably reduced the consumption of American cotton in 1934-35 by 1.0 to 1.9 million bales.

These estimates of reduction in the consumption of American cotton in individual years as a result of government cotton loan and holding policies, however, furnish little indication of the net reduction that may result from such policies alone. By net reduction in consumption is meant the reduction occurring in the period while prices are pegged plus or minus any later decreases, or increases in consumption themselves attributable to the pegging operations—such as the effect of increased stocks, or changes in consumption habits. In the first place such estimates are not cumulative. For instance, the government might acquire 3 million bales of cotton and hold it for five years. If this cotton were sold on the market in any of these years the consumption of American cotton in that year might be increased a million bales. But the holding of this cotton off the market could not reduce consumption a million bales each year for five years, since the total amount held is only 3 million bales. In the second place, the net reduction in con-

sumption over a period of years may be much smaller than that indicated by the calculation for the year 1934-35. Unless accompanied by enforced reduction in production, increased holdings of American cotton because of government loans and purchases may only postpone its consumption for a year or two. In the absence of production control, price-pegging loans would tend to raise prices of American cotton relative to foreign cotton, causing a temporary decrease in consumption of the former and an increase of the latter. The resulting prices, however, would tend to stimulate production of cotton in the United States more than in foreign countries, and thus to increase the disparity between American and foreign cotton supplies. When these increased American supplies were finally forced on the market, prices of American cotton would become low relative to prices of foreign cotton, tending to increase the consumption of the former and to reduce that of the latter, with the opposite effect on production. As a result of such practices, there might, of course, be some reduction in the volume of American cotton consumed during the period as a whole, but it would be small compared with the decrease which would occur during the period when prices were being pegged.

When price-pegging loans on cotton in the United States are combined with forced reductions in production the result is quite different. Then the reductions in consumption of American cotton which occur while prices are being pegged tend not to be offset by later increases. Both the production and consumption of foreign cotton, however, would be stimulated by the resulting increase in prices.

The effect of either one or both of these policies combined on consumption of American cotton is, of course,

accurately reflected by the net reduction in production that results over a period of years. The world cannot consume what is not produced. But the course of production may be changed without changing the total amount. Current reductions may be offset by later increases in production. According to the analysis presented in the next chapter, about 10.5 million bales less cotton was produced during the past three seasons as a result of the program, and prices of American cotton probably have been raised 3 or 4 cents per pound. But prices of foreign cotton have probably been raised by nearly the same amount. With an average or relatively large supply of American cotton on hand each year of this period there is little reason to expect such reductions by themselves to raise the level of price for American cotton materially above that of foreign cotton, except perhaps for certain grades. Under such conditions a forced reduction in the United States cotton crop would not by itself cause any material reduction in the amount of American cotton consumed during the first year. But the resulting higher price would tend to stimulate foreign production the following year, increase foreign cotton supplies, and force prices of foreign cotton lower in relation to prices of American cotton, thus causing a marked increase in consumption of foreign cotton if cotton growers in the United States continued to reduce their production by a large amount. If the reduction in size of the United States crop is secured by making benefit payments to farmers from funds collected by taxes on cotton domestically consumed, the combined effect might be to reduce consumption in the United States considerably. Such reductions, however, would increase the amount available for export but should not greatly reduce the amount of American cotton consumed if prices

are allowed to adjust themselves freely to the supply and demand situation. As a matter of fact the reduction in domestic consumption would increase the supply of American cotton on foreign markets, and tend to reduce the world level of prices and the disparity between prices of American and foreign cotton.

When a price-pegging loan policy is combined with a reduction program the immediate effect on consumption of American cotton becomes greater and easier to understand. For instance, if the loan program reduced consumption of American cotton one million bales and our crop was reduced the same amount due to government efforts during the same years, but foreign production was one million bales larger than it would otherwise have been, it is obvious that the net reduction in consumption of American cotton would be one million bales.

The actual net reduction in world consumption of American cotton to be expected from our cotton program is therefore indicated by estimates of its effect on cotton production in the United States and foreign countries as well as by the relation of consumption to the supplies and prices of each. Such estimates are presented in the following chapter.

The situation in 1935-36, however, is somewhat different from that existing in the two previous seasons. The government loan rate on the 1935 cotton crop was reduced to 10 cents per pound, as noted in Chapter XI. When the lower loan rate was announced, prices of American cotton fell in relation to prices of foreign cotton and there was some promise of a considerable increase in exports and consumption of American cotton. The increase that might result, however, without being affected by the government's earlier 12-cent loan

policy, was limited largely by the size of the 1935 crop. On September 8, 1935, the Crop Reporting Board estimated that 11.5 million bales would be produced. This estimate was only slightly above the very low consumption of American cotton in 1934-35 (11.3 million bales). And on December 8, 1935 the Board estimated that only 10.7 million bales were produced. With the government holding approximately 6.2 million bales of spot and futures cotton on August 1, 1935, out of a carry-over of 9.0 million bales, it is apparent that the government's cotton marketing policy may be an even more important factor in 1935-36 than in the previous year.

EXPORTS

Exports of cotton from the United States have declined proportionately more than has the consumption of American cotton in foreign countries. In 1934-35 exports were 43 per cent lower than in 1932-33, but the consumption of American cotton in foreign countries was only 24 per cent lower. The result has been a reduction in stocks of American cotton abroad.

During the 1935-36 season exports of American cotton are likely to be somewhat larger than in 1934-35, mainly because the reduction in the government loan rate on cotton from 12 to 10 cents per pound is permitting this year's crop to move freely in the market. In the first five months of this season exports were 3.5 million bales or 44 per cent larger than those of last season, although still 18 per cent less than for the same period in 1933 and over 19 per cent less than the average for the ten years ended 1932-33.

The principal reason exports declined so much more than consumption from 1932-33 to 1934-35 was that the government lent 12 cents per pound to farmers on

cotton stored in warehouses in the United States.¹ Approximately 4.4 million bales of cotton were held in the United States on July 31, 1935, largely in interior warehouses, as security for such loans. Most of the 0.6 million bales of cotton in the cotton pool were also being held in the United States. These two types of holdings accounted for 69 per cent of the total carry-over of cotton in the United States on August 1, 1935 and the cotton pool held futures for an additional million bales. Any appreciable increase in exports during 1934-35 would, therefore, have had to come largely from such holdings. Only a rise in cotton prices above the government loan value or investment could have been expected to cause such a movement.

It is claimed by some that the decline in our exports has been caused mainly by a shortage of dollar exchange. The case of Germany is usually cited. But in this case, as in most others, shortage of dollar exchange has been accompanied by a shortage of all foreign exchange. Germany's total consumption of all cotton was much lower in 1934-35 than in the previous year. But, due partly to barter arrangements with Brazil and other foreign countries, her consumption of foreign cotton was larger than in 1933-34. Germany offered to take American cotton under a barter arrangement but the offer was rejected, largely because of opposition by the State Department to the general policy involved. It may be said, therefore, that shortage of dollar exchange did cause Germany to reduce her imports of American cotton. But this reduction of exports to Germany increased the supply of American cotton available for other countries and a large

¹ The cotton trade also hesitated to make future commitments in 1934-35 for shipments of cotton abroad because of the possibility that a bounty would be offered on exports of cotton.

part of it probably would have been exported to them if there had been no other restrictions. Our exports to practically all countries, however, were considerably lower in 1934-35 than in 1933-34. At the same time, the total volume of dollar exchange was much larger in 1934-35 than in the previous year.

Imports of merchandise and gold, the principal source of dollar exchange aside from credit, were 82 per cent larger in 1934-35 than in 1932-33. Furthermore, there was sufficient dollar exchange to finance an increase of 44 per cent in the value of all merchandise exports during the same period. The value of unmanufactured cotton exported declined from 24 per cent of all exports in 1932-33 to 16 per cent in 1934-35. Shortage of dollar exchange does not, therefore, appear to be a reasonable explanation of more than a small part (if any) of the decline in the volume of cotton exports.

Furthermore, a shortage of dollar exchange would have tended to lower the price of American cotton in comparison with that of foreign cotton. And during the past two seasons the ratio of American cotton prices to foreign cotton prices has been much higher than in 1932-33, as shown by the chart on page 222. The effect of any reduction in demand for American cotton on cotton prices due to a shortage of dollar exchange has therefore been offset by our cotton program.

FOREIGN AND DOMESTIC PRODUCTION

There is perhaps no point on which the Agricultural Adjustment Administration, the cotton trade, and most agricultural economists are in fuller agreement with Secretary Wallace than on his analysis of the effect of our foreign trade policies, as well as those of other countries, on our export industries—particularly cotton

production. Exports must be paid for with imports or else exported on credit. Consequently if our foreign trade policy, by means of high tariffs and other barriers, is successful in reducing the volume of imports that would otherwise be received, it must at the same time reduce the demand of foreign countries for our export products except on a credit basis. Our export industries as a group were therefore too large in the spring of 1933 and could have been expected to decline unless international trade barriers were removed or lowered.

If this general conclusion were applicable to the case of cotton it would furnish a strong, though not conclusive, argument for the cotton reduction program of the AAA. In the first place, it would indicate that if nothing had been done a reduction in cotton production would have occurred anyway because of low prices. In the second place, if international trade barriers were greatly reducing the demand for cotton, their removal or reduction would greatly increase the demand for it. Under such conditions, since the administration was attempting to reduce these barriers by reciprocal trade agreements,² it might have been advisable to adjust cotton production downward to meet the current supply and market demand situation while maintaining and perhaps increasing the capacity of the South for producing cotton later when demand had increased.

But this general conclusion with respect to our foreign trade situation cannot be applied directly to cotton. It implies a maladjustment in the distribution of cotton acreage in the world, with the United States having too large a proportion of the total.

But merely showing that international trade barriers erected prior to the AAA reduced total world trade and may have been an important cause of the depression does

² *AAA Press Release No. 1385-33, June 23, 1933.*

not necessarily mean that the comparative advantage of cotton growers in the United States in competition with foreign growers was reduced.

There are few restrictions on imports of cotton into foreign countries, mainly because the principal importing countries are not important producing countries. High international trade barriers on products other than cotton consequently tend to increase the comparative advantage of producing cotton in the United States for export as compared with other products. Such important export products as wheat and lard, for instance, are subject to the double barrier of lower foreign purchasing power due to high tariffs on imports into the United States and high tariffs or quota restrictions on imports into foreign countries, whereas cotton is subject to only the first barrier. Such circumstances should have reacted favorably on American cotton as an export product.³

Furthermore, there does not appear to have been any such maladjustment in the distribution of cotton acreage

³The probable effect of our high tariffs on foreign demand for our cotton is sometimes presented in a slightly different form. It is argued that a country having knives for sale, for instance, and wanting to buy cotton, will be able to exchange a given number of knives for more cotton in a country having no tariff on imports of knives than in one having tariffs. But if perfectly free competition aside from trade barriers is assumed, prices of knives and cotton would be uniform throughout the world after making allowance for differences in transportation, marketing costs, etc. In other words, the price received by the manufacturer of knives would be the same regardless of where sold. So would the price received for cotton by the grower. The free trade country, however, would grow more cotton and produce fewer knives than if a tariff were levied on imports of knives.

When production becomes adjusted to a given situation, however, a change from free trade to high tariffs, or *vice versa*, creates a maladjustment. An increase in tariffs tends to injure producers of export goods. In the text of this book, however, it is argued that import duties and other barriers to imports of our products into foreign countries have created a situation in which cotton has an increased advantage in competing for the available foreign purchasing power in the United States. Consequently, the United States may not have too large a proportion of its productive forces engaged in growing cotton, even though our tariffs have been raised to high levels.

in 1933. While the percentage of the world cotton crop produced in the United States declined steadily from 1890 to 1920 at the rate of about 0.2 per cent a year, after 1920 it tended to increase slightly. The percentage of the world's cotton acreage planted in the United States also tended upward from 1920 to 1931, as shown by the chart on page 23, but in 1931, 1932, and 1933 it declined to a slightly lower level. The production trend was maintained, however, by relatively high yields in the United States.*

The United States was holding its own in the production of cotton from 1930 to 1933 inclusive in spite of currency manipulations in foreign countries and some government subsidies which tended to stimulate foreign production of cotton, although partly because of high yields in the United States. As pointed out in Chapter II, trends in the acreage and production of cotton in the United States and foreign countries, and analysis of the factors affecting them, do not indicate that the proportion of the world's cotton acreage grown in the United States from 1930 to 1932 was too large, or that it would have been likely to decline if farmers had been left free to make their own adjustments. If anything, they indicate that an increase could have been expected when the temporary effect of currency manipulation in foreign countries wore off or were counteracted by currency manipulations in the United States. Surely no one questions the fact that devaluation of the dollar tended to boost cotton prices in the United States in 1933 and 1934 more than prices of most other products grown by cotton farmers, and more than wages, fertilizer, and other

* See Chap. II for a detailed analysis of acreage and production trends in the United States and foreign countries.

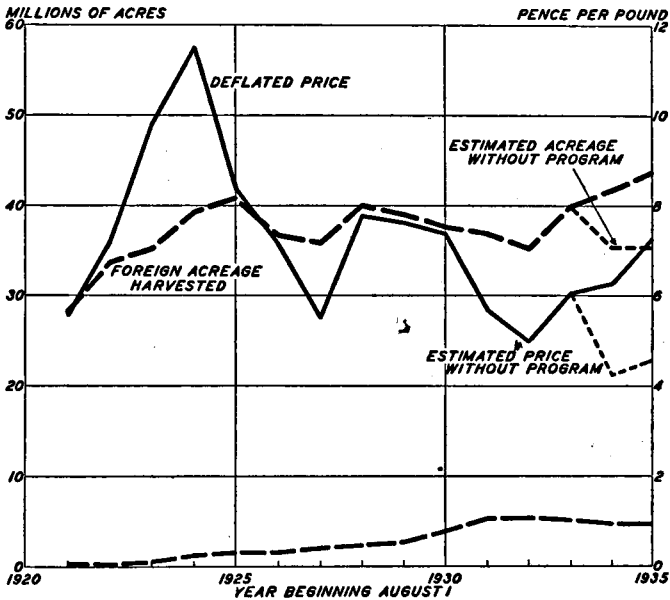
costs, without increasing prices received by foreign cotton growers, and that this increase would have tended to increase the acreage of cotton planted in the United States in 1934.

Cotton growers in the United States in the spring of 1933 were therefore faced with a decline in total demand due to or accompanying the depression, and not with any important maladjustment in the distribution of cotton acreage throughout the world. It is true there was a larger accumulation of stocks of American cotton than of foreign cotton due mainly to the government's policy of holding cotton as security for earlier loans and the large crop in 1931. If this cotton had been allowed to move freely in the market, however, there is no apparent reason to expect either that it would not have been consumed at a fairly rapid rate, as shown in the following chapter, or that the acreage of cotton in the United States would have been reduced in the process relatively more than that in foreign countries. In fact the analysis presented in the following chapter indicates that the acreage of cotton planted in the United States would have increased relative to that in foreign countries. Any stimulation of foreign cotton production by our cotton program has therefore tended to create rather than remove a maladjustment.

In the past, foreign acreage of cotton has responded readily to changes in the level of cotton prices, as expressed by the price (deflated) of American cotton in Liverpool, as shown by the chart on page 272. This close relationship has continued during the past four years. After the deflated price of American cotton in Liverpool rose from 4.97 pence per pound in 1931-32 to 6.03 pence in 1932-33, foreign acreage of cotton out-

side of Russia⁵ rose from 35 million acres in 1932-33 to 40 million in 1933-34, an increase of 11 per cent. Prices

RESPONSE OF FOREIGN ACREAGE TO PRICES OF
AMERICAN COTTON IN LIVERPOOL THE
PRECEDING YEAR, 1921-35^a



^a Data for actual acreage and prices are from "Foreign Cotton Production," *The World Cotton Situation* (preliminary), Bureau of Agricultural Economics. Acreage and prices without program were estimated by the author. See p. 273.

of cotton in 1933-34, however, were slightly above the previous year and foreign producers responded to the increase by planting a 3 per cent larger acreage the fol-

⁵ Russia is omitted because changes in acreage have little relation to price under the present form of government.

lowing year. In 1934-35 prices of American cotton in Liverpool were 4 per cent above the previous year and again foreign producers responded with an increase of 4 per cent⁶ in their 1935-36 acreage of cotton. The relationship of price changes to acreage changes in earlier years has been equally close. Production has exceeded previous levels even more than has acreage. In 1933-34 the foreign cotton crop was 25 per cent larger than in 1932-33. In 1934-35 there was a further increase of 3 per cent and in 1935-36 an additional increase of 8 per cent.⁷

It therefore seems reasonable to conclude that the amount of this increase attributable to the cotton program of the AAA is closely related to the resulting increase in price of American cotton in Liverpool. The rise in price attributable to our cotton reduction program in 1933 probably caused some increase in cotton acreage in areas such as southern Brazil, Argentina, and certain parts of India, where cotton was planted after our program was undertaken. A conservative estimate of the resulting increase in production would be 300,000 bales. If, as indicated by analysis in the following chapter, farm prices of cotton in the United States would have been only 6.4 cents per pound in 1933-34 and 7.4 cents in 1934-35 in terms of the new dollar, and the deflated prices of American cotton in Liverpool only 4.07 and 4.86 pence respectively, or appreciably below the 1931-32 price in the absence of our cotton reduction and cotton loan program, then it seems reasonable to conclude that the acreage of cotton planted in foreign countries in 1934-35 and 1935-36 would not have averaged any more than that planted in 1932-33. The chart on page

⁶ Preliminary.

⁷ Preliminary.

272 indicates that it might have been appreciably smaller. However, if the foreign acreage of cotton in 1934-35 and 1935-36 had been the same as in 1932-33, foreign production in these two years would have been 1.7 million bales smaller in 1934-35 and 2.4 million bales smaller in 1935-36 than that actually harvested, assuming the same average yields per acre, or a total decrease, including 300,000 for 1933-34, of 4.4 million bales.

If, however, farm prices of cotton in the United States would have been even lower in the absence of our cotton reduction and loan program than those indicated above, then it is clear that the increase in acreage and production of cotton in foreign countries caused by the program has probably been greater than 4.4 million bales.^a

Some of this expansion of foreign cotton acreage and production has occurred in areas where cotton has not hitherto been grown. In Brazil, cotton production jumped from about 0.5 million bales in 1932-33 to 1.4 million bales in 1934-35. Argentina and Mexico as well as some other countries also seem to be expanding their cotton acreage in new territory. But there has been an even larger increase in the older and more established cotton-growing areas of these countries and others. In India, the largest cotton-growing country outside of the United States, the acreage of cotton jumped from 22.5 million acres in 1932-33 to a preliminary estimate of 25 million acres in 1935-36, an increase of 11 per cent. And in Egypt the increase has been from 1.1 million

^a This analysis and conclusion regarding the response made by cotton producers in foreign countries to changes in the price of cotton are strongly supported by official statistical studies of the relation between prices of cotton and competing products and the acreage of cotton planted in India, Egypt, and Southern Brazil. See "Foreign Cotton Production," *The World Cotton Situation*, Bureau of Agricultural Economics, Apr. 29, 1935.

acres in 1932-33 to 1.7 million in 1935-36, or 54 per cent. Some of the increase in new areas might have occurred anyway, although 6 to 7 cents per pound for American cotton in terms of our new dollar would have meant a marked reduction in foreign cotton prices and would probably have given little or no stimulus to such expansion.

This does not mean, however, that foreign cotton acreage and production have been permanently increased above what they would otherwise have been, by the amount of increase that has occurred during the last two years. If no attempt were made to control the production or marketing of cotton in the United States in the future, American cotton might soon regain the position in world markets that it would have had if no reduction program had been undertaken. The productive capacity of our cotton land in the South has not been impaired by our cotton program of the last three seasons; if anything, it has been improved. The United States might also regain its former position in world markets under a control program without forcing a reduction in foreign cotton acreage and production but by preventing any further increases for a time. The trend of cotton production and consumption in the world has been upward for a long period of time and is likely to continue upward for some time in the future because of increase in population and for other reasons. The demand for cotton is also likely to increase as business activity throughout the world increases. For a time a large proportion of the increase in production might occur in the United States.

Nevertheless, we must conclude that a large part and perhaps all of the reduction in consumption of American cotton caused during the past three seasons represents a loss that cannot be offset by future increases, un-

less expansion of production is subsidized. This reduction in consumption of American cotton has been accompanied by a decrease in supply due to forced reductions in production while the resulting increase in consumption of foreign cotton has been accompanied by a marked increase in foreign production. Such production changes make the loss in consumption during the past three seasons a permanent, but not necessarily a recurring one.

CHAPTER XIV

EFFECT ON INCOME

The cotton program of the AAA was designed to increase the incomes of cotton farmers by direct government payments and by enhancing prices. The government's cotton loan program was also expected to support prices. How fully these expectations of increased incomes have been realized and some of the repercussions upon incomes of farm labor, handlers, and others will be discussed in this chapter.

