

TOBACCO
UNDER THE AAA

BY
HAROLD B. ROWE

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DIRECTOR'S PREFACE

This is the second of a series of books embodying the results of our "Concurrent Study of the Operation of the Agricultural Adjustment Act." It deals with the specific programs under which certain of the broad powers conferred upon the Secretary of Agriculture by the Agricultural Adjustment Act were applied to the tobacco industry and with the Kerr-Smith Act which supplemented it so far as tobacco was concerned.

Tobacco is a commodity whose producing, marketing, and processing situation and institutions depart markedly from those analyzed in the preceding volume in the series—*Wheat and the AAA*. This fact, together with differences in the background and philosophy of the respective authors, results in considerably divergent conclusions as to the efficacy of the program and value of the results obtained. In both volumes the appraisal is limited to a single commodity field. Here Mr. Rowe undertakes, on the basis of a careful analysis of the results of two years of operation, to evaluate the several procedures as possible methods to be employed in a more permanent planning program for the stabilization of the tobacco growing industry. Broader economic and social effects upon other groups and upon our economic system as a whole will be discussed in a separate volume after the present series of commodity studies has been completed.

Under our system of collaborating committees, this book was read in manuscript by Joseph S. Davis of the Food Research Institute and John D. Black of Harvard University, who are associated with me in the conduct

of the AAA study, and by Leverett S. Lyon as a representative of the regular staff of the Institute of Economics. Their endorsement covers standards of scientific work rather than concurrence in the specific conclusions; for these the author assumes individual responsibility.

EDWIN G. NOURSE

Director

Institute of Economics

June 1935

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G. W. Forster of North Carolina State College, I. G. Davis and W. S. Middaugh of Connecticut State College, and H. Bruce Price of the University of Kentucky also read and commented upon the manuscript. Resident observers have furnished material aid in following developments in the important tobacco producing areas. J. Burnam Davis served as resident observer in Kentucky during the early stages of the study and subsequently assisted the author in Washington. For the book in its present form, however, including all errors and omissions, the author must assume full responsibility.

HAROLD B. ROWE

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CHAPTER I

LEGISLATIVE AND POLICY BASIS FOR THE PROGRAM

Tobacco growers are eligible for assistance under all of the general powers provided by the Agricultural Adjustment Act. The enactment of this law, however, established no specific program of action for tobacco, or for that matter, for any farm product. Instead, it declared a policy of Congress toward agriculture, and granted to the Secretary of Agriculture power to use a wide variety of methods as he might deem them feasible and necessary. Responsibility for working out the precise plans to be applied was left, therefore, to the Secretary and such administrative agencies as he might establish. For this reason, it is necessary to consider both the provisions of the act and the policies with which they have been administered¹ in order to understand the basis for the tobacco program.

Of the several procedures provided, by far the greatest attention has been given to those commonly known as "production control" measures. These include all volun-

¹ The Agricultural Adjustment Act comprises Title I (Agricultural Adjustment) of the legislation known as the Farm Act of 1933. Title II of this legislation is known as the Emergency Farm Mortgage Act of 1933, and Title III is the so-called "Thomas amendment" conferring upon the President extraordinary powers in relation to the currency. The Agricultural Adjustment Act as approved on May 12, 1933 and as discussed here is available as 73 Cong., Public No. 10, or in 48 Stat. L. 31. Later amendments and related legislation are available in *Compilation of Agricultural Adjustment Act as Amended and Acts relating Thereto as of June 29, 1934*. AAA. With the exception of the Kerr-Smith Act, however, these amendments and supplementary statutes have been of minor importance to the tobacco program.

tary methods of reducing acreage or production, cash payments to producers, and processing taxes. The use of these devices is authorized only for a limited group of products designated as "basic agricultural commodities," of which tobacco is one.

The second general approach made available by the act is provided by two short paragraphs dealing with marketing agreements and licenses. Under their terms marketing agreements may be entered into with respect not merely to commodities listed as basic, but to "any agricultural commodity or product thereof." The possible application of the licensing provision is even broader, in that it extends to "any competing commodity or product thereof."

Provision is made for the programs through which the law is administered to be financed mainly out of the proceeds from processing taxes. An initial fund of 100 million dollars was appropriated by the act and other legislation has made additional sums available for use in connection with activities relating to its administration. Of greatest importance, however, is the appropriation of the proceeds from all taxes imposed under the act for expenditure by the Secretary of Agriculture in carrying out its purposes. Expansion of markets and removal of surplus agricultural commodities are specifically included among the purposes for which tax proceeds may be used.²

² In addition, certain devices are authorized for use with respect to specified individual commodities, and a few special provisions are made relative to application of the general methods to designated commodities. The most important of these apply to cotton and to sugar, including the plan of distributing options on government owned cotton to producers in return for acreage reduction and the authority to establish and enforce quotas on imported sugar. Such special provisions need not be considered in a discussion of the act as applied to tobacco.

This broad grant of powers covers such a wide range of methods to be used at the discretion of the Secretary that he could, if he wished, put into operation virtually any of the farm relief proposals which had achieved prominence during the preceding decade. In fact most of the devices authorized were originated in connection with one or another of the plans previously advocated. A brief consideration of the provisions of the act in relation to these earlier proposals will illustrate the scope of the Secretary's powers and at the same time reveal the diverse character of the methods provided.

EARLIER PROPOSALS COMBINED IN THE ACT

The provisions relating to limitation of production represent an adaptation of a proposal known as the domestic allotment plan. This plan was advanced as an effective means of increasing farmers' returns on that part of their output which was domestically consumed. This was to be accomplished by determining for each producer the amount of his pro rata share of the domestic market. This amount was to constitute his "domestic allotment." He would then be issued certificates, or "transferable rights," covering the amount of this allotment. Processors would be required to purchase and surrender to the government "rights" covering all of the domestic product which they processed and sold in the home market. Since imported products could only be acquired at the world price plus the tariff, it was reasoned that the processor could afford to pay up to the amount of the tariff for these rights. A market would then be established for the certificates and it was expected that their price would approximately equal the tariff then in force. Under such conditions the

sale of his certificates would enhance the producer's returns by the amount of the tariff on the portion of his production for which he had received an allotment.³

A modification of the allotment plan (1932) involved the substitution of a tax upon processing for domestic consumption and the distribution of the proceeds from that tax as benefit payments to producers in place of the "transferable rights" device. With this change the amount by which producers' returns were to be increased was no longer related to the tariff but was made to depend upon the rate of the tax. The change was made chiefly to meet constitutional objections to the requirement that processors purchase certificates to the amount of their usings. At the same time the idea was evolved of having producers agree to restrict acreage or production in return for their shares of the proceeds from processing taxes.

Addition of the proposal for restriction of production made a fundamental change in the character of the plan. With its inclusion the plan became acceptable to those who viewed a general over-production of farm products as the cause of agricultural distress and who considered public control of production as the most desirable corrective. This addition was also favored by some who feared that otherwise the scheme would stimulate production. Proponents of the original plan, however, considered freedom of the farmer to produce as he pleased to be absolutely essential, and contemplated only a limitation of the domestic quota on which returns were to be enhanced.

The economic equivalents of both these variations of the allotment plan appear to be authorized by the Agri-

³ For an analysis of the original domestic allotment plan, see John D. Black, *Agricultural Reform in the United States*, Chap. X.

cultural Adjustment Act, although the transferable rights device is omitted in favor of the processing tax. The specific grant of power to the Secretary of Agriculture "to provide for reduction in the acreage or reduction in the production for market, or both, . . . through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith," along with the provision for taxes upon "the first domestic processing" certainly authorizes the production restriction version of the allotment scheme.⁴ But when in the remainder of the same sentence, the alternative of providing for these payments "upon that part of the production of any basic agricultural commodity required for domestic consumption" is added without any connection to reduction in acreage or production, it appears that use of the allotment procedure without production restriction is also authorized. Furthermore, it is significant that no mention is made of acreage or production reduction in the provisions relative to processing taxes. Instead, proclamation of the rate of tax on a commodity is made mandatory "when the Secretary of Agriculture determines that rental or benefit payments are to be made . . . [and] shall terminate at the end of the marketing year current at the time the Secretary proclaims that rental or benefit payments are to be discontinued with respect to such commodity."⁵

The Adjustment Act was also influenced to a pro-

⁴ Secs. 8 (1) and 9 (a).

⁵ 73 Cong., Public No. 10, Sec. 9(a). Soon after the idea of restricting production was introduced, the suggestion for using part of the proceeds from the tax to retire land from cultivation interested some supporters of the general plan. As a result of this suggestion, the wording "rental or benefit" payments was adopted. The only change this introduced was that it made possible payments on a per acre basis.

nounced degree by a still earlier farm relief proposal—the McNary-Haugen plan. Through a form of export subsidy, this plan was intended to maintain domestic prices for exportable farm products above the level in foreign markets by approximately the amount of the tariff. The cost of this operation was to be assessed against producers of the particular commodity by means of an “equalization fee,” which constituted a distinctive feature of the plan. During the years while it was most aggressively advanced for legislative consideration, this plan was modified in various ways, but the original objective was retained. An important characteristic of the later versions was the emphasis upon use of a trade agreement procedure for carrying out the necessary merchandising operations through co-operative marketing associations and regular trade channels.

The idea of production curtailment was especially repugnant to the principal supporters of the McNary-Haugen plan, who had consistently argued against that approach. At their instigation an important addition to the revised allotment plan was included in the amended Agricultural Adjustment bill submitted to Congress in March 1933, an addition which was retained in the legislation finally enacted. This was the marketing agreement procedure. The processing tax already provided substantially an equivalent of the equalization fee, although this was made clearer when expenditure of its proceeds “for expansion of markets and removal of surplus agricultural products” was specifically authorized in Section 12 (b).⁶ With the further

⁶ The introduction of this language while the bill was before Congress was sponsored as a change which would permit loans to finance foreign sales, especially in certain potential new cotton markets. (See *Cong. Record*, Apr. 19, 1933, Vol. 77, Pt. 2, p. 1961.) It appears to have originated, however,

addition of the marketing agreement procedure, all the essentials of McNary-Haugenism were provided and the proposed legislation was made acceptable to the proponents of that plan. This was especially true since they viewed the other devices as purely emergency in character and as having only supplemental value in any permanent program which might be developed later along the lines of the McNary-Haugen plan. The provision for licensing processors, associations of producers, and others handling agricultural commodities was included about this same time and was accepted by those who advocated the marketing agreement provision as strengthening that procedure.⁷

It has been noted that, whereas use of the allotment and production control devices is restricted to the basic commodities enumerated in the act, no such limitation applies to the marketing agreement and licensing provisions.⁸ The domestic allotment plan was originally advanced as applicable to major export commodities and was suggested for trial with respect to wheat and cotton. The term basic agricultural commodities was used in limiting the application of the measure then proposed. As had been the case with the earlier McNary-Haugen proposal, spokesmen for

with those seeking to provide for export subsidy by methods similar to those contemplated in the McNary-Haugen plan.

⁷ For further analysis of the origin and evolution of the marketing agreement and licensing provisions, see Edwin G. Nourse, *Marketing Agreements under the AAA*.

⁸ The license was, however, limited to such commodities "in the current of interstate or foreign commerce." The marketing agreement section as originally drawn employed this same phraseology, but, by the amendment of Apr. 7, 1934, it was made to read "in the current of, or in competition with, or so as to burden, obstruct, or in any way affect interstate or foreign commerce." As originally enacted, the marketing agreement section was limited to "processors, associations of producers, and others engaged in the handling . . . of any agricultural commodity or product thereof." By the amendment of Apr. 7, 1934 producers were also included as parties to such contracts.

other commodities demanded their inclusion in the Adjustment Act in order to obtain a share in any benefits which might result. Because of these demands seven commodities in all were listed as basic when the act was passed and six more have been added by subsequent amendments. Thus the original limitation has largely disappeared, although the designation as basic agricultural commodities is retained.

Tobacco was one of the products added to the list named as basic in the law as enacted, although it had not been included in the early drafts of the allotment plan. At no point in the development of the allotment proposal did tobacco producers or their representatives play any particularly prominent part. In fact its probable operation with respect to tobacco appears to have been given relatively little attention, and tobacco growers were not among the early proponents of the plan. Their representatives, however, did see that tobacco was included as a basic commodity in such manner as would insure the possibility of using the processing tax and benefit payment procedures.

While in the main the devices of the Adjustment Act were drawn from the sources which have been indicated, namely, the original domestic allotment plan, the revised allotment plan with production restriction added, and the McNary-Haugen proposal, certain features were included which increased the scope of the Secretary's powers beyond those contemplated in any or all of the previous measures. Reference has been made to the provision that proceeds of all taxes under the act may be used, among other things, for "expansion of markets and removal of surplus agricultural products" as authorizing export subsidy in a manner essentially similar to that contemplated by the McNary-

Haugen plan. As written, however, this provision may be sufficiently broad to permit price stabilization purchases. Several commodity groups, including representatives from at least two tobacco areas, have strongly urged such activity as part of the programs for commodities in which they were interested, although none of these proposals have been used thus far by the AAA, excepting in cases where the product could be turned over to relief agencies or disposed of outside the markets. If the act really authorizes such purchases for the purpose of merely withholding supplies, then it would appear that such authority, together with that conveyed by the marketing agreement provision, might be used to establish an equivalent of the stabilization corporations which featured in the price-raising and price stabilization efforts of the Federal Farm Board established by the Agricultural Marketing Act of 1929. The only necessary difference would be in financing out of proceeds from processing taxes instead of appropriations from the general treasury.

The similarities between the methods included in the Adjustment Act and those advanced in earlier relief proposals have been discussed at this length as a means of clarifying the nature of the legislation and of illustrating the scope of the powers which it actually grants. When full cognizance is taken of the fact that use of each is made optional, the range of administrative possibilities may be appreciated more fully. Not only is the Administration authorized to put into operation plans substantially equivalent to the earlier farm relief proposals which have been mentioned, but it may use any number of them in combination with one another. Also, it may develop an entirely new plan or plans by selecting and combining individual

elements from the several schemes carried over into the Adjustment Act. Furthermore, the precise form of words which was evolved during the legislative history of the act presents to subsequent interpreters the possibility even of devising methods of attack which were not contemplated by the authors of either the earlier bills or the Adjustment Act itself.

A detailed examination of developments leading up to the final passage of the Agricultural Adjustment Act would shed further light on individual features. Such a treatment, however, is beyond the scope of the present volume. All that is sought here is an adequate perspective for a consideration of the program through which the act is being administered with respect to tobacco. So far as this depends upon an understanding of the nature of the legislation, it has been obtained if the following points have been made clear:

1. Although developed from the original domestic allotment plan as a nucleus, the essential devices of nearly all the important farm relief proposals were incorporated in the Agricultural Adjustment Act. Since any combination of these methods may be employed at the discretion of the Secretary, an exceedingly wide range of programs for the benefit of agriculture might conceivably be inaugurated under its authority.

2. There is no unified methodology for aid to agriculture underlying the legislation as enacted. Merging the devices of alternative proposals constituted a compromise in the sense that it secured support from the proponents of each, but there was no crystallization of a single plan from the best elements of each of these alternatives. The act establishes economic aid to agriculture as part of

the national policy, at least for an emergency period, but does not prescribe the precise manner in which that aid is to be accomplished. Certainly some groups considered their particular plans as fundamental and accepted the inclusion of other devices as necessary to secure additional support, but not necessarily to be extensively used—an impression on their part no doubt attributable in part to the political strategy used.

3. By reason of its optional character and the diversity of procedures which it provides, the real meaning of the act is not clear until it is considered in relation to the policies with which it is being administered.

ADMINISTRATIVE POLICIES AND INTERPRETATIONS OF THE ACT

From the time the act was passed questions as to which powers were to be invoked, the degree of vigor with which they were to be put in operation, and the general methods to be used have provided important administrative problems. Decisions of this character have constituted an almost constant evolution of administrative policy, an evolution which is still going on. Although in practice such decisions are made most often in connection with the particular program where the question is first presented, they typically govern the procedures with respect to other commodities until such time as modifications or reversals are adopted.

Such comments pertaining to significant developments in general policy as are made in the sections immediately following are based upon an attempt to observe the direction in which the whole adjustment program is moving as reflected in the character of programs inaugurated, the

form of organization through which they are being administered, and the utterances of prominent individuals in that organization. A distinction is made between what is here referred to as general administrative policies and the subordinate policies established specifically with reference to tobacco. The former limit the procedures employed in the tobacco program, or in any other commodity program, in the same way as though they were made provisions of the act, and are reviewed at this point as giving definite meaning to the legislation. The latter are considered in later chapters in connection with those phases of the tobacco program to which they apply.⁹

Objectives of the AAA. In a broad way the purposes and objectives of the AAA are set forth in the declared policy of Congress as stated in the act. This policy, however, is subject to somewhat varied interpretations. For that reason it is necessary to see what interpretations have been made.

That Congress viewed the Agricultural Adjustment Act as emergency legislation is clear. The title of the whole statute, of which Agricultural Adjustment constitutes the first of three parts, sets forth that the law was passed "to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, [and] to provide emergency relief with respect to agricultural indebtedness. . ." Under the heading "Declaration of Emergency," the first section states:

⁹The structural organization of the AAA, views of the administrators towards the methods provided, and the evolution of policy with respect to the use of those methods as they relate to specific programs are dealt with to some extent in other publications of The Brookings Institution pertaining to this same general study. (See list of publications in final pages of this book.)

That the present acute economic emergency being in part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities, which disparity has largely destroyed the purchasing power of farmers for industrial products, has broken down the orderly exchange of commodities, and has seriously impaired the agricultural assets supporting the national credit structure, it is hereby declared that these conditions in the basic industry of agriculture have affected transactions in agricultural commodities with a national public interest, have burdened and obstructed the normal currents of commerce in such commodities, and render imperative the immediate enactment of Title I of this act.

Furthermore, Section 13 provides that: "This title shall cease to be in effect whenever the President finds and proclaims that the national economic emergency in relation to agriculture has been ended. . ." In a word, Congress declares it to be in the public interest that measures be undertaken to improve the economic condition of agriculture, since an acute emergency exists. This emergency is declared to be in part a consequence of disparity between prices of agricultural and other commodities—a disparity which has destroyed farmers' purchasing power and has impaired the agricultural assets supporting the national credit structure.

In dealing with this emergency it is declared in Section 2 of the act to be the policy of Congress:

(1) 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 that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. . . .

(2) To approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is

deemed feasible in view of the current consumptive demand in domestic and foreign markets.

(3) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the pre-war period, August 1909-July 1914.

Thus the policy is to increase purchasing power by raising farm prices, both by adjusting the production of farm products to consumption and by adjusting marketing conditions for those products. Corrections are to be made gradually so as to minimize their effect upon consumptive demand, but as rapidly as is deemed feasible in view of current demand conditions. Finally, the policy contemplates a measure of protection for the consumer's interest.

While the act as passed was thus ostensibly a piece of emergency legislation, it has been noted that the original proposals in which the various procedures were developed were emphatically not emergency in character. All of them contemplated permanent aid to agriculture in improving its economic condition relative to other industries. When they were first lumped together in an emergency bill, it was definitely with the thought that continuing legislation would in due course be perfected. Under these circumstances there appears to be little doubt that many sponsors of the act looked upon it as an intermediate step in the direction of a permanent program. Immediate relief was sought and it was politically expedient to make the start as an emergency step, but it was hoped that in providing this emergency assistance, procedures could be developed which would be retained as part of a permanent program.

The language of the act makes clear that increased purchasing power is to be obtained for farmers if possible. When in the declaration of policy the specific goal of "a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period" is stated, however, a question of interpretation is presented. From the beginning this language has been interpreted as meaning purchasing power per unit of a specific commodity equivalent to the purchasing power of a corresponding unit during the base period. This goal would be reached whenever the base period relationship between the farm price of the commodity and average prices paid for articles purchased was re-established. This interpretation has been popularized as "parity price" and is identical with the "fair exchange value" defined in Section 9 (b) of the act for the purpose of computing processing tax rates.¹⁰

While the goal generally has been stated in terms of parity prices, this is by no means the only interpretation which can be made. A major emphasis in the title of the act and in the declaration of emergency is the restoration of agricultural purchasing power as a step towards increased demand for other products and consequent business recovery. In this connection hardly anything other than total purchasing power of farm products can be meant. In fact the wording of the declaration of emer-

¹⁰ There appears to be no necessary connection between the tax provision in which fair exchange value is defined and the declaration of policy with respect to attainment of base period purchasing power. None the less, the two have been interpreted as being identical. For example, on p. 4 of a report covering administration of the act up to February 1934 it is stated relative to the purchasing power goal: "It means that farmers selling the same volume of farm goods would be able to buy, with their returns, the same volume of manufactured goods that they were able to buy in the period 1909-14." *Agricultural Adjustment, AAA.*

gency specifically mentions price disparity as having destroyed purchasing power, which would seem to emphasize a distinction between price relationships and purchasing power. Under these circumstances there is at least a possibility that "equality" should be considered as meaning a total purchasing power for individual commodities equal to their total purchasing power in the base period. This would be obtained when the aggregate receipts from sales of a commodity by producers would purchase the same quantities of things which farmers buy as could be purchased with their average receipts during the base period.¹¹

The foregoing discussion has shown that the language which has been quoted from the act is somewhat vague in describing the level to which prices are to be raised.

¹¹ Still other interpretations which may be possible, but which appear to have somewhat less justification, are:

1. Average purchasing power per unit of farm products equivalent to the per unit purchasing power during the base period. This would be obtained whenever the base period relationship between the average of all farm prices and the average prices paid by farmers was re-established.

2. Aggregate purchasing power of all farmers equal to their aggregate purchasing power during the base period; in other words, total farm receipts from marketings of all farm products which will enable them to buy the same quantities of those things which farmers do purchase as they were able to buy with their average receipts during the base period.

Additional possibilities are created when the question is raised as to whether purchasing power is to be computed from the average retail prices throughout the country for the articles which all farmers buy, or whether it is to be computed from the average prices paid by producers of a specific commodity, or farmers within a given region, for the articles which they buy. Although the attitude has prevailed within the AAA that the latter interpretation would be valid and in fact some consideration has been given to the computation of separate indexes of prices paid by farmers in each major tobacco producing area, only the index of prices paid by all farmers has been used thus far. This has been due to the lack of data for the construction of regional indexes plus the fact that such data as are available indicate no great difference in the results of the two methods.

For this reason, several interpretations might have been made. Without going into the relative merits of these interpretations, it is sufficient for the purposes of this study of the tobacco program to note that parity price has been emphasized as the goal of the AAA program, although in the development of plans to be applied in individual cases the effect upon total income has not been neglected.

Tobacco is peculiar among the products listed as basic agricultural commodities in that a different base period was designated. After tobacco was included as a basic commodity, both growers and farm leaders in the tobacco areas became interested in learning the details of the proposal and how it might operate for their product. Those engaged in drafting the bill also gave attention to the question of how it would work out when applied to tobacco and made trial computations of "fair exchange value" using the pre-war base period then contemplated. These investigations showed that, because of shifts in consumption between tobacco products, current prices for several kinds of tobacco were above the pre-war parity and could not be increased through operation of the bill then under consideration.¹² After several proposals for meeting this difficulty had been considered, it was determined that use of a post-war base period would give the desired result. Accordingly, the ten-year period August 1919 to July 1929 was finally designated, although for all other commodities August 1909 to July 1914 is used.

A somewhat peculiar situation was created by the designation of a special base period for tobacco, while at the

¹² At the same time growers and their representatives began coming forward with suggestions that the pre-war base period was unworkable in the case of tobacco.

same time leaving it subject to the consumer protection provision. For all other commodities the base period is identical with the period which defines the limitation on price increases. In the case of tobacco, shifts in consumption have been towards a greater use of products for which the spread between farm prices for the raw material and retail prices of the products is very large, so that there is no conflict between the two provisions.

Methods which are being used. In the administration of the Agricultural Adjustment Act, greatest reliance has been placed upon production control, benefit payments, processing taxes, and associated devices as the means for raising prices. Marketing agreements and licenses are employed for numerous products and under a variety of conditions, but not as the major agencies for accomplishing agricultural relief. The general attitude of the AAA appears to have been in opposition to any extensive use of the authority to expand markets and remove surplus products, either by export subsidy or stabilization purchases. Likewise the original allotment plan seems to have been disregarded almost completely in favor of the production reduction approach.

Perhaps the greatest single controversy which developed within the AAA during its early period of operation was over the relative positions in the program to be given production control and associated devices as compared with marketing agreements, supplemented by licenses and arrangements to export surpluses. Secretary Wallace, as indicated by his statements in hearings on the bill while it was before Congress and on numerous occasions since, strongly favored production control as the most feasible

approach. Although he had previously supported the McNary-Haugen proposal, it appears that he considered curtailment of production essential to any program for increasing farm prices and farm incomes. Marketing agreements and licenses might be useful as supplements to that effort, especially after production had been brought under control, but could not furnish a satisfactory substitute for it. Export dumping or stabilization purchases could not provide a lasting benefit to agriculture in the absence of production control.

On the other hand, George N. Peek, who had been named administrator on the day after the act was approved, was equally definite in favoring marketing agreements as the major effort. Mr. Peek had been one of the original and leading proponents of the McNary-Haugen plan and was directly responsible for insertion of the marketing agreement provision in the Adjustment Act. The views which he entertained at that time with reference to its operation have been summarized as follows:

His various utterances indicate that he believed that the wise course would consist of three steps:

(1) To approach processors and distributors, seeking to get them, through unofficial voluntary agreements among themselves or under AAA marketing agreements, to undertake to pay a remunerative price to producers. In many cases this could be done and the whole supply disposed of through the regular channels of distribution and use.