INCREASES WHILE PROGRAM WAS IN OPERATION

The income of farmers from cotton and cottonseed produced each year under the cotton program of the AAA has been 50 per cent or more above 1932 and higher than in any previous year since 1929-30, as shown by the accompanying table. In addition, farmers have

INCOME OF FARMERS FROM COTTON, 1925-35

Year Beginning August 1	Cash Income* (In millions of dollars)			Prices Paid by Farmers (1910-14 = 100)	Purchasing Power of Total Cash Income (In millions of dollars)
	Cotton and Cotton- seed	Benefit Payment	Total		
1925-29 (av.)	1,461	—	1,461	153	955
1930-31.....	751	—	751	137	548
1931-32.....	528	—	528	117	451
1932-33.....	464	—	464	103	450
1933-34.....	716	179	895	118	758
1934-35.....	706	116	822	126	652
1935-36 ^b	728	123	851	123	692

* *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Table 22, p. 9.

^b Preliminary.

received benefit payments of from 116 to 179 million dollars each year for taking land out of cotton production. Nevertheless the total income of farmers from cotton, including benefit payments, has been about 40 per cent less than the average for 1925-29. In terms of purchasing power for things that farmers buy, it has been about 25 per cent lower.

The farm income of farmers in the South has also been much higher during the past three years than in 1931 or 1932, as is shown by the table given below.

GROSS INCOME FROM FARM PRODUCTION AND BENEFIT PAYMENTS
IN TEN PRINCIPAL COTTON STATES^a

Year ^b	Income (In millions of dollars)			Prices Paid by Farmers (1910-14 = 100)	Purchasing Power of Total In- come (In millions of dollars)
	Farm Pro- duction ^c	Benefit Pay- ments ^d	Total		
1925-29 (av.)	3,141	—	3,141	153	2,053
1930	2,128	—	2,128	137	1,553
1931	1,622	—	1,622	117	1,386
1932	1,302	—	1,302	103	1,264
1933	1,642	185	1,827	118	1,548
1934	1,799	163	1,962	126	1,557

^a Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas.

^b Crop year for crops; calendar year for livestock and livestock products.

^c *Cotton Production Adjustment 1934-35*, AAA, No. 25, December 1935, Table 20, p. 9.

^d *Crops and Markets*, U. S. Dept. of Agriculture, July 1935, Table 11, p. 276.

The desperate financial condition of cotton farmers in the spring of 1933 has therefore been relieved to a considerable extent. Incomes are not back to the 1924-29 level, but they have recovered about 50 per cent from the depths of the depression.¹

¹ These gains are reflected in a rise of farm land values in the South of 19 per cent since 1932, although easier credit conditions have doubtless also been an important factor in the rise of land values. Purchases

MEASURING EFFECTS OF PROGRAM

Although all of this increase in income since 1932 cannot be attributed to any one cause, nearly everyone will agree that part of it has been due to the cotton program of the AAA. The question is, How much? In attempting to answer this question, we must use estimates of supply, price, and consumption which are based upon statistical analysis of the relationship between these factors in the past, when no attempt was being made to control production. These statistical measurements, whether made by government departments or private agencies, are necessarily subject to two major limitations. One is that they may not reflect the precise relationship existing even during the period for which they were determined. The other is that such relationships, no matter how accurate for the period for which they were determined, are not fully applicable to conditions existing under a control program. For instance, an increase in price which was expected to be more or less permanent would naturally cause a greater reduction in the consumption of American cotton than an increase which was expected to be temporary. Also, a rise in price of American cotton accompanied by an announcement that the higher price was going to be maintained or forced still higher by reduced production and restricted marketings of American cotton, would naturally tend to increase foreign cotton acreage more than a similar price rise due to a year of low acreage or yields occurring in the absence of any governmental program. On the other hand the reduction

of automobiles, farm machinery, and other industrial products in the South have also increased greatly. In 1934-35 new automobile registration in the ten major Cotton Belt states was 132 per cent higher than in 1932-33. Other industrial purchases have increased in something like the same proportion.

in price that would have been caused by an increase in supply in a given year can be estimated more accurately than prices can be forecast at the beginning of a season, since many other factors besides supply may affect cotton prices.

A series of estimates of what the annual production, consumption, and price of cotton from 1933-34 to 1935-36 would have been in the absence of a cotton program are given in the following pages. The general method of procedure has been to select or determine curves expressing the inter-relationship of these three factors that seemed best to explain changes in each during some past period. In spite of the limitations imposed by this methodology, which are discussed more fully in Appendix D, it is believed that the estimates given indicate in a general way what would have happened without a control program. Naturally the estimates for 1935-36 are less reliable than for 1933-34, since they are made by a process of building estimate upon estimate. In any event, they illustrate the difficulties confronting anyone attempting to determine the effect of such a program on the income of farmers from cotton, or the amount of cotton that should be produced in the best interest of cotton farmers.

No attempt has been made to determine quantitatively the effect of dollar devaluation upon cotton prices. A considerable part of the rise in cotton prices since 1932, however, is recognized as being attributable to devaluation of the dollar. But this fact does not in any way affect the significance of the results presented in this chapter, which are in terms of the new dollar. If the dollar had not been devalued, the actual value of cotton produced and the estimated value of cotton that

would have been produced without the program would have been lower by the same percentage.²

Neither has any attempt been made to estimate the increase or decrease in value of cottonseed that has resulted from reducing the amount of cotton produced. In general it is thought that the value of cottonseed pro-

² In an article in the University of Texas *Free News Service* (September 1935), Dr. A. B. Cox, director of the Bureau of Business Research, University of Texas, attributes all the increase in cotton prices to devaluation of the dollar. As proof of this he cites the fact that in April 1933 the average price of middling 7/8-inch spot cotton in New Orleans was 6.88 cents per pound and that in April 1935 it was only 6.91 cents per pound in terms of our old dollar, although 11.70 cents in terms of the new dollar. He also cites the fact that on Aug. 12, 1935 the gold price of cotton in Havre, France was the lowest for any similar time throughout the depression, and concludes that "these data show very clearly that the world price of American cotton has not increased. Foreigners pay for commodities bought in this country in dollar exchange based on gold."

But Dr. Cox does not analyze how foreign countries obtain "dollar exchange based on gold." Dollar devaluation did increase the dollar price of gold held by foreign countries. But dollar exchange is ordinarily obtained by selling goods to the United States. To the extent that prices of foreign goods have risen in terms of our new dollar, and to the extent that foreign countries have shipped gold to the United States, the purchasing power of foreign countries for our cotton and other export products has increased. It does not seem likely, however, that the increase in foreign purchasing power created by dollar devaluation would be sufficient to purchase the amount of export products and services that would otherwise have been exported, and at the same time pay a price about 70 per cent higher. Foreign countries cannot send the same quantity of goods to the United States as before our dollar was devalued and exchange them for the same quantity of cotton at a price 70 per cent higher, since prices of goods imported from foreign countries have not increased 70 per cent as a result of devaluation. But they have probably been increased to some extent, and our large imports of gold have added still more to the increase in purchasing power of foreign countries.

It may also be noted that although Dr. Cox argues that our reduction program did not raise world prices of cotton, he also criticized it for having caused a marked expansion in foreign production. The analysis presented in the preceding chapter, however, indicates that the increase in foreign production occurred in response to a marked increase in world prices.

duced has not been materially affected. Some estimates by members of the Bureau of Agricultural Economics indicate such a result. The income of farmers from cottonseed, however, was approximately three times as large in 1934-35 as in 1932-33.

EFFECT IN 1933-34

In 1933, farmers harvested 13.0 million bales of cotton. They sold the lint for an estimated 664 million dollars, or an average of 10.2 cents per pound, and the cottonseed for about 53 million dollars, a total of 717 million. If no cotton had been plowed up in that year, farmers would probably have harvested an additional 4.2 million bales or a total of 17.2 million.³ Foreign producers, however, would probably have harvested a slightly smaller crop, since cotton was planted in southern Brazil and certain parts of India after our program had been undertaken. As pointed out in the preceding chapter, a conservative estimate of the resulting reduction would be 300,000 bales. The total supply situation under both sets of circumstances would probably have been approximately as follows, in millions of bales:

	American	Foreign	Total
With program (actual)	24.6	18.0	42.6
Without program (estimated)	28.8	17.7	46.5

What price and income would farmers probably have received for a 17.2 million bale crop in 1933? If such a large crop had been harvested, it would, of course, have been impossible to continue the government's 10-cent loan program. Consequently, in making such estimates it is necessary to determine the extent to which farm prices of cotton in 1933-34 were increased by (1)

³ For basis of estimate, see H. I. Richards, *Cotton under the Agricultural Adjustment Act*, pp. 53-59, 63.

the 10-cent loans; (2) anticipation of future reductions in the cotton crop; (3) a reduction of 4.2 million bales in the size of the 1933 crop. All other factors influencing price are assumed to have had the same effect under the program as they would have had without it.

It seems likely that the 10-cent loan and anticipation of a crop reduction program in 1934 appreciably increased the average price received by farmers for their 1933 crop. During the first half of the marketing year, prices were below the loan value of cotton. In fact, in the six months from August 1933 to January 1934 they averaged 9.35 cents per pound. The loan offer undoubtedly enabled farmers to borrow from the government and hold cotton which they might have had to sell, thus tending to raise prices above the level that would otherwise prevail. Concurrent with the 10-cent loan, anticipation of a marked reduction in production in 1934 tended to buoy the price received for the 1933 crop. As the marketing year advanced, the prospects for a small crop in 1934 became more certain, particularly after it became more or less sure that a Bankhead Act or some form of compulsory production control would be inaugurated. These circumstances undoubtedly influenced cotton prices, which by the middle of February had risen to 12 cents a pound, where they fluctuated until the end of the marketing year. The result was an average price of 10.2 cents per pound for the year's crop. Although it is impossible to determine at all accurately the effect of either the loan or anticipation of a reduction of production on cotton prices in 1933-34, it is reasonable to conclude that together they raised current prices about half a cent—from 9.7 to 10.2 cents per pound.

If an additional 4.2 million bales had been harvested

in 1933, prices would have been still lower. The supply-price curve selected indicates that they would have been reduced from 9.7 cents per pound to an average price of 6.4 cents per pound. At this price the lint from a 17.2 million bale crop would be worth 550 million dollars, compared with 664 million dollars for the 13.0 million bales actually harvested and sold for 10.2 cents per pound. Other estimates of price range from 5.0 to 7.5 cents per pound.⁴

If there had been no processing tax on cotton in 1933-34 and no government loan, and 17.2 million bales had been harvested in the United States, the world consumption of all cotton would have been greatly increased. The relationship between mill consumption and prices of cotton since 1920, together with other factors, indicates that removal of the processing tax would probably have increased the consumption of cotton in the United States by about 400,000 bales in 1933-34. Removal of the government loan on cotton and an increase of 4.2 million bales in the size of the 1933 crop would probably have caused an additional increase in the world consumption of all cotton of about 1.6 million bales in 1933-34. In other words, the cotton program of the AAA, including the 10-cent loan, according to these estimates, caused a 2.0 million bale reduction in world consumption of cotton.⁵ Since the estimated increase in production was 3.9 million bales, these estimates of increase in consumption indicate that the world carry-over of all cotton on August 1, 1934 would probably have been 1.9 million bales larger if no cotton had been plowed up in 1933.

If our cotton program had not been undertaken, world

⁴ If the dollar had not been devalued and a 17.2 million bale crop had been harvested, prices would have been still lower.

⁵ See Appendix D for the method of arriving at these estimates and their limitations.

consumption of foreign cotton would probably have been reduced by about one million bales. In 1933-34 almost 65 per cent of the world supply of foreign cotton was consumed as compared with only 55 per cent for American cotton. As pointed out in the preceding chapter, if there had been no processing tax on cotton in the United States, and no government restriction on the marketing of American cotton, there is no reason why about the same percentage (59 per cent) of both American and foreign cotton should not have been consumed. Supplies of both American and foreign cotton were about equally large. Fifty-nine per cent of the actual world supply of foreign cotton in 1933-34 would have been 10.6 million bales, or 1.0 million less than the amount actually consumed. If the American supply had been increased by 4.2 million bales it would seem likely that an even larger amount of foreign cotton would have been displaced. A reduction of 1.0 million bales in the consumption of foreign cotton would therefore appear to be a conservative estimate. These estimates indicate that the consumption of American cotton in 1933-34 would probably have been about 3 million bales larger if our cotton program had not been undertaken. They also indicate that the carry-over on August 1, 1934, with and without our cotton program, would probably have been as follows, in millions of bales:

	American	Foreign	Total
With program (actual)	10.6	5.4	16.0
Without program (estimated)	11.8	6.1	17.9
	<hr/>	<hr/>	<hr/>
Increase without program .	1.2	0.7	1.9

EFFECT IN 1934-35

In 1934-35 farmers harvested 9.6 million bales of cotton, and sold the lint from it for an estimated 596 million dollars and the cottonseed for about 111 mil-

lion dollars. Foreign producers harvested 14.0 million bales, compared with 13.6 in 1933-34. If no cotton control or cotton loan program had been undertaken in 1933-34 or 1934-35, and no processing tax had been levied on cotton in either year, how much cotton would have been produced and consumed in 1934-35 and how much income would farmers in the United States have received for it?

In the past, the cotton acreage planted has responded rather consistently to changes in farmers' income from cotton, as compared with their expenditures in producing it. One fairly satisfactory measurement of the relationship that has existed during the period 1910-33 between the acreage of cotton planted and (1) the gross income from cotton and cottonseed the previous year, (2) the average production expenditures of the current and previous years, and (3) the long-time trend of acreage is shown by the charts on page 381. If farmers had responded to these factors in 1934 as they did on the average from 1910 to 1933, and if a 17.2 million bale crop in 1933 had brought 6.4 cents per pound, 40.9 million acres would have been planted, as shown in the table below:

	Price in 1933-34 (In cents per pound)	Acres Planted in 1934 (In millions)	Bales Produced (In millions)
With program (actual)	10.2	27.3	9.6
Without program (estimated)	6.4	40.9	13.5

Farmers actually planted only 27.3 million acres, on which they obtained an average yield of 171 pounds. If the larger acreage had been planted and if prices had been about 6 or 7 cents per pound, yields would probably

have been at least 5 per cent lower.* By assuming a 5 per cent reduction in yields, it is estimated that 13.5 million bales of cotton would have been produced in 1934 if there had been no cotton program in either 1933 or 1934.

If farm prices of cotton in the United States had been about 6 or 7 cents in 1933-34, the chart on page 272 indicates that cotton production in foreign countries would probably have been 1.7 million bales less than the amount actually harvested in 1934-35.

A reasonable estimate of the production of cotton in the world in 1934 with and without our cotton program would therefore be as follows, in millions of bales:

	United States	Foreign	Total
With program (actual)	9.6	14.0	23.6
Without program (estimated)	13.5	12.3	25.8
Difference	+4.1	-1.7	+2.2

Assuming that the preceding estimates are correct, the total supply of American and foreign cotton for the 1934-35 season, with and without a cotton program, would have been as follows, in millions of bales:

	American	Foreign	Total
With program (actual)	20.3	19.4	39.7
Without program (estimated)	25.3	18.4	43.7
Difference	+5.0	-1.0	+4.0

In 1934-35, as in 1933-34, the price received by farmers for cotton harvested would probably have been 0.5 to 1.0 cents per pound lower if there had been no gov-

* Average yields in 1934 might easily have been 10 per cent less than 171 pounds if 40.9 million acres had been planted. The percentage of this larger acreage abandoned in 1934 would probably also have been greater than the average percentage actually abandoned in 1934.

ernment loan on cotton or any anticipation of a reduction in production in 1935 as a result of government efforts for the same reasons as in 1933-34 (see page 283). The removal of such stimulants to cotton prices, together with an increase in the supply of American cotton of 5.0 million bales and a decrease of one million bales in the supply of foreign cotton in 1934-35, would probably have forced prices down from 12.4 cents per pound to about 7.3 cents. At this lower price, farmers would have received 488 million dollars for their lint cotton from a 13.5 million bale crop, or 108 million dollars less than they received for the 9.6 million bales actually harvested.

A reduction in farm prices of cotton in 1934-35 from 12.4 cents to 7.3 would have greatly stimulated the consumption of cotton. Analysis of the relation of consumption to prices and other factors indicates that an increase of 2.0 million bales would be a conservative estimate. The consumption of American cotton, however, would have been increased much more than that of all cotton. Analysis along the line followed on page 285 indicates that the consumption of foreign cotton would have been reduced 1.8 million bales and that the consumption of American cotton would have been increased 3.8 million bales. Assuming that these estimates are correct, the carry-over on August 1, 1935 with and without the cotton program might have been expected to be about as follows, in millions of bales:

	American	Foreign	Total
With program (actual)	9.0	4.6	13.6
Without program (estimated)	10.2	5.4	15.6
	<hr/>	<hr/>	<hr/>
Increase without program .	1.2	0.8	2.0

EFFECT IN 1935-36

Farmers harvested 10.7 million bales of cotton in 1935-36, for which they are obtaining roughly 11.5 cents per pound for the lint. Foreign producers are expected to harvest about 14.9 million bales.

The preceding estimates of price and income for the 1934 crop indicate that if the government had not undertaken any of its production control programs, and if farmers had responded to changes in income as in the past (see Appendix D), the production of cotton in 1935 would have been approximately as follows, in millions of bales.

	United States	Foreign	Total
With program (actual)	10.7	14.9	25.6
Without program (estimated)	14.3	12.5	26.8
Difference	+3.6	-2.4	+1.2

According to these estimates, the world production of cotton in 1935-36 would have been only 1.2 million bales larger than it was had there been no cotton program in the United States.

On the basis of the preceding estimates the world supply of cotton for the 1935-36 season would have been as follows, in millions of bales:

	American	Foreign	Total
With program (actual)	19.7	19.5	39.5
Without program (estimated)	24.5	17.9	42.7
Difference	+4.8	-1.6	+3.2

The supply-price curve shown on page 372 indicates that 24.5 million bales of American cotton and 17.9 million bales of foreign cotton would probably have resulted in a United States farm price of about 7.8 cents per

pound, or 561 million dollars for the entire crop. If the 10.7 million bales actually harvested under the reduction program average 11.5 cents per pound, farmers will receive 615 million dollars for their crop.

SUMMARY

The summary of these estimates shown in the table below indicates that the income of farmers from cotton was increased by about 276 million dollars, or an average of 92 million dollars per year by the cotton reduction program of the AAA. While these estimates should not be taken too seriously, they suggest that the income of farmers from the sale of lint cotton was increased by the cotton reduction program during the past three seasons as follows, in millions of dollars:

Crop Year	With Program (Actual)	Without Program (Estimated)	Increase with Program
1933-34	664	550	114
1934-35	596	488	108
1935-36	615	561	54
Total	1,875	1,599	276

These estimates were reached after allowing for an estimated increase of foreign production as a result of the production control program of 0.3 million bales in 1933-34, 1.7 million bales in 1934-35, and 2.4 million bales in 1935-36; and after allowing for an estimated decrease in consumption of all cotton of 2.0 million bales in 1933-34 and in 1934-35.

It is generally known among agricultural economists that the supply-price curves worked out for cotton do not always indicate a larger value for a small crop than for a larger one, in a particular year. The result depends not only upon the shape of the supply-price curve but

also upon the size of the carry-over. If the carry-over is exceptionally large, a small crop may sell for less than a large one. Nevertheless, practically all of these curves indicate that a reduction in the total supply of American cotton (crop plus carry-over) increases its value.

When a large crop is harvested in any year, not all of its effect on prices is felt the first year. Consumption tends to increase because of lower prices but does not usually equal the increase in production. Consequently the carry-over is increased. It was noted on page 284 that if farmers had harvested 17.2 million bales of cotton in 1933 the world carry-over of cotton would probably have been increased about 1.9 million bales. This larger carry-over would have tended to depress prices in 1934-35. Consequently the usual analysis of the relation between size of crop and total value in only one year tends to understate the increase in value of cotton that results from reducing the amount produced for a few years. Of course, any resulting increase in foreign production would partially or wholly offset reductions in the United States. Preceding estimates, however, indicate that foreign production was increased only 4.4 million bales during the three seasons 1933-34 to 1935-36 inclusive compared with a reduction in the United States crop for the same period of 10.5 million bales—or a net reduction of 6.1 million bales in the size of the world crop.