(2) To employ agreements like the above to handle all such supplies as could be disposed of at remunerative prices through the regular channels, but to supplement such distribution by finding special ways of disposing, in either export or domestic markets, of any surplus not marketable at this price level.

(3) If all such efforts should fail thus to clear the market of

supplies which depressed prices below the parity level, then to invoke the production adjustment feature of the act to check current or future output.¹³

Although from the beginning a major emphasis was placed upon production control in the programs developed for cotton, wheat, corn and hogs, and tobacco, this difference over the extent to which marketing agreements were to be used was never fully eliminated during the period while Peek served as administrator. Agreements were developed as the principal device in the dairy program and for several miscellaneous commodities not designated as basic. A somewhat different use of agreements was made in the tobacco program where they were developed jointly with production programs, as will be shown later. Numerous proposals were also advanced for other agreements which were never put into operation. With the reorganization of the AAA which took place in January 1934, however, the situation was more fully clarified. The status of agreements following this reorganization has been summarized as follows:

The idea appeared to have been definitely abandoned that marketing agreements could ever be the major agency for accomplishing agricultural relief, however useful they might be found by particular producer groups. It appeared that the most that was expected was that they would: (1) Serve a temporary purpose pending the perfection of production control devices; (2) bring some enhancement of prices and stabilization of operations in those minor lines of production not eligible for benefit payments; and (3) serve, to an extent as yet undetermined, to increase the economy and equitableness of distributive arrangements.¹⁴

Planning and reform tendencies. Although hardly to

¹³ Nourse, *Marketing Agreements under the AAA*, Chap. II.

¹⁴ The same.

be designated as administrative policy, certain views with respect to the underlying purposes of the adjustment legislation are discernible which represent tendencies affecting the administration of the AAA programs. Two of these, relating to "economic planning" and "marketing reform" respectively, need to be mentioned briefly in connection with developments pertaining to tobacco.

The view that adjustment programs could be so administered as to achieve a degree of economic planning for agriculture seems to have been held by those who did the most in actually drafting the legislation as well as by others who supported the proposal. The goal of planning or "adjustment" as visualized by this group is stabilized production and prices. To realize stability they would seek to maintain an adjustment between production and consumption at a point which would assure farmers an "equitable share" of the national income, but which would also assure consumers an economical supply of farm products. To those who hold this view, emergency price raising represents only an intermediate objective, and parity price is a convenient formula for determining the rates of processing taxes, rather than the goal which must be attained. As a more permanent objective they visualize a continued program which would benefit producers by minimizing fluctuations in prices rather than by maintaining in every case a level higher than would obtain over a period of years in the absence of the program.

Previous experience with programs which had sought these same planning objectives by distributing economic information and by educating farmers as to the manner of adjusting their farm operations to changed conditions had convinced some leaders that a method of co-ordinat-

ing the efforts of individual farmers through a degree of governmental control was desirable. Such a method they believed was provided by the general allotment scheme, including the processing tax and production reduction devices, to which they attached dominant importance. In other words, they viewed the proposed act as providing the basis for a continued planning program, although they recognized the political expediency of advancing it as an emergency relief measure. In the language of the legislation which was finally enacted, as well as in the congressional debate during its consideration, this planning idea was rather completely submerged. Nevertheless, it has reappeared as a continuing tendency in the activities of the AAA. No doubt this has been partly the result of the fact that some individuals who had supported the act because of its planning possibilities were appointed to important administrative posts, where they have retained their interest in "economic planning for agriculture." It also represents a trend in thinking regarding the course to be followed after the emergency is passed.

Besides this idea of agricultural planning within the AAA, another line of thinking should not be ignored in summing up the direction in which policy has developed. Throughout the period since the act was passed, the view has persisted among certain members of the AAA that marketing reform should constitute an important phase of the program. This view has appeared most frequently and aggressively in the consideration of marketing agreements and licenses. In such instances it has been in direct opposition to the attitude of those who originally advanced the marketing agreement provision. This latter group contemplated only a minimum of interference with estab-

lished market practices in their proposal that agreements be negotiated to raise prices, provide orderly distribution of supplies, and facilitate disposal of price depressing surpluses. On the other hand, those who accepted the reform view saw much to be gained through the reorganization and regulation of market agencies, including farmers' co-operative marketing associations, reduction of charges, development of more efficient marketing methods, curbing of monopolistic practices, and similar reforms.

This discussion of tendencies within the AAA should not be interpreted as an attempt to forecast the policies with which the Agricultural Adjustment Act will be administered in the future. Both concepts, agricultural planning and marketing reform, have already appeared as significant tendencies affecting the policies of the AAA. They are introduced here as part of the necessary background for an analysis of the tobacco program.

THE KERR-SMITH ACT

In its application to tobacco, the Agricultural Adjustment Act is supplemented by the Kerr-Smith Act, approved June 28, 1934.¹⁵ This measure is designed to prevent non-signers from sharing in the financial benefits secured through the operation of the Adjustment Act. Under

¹⁵ Officially titled "An act to place the tobacco growing industry on a sound financial and economic basis, to prevent unfair competition and practices in the production and marketing of tobacco entering into the channels of interstate and foreign commerce, and for other purposes."

The policy declared in this act is stated as follows: "It is hereby declared to be the policy of Congress to promote the orderly marketing of tobacco in interstate and foreign commerce, to enable producers of tobacco to stabilize their markets against undue and excessive fluctuations, to prevent unfair competition and practices in putting tobacco into the channels of interstate and foreign commerce, and to more effectively balance production and consumption of tobacco, and to relieve the present emergency with respect to tobacco."

its powers a tax is collected upon sales of tobacco by growers who do not participate in the program for reducing production. In this manner it seeks to remove the incentive for increased production by those who do not sign contracts with the AAA. To whatever extent it causes growers to participate in the plans by imposing a penalty upon non-signers, it adds a degree of compulsory control of production to the voluntary procedures which have been discussed.

The act was made applicable to all tobacco harvested in the crop year 1934-35 except Maryland, Virginia sun-cured, and cigar-leaf tobaccos. In 1935-36 it is to be applied to any type for which its application is favored by persons who own, rent, share crop, or control three-fourths of the land customarily used in the production of that type.¹⁶ By its provisions a tax is levied upon the sale of all tobacco to

¹⁶Section 3 (b). "The tax provided for by sub-section (a) of this section shall be applicable to all tobacco harvested in the crop year 1934-1935, except Maryland tobacco, Virginia sun-cured tobacco, and cigar-leaf tobacco. Thereafter whenever the Secretary of Agriculture determines that the persons who own, rent, share crop, or control three-fourths of the land customarily engaged in the production of any particular type of tobacco favor the levy of the tax thereon and that the imposition of the tax thereon is necessary for the orderly marketing of such tobacco in interstate and foreign commerce and to effectuate the declared policy of this act, he shall proclaim such determination at least 60 days prior to the next succeeding crop year, and the tax shall thereafter apply to tobacco of such type harvested during the crop year next following the date of such proclamation. The tax provided for by sub-section (a) of this section shall not apply to any tobacco harvested after April 30, 1936."

Further provision is made for termination of the act with respect to any type of tobacco at the end of the crop year current at the time the Secretary proclaims that payments under the Agricultural Adjustment Act are to be discontinued with respect to that type, or whenever the President proclaims the national economic emergency ended with respect to that type of tobacco.

On the basis of a growers' referendum in each producing district, the Secretary has determined that the required number of producers favor the application of the tax in 1935-36 on all types for which production plans are in operation except Maryland tobacco (see p. 228).

which it is applicable. Then in each crop year non-transferable tax-payment warrants are to be issued to each producer who has entered into an adjustment contract to limit production under the voluntary program. Warrants are expressed in pounds of tobacco of a particular type, and each contracting producer is entitled to receive warrants covering the amount of tobacco he is permitted to market under his contract or the amount which it is estimated may be produced upon his acreage allotment under that contract. These warrants are to be accepted by the collector in payment of the tax on any sale by the grower up to the amount specified by the warrant.

In order not to penalize producers who are unable to secure equitable allotments, or who for other reasons may be ineligible to participate in the production program, the Secretary is authorized to issue warrants to them. The amount of these additional warrants to be issued in any county is limited, however, to not more than 6 per cent of the quantity issued to contracting producers, and two-thirds of these additional warrants must be issued to growers whose allotments are 1,500 pounds or less.

The rate of the tax levied by this measure is one-third of the price at which the tobacco is sold, but with a provision that the rate may be reduced by the Secretary to not less than one-fourth of the price. Since the tobacco crop was planted before the law was enacted, the tax was levied on the 1934-35 production at the minimum rate.¹⁷

¹⁷ The Kerr-Smith Act also provides for controlling the importation of the cigar-leaf types. For each crop year in which tobacco is harvested to which the tax is applicable, or for any part of such year, the Secretary may establish quotas for the importation into continental United States of cigar-leaf types of tobacco and allot those quotas to importers. Imports of any cigar-leaf type in excess of the quota for that type would be subject to an import tax. The rate of this tax is to be determined by the Secretary of Agriculture ac-

Inasmuch as this law applies only to tobacco, the policies with which it is being administered can best be considered in later chapters along with operations under the tobacco programs.

ording to a formula prescribed in the act. No import quotas have been established under these provisions of the Smith-Kerr Act, although similar quotas have been applied to imports from Cuba under the terms of a trade agreement.

CHAPTER II

TOBACCO GROWING AND MARKETING

The character of any program for carrying out the provisions of the Adjustment Act is of necessity affected by conditions in the particular industry to which it is applied. For this reason it is necessary to review conditions in the tobacco producing industry before considering the various features of the tobacco program which have been evolved. In the present chapter attention is given to the types of tobacco, their uses and importance, as well as to the conditions under which they are produced and marketed.

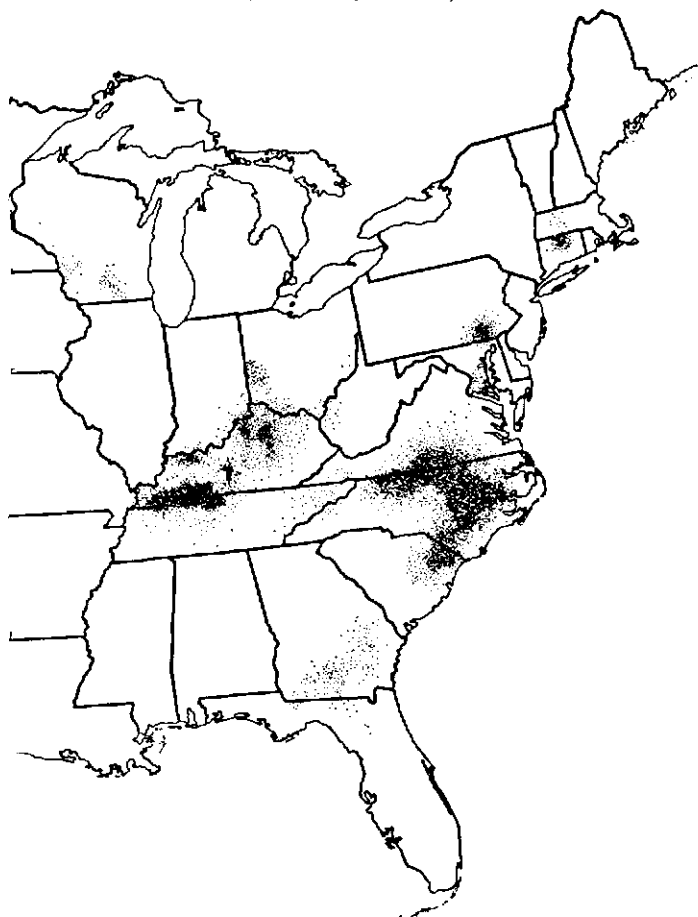
TOBACCO PRODUCTION IN THE UNITED STATES

Tobacco production occupies only a small portion of the available land even in the areas where it is most concentrated, but the large value of product per acre results in a material contribution to growers' incomes. An average of slightly less than 1.9 million acres of tobacco was harvested in the United States during the years 1928-32. At the prices which prevailed, the estimated total farm value averaged a little over 200 million dollars per year. The average value per acre during this period was approximately \$108.¹

No very complete estimate of the number of people engaged in tobacco production is available. The census reported 433,000 farms upon which tobacco was grown in 1929. This, however, furnishes only an approximate indication of the number of families dependent upon income

¹Based on latest revisions of data by the Division of Crop and Livestock Estimates, Bureau of Agricultural Economics.

DISTRIBUTION OF TOBACCO ACREAGE, 1929^a
(1 dot = 500 acres)



^a Adapted from Figure 15 in F. F. Elliott, "Types of Farming in the United States." *Fifteenth Census of the United States* (1930. pamphlet).

from tobacco production, since some families operate more than one farm and some farms give employment to more than one family. Furthermore, there were doubtless instances where no census returns were obtained from growers with small acreages in less accessible locations.

The location of tobacco production is shown by the accompanying map of acreage in 1929. From this map it may be observed that production is localized in fairly well-defined areas. For the most part these areas produce tobacco having different characteristics, since curing methods, variety, soil, and weather all have an influence in differentiating the product. Furthermore, over a period of time consumers become accustomed to certain qualities, and the trade looks to specific areas for continued supplies of the same grades.

The official classification of leaf tobacco established by the Department of Agriculture recognizes seven classes exclusive of imported foreign-grown tobacco. These classes are: flue-cured, fire-cured, air-cured, cigar-filler, cigar-binder, cigar-wrapper, and miscellaneous domestic. The first six classes include those types having an annual production in excess of one million pounds each. Twenty-five such types are produced within the continental United States and an additional one is grown in Puerto Rico. The seventh class lumps together as "miscellaneous" other minor domestic types of which less than one million pounds each are produced annually.²

² "Classification of Leaf Tobacco Covering Classes, Types, and Groups of Grades," *U. S. Department of Agriculture Service and Regulatory Announcement No. 118*, November 1929.

Class is defined as "one of the major divisions of leaf tobacco based on the distinct characteristic of the tobacco caused by differences in varieties, soil, and climatic conditions, and the methods of cultivation, harvesting, and curing."

Type is defined as "a subdivision of a class of leaf tobacco, having certain

The various types of tobacco differ as to their uses and manufacturing qualities. Some are used mainly for the manufacture of cigars; others are used primarily in cigarettes, smoking mixtures, chewing tobacco, or snuff. All have additional or secondary uses to which the low grades especially are diverted.³

Flue-cured, the most important group of types, derives its class name from the curing process. This consists of applying heat from a "furnace" located partly within the curing barn, from which the smoke is carried through an iron flue extending across the barn and back.⁴ The class includes four types, and makes up about one-half the total volume of tobacco produced in this country. The area in which it is produced includes parts of Virginia, North Carolina, South Carolina, Georgia, and Florida, with the major part being produced in the first three states.

Tobacco produced in this district first achieved prominence as an export type before the present method of curing developed. With the increase in use of cigarettes, the thin leaf and light color of flue-cured tobacco came into

common characteristics which permit of its being divided into a number of related grades. Any tobacco that has the same characteristics and corresponding qualities, colors, and lengths shall be treated as one type, regardless of any factors of historical or geographical nature which cannot be determined by an examination of the tobacco."

³A more comprehensive description of the domestic tobacco producing industry is included in Charles E. Gage, "American Tobacco Types, Uses, and Markets." *U. S. Department of Agriculture Circular No. 249* (as revised August 1933). The treatment here amounts to a summary of the material therein contained.

⁴Of the two general methods for harvesting tobacco, priming and stalk-cutting, the first is ordinarily used for the flue-cured types. In priming, individual leaves are removed from the stalk as they reach the desired stage of maturity. By this method leaves are removed at several times, the successive removals being spoken of as first priming, second priming, and so on. When tobacco is stalk-cut, the entire plant is harvested by cutting the stalk near the surface of the ground.

increased demand. In recent years it has amounted to nearly half of all the tobacco produced in the country. Its principal outlets are in the manufacture of cigarettes and in the export trade, although considerable amounts, particularly of the lower grades, are used in the manufacture of smoking and chewing tobacco. Practically 60 per cent of the flue-cured tobacco produced in recent years has been shipped abroad, and it is the most important export type.

Fire-cured tobacco is so designated because it is cured in the heat and smoke of slow, open wood fires maintained on the dirt floor of the barn. It is produced mainly in the extreme western parts of Kentucky and Tennessee in the area which has been known for generations as "the black patch." This class includes from 10 to 20 per cent of the tobacco produced in the United States.

A large part of the fire-cured tobacco produced is usually exported; the remainder is used chiefly in the manufacture of snuff. Other uses include the manufacture of cigars (principally for Italian consumers), re-handling,⁵ smoking mixtures, fillers in plug chewing, and the best grades for plug wrappers.

Air-cured tobacco may be subdivided into light and dark types, and the characteristics of these types are quite different. The light air-cured tobaccos are Burley, type 31, and southern Maryland, type 32. Dark air-cured includes One Sucker, type 35, Green River, type 36, and Virginia sun-cured, type 37. As indicated by its name, this class is normally cured without the aid of artificial heat. The stalk is cut near the ground and suspended in curing barns so constructed as to permit free circula-

⁵ Processing for export to the west coast of Africa, the West Indies, and Central America.

tion of air. Only in periods when dampness is likely to cause injury to the tobacco is heat applied.⁶

Burley is by far the most important type of air-cured tobacco; it constitutes about one-fourth of the total United States crop. Its largest single outlet at present is in the manufacture of cigarettes. Burley is used more than any other type in the manufacture of various kinds of smoking tobacco, and it is used extensively in plug chewing tobacco. Only a very small amount is exported. The production of Burley tobacco now extends over the greater part of Kentucky, a large area in Tennessee, and smaller adjoining segments of North Carolina, Virginia, West Virginia, Ohio, and Indiana. There is also some Burley produced in parts of Missouri, Kansas, and a few other states, although it constitutes a smaller item in the agriculture of these localities.

The other light air-cured tobacco, Maryland, type 32, somewhat resembles Burley, especially in being relatively free from the gum which is present in the heavier tobaccos. Its outstanding characteristic is its fire-holding capacity or "burn," which excels that of most other domestic types. Since it is rather neutral in aroma, it is extensively used in blends with other types of tobacco to improve the burning quality of the blend without destroying the aroma and flavor. Besides being used in cigarette blends, considerable quantities of Maryland tobacco are exported, and it is used to some extent in smoking mixtures. Production of this type, which amounts to less

⁶ Air-curing is not practiced exclusively with the class of tobacco so designated. The cigar types are also air-cured and should not be confused with the so-called air-cured types.

than 2 per cent of the total crop, is localized in southern Maryland, west of Chesapeake Bay.

In contrast to the light types, the dark air-cured tobaccos are unsuitable for the manufacture of cigarettes. These types represent less than 5 per cent of the total tobacco production. Their principal outlets are the export trade and the manufacture of chewing tobacco. Their production is limited to relatively small areas. One Sucker, type 35, is grown mainly in a limited area in southern Kentucky; smaller quantities are grown in northern Tennessee and southern Indiana. Green River, type 36, is produced in a group of counties in western Kentucky on or near the Ohio River—the two markets, Henderson and Owensboro, handling the entire output. Virginia sun-cured, type 37, is grown in parts of six counties located mostly north of Richmond, which is the only market.

Cigar-leaf types are grouped in three classes according to their principal use in the cigar; as filler, binder, and wrapper.⁷ Together they amount to about one-eighth of the tobacco crop. Select grades of the filler types are used occasionally as binders, while some tobacco from the binder and wrapper types may be used for all three pur-

⁷ These terms are defined as follows in *U. S. Department of Agriculture Circular No. 249*, p. 37:

"Filler: Tobacco used in forming the core of a cigar. It predominates in the aroma.

"Binder: Tobacco used to bind the filler and to shape it into the 'bunch.' The binder also acts as a protection for the wrapper during the manufacturing process. It is of a fine and elastic texture and is rolled around the coarser filler. The use of a binder makes possible the use of a very thin and attractive wrapper on the cigar. Otherwise, the core of filler tobacco would present irregularities and probably puncture the wrapper, thus requiring replacement and causing a loss.

"Wrapper: Tobacco used for covering the 'bunch' formed by inclosing the filler in the binder and to make the finished cigar attractive."

poses. Low-grade cigar tobacco is used in the manufacture of scrap chewing tobacco.

The qualities required for the cigar types are readily apparent from their uses. The important considerations for filler are the aroma and burn since it makes up the body of the cigar. Filler types tend to be relatively coarse and heavy, with color of no importance excepting as it may indicate other qualities. Since the function of the binder is to hold the bunched filler in shape, elasticity of the leaf is important. In addition, binder tobacco must be thinner and of finer texture than filler, have the required aroma, and burn evenly and completely. The requirements for wrappers include all those mentioned for fillers and binders with the added factor of color. Since this leaf has most to do with the appearance of the finished cigar, and since smokers generally select a light-colored cigar as indicating a mild smoke, the consumers' choice is guided to a considerable extent by the color of the wrapper. The requirements for wrappers as to fineness of texture and freedom from injury or blemish are even more rigid than in the case of binders.

The districts in which cigar tobacco is produced are located in New England, Pennsylvania, New York, Ohio, Wisconsin, Minnesota, Georgia, and Florida. New England production is mainly in the Connecticut River Valley of Connecticut and Massachusetts, with some production in the Housatonic Valley farther west. Three types—Broadleaf, type 51, Havana seed, type 52, and shade-grown, type 61, are commonly grown in this district. The first two of these are primarily binder types, although some of the choicest leaves are used as wrappers. In common with all other cigar types excepting shade-grown, they are

generally stalk cut and air cured. All shade-grown tobacco is primed.

Tobacco grown under shade is produced especially for wrappers. The purpose of the shade is to protect the plants from intense sun, to conserve moisture, and to minimize damage to the leaves from whipping and from insects. At least three-fourths of all the shade-grown wrapper tobacco produced in the United States is grown in the New England area, the remainder, type 62, being grown in a small cigar-tobacco district in the northern part of Florida and the adjoining area in Georgia. Besides shade-grown, an open-field tobacco known as Sun Sumatra, type 45, is produced in the Florida-Georgia district; this latter is strictly a filler type.

Cigar filler and binder types are produced in the Pennsylvania-New York district, with the filler types greatly predominating. The filler district centers in Lancaster County, Pennsylvania, which is the most important county in the United States in tobacco production. Pennsylvania is also the most important state in the production of the cigar-filler types. The tobacco grown is mainly seedleaf, type 41. The binder tobacco grown is known as New York and Pennsylvania Havana seed, type 53. The distinctions between this type and Connecticut Valley Havana seed are mainly due to differences in the soils on which they are grown.

The Ohio cigar-tobacco district lies in the valley of the Miami River and includes all or parts of some six counties. Three types are produced, all of which are used primarily for fillers.

Two types of tobacco are grown in Wisconsin and Minnesota: type 54, produced principally in Dane, Rock,

and Columbia counties, Wisconsin; and type 55, grown mainly in Vernon, Crawford, and Richmond counties, Wisconsin, but with a small though increasing production in Minnesota. These types are used chiefly for the manufacture of scrap chewing tobacco, more than four-fifths of the quantity ordinarily going into this use.

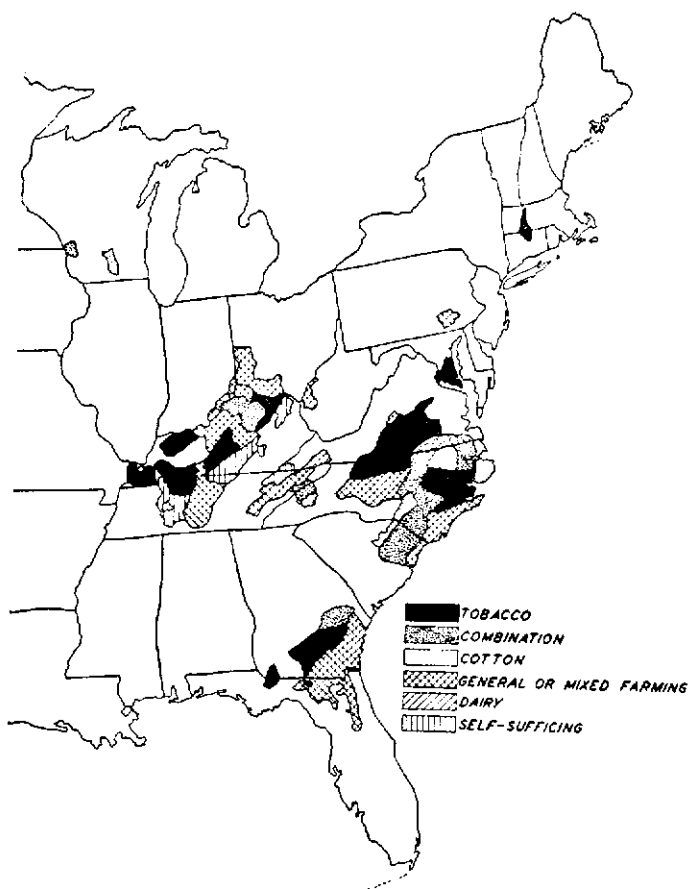
TYPES OF FARMING IN TOBACCO AREAS

Tobacco is produced on a considerable number of specialized farms where it constitutes the principal source of income. It is also grown as a cash crop in combination with various enterprises on other types of farms. A brief review of the systems of farming which prevail in the principal producing areas helps to furnish an understanding of conditions in the industry and permits a realistic treatment of problems discussed in succeeding chapters.