These conclusions as to the effect of the cotton reduction program of the AAA on the value of cotton produced are exceedingly important. They indicate that even without benefit payments for reducing production the program would have increased the income of cotton farmers during this period. They also indicate that the income of all tenants who produced their usual share of

the cotton crop in these years was increased by the cotton program even though they may have received little or none of the benefit payments. With benefit payments included, the total increase in farmers' income from lint cotton attributable to the program was as follows, in millions of dollars:

Crop Year	Reduction in Cotton Production	Benefit Payments ⁷	Total
1933-34	114	179	293
1934-35	108	116	224
1935-36	54	123	178
	<hr/>	<hr/>	<hr/>
Total	276	418	695

The net income of farmers from cotton was, of course, increased even more than the gross income by the reduction in cotton production. Less fertilizer, equipment, and labor are needed to produce 10 or 11 million bales of cotton than to produce 14 million bales. The actual saving in cash costs during the first two or three years, however, would be small. Moreover, farmers have had the use of the land, labor, and equipment released from cotton production under the program for the production of other crops. Although, as pointed out in Chapter VIII, they did not take full advantage of this opportunity, in 1935 they harvested about the same acreage of crops other than cotton as in 1932 when the acreage of cotton was very low. In other words, the acreage of crops other than cotton in 1934 and 1935 was probably 2 or 3 million acres greater than it would have been without the cotton reduction program.

The increase in income of farmers from cotton dur-

⁷ Including profits on option cotton. The figure for 1935-36 is a preliminary estimate.

ing the past three seasons that has resulted from reducing the amount produced is not a permanent gain. The AAA has not discovered any magic formula for increasing farmers' incomes from cotton. The increase, in a very real sense, is a loan which must be paid off in the future, probably with interest, as pointed out in the following chapter. We know that the more prices of American cotton have been increased by our cotton program, the more foreign production has been stimulated. There has been a remarkably close relationship between the price (deflated) of American cotton in Liverpool and the acreage of cotton planted in foreign countries other than Russia, as shown by the chart on page 272.

Furthermore, the preceding estimates and analyses indicate that if farmers in the United States produce only 11 million bales of cotton in 1936, they can expect to receive only a slightly higher price than they would have received for a 13 or 14 million bale crop if there had been no cotton reduction program from 1933 to 1936 because of increases in the foreign crop due to our reduction program. Nevertheless, these same estimates and analyses indicate that an 11 million bale crop in 1936 would probably bring farmers a larger gross income from cotton than a larger crop since the effect of such a reduction on foreign production does not occur until later years. The claim can therefore honestly be made every year that a small crop for that year will bring farmers a larger gross income than a large crop, even though over a series of years small crops, say 11 million bales per year, brought less than large crops, say 14 million bales per year.

It will be noted also that the income of farmers from cotton, cottonseed, and benefit payments during the last three years has fluctuated very little—from 895 in 1933-

34 to 822 in 1934-35. For this short period the AAA has, therefore, been successful in stabilizing the total income of all farmers from cotton—one of the objectives of the program—partly, of course, from accidental causes.

The income of individual farmers has also been stabilized by the cotton program. Farmers with poor crops have had their incomes greatly increased by benefit payments and the sale or transfer of tax exemption certificates. For instance, the benefit payments made to farmers in Oklahoma for taking land out of cotton production and the net payments received from the National Bankhead Tax Exemption Certificate Pool in 1934-35 amounted to 65 per cent of the total income of farmers from the sale of their 1934 cotton crop. These payments probably constituted an even larger proportion of the income of some farmers from cotton.

While the income of farmers from cotton has been materially increased by the cotton program of the AAA, the income of other "cotton" workers has probably been reduced. A smaller amount of extra hired labor has been needed to hoe and pick the reduced cotton crops than would have been required for a full crop. A smaller amount of labor has also been required for ginning, marketing, compressing, insuring, and transporting cotton and for handling the cottonseed produced because of the reduction in the amount of cotton produced during the last three seasons (estimated at 26 per cent). Also, higher cotton prices and the processing tax have reduced the amount of cotton consumed in the United States by an estimated 17 per cent, thus reducing the number of persons employed in the cotton textile industry, and increasing the cost of textiles to consumers.

The number of persons engaged in some of the more important of these industries in 1934 was as follows.⁸

EMPLOYEES IN INDUSTRIES DIRECTLY AFFECTED	
BY THE COTTON ADJUSTMENT PROGRAM	160,000
Compressing and warehousing	20,000
Ginning (in season)	90,000
Raw cotton trade	20,000
Seed crushing	20,000
Oil refining	10,000
EMPLOYEES IN COTTON TEXTILE INDUSTRY	
Cotton manufacturing	450,000
Cutting-up (making cloth)	300,000
Dyeing and finishing	15,000

The unemployment in these industries caused by the cotton program would not, of course, be in exact proportion to the reduction in production or consumption of cotton. Many of the business enterprises in these industries require a minimum number of employees in order to operate satisfactorily even though only a small volume of cotton is handled.

Nevertheless, if employment in these industries was reduced in direct proportion to the estimated reduction in production and consumption of cotton in the United States, 212,000 more persons would have been employed in them if our cotton program had never been undertaken.⁹ Actually, of course, the increase would have been considerably less than this amount.

The economic loss that has resulted from any reduc-

⁸ *Cotton Production Adjustment 1934-35*, AAA, No. 22, May 1935, Table 20, p. 20.

⁹ The reduction in consumption of American cotton resulting from our cotton program as estimated in this discussion may not be a net reduction. The AAA program may have stimulated business activity, as some advocates claimed that it would. If so, the actual net reduction would have been less than shown here.

tion in these industries caused by the cotton program, however, would be uncertain even though the number of employees displaced were known. Some of them have probably been able to obtain part-time or full-time work in some other industry. But their employment in other occupations may have displaced other employees. Besides, the value of their work is uncertain. While a complete analysis of this problem is beyond the scope of the present book, it may be pointed out here that the economic welfare of a large number of persons may have been adversely affected to a serious extent by the cotton program of the AAA.

Nevertheless, it seems very likely that the South as a whole has thus far received additional income because of the cotton program of the AAA (including benefit payments). The increase in income of farmers from cotton and benefit payments resulting from this program, as estimated in the preceding chapter, have probably much more than offset the loss in income of other employees in the cotton industry of the South. If this is true, other business enterprises in the South have, no doubt, benefited from the increase. Whether or not the nation as a whole has reflected this benefit during the past three seasons is a question that goes beyond the scope of this book. Furthermore, the full effect of our cotton program on the income of cotton farmers and others has not yet been felt. The analysis is therefore continued in the next chapter.

It may be pointed out here, however, that if a tax equal to the margin between the preceding estimates of cotton prices "without program" and "parity" prices in 1933-34, 1934-35, and 1935-36 had been collected and distributed to cotton farmers without requiring any limitation on the amount of cotton produced, their gross

income from cotton and benefit payments would have been as large as under the present program. Calculated on this basis, a processing tax of approximately 8 cents per pound could have been levied on cotton, or nearly twice the present rate of tax—net receipts from which during the first three seasons were expected to be about 333 million dollars. The cost of cotton to the mills, however, would have been approximately the same as under the present program. There would also have been no question of losing foreign markets, stimulating foreign production, displacing tenants, or reducing the income of cotton pickers, ginners, and other industrial cotton workers. The cotton carry-over, however, would not have been reduced as much as by the program adopted.

CHAPTER XV

POTENTIAL GAINS AND LOSSES

On January 6, 1936 the experiment that we have been studying was suddenly terminated when the United States Supreme Court declared processing taxes to be unconstitutional when the funds derived from them were used to control production.¹ New legislation was promptly enacted which was designed to avoid running afoul of the Supreme Court's interpretation of constitutional limitations. It was also designed to enhance the incomes of farmers and to secure a measure of agricultural adjustment, particularly by promoting soil conservation and the economic use of land. Hence the problem attacked by the old Agricultural Adjustment Act is still a national issue.

In preceding chapters an extended analysis of the operation of this experiment and of the results obtained during the first three seasons has been presented. But the possibilities and limitations of such control measures have not been fully appraised. In the first place the full effect of reducing the amount of cotton produced and marketed during the past three seasons will not be felt for many years. These reductions, as already pointed out, have increased cotton prices and the income of cotton farmers, but they have also stimulated foreign cotton production and increased the holdings of cotton by the government from 2.5 to about 6.0 million bales. The

¹The decision stated: "The act invades the reserved rights of the states. It is a statutory plan to regulate and control agricultural production, a matter beyond the power delegated to the federal government. The tax, the appropriation of the funds raised, and the directions for their disbursement are but parts of the plan. They are but means to an unconstitutional end."

effect of such developments will be to hold down farmer's incomes in the future. In the second place, if some form of the experiment we have been studying is continued in the future many changes in procedure will probably be made as a result of past experience and of changes in the economic situation. Some of the weaknesses which have already appeared may be eliminated. On the other hand, many new difficulties may arise. In order more adequately to appraise the possibilities and limitations of a continued cotton control program, it is necessary to consider the gains and losses which may result, and the feasibility of continuing such a program.

GROSS INCOME FROM COTTON AND BENEFIT PAYMENTS

The increase in value of cotton harvested during the past three seasons that has resulted from reducing the amount of cotton produced, estimated in the preceding chapter to be nearly 300 million dollars, is not a permanent gain. The value of cotton produced in the United States will be less for some time in the future because of our cotton program of the last three seasons regardless of whether production control is continued.

Foreign production has been stimulated by the higher cotton prices resulting from our program and will continue for some time to be larger than it would have been if our cotton program had never been undertaken. In Chapter XIII it was estimated that our program may have caused an increase in foreign cotton production of 2.4 million bales in 1935-36. In 1936-37 another expansion of foreign production may result from the same cause, even if no further reduction is made in the United States. An increase in foreign supplies of 2.4 million bales could on the average be expected to reduce prices of American cotton about 2 cents per pound. In other

words, if control of cotton production is not continued and 15 million bales are produced in the United States in 1936, the value of this cotton will probably be reduced about 150 million dollars because of increased foreign cotton production due to our cotton program of the past three years.

The resulting lower prices would probably retard and tend to stop further expansion of foreign production. But the reduction of foreign production to the level that would have existed if our cotton program had never been undertaken would take a number of years. In general, foreign cotton production is increased more easily than it is reduced. For example, if an increase in cotton prices of one cent per pound causes an increase of one million acres in the foreign cotton acreage it will require a reduction in price of more than one cent per pound to force foreign growers to reduce their plantings of cotton a million acres.

Furthermore, to regain our former position in world markets, prices of American cotton must be forced relatively low in comparison with prices of foreign cotton. A considerable part of the increase in income of farmers from cotton during the past three years was obtained by forcing prices of American cotton more than a cent per pound above their usual relation to prices of foreign cotton. This was possible because for a time foreign mills, accustomed to the use of a certain proportion of American cotton, were willing to pay a premium for it rather than shift to foreign cotton (see page 256). Nevertheless, some shift has been made in response to the changed price relationship. Foreign mills have increased their consumption of foreign cotton and decreased that of American cotton. In order to induce them to shift back

again, American cotton prices for a time must be forced below their usual relation to foreign cotton prices.

The carry-over of cotton on August 1, 1936, however, will probably be less than it would have been in the absence of our restriction program. But if production is not effectively controlled, farmers in the United States may plant more cotton in 1936 than they would have planted if the reduction program had never been undertaken. The resulting increase in production in 1936 might easily offset the decrease in carry-over.

It seems likely, therefore, that even if no further attempt is made to reduce cotton production, the value of cotton produced in 1936 will have been reduced enough by our restriction program of the last three seasons to offset a large part of the estimated increase in income from cotton already realized by farmers because of the program.³ And the total reduction in the income from cotton produced in 1936 and later years seems likely to be considerably greater than the estimated increase in income during the past three seasons if benefit payments are excluded.

If we continue drastically to reduce the amount of cotton produced in the United States, foreign cotton production will be further stimulated. In the preceding chapter it was estimated that our restriction program had caused a decrease of 3.6 million bales in the size of the United States crop in 1935 and an increase of 2.4 million bales in the size of the foreign crop. Such estimates, are, of course, only rough approximations. The actual increase in foreign production may have been larger or smaller. In any case the increase represents the more or

³ It may also be noted that these estimates of reduction in income are made on the same general basis as the estimates of increase in income.

less immediate response of foreign cotton growers to the higher prices resulting from our program during 1933-34 and 1934-35. It does not represent the long-time effect of attempting to maintain such an increase in prices over a period of years by curtailing production.

The relationship of the acreage of cotton planted in the past to cotton prices or to changes in cotton prices furnishes little indication of the relationship of these two factors during a few years in which prices were maintained on a slightly higher level by curtailing production. Formerly, when cotton prices rose a few cents above those of the preceding year, farmers realized that the following year they were likely to be lower. Hence their response in terms of acreage changes may have been less marked than it would have been had they thought that cotton prices were to be held at the higher level year after year and that prices of products competing with cotton for land, labor, and capital would not increase.³

A clearer picture of the potential effect of raising the level of cotton prices can be gained by considering its probable effect on the acreage of cotton planted by an individual farmer. Suppose a farmer believes that cotton prices will average 6 cents per pound over a series of years, and is of the opinion that at prevailing prices for competing products the most profitable acreages of different crops for him are 20 acres of cotton, 20 acres of corn, and 15 acres of soybeans. Suppose now that he expects an average price of 10 cents for cotton and the same average price for competing crops as before. Is it

³On the other hand, foreign growers may have over-estimated the effect of our restriction program on the prices they would receive for cotton. An increase in cotton prices accompanied by an announcement that cotton production in the United States was to be greatly reduced may have influenced foreign production much more than increases in price have usually done in the past. But such short-time variations do not materially change the long-time effects.

not reasonable to expect that he will greatly increase his acreage of cotton? Is it not also reasonable to expect that his increase in acreage of cotton will be much greater under such conditions than it will be if cotton prices increase to 10 cents per pound in one year because of a small crop due to low yields with the probability of only 6 cents or less per pound the following year? Even an increase of one cent per pound in the general level of cotton prices, if prices of products competing for the same land remain the same, can in time be expected to cause a marked increase in the acreage of cotton planted in foreign countries.

The ability of the United States to increase the general level of cotton prices over a period of years by control of production or marketing is therefore quite limited. An increase of one cent per pound would be a great accomplishment. If we cut our production below what would otherwise be produced, we can expect that foreign producers will increase their cotton acreage within a few years by nearly the same amount, at least until our exports are very greatly reduced.

Much has been written about the physical limitations or possibilities of expanding cotton production in foreign countries. Brazil is said to have more land suitable for cotton production than the United States. But much of it will have to be cleared and transportation facilities, gins, etc. will have to be provided. Such developments have been going on for some time. Naturally they will go on somewhat faster if the level of cotton prices is artificially and more or less permanently raised, but no one knows how much faster. Other countries are also developing new land suitable for cotton production. Higher cotton prices would speed up such developments.

These new developments are significant because they

represent a rather permanent expansion in the cotton-producing areas of the world. It will probably take extremely low prices to force any new areas out of cotton production. But it does not seem reasonable to believe that such expansion into new farming areas has been an especially important factor during the past two years. Nevertheless, if we were to cut our cotton crops during the next five or ten years as much as we have cut it during the past three seasons, such an expansion would surely be stimulated.

The main cause of increased cotton acreage in foreign countries, however, has been and will probably continue for some time to be a shift from other crops to cotton on already established farms. Such possibilities are great enough for our analysis here without considering new areas. In 1932, 40.6 million acres of cotton were planted in foreign countries. The total of the peak cotton acreages planted in each of these countries in any year since 1920 was 50.2 million acres. In other words, foreign countries could have expanded their acreage 9.6 million acres without exceeding the previous maximum.

If a reduction program is continued, the total value of American cotton will probably be reduced by nearly the same percentage as the size of the crop. A reduction from 14 to 11 million bales in our average production over a period of years should raise prices of American cotton not over 10 per cent and perhaps not over 5 per cent, or from 10.0 to 10.5 or 11.0 cents per pound. However, the reduction in value of the crop might be offset by benefit payments. If an average annual crop of 14 million bales sells for 10 cents per pound or 700 million dollars, a crop of 11 million bales could be expected to sell for only 10.5 or 11.0 cents per pound, or 551 and 578 million dollars respectively. The annual

difference of 122 or 149 million dollars respectively would be only slightly more than the receipts that could be expected from a processing tax of 4.2 cents per pound on cotton consumed in the United States. Consequently it seems unlikely that the gross income of farmers from cotton and benefit payments would be reduced by a program that provided annual payments of about 120 million dollars and required a reduction in cotton production of less than 25 per cent. Neither does it seem likely that the reductions in gross receipts from the sale of cotton over a period of years resulting from our restriction program of the past three seasons would be greater than the payments which have been received by cotton farmers from the government. During the past three seasons, as shown in the preceding chapter, benefit payments to cotton farmers have averaged over 150 million dollars a year, including profits on "option" cotton and the expected "price adjustment" payments on the 1935 crop.

STABILIZATION OF INCOME FROM COTTON

While the preceding analysis indicates that a restriction program, even with benefit payments, would not increase the gross income of farmers from cotton appreciably over a period of years, it might nevertheless tend to reduce the year-to-year fluctuations and longer time swings in that income. For instance, our restriction program increased the incomes of farmers during a depression period when they were at a low level. If this same program reduced the incomes of farmers from cotton at a later period when the level of incomes was higher, a certain amount of stabilization would be attained.

Furthermore, the major purpose of the Ever Normal Granary plan as pointed out in Chapter XI would be to stabilize cotton prices and farm incomes from cotton.

This would be accomplished by government purchases of cotton in the market or by relatively high government loans to farmers on their cotton, in years when supplies were large and prices were low. It would be expected that these loans would induce farmers to hold their cotton for higher prices in later years when supplies were low and prices relatively high.

Such practices might, of course, result in the government's acquiring title to a considerable amount of cotton, which it would have difficulty in selling on the open market. To overcome this difficulty, the Ever Normal Granary plan provided for the use of any cotton acquired by the government in lieu of cash for benefit payments to farmers. In this way, it was hoped that the government could dispose of any cotton acquired and at the same time tend to stabilize cotton prices and farm incomes from cotton.

Such a plan could probably be operated by the government so as not to lose any money on its lending operations after 1935. The cotton would in effect be purchased out of processing tax funds and given to farmers in lieu of cash. But farmers obtaining loans would retain title to their cotton. They would consequently have more to gain or less to lose by a large reduction in production than they would if they did not hold this cotton, as has already been pointed out.

There are some possibilities—at least on paper—of stabilizing farm incomes from cotton by such a program. Statistical analyses of the relation of cotton prices to supplies of American cotton in the past show that when the American cotton carry-over is fairly close to normal, small crops of cotton sell for more money than large crops. If, therefore, the government could raise cotton

prices a little in years of large crops by cotton loans or purchases and lower cotton prices a little in years of small crops by sales of government cotton or cotton on which the government held loans, farm incomes from cotton might be stabilized if all forecasts of prices and other related operations were perfectly calculated.

The maximum stabilizing effect of such operations, however, is almost infinitesimal. Assume for a moment that the acreage of cotton planted each year was held constant by government control and that the only fluctuation in production resulted from variations in yield. Under such conditions, total production would very seldom fluctuate more than 15 per cent above or below the average—usually 10 per cent or less.⁴ With 13 million bales as a normal crop, such fluctuations in yield would cause variation in production from 11.05 million bales to 14.95 million bales. Since supply-price curves indicate that cotton prices tend to increase less than a cent a pound for each decrease of one million bales in the supply of American cotton (see page 371), other conditions remaining the same, the maximum variation in cotton prices to be expected because of such changes in supply alone would be from 14 to 10 cents respectively (using 10 cents as a base) under present conditions. At these prices the small crop would sell for 773.5 million dollars and the large one for 747.5 million, or a fluctuation in income of 1.7 per cent above and below the average of the two. In order to achieve even this amount of stabilization, it is apparent that the amount of cotton transferred to farmers would have to be varied according to the size of the crop.

In effect, any stabilization of income under the Ever

⁴ J. D. Black, *Agricultural Reform in the United States*, p. 90.

Normal Granary plan would be secured by varying the amount of benefit payments made for taking land out of cotton production. The government might more easily and effectively stabilize farmers' incomes by increasing their benefit payments in years when the crop is large and reducing them when the crop is small without interfering in any way with the marketing of the cotton.

Something might, of course, be gained by interfering with the marketing of cotton. Speculative activity may, as some contend, be reducing the prices of cotton received by cotton farmers. But even if this is true, the Ever Normal Granary plan represents a cumbersome method of achieving the result, and past experience with government loans indicates that the plan should not be undertaken. It represents one of the greatest dangers to a control program.

NET INCOME OF COTTON FARMERS

While the gross income of farmers from cotton over a period of years will probably be lowered by reductions already made in the amount of cotton produced and marketed, there is more uncertainty as to the effect of such a program on the net income of farmers from their entire farming operations. As pointed out in the preceding chapter, our restriction program of the last three seasons has surely reduced the cash expenses of farmers for labor, fertilizer, and other materials and services in the production of cotton. Farmers have also had the use of land, labor, and equipment released from the production of cotton for producing other crops and products for use on the farm. Their expenses for food and feed products may have been reduced. Furthermore, their standard of living may have been increased more than their expenditures for food were reduced.