The accompanying map shows type-of-farming areas and sub-areas in which tobacco production is of sufficient importance to be listed among the products which characterize the agriculture of the locality. The areas most heavily shaded are the ones within which tobacco specialty farming is dominant. In each of the other areas tobacco farms are found, and tobacco production provides a significant source of income, but some other type of farm is more important.⁸

⁸ The 1930 census classifies all farms under twelve major types and five sub-types. The major types are: cash-grain, cotton, crop specialty, fruit, truck, dairy, animal specialty, stock ranch, poultry, self-sufficing, general, and abnormal. The sub-types fall under the abnormal type and need not be considered here. A farm is classified under a particular type if it receives 40 per cent or more of its income from the corresponding source. Farms receiving 40 per cent or more of their income from each of two sources constitute exceptions and are classified according to the most important source. Thus farms for which the value of tobacco amounts to 40 per cent of the total value of products, but for

VARIATION IN FARMING COMBINATIONS IN REGIONS WHERE TOBACCO IS GROWN ^a



^a Adapted from generalized map of type-of-farming areas, 1930, in Elliott, "Types of Farming in the United States."

A comparison of this map with that of tobacco acreage on page 28 shows that most of the tobacco crop is produced by farms within these areas. Such a comparison, however, reveals that a very large portion of this production is in areas where some other type of farming is of equal or greater importance than specialized tobacco production. Thus in the flue-cured region, including southern Virginia, a large part of North Carolina and extending into South Carolina, four different shadings appear. Comparison with the dot map shows a heavy concentration of acreage, not only in the areas where tobacco farming is the dominant type, but also in those characterized by combination farming (tobacco and cotton together constituting the principal source of income) and in one important area where cotton is the most important product. Somewhat more scattered but still quite significant acreages also are found in the adjoining areas where general farming and cotton farming predominate.

An even greater diversity of farming conditions is

which the value of cotton is still greater, are classified as cotton farms. Those farms which do not receive 40 per cent of their gross income from any single source are classified as general, and those where the value of products used by the family is 50 per cent or more of the total value of all products are classified as self-sufficing.

From this classification of individual farms, Elliott has differentiated 514 major type-of-farming areas and a number of additional sub-areas, according to the dominant type in the locality. In differentiating areas, determination of the dominant type was based upon both the number of farms falling in that type and upon the source of income for the area. A type was considered dominant when it included at least 35 to 40 per cent of the farms in those areas, or when the income from that one source represented a corresponding proportion of the total gross income of the areas.

Under the census classification, farms receiving 40 per cent or more of their gross income from tobacco are classified as crop-specialty farms unless, as has been noted, some other source provides an even greater amount. Fortunately for the purposes of the present analysis, the type-of-farming study separated the crop-specialty type into two groups, tobacco and other crop-specialty.

shown within the Tennessee-Kentucky-Ohio region. The areas within this region that are characterized by a given type of farming tend to be smaller, especially because of variations in topography and soil conditions, but also partly because of other factors. In this region the greatest concentration of acreage appears in the areas of specialized tobacco farming and of combination farming, in this case a combination of tobacco, livestock, and general farming. The general farming combinations range from livestock, some dairy, cash-grain, tobacco, and cotton in Tennessee to mostly livestock and tobacco in central Kentucky and livestock, cash-grain, dairy, and tobacco in southern Ohio.

In the Georgia-Florida region, areas where tobacco farming predominates are adjacent to areas of combination farming (tobacco and cotton) and general farming.

The southern Wisconsin area centering in Dane County is predominantly dairy farming, with tobacco constituting the most important cash crop. The other Wisconsin area is characterized as combination farming with dairy products, tobacco, and livestock the principal sources of income.

Although Lancaster County, Pennsylvania, has the distinction of producing tobacco having a larger total value than any other county in the United States, general farming is the dominant type within that area. Dairy products, tobacco, poultry, cash-grain, and potatoes furnish the principal income.

In southern Maryland no other source of income is important in comparison with tobacco. Specialized tobacco growing is the prevalent system of farming.

In all of the farming areas where tobacco is grown,

large amounts of labor are used in growing the crop, as well as in harvesting, curing, and preparing it for market. Heavy applications of fertilizer are required to obtain satisfactory yield and quality in most cases, the major exception being the more fertile lands upon which Burley is produced in Kentucky and Tennessee. In other instances the cash outlay for fertilizer is reduced when tobacco production is combined with a livestock enterprise, as in the Pennsylvania and Wisconsin cigar-leaf producing areas. Furthermore, the investment per unit of land in tobacco, especially for curing barns and equipment, is larger than for most other crops.

Because of these conditions, together with the high value of the product, small units operated by tenants are prevalent. There is, however, no standard acreage of tobacco per farm, and the tenure of operators varies widely between localities. To illustrate, a tabulation of 1,398 specialized tobacco farms in Pitt County, North Carolina, where flue-cured tobacco is produced, showed that 980 were operated by croppers in 1929, while 200 were farmed by share tenants and 218 by owners. The acreage of tobacco harvested on these farms ranged mostly between 2 and 25 acres, with the range from 4 to 6 acres including slightly less than half the total number of farms. No pronounced difference in size is observed in the acreages grown by the different classes of operators in this county. Similar tabulations for Christian and Fayette counties, Kentucky, where the production of fire-cured and Burley tobaccos respectively predominate, show a much smaller proportion of croppers. In the fire-cured district the distribution was 272 croppers, 185 share tenants, and 252 owners, while in the county where Burley predominates, it was 120 croppers, 351 share tenants, and 411 owners. The

range of acreage harvested per farm was equally as great for these counties as in the first illustration and there was even less tendency for any size to predominate.⁹

THE MARKETING OF TOBACCO

Several factors cause tobacco to be marketed for the most part within a limited season following its production, even though it is not a perishable product and in fact is not usually considered suitable for manufacture until it has aged at least a year. While all types are cured immediately after harvesting and before being marketed by growers, the curing process is by no means completed at that time. Tobacco is subject to deterioration if held for any length of time without redrying, and many types are redried¹⁰ immediately after they pass from the growers' hands. The cost of equipment required for this processing makes it prohibitive for individual farmers or small groups of farmers, and farm storage ordinarily is not adequate for maintenance of the uniform conditions required after redrying. Furthermore, the moisture content to be maintained varies somewhat according to the outlet in which the tobacco will be used, and this cannot be known in advance of sale.¹¹ This situation limits the ability of producers of such types to regulate the time at which their crop is to be marketed.

Some other tobacco, most notably cigar leaf, is not redried, but instead is placed in compact bulks for sweat-

⁹ Elliott, "Types of Farming in the United States," pp. 166-68.

¹⁰ In redrying, tobacco is put through a machine where it is dried by artificial heat and then brought to a uniform moisture content by the introduction of steam.

¹¹ Despite this difficulty both the Burley Growers' Co-operative Association of Kentucky and the Tri-State Tobacco Growers' Association in the flue-cured area redried and stored for their members during the periods in which they operated.

ing, which produces certain chemical changes and losses of weight. Although some control of temperature and moisture conditions is desirable, the cost of facilities is not prohibitive as in the case of redrying, and these types may be held for considerable periods by growers. The need for cash to meet obligations and finance the next year's operations, however, furnishes a strong incentive for the grower to dispose of his product within a few months after it is harvested.

Over a period of time, characteristic systems of marketing have become established in the regions where tobacco production is localized. The most extensive of these is the auction warehouse system which prevails throughout the flue-cured, Burley, dark air-cured, and fire-cured areas. Although details of operation vary between sections and between markets, the essentials are similar in all cases. Growers deliver their tobacco to the warehouse; there it is auctioned off to manufacturers, dealers, exporters, and speculators bidding in competition with each other. The function of the warehouseman is to provide the market place, including all facilities and services which are used in transferring ownership from growers to purchasers. For this purpose a market machinery has been developed which makes possible the rapid handling of the product and quick payment to growers. Sales are made with great rapidity, usually about 300 lots per hour, although sales of 350 to 400 per hour are not uncommon. So efficiently are the accounting and disbursing operations organized that the grower may, if he desires, obtain a check for the net proceeds of the sale almost immediately.

The rapidity with which sales are made and the prompt-

ness with which the growers receive their returns, together with the ability to dispose of tobacco of any condition or quality and to reflect promptly any change in conditions affecting prices, are usually enumerated as important advantages of the auction system. However, serious disadvantages are frequently attributed to the method and these are likewise caused in part by the speed with which sales are made. Such speed requires extremely rapid appraisal of each lot by the bidders and constant alertness on their part if their individual valuations are to be accurately reflected in the price. Under these conditions factors such as variations in light and weather conditions, or even a minor commotion distracting the attention of a few buyers, may result in an individual lot being sold at a price well below what some buyer present otherwise would have paid. A situation of this kind may arise even though the bidders possess the highest degree of skill attainable.

Such a situation does not represent the same hazard for the buyers as for the sellers. Each buyer is on the market to purchase a considerable quantity of tobacco within a range of quality and seeks to make his total purchases as cheaply as possible, at least at prices in line with those of his competitors. Under these circumstances errors on individual lots may average out from his standpoint within one day's purchases, whereas one lot may represent a large part of the entire season's product of a small grower. Thus, although it is generally conceded that the level of prices arrived at in the auction selling of tobacco may reflect general market conditions fairly accurately, it also must be admitted that individual growers often receive prices which are not commensurate with the quality and condition of their particular product.

The auction system, moreover, is costly. Each warehouse represents a large capital investment and is fully utilized for only a few weeks out of each year. Few markets are so small as to have only one warehouse, and large markets may have 12 to 15 or even more. Some warehouses are so large as to accommodate two sets of buyers and auctioneers conducting sales at the same time. With more than 100 markets for flue-cured tobacco alone, it must be apparent that year-round maintenance of warehouse facilities constitutes a heavy overhead.

The larger buying companies as a rule are represented on each market by as many buyers as there are sales in progress. While not all markets are in operation at the same time, nevertheless as many as 60 to 80 may be operating during a considerable part of the marketing season. On each market there may be from one to half a dozen sets of buyers, including representatives of the large manufacturing companies, dealers, exporters, and speculators. When account is taken of the cost of maintaining this number of buyers, together with the large number of warehouse employees and the additional employees of the buying companies who are required to take charge of the tobacco after it is purchased, it must be apparent that tobacco marketing under this system is a relatively expensive process.

The major part of the tobacco produced in Maryland is sold by what is known as the "closed-bid auction" system. Under this plan the tobacco is packed in large hogsheads on the farm and consigned to a broker or to the cooperative marketing association. In either case samples of the contents are removed by state inspectors, sealed, and turned over to the consignee for display. Buyers make

the rounds of the brokers' offices and submit sealed bids on such tobacco as suits them after an examination of the samples, all bids being opened at the close of the day. This method of selling prevails only at Baltimore, the sole market for southern Maryland tobacco.

The dominant method of marketing in the cigar-tobacco producing sections is sale at the farm to visiting buyers. A buyer may represent an independent packer or one of the larger manufacturers. In either case these buyers keep in rather continuous contact with production conditions throughout the areas in which they operate, in order to form their own estimates regarding the probable size and quality of the crop. Purchases may be made by entering into contracts with the growers at some time during the growing season or by negotiations after the tobacco is harvested. Such transactions may be made at a flat price for all grades, or more commonly, at two prices—one for that portion of the crop which grades at or above the standard agreed upon and another for tobacco of lower quality. Still another type of contract which is sometimes used in the cigar areas gives the dealer or packer a half interest in the crop upon payment of a stipulated price per pound. This purchaser then sorts, sweats, packs, and sells the tobacco and the proceeds are divided equally between the two parties after costs are deducted. In other cases the grower may employ the packer for a fee to perform these services and even to store the product for future sale.

Country buying is also practiced in other than cigar-leaf producing districts. In the Kentucky and Tennessee fire-cured districts, purchases at the farm are made by large concerns seeking the choicest crops, while in most

Southern areas they are made to some extent by speculators who resell in the auction markets.

Various attempts have been made by tobacco growers in several areas to perfect co-operative marketing associations. A review of this experience, especially that of the organizations which are no longer in operation, is beyond the scope of this study. Instead, it will suffice for present purposes to note the general character of the five associations which have been in operation during the period since the establishment of the AAA.

The Northern Wisconsin Co-operative Tobacco Pool, organized in 1922, operates in both of the Wisconsin cigar-leaf producing areas, where it serves slightly more than 7,500 members. This organization provides for federal grading of all tobacco received from its member growers through co-operation with the United States Department of Agriculture and the Wisconsin Department of Farms and Markets. All packing and warehousing services are furnished by the association, which also sells the tobacco for its members. Returns are made to producers by pooling the receipts from the sale of each grade for the entire crop, each grower receiving the same price for tobacco of a given quality produced within the year. Relatively large stocks are held by the association, sometimes for as long as two or three years, and a financing plan has been developed whereby cash advances amounting to a substantial portion of the estimated value of the tobacco received are made to growers on each crop.

Three co-operative marketing associations operate in the western Kentucky and Tennessee dark tobacco district: The Eastern Dark Fired Tobacco Growers' Association, Springfield, Tennessee; the Western Dark Fired Tobacco

Growers' Association, Murray, Kentucky; and the Stemming District Tobacco Association, Henderson, Kentucky. These co-operatives were organized in 1932 and collectively serve some 23,000 members. Still another organization, known as the Virginia Dark Fired Tobacco Marketing Association, located at Farmville, Virginia, was organized in 1930 and has about 8,000 members in that area.

The final co-operative to be mentioned is the Maryland Tobacco Growers' Association, Inc., organized in 1907 and having a membership of more than 5,000 growers. This organization functions substantially as a co-operative brokerage agency on the Baltimore market.

CHAPTER III

THE TOBACCO SITUATION IN 1933

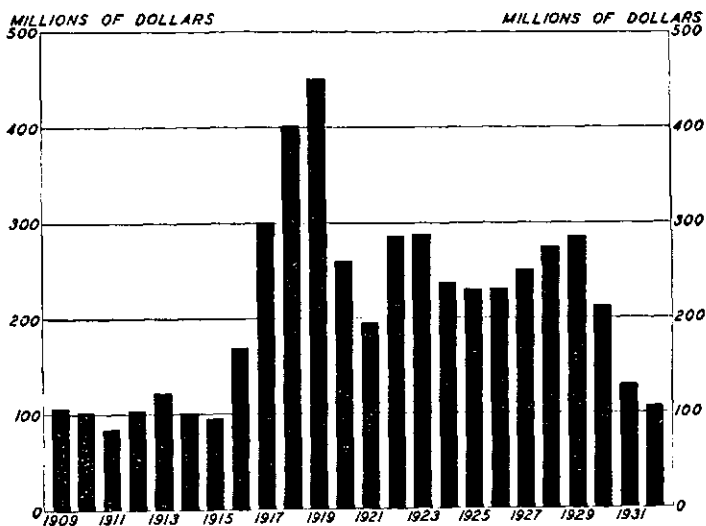
The task of presenting an adequate summary of the situation into which the adjustment program was injected is greatly complicated by the necessity for treating separately those kinds of tobacco which have distinctly different uses and characteristics. In the following discussion the situation of the producers in the spring of 1933 is first summarized in terms of their aggregate buying power as compared with former periods. Next, attention is given to individual elements in that situation, including domestic consumption, exports, acreage, production, stocks, and prices. In the treatment of these topics a summary for the industry as a whole is developed largely as a comparative analysis of conditions affecting the types or groups of types which have been shown to constitute substantially independent agricultural commodities. Some aspects of the competitive situation among manufacturers and distributors of tobacco products are discussed as a means of further clarifying the operation of price-making forces and as a basis for the analysis in later chapters where the effects of the adjustment program are considered.

GROSS INCOME FROM TOBACCO PRODUCTION

The best measure of the gross money income received by farmers from tobacco produced in a given year is the total farm value of that year's crop as estimated by the Division of Crop and Livestock Estimates of the Bureau of Agricultural Economics. Practically no tobacco is used

or retained on the farm; hence the estimate of farm value is equivalent to an estimate of the money received by farmers from all sales of the product. These values are shown for each year from 1909 to 1932 inclusive in the accompanying chart.

FARM VALUE OF TOBACCO PRODUCTION, 1909-32^a
(In millions of dollars)



^a For data, and limitations of material for years prior to 1919, see Table I, p. 251.

From this chart it will be seen that, following the decline from inflated war-time values, annual income from tobacco production fluctuated around a fairly uniform level during the next ten years. From 1929 to 1932, however, it declined very greatly, coincident with the progress of general business depression. The total farm value of the 1932 tobacco crop was estimated at only 107 million

dollars. For 1929 it had been 286 million and during the preceding ten years the estimates ranged from 196 million in 1921 to 451 million in 1919, and averaged slightly under 271 million dollars. Thus tobacco producers received from the 1932 crop, the last one preceding inauguration of the adjustment program, just under 40 per cent of what they had received on the average during the base period specified for tobacco by the Agricultural Adjustment Act.

No fully reliable comparison with values prior to 1919 is possible, owing to the limitations of existing statistical information, as is pointed out in the footnote to Table I, page 251. It is believed, however, that the data which have been included in the chart may indicate the more important changes with sufficient accuracy to warrant a rough comparison with the earlier period. If this evaluation of the data is accepted, it is apparent that pronounced changes occurred between pre-war years and the post-war base period. From 1909 to 1915 total farm income from tobacco appears to have fluctuated around a value probably not far from 100 million dollars per year, whereas during the ten years from 1920 to 1929 the average value of tobacco products, as was shown in the preceding paragraph, appears to have been roughly 2.5 times what it had been in the pre-war period. Not until 1932, after three years of rapid decline with general business depression, was the estimate again brought down to approximately the pre-war level.

The chart on page 52 shows the changes in farm value which occurred from 1919 to 1932 for each of the principal kinds of tobacco. The data are shown as percentages of a base average, in this case an average of the ten years 1919 to 1928. Thus the bars show the relative changes which have

occurred in each kind, but do not indicate the importance of any one in comparison with the others. For example, the average annual value of flue-cured during the first ten years covered by the chart, and represented by 100 per cent on the scale for those types, is over 128 million dollars, while in the case of Maryland tobacco the corresponding base average is slightly under five and one-quarter million dollars. In order to make clear the relative importance of the different tobaccos shown separately, the average of the years 1919-28, which is taken as the base, is stated parenthetically under the sub-title for each section of the chart. This same procedure is followed for succeeding charts.¹

That the several major types of tobacco have by no means contributed proportionately to changes in the total farm value of all types may be observed from this chart. Following the marketing of the 1919 crop the value of each type declined abruptly, this decline being least noticeable in the case of Maryland tobacco. While all types fluctuated irregularly during the remainder of the period, their trends up to 1929 were quite different.

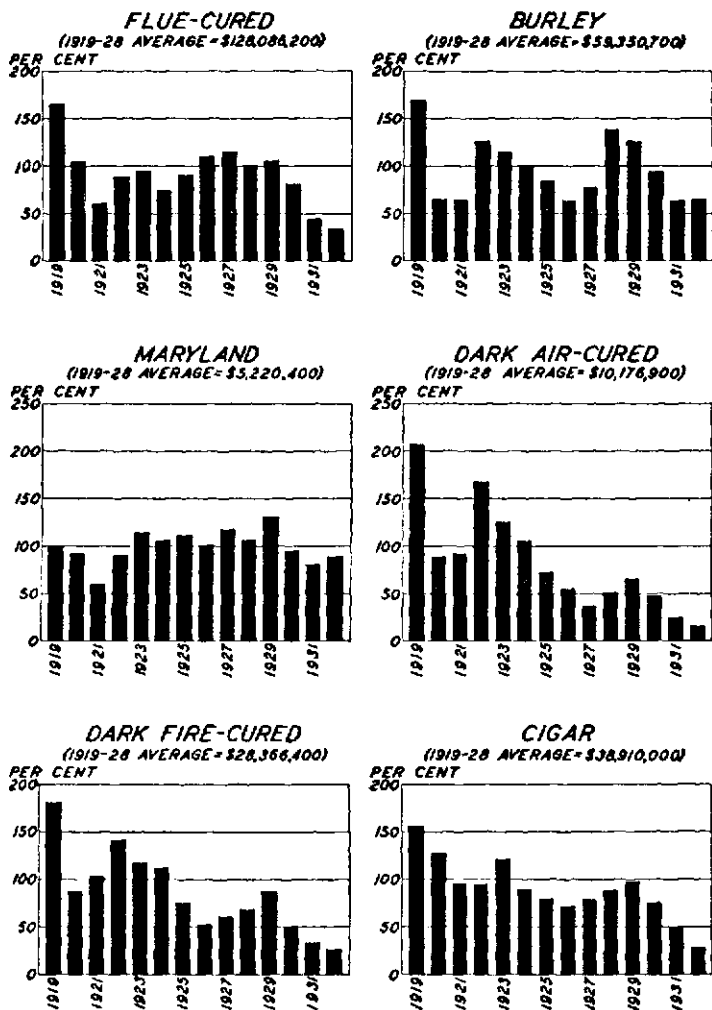
The value of flue-cured increased until its level from 1926 to 1929 was roughly 70 per cent of the inflation peak. Burley fluctuated more widely, reaching its lowest levels in 1920, 1921, and 1926 and its highest values in 1922 and 1928. The value of southern Maryland increased so that for each year from 1923 to 1929 it was above what it had been in 1919.

On the other hand, values of dark air-cured, fire-cured,

¹ The base periods are not identical in all of the charts included in this chapter, but in each case they have been made to correspond as closely as the data would permit with that specified for tobacco by the Agricultural Adjustment Act.

TOBACCO UNDER THE AAA

FARM VALUE OF THE PRINCIPAL KINDS OF TOBACCO, 1919-32^a
(As percentages of 1919-28 average)



^a For data, see Table III, pp. 258-59.

and cigar types have trended downward throughout the period since 1919. Consequently such data as are available indicate that the values of these three types in 1932 were only about one-half of what they had been before the war, whereas in that same year the other three types were substantially above their pre-war values.

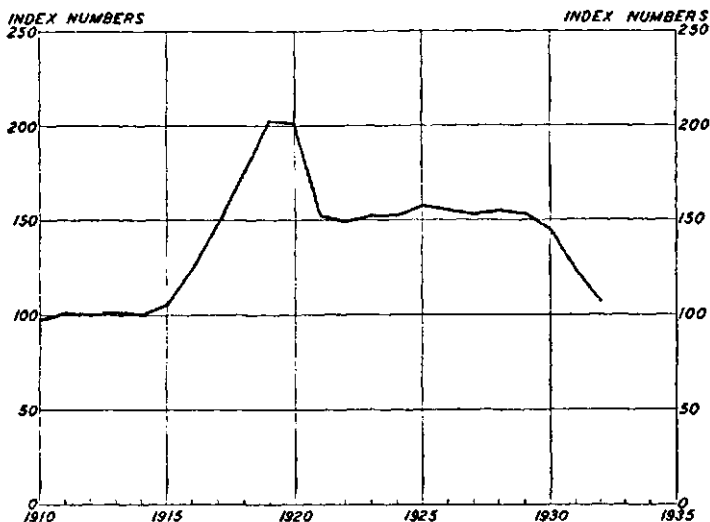
Some of the more important factors responsible for these trends will be brought out in the succeeding discussion. In the meantime, it is clear that, at the time the tobacco program was inaugurated, producers of the various types were in widely different circumstances with respect to their aggregate incomes from the sale of tobacco, when compared either with the post-war base period specified by the act, or with pre-war years.

Gross money income alone does not, of course, measure ability to buy other goods. Prices of commodities purchased, both for use in production and for family maintenance, also must be taken into account. To the extent that variations in these prices are in the same direction as, and proportional to, changes in the total money income from tobacco, the purchasing power of growers derived from that source remains unchanged. The extent to which such changes do not coincide determines the variations in the quantity of other goods which they can purchase with their proceeds from the sale of tobacco. Some indication of the situation of tobacco growers from this point of view may be obtained by comparing the course of retail prices for articles which farmers buy, with the farm values which have been discussed. For this purpose the index of prices paid by farmers compiled by the United States Department of Agriculture may be used.

Comparison of the chart on page 54 with the one on

page 49, in which the annual farm value of all domestic tobacco is shown, reveals that the major changes in the two series have not been of equal proportions although they have occurred at about the same time and in the same direction. Prices paid by farmers in 1919 were almost

PRICES PAID BY FARMERS FOR COMMODITIES PURCHASED, 1910-32^a
(As percentages of 1910-14 average)



^a For data, see Table II, p. 251.

double what they had been in 1915, but at the same time the money value of the tobacco crop produced in that year was nearly four and one-half times as great. Thus with their proceeds from sale of the total 1919 crop farmers could buy about two and one-quarter times the quantity of goods they could buy with the 1915 crop. Similarly, prices paid during the years from 1921 to 1929 were 50 to 60 per cent above the 1910-14 average, while the aver-

age farm value of tobacco produced in those years was nearly two and one-half times what it had been in the earlier period. At the depression level of 1932 both the value of the crop and the index of prices paid were very nearly the same as they had averaged from 1909 to 1914; hence total purchasing power derived from tobacco production was, as nearly as can be judged from the available data, about the same as it had been in the pre-war years. This purchasing power, however, was only about 60 per cent of what it had been on the average from 1920 to 1929 inclusive.

Because of the quite different trends in annual value of the major types, as shown in the chart on page 52 and already discussed, their purchasing power relative to preceding years differed materially at the time the adjustment program was undertaken. To illustrate these differences the 1932 purchasing power of each type has been computed as a percentage of its average during the base period stated in the act.² The percentages are as follows:

| | | | |
|------------------|-------|---------------------|------|
| Flue-cured | 51.1 | Dark air-cured..... | 24.4 |
| Burley | 99.2 | Fire-cured | 40.2 |
| Maryland | 133.8 | Cigar leaf | 43.8 |

Thus it is seen that the total quantity of goods which farmers could buy with their proceeds from the sale of the different groups of tobacco types produced in 1932 ranged

² These computations are made by dividing the 1932 index of total farm value for the particular group of types, as shown in the chart on page 52, by the index of prices paid, adjusted to the post-war base. This base is defined in the act as August 1919-July 1929. Since the estimates of prices paid are available only at quarterly intervals, the adjustment cannot be made exactly to those months. Instead, the annual period extends from the beginning of the fourth quarter to the end of the third quarter in the succeeding year. This procedure corresponds to that used by the Tobacco Section of the AAA in its computation of parity prices.

from 24.4 per cent of the average for the corresponding types produced during the period from 1919 to 1928 in the case of dark air-cured to 133.8 per cent in the case of Maryland tobacco.³

While these data may be taken as indicating the aggregate purchasing power derived from tobacco production, they do not show its distribution among individual farmers. The numbers of people engaged in production of the several kinds of tobacco may have changed considerably, causing a corresponding influence upon the shares received by individuals. Furthermore, the income position of a single farm may be dependent upon a number of other enterprises besides tobacco production, as was shown in the previous chapter.

OUTLETS FOR TOBACCO

The contribution of tobacco to the gross income of producers depends upon the volume produced and the prices obtained. Both production and prices have followed varied courses for the different kinds of tobacco as a result of demand changes affecting their several outlets and of conditions in the areas where they are produced.

³ The preceding comparison of year to year changes in the gross value of tobacco produced with the average level of prices paid by farmers in the United States for commodities they buy gives only an indication of the economic situation of tobacco producers and not a complete or accurate measure of that situation. Prices for a wide variety of articles are averaged together in the construction of the index, each being weighted according to its importance in the aggregate purchases by all farmers in the country. The fact that the relative importance of specific articles in the purchases made by individual farmers varies widely, added to the fact that prices for some of these articles may have followed quite different courses, may cause the expenditures by a particular group of farmers to be quite different from the average represented by the index. Furthermore the character of purchases varies over any considerable period of time and the quality of a given article may be greatly improved, thereby offsetting a considerable increase in prices included in the index.

In the analysis of the demand situation, two factors are conspicuous, especially as affecting the relationship between types. First, a considerable shift in domestic consumption among various tobacco products has occurred during recent years. Second, some types enter extensively into exports, whereas others are almost wholly domestically consumed.

The importance of the first of these factors may be observed from the trends in domestic consumption of important tobacco products, as indicated by the sale of revenue stamps.⁴ The chart on page 58 shows such estimates of the yearly consumption of cigarettes, smoking and chewing tobacco, snuff, and cigars from 1900 to 1932 inclusive. Since in this instance the data are available back to 1900, the early years are included in order that the trends may be observed over the longer period.

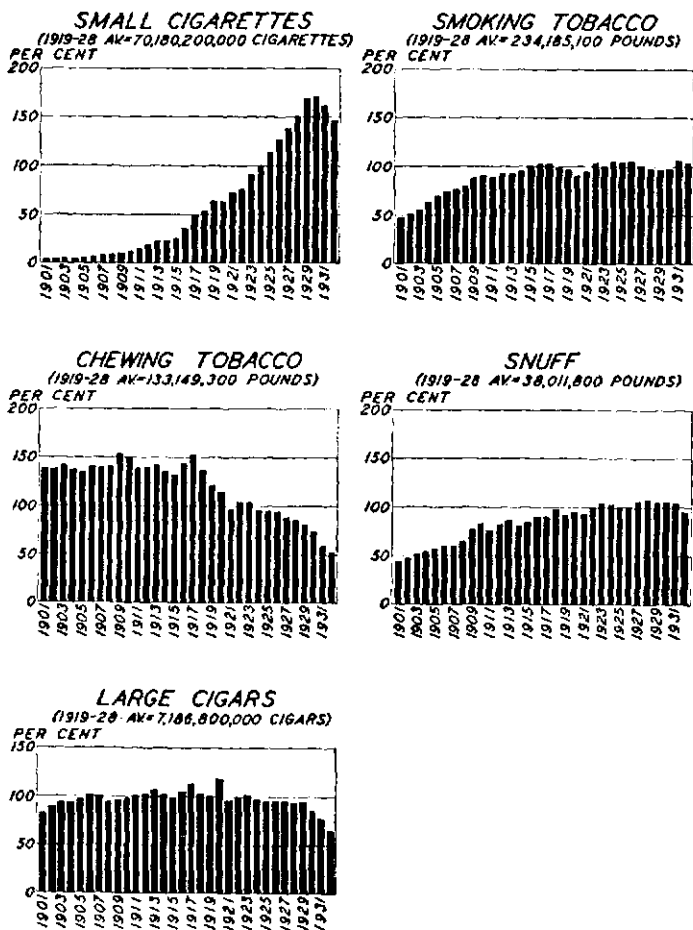
Total consumption of all products increased during the first ten years shown by the chart. From 1910 to 1929 the trend was less pronounced, but still upward, while from 1929 to 1932 a considerable decline took place.

In the consumption of individual products, however, striking changes have occurred. Cigarette consumption increased very rapidly up to 1929, rising from about 3.5 per cent to 40 per cent of the total. Snuff consumption increased also, although it is a much smaller item in the total. On the other hand the decline in use of chewing tobacco which took place during the period was nearly as spectacular as the increase in cigarettes. Whereas in 1900 this product constituted 40 per cent of the total, in 1932 it amounted to less than 10 per cent.

⁴ Stamps must be affixed before removal of the product from the factory and therefore really indicate a transfer into the hands of dealers. Since jobbers and dealers do not ordinarily keep large stocks on hand, the quantities of the products taxed within a year approximate consumption fairly closely.

DOMESTIC CONSUMPTION OF PRINCIPAL TOBACCO
PRODUCTS, 1901-32^a

(As percentages of 1919-28 average)

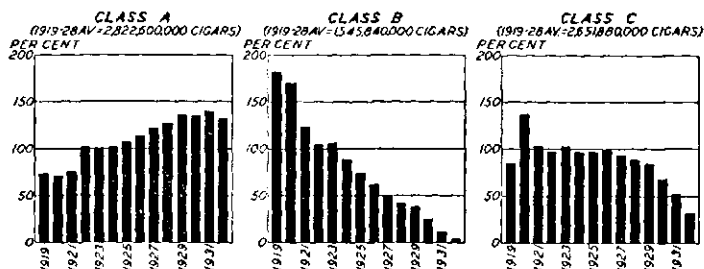


^a For data, see Table IV, pp. 260-61.

The use of smoking tobacco increased quite rapidly during the early part of the period shown, but since 1915 it has fluctuated around a substantially uniform level. While the consumption of other tobacco products was curtailed from 1929 to 1932, the use of smoking tobacco increased somewhat, possibly because decreased incomes caused some consumers to shift to the cheapest smoking material available.

DOMESTIC CONSUMPTION OF CIGARS IN THREE
PRICE CLASSES, 1919-32^a

(As percentages of 1919-28 average)



^a For data, see Table V, p. 262.

Cigar consumption increased up to the war period, although at a diminishing rate. From the close of the war until 1929 a slight declining tendency appeared, and this decline was greatly accentuated from 1929 to 1932. Of greater importance than these changes in the total number used, however, has been the shift to cheaper cigars which has occurred during the post-war years. The chart on this page shows the annual consumption since 1918 of three classes which illustrate this shift. Class A cigars are made to retail at not more than 5 cents each; Class B, more than 5 but not more than 8 cents each; and Class C, more than 8 cents but not more than 15 cents. From this chart

it appears that almost a complete shift has been made from Class B to Class A, while depression conditions have curtailed the use of Class C cigars much more than has been true for the low-priced class.

When account is taken of the different characteristics of leaf tobacco required for the manufacture of these products, it must be apparent that important shifts have occurred in the domestic demand for the several leaf types. Changes of similar importance have likewise occurred in the export outlets. Increasing quantities of unmanufactured tobacco were disposed of in foreign markets from 1900 to 1930, but after 1930 an abrupt decline occurred. With the exception of 1919, when exports were very large owing to the depletion of foreign supplies during the war, fluctuations during the period were no greater than would be expected to result from year to year variations in supplies and prices in the different countries.

In the reduction of exports which took place from 1930 to 1932 two factors were of outstanding importance: (1) Curtailed consumption of tobacco products in foreign countries as a result of world-wide depression conditions; and (2) increased barriers to international trade in tobacco. It has been estimated by the United States Bureau of Agricultural Economics that about one-third of the decline resulted directly from the second factor.⁵

⁵ "Possibly in no other commodity has governmental intervention in trade and consumption been carried so far as in the case of tobacco. This intervention, embodied in monopoly control and revenue taxation measures, is of such long standing that it has come to be accepted as a normal government function and the public generally does not take cognizance of its far-reaching influence upon international trade.

"Trade restrictions affecting tobacco may be classified broadly into two groups, depending upon whether they affect the production of leaf tobacco in foreign countries or whether they affect the consumption of tobacco products. Those that affect production include import duties, monopoly policies with

The principal kinds of tobacco exported are flue-cured, fire-cured, dark air-cured, and Maryland. The data on exports were not separated by types prior to 1923, but the dark tobaccos (fire-cured and air-cured) apparently made up the bulk of pre-war shipments abroad.⁶ In recent years, however, larger quantities of flue-cured tobacco have been exported than of any other.

The chart on page 62 shows annual exports of these four tobaccos since 1923. Although the period is much shorter than could be desired for comparative purposes, this chart again illustrates the pronounced shifts which have occurred between types. Exports of flue-cured tobacco increased rapidly until their level from 1928 to 1931 was more than double what it had been in 1923. Even with the decline which occurred in 1932, exports were still well above their level at the beginning of the period. No such increase occurred for the other tobaccos, and both Maryland and fire-cured showed significant downward trends during the period covered by the chart.

When account is taken of the extent to which producers of these four types have depended upon export outlets for their product, the importance of such pronounced changes

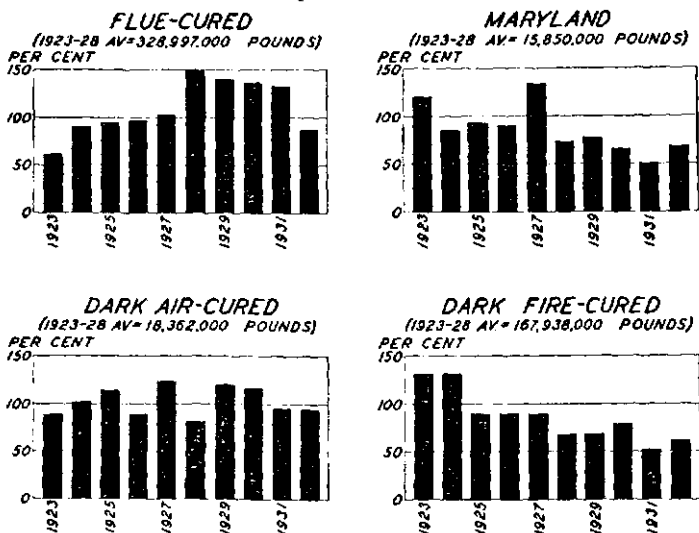
respect to the prices of domestic-grown leaf tobacco, and other forms of government influence upon individuals who otherwise would not produce tobacco. The restrictions affecting consumption of tobacco products include import duties, excise taxes, and monopoly policies with respect to the prices and content of tobacco products.

"In countries in which the tobacco industry is operated as a state monopoly, the monopolies control the acreage, prices, and purchases of leaf tobacco as well as the manufacture, prices, and sales of tobacco products. Under monopoly control the content of tobacco products may be changed arbitrarily, and prices of both leaf tobacco and tobacco products may be so adjusted as to result in the displacement of large quantities of imported tobacco within relatively short periods." 73 Cong., *World Trade Barriers in Relation to American Agriculture*, S. doc. 70, pp. 194-95.

⁶ The same, p. 192.

may be more fully appreciated. Of the flue-cured tobacco produced from 1923 to 1932 inclusive, approximately 60 per cent was exported. For the other important export types, the corresponding percentages were: Dark air-

EXPORTS OF THE PRINCIPAL KINDS OF UNMANUFACTURED
TOBACCO, 1923-32^a
(As percentages of 1923-28 average)



^a For data, see Table III, pp. 256-57.

cured, 27; dark fire-cured, 74; Maryland, 53. Exports of Burley and the cigar types have been so small as to be negligible for the purposes of this discussion. Only about 3 per cent of Burley production has been exported during the past decade and exports of cigar leaf have been less than 2 per cent of production.

Besides these exports of leaf tobacco, relatively small quantities of manufactured tobacco products also have been shipped abroad. When converted to a farmers' sales

weight basis, these amounted to about 12 per cent of total tobacco exports during and immediately following the war. More recently they have represented only about 5 per cent of the total, roughly the same proportion as before the war, while in 1931-32 manufactures were only 2.5 per cent of total tobacco exports.⁷ Since these quantities are so small and since the course of domestic consumption has been shown by the earlier discussion, the analysis for present purposes is not affected by omitting manufactured tobacco from the export data presented in the chart. In any case it is impossible to separate such exports by types of tobacco.

The United States imported several kinds of tobacco, the aggregate volume amounting to slightly more than 8 per cent of the tobacco used in recent years. These imports are classified as: Cigarette leaf (including Turkish tobacco for use in blends), cigar filler, cigar wrapper, and scrap. The volumes of cigarette leaf and scrap imports have been fairly stable in recent years, while other imports have declined. Some imports are substituted for domestic types and in that sense are competitive. An examination of the available information suggests, however, that competition from imported cigarette leaf is of little significance, since it is mostly used to supplement domestic types in obtaining satisfactory blends. Moreover, tariff rates are relatively high on tobacco imports, with the exception of shipments from the Philippine Islands, and such competition is correspondingly restricted.⁸ For these reasons it is believed

⁷ The same, pp. 190-91. Still smaller shipments have been made to the non-contiguous possessions of the United States in the form of leaf tobacco and manufactured products.

⁸ The tariff rates in effect since June 18, 1930 are (per pound): Unstemmed cigar wrapper, \$2.275; unstemmed cigar filler, 35 cents; stemmed cigar filler, 50 cents; cigarette tobacco, 35 cents; and scrap, 35 cents.

that tobacco imports constitute a small factor in the domestic situation and they are not considered further in this discussion.

SUPPLY IN RELATION TO DISAPPEARANCE

Having reviewed the facts with respect to both consumption of tobacco products in the United States and unmanufactured exports to foreign countries, the next task is to see what the relationship has been between quantities taken for those outlets and supplies of leaf tobacco. The quantity which is taken by all outlets is best indicated by disappearance from the market.⁹ The relationship be-

⁹ Disappearance, including both exports and usings by domestic manufacturers, is computed by adding stocks on hand at the beginning of the marketing year to production and subtracting stocks remaining at the end of that season. Since the marketing periods do not coincide for the different kinds of tobacco, the months which are included in the computations for each are given in footnotes to the appendix tables containing data from which the charts were constructed. Computations of this character should be considered only as approximations, in some instances as very rough approximations. Tobacco statistics are none too reliable at best, especially the information on stocks and the data on exports. Manufacturers who produced less than 35,000 pounds of tobacco or snuff, 185,000 cigars, or 750,000 cigarettes during the first nine months of the preceding calendar year, are not required to report stocks. Furthermore, stocks are not reported on a completely uniform basis. In some cases weights as of the time the tobacco was purchased are given, whereas in other instances actual weights at the time of reporting are furnished. Also, some of the tobacco reported is stemmed while some is not stemmed and the age may range from a few weeks to more than two years, with corresponding differences in the shrinkage which has taken place. In general, it is believed that such errors do not greatly affect the results obtained for flue-cured and Burley, but they are of greater importance for the dark types of which smaller volumes are consumed domestically. Data for cigar filler and binder tobacco are especially affected by the fact that tobacco in the hands of farmers is not included in the stocks as reported. These types are frequently held by producers for considerable periods and the volume of such holdings varies widely in different years. It is known that farm stocks increased greatly from 1931 to 1932; consequently the statistics on stocks in the hands of dealers greatly understate the quantity on hand at the beginning of the marketing season for the 1932 crop. It also follows that when these data are used in the computation of disappearance during the preceding twelve months, the figure obtained is too large by the same amount that stocks are understated.

tween this quantity and production within a given year may be taken as indicative of the adjustment between production and use at that level of prices. Any difference accrues as an addition to, or subtraction from, stocks carried over into the supply for the succeeding year.

Annual disappearance in comparison with the quantities produced in corresponding crop seasons is shown in the chart on page 66 for the seasons 1919-20 to 1932-33. In this chart both disappearance and production are shown as percentages of the average disappearance during the ten-year base period. Thus trends may be seen clearly, and at the same time the relation between disappearance and production may be observed for any individual season. Furthermore, the manner in which market requirements and production have depended upon conditions affecting the particular outlets for the major types may be observed by comparing these changes in disappearance with those in the consumption of tobacco products and in the quantities of leaf tobacco exported, as shown in the charts on pages 58 and 62.

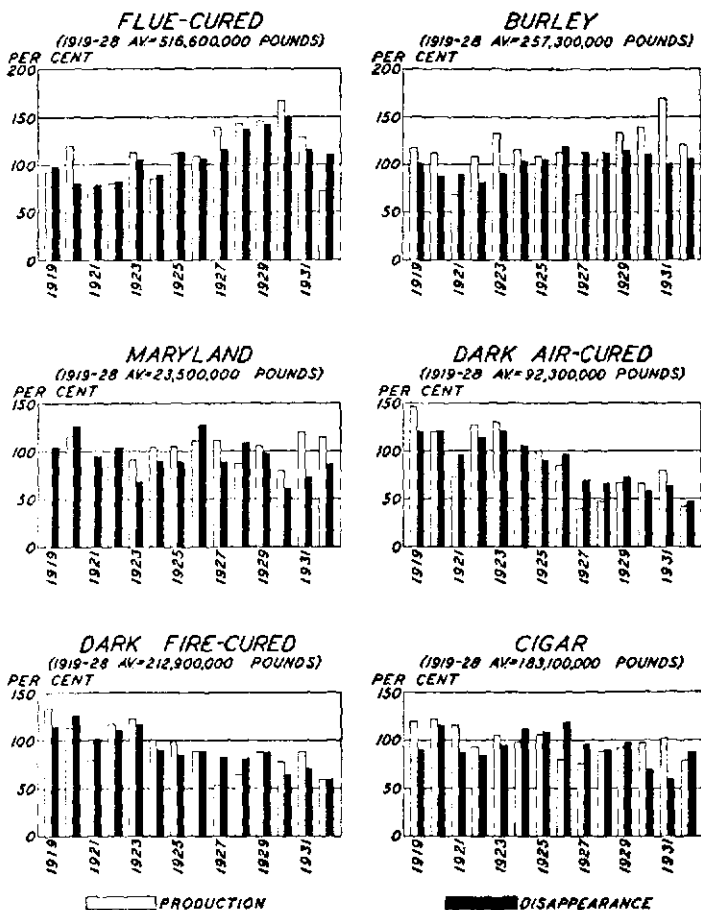
Disappearance of flue-cured tobacco nearly doubled from 1921 to 1930 and then declined abruptly as the result of changes in the consumption of cigarettes and in exports, the two principal outlets for these types. Although fluctuating somewhat more from year to year, partly because of variations in yield, production during the period has followed the same general course as disappearance, indicating that producers have maintained a fairly close adjustment to market outlets.

In the case of Burley quite a different situation is revealed. In the first place, since only a negligible portion of Burley production is exported, disappearance has been unaffected by conditions in foreign markets. Secondly,

TOBACCO UNDER THE AAA

PRODUCTION AND DISAPPEARANCE OF THE PRINCIPAL KINDS
OF TOBACCO, 1919-32^a

(As percentages of 1919-28 average disappearance)

^a For data, see Table III, pp. 252-53 and 256-57.

although the manufacture of cigarettes constitutes the most important single outlet for this type, a decrease in the quantity used in the manufacture of chewing tobacco has partially offset the effects from increased cigarette consumption. As a result disappearance increased considerably during the first half of the period covered by the chart but has been quite stable since 1926. On the other hand, production fluctuated relatively more, owing to variations in both yield and acreage.

The use of fire-cured and dark air-cured has declined fairly steadily throughout the period shown. As has been noted, exports of both these groups have been falling off rapidly and the pronounced downward trend in consumption of chewing tobacco has influenced dark air-cured, which finds its most important use in the manufacture of that product. In both cases production has followed disappearance fairly closely, excepting of course for year to year variations in yields.

In the case of southern Maryland tobacco the largest variations in disappearance have occurred. These have resulted from changes in export shipments more than from any other factor, but considerable variations occurred also in the quantity of this tobacco used by domestic manufacturers. There appears to have been a slight downward trend in the total disappearance of this type of tobacco, but the fluctuations are so large that the trend cannot be established at all accurately within so short a period. On the whole, Maryland production has varied within narrower limits than has disappearance, something which has not been true of the other types. There has been no discernible trend in production, with the result that it has exceeded disappearance in a majority of the later years.

Disappearance of the cigar types has naturally followed the same general course as has the consumption of cigars and scrap chewing tobacco. Production has shown the same trend as disappearance, but the adjustment has not been at all close. For example, average production of these types from 1919 to 1928 was slightly less than disappearance and the adjustment over the ten-year period was very close. During the first half of that period, however, production exceeded disappearance in every year, while in the last half exactly the opposite was true. Again, despite the greatly accelerated decline in consumption from 1929-30 to 1932-33, production continued to be large, even increasing slightly for two more years. The first curtailment of production was in the crop planted in the spring of 1932, at least a year after the decline in consumption started, and the combined production in the last three seasons shown by the chart exceeded disappearance during the same period. Because of the increase in farm stocks explained in note 9, page 64, actual disappearance of cigar tobacco in both 1931-32 and 1932-33 was undoubtedly smaller than is indicated by the chart.

Stocks of leaf tobacco carried by manufacturers tend to be relatively large, because of the lengthy curing process to which tobacco is subjected after leaving the farm, and the added fact that many tobacco products contain blends, not only of different grades and types, but also of tobacco produced in different years. Differences between production and use within a given season are absorbed as additions to or subtractions from these stocks, as has been noted. Since these inventories constitute a large part of the tobacco supply, the market situation at any given time depends to a considerable extent upon the cumulative re-

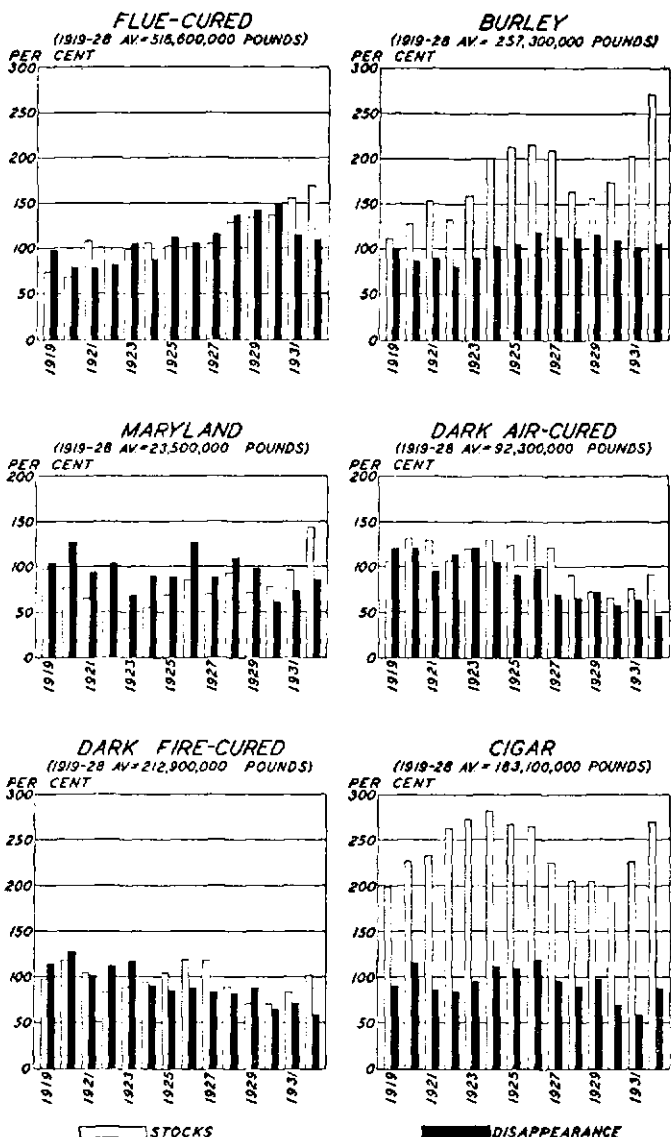
sults of the adjustment maintained during preceding years as measured by the accumulation of stocks. This aspect of the situation is illustrated by the chart on page 70 where stocks at the beginning of each marketing season are shown together with disappearance during the ensuing twelve months, which is included to facilitate comparison. Both series are shown as percentages of the ten-year average disappearance, exactly as in the preceding chart.

From this chart it may be seen that, as with the other items which have been discussed, the situation with regard to stocks differs materially between types. In the cases of flue-cured, dark air-cured, and fire-cured, the tendency throughout the period appears to have been for stocks carried over to equal roughly one year's disappearance into all outlets. Relatively smaller quantities of Maryland tobacco were carried by the trade during most of the period, although in the last three years shown those quantities were well in excess of usings. On the other hand, stocks of Burley and of cigar leaf have been much higher in relation to annual usings, and Burley stocks especially have increased rapidly, though irregularly, during the period as a whole. In each instance stocks increased relative to disappearance during 1931 and 1932, this increase being more pronounced for Burley, Maryland, and cigar leaf than for the other types. For cigar leaf the increase in 1932 was greater than is shown by the chart, because of the increase in farm stocks already mentioned.