There is a possibility that farmers might gain by producing more food and feed crops for home use. In general the South is a deficit feed-producing area. A considerable quantity of vegetables and livestock products which could be produced locally are also shipped in. The Extension Service and other educational agencies have long been urging farmers to produce more of such products themselves and thus cut down expenditures. Many farmers have no doubt followed this advice. The control program of the AAA was intended to increase such practices. While only about half of the land taken out of cotton production in 1935 was then used in the production of such crops, it is likely that such plantings would increase if this program were continued for a number of years. If such practices are economically desirable, the AAA can legitimately claim credit for the resulting economic gain.

It seems very unlikely, however, that gains from this source would offset the loss of receipts from the sale of cotton if any marked reduction is made in the amount produced. There are few alternative opportunities in the South for the full use of land, labor, and equipment released from cotton production. According to estimates of the United States Department of Agriculture,⁵ it requires only 43 per cent as many hours of labor to produce an acre of corn in the South as an acre of cotton. Oats requires only 18 per cent, wheat 24 per cent, and hay 19 per cent as much labor per acre as cotton. Consequently, even though all of the land taken out of cotton production were planted to food and feed or similar crops, the labor requirements would be only about one-

⁵ "Cotton Production in the United States," *The World Cotton Situation*, Bureau of Agricultural Economics, Feb. 4, 1935, Pt. II (preliminary), Table 12, p. 59.

third as much as for cotton. If the cotton program actually reduced the cotton acreage in 1935 from 42 to 29 million acres, it also reduced the labor required to produce cotton by about 30 per cent and the labor required to produce all crops in the ten major Cotton Belt states by about 20 per cent, or about one day a week. There would be little probability that, by reducing the amount of cotton produced 30 per cent, cotton farmers as a group would receive a larger net income from their farming operations (not including benefit payments) for 20 per cent less work.

The cotton program of the AAA was also expected to increase the productive capacity of cotton farms by checking soil erosion, depletion of soil fertility, etc. This expectation was based on a number of theories and assumptions. In the first place, cotton is considered more exhausting to the soil than most other crops grown on cotton farms. In the second place, it is fairly well recognized that yields tend to decline on land that is continuously planted to the same crop. Rotation of crops or occasional rest is considered good soil management practice. In the third place, it seems to have been expected that reductions in cotton production would automatically result in a corresponding increase in the acreage of food, feed, and erosion-preventing or soil-improving crops. Some also expected or hoped that some of the saving in labor required to produce cotton would be used in producing more livestock and livestock products for home use. If this had occurred, more manure would have been available for fertilizer. In the fourth place, it was thought that low farm incomes caused farmers to follow poor soil management practices and otherwise to neglect their farms or even to abandon them.

There can be little question that reduction in cotton

production for a number of years under a control program similar to that of the last three seasons would tend to increase the productive capacity of cotton farms in the South. If the land taken out of cotton production were planted to green manuring crops that were plowed under, an appreciable increase would result. If the land were allowed to lie idle, however, the increase would be small. In fact, on some farms such idle land might become so infested with grass and weeds as to reduce its productive capacity. If the land were planted to food and feed crops there would also be some gain on the whole, because of rotation of crops and because corn, oats, and hay are not as soil exhausting as cotton. During the 1934-35 season, as pointed out on page 134, only about 50 per cent of the land taken out of cotton production by the AAA program was planted to other crops.

This result indicates that farmers were not taking full advantage of the opportunity offered them to build up the productive capacity of their farms. Such a result, however, is not surprising. Planting land to soil-improving crops is relatively expensive and returns are not secured immediately. Many farms were already growing sufficient food and feed crops for home use before the AAA program was adopted. Furthermore, soil erosion and depletion of soil fertility are due to a large extent to ignorance, neglect, or a short-time viewpoint on the part of the farm operator or owner. The government cannot hope to remedy such conditions merely by reducing the acreage of cotton. But it might encourage cotton farmers as a group to take better care of their farms if it increased the incomes of farmers and at the same time greatly reduced their usual farm work. Improving the productive capacity of all cotton farms, however, can hardly be expected to increase their present sale value

if the productive capacity of the South for growing cotton is already too large in relation to current demand.

DISTRIBUTION OF GAINS AND LOSSES

Regardless of the effects of the program upon cotton farms in the aggregate, it is important to consider the distribution of those effects among groups and individuals. It has been noted that cotton farmers who had already diversified their farming operations were benefited least by the AAA program. They could not use the land taken out of cotton production to grow food and feed crops for home use but had to plant it to soil-improving crops or allow it to lie idle. In fact, if they had been producing food and feed crops for sale, their market may have been destroyed by the cotton program. Therefore, the cotton control program has tended to benefit least or injure most the better farmers who had been following the advice of the Extension Service prior to the passage of the Agricultural Adjustment Act. A similar tendency could be expected if the same type of control program were continued.

Also, there are other causes of variation in the distribution of benefits among growers. Under the AAA program some farmers were given a relatively high base acreage and production because of having planted an unusually large acreage of cotton during the base period, because of exaggeration of acreage claims, or for other reasons. Other farmers received relatively low bases for opposite reasons. Furthermore, the reduction program of the past three seasons has been relatively rigid and inflexible. Farmers who would have reduced their cotton acreage even if there had been no program have naturally gained more than those who were prepared to expand acreage. If an inflexible program were continued, shifts

in the comparative advantage of growing cotton from farm to farm and area to area would affect the distribution of resulting gains and losses in the same manner.

If the government continues to reduce the production of cotton, it seems only natural that the position of tenants on cotton farms will be endangered. Fewer tenants and other farmers are required to produce a small crop of cotton than a large one. As pointed out on page 310, the total amount of labor required to produce all crops on cotton farms is probably reduced 20 per cent by a 30 per cent reduction in the acreage and production of cotton. Nevertheless, such a reduction in cotton production has been secured during the past three seasons with apparently little or no displacement of tenants. In fact, some studies indicate more tenants on cotton farms in 1935 than in 1933. The provision of the cotton contract requiring farmers receiving benefit payments to keep the same number of tenants and other employees may therefore have been effective in protecting the tenants' position, even though not very strong from a strictly legal standpoint. The fact is that the cotton program of the AAA has been benefiting farm owners so much that few considered it advisable to risk losing the benefit payments by displacing some of their tenants or reducing them to a lower tenure status. Besides, landlords and other cotton farmers who did not co-operate in the control program could have been required to pay the Bankhead cotton ginning tax on all cotton produced, although no regulations to this effect were ever issued. How long the fear of loss due to violation of contract would continue to protect tenants is uncertain. But it seems likely that continuation of such a program would result in a net gain to farmers for a number of years, as pointed out on page 305. However, since these gains would decline

if restriction of the cotton crop were continued, tenants would tend to have their incomes reduced by such a program, even though they were not displaced by landlords.

As pointed out on page 304, a production control program cannot be expected to raise the world level of cotton prices more than a cent per pound—say from 10 to 11 cents—for any appreciable length of time. Consequently, a cropper normally producing ten bales of cotton but limited by a cotton program to seven bales (assuming average yields) would have his gross income⁶ from cotton reduced from \$250 to \$192 (at 10- and 11-cent prices respectively). He would, however, be entitled to a benefit payment of \$10.00 and \$12.50 at the 1934 and 1935 rates of payment respectively, bringing his total income to \$202.00 or \$204.50 respectively as compared with \$250 without a program. Such a reduction in income from cotton might cause many to seek other employment. Expenses for fertilizer, etc. would be reduced, however, and the tenant might have more time for producing vegetables and other crops and products for home use.

It is apparent, however, that under such conditions a tenant's income would be increased by the program if he could continue to grow ten bales of cotton and receive his usual share of the receipts from cotton, even though he received none of the benefit payments from the government. And the landlord would be certain to gain if he received his usual share of the crop and all of the benefit payments. In other words, a cotton reduction program creates a situation in which both tenants and landlords in their struggle for a larger income tend over a period of time to force out or displace some tenants. The

⁶ Assuming that he is paying half of the crop as rent.

government might be able to check such displacement of tenants but could probably not prevent it. One serious difficulty would probably be the fact that on individual farms both landlords and the remaining tenants would be benefited by the reduction in number of tenants.

There is also a possibility that landlords would shift from croppers and renters to hired labor for producing cotton. According to studies by the Bureau of Agricultural Economics,¹ landlords producing cotton with hired labor in 1933 and 1934 were benefited by the reduction program considerably more than those producing it with croppers. If a reduction of 30 per cent had been continued, however, this difference could have been expected to decline as the effect of the program on cotton prices declined and as other adjustments to the new situation occurred. Furthermore, such a shift would be an obvious violation of the cotton contract used during the past two seasons. Landlords attempting to increase their incomes by violating the terms of such a contract could find less conspicuous ways of doing it.

While it is impossible to determine in any quantitative way the future effects of continuing a cotton reduction program along the lines of the past three seasons, the direction of its effect is clear. Such a program creates a surplus of tenants—not of landlords. The bargaining position of the landlord is strengthened and that of the tenant is weakened. Furthermore, the income of the landlord over both a short- and a long-time period is almost certain to be increased (if from 100 to 120 million dollars is distributed in benefit payments) while the income of tenants as a group might be increased for a short time but would probably be decreased over a long-time period.

¹ *The World Cotton Situation*, pp. 47-51.

CHAPTER XVI

FEASIBILITY OF CONTINUED CONTROL

The analysis in Chapter XV indicates that the gross and net income of American cotton farmers as a group would be increased by a control program that provided for benefit payments of 120 million dollars a year for reducing their acreage and production of cotton less than 25 per cent.¹ If no benefit payments were provided, however, the net income of cotton farmers from cotton and from their entire farming operations would in all probability be considerably reduced by curtailing the production of cotton 25 per cent over a period of years. Under such conditions, would it be feasible to continue the control of cotton production for many years by the method used during the last three seasons? Would continued control over the production of cotton be feasible without the Bankhead Act or some equivalent measure? What limitations would there be to such control? These questions are discussed in this chapter.

DEGREE OF CONTROL THAT COULD BE MAINTAINED

Experience to date demonstrates quite clearly that cotton production in the United States can be effectively controlled for a number of years, except for variations due to yields, by a continuation of individual farm contracts, benefit payments, and a high cotton ginning tax with exemptions for the desired amount of cotton. Such

¹ Below what would otherwise be produced. In Chap. XIV it was estimated that the reduction in production during the last three seasons due to the cotton program was about 26 per cent. The average reduction in production from the base period selected was roughly 31 per cent during this period.

methods have been severely tested during the past three seasons by the large reductions required of co-operating farmers. If this program had been continued, it was not expected that the government would attempt to secure as large reductions in the future as in the past. Smaller reductions would mean that with the same funds larger benefit payments per acre could be made for land taken out of cotton production. And effective control by either voluntary or compulsory methods, or both, would be more feasible with relatively large benefit payments to co-operating producers than with relatively small ones. It would also be easier to secure a small reduction than a large one because the expected increase in price would be a smaller inducement to farmers not to co-operate and to expand their production.

Aside from the question whether control of production was constitutional, the method of control adopted by the AAA contained some features which might have caused it to break down. One is that the processing taxes might have become so unpopular, particularly outside of the Cotton Belt, that Congress would have repealed the legislation. Another is that many farmers might have become dissatisfied with the contract program as the benefits derived from it declined. However, if such a program were continued, few farmers would be able to determine whether or not the program was helping or hurting them, and whether the benefits derived from it were increasing or decreasing. An upward trend in business activity accompanied by an increased demand for cotton might cause an increase in the value of cotton produced. Farmers and others consciously or unconsciously might attribute the increase to control. On the other hand, they might attribute a decrease in income to control when in reality it was due to a decline in de-

mand. The fate of a control program that attempted to secure substantial reduction in cotton production over a period of years would therefore be very uncertain. But cotton farmers would always be certain of gaining by a program that provided payments of 120 million dollars for making only a small reduction in production.

A great deal of dissatisfaction among growers developed with respect to the individual acreage and production bases established by the AAA. But this probably would not endanger the program were it to be continued. In the first place, it is likely that many of the worst cases would be remedied in the near future. During the past two years, there has not been sufficient time or personnel to consider the complaints of farmers adequately. If the program were continued, however, a large part of the production data could be reviewed again and much of the dissatisfaction eliminated.

Unless the program became very unpopular, enforcement difficulties would probably not endanger it if continued, at least in the near future. Unreported violations of contracts with respect to the amount of cotton planted might increase in volume if individual farmers were able to make "deals" with committeemen. But such violations would probably be relatively few in number and of no great importance. Potential gains would seldom justify the risks involved. Under a program having a tax comparable to that levied by the Bankhead Act, violating farmers would run the double risk of being reported for violations of their contract and of having to pay this tax on the ginning of any cotton produced in excess of their allotments. Squads of inspectors could easily check up on local tendencies toward mass violations. In

years when production considerably exceeded the volume of tax exemption certificates issued, there might be some bootlegging of cotton. But, as pointed out in Chapter X, potential gains from bootlegging of cotton would be relatively small compared with the risks involved.

The greatest danger in continued control of cotton production is that growers and their representatives will exert effective pressure to keep production below the level that would be in the long-run interest of the growers themselves. While analysis presented in the preceding chapter indicates that the long-time effect of reducing the supply of cotton is to reduce the value of it, the immediate or short-time effect is to increase the value of it. Furthermore, farmers seem to think that the immediate effect of reducing production is to increase the total value of the crop harvested. For this reason they are likely to demand large reductions in production. The danger of large reductions would be particularly great if the Bankhead cotton ginning tax and the policy of making government loans to farmers on cotton were continued. With a large tax on the ginning of cotton in excess of specified quotas and with from 100 to 125 million dollars for benefit payments, it would be possible to secure reductions in cotton production of 25-30 per cent, and perhaps more, below what would otherwise be produced, for a considerable period of time. This danger of large reductions in the amount of cotton produced as a result of government effort would not be nearly as great under a voluntary program alone. The maximum reduction that could be attained with 100 million dollars annually for any appreciable length of time under a voluntary program would probably not be over 10-15 per cent.

DETERMINING WHERE COTTON SHOULD BE PRODUCED

In formulating the cotton program, practically no attempt was made to determine where cotton should be produced in the United States. The AAA merely decided the extent to which cotton production should be reduced and that every co-operating farmer should make about the same percentage reduction in acreage of cotton planted from that planted on the same farm during the base period. No provision was made for changing the base acreage of an individual farm because of improvement in its productive capacity since the base period, or because a son had left home or returned. Nor was any allowance made for shifts from one area to another in the comparative advantage of growing cotton. The program adopted was relatively inflexible, allowing for only a small range in the acreage that could be rented to the Secretary and other minor adjustments.

When no attempt is made to control production a very slight shift in the comparative advantage of producing cotton may cause a considerable shift in the geographical location of cotton production. Cotton is not the only crop grown on cotton farms in the South. When a farmer has 20 acres of cotton and 20 acres of corn it means that he thinks this combination will give him a more satisfactory income, all things considered, than 21 acres of cotton and 19 acres of corn. Consequently a small decline in the cost of producing cotton in one part of the Cotton Belt will tend to cause a considerable increase in cotton production in that part. Cotton prices will tend to be forced downward. In other parts of the Cotton Belt, if costs remain unchanged, net incomes from cotton will be reduced and farmers will tend to reduce their cotton acreage and increase their acreage of other crops. Thus a small change in the comparative advantage of producing

cotton may cause a marked shift in the geographical location of cotton production if no attempt is made to control or prevent such a shift. It seems unlikely that, unless a mechanical cotton picker which is economical to operate is put on the market, any very large shift in the comparative advantage of producing cotton will occur in the near future.

Probably shifts in the comparative advantage of producing cotton from farm to farm are nearly as important as shifts from area to area. The labor supply of many farmers changes considerably over a period of years due to the growing up of sons and daughters or their moving away from the farm. Likewise, the supply of capital and equipment changes. However, a fairly large proportion of the cotton produced in the United States is grown on farms operated by tenants, who move frequently anyway and can thus adjust themselves to such changes by moving to other farms.

Under an inflexible control program, any variations in comparative advantage which existed during the base period (either between areas or between farms), or any subsequent changes in comparative advantage, would cause some farmers to gain more than other farmers by renting land to the government. But such differences would probably be small for many years compared with benefit payments and cotton ginning taxes, unless a successful mechanical cotton picker were developed.

From an operative standpoint, therefore, lack of flexibility would not seem likely to be a serious difficulty under a semi-compulsory reduction program. Under a "voluntary" reduction program, it would be a larger limiting factor. But the limitations would be due mainly to the fact that a given increase in price is likely to cause a much greater expansion in cotton acreage in some areas

than in others, rather than a shift in the comparative advantage of growing cotton.

From a national economic standpoint, lack of flexibility is of little significance in any cotton program that requires all cotton growers to reduce their acreage and production of cotton. Since there are no satisfactory alternative farm enterprises in the South that require anything like as much labor as cotton does, any program that required a reduction in the amount of cotton produced on all farms would result in a reduction in the amount of labor required to operate most cotton farms. Under such conditions, it is obvious that a program requiring all farmers to make a flat reduction of 30 per cent in their cotton acreage would not involve an economic loss significantly greater than would result from a program which allowed some to make a 50 per cent reduction while others made only 10 per cent.

Under an adjustment or planning type of program which did not attempt to reduce production appreciably, this problem of determining where cotton should be grown would be of greater economic importance. Various plans for solving this problem have been proposed. One type of plan is to determine by farm management studies the comparative advantage of producing cotton in each type-of-farming area of the Cotton Belt, and then attempt to force whatever adjustments seem necessary by varying the contract offer to farmers. For instance, farmers in areas where it seems desirable to reduce cotton production a good deal might be permitted to rent 35-45 per cent or more of their cotton acreage to the government, while farmers in other areas might be offered benefit payments as a bounty for increasing their production of cotton.

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The major difficulty with this plan is that of determining where cotton acreage should be increased and where it should be reduced. In the absence of control, as pointed out on page 320, small shifts in the comparative advantage of growing cotton from area to area may cause relatively large changes in the acreage of cotton grown. In fact, it seems very likely that the probable error of determining changes or differences in comparative advantage would be as great as the variation in adjustments that would be permitted. Such a plan would also be very difficult to administer. The reasons for variations in adjustments would have to be explained over and over to farmers. There would be a great many complaints and few satisfactory answers to them.

Another type of plan frequently mentioned is to permit a rather wide range in the percentage of their base acreages that all farmers are permitted to rent to the Secretary. Under this plan it is sometimes expected that those having the greatest comparative advantage in growing cotton will rent the smallest acreage possible to the Secretary and those with the lowest comparative advantage the largest acreage possible. Then after several years, new bases would be computed on recent average acreages of cotton actually planted.

But this is not the way such a plan could be expected to work, particularly if the program were a voluntary one. In order to secure a large sign-up, the benefit payments would have to be large enough to offset not only the income or profit that might be obtained by growing cotton on the acreage rented to the Secretary, but also the expected profit that might be obtained from greatly increasing the cotton acreage on individual farms. Under such conditions all farms covered by contract—those

having the highest comparative advantage in growing cotton as well as those with the lowest—might rent as large an acreage as possible to the Secretary.

Still another type of plan is to vary the percentage of a farm's base acreage that may be rented to the government according to the amount of soil erosion in an area. Naturally the extent to which erosion was prevented by such a program would depend largely upon the use to which land not planted to cotton was put. Consequently, it has been suggested that benefit payments be varied according to the use of land taken out of cotton production. For instance, if land taken out of cotton production were planted to corn, one rate of payment would be made; if planted to soybeans, another rate; and if sown to a hay crop, still another rate. Under such a program the base acreage of all important crops would have to be determined and agreed to by farmers in much the same way as the base acreage for cotton has been determined. Furthermore, the acreage of all cultivated crops would have to be measured each year in order to check compliance with the terms of the contract. The entire cropping system of each farm covered by contract would be more or less under the control of the government. In fact, a plan was suggested of having only one contract per farm. In general, the idea behind this plan as applied to cotton is to specify in each contract the maximum permitted acreage of cotton and of each major group of crops, such as cultivated feed crops, hay crops, and pasture, leaving farmers free to vary the proportions of crops in each group. It is apparent that a base acreage for each group of crops would have to be established for each farm, and that the acreage planted would have to be measured and reported each year. In this way the government might attempt not only to check the erosion

of soil on individual farms but also to control major adjustments in the farm organization of different types of farming areas.

Perhaps a clearer picture of this whole problem of control in relation to soil erosion, soil conservation, and shifts in the comparative advantage of growing cotton can be gained by looking at it from another point of view. As an extreme case, suppose that studies of all of these factors indicated that, if no attempt were made to control production, farmers in one county would in a few years entirely discontinue growing cotton and that in another county they would continue to grow about the same amount as they did in the base period. Under such conditions, if the government offered to rent all of the cotton land in the marginal cotton county and let farmers in the other county produce as much cotton as they wanted to, it is apparent that the adjustment of cotton acreage to existing conditions would be speeded up. It is also apparent that only marginal farmers would be subsidized.

None of the preceding plans provides a very satisfactory way of determining where cotton should be produced—where its production should be increased and where it should be reduced—either by leaving the decision to farmers and adjusting contracts to changes made by them, or by leaving it to the administrators and requiring farmers to adjust their operations to the contracts. The amount of soil erosion might furnish a physical basis for such a determination, but how satisfactory this basis would be from an economic standpoint is uncertain. Furthermore, all of the preceding plans would involve the cumbersome individual farm contract method.

The economic advisability of exercising government

control over the production of cotton, entirely aside from the question of its constitutionality, however, cannot be successfully refuted on the ground of lack of flexibility, administrative complexity, or inability to determine where cotton should be grown. All of these difficulties could be successfully met by the plan which follows. This plan, like the preceding ones, is presented here merely for the purpose of explaining the basic problems involved in attempting to control cotton production by government action.

This plan consists of high tax levies on the ginning of cotton and the issuance of tax exemption certificates to farmers for the desired amount of cotton in practically the same manner as under the Bankhead Act. The original allotment of these certificates, however, would be made to the farm owner. Farmers would be permitted to transfer or sell the certificates received each year or the right to all future issues of such certificates. The amount of tax exemption certificates issued each year would be determined by a central economic committee.

The value or market price of tax exemption certificates would depend upon the volume issued and the demand for them. If the volume issued was for a larger amount of cotton than farmers expected to produce, there might be no market for them at any price. If, on the other hand, tax exemption certificates were issued for only 10.0 or 10.5 million bales, their market value might be relatively large. Their maximum value, however, would always be the amount of the tax levy.

Such a plan would tend to facilitate shifts in production from high-cost to low-cost areas and to eliminate marginal farms and producers. There would be no restriction on the amount of cotton any individual farmer could produce. Furthermore, every producer would be

free to plan his farm organization in almost exactly the same manner as he would in the absence of control. The only difference would be that one more factor would have to be taken into consideration. Take for instance a farm owner-operator in South Carolina who normally grew ten bales of cotton each year and received tax exemption certificates for eight bales out of a national quota of 12 million bales. This operator might decide that if certificates for only 12 million bales of cotton were issued, the price of cotton would be likely to be 11 cents, and that at this price he could afford to pay 2 cents per pound for tax exemption certificates on two bales of cotton. On the other hand, if these certificates were selling for 3 or 4 cents per pound, he might decide to reduce his cotton crop to five bales, sell his certificates for three bales, and grow more corn.

It is at once apparent that under such a plan a shift in the comparative advantage of growing cotton, say from the East to the West, would be reflected in the price offered for tax exemption certificates. If such a shift occurred, the Western grower could afford to pay, say, 3 or 4 cents for extra certificates, and some Eastern growers would find it more profitable to sell some or all of their certificates and grow a larger acreage of other crops or discontinue farming entirely. The additional income received from the sale of these certificates would facilitate such a shift. Furthermore, all owners of cotton farms would share in the economic gain resulting from a shift in the comparative advantage of producing cotton resulting from improvements in the means or methods of producing cotton, such as, for instance, the often mentioned cotton picker.

Under a strictly *laissez faire* system of economy, on the other hand, the introduction of a successful mechan-

ical cotton picker would greatly reduce the cost of producing cotton in some areas, and lead to greatly increased production of cotton. Prices of cotton would be forced down and cotton farmers in areas unadapted to the picker would tend to be forced out of cotton production. Also, expansion of cotton production in the new areas might be carried too far and low prices might force some new producers to discontinue growing cotton. When they had been forced out, cotton production would tend to decline and prices to recover. A large body of producers, however, would neither be forced out of cotton production nor encouraged to expand it greatly by such a shift. Their costs might be reduced enough to enable them to continue producing about the same amount of cotton. Nevertheless, their incomes from cotton would be reduced by the extremely low prices occasioned by the initial expansion of production on farms using the picker before high-cost farmers were forced to discontinue growing cotton.

Under the plan outlined here, the consequences of such a shift in comparative advantage would be quite different. It would tend to be reflected largely in the market price of certificates rather than in the price of cotton, particularly at first. Suppose, for instance, that the volume of certificates issued each year remained the same while such a shift in comparative advantage was taking place. Under such conditions the production and price of cotton would tend to remain on the same level as before (eliminating the possibility of increased foreign production for the sake of simplicity). Every producer receiving his usual allotment of certificates could continue to grow his usual amount of cotton and sell it for the usual price. His income would consequently remain unchanged. However, decreases in the cost of producing

cotton on some farms would enable their operators to offer a higher price than usual for additional tax exemption certificates. At the higher price some other producers whose costs had not declined might decide that their incomes would be increased by selling all or a portion of their certificates and growing corn, wheat, or some other product, or by discontinuing farming operations entirely. Under such conditions all cotton producers would share in the economic gains resulting from the introduction of a cotton picker or of other improvements. But if cotton production and prices remained the same, the rest of the nation would not gain appreciably from the improvement. Actually, of course, the economic committee could gradually increase the volume of tax exemption certificates issued so as to permit a gradual increase in production that would tend to force prices down in line with the new level of costs.

The administrative machinery required to carry out a plan of this kind would be relatively simple. There would be no contracts to sign or enforce. The allotment bases for practically all farms have already been established. Some revision would, of course, be necessary in order to correct inaccuracies, but once satisfactorily established, no change would be made in them. Each year the volume of tax exemption certificates issued would be prorated to the holders of these allotment bases. As pointed out above, the bases themselves could be sold or transferred. The certificates would be collected at the gin by the Bureau of Internal Revenue.

Enforcement of the plan should be relatively easy. No one would be prevented from expanding his production as much as he wanted to. His consideration of the profitableness of such an expansion would be on practically the same economic basis as under a *laissez faire*

system of economy. Furthermore, the volume of certificates issued might approximate the trend of production (so far as it could be estimated) in the absence of any control. Under these conditions the market price of these certificates would tend to be low, and the potential gains from violation small. The market value of the certificates would in fact be some indication of the amount of reduction being secured in the production of cotton.

Such a plan, however, is subject to a number of criticisms. In the first place, the fact that allotments of tax exemption certificates are issued to farm owners and not to tenants may be objected to. However, these owners now control the land on which cotton is produced. Issuing certificates to them would not change the situation materially, except as pointed out later. Furthermore, new producers could engage in the production of cotton at any time on the same basis as without such a control plan. In buying farms on which they expected to grow cotton, they would merely buy the land and the rights to tax exemption certificates separately.

In the second place, the issue of permanent rights to these certificates to present farm owners may be criticized. But this criticism is not serious. In a sense, the present owners of farms in the Cotton Belt already have title to the permanent rights to produce cotton in the United States. And if the production of cotton during the base period were distributed according to the comparative advantage of producing it, then the issue of such rights in proportion to such production would not penalize anyone. Of course, cotton production was not distributed exactly in this way during the base period. There would be many cases of individual injustice just as under the plan of the past three seasons.

In the third place, if this or any other plan were used to secure a large reduction in cotton production, it might easily result in the displacement of a considerable number of tenants. If only a small volume of certificates were issued, their value would presumably be high. Some farm owners would decide to sell their certificates, discontinue their farming operations, and displace all of their tenants. Other farmers would buy enough additional certificates to operate at full capacity or even to expand. A reduction in the acreage or planned production of cotton by 30 per cent under such a plan would tend to displace a considerable number of tenants. Such a displacement would create a relative surplus of tenants and give the landlords a decided bargaining advantage in hiring them as laborers or employing them as croppers or renters. Such a tendency, however, does not represent as severe an indictment of the plan as might appear at first glance. The major question involved is whether or not the cotton crop should be reduced by 30 per cent. If economic forces would tend to cause a reduction in our crop of 30 per cent, these tenants would be displaced in any event. In fact when the boll weevil invaded many parts of the Cotton Belt, many tenants and others left for the North.²

² From a constitutional standpoint, it may be argued that such a plan does not attempt to control cotton production by an invasion of states' rights. As pointed out in preceding paragraphs, every grower would be free to increase or decrease his production of cotton on practically the same basis as under a *laissez faire* system of economy. Shifts in production between states would take place as freely and perhaps more freely than at present. In reality, the government under this plan would be merely presenting the farmers who were growing cotton during the base period selected with a gift, the value of which would depend upon future developments. This gift would be paid for by the rest of the people of the United States, and would not penalize particularly any potential cotton growers.

DETERMINING HOW MUCH COTTON SHOULD BE
PRODUCED

This brings us to the central economic problem involved in government control over the production of cotton—that of determining how much cotton should be produced. Can a central governmental agency determine how much cotton should be produced in a single year or over a period of years in the best interests of the farmer, the South, and the nation as a whole?

The Bureau of Agricultural Economics issues outlook reports in which it indicates the changes in production that farmers should make, primarily from the standpoint of their own interest. To a certain extent these reports represent a forecast of the response that farmers are likely to make to current prices, and a forecast of the prices that are likely to be received for the following crop, taking into consideration the probable size of the crop, business activity, and other factors. But the task of deciding the amount to produce under such conditions, as well as the task of appraising the probable prices of competing products, is left to the farmer.

The determination of how much farmers as a group should produce is a far more difficult undertaking. The analyses presented in Appendix D are excellent illustrations of the limitations of existing methods of determining how much cotton should be produced. There is a wide range in estimates of the effect of cotton prices on foreign production and on consumption of cotton, as well as the effect of changes in supplies on cotton prices. Besides, in order to reach any general conclusion as to the effect of the cotton program of the AAA on the income of farmers from cotton, it is necessary to build estimate upon estimate. While the analysis presented, in spite of all its limitations, seems to indicate rather

conclusively that the income of farmers from cotton was increased by the cotton program, it furnishes little or no basis for choosing between 10, 20, or 40 per cent reduction in production. Actually the amount of reduction during the last three seasons was not determined by any such calculations, but on the basis of the largest amount of reduction that could be secured with the funds available for the program.

Such methods of appraisal are practically useless in determining how much cotton should be produced under a long-term control program. It would be impossible to tell on the basis of past experience how much the production of cotton was reduced below what would have been produced if no control program had been undertaken, or how much the consumption of cotton had been reduced or the production of cotton in foreign countries increased. Analysis of the response of consumers or of foreign producers to yearly changes in price in the past furnishes little or no measure of the effect of raising the level of prices for a series of years in the future.

Even though such forecasts of prices and production without control could be accurately made for a long period, they would not tell us how much cotton should be produced. This question is much more involved in that its answer depends in part upon the returns obtainable from some other use of resources now employed in producing cotton for export. It is sometimes argued that a foreign market in which cotton can be sold only at a loss might better be lost. But at what price is cotton sold at a loss? Some would say 6 cents per pound, some 8, and others still higher prices. Obtaining the answer to this question is the central problem of government control. In the absence of such control a market might

be lost in the competitive struggle of foreign and domestic producers; but there is little possibility of estimating accurately the price at which the loss would, or should, occur.

Although the last plan described in the preceding section might solve, or rather avoid, the problem of determining where cotton should be grown, it would not solve the problem of determining how much cotton should be produced. If drastic cuts were made in the amount of cotton produced, the market value of tax exemption certificates issued would be high, but as foreign production increased or as cotton consumption decreased, both cotton prices and the value of certificates would tend to decline. The market value of tax exemption certificates at any time would not furnish a satisfactory indication of the amount of cotton that should be produced.

The goal established by the Agricultural Adjustment Act for the control program, as pointed out in Chapter I, was the re-establishment of "prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles farmers buy equivalent to the purchasing power of agricultural commodities in the base period." This goal was usually termed the re-establishment of "parity" prices.

From a long-time standpoint, it seems reasonable to expect that cotton prices will again rise to "parity" with or without control of cotton production, unless some unusual improvement in the means of producing cotton is developed. Since 1910-14 there has probably been less improvement in producing cotton than in producing the things that farmers buy. The situation is quite different from that of wheat, for example, where the tractor and combine have greatly reduced costs of production.

As a long-term goal, therefore, parity price does not

appear to be particularly high, barring the development of a successful mechanical cotton picker. But how long it would have taken to reach this goal without control is not known. There was a tremendous expansion of cotton production in new areas between 1920 and 1930 in response to relatively high cotton prices, due partly and perhaps largely to the ravages of the boll weevil. After the expansion occurred in new areas, fairly effective measures of controlling the boll weevil came into general use in the older part of the Cotton Belt. This situation by itself might, in the absence of control measures, have delayed the rise of cotton prices to parity levels for some time. However, the trend in the demand for cotton has been upward for a long time and may continue upward for some time in the future.

But such a conclusion does not make parity price a very satisfactory guide for the operation of a control program. The general analysis of economic forces in the preceding section indicated that reduction of production in the United States could not long maintain cotton prices more than a cent per pound above what they would otherwise have been. In other words, approximately parity prices might be attained under control some time in the future by cotton crops in the United States that average 10, 12, 14, or 16 million bales per year.

Furthermore, even though parity prices were satisfactory as a long-term goal, they would not necessarily be a suitable short-term goal during a severe economic depression. If the United States had maintained parity prices throughout the present depression by reducing the amount produced, it is practically certain that foreign production would now be much larger than it is.

A concept of parity value (see note, page 12) would

be even less useful as a guide for determining the amount of cotton that should be produced. The analysis in the two preceding chapters indicated quite conclusively that the incomes of farmers are greater from small cotton crops than from large crops for a year or two. It is only the longer time effects that tend to make income for a series of years less for small crops than for large ones. But the longer term effects can be determined only in a general way, by forecasting the probable working of economic forces.

The use of parity income and supply-price curves as guides in the development of cotton control programs from year to year inevitably leads to smaller and smaller crops. They indicate, for instance, that if only 10.0 million bales of cotton had been harvested in 1935 instead of 10.7 million, the income of cotton growers would have been increased in 1935-36.

Furthermore, even though an economic committee were able to determine the amount of cotton that should be produced in the United States each year, there is no assurance that the government would attempt to secure such an amount. Economists are pretty well agreed that the United States should operate on a free-trade basis but we still have high tariffs. And the analysis presented in this book indicates clearly that the cotton program of the past three seasons has been modified in important respects by political influence exerted in the interest of particular groups.

In the course of our analysis of the Agricultural Adjustment experiment certain points stand out clearly. One is that cotton acreage can be effectively controlled by a combination of benefit payments, individual farm contracts, and a cotton ginning tax such as was provided

by the Bankhead Act. While the administration of this program was difficult it did not prove to be the insoluble problem which many people thought it to be when the venture was undertaken.

Another is that thus far the income of cotton farmers has been increased by the program. This increase has been relatively large during the past three seasons but will be offset to a considerable extent by losses in the future because of expansion in foreign production and decreased foreign consumption of American cotton caused by the program. On the whole these future losses will probably much more than offset any increase in farmers' receipts from the sale of cotton during the past three seasons but will probably not completely offset the increase in their income including the cash benefit payments which they received. Thus benefit payments, and not the price enhancement caused by production control, constituted the source of any net gain obtained. Raising cotton prices by drastic curtailment of production increases growers' incomes for a time, but in the end results in losses to cotton growers.

Still another conclusion is that the government's cotton loan policy was a serious mistake. It greatly handicapped the operation of the cotton control program because it led to larger rates of reduction than otherwise would have been attempted. Also, it was responsible for a large part of the decrease in consumption of American cotton which occurred while the program was in effect.

Finally, there is the fact that the AAA has not been able to solve the basic problems involved in government control over the production of cotton—determining where cotton should be grown and how much should be produced.

APPENDIXES

APPENDIX A

IMPORTANT BENEFIT PAYMENT AND PROCESSING TAX PROVISIONS OF THE AGRICULTURAL ADJUSTMENT ACT, AS AMENDED AUGUST 24, 1935¹

PART 2. COMMODITY BENEFITS

GENERAL POWERS

Sec. 8 (1) Whenever the Secretary of Agriculture has reason to believe that:

(a) The current average farm price for any basic agricultural commodity is less than the fair exchange value thereof, or the average farm price of such commodity is likely to be less than the fair exchange value thereof for the period in which the production of such commodity during the current or next succeeding marketing year is normally marketed, and

(b) The conditions of and factors relating to the production, marketing, and consumption of such commodity are such that the exercise of any one or more of the powers conferred upon the Secretary under subsections (2) and (3) of this section would tend to effectuate the declared policy of this title,

he shall cause an immediate investigation to be made to determine such facts. If, upon the basis of such investigation, the Secretary finds the existence of such facts, he shall proclaim such determination and shall exercise such one or more of the powers conferred upon him under subsections (2) and (3) of this section as he finds, upon the basis of such investigation, administratively practicable and best calculated to effectuate the declared policy of this title.

(2) Subject to the provisions of subsection (1) of this section, the Secretary of Agriculture shall provide, through agreements with producers or by other voluntary methods,

(a) For such adjustment in the acreage or in the pro-

¹ For a complete record of the terms of the original act, see *Compilation of Agricultural Adjustment Act as Amended and Acts Relating Thereto*, AAA, June 29, 1934, and the same, Aug. 27, 1935.

duction for market, or both, of any basic agricultural commodity, as he finds, upon the basis of the investigation made pursuant to subsection (1) of this section, will tend to effectuate the declared policy of this title, and to make such adjustment program practicable to operate and administer, and

(b) For rental or benefit payments in connection with such agreements or methods in such amounts as he finds, upon the basis of such investigation, to be fair and reasonable and best calculated to effectuate the declared policy of this title and to make such program practicable to operate and administer, to be paid out of any moneys available for such payments or, subject to the consent of the producer, to be made in quantities of one or more basic agricultural commodities acquired by the Secretary pursuant to this title.

(3) Subject to the provisions of subsection (1) of this section, the Secretary of Agriculture shall make payments, out of any moneys available for such payments, in such amounts as he finds, upon the basis of the investigation made pursuant to subsection (1) of this section, to be fair and reasonable and best calculated to effectuate the declared policy of this title:

(a) To remove from the normal channels of trade and commerce quantities of any basic agricultural commodity or product thereof;

(b) To expand domestic or foreign markets for any basic agricultural commodity or product thereof;

(c) In connection with the production of that part of any basic agricultural commodity which is required for domestic consumption.

(4) Whenever, during a period during which any of the powers conferred in subsection (2) or (3) is being exercised, the Secretary of Agriculture has reason to believe that, with respect to any basic agricultural commodity:

(a) The current average farm price for such commodity is not less than the fair exchange value thereof, and the average farm price for such commodity is not likely to be less than the fair exchange value thereof for the period in which the production of such commodity during the current or next succeeding marketing year is normally marketed, or

(b) The conditions of and factors relating to the production, marketing, and consumption of such commodity are

such that none of the powers conferred in subsections (2) and (3), and no combination of such powers, would, if exercised, tend to effectuate the declared policy of this title, he shall cause an immediate investigation to be made to determine such facts. If, upon the basis of such investigation, the Secretary finds the existence of such facts, he shall proclaim such determination, and shall not exercise any of such powers with respect to such commodity after the end of the marketing year current at the time when such proclamation is made and prior to a new proclamation under subsection (1) of this section, except in so far as the exercise of such power is necessary to carry out obligations of the Secretary assumed, prior to the date of such proclamation made pursuant to this subsection, in connection with the exercise of any of the powers conferred upon him under subsections (2) or (3) of this section.

(5) In the course of any investigation required to be made under subsection (1) or subsection (4) of this section, the Secretary of Agriculture shall hold one or more hearings, and give due notice and opportunity for interested parties to be heard.

(6) No payment under this title made in an agricultural commodity acquired by the Secretary in pursuance of this title shall be made in a commodity other than that in respect of which the payment is being made. For the purposes of this subsection, hogs and field corn may be considered as one commodity. . . .

PROCESSING TAX

Sec. 9(a) To obtain revenue for extraordinary expenses incurred by reason of the national economic emergency, there shall be levied processing taxes as hereinafter provided. When the Secretary of Agriculture determines that any one or more payments authorized to be made under Section 8 are to be made with respect to any basic agricultural commodity, he shall proclaim such determination, and a processing tax shall be in effect with respect to such commodity from the beginning of the marketing year therefor next following the date of such proclamation. . . . The processing tax shall be levied, assessed, and collected upon the first domestic processing of the commodity, whether of domestic production or imported, and shall be paid by the processor. The rate of tax shall conform to the require-

ments of subsection (b). Such rate shall be determined by the Secretary of Agriculture as of the date the tax first takes effect, and the rate so determined shall, at such intervals as the Secretary finds necessary to effectuate the declared policy, be adjusted by him to conform to such requirements. The processing tax shall terminate at the end of the marketing year current at the time the Secretary proclaims that all payments authorized under Section 8 which are in effect are to be discontinued with respect to such commodity. The marketing year for each commodity shall be ascertained and prescribed by regulations of the Secretary of Agriculture. . . .