To the extent that stocks are carried because of the necessity for lengthy curing or in order to insure a sufficient supply of each grade and type for maintenance of a uniform blend, they may be said to be large or small only

STOCKS AND DISAPPEARANCE OF THE PRINCIPAL KINDS
OF TOBACCO, 1919-32^a

(As percentages of 1919-28 average disappearance)



^a For data, see Table III, pp. 254-57.

relative to current requirements of manufacturers. For this reason stocks are frequently computed as a ratio to current disappearance in order to show the number of years' stocks on hand. When annual stocks of Burley and of cigar tobacco, both of which are used almost entirely by domestic manufacturers, are computed in this manner for the years 1923 to 1932, the number of years' stocks at the beginning of the marketing season works out as follows:

| Year | Burley | Cigar Leaf |
|------------|--------|------------|
| 1923 | 1.76 | 2.86 |
| 1924 | 1.94 | 2.51 |
| 1925 | 2.02 | 2.45 |
| 1926 | 1.82 | 2.23 |
| 1927 | 1.85 | 2.35 |
| 1928 | 1.46 | 2.28 |
| 1929 | 1.36 | 2.09 |
| 1930 | 1.58 | 2.84 |
| 1931 | 2.01 | 3.85 |
| 1932 | 2.57 | 3.06 |

Such a calculation for a type of which a considerable portion is exported, however, would imply that reserves are maintained for export equally as much as for domestic manufacture. The most illuminating comparison for such types would be between stocks after the deduction of holdings for future export and current disappearance into domestic outlets. The computations involved in such a comparison, however, are not considered to be feasible in view of the character of the data which are available. Instead a very rough approximation is made by computing the ratios between stocks as reported and disappearance after exports are deducted. These are shown in the following tabulation for the principal export types other than Maryland.¹⁰

¹⁰ Disappearance October 1 to September 30, as shown in Table III, pp.

TOBACCO UNDER THE AAA

| Year | Flue-Cured | Dark Air-Cured | Fire-Cured |
|---------|------------|----------------|------------|
| 1923-24 | 1.85 | 1.17 | 3.47 |
| 1924 | 2.21 | 1.49 | 4.83 |
| 1925 | 2.09 | 1.66 | 4.30 |
| 1926 | 2.06 | 1.75 | 6.52 |
| 1927 | 2.01 | 2.17 | 2.54 |
| 1928 | 2.26 | 1.93 | 2.50 |
| 1929 | 2.25 | 1.44 | 2.31 |
| 1930 | 2.09 | 1.61 | 2.89 |
| 1931 | 2.57 | 1.63 | 3.20 |
| 1932 | 3.30 | 2.85 | 6.12 |

An examination of the data presented in these two tabulations further clarifies the situation with respect to stocks. From 1923 to 1929 relatively small year to year variations occurred in Burley, cigar leaf, and flue-cured although the first two tended gradually downward. At the same time, the number of years' supply of fire-cured tobacco carried over into the new marketing season increased from approximately 3.5 in 1923 to 6.5 in 1926 as a result of increases in production while both exports and domestic disappearance were declining. An abrupt increase in domestic disappearance in 1926, together with a decrease in production after 1927, resulted in carry-overs for 1927, 1928, and 1929 which averaged slightly less than 2.5 years' supply at the current rate of apparent domestic consumption. Dark air-cured increased steadily from 1923 to 1927 almost entirely because of a steady decrease in apparent domestic consumption. During the next two years, however, growers' curtailment of production was greater

256-57, minus exports in the same months as given in U. S. Department of Agriculture, *Yearbook of Agriculture*, 1933, p. 507, equals apparent consumption by domestic manufacturers. Exports for 1932-33 obtained from the *Monthly Summary of Foreign and Domestic Commerce*. Because Maryland tobacco has not been reported uniformly throughout the period, it has not been included in these calculations.

than the shrinkage of outlets, and by 1929 the carry-over relative to apparent consumption was smaller than in any year excepting 1923.

Thus it is apparent that in 1929 carry-overs were relatively small for all kinds of tobacco excepting flue-cured, for which they had increased a very slight degree during the preceding years. It follows from this that no part of the economic difficulties of tobacco producers can be attributed to the accumulation of excessive carry-overs up to that time. With the progress of business depression following 1929, however, the carry-overs of all kinds of tobacco increased relative to apparent domestic consumption.

PRICES RECEIVED BY GROWERS

Price changes which have accompanied the developments already discussed are shown in the chart on page 74 for the several kinds of tobacco excepting cigar leaf. Because of the large differences between prices for the three classes of cigar tobacco they are shown separately on page 75. From these charts, it may be observed that prices received by growers for most types trended downward during the period after the war. Among the types, however, the trends were not uniform and fluctuations within the period were quite different.

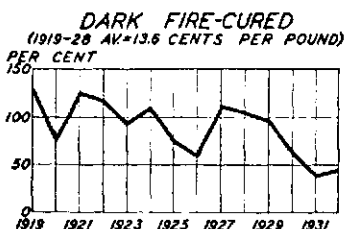
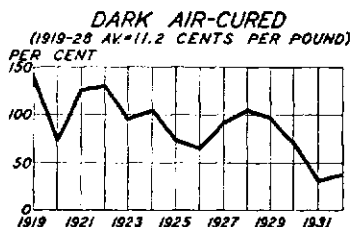
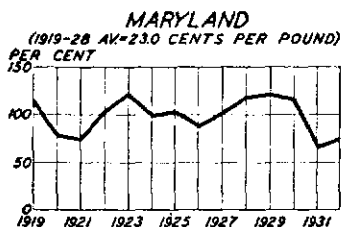
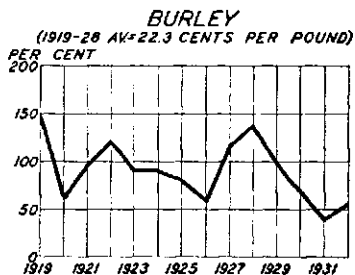
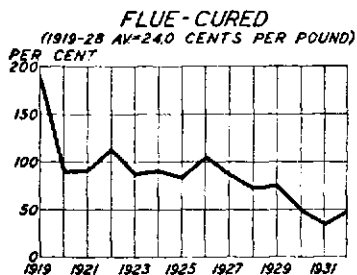
Farm prices of flue-cured tobacco decreased more than one-half from 1919 to 1920, but from then on the changes were small in any one year. Their trend throughout the period shown was downward, the decline being particularly rapid from 1926 to 1931. As a result of this continued decline, prices in 1930, 1931, and 1932 were less than one-half the average of the preceding ten years.

TOBACCO UNDER THE AAA

In contrast to the flue-cured types, Burley prices fluctuated widely within the period, but the trend was much

FARM PRICES OF THE PRINCIPAL KINDS OF TOBACCO OTHER
THAN CIGAR LEAF, 1919-32^a

(As percentages of 1919-28 Average)



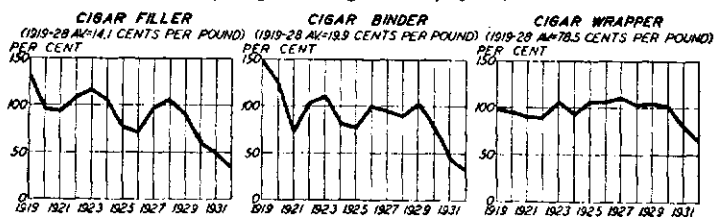
^a For data, see Table III, pp. 258-59.

less pronounced. From a level in 1919 almost 50 per cent above the base average, these prices likewise declined more than one-half in the following year, but recovered approx-

imately two-thirds of that loss in the next two years. Decreases in the four succeeding years lowered Burley prices in 1926 to slightly less than 60 per cent of the base average, but they more than doubled in the next two years. From their peak in 1928, however, the decline was rapid and continuous until in 1931 and 1932 they were only 39.1 per cent and 56.2 per cent respectively of the base period average.

FARM PRICES OF CIGAR TOBACCO BY CLASSES, 1919-32^a

(As percentages of 1919-28)



^a For data, see Table III, p. 259.

Prices of Maryland tobacco trended irregularly upward during most of the period shown, with the result that in 1928, 1929, and 1930 they were approximately 20 per cent above the average. Although they declined abruptly following 1930, their level in 1931 and 1932 was relatively higher than that for any other tobacco, with the single exception of cigar wrappers.

Both dark air-cured and fire-cured tobacco showed fluctuations somewhat similar to those in Burley prices, although their trends were definitely downward. In 1931 and 1932 dark air-cured prices were 30.5 per cent and 37.6 per cent of the base average while the comparable percentages for fire-cured were 37.4 and 44.0.

Among the cigar tobaccos, prices for the different

classes followed somewhat varied courses. The filler types fluctuated widely and declined during the period as a whole, as shown by the chart on page 75. The binder types declined abruptly from 1919 to 1921 and again following 1929. Between those periods, however, they showed no definite tendency and their fluctuations did not coincide with those for the filler types. In contrast to these situations, wrapper prices were remarkably stable from 1919 to 1930, in both of which years they were almost exactly at the base period average. Like the other types, wrappers were materially lower in 1931 and 1932. The level for each group of types in these two years, expressed as a percentage of the ten-year average, was as follows:

| Year | Filler | Binder | Wrapper |
|----------------|--------|--------|---------|
| 1931 | 48.1 | 43.6 | 80.0 |
| 1932 | 34.0 | 31.6 | 64.4 |

COMPETITION IN THE MANUFACTURE OF TOBACCO PRODUCTS

Before the price changes just described can be properly related to the developments in production and in consumption which have been considered in preceding sections of this chapter, certain institutional factors in the markets for tobacco and its products must be understood. Of special importance among these conditions is the nature of the competition to be found in the manufacture of the principal tobacco products. Not only is an understanding of these factors necessary for any reliable explanation of the behavior of tobacco prices in relation to the factors which have already been considered, but it is essential to any interpretation of the price effects resulting from the tobacco program of the AAA.

A complete consideration of competitive conditions in the tobacco industry would be far beyond the scope of this book. Only those aspects which have a significant effect upon the behavior of prices for leaf tobacco need be discussed here. For the most part these are the features which result in highly stable prices for manufactured products and which cause those prices to be relatively independent of the manufacturers' cost for raw tobacco.

Unfortunately, no adequate data are available with respect to prices paid by consumers for the several types of tobacco products. It is a matter of common knowledge, however, that retail prices for the principal products have been generally quite stable.¹¹ The largest selling brands of cigarettes were sold by the manufacturers at unchanged prices over the entire period from late 1922 until April, 1928, except as they were affected by special "deals" and "allowances." During this same period prices for the types of tobacco used in cigarette manufacture fluctuated materially from year to year, and the most important group of types—flue-cured tobacco—displayed a pronounced downward trend. Under these circumstances whatever changes there were in retail prices resulted from variations in the distributors' margins and certainly did not reflect the costs of raw material to manufacturers.

Perhaps the most readily apparent explanation for the failure of prices for tobacco products to reflect changes in tobacco prices is the fact that leaf tobacco represents only a relatively small element in their total cost to consumers. For example, computations based on such information as

¹¹ Some variations have occurred which are not readily apparent even to the consumer. For example, the price of a package of chewing or smoking tobacco may have remained unchanged while the net contents of the package varied.

is available regarding the proportions of the different types of tobacco used in the manufacture of cigarettes by the four leading manufacturers, indicate that the leaf cost was little if any above one cent per package of cigarettes during this period; certainly it was not in excess of 1.5 cents. However, the Internal Revenue tax amounted to \$3.00 per thousand, or 6 cents per package of 20 cigarettes. Other costs, while not necessarily more stable than the cost of raw material, might be expected to vary independently of tobacco prices. In such circumstances, it is hardly surprising that changes in tobacco prices were not immediately reflected in variations in cigarette prices.

Aside from the lack of relationship between short-time changes in prices for raw tobacco and the prices at which tobacco products are sold by the manufacturers, there is a further question as to whether over a period of time these stabilized prices to distributors have approximated the true competitive level. If not, does that fact have significance in explaining the behavior of tobacco prices? This necessitates a brief explanation of the nature of the price competition among tobacco manufacturers.¹²

All types of tobacco products, with the possible exception of cigars, may be produced and marketed most advantageously by companies operated on a very large scale. This is true because use of the most efficient machinery and manufacturing methods requires a large volume of business. The prevalent methods of marketing described in

¹² Competition in the tobacco industry has been made the subject of an independent study, to which the reader is referred for a presentation of the problem and of the pertinent information available. Reavis Cox, *Competition in the American Tobacco Industry 1911-1932: A Study of the Effects of the Partition of the American Tobacco Company by the United States Supreme Court*, Columbia University Press.

Chapter II make it necessary for each company to maintain a large number of buyers on a considerable number of markets. Also, the establishment of brands through national advertising is possible only for relatively large units. Because of these factors plus the necessity for carrying very heavy inventories, a large amount of capital is necessary for any new company seeking to enter the field and establish a new brand of product on the market, and the industry is made up of a small number of large manufacturers. Six companies produce more than 95 per cent of the entire domestic output of cigarettes. The same manufacturers are also important producers of smoking and chewing tobacco, although their dominance in these fields is not so great as in the case of cigarettes. Only three companies are of importance in the manufacture of snuff.

Cigars are made by a much larger number of companies, most of which have been of more moderate size. Apparently this has been caused by the fact that, until recently, hand methods have been used in cigar manufacture for the most part. In recent years, however, improved cigar-making machinery has been developed and the industry has been mechanized at a very rapid rate until at the present time it is probable that three-fourths of the domestic cigar output is machine made. Efficient production of cigars by machine methods also necessitates production on a very large scale, with the result that cigar production is being concentrated in the hands of a much smaller number of companies than were formerly in the field.

The significance of this concentration of the tobacco manufacturing industry in the hands of a smaller number of companies lies in its effects upon the level of prices at which the manufactured products are sold. Although

these companies are active competitors, each seeking to obtain as large a share of the total market as possible, nevertheless prices probably are not established at the same level as they would be were the same products sold by a very large number of small manufacturers competing with each other. Under the latter circumstances each competitor would offer his product at lower prices in order to increase his volume of sales, until the point was reached where additional volume secured would not offset reduction in price and any further lowering of price would decrease profits. In doing this he would not consider the effects of his own operations upon the market as a whole or upon the price policies of his competitors, because his output would amount to such a small proportion of the total supply that the effect would be negligible. Under such conditions the price would tend towards a truly competitive level which would neither drive capital out of the manufacturing industry nor attract new competitors to the field.

With the small number of very large competitors found in the tobacco industry, however, quite a different situation prevails. Each individual company knows that a reduction in its prices will be followed at once by corresponding reductions on the part of its competitors. This being true, it follows that such a reduction will not bring an increase in volume of sales except as the general lowering of prices may stimulate consumption. It will not attract trade away from competitors since they will meet the same price. As a result, each company can take into account the probable effect of its own price policy upon the market as a whole and there is no reason to lower prices to the true competitive level. Under the most active competition in a market dominated by such large companies, prices are more likely

to be established near the point where they would be held by a monopolist than they are to reach the point which would be established through the competition of a large number of small manufacturers.¹³

In explaining the behavior of prices for leaf tobacco, this stability of prices for manufactured products is important, because it determines the volume of tobacco used by domestic manufacturers. Over a period of years, manufacturers are only interested in obtaining the quantity of tobacco required to produce the volume of products which consumers will buy. With a rigid price structure determining this volume, it follows that the manufacturers' total demand for raw tobacco over that period will be quite inelastic, even though there may be pronounced trends in annual consumption of the different products.

In buying tobacco from growers, a manufacturer having a complete monopoly would pay only the price necessary to induce producers to supply the quantity needed. A

¹³ An important point with respect to monopoly prices should be mentioned in this connection. This is the tendency for a monopolist to hold prices at a stable level for some types of products. Any seller having a monopoly over the supply of a product will ordinarily attempt to establish prices at the point which will yield the largest profits. From this it is frequently reasoned that such a seller attempts to adjust prices to all changes in cost and demand conditions so as to maximize profits at all times; within short periods as well as over several years. Such reasoning entirely loses sight of the fact that the most important consideration in determining this price is the effect upon consumption, which may be influenced by the frequency of changes in prices as well as by the absolute level. With respect to tobacco products, it is believed (although this belief cannot be verified fully from the data available) that relatively few new consumers are brought into the market by a price reduction at a given time, and similarly that such a change has only a small effect upon the habitual consumers. At the same time relatively stable prices may greatly favor an enlarged use of the products over a longer period. For such a commodity it seems obvious that a monopolist would consider this factor and seek to establish the price which would be most profitable over a period of years rather than to maximize his profits within any short period.

little consideration, however, will show that a number of active competitors would pay the same price as a monopolist over a period of years, given the stable price structure for tobacco products. If prices of the raw material were advanced above that level, the quantity of tobacco produced would exceed the amount needed for the manufacture of the volume of products which could be sold without reducing prices.¹⁴

Several kinds of tobacco are exported and, under freely competitive conditions, this outlet would be expected to take varying amounts at different prices. However, its expansibility is restricted in most countries by high import duties, or the existence of government monopolies, many of which are seeking to encourage tobacco production within their own domains. Such countries import chiefly those types and qualities which they cannot produce but which are required for blending purposes, and their demand is quite inelastic over a period of time, although not necessarily within a give season. Other exports go to low-priced markets, such as China. These outlets are more responsive to price changes, but take

¹⁴ While the quantity of tobacco which will be purchased by a manufacturer over a period of years is determined absolutely by the volume of products he can sell at the established level of prices, the volume to be purchased in any one season is not rigidly fixed, because of the large stocks which are usually carried. Tobacco production varies from year to year and ordinarily the whole crop is sold in the marketing year following its production. This varying production is balanced with total market requirements through the accumulation and depletion of stocks, as shown earlier in this chapter. The result of this situation is that manufacturers buy varying amounts within any one year, depending upon the price, and the market demand within a season is quite elastic. This elasticity is based wholly upon the buyer's decisions with respect to the advantages of purchasing a larger quantity at a time when prices are low in order to be in a position to reduce purchases at another time when prices are higher, and in that sense is quite similar to the demand of speculative buyers.

chiefly low grades, which are in effect by-products of growing tobacco for domestic use. Hence, these exports do not introduce any considerable elasticity in the total demand for leaf tobacco.

The preceding discussion furnishes an essential clue to the behavior of tobacco prices over the period which has been described. The prices have been those which would induce growers to produce the total quantity of tobacco required by a market in which demand was quite inelastic, even though there were changes in that demand. Trends in prices have been caused partly by changes in the quantities required, but also by changes in factors affecting the volume which producers would grow at a given price.

This may be illustrated in terms of flue-cured tobacco. It has been noted that both domestic consumption (in cigarettes) and exports of this tobacco increased materially up to the beginning of the business depression. Had there been no change in farm conditions affecting the quantity which farmers would produce at a given price, higher prices would have been required to bring forth the necessary increase in production. However, the major farm enterprise in the area where this tobacco is grown, cotton production, became progressively less profitable during the same years. As a result, producers found it advantageous to turn to tobacco production. Even though returns for tobacco were reduced, it still represented a more attractive crop than cotton. Therefore, prices for flue-cured tobacco declined as shown in the chart on page 74. To a very considerable extent the same type of development affected the course of prices in other areas, although not so uniformly or necessarily in the same direction as in the illustration used.

Such declines in tobacco prices result automatically in the enhancement of manufacturers' profits under the conditions of limited price competition in the sale of manufactured products. This may be illustrated by the following data on the total gross amounts received by farmers for tobacco used in domestic manufacture and the total profits available for distribution as dividends by the 34 leading manufacturers over the period from 1923 to 1932 inclusive, in millions of dollars:¹⁵

| Year | Farmers' Receipts | Manufacturers' Profits |
|------------|----------------------|---------------------------|
| 1923 | 174 | 76 |
| 1924 | 154 | 82 |
| 1925 | 141 | 100 |
| 1926 | 138 | 104 |
| 1927 | 149 | 115 |
| 1928 | 161 | 121 |
| 1929 | 174 | 134 |
| 1930 | 136 | 145 |
| 1931 | 96 | 147 |
| 1932 | 68 | 146 |

While these data should not be considered as highly accurate for any one year, they show one important tendency resulting from competition of the particular character to be found in an industry of this type. As tobacco prices declined, owing to the causes which have been explained, returns to producers were greatly reduced. At the same time manufacturers benefited from lower prices for raw materials as well as from increasing demand for some products such as cigarettes, which more than offset the few declines that occurred.

¹⁵ Data compiled by the Tobacco Section, AAA.

CHAPTER IV

THE TOBACCO PROGRAM

The background which is necessary for a consideration of the tobacco program has been set forth in three chapters just preceding. Chapter III outlined the situation which furnished the problem. Chapter II described the characteristics of the industry which provided the setting for that problem and furnished the conditions under which it could be attacked. The first chapter discussed the legislation which provided the methods which could be used in the attempts at solution. In the present chapter the problem is summarized as it has been interpreted by the AAA, objectives are stated, the principal features of the program are outlined, and some attention is given to early events relating to the formulation of that program.

PROBLEMS AND OBJECTIVES

The AAA considered the tobacco situation to be acute because of the reduction in growers' purchasing power. This curtailment of purchasing power was considered to be the direct result of disparity between the prices received for the commodity by producers and the prices paid for articles purchased. It was believed this disparity existed because growers' prices were too low, and this situation was attributed to the accumulation of excessive stocks and to the failure of producers to receive an equitable share of consumers' expenditures for tobacco products. The accumulation of stocks was considered as evidence of a failure to adjust production to outlets, es-

pecially a failure to restrict production in line with the curtailment of exports and changes in domestic consumption. Reduced buying power in foreign countries and the erection of international trade barriers were identified as prominent among the causes for the shrinkage in sales abroad.

While the general problem was interpreted in this manner, the six kinds of tobacco distinguished in the preceding discussion were treated from the beginning as separate commodities and it was recognized that the several elements in the problem differed in their degree of importance for each. Thus the loss of export markets was not a significant factor in the case of cigar leaf or Burley, whereas it was of great importance for other types. Likewise, the changes in consumption consisted in part of shifts between classes of products with a consequent variation in the effects upon the respective types of tobacco used in their manufacture. For these and similar reasons the purchasing power situation differed between commodities, price disparities varied, and stocks were relatively more excessive for some than for others. In press releases and publications pertaining to specific kinds of tobacco different aspects of this situation have been emphasized by the AAA as they were considered to be important for those types.

The underlying objective of the program as it has evolved up to the present is to raise incomes of tobacco growers to satisfactory levels and to keep them there. This goal is to be attained, however, through the achievement of several intermediate objectives, each related to a specific aspect of the problem. They may be listed as follows:

1. To obtain gradual reductions in carry-overs by se-

curing from growers commitments to make specified reductions in acreage and production, thereby offsetting the effects of curtailments in domestic and foreign outlets.

2. To supplement growers' returns from sales by making benefit payments to those who agree to participate in the limitation of acreage and production.

3. To bring about an immediate enhancement of prices to the extent justified by the prospective reduction of supplies.

4. To obtain this price increase with a minimum of increase in cost to the public, thereby returning a larger proportion of consumers' expenditures to the producers of tobacco.

5. To make a start towards the correction of those marketing conditions most unfavorable to tobacco growers.

The principal emphasis has been placed upon reduction of stocks for the purpose of raising prices—to parity if possible—as the immediate objective of the program. For the most part benefit payments have been considered as a means by which farmers could be induced to participate in the program for reducing production, although it has been recognized that such payments would constitute significant additions to the returns of growers..

The objective of raising prices to parity becomes more realistic when stated in terms of the amount of increase which would be required. In the following tabulation parity price for the 1932-33 marketing season for each kind of tobacco is compared with the average price producers received for that crop, as computed by the AAA at the time processing tax rates were established.¹

¹ Data supplied by the Tobacco Section. The methods used in these computations are explained on pp. 187-90.

| Kind | Parity | Estimated Price | |
|----------------------|--------|-----------------|------------|
| | Price | Received | Difference |
| Flue-cured | 15.8 | 11.6 | 4.2 |
| Burley | 14.6 | 12.6 | 2.0 |
| Maryland | 15.1 | 13.4 | 1.7 |
| Fire-cured | 8.9 | 6.0 | 2.9 |
| Dark air-cured | 7.4 | 4.1 | 3.3 |
| Cigar leaf | 13.7 | 7.7 | 6.0 |

The differences shown in the last column are the amounts by which prices would have had to be raised in order to equal parity. It will be noted that attainment of such an objective would involve quite different achievements for the several commodities.

PRINCIPAL FEATURES OF THE PROGRAM

The tobacco program as a whole is made up of several distinct plans which are being applied to the different kinds of tobacco. Under the authority provided by Section 11 of the Adjustment Act to treat separately "any regional or market classification, type, or grade . . .," the Secretary of Agriculture designated cigar-leaf, flue-cured, Burley, Maryland, dark air-cured, and fire-cured tobaccos each as a basic commodity. For each commodity a separate plan has been developed. Furthermore, the plan for cigar tobacco provides for some variation in procedure with respect to certain types and producing areas.

When these plans are considered collectively, it becomes apparent that a combination of methods for limiting production constitutes the central element in each plan and in the program as a whole. Other devices have been used, however, including marketing agreements, licenses, and codes. These devices have been co-ordinated with the production approach and used to supplement it to various

degrees in the plans for the several commodities. The result has been the evolution of a tobacco program which represents something more than a choice from among those general plans contemplated by the framers of the act. The several devices authorized by the Agricultural Adjustment Act have been combined with the use of powers conferred by the Kerr-Smith Act. Thus a scheme of operation has been developed, the details of which are adapted to differences in the problem as interpreted for the several kinds of tobacco and to the varying conditions encountered in the respective producing areas.