(b) (1) The processing tax shall be at such rate as equals the difference between the current average farm price for the commodity and the fair exchange value of the commodity, plus such percentage of such difference, not to exceed 20 per centum, as the Secretary of Agriculture may determine will result in the collection, in any marketing year with respect to which such rate of tax may be in effect pursuant to the provisions of this title, of an amount of tax equal to (a) the amount of credits or refunds which he estimates will be allowed or made during such period pursuant to Section 15 (c) with respect to the commodity and (b) the amount of tax which he estimates would have been collected during such period upon all processings of such commodity which are exempt from tax by reason of the fact that such processings are done by or for a state, or a political subdivision or an institution thereof, had such processings been subject to tax. If, prior to the time the tax takes effect, or at any time thereafter, the Secretary has reason to believe that the tax at such rate, or at the then existing rate, on the processing of the commodity generally or for any designated use or uses, or on the processing of the commodity in the production of any designated product or products thereof for any designated use or uses, will cause or is causing such reduction in the quantity of the commodity or products thereof domestically consumed as to result in the accumulation of surplus stocks of the commodity or products thereof or in the depression of the farm price of the commodity, then the Secretary shall cause an appropriate investigation to be made, and afford due notice and opportunity for hearing to interested parties. If thereupon the Secretary determines and proclaims that any such result will

occur or is occurring, then the processing tax on the processing of the commodity generally or for any designated use or uses, or on the processing of the commodity in the production of any designated product or products thereof for any designated use or uses, shall be at such lower rate or rates as he determines and proclaims will prevent such accumulation of surplus stocks and depression of the farm price of the commodity, and the tax shall remain during its effective period at such lower rate until the Secretary, after due notice and opportunity for hearing to interested parties, determines and proclaims that an increase in the rate of such tax will not cause such accumulation of surplus stocks or depression of the farm price of the commodity. Thereafter the processing tax shall be at the highest rate which the Secretary determines will not cause such accumulation of surplus stocks or depression of the farm' price of the commodity, but it shall not be higher than the rate provided in the first sentence of this paragraph.

(2) In the case of wheat, cotton, field corn, hogs, peanuts, tobacco, paper, and jute, and (except as provided in paragraph (8) of this subsection) in the case of sugar cane and sugar beets, the tax on the first domestic processing of the commodity generally or for any particular use, or in the production of any designated product for any designated use, shall be levied, assessed, collected, and paid at the rate prescribed by the regulations of the Secretary of Agriculture in effect on the date of the adoption of this amendment, during the period from such date to December 31, 1937, both dates inclusive. . . .

[Sec. 9-b] (6) (A) Any rate of tax which is prescribed in paragraph (2), (3), (4), or (5) of this subsection or which is established pursuant to this paragraph (6) on the processing of any commodity generally or for any designated use or uses, or on the processing of the commodity in the production of any designated product or products thereof for any designated use or uses, shall be decreased (including a decrease to zero) in accordance with the formulae, standards, and requirements of paragraph (1) of this subsection, in order to prevent such reduction in the quantity of such commodity or the products thereof domestically consumed as will result in the accumula-

tion of surplus stocks of such commodity or the products thereof or in the depression of the farm price of the commodity, and shall thereafter be increased in accordance with the provisions of paragraph (1) of this subsection but subject to the provisions of subdivision (B) of this paragraph (6).

(B) If the average farm price of any commodity, the rate of tax on the processing of which is prescribed in paragraph (2), (3), (4), or (5) of this subsection or is established pursuant to this paragraph (6), during any twelve months' period ending after July 1, 1935 consisting of the two months immediately preceding and the first ten months of any marketing year—

(i) is equal to, or exceeds by 10 per centum or less, the fair exchange value thereof, or, in the case of tobacco, is less than the fair exchange value by not more than 10 per centum, the rate of such tax shall (subject to the provisions of subdivision (A) of this paragraph (6)) be adjusted, at the beginning of the next succeeding marketing year, to such rate as equals 20 per centum of the fair exchange value thereof.

(ii) exceeds by more than 10 per centum, but not more than 20 per centum, the fair exchange value thereof, the rate of such tax shall (subject to the provisions of subdivision (A) of this paragraph (6)) be adjusted, at the beginning of the next succeeding marketing year, to such rate as equals 15 per centum of the fair exchange value thereof.

(iii) exceeds by more than 20 per centum the fair exchange value thereof, the rate of such tax shall (subject to the provisions of subdivision (A) of this paragraph (6)) be adjusted, at the beginning of the next succeeding marketing year, to such rate as equals 10 per centum of the fair exchange value thereof.

(C) Any rate of tax which has been adjusted pursuant to this paragraph (6) shall remain at such adjusted rate unless further adjusted or terminated pursuant to this paragraph (6), until December 31, 1937, or until July 31, 1936, in the case of rice.

(D) In accordance with the formulae, standards, and requirements prescribed in this title, any rate of tax prescribed in paragraph (2), (3), (4), or (5) of this subsection or which is established pursuant to this paragraph (6) shall be increased.

(E) Any tax, the rate of which is prescribed in paragraph (2), (3), (4), or (5) of this subsection or which is established pursuant to this paragraph (6), shall terminate pursuant to proclamation as provided in Section 9(a) of this title or pursuant to Section 13 of this title. Any such tax with respect to any basic commodity which terminates pursuant to proclamation as provided in Section 9(a) of this title shall again become effective at the rate prescribed in paragraph (2), (3), (4), or (5) of this subsection, subject however to the provisions of subdivisions (A) and (B) of this paragraph (6), from the beginning of the marketing year for such commodity next following the date of a new proclamation by the Secretary as provided in Section 9(a) of this title, if such marketing year begins prior to December 31, 1937, or prior to July 31, 1936, in the case of rice, and shall remain at such rate until altered or terminated pursuant to the provisions of Section 9 or terminated pursuant to Section 13 of this title.

(F) After December 31, 1937 (in the case of the commodities specified in paragraphs (2), (4), and (5) of this subsection), and after July 31, 1936 (in the case of rice), rates of tax shall be determined by the Secretary of Agriculture in accordance with the formulae, standards, and requirements prescribed in this title but not in this paragraph (6), and shall, subject to such formulae, standards, and requirements, thereafter be effective.

(G) If the applicability to any person or circumstances of any tax, the rate of which is fixed in pursuance of this paragraph (6), is finally held invalid by reason of any provision of the Constitution, or is finally held invalid by reason of the Secretary of Agriculture's exercise or failure to exercise any power conferred on him under this title, there shall be levied, assessed, collected, and paid (in lieu of all rates of tax fixed in pursuance of this paragraph (6) with respect to all tax liabilities incurred under this title on or after the effective date of each of the rates of tax fixed in pursuance of this paragraph (6)), rates of tax fixed under paragraph (2), (3), (4), or (5), and such rates shall be in effect (unless the particular tax is terminated pursuant to proclamation, as provided in Section 9(a) or pursuant to Section 13) until altered by act of Congress; except that, for any period prior to the effective date of such holding of invalidity,

the amount of tax which represents the difference between the tax at the rate fixed in pursuance of this paragraph (6) and the tax at the rate fixed under paragraphs (2), (3), (4), and (5) shall not be levied, assessed, collected, or paid.

[Sec. 9] (c) For the purposes of Part 2 of this title, the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power, with respect to articles farmers buy, as such commodity had during the base period specified in Section 2; and, in the case of all commodities where the base period is the pre-war period, August 1909 to July 1914, will also reflect interest payments per acre on farm indebtedness secured by real estate and tax payments per acre on farm real estate, as contrasted with such interest payments and tax payments during said base period; and the current average farm price and the fair exchange value shall be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture. The rate of tax upon the processing of any commodity, in effect on the date on which this amendment is adopted, shall not be affected by the adoption of this amendment and shall not be required to be adjusted or altered, unless the Secretary of Agriculture finds that it is necessary to adjust or alter any such rate pursuant to Section 9(a) of this title. . . .

APPENDIX B

PROPOSALS FOR A 1934-35 COTTON ACREAGE REDUCTION PROGRAM¹

Immediately after the 1933 sign-up campaign was completed, an attempt was made to formulate a program for 1934 and 1935. At a meeting of Southwestern agricultural workers, in Atlanta, Georgia, on August 5, 1933 the adoption of an allotment plan for cotton along the following general lines was proposed and urged.

THE ALLOTMENT PLAN AND COTTON

As we understand it the application of the allotment plan to cotton would be approximately as follows:

The average production of cotton in the United States for a period, say of five years, would be determined. The average domestic consumption for the same period would be determined. Let us say it was 45 per cent of production. The domestic allotment of the entire Cotton Belt would be 45 per cent of the average production. The allotment to each state would be 45 per cent of its five-year average production. Likewise for each county within each state. A county organization would take the county allotment and divide it among the cotton growers according to the average production of each. The period for basing individual allotments might be a two- or three-year period and allotments would be adjusted pro rata to fit the county allotment. With the purpose of raising the price to pre-war parity levels the Secretary of Agriculture would call for a reduction in acreage, say of 30 per cent, on the part of those growers who are to receive the benefits of the allotment plan. The grower would agree in return for benefits received under the allotment plan to reduce his acreage and would be paid by the federal government an amount that would in effect give him the parity price on his individual allotment of approximately 45 per cent of his usual production. For the rest he would receive nothing more than the usual market price. His entire crop

¹ Taken from mimeographed statements by the AAA.

would be sold in the usual way the allotment benefits serving to raise his cash income offsetting the possible loss from reducing his acreage. Growers not co-operating would receive the ordinary or prevailing market price on their entire crop. The benefits for a particular year would be paid to co-operating growers who reduced acreage according to agreement with the Secretary regardless of the price of cotton for that season by reason of the fact that the processing tax would have been applied and collected and the acreage would have been reduced by the individual. The details of the plan would be similar to the plan now being applied to wheat.

A base period for applying the allotment plan to cotton. It would seem that the period which is to be used as the base period for determining the allotment to be made to each of the several states should be not greatly removed in time from the present and reasonably uniform in acreage planted, yield per acre and total production in the United States as a whole and in each of the states and in rate of domestic consumption of American cotton. The period 1926-30 is probably better in these respects than any other five-year period. The acreage planted was high but fairly uniform varying from 39,479,000³ to 45,847,000 acres, the yield per acre and consequently the total production were except for one year, fairly uniform throughout the period. The rate of domestic consumption, except for 1930, was rather uniform.

Although this plan provided for a five-year period as the basis for distributing state and county allotments, "the period for basing individual allotments might be a two- or three-year period and allotments would be adjusted pro rata to fit the county allotment."

No provision for paying rent on land taken out of cotton production was suggested, but the resolution did state that the grower "would be paid by the federal government an amount that would in effect give him the parity price on his individual allotment of approximately 45 per cent of his usual production."

Many other plans were suggested but none received

³ Given as 43,339,000 in the mimeographed statement but changed to 39,479,000 by the AAA.

or could hope to receive serious consideration that did not provide for some reduction in the production of cotton. Mr. Cobb, in outlining the objectives at a meeting in Dallas, Texas on September 5, 1933, limited the discussion to a consideration of ways and means of balancing the supply of and demand for cotton and of establishing a relationship between cotton prices and prices of things farmers buy similar to that existing during the period 1909-14. Plans submitted to the AAA for accomplishing these objectives were classified by Mr. Cobb as follows:

1. The complete cotton holiday.
2. Complete cotton holiday west of the [Mississippi] river in 1934 and east of the river in 1935.
3. Limiting the amount of cotton ginned through licensing of gins and the issuance of permits to gin a certain number of bales of cotton by each grower based on previous production.
4. Numerous plans for control through acreage restriction.

The following tentative plan for cotton acreage reduction in 1934 and 1935, proposed by the AAA, was read by Mr. Cobb at this meeting.

TENTATIVE PLAN FOR COTTON ACREAGE REDUCTION IN 1934 AND 1935

Foreword: The principles contained in the following have been selected from numerous plans and suggestions made to the Agricultural Adjustment Administration from representative producers and others interested in the cotton problem. The plan outlined in tentative form is possible under existing law and practicable in that it should accomplish the desired end by limiting cotton production.

(1) Provide for the establishment of county cotton production control associations, following substantially the plan used for wheat, the present county [association] constituting the county campaign committee. The local county agent, the official representative of the U. S. Department of Agriculture, shall be the secretary of the association.

(2) Determine the amount of acreage to be planted to cotton in 1934. That amount should be, approximately 25,000,000

acres, approximately 60 per cent of the five-year average. The Secretary of Agriculture shall have the right to increase the acreage which may be planted if circumstances appear to justify such action. That determination shall be proclaimed on or before January 1, 1934.

Allocate the acreage to be planted amongst cotton-producing states on the basis of a ratable proportion of the five-year average, 1928-32 inclusive. Further allocate to each county the ratable portion of the state's five-year average. The county association shall allocate to each farm its portion of the acreage to be planted by the operator on basis of five-year average. If land has not been planted to cotton continuously, adjacent or land of similar character shall be used to determine basis.

(3) Compensate producer in part by paying cash rental for acreage left out of cotton production. This rental shall be paid in three installments and on appropriate dates to be determined by Secretary of Agriculture. No rental shall be paid producers in advance of actual planting. The amount of the cash rental shall be determined by the county association subject to the approval of the Cotton Section of the Agricultural Adjustment Administration and shall be based upon the following:

		Pounds per Acre			
Approximately	75 to 125	Not over	\$ 3		
	150 to 200	" "	\$ 5		
	225 to 300	" "	\$ 7	\$83,000,000	
				rent	
	325 to 400	" "	\$ 9		
	400 and over	" "	\$11		

The per acre production shall be determined by the county association based on the preceeding five-year average production of the land in question or lands of like character where not planted to cotton continuously.

(4) The producer, through the county association, shall enter into contract with the Secretary of Agriculture agreeing to rent land proposed to be left out of production. It shall be made clear that Secretary of Agriculture may prescribe uses for acreage rented and limit or restrict crops to be produced thereon.

(5) Each producer shall file written application for membership in county association and an offer to enter into an acreage

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restriction contract. When such membership shall have been granted and offer accepted, producer will have agreed to abide by rules and regulations promulgated. Memberships shall be granted for period of two years, 1934 and 1935, the member agreeing to comply with any requirements made by the Secretary of Agriculture with reference to acreage production and/or crop production for each year. Regulations for 1935 shall not require the producer to restrict acreage in excess of 25 per cent of the five-year average planted to cotton as set forth in his application. Compensation for 1935 shall be on the same basis as 1934.

(6) The average annual domestic consumption of cotton for the five-year period ending July 31, 1933, was approximately 5,565,000 bales. Allocate this average to the counties of each state in proportion to five-year average production of each county. County allotment committees shall allocate to individual producers ratable portion of county's allocation, such allotment being based on individual's five-year average per acre production. On the allotted baleage, Secretary of Agriculture shall agree that producer will receive payment tending to give him parity price plus his ratable proportion of any surplus of funds available for benefit payments resulting from failure of some producers to co-operate. In the event Secretary of Agriculture must pay producer a sum representing the difference between average farm price and parity price, rental payments shall be deducted from such sums.

Miscellaneous Provisions:

Agreement to give producer parity price on domestic portion of his crop shall apply to 1935 if Secretary determines to reduce acreage.

Permits to plant shall be issued members of county association. To obtain permit applicant must give such data concerning acreage to be planted, by whom acreage has been farmed for past five years and other data, if required.

No lands which have not been planted to cotton at some time during five-year period may be planted except with express permission.

No permit shall be issued to plant land which has not averaged in production as much as 75 pounds of lint cotton per acre during the five-year period.

Co-operation of Farm Credit Administration, Federal Reserve system, local banks and other agencies supplying agricultural production credit to farmers shall be procured, if possible, such agencies agreeing to withhold production credit from producers who refuse to participate in the program.

This plan was very favorably received by most of those present at this meeting. Little opportunity was given for questioning the speaker or for opposing any feature of the plan, although the opposition was later invited to submit briefs.

It will be noted that the proposed amount of reduction provided for in this plan was 40 per cent as compared with 30 per cent suggested at the Atlanta meeting on August 5.

This plan was generally recognized by those at the Dallas meeting as being very favorable to landowners as compared to both the cotton plow-up contracts and the plan adopted by the Wheat Section. Under the wheat plan the tenant was to obtain approximately two-thirds of the benefit payments, whereas in this cotton plan it was generally understood, although not expressly stated, that a great many landlords would receive all of the rental payments and the usual crop share of the benefit payment. Besides, the landlord was permitted considerable liberty in dealing with his tenants. This caused the *Texas Weekly* in its issue of September 9, 1933, to state: "On a conservative basis we estimate that in Texas the plan will eliminate no less than 80,000 tenants and in the South no less than 200,000." Furthermore, "by creating a large surplus labor supply it is insured that cotton farmer wages will be held down to a minimum, while the income from land will be increased. It is a good plan, we say, for the landowner, whether he be a working farmer or a landlord. But it is extremely questionable that it is a good plan for society taken as a whole."

Meetings similar to the one at Dallas were held on

the same day at Memphis, Tennessee, and Atlanta, Georgia. At both of these meetings the general features of the proposed plan were endorsed but there was a great deal of agitation and sentiment expressed in favor of a baleage control plan similar to that now embodied in the Bankhead Act. At the Atlanta meeting the baleage as well as the acreage control plan was endorsed, but at the Memphis meeting a baleage control plan lost by a vote of 96 to 70. The general consensus at the Memphis meeting, however, was that the baleage plan was defeated by the opposition of Oscar Johnston of the AAA and because additional legislation might be needed to put it into effect.

In opening the Memphis meeting Mr. Johnston set up the following requirements for any plan to be discussed:

1. Must be capable of immediate adoption. [It was essential that the plan be announced within two weeks, started in four, and signed up in eight weeks so that the full effect of it would be felt during the marketing of the 1933 crop.]
2. Must conform to the Agricultural Adjustment Act in that it must be voluntary.
3. Must not require future legislation to make it possible.
4. Must not be doubtful as to judicial interpretation.
5. Must appear to be economically sound to the administration.

Mr. Johnston stated that over 100 different plans had been submitted to Secretary Wallace for control of cotton in 1934. These plans were classified as follows:

1. No cotton legislation.
2. Plans to prohibit cotton-growing in one half of the Cotton Belt in 1934, and the other half in 1935. The producing area to be taxed to pay the non-producing one.
3. Privilege tax to plant cotton—to be avoided if the acreage of cotton was reduced.
4. Export debenture.

5. Baleage or gin control.
6. Acreage control or renting plan.

Most of the discussion at this meeting, however, centered around the last two types of plans.

Mr. C. B. Smith, a planter of Blytheville, Arkansas, and special investigator in the 1933 plow-up campaign in charge of the Smith-Hughes men of Missouri, Arkansas, and Tennessee, made the following proposal:

1. If and when a certain proportion of planters (suggested 75 per cent) offered to join in the plan, that Secretary Wallace through ginners and warehouse codes make the plan compulsory for all producers.
2. The desired baleage for each year be apportioned to each state, county, and individual producer on the basis of total cultivated acreage.
3. Declare a cotton processing tax of 9 cents per pound and pay back the proceeds to producers at rates and by methods designated by the Secretary.
4. Issue duplicate gin tags, one of metal and one of cardboard, to each producer for each bale of cotton allotted him.

This general plan was supported particularly by Harry D. Wilson, commissioner of agriculture in Louisiana, and Dr. Tait Butler, editor of the *Progressive Farmer*. An acreage control plan was vigorously supported by Oscar Johnston of the AAA, Bob Snowden, a Hughes County, Mississippi, planter, State Senator W. B. Roberts, and Charles McNeal, manager of the Mississippi Farm Bureau Federation and a cotton planter.

Mr. Johnston pointed out that the proposed cotton plan differed widely from that for wheat in providing for both rental payments and a parity bonus, whereas the wheat plan provided only for a parity bonus. He held, furthermore, that "the rental prices in the schedule are as much as you could get from the land from your neighbors."³ Yet the rental payments were later increased about 25 per cent.

³ *Commercial Appeal*, Sept. 6, 1933.

APPENDIX C

PROCEDURE UNDER THE BANKHEAD ACT

In order to give in Chapter 8 a general view of operations under the Bankhead Act, many exceptions and details were reserved for this appendix. In the sections which follow, the qualifications and additions necessary to round out the abbreviated portions of the chapter are given.

Section 7(a) of the act set up the general procedure by which the national quota of tax-exempt cotton should be awarded to counties within a state and to individuals within a county. This section reads as follows:

Sec. 7(a). The amount of cotton allotted to any county pursuant to Section 5(b) [regular county allotment] shall be apportioned by the Secretary of Agriculture to farms on which cotton has been grown within such county. Such allotments to any farm shall be made upon application therefor and may be made by the Secretary based upon—

(1) A percentage of the average annual cotton production of the farm for a fair representative period; or

(2) By ascertaining the amount of cotton the farm would have produced during a fair representative period if all the cultivated land had been planted to cotton, and then reducing such amount by such percentage (which shall be applied uniformly within the county to all farms to which the allotment is made under this paragraph) as will be sufficient to bring the total of the farm allotments within the county's allotment; or

(3) Upon such basis as the Secretary of Agriculture deems fair and just, and will apply to all farms to which the allotment is made under this paragraph uniformly, within the county, on the basis or classification adopted. The Secretary of Agriculture, in determining the manner of allotment to individual farmers, shall provide that the farmers who have voluntarily reduced their cotton acreage shall not be penalized in favor of those farmers who have not done so.

(b) After the crop year 1934-35 the apportionment shall not be on the basis set out in paragraph (1) of subsection (a) of this section.

(c) The total allotment to farms in each county under this section shall not exceed the approximate number of bales allotted to that county under Section 5(b).¹

When it came to the actual apportionment of the national quota in accordance with the act, however, many special cases arose in connection with establishing both county and farm allotment bases.

County allotments. In compliance with Section 5(b) of the act, the national quota of tax-exempt cotton was apportioned among the counties of a state in accordance with the ratio of the average number of bales produced in each county during 1928-32 to the average number of bales produced in all counties in the state during the same period. But certain exceptions to this general practice were introduced by Section 5(b) of the act, which specified that if the production of cotton in any county was found to have been abnormally low for one or more years of the base period as a result of unusual and uncontrollable natural causes, such years were to be excluded in determining the average production for that county.

In 1934, a year of abnormally low cotton production in a county was defined as one in which the average yield per acre was about 25 per cent or more below the 1928-32 average yield for the same county. Nearly two-thirds of the cotton counties had one year coming within this definition. Only a few counties, however, had their allotment of certificates determined by production in less than four years, as shown by the table on page 359.

This method of determining county allotments natu-

¹ 73 Cong., Public No. 169. The apportionment in 1934-35 was made in accordance with Sec. 7(a)(3) of the act and therefore did not have to be changed in 1935-36 even though it conformed closely to Sec. 7(a)(1).

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rally favored those with highly fluctuating yields or production. The straight five-year average production would have been a more nearly correct basis, from an

NUMBER OF COUNTIES IN EACH STATE RECEIVING ALLOTMENTS OF TAX-EXEMPT COTTON IN 1934 IN PROPORTION TO THEIR AVERAGE PRODUCTION IN ONE TO FIVE YEARS OF THE BASE PERIOD 1928-32*

State	Number of Counties	Number of Years Included in Average				
		5	4	3	2	1
Alabama.....	35	22	13	—	—	—
Arizona.....	6	5	1	—	—	—
Arkansas.....	71	—	71	—	—	—
California.....	16	14	2	—	—	—
Florida.....	37	—	25	1	5	6
Georgia.....	156	55	99	1	—	1
Illinois.....	2	2	—	—	—	—
Kansas.....	2	2	—	—	—	—
Kentucky.....	12	2	4	—	6	—
Louisiana.....	62	23	39	—	—	—
Mississippi.....	82	46	36	—	—	—
Missouri.....	12	—	12	—	—	—
New Mexico.....	12	7	5	—	—	—
North Carolina.....	79	54	25	—	—	—
Oklahoma.....	75	29	45	1	—	—
South Carolina.....	46	15	31	—	—	—
Tennessee.....	51	29	22	—	—	—
Texas.....	237	40	183	13	1	—
Virginia.....	22	20	2	—	—	—
Total.....	1,015	365	615	16	12	7

* Data furnished by the AAA.

economic standpoint, for allotting certificates to most counties.

In 1935, county allotments were determined on a basis more closely approximating the five-year average than in 1934. In effect a four-year average was used. The same years were excluded in determining the allotment basis of each county as in 1934 except where the exclu-

sion of some other year in the base period in place of any year excluded in 1934 would raise the allotment basis. In addition, the year of lowest production during the base period was excluded in determining the allotment basis of every county whose allotment basis was determined in 1934 by average production during the full five-year period 1928-32.

If the average annual production during 1928-32 had been used in determining the allotment basis of all counties in 1934 and 1935, the tax-exempt quota of each group of counties shown in the table on page 359 would have been changed by the following percentages:

Years in County Base	1934	1935
5	+ 4.1	+ 2.0
4	- 1.9	- 0.7
3	-18.7	-18.1
2	-12.7	-12.0
1	-73.3	-73.3

Since practically all the counties in 1934 (980 out of 1,015, or 98.5 per cent) used average production in either four or five years during 1928-32 as the basis for computing allotments, a comparison of the percentage changes given above for the four- and five-year groups enables us to draw the following conclusion: The allotment bases established in 1935 deviated less than half as much as in 1934 from what they would have been if no years of the base period had been excluded in determining them.

Farm allotments. On page 164 it was stated that the Secretary of Agriculture did not require a producer to sign a 1934-35 cotton acreage reduction contract in order to participate in the Bankhead program. In general the basis for allotment of tax exemption certificates from the

“regular” state quotas to non-signers was determined in a manner similar to that used for contract signers. There were some differences, however. For instance, all farms on which cotton had been planted during the period 1928-32 could qualify for a share of the regular county quota of tax-exempt cotton, but not all of them could qualify for a contract. In 1934, the county and community committees were also authorized to assign yields for all farms of non-signers on which cotton was grown in less than four years during 1928-32, whereas they assigned yields to farms of contract signers only when their acreage base represented cotton planted in 1933 or 1932 and 1933. This change tended to give local committees greater control over the non-contract signers than they had over contract signers.

In 1934 the allotment bases of farms covered by a 1934-35 cotton acreage reduction contract were calculated by multiplying the maximum acreage of cotton permitted by the adjusted average yield.² Allotment bases of farms not covered by such a contract on which cotton had been grown in any of the years 1928-32 inclusive were calculated in a manner similar to that used in determining the permitted acreage and adjusted average yield of contract signers.

The production data submitted by non-signers were first adjusted by the county committee to conform to all adjustments made in each county in the production data of contract signers. (The adjusted average acreage and production estimates of contract and non-contract signers in each county during the base period, however, were not required to come within the official estimates of the

² These data were to be copied from the notice of acceptance if available. If it was not available, similar data were copied from the contract as approved by the state board of review. If the county committee was convinced beyond reasonable doubt that the contract data were not correct, or in accord with the facts, it was permitted to adjust them.

Division of Crop and Livestock Estimates.) Each non-signer's allotment basis was then determined by multiplying his estimated production during the base period, as adjusted, by the average percentage of their base acreage that contract signers in the county were permitted to plant. The allotment basis of farms not covered by a 1934-35 cotton acreage reduction contract, however, could not be less than 40 per cent of the acreage planted to cotton on such farms in 1932 (or, if cotton was not planted thereon in 1932, then the latest year in the period 1928-32 in which cotton was planted thereon) multiplied by the average or assigned yield for such farm. No minimum of this kind was established in 1935.

In 1935 the allotment bases were calculated in practically the same manner as in 1934 except for the substitution of base acres (adjusted average acres planted during the base period) in place of permitted acres (the maximum acreage contract signers were permitted to plant and comparable acreage for non-signers). This difference, however, is significant. For instance, a grower with a base of 20 acres would in 1934 have received a 15 per cent smaller allotment of tax exemption certificates if he rented 45 per cent of his base acreage to the government than he would have by renting only 35 per cent, whereas in 1935 he received the same allotment of certificates regardless of the acreage rented to the government. The net effect of this change was to increase the incentive of farmers to rent more acres to the government.

It will be remembered that in addition to the "regular" allotments a "state reserve" of 10 per cent of each state quota was set aside in 1934 to take care of special classes which were not equitably provided for by the regular allotments. In 1935 the percentage set aside as a state reserve varied from state to state according to the estimated need for it. The four classes specified in the

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act as eligible for a share of this reserve, together with the manner in which their allotment bases were established in 1934, are given below:

1. Farms where for the preceding three years (1930-32) less than one-third of the cultivated land had been planted to cotton.³ Such farms were given an allotment from the state reserve equal to the difference between one-third of the cultivated land in 1934 (less the percentage rented to the Secretary) and the average annual cotton acreage of the farm during 1930-32 (less the same percentage rented to the Secretary) times the estimated yield per acre for 1928-32 as approved by the state allotment board. Example: A farm having 300 acres of cultivated land in 1934 with 40 per cent of its base cotton acreage rented to the government, and having the following production record in 1928-32.

Year	Acreage Planted	Average Yield (In pounds)	Production (In pounds)
1928	0	200	0
1929	0	200	0
1930	25	200	5,000
1931	25	200	5,000
1932	25	200	5,000
1930-32 average, and base production . . .	25	200	5,000
1930-32 average less 40 per cent, and regular allotment basis	15	200	3,000
60 per cent of one-third of cultivated land	60	200	12,000
Difference (allotment basis for state re- serve)	—	—	9,000

2. Farms not used in cotton production prior to 1933.⁴ This definition was applied to farms on which cotton was grown in 1933, or 1934, or 1935 for the first time since 1927. Such farms, if covered by a cotton contract, were usually given an allotment basis equal to their permitted acreage (base acreage in 1935) times an assigned yield. The allotment basis of new cotton-producing farms not covered by contract was determined in a similar manner.

In general, the AAA took a liberal attitude toward new producers. The county committees were instructed to accept them

³ Sec. 8(a).

⁴ Sec. 8(b).

on the same basis as old producers. For instance, a new 1934 cotton-producing farm on which 25 acres of cotton were planted in 1934 might receive a base acreage equal to that of a farm growing 25 acres of cotton every year since 1927. This liberal ruling, however, was subject to a number of restrictions.

In the first place, the maximum base acreage of a new producer was limited by one of two methods, the restriction prescribed being the one which would make the base lower: (1) the base could not exceed one-third of the cultivated land on the farm in 1934, and (2) the base could not exceed, in percentage of cultivated land, the average percentage that the base acreage of the contract signers in the county was of their cultivated land in 1934. Under this ruling a farm in the Mississippi Delta on which cotton had not been grown since 1927 might receive a base equal to a third of its cultivated land. But such farms are very scarce in the Delta. In counties on the border of the Cotton Belt—where most farms adapted to the production of cotton but not planting cotton since 1927 are located—the base acreage of contract signers is usually a small percentage of the total cultivated acreage on their farms.

In the second place, the allotment bases of new cotton-producing farms were determined to a large extent by the county committee. This committee was authorized to assign an average yield for such farms. In 1935 it was also authorized to adjust the base acreage of new 1935 producers "to conform to a fair and just acreage in cotton . . . as measured by the cotton acreage on other farms within the county."⁵

3. Farms on which normal cotton production during any one or more years of the base period 1928-32 had been reduced by reason of drought, storm, flood, insect pests, or other uncontrollable natural cause.⁶ Farms on which the average yield of cotton in any year during 1928-32 was 33 1/3 per cent or more below the adjusted average yield for the entire period 1928-32 were given an allotment basis equal to the difference between their adjusted average annual production and their average annual production excluding years in which yields

⁵ "Regulations Pertaining to Allotments and Tax Exemption Certificates under the Cotton Act of Apr. 21, 1934," *AAA No. B. A. 219*, Art. II, Sec. 21(d) (3).

⁶ Sec. 8(c).

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were $33 \frac{1}{3}$ per cent or more below the five-year adjusted average.⁷ Example: A farm having the indicated production record in 1928-32 and growing cotton in 1935.

Year	Acreage Planted	Average	
		Yield (In pounds)	Production (In pounds)
1928	25	200	5,000
1929	25	200	5,000
1930	25	100	2,500
1931	25	200	5,000
1932	25	200	5,000
1928-32 average, and regular allotment basis in 1935	25	180	4,500
Average (omitting 1930)	25	200	5,000
Difference (allotment basis for state reserve)	—	—	500

4. Farms on which the acreage planted to cotton during 1930-32 had been voluntarily reduced by an amount greater than the Secretary deemed would have been equitable in carrying out a reasonable reduction program.⁸ When the average acreage of cotton planted during these years was less than 60 per cent of the acreage planted in 1929 (or 1928 if no cotton was planted in 1929) such farms were given an allotment basis equal to the difference between 60 per cent of the acreage planted in 1929 and the average acreage planted in 1930, 1931, and 1932 multiplied by the adjusted average yield for the farm. Example: A farm having the following production record in 1928-32, and growing cotton in 1935:

Year	Acreage Planted	Average	
		Yield (In pounds)	Production (In pounds)
1928	100	200	20,000
1929	100	200	20,000
1930	25	200	5,000
1931	25	200	5,000
1932	25	200	5,000
1928-32 average, and regular allotment basis in 1935	55	200	11,000
60 per cent of 1929 acreage and pro- duction, assuming the same average yields	60	200	12,000
Difference (allotment basis for state reserve)	—	—	1,000

Special consideration for small producers. Farms in 1934 having an average base acreage of five acres or less or farms in 1935 having an average base production of two bales or less were allowed tax exemption certificates to cover their entire production. Provision for such special consideration, however, was changed in the two years during which the Bankhead Act was in effect.

In 1934, farms not covered by a cotton contract on which the average annual acreage planted to cotton during the years of the base period 1928-32 that cotton was grown was less than five acres were given an allotment basis equal to their acreage planted in 1934 (if no greater than average from 1928-32) multiplied by an average computed or assigned yield per acre.⁹ In 1935, the regulations provided that all farms on which cotton was grown after 1927 and before 1935 with allotment bases of 956 pounds (two bales) or less were to receive tax exemption certificates equal to those bases, and that such farms with allotment bases of more than 956 pounds were to receive certificates of tax exemption for a minimum of 956 pounds of cotton. The term "farm" was defined in the following manner:

(a) The term "farm" shall, in the case of land covered by any 1934 and 1935 cotton acreage reduction contract (whether entered into in 1934 or 1935), mean the land covered by any single one of such contracts.

(b) The term "farm" shall, in the case of land not covered by any 1934 and 1935 cotton acreage reduction contract, mean

⁹ In 1934, years which had been excluded in calculating the county allotment could not be excluded under this regulation in calculating an individual farm allotment basis (see p. 358). This qualification was dropped in 1935. In addition, the county committee was instructed to recommend an allotment basis for farms which could not qualify under this regulation because of low yields due to uncontrollable natural causes in three or more of the five years 1928-32.

¹⁰ Sec. 8(d).

¹¹ "Amendments to Art. II of the Regulations under the Cotton Act of Apr. 21, 1934," *AAA Form No. B. A. 19-D*.

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(1) any land used in the production of cotton within a county under the same ownership plus any land within such county rented for cash or standing rent to such owner(s), provided all such land is operated from the same farming headquarters (i.e., dwelling house, barns, etc.), or (2) any land used in the production of cotton within a county rented to the same person(s) for cash or standing rent and operated from the same farming headquarters (i.e., dwelling house, barns, etc.). (See exceptions set forth in Sec. 34.)¹⁰

Any increase in the allotment of tax exemption certificates resulting from the establishment of such minimum allotments in 1935 was to come out of the state reserve. An amendment to the act approved August 24, 1935, however, provided that after 1935-36 "the amount of each such allotment . . . which is in excess of the allotment which, without regard to this subsection . . . would have been made to any farm, shall be in addition to the national allotment and the allotments to the state and county in which such farm is situated."¹¹

These exceptions for small producers are of relatively minor importance so far as the total production of cotton is concerned, as the first table on page 368 shows. Only 5.2 per cent of the total base acreage approved in 1934 on all applications for allotments of exemption certificates was for farms having a base production of less than three bales.

The number of farms allowed a base production of less than three bales was fairly large, as shown by the last table on page 368. For the whole United States the percentage was 25: in the eastern part of the Cotton Belt, 30 per cent produced less than three bales while in the western part only 16 per cent came in this class range.

¹⁰ "Regulations Pertaining to Allotments and Tax Exemption Certificates under the Cotton Act of Apr. 21, 1934," *AAA Form No. B. A. 219*, Sec. 5, Mar. 6, 1935.

¹¹ 74 Cong., Public No. 320 (H. R. 8492), Sec. 39(e) adding Sec. 7(d) to original act.

PERCENTAGE OF THE TOTAL BASE ACREAGE OF SIGNERS AND NON-SIGNERS
ON FARMS IN EACH PRODUCTION RANGE, CLASSIFIED BY REGIONS^a

Base Production Range (In bales)	Percentage of Total Base Acreage			
	Eastern	Central	Western	United States
Less than 3.....	8.1	6.2	3.3	5.2
3 to 5.....	10.9	8.7	5.7	7.8
5 to 10.....	22.8	16.4	15.9	17.7
10 to 20.....	21.9	16.3	24.9	21.9
20 to 45.....	17.8	15.4	28.8	22.6
45 to 100.....	10.4	11.7	12.9	12.0
100 to 500.....	7.5	18.2	7.1	10.1
500 or more.....	0.6	7.1	1.4	2.7

^a Computed from data furnished by AAA.

The percentage of all applications in each production range for farms covered by cotton contracts in 1934 increased sharply as the base production per application increased, as shown by the table on page 369. Only 37 per cent of the applications for farms allowed a base production of less than three bales were covered by contract in 1934 compared with 93 per cent for farms allowed a base production of 45 to 100 bales.

NUMBER OF APPLICATIONS FOR ALLOTMENTS OF TAX EXEMPTION
CERTIFICATES IN EACH PRODUCTION RANGE, CLASSIFIED BY REGIONS

Base Production Range (In bales)	Eastern	Central	Western	United States
Less than 3.....	158,167	108,716	76,726	343,609
3 to 5.....	107,328	80,199	73,095	260,622
5 to 10.....	139,468	93,960	122,405	355,833
10 to 20.....	75,113	53,260	107,709	236,082
20 to 45.....	30,219	26,745	69,976	126,940
45 to 100.....	8,010	9,591	16,194	33,795
100 to 500.....	2,250	5,264	3,921	11,435
500 or more.....	39	504	184	727
Total.....	520,594	378,239	470,210	1,369,043

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PERCENTAGE OF ALL APPLICATIONS IN EACH PRODUCTION RANGE FOR FARMS COVERED BY COTTON CONTRACTS, CLASSIFIED BY REGIONS

Base Production Range (In bales)	Percentage of Total Applications			
	Eastern	Central	Western	United States
Less than 3.....	37.5	43.7	28.0	37.4
3 to 5.....	78.7	80.0	58.3	73.4
5 to 10.....	88.1	88.2	71.3	82.3
10 to 20.....	93.2	92.6	81.5	87.7
20 to 45.....	94.8	95.1	88.4	91.3
45 to 100.....	96.5	96.7	90.0	93.4
100 to 500.....	97.0	98.2	89.7	95.1
500 or more.....	94.9	98.6	87.0	95.5
All ranges.....	72.1	75.2	67.9	71.5

Right of appeal. In 1934, owing to lack of time, there was no definite provision for appeal by individual producers dissatisfied with their allotment of tax exemption certificates. In 1935, however, the same procedure was adopted for handling appeals respecting these allotments as for appeals arising with respect to the 1934-35 cotton contracts. (See page 108.)

No provision was made under the Bankhead program for publishing the allotment bases used in determining allotments of tax exemption certificates to each farm. The allotment bases used in apportioning the "regular" county allotment, however, could be calculated for farms covered by contracts signed in 1934 from the base acreage and adjusted average yield posted by committeemen, in accordance with instructions for 1935.¹²

¹² AAA Form No. Cotton, 105. See p. 111.

APPENDIX D

ESTIMATING THE EFFECTS OF THE COTTON PROGRAM ON INCOMES

The basis for estimating the effects of the cotton program upon incomes, as explained in Chapter XIV, has been the relationships existing during some recent period between year-to-year changes in the production, consumption, and price of cotton, and the major factors responsible for such changes. These relationships have been expressed in the form of curves fitted to annual data for a selected period. In general the closeness of fit indicates the degree to which variations in the dependent factors—production, consumption, and price—are explained by variations in the selected independent factors—income, price, supplies, business activity, etc. However, estimates of this character are subject to a number of important limitations. For this reason the more important sources of error in estimating the effect of the cotton program upon incomes are discussed in this appendix.

All of the relationships shown in this appendix were determined by the method described in *A Simplified Method of Graphic Curvilinear Correlation* by L. H. Bean.¹ This method is subject to a number of limitations. In the first place, a wide variety of curves give a reasonably good fit when the number of observations is small, as in the present analysis. In the second place, if there is inter-correlation between the independent variables, it is impossible to determine the net effect of a change in one of them when the other is held constant. In the third place, other factors besides those included in the analysis are known to affect the dependent factors. A good fit,

¹ *Journal of the American Statistical Association*, December 1929, pp. 386-97.

therefore, may not indicate the true net relationship between the dependent factors and the independent factors used. And, finally, the curves furnish a less reliable basis for estimates in periods when extreme variations occur.

By this method the net relationship between the various factors selected is an average for the entire period chosen. Their true relationship, however, may have been changing throughout the period. In other words, the true relationship of the factors at any given time may not have been the same as the average relationship during the selected period. This may have been particularly true during the past three seasons because a new influence of unknown significance was introduced—that of production control accompanied by a processing tax on cotton.

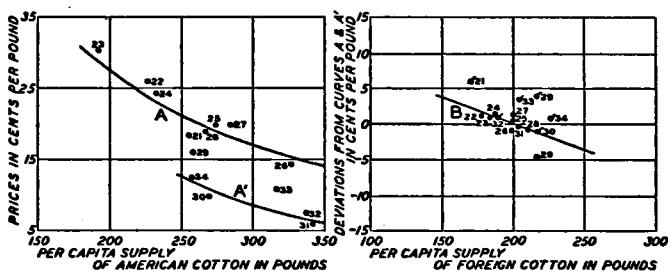
Besides these limitations of the method itself, others appear when it is applied to cotton. These more specific difficulties are brought out in the following sections.