Three general methods, which constitute the dominant feature of the program as a whole, are being used to effect the limitation of production. The first is the reduction of production through voluntary contracts with growers, as authorized by the Adjustment Act. Basically, these contracts bind producers who participate in the plans to restrict production in return for cash payments out of the funds obtained from processing taxes. This is accomplished by three steps:

1. Establishing a base from which reductions are to be made. In the first plan only an acreage base was determined, but in the plans subsequently developed for other types both a "base tobacco acreage" and a "base tobacco production" were established for each contract signer.

2. Specifying the reduction required. Typically, this is accomplished by designating a percentage of the base acreage to be kept out of production. The remaining percentage upon which the producer is allowed to grow tobacco constitutes the "tobacco acreage allotment." The same percentage of the base production constitutes the

“production allotment” assigned to the grower. It represents the quantity of tobacco he is authorized to produce for market. The cigar plan represents an exception in that only acreage reductions and allotments were specified.

3. Designating the payments to be made in return for the reduction required.

The second method for limiting production is the assignment of allotments, representing the quantities which can be marketed, under the terms of a marketing agreement and parallel license. As will be noted later, this method has been used only for cigar-wrapper tobacco grown in one area and really constitutes an exception in the program as a whole.

The third and final method is provided by the Kerr-Smith Act. Under the provisions of this act the equivalent of a relatively heavy tax is placed upon most sales of tobacco not covered by allotments assigned under the voluntary contracts to reduce production. This is accomplished by levying the tax upon all sales of types to which the tax is applicable and then issuing tax-payment warrants to producers who have allotments. Such warrants are accepted by the Bureau of Internal Revenue as payment of the tax on the amounts of tobacco covered by allotments. In this manner a tax is collected upon the production of such types by growers who do not sign voluntary contracts, excepting that provision is made for issuance of a limited quantity of additional warrants to producers not eligible to sign contracts and receive benefit payments.

The first of these general methods was used for restricting the 1933 acreage and production of cigar filler and binder types and provision was made for continuing such

limitation in 1934 and 1935. Subsequently, similar plans were applied in 1934 to all other principal types excepting Connecticut Valley shade-grown. In each case, provision was made for continuing similar restrictions in 1935.

The quantity of Connecticut Valley shade-grown tobacco marketed from the 1934 crop was limited under the terms of a marketing agreement and license, as in the second general method referred to, and these are being continued at the present time. Although other tobacco marketing agreements have been developed, this is the only instance in the tobacco program where an agreement is used as the instrument for controlling supply.

When enacted, the provisions of the Kerr-Smith Act were made applicable to all tobacco produced in the crop year 1934-35 except Maryland, Virginia sun-cured, and the cigar types. Provision was also made for its application in 1935-36 to any particular type for which the Secretary finds that persons who own, rent, share-crop, or control three-fourths of the land customarily used for its production favor its use. Thus the third general method of limiting production was applied to a substantial portion of the tobacco produced in 1934.

Although one objective of the program was to secure an immediate enhancement of prices, it will be noted that a significant curtailment of market supplies would not result from the efforts to reduce production at least until the 1934-35 marketing season, except in the case of those cigar types to which a reduction plan was applied in 1933. In order to secure a larger return for growers pending the time when prices would rise as a result of reduced supplies, the AAA in effect negotiated the sale of a considerable

portion of the 1933 crop, except Maryland tobacco, at substantially increased prices. This was accomplished through six marketing agreements, in addition to the shade agreement already referred to, which were negotiated with the principal domestic buyers of the respective commodities. Under the terms of these agreements each contracting buyer was committed to purchase, within the 1933 marketing season, a minimum quantity of tobacco of the types covered by the particular instrument, at prices equal to or exceeding a specified minimum.

Thus the powers conferred upon the Secretary of Agriculture by the marketing agreement provisions of the act have been used in this program to supplement temporarily plans for reducing supplies through curtailment of acreage and production. The particular function of the agreements as used has been to secure an immediate price increase in anticipation of the future effects from the production plan. On the other hand, these same powers, supplemented by those of the licensing provision, have been used to provide the entire scheme of operation applied to Connecticut Valley shade-grown tobacco. In that instance, as has been noted, they have been employed as a complete alternative to the use of producer contracts and benefit payments. The shade agreement also establishes a complete operating mechanism for supervising and regulating the market. Such regulation includes the fixing of minimum prices, allocation of quotas to handlers, and the supervision of handling practices. Through the application of a license with provisions paralleling those of the agreement, this supervision is extended to all agencies in the market. Administration of the agreement is in the hands of committees representing growers and handlers, with the major decisions of these committees subject to

the approval of the Secretary of Agriculture. Unlike the other tobacco agreements, this one is made operative for an indefinite period, that is, until terminated in the manner provided.

The final element to be distinguished in the program is the regulation of trade practices affecting the interests of tobacco growers. While the need for such regulation has held a prominent place in the thinking of many individuals connected with the AAA, it is correct to say that only a start in this direction has been attempted in the tobacco program thus far. The Connecticut Valley shade agreement and license provide for rather complete supervision of marketing and handling practices. In so far as any similar regulation has been undertaken for other types, the attempt has been made through the formulation of industry codes under authority transferred to the AAA from the NRA.

Efforts were made to work out five master codes acceptable both to the AAA and to the industries involved. As contemplated they would have applied to the following groups: (1) Tobacco distributors and retail dealers; (2) auction loose-leaf warehousemen; (3) leaf dealers; (4) cigar manufacturers; and (5) cigarette manufacturers.² Of these, all but the second and third were transferred back to the National Recovery Administration before they were completed. The warehousemen's code was accepted and went into operation July 9, 1934 while the leaf dealers' code has not been completed.

EVOLUTION OF THE PROGRAM

No one should obtain the impression from this sketch of the program as it had been developed up to the close

² *Agricultural Adjustment*, AAA, p. 94.

of 1934 that it was visualized in that form from the beginning. To do so would be to ignore completely the process by which it has been evolved. In this process, which is still going on, numerous proposals and counter-proposals were considered.³ Some of these were rejected while others were incorporated in the general scheme of operations only after receiving modifications which completely altered their original form and purpose. Furthermore, certain events during the early period of operation had a pronounced effect upon some features. In the development to its present form, however, additions and alterations have been made in such manner as to retain a unified program, basically consistent with the policies gradually appearing in the administration of the act as a whole.

For several weeks prior to the passage of the act a committee within the Department of Agriculture had been studying conditions in the various tobacco districts and considering the possibilities of applying the provisions of the pending legislation to tobacco.⁴ At that time nothing could be known regarding the policies with which those provisions would be interpreted and administered. Under those circumstances, the committee turned quite naturally to some of those who were drafting the bill⁵ for information regarding the character of operations contemplated

³ The more important of these proposals are summarized in Appendix C, pp. 273-81.

⁴ Members of this committee were: C. E. Gage, in charge of the Tobacco Section of the Bureau of Agricultural Economics, chairman; W. G. Finn, Bureau of Agricultural Economics; J. A. Dickey, Extension Service; E. G. Beinhardt of Richmond, Va.; and John B. Hutson, Foreign Agricultural Service of the Bureau of Agricultural Economics, who was later made chief of the Tobacco Section. A similar procedure was followed with respect to other commodities enumerated in the bill as basic.

⁵ Principally to M. L. Wilson and Mordecai Ezekiel.

and for answers to questions of interpretation. As was pointed out in Chapter I, the act was framed for the most part by men who were interested primarily in the possibility of applying the voluntary domestic allotment plan under the provisions authorizing production reduction through contracts with producers and benefit payments out of processing taxes. Furthermore, these were the features that furnished the nucleus for the Adjustment Act, that called forth the greatest amount of legislative debate, and that were most prominent in publicity pertaining to the proposed act. As a result the committee devoted its principal attention to the possibilities of applying these procedures to tobacco.

Recognizing that different treatments would be required for tobacco grown in various sections, the committee immediately segregated the six kinds which have since been treated as separate basic agricultural commodities. An analysis of the available statistical material was then made to determine for each of these commodities information such as: The probable yield of a processing tax at the maximum rate authorized by the proposed act; the amount of reduction in production to be considered appropriate in view of the current situation with respect to outlets, accumulation of stocks, and reported intended acreage; the probable price increase from that curtailment; the size of benefit payments which could be made out of funds likely to be available; and the estimated cost of administration. A report incorporating their findings on these points, together with their recommendations regarding the immediate procedure to be followed, was submitted to the Secretary of Agriculture on the day after the act was signed. The principal recommendation was that early efforts should be devoted largely to cigar tobacco. In sub-

stance the conclusions upon which this recommendation was based were:

1. That needs for adjustments in the cigar-tobacco districts were more pressing than in the districts where other classes of tobacco are grown, due to relatively lower prices, greater declines in consumption, and prospective large total supply for the next marketing season.

2. That quicker and more complete control was possible with cigar tobacco than with any other classes, because cigar types are planted somewhat later, production is more highly concentrated within small districts, producers are more permanently located, practically the entire crop is consumed in the United States, and the revenues obtainable from processing taxes would be sufficient to make relatively large payments for crop reduction.

Developments during the next few weeks followed approximately the committee's tentative recommendations. The Agricultural Adjustment Act was signed by President Roosevelt on May 12, 1933, and the appointment of George N. Peek as administrator was announced the next day. After the appointment of Chester C. Davis as director of the Production Division of the AAA on May 20, the first formal steps were taken in setting up a program. The tobacco committee conferred with Davis and Coadministrator Brand on May 31, at which time a series of conferences was scheduled with representatives of agricultural colleges, producers, and processors.⁶ In the first of these conferences, beginning June 2, the committee discussed

⁶ In the press release issued the following day, announcing the series of conferences to be held, it was also announced that John B. Hutson had been "assigned the task of going forward with the plans on tobacco conferences." *AAA Press Release No. 1266-33*. From this date forward official releases referred to Hutson as "acting administrator" and "acting chief of the Tobacco Section" until he was made chief of the Section.

its preliminary work with the college representatives and reviewed conditions in the respective cigar districts.⁷ These discussions were preliminary to the later ones with growers and processors in which the college men were to work with the tobacco committee.

On June 5 the provisions of the act were explained to growers' representatives, and the cigar-tobacco situation was discussed in detail. The question was raised as to which of the plans made possible by the act appeared best adapted to the situation prevailing in the cigar district, and at the conclusion of the conference representatives of growers from each of the cigar-tobacco producing states were asked to designate one of their members to meet in the evening and begin the formulation of detailed plans. During the next two days, this committee drew up a tentative plan of operation for 1933.⁸

A conference was held on June 6 with representatives of the cigar industry. Those present were representatives of firms selected by the cigar-leaf dealers and manufacturers' associations, whose members manufacture from 90 to 95 per cent of all domestic cigars. The manufacturers' viewpoint as related to the problems of the cigar-tobacco growers was discussed in detail, and Howard S. Cullman, who acted as spokesman for the manufacturers' group, pledged the assistance of his organization in developing plans. These representatives participated in the further conferences through which the initial cigar-leaf plans were drafted. Beginning with the continuation of

⁷ College representatives at this conference were: C. R. Arnold, Ohio; H. H. Bakken, Wisconsin; and H. B. Boyd, Connecticut. Pennsylvania State College was unable to send a representative at this time although invited to do so.

⁸ The committee was composed of Emerson Ela of the Northern Wisconsin Tobacco Pool, Hugh Ulrich of Ohio, S. S. Bard of Pennsylvania, and Fred Griffin of Connecticut.

the joint conferences on June 8, a manufacturer of scrap chewing tobacco also participated.

Completion and inauguration of the cigar-leaf plan occupied the major part of the time remaining up to the close of July. After the preliminary cigar-leaf conferences had been held, however, some attention was given to other types. In the meantime the only other group to approach the Tobacco Section had been a delegation representing several of the Kentucky and Tennessee co-operative marketing associations and the agricultural colleges of the two states. This delegation was granted an interview on June 7 relative to the application of the act to Burley and the dark types of tobacco. The preliminary analysis of the situation with respect to each type was presented and was followed by a general discussion of these situations and of the measures possible, but no conclusions were reached as to what plans should be employed. In succeeding weeks several proposals were advanced for Burley, some of which received considerable attention but were not adopted.

During this period a positive attitude had developed within the AAA that it should be prepared to put into operation any proposals advanced by growers which were possible under the act and consistent with Administration policies, but that it was undesirable to impose programs unless they had been initiated by producers or their representatives.⁹ Furthermore, on the basis of their analy-

⁹ This position was stated by both Davis and Hutson at the American Institute of Co-operation on July 28. Hutson said in his opening remarks: "It is not appropriate to discuss our plans for operating in the different branches of the tobacco industry, since we formulate plans only after proposals have been presented to us." In the discussion following that address he reiterated this view, and Davis added in part: "We want to avoid being placed in a position where we can develop a full grown program and come out and say to you, 'Here it is.' Dr. Hutson explained that. We think we are going to go further

sis of the respective types, the administrators considered the situation for Burley to be the most critical among the tobaccos other than cigar leaf. Even in the case of Burley no action was contemplated to restrict production in 1933, although consideration was given to the possibility of using other devices provided by the act. In such an event, however, it was their attitude that provision should be made for reduction of acreage the next year. In his address on July 28 to the American Institute of Co-operation, Hutson stated the case as it stood at that time as follows:

. . . There remain the other important groups of tobacco. We are at present considering proposals for these groups. The situation with respect to Burley appears to be critical this season. Most other types are somewhat more favorably situated. It will probably not be advisable to develop plans that will arrest the production of any of these types this year.

There remains insofar as the 1933 crop is concerned the possibility of keeping the surplus off the market through trade agreements, or, of paying growers to divert it to non-commercial uses. We are of the opinion at present that any plans under which growers would receive payments to withhold any surplus from the market or divert it to non-commercial uses should also provide for an acreage reduction next year.

We shall be giving attention to proposals along these lines during the next few weeks. If any of you feel that you have a very definite suggestion as to how this may be made applicable to any particular type of tobacco, we shall be glad to get the proposal and study it.

The condition of the cigar growers was so critical that we thought it advisable to proceed quickly. We hope to be able to explore more fully before deciding upon a plan for any of the other types. The situation with respect to each particular type or group of types is different from that of any other type or group, consequently the plan that is decided upon for any particular group may be different from that decided upon for any other group. For some groups prices

safely if we do not go too far in front of the army and get shot from behind." *Proceedings of the American Institute of Co-operation, 1933, pp. 477 and 487.*

may be high enough that it will not be necessary to use any plan at all this year.¹⁰

Despite this evident thought that the next action would be taken with respect to Burley, immediate developments caused the efforts of the AAA to be turned in another direction. Upon the opening of the Georgia market for flue-cured tobacco on August 1 at unsatisfactory prices, protests were filed with the AAA both by growers and state officials. Ten days later, as the South Carolina markets opened with prices proportionately low, the discontent which had been evidenced in Georgia moved northward and the stream of protests filed with the Administration grew rapidly. North Carolina growers, in anticipation of the opening of their market on August 29, also became alarmed over the prices prevailing in Southern markets. In fact the anxiety was intensified by a slump to new low levels during the last week of the month. Up until that time prices had averaged about 10 cents per pound, or about 7 cents below parity level. During the month many meetings of farmers were held throughout the area, and the general attitude prevailed that immediate action to increase prices for flue-cured tobacco should be taken by the Administration.

Meanwhile the AAA was giving much thought to the problem. An advisory committee, composed of six growers of flue-cured tobacco representing each of the states in which these types are grown, was invited to meet with the Tobacco Section on August 14 for the purpose of discussing the development of a plan for the flue-cured types. It was concluded that a production program would be advisable, not only for flue-cured but for all the principal

¹⁰ The same, p. 483.

Southern-grown types. On August 30 this and alternative methods of procedure were discussed with representatives of the principal manufacturers and exporters who purchase these types. The question of treating Burley and the flue-cured types as one commodity under the act was considered, with opinion about evenly divided as to the advisability of such procedure.¹¹

On August 31, two days after the opening of the North Carolina markets, a general conference of growers met in Raleigh, sponsored by groups of influential farmers with the active support of a Raleigh newspaper. Although the meeting was orderly there was a deep undercurrent of feeling. Growers were especially bitter in view of the fact that general commodity prices, bolstered by the NRA, had risen. A resolution was adopted calling upon the AAA to take immediate action in the matter of securing adequate prices for the 1933 crop; to adopt a plan for reducing production in 1934; and to take steps necessary to secure the orderly production, marketing, and grading of tobacco under federal supervision. It also pledged the co-operation of those present in such a program. Another resolution called upon the Governor of North Carolina to declare a marketing holiday and under martial law to close all tobacco warehouses in the state. The Governor responded by issuing a proclamation that same evening closing all markets in the state until further proclamation. Later this order was modified to permit sales on September 1 in

¹¹ The imposition of processing taxes was given much attention. A majority proposal was made by a committee representing the Tobacco Manufacturers' Association that in lieu of such taxes, a "surcharge" (later placed at 4.5 per cent of the then present rates) be added to the cost of internal revenue stamps by means of either a code provision or an agreement entered into by the manufacturers with the government. This plan was opposed by the principal manufacturers of ten-cent cigarettes on the ground that such an increase in internal revenue rates would place them at a competitive disadvantage.

order to move tobacco already on the warehouse floors and in danger of deterioration. At the same time he called upon the Governors of South Carolina and Virginia to take similar action. The Governor of South Carolina did so at once, but since the Virginia markets had not opened, such action was not necessary in that state.

On September 1 Secretary Wallace announced that a production adjustment plan for the 1934 flue-cured crop would be put in operation as soon as details could be worked out. He also stated that similar programs were being planned for Burley, Maryland, and the dark air-cured and fire-cured types. The imposition of processing taxes was announced for the year beginning October 1, with a statement that the exact rate for the flue-cured types had not been determined, but about 4 cents would be collected. The following day he informed the Governors of North and South Carolina of the plan for 1934. The Governor of North Carolina commented as follows: "That plan will not cause any change in our plan. Of course, we are interested in 1934 prices, but our main concern now is 1933 prices."

On September 5 plans were announced for signing up growers on a plan to reduce 1934 production before the markets were reopened. Relative to this plan Chester C. Davis said:

In consideration of the co-operation of the flue-cured tobacco growers, as offered in these conferences, the Administration pledges itself to an effort to obtain for these growers parity prices for this year's crop as well as for the crops of 1934 and 1935.¹²

He also pointed out that the immediate price problem was the most difficult, saying:

¹² *AAA Press Release No. 543-34. Sept. 5, 1933.*

The AAA recognizes the need for attaining parity of agricultural prices as fundamental in accomplishment of the economic recovery of the nation. We now plan to effectuate the purposes of the Agricultural Adjustment Act for flue-cured tobacco growers. Efforts will be made to work out details of the program at the Raleigh meeting Wednesday.¹³

The meeting referred to was held on September 6, with about 500 growers and other interested persons present. At this meeting plans were made for a rapid sign-up campaign for the production control program of the following year.¹⁴ The reason for such an immediate sign-up was the thought that it would be possible for the government to arrange for higher prices for the 1933 crop if it were assured that the 1934 crop would be reduced.¹⁵ Growers as well as the members of the Tobacco Section reasoned that prices would rise, due to increased competition for present supplies, if buyers were faced with restricted production later. Furthermore, representatives of the major buyers had in earlier conferences indicated that they would willingly pay higher prices if they were assured that they would not be forced to purchase such increased supplies as these higher prices would ordinarily call forth. Thus the Administration, armed with the weapon of controlled production, felt that its bargaining position would be much enhanced by a successful campaign for contract signers. Within three days 60 per cent, and within two weeks 95 per cent of the growers in the flue-cured area had signed these contracts.

¹³ The same.

¹⁴ An organization known as the North Carolina Tobacco Association was also formed as a result of this meeting.

¹⁵ In the formal announcement of the opening of the sign-up campaign Hutson said: "We propose to use the authorization given us in this agreement, together with the powers granted to us through the Agricultural Adjustment Act, to bring about a marked improvement in the prices of flue-cured tobacco this season and the two following seasons."

Although the AAA had accepted the task of trying to secure an immediate increase in prices, probably through some form of marketing agreement, their early negotiations with the principal buying companies had failed to produce any acceptable proposals as to how that increase could be obtained. A committee representing manufacturers of cigarettes, smoking tobacco, and chewing tobacco drafted a proposed code which was filed on July 27. This received some discussion in succeeding conferences, but, on the ground that it included no provisions designed to help tobacco growers, the Administration did not call a public hearing.

An informal conference was held on July 27 for the purpose of discussing possible plans for flue-cured and Burley tobacco. Nearly all of the important buying companies were represented at this conference, where they were asked to suggest methods which could be used to raise prices for the 1933 crop. Beyond expressing "a desire to pay the farmer more for his tobacco if it could be done without causing over-production in subsequent years," representatives at the conference were extremely non-committal. Likewise they were generally not responsive when specific proposals were laid before them.

Another similar conference was held on August 30 for the purpose of discussing processing taxes and for further consideration of possible plans to raise tobacco prices. Its results were equally as inconclusive as those obtained in the preceding conference.

Anticipating their success in signing up growers, the AAA drafted a proposed marketing agreement and invited the buyers to an informal conference on September 15 for its consideration. Although this proposal proved to be unacceptable to the companies, it inaugurated a series

of proposals and counter-proposals from which the marketing agreement for flue-cured tobacco was developed. The negotiation of this agreement is discussed in the succeeding chapter.

The plans for cigar-leaf and flue-cured tobacco established precedents for the treatment of other types. Growers and farm leaders who were considering the possibilities under the act with reference to their products naturally turned for suggestions to the plans already established. Most of the plans developed thereafter incorporated the same general scheme of operation, with modifications or refinements to meet specific situations.

Policies during this early period were, on the part of the Administration as a whole, undetermined. As a matter of fact, policy making and administration have been concurrent developments throughout the life of the AAA. Those in charge of the tobacco program proceeded in the beginning on the basis of interpretations furnished by some of those who framed the statute. Later, these individuals were employed in the AAA and participated in the making of decisions relative to problems encountered. Thus, policies adopted after the organization of the AAA grew in part out of convictions held by those who had been through the preliminary work and who favored the application of production control plans as the principal activity. It has been noted that the first Administrator was opposed to production control as a dominant measure, advocating instead chief reliance upon marketing agreements and aids to export trade. In view of the serious situation facing cigar-leaf growers, however, he accepted the program of reduction and subsequent control of acreage for these types. Later, when production control of the 1934 flue-cured crop appeared necessary in

order to negotiate agreements to raise prices on the 1933 market, he accepted the program for those types. The members of the Tobacco Section, on the other hand, regarded control of production as essential, and other measures as having possibilities for supplemental or emergency use. With the members of the Section so completely favoring the use of methods to reduce production, it is natural that committees representing agricultural colleges, growers, and others interested in the tobacco farmer were guided in their thinking along the lines of "adjustment" of production.

CHAPTER V

MARKETING AGREEMENTS

The use of marketing agreements for the several kinds of tobacco has been discussed briefly in the preceding chapter, where the program as a whole is summarized. In order to appraise their contribution to the over-all results obtained, it is necessary now to examine the character of those agreements in somewhat greater detail. By no means equal space needs to be given, however, to each individual agreement. Precedent for those which were limited to fixing minimum prices and quantities was established by the agreement developed for the flue-cured types. For this reason it is treated most fully, while the others of similar nature are discussed in comparison with its provisions. Because of their distinctive character, the agreement and license for Connecticut Valley shade-grown tobacco are considered separately.

THE FIRST AGREEMENT

It has been noted that those in charge of the tobacco program were unable to obtain proposals from the buying companies as to plans which should be used in securing higher prices for the 1933 crop. After the success of the campaign to sign up growers on the proposed production program was virtually assured, however, the AAA proceeded to draft its own proposal for a marketing agreement. This was submitted to the buyers in an informal conference on September 15 called for its consideration.¹

¹ This procedure was a distinct exception in that it represented the first instance in which the AAA had formally proposed an agreement. In all pre-

Under the terms of this suggested agreement a minimum average price to be received by growers for all flue-cured tobacco sold during the remainder of the season was to be fixed. All other provisions related merely to the detailed manner in which that average was to be attained.² Although this proposal was discussed at some length during the conference, no very positive expressions were obtained from the buyers, who limited themselves mainly to inquiring how the AAA visualized its various details in operation. Representatives of the largest buyers requested the privilege of discussing the agreement with their boards of directors before making any direct suggestions. This privilege was granted and it was agreed that an emergency public hearing would be held on September 21 for formal consideration of the agreement. The hearing was called for that date but was recessed to the 22d to allow further conferences among manufacturers and representatives of the government.

As stated in the course of this conference and the subsequent hearings, the considerations upon which the AAA based the request that buyers enter into this or some equivalent agreement may be outlined as follows:

vious cases action was initiated only when a proposal was submitted by some group or groups of interested parties.

² Provision was made for an executive committee of 9 members, 7 of whom were to be appointed by individual buying companies, and 2 to be appointed by the Secretary of Agriculture. This committee was to be charged with administering and enforcing the agreement. Other details included the usual formal sections to bring the agreement into approved legal form; provision for market sub-committees to administer and enforce various features of the plan; procedures for computing differential prices, both seasonal and quality, which would average for each market not less than the minimum prescribed by the agreement; and the manner of determining assessments upon buyers and of distributing those assessments to growers so as to make up any deficiencies in the actual market prices.

1. The decline in tobacco prices which had so greatly curtailed incomes of growers had been accompanied by a corresponding increase in manufacturers' earnings.

2. The declared policy of the Agricultural Adjustment Act was to readjust this situation by raising farm prices.

3. Prospective supply is a factor in price, just as is current supply. Since approximately 95 per cent of the growers had already signed contracts to reduce production during the two years following, the basis was provided for an immediate price increase.

4. The current foreign exchange situation was such that domestic prices could be increased materially without increasing the delivered cost to foreign buyers above what it had been prior to depreciation of the dollar.

5. Immediate acceptance of an agreement by the buyers would remove growers' dissatisfaction by assuring them the higher prices to which they were entitled after having agreed to reduce their future production and would permit reopening of the markets at once.

Both domestic and export buyers were unanimous in their opposition to an agreement of the character proposed by the AAA. Although they never admitted that prospective supply was as important a factor in price as the proponents of the agreement contended, the principal spokesmen for the domestic buyers indicated their approval of the general effort to increase incomes of tobacco growers. "We welcome the act of Congress with its provision for a processing tax," he said. He also stated that the group which he represented was anxious to work out something which would give the grower a fair return for his tobacco, but that in the judgment of that group the

proposed agreement "is insufficient for the purposes for which it is designed."³

Numerous details of the proposal were criticised, but the contention that it was inadequate for the purpose of securing increased returns to growers was based upon two major arguments. The first was that while it would commit contracting buyers to a minimum average price for what they did purchase, there was no provision requiring anyone to buy a single pound of tobacco. This, it was maintained, would cause buyers to reduce their purchases, leaving a larger quantity to be sold to exporters or non-contracting buyers, would destroy the market, and would disrupt conditions within the manufacturing industry. In the second place, it was argued that the proposal to assess buying companies at the end of the season in the event that prices were not maintained at or above the specified level would drive some buyers out of the market. No company could purchase freely during the season since it might be subjected to further assessments on all its purchases at the end of the season and the amount of those assessments could not be estimated in advance with any degree of accuracy.

Besides the argument that the proposed agreement was insufficient to accomplish its purpose, opposition to it was based upon the grounds that it involved the question of whether tobacco companies were to remain free to run their own business or were to be under government control. One of the strongest objections of this character was made to a provision limiting increases in prices of manu-

³ S. Clay Williams of the R. J. Reynolds Tobacco Company served as spokesman for the majority of the domestic buyers. Individual representatives of the various companies were present, but Mr. Williams presented the entire argument for them. *AAA Press Release No. 680-34.*

factured products, except as approved by the executive committee to be established under the agreement and by the Secretary of Agriculture.⁴ On the same grounds, however, virtually all provisions outlining functions of the committee and requiring approval by the Secretary were criticized. Furthermore, the extent of access to books and records of the buying companies provided in the proposed agreement was strenuously opposed.

Having presented their objections to the agreement proposed in behalf of the Secretary of Agriculture, the spokesman for the domestic manufacturers filed a substitute proposal to which those companies would be willing to agree in order that higher prices might be obtained for the remainder of the 1933 crop of flue-cured tobacco. The proposal was offered "in view of the activities of the Secretary . . . under that [Adjustment] Act to reduce the crop of flue-cured tobacco to be grown for the 1934 marketing season." Its essential features, as filed in the form of a letter to the Secretary of Agriculture, were contained in three provisions: (1) That each company purchase during the remainder of the marketing season at least as many pounds of flue-cured tobacco as it had used during the year ended June 30; (2) that the average price per pound for all purchases by contracting buyers collectively

⁴ "The prices at which the contracting buyers or their subsidiaries or affiliates sell the products manufactured by them in whole or in part from flue-cured tobacco shall not be increased during the time of this agreement over those prevailing on Sept. 15, 1933, unless the approval of the executive committee and of the Secretary is given. In the event that any price increase is proposed to the executive committee, and the executive committee fails to approve such price increase, the proposed price increase, together with the opinions of the several members of the executive committee with respect thereto, shall be submitted to the Secretary, whose decision with respect thereto shall be final. Any person in favor of a proposed price increase submitted to the Secretary may submit therewith a memorandum in support thereof." *Proposed Marketing Agreement for Flue-Cured Tobacco*, Art. II, Sec. (2).

should be at least 17 cents per pound and any deficiency should be made up by adding a uniform percentage to the total amount paid for all purchases; (3) that as a condition of the agreement the contracting companies were "to manage, conduct and operate their respective businesses with freedom of business policy as heretofore."⁵

The representative of the exporters at the hearing endorsed the substitute proposal of the domestic manufacturers, although he pointed out that exporters could not become parties to such an agreement.⁶ In private conferences these buyers had indicated a belief that they would be able to increase their prices in line with those to which domestic buyers would be committed under the agreement, but felt that any commitment on their part to a fixed price under an agreement would result in a loss of export trade.⁷

⁵ The text of this part of the proposal was as follows: "(6) This proposal is possible only on the basis—a condition of its acceptance and of the continuance of the obligation thereof—that insofar as the Agricultural Adjustment Administration has jurisdiction in the premises the undersigned companies are to manage, conduct and operate their respective businesses with freedom of business policy as heretofore, it being understood that no provision herein made in any way limits or restricts the authority of the Agricultural Adjustment Administration in the matter of the levying of processing taxes or prevents the negotiation and making of marketing agreements, not inconsistent with this paragraph, with respect to any other type of tobacco than that included herein."

Each company would, however, comply with any request of the Secretary for "reports, properly verified, showing (a) its usings of flue-cured tobacco in its manufacturing business in the United States during the fiscal period comprising the twelve months ended June 30, 1933, (b) the quantity of flue-cured tobacco purchased by it on said auction warehouse floors during said period from September 25, 1933, to March 31, 1934, for such manufacturing business in the United States, and (c) the prices paid therefor, and for the verification of said reports shall, if required, make available to the Secretary of Agriculture its records of flue-cured tobacco usings and of such purchases during the respective periods mentioned. *AAA Press Release No. 680-34.*

⁶ James I. Miller, of Wilson, N. C., spoke for the export buyers.

⁷ The sensitiveness of foreign buyers to any suggestion of price control even

Negotiations between the AAA and the buyers were continued after the close of the public hearing in an effort to arrive at an agreement acceptable to both parties. After some concessions by each group, differences were eliminated with one exception. The manufacturers refused to accept any agreement unless it contained a provision similar to that in their proposal filed at the hearing guaranteeing them freedom from regulation by the AAA. Negotiators for the government refused to concede this limitation upon its powers and the buyers were advised that further negotiations were useless.

Immediate preparations were therefore made to require all buyers to pay minimum prices by licensing them under the authority conferred by the Agricultural Adjustment Act.⁸ Early in October, when these preparations were practically complete, discussion of the agreement was reopened by representatives of the buying companies. As a result of these new negotiations the revised agreement without the controversial section was signed on October 6 by all the companies excepting one, which signed on the

though that control did not actually raise prices was stressed both in conferences and in the hearing. Although insistent that each of their own number should be bound to an equal degree by any agreement which was put into operation, the domestic buyers concurred in the view that exporters should not become parties to a price-fixing agreement.

⁸ Tobacco exported would have been allowed a rebate equal to any assessment made upon it for the purpose of bringing average market price up to the established minimum at the time of purchase. To take care of any tobacco which might remain unsold under this plan, tentative arrangements were made to place the AAA in a position to purchase considerable quantities if necessary. It was proposed that an advance of 3.5 million dollars against processing tax funds be set aside and that an additional 20 million dollars be obtained from the Reconstruction Finance Corporation for this purpose. Several leading exporting companies were consulted regarding the possibility of their making the purchases in case they proved to be necessary.

following day. On October 12 it was approved by the Secretary of Agriculture.⁹

As it was finally accepted, the flue-cured agreement was operative for the period from September 25, 1933 to March 31, 1934, and was specifically limited to the purpose of establishing minimum quantities to be purchased and a minimum average price to govern all purchases by contracting buyers during that period.¹⁰ Its significant provisions may be summarized as follows:

1. Each contracting buyer agreed to purchase on the markets between September 25, 1933 and March 31, 1934 inclusive, a number of pounds of the 1933 crop of flue-cured tobacco "at least equal to the number of pounds (farm sales weight) that it and all of its subsidiaries and affiliates used of flue-cured tobacco in manufacturing business in the United States during the fiscal period comprising the twelve months ended June 30, 1933."

2. In making purchases, the buyers agreed to buy in the usual and ordinary manner, and agreed not to buy unduly of the high grades, nor to concentrate buying in any geographical region.

3. If the total quantity of flue-cured tobacco purchased by any of the contracting buyers was less than the total quantity which that buyer was obligated to purchase under the agreement, then the contracting buyer agreed

⁹ The contracting buyers were: The American Tobacco Co., Liggett and Myers Tobacco Co., R. J. Reynolds Tobacco Co., P. Lorillard Co., Philip Morris and Co., Ltd., Inc., Larus and Brother Co., Continental Tobacco Co., Inc., Brown and Williamson Tobacco Corp.

¹⁰ "This is a limited marketing agreement, the sole purpose of which is to establish the minimum quantity of and price to govern purchase of flue-cured tobacco by the contracting buyers for the 1933 marketing season from September 25, 1933, to March 31, 1934, inclusive." *Marketing Agreement for Flue-Cured Tobacco*, Pt. II, Sec. 2. See Appendix B, p. 263, for complete agreement.

to pay to the Secretary, within 30 days after notification, 17 cents for each pound of tobacco short of the total quantity he was obligated to buy. This payment would be made in addition to any deficiency payment necessary to bring the average minimum price up to 17 cents per pound.

4. Contracting buyers agreed to furnish the Secretary such information as he might need in exercising his powers and performing his duties in connection with the agreement, and in ascertaining the extent to which the declared policy of the Agricultural Adjustment Act and the purpose of the agreement were being effectuated. They also agreed that the Secretary might verify the information furnished him, during the usual business hours, from all their books, accounts, and records, and the books and records of all their affiliates and subsidiaries. All such information furnished the Secretary would remain confidential.

5. The agreement contained a consumer provision under which the companies agreed not to raise prices of cigarettes above the price prevailing January 3, 1933 (\$6.00 per thousand, wholesale) plus the amount necessary to cover increased raw material costs, processing taxes, and NRA trade costs.

Not only was the section stipulating that buyers remain free from further regulation by the AAA omitted, but the following wording was included in the Secretary's approval adjacent to his signature: "It being of course obvious that no officer of the government can by agreement limit or curtail any authority vested in him by law, nothing contained herein shall be construed by the parties to this agreement as attempting to limit or curtail such legal authority."

SUBSEQUENT PRICE-FIXING AGREEMENTS

By becoming parties to the flue-cured agreement the principal tobacco companies had virtually accepted the principle of using marketing agreements to raise prices during the interval while the AAA was bringing production under control. While that agreement was under consideration, leading buyers had asked about the AAA's plans for Burley and promised to consider possible assistance in developing such a plan. At the invitation of the Tobacco Section, representatives of the manufacturers participated in a conference on November 8 and 9 at which the plan then being prepared for controlling Burley production was explained and the advisability of a marketing agreement was discussed.

At the time this conference was held Burley production was estimated to be around 400 million pounds, which was 140 million pounds greater than the quantity used by manufacturers in the preceding year. Since practically no Burley is exported, this indicated that a considerable addition to stocks would result. Accordingly the companies proposed that each of them would enter an agreement with the Secretary similar to the one finally developed for flue-cured, but with two differences: (1) That buyers would be committed to purchase quantities equal to only 90 per cent of their usings during the twelve-month period ending October 31, 1933, instead of 100 per cent; and (2) that the government would agree to purchase 100 million pounds of the crop.¹¹

The AAA refused to consider this proposal on the

¹¹ The proposals would have required the government not to resell any of this tobacco at less than cost within two years, unless it was sold for export, and then only by public auction after notice to the manufacturers. This proposal is discussed in Appendix C, pp. 278-81.

ground that it involved stabilization purchases, and proceeded with negotiations for an agreement without that objectionable feature. After the campaign to obtain contracts from growers, in which they agreed to curtail production in 1934 and 1935, was well under way, a public hearing on such an agreement was held on December 21. This agreement was later accepted by the buyers and was approved by the Secretary of Agriculture on January 6, 1934, to apply to the entire marketing season from December 11, 1933 to April 15, 1934.

As finally adopted the Burley agreement was similar to the earlier flue-cured agreement. Each contracting buyer agreed to purchase a quantity from the 1933 crop at least equal to his usings during the twelve months ended October 31, 1933, with the exception of two companies which agreed to purchase 1,250,000 pounds and 25 million pounds respectively.¹² In the event production fell short of the 400 million pounds then forecast, this requirement was to be reduced proportionately for each contracting buyer.

The minimum price was established at 12 cents per pound, but the manner in which this minimum applied constituted the greatest difference from the earlier flue-cured agreement. Whereas in that case a minimum average for purchases by all contracting buyers collectively was specified, the Burley agreement required that purchases by each individual company average 12 cents or more, excepting that provision was made for lowering this minimum to 10.5 cents in the case of a specified tobacco manufacturer in the event the average price for the

¹² Axton-Fisher Tobacco Company and Brown and Williamson Tobacco Corporation.

entire 1933 Burley crop equaled or exceeded the 12-cent minimum. No other differences between the two instruments were of sufficient importance to require discussion.¹³

The next agreements, which were for the dark air-cured and fire-cured types, were quite similar in their theories of operation to the two which have been discussed. In the course of negotiations leading up to the first two agreements, questions were frequently raised as to what would be the programs for other types, so that by the time the Burley agreement was completed precedents for other similar plans were well established. Accordingly, a proposal for applying the same procedure to the dark types was broached as soon as the campaign to reduce production was well under way. By the time the markets opened in December each of the principal domestic manufacturers using these types of tobacco had agreed to the proposal, although it had not yet been worked into its final form. In fact, although the public hearing was held on January 18 and the agreements were not approved by the Secretary until March, each had been in operation for about three months prior to that approval.¹⁴

Although their purpose was similar to that of the agreements which preceded them, the form of the agreements for the dark types was greatly complicated by differences among these types and by the fact that different buyers use them in the manufacture of quite different products. To take care of these differences three separate agree-

¹³ The contracting buyers were: The American Tobacco Co., Continental Tobacco Co., Philip Morris and Co., Ltd., Inc., Larus and Brother Co., Liggett and Myers Tobacco Co., R. J. Reynolds Tobacco Co., P. Lorillard Co., United States Tobacco Co., Brown and Williamson Tobacco Corp., The Axton-Fisher Tobacco Co. In discussions leading up to the agreement W. R. Perkins of P. Lorillard Co. served as principal spokesman for the buyers.

¹⁴ *Agricultural Adjustment—May 1933 to February 1934*, AAA, pp. 90, 92.

ments were developed, one with the principal tobacco manufacturers, one with the snuff manufacturers, and the third with by-product manufacturers. In that way a substantial portion of these types used within the country was covered.

The agreement with the domestic tobacco manufacturers covered the dark air-cured types, each company agreeing to purchase out of the 1933 crop of each type at least as many pounds as it had used for manufacture in the preceding year. Likewise each company agreed to pay minimum average prices not less than 7 cents per pound for all its purchases of One Sucker and Green River tobacco, and not less than 7.5 cents for Virginia sun-cured.¹⁵

The agreement with the three leading snuff manufacturers required that they purchase 31 million pounds of the snuff grades at minimum average prices ranging from 7.5 to 14 cents per pound.¹⁶

The important feature of the agreement with by-product manufacturers was that it provided an outlet for grades which did not bring specified minimum bids on the market. The companies agreed to take at 1.25 cents per pound up to 15 million pounds of such unsold surplus of types 22, 23, 24, and 36 as did not bring a bid of 1.5 cents on the market. Type 21 which did not bring a bid of 1 cent per pound was to be taken up to a maximum of 5 million pounds. Prior to February 25, 1934, such purchases of type 21 were to be made at 0.8 of a cent per

¹⁵ The contracting buyers were: Liggett and Myers Tobacco Co., R. J. Reynolds Tobacco Co., the American Tobacco Co., and P. Lorillard Co.

¹⁶ The amounts and prices to which the companies committed themselves were as follows: American Snuff Co., 11.5 million pounds at 10 cents; George W. Helme Co., Inc., 7.1 million pounds at 7.5 cents; and United States Tobacco Co., 12.4 million pounds at 14 cents.

pound, but for the remainder of the marketing season a price of 1 cent per pound was specified. The division of these quotas for the several types between the principal by-product manufacturers was provided in the agreement.¹⁷

The final marketing agreement of the limited purpose type covered the stemming grades of cigar leaf, which are used in the manufacture of scrap chewing and scrap smoking tobacco. This agreement required the four contracting buyers to purchase directly from growers or from co-operative associations, between December 1, 1933 and June 30, 1934, at least 18.5 million pounds of stemming tobacco.¹⁸ Such purchase might include either tobacco grown in 1933 or in preceding years. Minimum prices were established as follows:

The average price per pound to be paid by each buyer for all its purchases of tobacco during said period shall be as follows:

Tobacco grown in 1933:

Purchased directly from growers at least 6 cents

Purchased from a co-operative association . . . at least 6.5 cents

Tobacco grown prior to 1933 and not stored in a tobacco warehouse:

Purchased directly from growers at least 7 cents

Purchased from a co-operative association . . . at least 7.5 cents

Tobacco grown prior to 1933 and stored in a tobacco warehouse:

Purchased directly from growers at least 8 cents

Purchased from a co-operative association . . . at least 8.5 cents¹⁹

¹⁷ *Marketing Agreement for Fire-Cured and Dark Air-Cured Tobacco, Types 21, 22, 23, 24, and 36.*

¹⁸ The individual amounts required were: Block Brothers Tobacco Co., 3 million pounds; Liggett and Myers Tobacco Co., 4 million; P. Lorillard Co., 7.5 million; and Scotten-Dillon Co., 4 million pounds. These quantities were based upon unsweated tobacco with the provision that buyers who purchased tobacco grown prior to 1933 and stored in a tobacco warehouse should receive a credit of 1.25 pounds against their obligation for each pound of such tobacco purchased.

¹⁹ *Marketing Agreement for Buyers of Stemming Grades of Cigar-Leaf Tobacco, Types 41, 42, 43, 44, 51, 52, 53, 54, and 55, Sec. 3, p. 3.*

Thus contracting buyers were required to pay a half cent per pound more for tobacco purchased from co-operative associations to cover the grading and packing services received. Also shrinkage and quality changes in older tobacco and tobacco stored under different conditions were taken into account in establishing the minimum prices. Otherwise this agreement introduced no new features.

The nature of the six tobacco agreements, which were limited to the fixing of minimum quantities and prices, is apparent from this review. Their sole purpose was to raise prices during the period until production could be brought under control to a degree which would actually affect market supplies. Through their use, prices were established substantially above the level of the preceding year, although the further rise in prices paid by farmers caused them to fall short of current parity during the marketing season. Approximately 645 million pounds of tobacco were purchased under these agreements.

Once these agreements were accepted by the buyers, no particular problems of administration were presented. No one of them established any cumbersome machinery for carrying out their provisions, and beyond a certain degree of checking to determine whether or not the companies had fulfilled their obligations, no administration was required by the AAA.²⁰ However, federal grading was inaugurated on sample markets in order to assist in check-

²⁰ Each buyer purchased at least the number of pounds specified in the agreement at an average price equal to or above the required minimum, except in two instances. In the case of the marketing agreement for stemming grades of cigar leaf, two of the companies (names undisclosed), apparently through no fault of their own, were unable to make all the required purchases as to kinds and quantities of tobacco during the effective period of the agreement. These companies paid the penalties prescribed in the agreement immediately upon being notified of the amount of such penalties.

ing upon compliance, and reports received from the contracting buyers were audited.

In accepting price-fixing agreements as a temporary expedient to be used in connection with the marketing of the 1933 crop, the manufacturing companies in no sense accepted the principle of their continuation in programs for succeeding years. Original proposals by the AAA contemplated agreements which would remain operative until terminated in the manner provided. Counter-proposals by the buyers and all of the plans accepted were limited to the season during which the 1933 crop was marketed. When the buyers were called together by the Tobacco Section shortly before the opening of the 1934 marketing season for an informal conference relative to a marketing agreement covering the current crop of the flue-cured types, they left no doubt about their attitude towards such continuation. From their statements in the course of that conference, this attitude may be summarized as follows:

1. The Agricultural Adjustment Act gives farmers the statutory right to a certain minimum return on their product—parity price.

2. The principal method provided for guaranteeing this return is the collection of processing taxes to the amount of the difference between market prices and parity, and the distribution of the proceeds to producers.

3. Plans for curtailing production could not be developed in time to improve the immediate situation existing in 1933; hence the manufacturers were willing to participate in an agreement to raise prices in the emergency.

4. The situation in 1934 was quite different. Production had been brought under control and in the judgment

of the buyers prices were likely to equal or exceed parity. Since the act gave no authority to use its procedures for raising prices above parity, the minimum price fixed in any agreement at that time would be lower than the prices likely to result in its absence. Under these conditions farmers would derive no benefit from the operation of an agreement.

5. If an unexpected situation should cause prices to average below parity, the AAA could still collect the difference as a processing tax and distribute it to the producers. In this case the only disadvantage to farmers would be that a part of their returns would be delayed, and that the cost of collecting and distributing the tax would be deducted.

6. An agreement requiring the purchase of stated quantities was likely to handicap individual companies in adjusting their buying policies to competitive conditions. Nevertheless, if flexibility were provided, the agreement would lose its value, since the only way in which it could accomplish its purpose would be by forcing at least some manufacturers to buy quantities which they would not buy competitively at the prices established.

7. The existence of a price-fixing agreement has an undesirable effect upon export trade even though exporters are not included as contracting parties. This fact, together with the handicap to domestic manufacturers from being committed to a fixed buying policy throughout the season, might even cause slightly lower prices to result under an agreement than would obtain in its absence.

Although representatives of the Tobacco Section advanced arguments for a renewal of the agreement, the

proposal was not pressed immediately.²¹ The fact that the first markets were to open in a few days suggested the advisability of waiting to see what prices were obtained. Growers in Georgia had organized an association through which they planned to take prompt action to close the markets in case opening prices were unsatisfactory. This would have allowed time for perfecting an emergency plan, as was done in the preceding year. Sustained high prices from the beginning, however, made such a course of action unnecessary.

After reviewing the experience with the tobacco price-fixing agreements there is considerable basis for the impression that contracting buyers had little objection to purchasing the 1933 crop at the prices which were established. Why, then, did they so strenuously oppose other provisions in the original proposals? Part of this opposition may have been in the nature of a counter-demonstration to that which was being made in the producing areas by the closing of the markets and related events. When, however, their general position is examined in the light of concurrent conditions within the AAA, more important reasons appear. Since the manufacturers were thoroughly cognizant of the attitude prevalent among growers, state agricultural workers, many members of the AAA staff, and perhaps a substantial portion of the general public, that the tobacco manufacturing industry represented a high degree of monopoly in the hands of a few agencies, they undoubtedly foresaw the need for constant

²¹ Prominent among these arguments were: That an agreement would cost manufacturers nothing but would reassure growers who had performed faithfully on their production contracts and were expecting a 1934 agreement, would protect against any unexpected situation, would tend to raise prices paid by exporters, and would stabilize the market in such manner as to cause a more orderly marketing of the crop.

alertness in opposing any entering wedge which might lead ultimately to government control. This situation may have caused them to be especially sensitive to suggestions of marketing reform as that view was espoused by some members of the AAA. Certainly they took a positive stand in opposition to any clause in the agreements which gave unlimited access to their books and records, and the explanation of this opposition in one public hearing included frank objection to revealing such items as advertising expenditures where they would be available for publicity and agitation.²²

Then again there was room for honest difference of opinion as to whether the government could perform as a responsible party to the agreement. Three important questions stood out in this connection at the time the 1933 agreements were being negotiated: (1) Could the AAA go through with its production control program and secure the results it expected? Many besides tobacco manufacturers doubted that it could. Since this was the principal consideration, in anticipation of which the manufacturers were asked to pay higher prices, it obviously constituted a question of real importance. (2) Would the provisions of the agreement be enforced upon all contracting buyers? An individual manufacturer could go further in his commitments if his competitors were similarly restricted than he could if certain of them were to avoid compliance. Up to that time the enforcement record of the AAA with respect to its other marketing agreements was not one to inspire confidence that they would, or could, force compliance by any recalcitrant

²² This position was stated by S. Clay Williams in reply to a question by a representative of the Consumers' Counsel in the course of the hearings on the proposed marketing agreement for flue-cured tobacco, Sept. 22, 1933.

parties. In fact it may be that mutual confidence among the contracting buyers—that each would live up to his agreement—was a stronger incentive than any belief that the AAA could force compliance through legal processes. (3) Would the agreement be administered uniformly throughout its life? Policies of the Administration were not yet well established and it could not be known that they would remain unchanged during the life of the agreement. Different policies were favored by various groups within the Administration, and these differences were apparent at the time the early tobacco agreements were being considered.

As they were eventually accepted, these agreements were operative only for the duration of the marketing season and hence the possible effects from any change in their administration were minimized. Furthermore, the buyers opposed any provisions which could be modified while the agreement was in force. Their opposition to any grant of discretionary power to an executive committee has been noted. Similarly they opposed any provisions which could be modified by the AAA. In the hearing on the agreement for Burley tobacco they even objected to a provision authorizing the Secretary to cancel the agreement in the event he found it was not serving to effectuate the purposes of the act. They pointed out that such cancellation during the marketing season might place at a disadvantage any company which had fulfilled its obligations early in the season with the expectation that competitors would be required to do likewise. The fact that this objection was voiced only a few days after the Chicago milk agreement had been cancelled is of possible significance.