SUPPLY-PRICE RELATIONSHIPS

The curves shown on page 372 represent the relation between the price of cotton each season from 1921 to 1924 inclusive and the per capita supply of American and foreign cotton used in estimating the price that would have been received for cotton in the absence of a cotton program. By per capita supply is meant the total supply of American and foreign cotton divided by the population of Europe and America. In effect, the period was divided into two portions, which may be defined roughly as depression years and non-depression years. A separate curve was fitted to each period for American cotton. Both curves, however, are of the same curvature. The one for depression years is merely on a lower level than the one for other years. In other words, these curves imply that the depression lowered the average price of cotton by a fixed amount, but that variations in per capita supply had the same effect on cotton prices during the

RELATION OF PRICES TO PER CAPITA SUPPLY OF AMERICAN AND FOREIGN COTTON, 1921-34^a

1. American Cotton

2. Foreign Cotton^b

^a Supply of American and foreign cotton as given in *Cotton Production Adjustment No. 25*, AAA, Tables 1 and 2, p. 3, divided by population of Europe and America combined in each year.

Price data are average annual prices of middling $\frac{7}{8}$ -inch cotton at ten markets in the U.S., furnished by the Bureau of Agricultural Economics.

^b For the years 1921 and 1930-34 the deviations are from curve A'; for the years 1922-28, from Curve A; for 1929, from curves A and A'.

depression as in other years. Both assumptions are very questionable. The period for which reliable data are available, however, is too short for the determination of reliable supply-price curves, either in depression or non-depression years, or both. It is known, of course, that the demand for cotton varies in general with business activity, but the relationship is not considered a constant one. For instance, the transition from boom to depression years and back again probably has a varying effect on the relationship of business activity to the demand for cotton. There may also have been a considerable change in the relation of the demand for cotton to indexes of business activity, as explained on page 377. For these reasons it is thought that an allowance for a constant difference between the level of the supply-price curve in depression and non-depression years is as satisfactory a method as any other. The largest errors in estimates for

this period are for 1921 and 1929. Both might be considered transition years. Naturally the estimates for 1933 and 1934 are low because of the devaluation of the dollar. For instance, estimates based on these curves indicate that cotton prices should have been 7.1 cents per pound in 1933-34 and 9.8 cents in 1934-35. Actual prices were 10.8 and 12.4 respectively.

In estimating the prices that would have been obtained without the program, the procedure followed was to calculate the prices indicated by these curves for both actual and estimated supplies of foreign and American cotton. The actual price was then multiplied by the ratio of the price indicated by estimated supplies to that indicated by actual supplies. This procedure assumes (1) that the difference between the estimated and actual price each year is due to factors which have a percentage effect on any change in price due to a different supply, and (2) that the effect of supplies on prices was the same as during the period for which the curves were determined. The first assumption is reasonable because the most important factor causing a difference between actual and estimated prices during the last three seasons is dollar devaluation, which would have a percentage effect on any estimate of price for a different supply. The second assumption, however, is questionable. The relationship between supply and price under a control program may be quite different than it is in the absence of such a program. This is particularly true when the control program is accompanied by a processing tax on cotton. Consumers may not have been willing to buy the same quantity of cotton goods at prevailing prices as in former years merely because they knew that the prices were higher because of government operations. Then too, there is some reason to believe that a high level of prices continued over a series of years would cause a greater annual reduction in consumption than the same level of prices for one year. Furthermore, during most of the period under

study the cost of cotton goods to consumers was increased more than the price of cotton would indicate, because of the rise in wages due to the NRA program.

On the other hand, the cotton program may have caused an increase in industrial activity, and thus increased the demand for cotton. The estimates presented in Chapter XIV are based upon the assumption that business activity was not affected by the program.

There is, however, a wide range in the shape of the curves that can be drawn to these supply-price data—particularly in periods when extreme variations occur. Consequently there is a wide range in the estimates of cotton prices that can be made by this method for extremely large or small supplies. And if no cotton program had been undertaken, supplies of American cotton during the past three seasons would have been unusually large. For instance, if no cotton had been plowed up in 1933, world supplies of American cotton would probably have been 4.2 million bales larger, and of all cotton 3.9 million bales larger—or more than that of any previous year. We have had no experience in the marketing of a 28.8 million bale supply of American cotton or of a world supply of 46.5 million bales. The “bottom might have dropped out of the market” with such a large supply. On the other hand, prices might have dropped very little. In general, however, it seems reasonable to expect that the decline in price resulting from such an increase in supplies would have conformed to the shape of the supply-price curve determined on the basis of prices received for smaller supplies.

A relatively wide range in the estimates of cotton prices for any year with a given increase in supply is not, however, of major significance in estimating the effect of the cotton program on the value of cotton produced during the last three seasons. If the same supply-price curve is used throughout the analysis, a wide variety of curves give about the same result. For instance, if a

curve which indicates a relatively high price in 1933-34 without the program is used, it will also indicate that farmers would have received a relatively large income from their 1933 crop if no cotton had been plowed up. The production curves would consequently indicate a larger production in 1934 than if the estimated income in 1933-34 had been smaller. Similarly the consumption curves would indicate a smaller consumption because of the higher prices. As a result, the estimated supplies of cotton would be larger for 1934-35 than they would have been if a lower estimate of prices in 1933-34 had been used. Curves indicating widely different prices for cotton in 1933-34 would indicate considerably less difference in 1934-35 and 1935-36.

CONSUMPTION RESPONSE TO PRICE CHANGES

The relationship of cotton consumption in the United States and foreign countries to prices, shown on page 376, indicates that the consumption of cotton in the United States would have been 1.26 million bales larger and that in foreign countries 1.6 million bales larger—a total increase of 2.8 million bales—if, in the absence of our cotton program, farm prices in the United States had been reduced from 10.2 cents per pound to 6.4 cents in 1933-34² and the average price of American middling cotton and Indian cotton in Liverpool had been reduced from 5.67 pence per pound to 3.78 pence.³

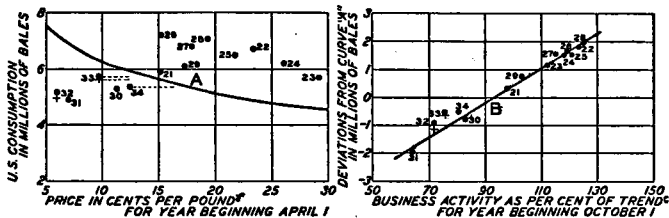
²The average farm price in the United States was 10.2 cents per pound and the average price of $\frac{3}{8}$ -inch middling cotton on ten spot markets was 10.8 cents per pound. Consequently a farm price of 6.4 cents per pound was considered equivalent to 6.78 cents per pound in the central markets in 1933-34.

³The average margin between our central market price of 10.8 cents per pound in 1933-34 converted to pence and the average price of American middling spot cotton in Liverpool (6.02 pence) was 0.80 pence per pound. In arriving at an estimated price in Liverpool, without the control program, the estimated central market price of 6.78 cents per pound was converted to pence and added to the average margin of 0.80 pence, resulting in a Liverpool price of 4.07 pence.

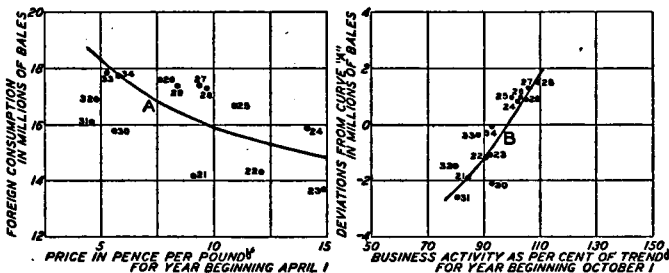
The average price of Indian cotton (average of Broach, Omra, and Sind) was estimated by multiplying the Liverpool price of American

RELATION OF UNITED STATES AND FOREIGN COTTON CONSUMPTION TO COTTON PRICES AND BUSINESS ACTIVITY, 1921-34*

1. United States Consumption and Prices 2. United States Consumption and Business Activity



3. Foreign Consumption and Prices 4. Foreign Consumption and Business Activity



* The plus mark in the upper sections of the chart indicates that the data exclude the cotton equivalent of the clothing obtained from the cotton given to the Red Cross by Congress.

The dotted lines in the first section of the chart indicate the point to which the price of cotton to processors was increased by the processing taxes. The tax was in effect only the last nine months of the year beginning Apr. 1, 1933. Therefore only two-thirds of the 4-cent tax was added to the market price.

^a Average prices at ten markets in the U.S. This curve, together with the others shown on this page, are from unpublished charts in the Bureau of Agricultural Economics selected by the author and slightly modified.

^b Average price of American middling and three grades of Indian, in pence at Liverpool.

^c Federal Reserve Board index of U.S. industrial production as percentages of an estimated trend.

^d Index of world industrial production (exclusive of U.S.) as a percentage of an estimated trend.

The reliability of these curves as an indication of the effect of prices on consumption may be questioned for a number of reasons. In the first place, as pointed out in the discussion of supply-price curves on page 372, the period covered by the analysis is short and there have been many unusual factors affecting the demand for cotton. In the second place, the consumption data used are mill consumption, and may not accurately reflect changes in the purchases of cotton goods by consumers. When prices of cotton decline, stocks of cotton goods may be increased and *vice versa*, without a corresponding change in purchases of cotton goods by consumers. In the third place, the indexes of business activity used represent the actual index expressed as a percentage of a more or less arbitrary trend line. This adjustment has been made because it is thought that an increasing portion of business activity was in capital goods industries up to 1930 and did not represent a corresponding increase in demand for cotton goods throughout the period. Since 1929, however, a larger part of business activity has been in consumers' goods industries.

Furthermore, the procedure followed in estimating the increase in consumption that would have resulted each year, in the absence of the cotton program, was to add the difference between the consumption indicated on the curves by the actual price and that indicated by the estimated price without the program, to the actual consumption. This procedure assumes (1) that the factors responsible for the difference between actual consumption and the consumption indicated by the curves selected for actual prices would not have a percentage effect on the increase in consumption indicated by the

by 0.856 (the average ratio of Indian to American middling cotton prices in Liverpool in 1931-32 and 1932-33 when supplies of American cotton were relatively large compared with supplies of foreign cotton). The estimated price of Indian cotton was 3.48 pence per pound. An average of these two estimates, 4.07 and 3.48, is 3.78 pence per pound, compared with an actual average of 5.67 pence (average price for year beginning Apr. 1, 1933 times ratio of average central market price in United States for the same period to the average price for year beginning Aug. 1, 1933).

same curves for a lower price, and (2) that the effect of prices on consumption of cotton was the same as during the period for which the curves were determined. There does not appear to be any reason why the first assumption should not be true. However, if a percentage relationship had been used, as for prices (see page 373), estimates of consumption without the program would have been larger. With respect to the second assumption, see page 371.

Another limiting factor is that the consumption of cotton may have been affected to a considerable extent by changes in the structure of cotton prices in the market caused largely by the cotton loan. During a large part of the last three seasons, spot cotton prices have been above prices of cotton futures, thus making it difficult to follow customary hedging operations in the merchandising of cotton. This tended to cause mills to follow a more conservative and cautious policy in their operations and may have resulted in smaller sales of cotton textiles.

The relationship of cotton consumption to prices shown by these charts, however, corresponds closely to the results obtained by Victor von Szeliski, as given in his report on *The Demand for Cotton Textiles* (NRA, Division of Research and Planning, May 1935). Von Szeliski included the following factors in his study for the period 1919-34 inclusive:

- (1) Per capita production of cotton less exports;
- (2) Index of national income per capita;
- (3) Bureau of Labor Statistics price index;
- (4) Price index for November divided by price index for the preceding November;
- (5) Demand factor calculated by dividing the long-time trend of per capita production by the production index for the previous year;
- (6) Trend of per capita production less exports.

The conclusion reached was that "... a price decrease of one per cent tends to increase consumption (appar-

ently) by 0.28 per cent; a price increase of one per cent tends to decrease consumption by 0.28 per cent.”

This relationship indicates that removal of the processing tax in 1933-34 would have caused an increase in consumption of cotton in the United States of 455,000 bales, and that if our cotton program had not been undertaken and farm prices had averaged 6.4 cents per pound, consumption of cotton in the United States would have been 880,000 bales larger than it was. Furthermore, foreign consumption of all cotton would have been 1.8 million bales larger, according to this relationship, if it is assumed that the level of cotton prices in foreign countries would have declined 33.3 per cent (see page 375). These estimates indicate that the world consumption of all cotton in 1933-34 was reduced 2.7 million bales by our program.

Still another approach to the problem is by comparison of changes in cotton consumption in the United States and foreign countries. Foreign consumption of all cotton in 1933-34 and 1934-35 increased 11.16 per cent over that in 1931-32 and 1932-33. In the United States there was practically no change. If the United States consumption had increased 11.16 per cent, 1.3 million bales more cotton would have been consumed. Our program, however, raised the cost of cotton to mills in the United States not only by the tax but also by the amount (about one cent per pound) that American cotton prices were held above their usual relation to foreign cotton prices. Assuming that this increase in consumption would be caused by a drop of 5.07 cents per pound in the cost of cotton to United States mills, a further drop of 2.80 cents per pound,⁴ assuming the same relationship, would indicate an increase in consumption for the two-year period of 0.7 million bales. And if foreign consumption would be increased proportionately, with a drop of 2.80

⁴ Farm price of cotton per pound (10.20 cents) plus tax (4.07 cents) less estimated farm price without program (6.40 cents) less 5.07 cents.

cents per pound in the price of American cotton, after allowing for an increase in spread of one cent per pound between foreign and American cotton, 2.5 million more bales would have been consumed during the two-year period. The total of these increases is 4.5 million bales, or 2.25 million bales per year.

Stocks of cotton goods, however, may have been built up more in the United States than in foreign countries prior to the imposition of a processing tax on August 1, 1933, and may have declined more by August 1, 1935 because of the possibility that the processing tax would be declared unconstitutional.

The preceding analysis indicates that 2.0 million bales would be a conservative estimate of the decrease in consumption of all cotton in the world in 1933-34 due to our cotton program.

For 1934-35 the relationship between consumption and price shown on page 376 indicates that, had the farm price of cotton in the United States been 7.3 cents per pound instead of 12.4 cents, the consumption of all cotton in the world would have been 2.6 million bales larger than it was.⁵ Von Szeliski's analysis indicates an increase of 2.5 million bales. Consequently, in view of the relationship of changes in foreign consumption to changes in consumption in the United States from 1931-32 to 1934-35, explained on page 379, it was estimated that if our cotton program had never been adopted the increase in consumption of all cotton in the world in 1934-35 would have been at least 2.0 million bales larger than it was.

It may be noted that if world consumption of all cotton had been increased by 2.0 million bales in 1933-34 and also in 1934-35, all previous records of consumption would have been exceeded. Consumption per capita of population in Europe and America, however, would have been less than in 1926-27 or 1927-28, even though

⁵ Other phases of the analysis were worked out in the same manner as for 1933-34.

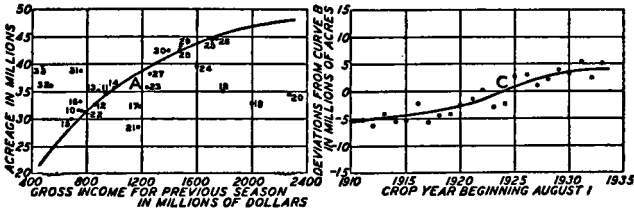
the per capita supply would have been nearly 20 per cent larger in 1933-34 and 1934-35. Furthermore, the consumption of cotton in 1931-32 and 1932-33 was very low and should have resulted in an accumulated demand for cotton goods.

PRODUCTION RESPONSE TO INCOME CHANGES

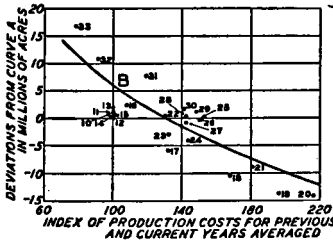
The acreage of cotton which farmers would probably have planted in response to the estimated income they would have received if no cotton program had been undertaken is shown in the charts on this page, which were prepared by the Bureau of Agricultural Econom-

RESPONSE OF UNITED STATES COTTON ACREAGE TO INCOME FROM COTTON AND COTTONSEED AND PRICES OF CERTAIN COST FACTORS, 1910-33*

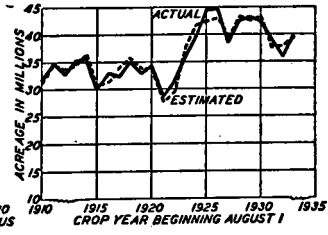
- 1. Acreage and Incomes
- 3. Trend of Acreage Response to Other Factors



- 2. Acreage and Cost Factors



- 4. Acreage Harvested



* Taken from "Cotton Production in the United States," *The World Cotton Situation*, Bureau of Agricultural Economics, Pt. II (preliminary), Figure 15 ff. p. 40.

ics.⁶ The influence of costs of production, weather conditions, prices of competing commodities, and other factors which farmers consider in planning production is well set forth in the following comments by the Bureau on the charts (its Figure 15).

In Figure 15 is shown an analysis of the relation of the total United States cotton acreage annually from 1910 to 1933 to the total gross income from cotton and cottonseed the previous season and an average index of the prices of the principal factors used in the production of cotton for the current and previous season, after making an allowance for trend. This analysis is intended to show that acreage in cotton varies directly with income from the cotton crop and inversely with prices of production factors. It also shows that the major shift in acreage between the pre-war and post-war years (as shown by the trend, Curve C) is due to [factors] other than the income from cotton and prices of items used in cotton production.

As may be noted from the curves in Sections A and B of Figure 15, the acreage in cotton tends to vary directly with the gross income from cotton and cottonseed the previous year and inversely with the average index of production costs for the two years. Allowance was made in each curve for changes in the other factor and in the trend as shown in Section C. For instance, Curve A represents the acreage that might be expected in a given year from a certain gross income the previous season, if the index of costs were about average (approximately 130) and after allowance is made for the place that particular year falls on the trend line shown in Section C. In 1919 and 1920, for example, it would have been expected from Curve A alone that, in view of the very large gross income from cotton and cottonseed in each of the two previous seasons, the acreage in cotton would have been 47,000,000 to 48,000,000 acres, whereas the acreage actually planted was about 33,000,000 and 34,000,000. At that time, however, the prices of the factors used in producing cotton and the prices of other farm products were very high, as may be seen in Section B. In addition, the area in cotton up to that time had never exceeded 36,000,000 acres, which is taken into consideration by the trend factor,

⁶ The response of foreign acreage to price changes resulting from our cotton program is discussed in Chap. XIII.

Curve C. A consideration of all these factors together with the income factor indicated the probability of about 33,500,000 and 34,000,000 acres, respectively.

In 1932 and 1933, on the other hand, the gross income from cotton and cottonseed in the previous seasons was lower than during any of the other 30 or more years, but the acreage planted in those years was higher than in any year prior to 1924. But in those years, costs were comparatively low owing especially to the large amount of cheap labor, and the upward trend in cotton acreage was at a new high level (Sections B and C).

The trend in cotton acreage, shown by Curve C, reflects in part the increase in the area in cultivation in the South, and shifts in the center of production (discussed in the preceding section) that probably resulted in a decrease in costs of production not measured by the index of prices of certain cost factors. This seems to be confirmed by the fact that the greater part of the rise in the trend occurred during the years when the marked expansion into the western sub-humid areas took place.

Other factors which no doubt accounted for some of the year-to-year changes in acreage include variations in prices of competing crops and livestock enterprises, other than those that have affected, and have been similar to, the variations in the cost index, and weather conditions at planting time. Their net influence over a long period of years for the Cotton Belt as a whole seems to have been small, however, as compared with the influence of the two major factors—income from cotton and cottonseed and production costs.

This analysis indicates why in the spring of 1933 domestic cotton producers increased their cotton acreage 11.6 per cent over the acreage planted in 1932 despite the fact that the price received for the previous year's crop was only 6.5 cents, whereas in 1930 they decreased their cotton acreage following a season in which they had received an average of nearly 17.0 cents per pound. It also indicates why in 1919 they reduced their acreage despite the fact that in the previous season they had received a price of nearly 29 cents per pound and why if production control were discontinued domestic cotton acreage in 1936 would probably rebound to more than 40,000,000 acres.

This analysis indicates that it is not simply the level of cotton prices that determines the acreage planted to cotton, but that it

is the income from cotton relative to the incomes from alternative opportunities, and the prices of the important factors used in producing cotton. In addition, it brings out the fact that once a large increase in acreage has been brought about by relatively high cotton prices or for any other reason which results in additional land being brought into cultivation and additional ginning and other facilities for producing and distributing the crop established, that a part of this acreage tends to remain in cotton even when cotton prices drop to very low levels.

It will be recognized, of course, that all of the limitations of this type of statistical analysis also apply to the determination of producers' responses to income changes.

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