The extent to which development of the agreements

may have been aided by the closing of the markets and by growers' demonstrations of dissatisfaction cannot be accurately estimated. Undoubtedly there was a powerful local sentiment for immediate governmental action to raise prices. Likewise, there seems to be little doubt that conditions were created favoring a rapid and complete sign-up of growers' production contracts, and this sign-up represented the principal basis upon which the AAA urged buyers to enter the agreements. Whether or not the companies were influenced to accept the agreements because of these demonstrations, however, is more open to question, especially since their final acceptance of the flue-cured agreement was withheld until the markets had been reopened. However, prices did increase immediately upon the reopening of the markets, a fact which may indicate that the market holiday had a significant effect.

The closing of the markets was not without its cost to producers. It was reported that some tenants, and landlords as well, found themselves unable to obtain cash to meet their obligations, and made sales to speculators at distress prices. Some growers also obtained loans from warehousemen on stored tobacco. Many growers had prepared tobacco for sale just prior to the closing of the markets, and under these circumstances the hot weather and high humidity caused some deterioration. There are no data available, however, as to how much loss producers may have suffered as a result of the market holiday.

THE AGREEMENT FOR THE CONNECTICUT VALLEY SHADE-GROWN TYPES

The procedure adopted for Connecticut Valley shade-grown tobacco has been quite different from that used for

the other types. As has been noted, the production of this tobacco is controlled by a small number of individuals and companies, many of whom are also handlers. Virtually all growers in the area are members of the Connecticut Valley Shade Growers Association, Inc., the organization which furnished most of the initiative in developing the plan and establishing it in operation.

Several shade growers participated in the early conferences through which the 1933 cigar-leaf program was evolved. During these conferences, however, relatively little attention was given specifically to the shade types. These types constituted only a very small proportion of total cigar-tobacco production, and prices were favorable in comparison with the filler and binder types for which the situation was judged to be most critical. Furthermore, the peculiar conditions under which shade tobacco is grown and marketed made it difficult to fit it into a general reduction plan for the cigar types as a group.

During the last week in June representatives of packers, dealers, and producers in the Connecticut Valley and Georgia-Florida shade producing districts submitted to the AAA a general plan for adjusting production and raising prices of these types. This plan provided for: Allotment of acreage to individual growers; grading in accordance with uniform standards; and permitting associations of packers and dealers to enter into marketing agreements with the Secretary of Agriculture for the regulation of trade practices. The New England group continued to adhere more or less closely to this first proposal, although the Georgia-Florida area later adopted a modified production control plan. In August the New England group filed a proposed agreement which incorpor-

ated all features of the original plan and in addition provided for the establishment of minimum prices on purchases and sales by members of the association. A public hearing on the proposed agreement was held August 29, 1933. The most prominent objections voiced at this hearing were directed at the sections dealing with trade practices, regulations of brokers, grading of all shade tobacco, and the establishment of minimum prices. After revision by the AAA, the agreement was signed by fourteen companies said to represent more than 95 per cent of the handlers of this tobacco, and was approved by the Secretary on December 9.

As finally accepted this agreement became effective on December 11, 1933, and applies to all Connecticut Valley shade-grown tobacco produced in 1933 and succeeding years until terminated in the manner provided. Under its terms a control committee is established to supervise the operation of the agreement. This committee consists of the executive committee of the Connecticut Valley Shade Growers Association, Inc. and representatives of the contracting handlers who are not members of the association.²³ Duties and powers of the committee are prescribed in some detail and all of its actions are subject to review by the Secretary.

An acreage committee of five is created comprising two members appointed by the control committee, two elected by growers who are not parties to the agreement, and one appointed by the other four. Subject to approval by the Secretary, this committee is charged with the details pertaining to the allotment of acreage to individual growers

²³ Representation of non-members is in proportion to the number of pounds of tobacco they handled during 1932.

out of a total allotment determined by the Secretary. In a similar manner, the control committee allots to each handler the number of acres he is entitled to handle. No party is permitted to handle tobacco in excess of his quota, or to handle the tobacco of any grower who has increased his acreage of a crop or his production of a livestock product (except for home consumption) covered by an adjustment program of the AAA.

Minimum prices at which each grade may be purchased from growers may be established at any time by the Secretary. Subject to his approval the control committee may likewise establish minimum prices at which each grade will be sold by handlers, and may change these prices from time to time.

All shade tobacco covered by the agreement must be graded by a licensed grader in accordance with standard federal grades. No tobacco shall be sold within four weeks after being packed in final form. Among the other provisions for regulation of trade practices under the agreement are those providing for uniformity in sampling, weighing, invoicing, and terms of sale. Brokerage rates are to be approved by and registered with the control committee and must not be paid except to persons who are so registered. Requirements for audited reports by the contracting parties to the control committee are specified in detail.

Fourteen of the fifteen handlers in the industry became parties to the agreement. In order to apply similar conditions to the remaining handler a license for all handlers was issued by the Secretary on January 16 to become effective the following day. In effect this license requires that all handlers observe the terms and conditions of the mar-

keting agreement, whether they are parties to it or not. Each licensee is required to contribute to the expenses of the control committee in proportion to his acreage handled.

There remains the task of evaluating the contribution of these agreements to the economic results of the tobacco adjustment programs. Before such an evaluation can be made, however, it is necessary to understand the new conditions created by the direct control of production.

CHAPTER VI

PLANS FOR CONTROLLING TOBACCO PRODUCTION

Efforts to limit market supplies and reduce carry-overs by curtailing production constitute a principal part of the program through which the AAA has been seeking to attain its objectives with respect to tobacco. The general character of these activities, the predominant importance attached to them, their relation to objectives, and their co-ordination with other features of the program have been discussed in Chapter IV. The general procedure for reducing production through voluntary contracts with growers was first worked out for cigar tobacco, to which it was applied in 1933. The same procedure was incorporated in the plan next adopted for reducing flue-cured production in 1934 and later in the plans applied to other kinds of tobacco.

Although all of the plans for reducing tobacco production employ voluntary contracts with growers, cash payments out of proceeds from processing taxes, and associated devices authorized by the Adjustment Act, they differ considerably in important features. Such differences result from variations in the situations encountered with respect to the different kinds of tobacco and from the addition of certain new features in the later plans. Thus a comparison of the several plans not only shows the adaptations made to peculiar conditions in the different producing areas but also illustrates the progressive development of the technique for controlling tobacco production.

In all of the plans three essential points are covered: Bases are determined for participating producers, from which the amounts of their reductions and the amounts they are permitted to produce are computed; specified reductions from those bases are required; and cash payments to the growers are provided. The provisions covering these steps in the procedures applied to the several kinds of tobacco are discussed in the following sections.

DETERMINATION OF BASE

Considerable flexibility in the determination of bases was provided under the plans in order to make them equitable for producers in different individual situations. For example, producers of cigar-leaf tobacco had made substantial reductions in their acreage during the years immediately preceding inauguration of the AAA programs. These adjustments had not been uniform, either for individual farms within an area or for the different districts. Hence, if 1932 acreage or production had been taken as the basis of the contracts, a producer who had grown less tobacco than usual in that year would have received a smaller base than other growers whose usual acreages were the same but who had not made curtailments in 1932. Under these circumstances he would be restricted to the growing of less tobacco and at the same time would receive a smaller total payment than would other growers.

In order to take care of situations of this character, provision was made in the contracts offered to producers of cigar filler and binder tobacco for the determination of the "base tobacco acreages" from which reductions were to be computed. The contracts provided three options for the determination of these bases, each contracting grower choosing the one to be used in his case. These were:

1. Eighty per cent of the average acreage planted to tobacco on his farm in 1931 and 1932.

2. The entire acreage planted to tobacco on his farm in 1932, provided such acreage did not exceed the corresponding acreage in 1931.

3. The average acreage planted to tobacco on his farm in 1931 and 1932, provided the acreage was greater in 1932 than in 1931.¹

A producer who wished to retain as large an acreage of tobacco as possible, and at the same time receive the largest payment obtainable, would naturally choose the option which would give him the largest base. Thus, if he had reduced his acreage more than 35 per cent from 1931 to 1932, he would elect to have his base determined by the first method. On the other hand, if he had reduced his acreage by less than that amount, the second method would give the largest base; while, if he had increased his acreage in 1932, he would obtain the maximum base by choosing the third method.²

When the cigar-leaf plan was continued for 1934 all producers who had participated in 1933 were given an opportunity to amend their contracts by signing an additional form.³ This form was also made a part of the contract for all growers of cigar filler and binder tobacco who signed in 1934 for the first time. One of the ways in which this rider amended the original agreement was by adding two more choices for the determination of the base as follows:

¹ Reasons for providing these choices were given in *Instructions to Field Workers for Sign-Up Campaigns . . .* (in cigar districts), AAA Form T-5, p. 4.

² It was originally thought that some producers would find it advantageous to choose a small base, especially in those cases where profitable alternative crops had been found with which to replace tobacco. In practice, however, there were very few instances where this occurred.

³ *Rider A to be Attached to Tobacco Acreage Reduction Contract*, AAA Forms T-90 through T-93 (each number refers to a different district).

1. Two-thirds of the tobacco acreage planted in 1931.
2. Fifty per cent of the acreage planted in 1930.

The cigar filler and binder contract placed no limit upon production and sales from land which the grower was permitted to plant to tobacco except that it prohibited attempts to increase yields by adopting "unusual cultural practices" or by applying fertilizer in excess of the amount used in 1932.⁴ Hence, it was unnecessary to determine any base production.

Under the plans applied to tobacco other than cigar leaf, however, each contract signer was allotted the quantity of tobacco which he was permitted to market, as well as the number of acres he could grow. In order to do this it was necessary to determine production bases also, which created a further problem in making the plans equitable for all growers. For example, producers who obtained abnormally low yields during the period from which the base was established might be at a decided disadvantage as compared with others who had unusually high or even average yields in the same season. In order to avoid this difficulty, a still wider range of choice was provided for the determination of bases under contracts applied to tobacco other than cigar leaf. In some instances, even after contract forms were prepared and were being signed, additional choices were authorized by administrative rulings in order to minimize inequities among producers because of peculiar conditions encountered.

Because of the number of options offered in the plans for the different kinds of tobacco, considerable space would be required to review them all at this point. It is sufficient for the purposes of this discussion if the foregoing description of the procedure with respect to cigar filler and binder

⁴ Sec. 1 (7) of contract.

tobacco has made clear the nature of the problem of determining bases and has illustrated the character of the choices offered to producers. For the reader who may be interested in further details, the options offered under each plan are given in outline form in Appendix D, page 282.

REDUCTIONS REQUIRED

While each of the plans for curtailing tobacco production required participating growers to make certain reductions from their bases, the manner in which this restriction was imposed was not uniform in all the contracts. The amount of such curtailment also varied between the different kinds of tobacco, depending upon the Administration's estimate as to what would be appropriate in the given situation with respect to prices and supplies on hand, and upon the amount of money available for distribution as benefit payments. In some cases producers were allowed to choose between two or more rates of reduction, but with corresponding differences in their cash payments. In this manner still further flexibility was introduced into the plans, in addition to that already provided by the range of options for determination of bases. Such flexibility was considered to be desirable in order that the plans might be adapted to the varied conditions encountered on different farms.

The cigar filler and binder contracts required each signer in 1933 to take out or keep out of production, 50 per cent of his base acreage. This land was designated as "contracted acreage" and its use was limited to the purposes specified in the contract. The remaining 50 per cent of the producer's base represented the number of acres of tobacco he was allowed to grow. These contracts also required the signer to maintain the same reduction in 1934 and 1935 if requested to do so by the Secretary, and in any

case not to increase his acreage above 50 per cent of the base by more than the amount authorized.

The privilege of extending the contracts through 1934 was exercised in the manner provided, and the same rate of reduction was continued. At the same time, however, each grower who had complied with the terms of his contract in 1933 was given the opportunity to amend that contract for 1934 by signing "Rider A," and this form was made a part of the contract for new signers. (See footnote 3, page 134.) Along with other provisions of this rider, Section I(1) gave the contracting grower an opportunity to choose between three rates of reduction—33 $\frac{1}{3}$ per cent, 50 per cent, and 100 per cent—with a corresponding adjustment in his cash payments.

In the case of Georgia-Florida shade tobacco no acreage reduction was required in 1933, but growers were required to leave unharvested an average of four stalk leaves per plant and to limit their marketings to not more than 960 pounds per acre. Under the revised contract used in this area in 1934, a "tobacco acreage allotment" was assigned to each grower and he was required not to plant more than his allotment.⁵ This allotment was determined as the full amount of the base unless the base exceeded five acres, in which case it was to be two-thirds of the base, but not less than five acres. Each producer was required to notify the regional office by March 1 of the exact acreage he intended to plant in 1934. If this acreage was less than his allotment, the difference was then to be added pro rata to the allotments for other farms covered by contracts.

The revised 1934 contract for this district, like the

⁵ The contract used in 1933 provided for continuation in 1934 at the option of the Secretary. However, the procedure prescribed in the event of such continuation was incomplete and a new contract was used in 1934.

original, provided a limitation upon the number of pounds to be sold by the farms under contract. The manner in which this was applied, so as to minimize the penalty upon efficient producers who secure high yields, constitutes one of the most ingenious features to be found in any production control plan. Each contracting grower was assigned an "initial production allotment" in pounds, defined as 900 times his acreage allotment. If the total quantity harvested on all farms in 1934 did not exceed the total of these allotments, then each producer could sell all that he produced regardless of the amount by which it might exceed his individual production allotment. On the other hand, if the total crop exceeded total allotments, each producer whose individual crop exceeded his allotment was required to withhold from market a portion of that excess and dispose of it as directed by the Secretary. The proportion of the excess to be withheld was to be uniform for all producers having such an excess and was to be calculated so that total marketings would not exceed the total of all allotments.⁶

Still a different method was followed with respect to Puerto Rican tobacco. Under the contracts used there in the 1933-34 crop season, growers agreed to harvest only one crop from the acreage planted, whereas they usually harvest two and sometimes three crops. In 1934-35 each contracting grower was given the option of reducing his acreage 25 per cent from his base and harvesting only one crop, or reducing acreage 40 per cent and harvesting two crops.

An additional feature, which represented further evolu-

⁶It is apparent that a method of this kind could not be used for any product involving a large number of contracts, since the computation of these excesses, the determination of withholdings to be required, and other administrative procedure would be impossible in the limited time between harvesting and marketing.

tion of the technique for controlling production through contracts with growers, was included in the plan for flue-cured tobacco and in the other plans subsequently developed. This was the direct limitation of the number of pounds to be marketed by each producer under contract. As in the preceding plans, the contracts used in connection with these kinds of tobacco required each grower to keep out of production a specified percentage of the base acreage. Such land was rented to the Secretary and designated as "rented acres." The remaining portion of the base acreage was specifically designated as the producer's "tobacco acreage allotment." This was the acreage the signer was authorized to plant to tobacco. In order to limit the quantity produced upon this acreage, however, each grower was assigned a "tobacco production allotment," which represented the number of pounds of tobacco he was entitled to market. This was computed by taking the same percentage of the base production determined for that particular farm as the acreage allotment was of base acreage.

A uniform percentage rate of reduction was required under each of the plans excepting that applied to Burley. These were:

| | |
|----------------------|----|
| Flue-cured | 30 |
| Fire-cured | 25 |
| Dark air-cured | 30 |
| Maryland | 25 |

Burley producers were given the opportunity of choosing between two rates of reduction in 1934: 50 per cent and 33 1/3 per cent respectively, but with appropriate differences in benefit payments.

It will be seen, therefore, that each grower was required not to plant more than his acreage allotment. Likewise the

quantity he could market was restricted, and any tobacco he produced in excess of his production allotment was to be disposed of in the manner prescribed by the Secretary. However, the contracts provided that the initial allotments could be adjusted at the discretion of the Secretary, depending upon the prospective yield and demand conditions for the crop. Although no changes were made in the allotments, administrative rulings were issued during the season which relaxed the restrictions somewhat for flue-cured, Burley, dark air-cured, and fire-cured.⁷

One of these rulings permitted a grower of flue-cured tobacco to plant more than his acreage allotment, provided he did not exceed 80 per cent of his base acreage and provided he either destroyed such excess or accepted a specified reduction in the amount of his payments. It also allowed the grower to market more tobacco than his allotted production, provided he did not exceed 80 per cent of his base production and accepted corresponding adjustment in payments. The other ruling allowed producers of Burley to market up to 10 per cent above their production allotment and producers of dark air-cured and fire-cured to sell not more than 15 per cent in excess of their allotments. In order to take advantage of this ruling, producers were also required to accept smaller benefit payments. In no case were producers of these latter types permitted to grow more than their allotted acreage, as was allowed in the case of flue-cured tobacco.

A special comment with respect to the Maryland plan is necessary at this point. Although a 25 per cent reduction was required on the farms under contract, it was never contemplated by the AAA that any large number of growers would be permitted to sign up to make that reduction.

⁷ AAA Administrative Ruling No. 23, applying to flue-cured tobacco, and No. 36, applying to Burley, fire-cured, and dark air-cured.

Stocks of this type were relatively large (see chart on page 70), and reports showed that a disproportionate part of the accumulated stocks were of low grade. Although prices for the higher grades were at satisfactory levels, it was reported that only limited quantities of the poorer grades were being sold, and that they were moving at low prices. Also, the available information indicated that certain farms and certain producers consistently produced tobacco of poor quality.

The plan developed for this situation was designed to secure a moderate curtailment of production by eliminating some of the poorest quality. This was to be accomplished by offering contracts comparable to those used for the other kinds of tobacco but involving rates of payment which would be attractive only to producers who ordinarily produced relatively poor quality tobacco. In this manner a substantial reduction in the production of low grades would be secured, but the supply of higher grades would be little affected. A definite limit was placed upon the number of growers to be included in the plan by (1) drawing up the contracts so that total payments required could be estimated currently during the sign-up, and (2) closing the sign-up when it was estimated that the total commitments equaled the revenue available from the processing tax on this tobacco. Thus in reality only limited reduction in the total production of Maryland tobacco was sought.

In each contract for the different kinds of tobacco it was stipulated that the Secretary or his authorized agent should have the privilege of requiring the producer to maintain a reduction in 1935, but with the provision that such required reduction should not exceed a specified percentage of the base.

This discussion will not be extended to cover details of each tobacco plan. The provisions relating to reductions required and to the assignment of allotments to growers, as they appear in all the contracts used thus far, are outlined in Appendix D, page 286.

PAYMENTS PROVIDED

In return for reducing their production, all growers who signed contracts were to receive cash payments out of the proceeds from processing taxes. Again, however, the terms of the several contracts were by no means uniform as to the manner of determining the amounts of payments. However, two principles were followed in making provision for the payments under all of the plans excepting that for the Georgia-Florida area. The first of these was that growers who obtained high yields of good quality tobacco should be paid at a higher rate per acre of reduction from their bases than should others who secured lower yields or poorer quality. Thus part of the total payment received by an individual producer was determined on the basis of the market value of the tobacco he produced either while the contract was in effect or in the preceding year. At the same time, part of each producer's payment was determined at a specified rate per acre of land "contracted" or "rented to the Secretary," regardless of the value of the tobacco ordinarily produced on that land. The second principle followed was that a minimum should be provided for that portion of the payment based upon the value of tobacco produced, in order to provide a measure of insurance against crop failure. This was accomplished through specifying minimum rates or through providing "deficiency payments" at specified amounts per pound of

tobacco by which the grower's sales fell short of his allotment, or in some cases through a combination of the two.

Provision was made for two payments to growers of cigar filler and binder tobacco who contracted to reduce their acreage in 1933. The contract stipulated that the first payment would be made to all growers whose contracts were accepted by the AAA at a specified rate per acre of required reduction. This rate was uniform for all farms in the same producing district and was calculated to be approximately 20 per cent of the "fair exchange value" of the tobacco produced on the average on an acre in that district. Since the value of tobacco usually produced on an acre differs materially among districts, the designation of a separate rate of payment for each district was necessary. This accounts for the use of separate contract forms.

The amount of the second payment provided under the cigar filler and binder contracts was to be 40 per cent of the average market value per acre of tobacco harvested by the producer in 1933. This payment would vary from farm to farm and would depend upon the yield and quality of tobacco grown by the individual contract signer as well as upon the level of prices in 1933. In no event, however, was the second payment to be less than a minimum amount per acre specified for each district. These minima were determined so as to be approximately 60 per cent of the first payment. The contract stipulated that this payment would be made within 60 days after the presentation of proof regarding the average market value of tobacco harvested and after proper certification that all terms of the agreement had been fulfilled. As specified in the contracts, the per acre rates for first payments and minimum rates for second payments were:

| District | First | Second (Minimum) |
|-----------------------------|-------|---------------------|
| New England | \$47 | \$28 |
| Pennsylvania-New York | 24 | 15 |
| Miami Valley | 15 | 9 |
| Wisconsin | 20 | 12 |

In the event the Secretary exercised his privilege of requiring the contracting grower to limit his acreage in 1934 and 1935, the initial contract provided for two similar payments in each of those years. The amount of these payments would be determined by the Secretary, but the contract required that the first should not be less than a specified amount and that the second should not be less than 30 per cent of the average market value per acre of tobacco harvested on that farm in the corresponding year, with a guaranteed minimum provided as in the case of 1933. Although these were the minimum payments guaranteed by the contracts, it was contemplated that higher rates might be paid, either in the event that growers should be required not to harvest any crops grown on land taken out of production, or in the event that such payments proved to be necessary in order to insure that growers who made reductions under the contracts would receive more money net from their farms than they would have by staying out of the program. Nevertheless, it was thought to be most likely that the rates of payment would be lower in 1934 and 1935 than in 1933, probably about 25 per cent lower. This was because the reductions for those years would be specified prior to planting time, and producers' costs would be smaller than in 1933 when some tobacco had to be plowed up after it was planted.

When the plan was continued for 1934 it was decided not to reduce the payments, partly because it was hoped to

encourage additional growers to participate. In the formal notice by which the Secretary exercised his privilege of continuing the contracts then in effect, the provisions for both the first and second payments were announced as identical with those of 1933, excepting that the specified minimum rates for the second were increased somewhat. The situation with respect to payments was further complicated in 1934, however, by the introduction of Rider A. It will be recalled that growers who accepted this rider as an amendment to their contracts and all producers who signed contracts for the first time in 1934 were permitted to choose between three rates of reduction from their bases. Regardless of which reduction was chosen, the rate of the first payment per acre of the contracted acreage remained the same, but the percentage rate of the second payment differed between options. If the producer elected to reduce his acreage by one-third, then the rate of the second payment was fixed at 35 per cent of his average per acre value of tobacco harvested, instead of the 40 per cent which applied if the previous year's reduction was maintained. On the other hand, if he selected the option of growing no tobacco at all, this payment was established according to a schedule of flat rates per acre. At the same time, Rider A provided that contracting growers who had complied with all of the terms of their contracts in 1933 could receive an additional payment. Such growers who signed Rider A, and who had divided their 1933 benefit payments with their tenants in the manner required by that rider, became eligible for an additional or "supplemental" first payment which was not authorized for any new signers.

Growers of shade tobacco in the Georgia-Florida district likewise received two payments in each year (1933 and 1934). The rate established for each of these individual

payments was \$30 per acre of tobacco grown under the terms of the contracts.

Under the procedure applied to Puerto Rican tobacco, a single payment was made to growers who complied with their contracts covering the 1933-34 crops. This payment equaled \$10 per cuerda (1.01 acre) in the case of tobacco harvested by priming and \$15 for tobacco harvested by stalk cutting. For the 1934-35 season, however, two payments were made. These payments were substantially similar in character to those which were made to domestic producers of filler and binder tobacco, although of course the rates were somewhat different.

The payments involved under the procedures applied to cigar tobacco have been discussed in some detail because the plan for the filler and binder types was the first one worked out and because they illustrate the general principles followed for all types. Comparison of the different cigar-leaf plans also illustrates the manner in which payments were adapted to different requirements with respect to production reduction.

When plans were developed for application to the other types of tobacco, the same general principle of making part of the payment to each producer at a flat rate per acre of required reduction and part at a variable rate depending upon the yield and quality of tobacco produced on the particular farm was followed as in the case of the cigar filler and binder types. In these succeeding plans, however, the schedules of payments were quite different. These differences may be shown by indicating very briefly the character of payments provided, thus bringing out the adaptations made to the different situations encountered and the refinements in the technique which were added in the later plans, but without elaborating their details.

Growers of flue-cured tobacco received four types of payments in 1934 under the terms of the contract used in connection with that plan, although one of these was made on tobacco sold in 1933. The first was at a specified rate (\$17.50) per acre of required reduction ("rented acreage") and was designated as a "rental payment." This payment is comparable to the first payment under the cigar filler and binder plan. The next was called the "adjustment payment" and was based upon the market value of the tobacco grown on the individual farm in 1934, in this respect being similar to the "second payment" provided under the plan for cigar filler and binder tobacco. An additional feature was added, however, in that the percentage used in determining this payment was increased for producers whose base acreage was less than four acres. Thus, the adjustment payment made to small growers was greater, relative to the value of their crop, than it was for farms having a base acreage of four acres or more. This, it was thought, would offset the greater disadvantages of curtailing acreage on such small farms.⁸

The third type of payment was provided as a part of the adjustment payment and was made only in the event that 1934 production on the particular farm was less than the initial production allotment. In such an event the producer would receive 2 cents per pound for each pound by which his 1934 crop fell short of his allotment. This type of payment has come to be known as a "deficiency payment."

The fourth type of payment was made to growers who had sold all or part of their 1933 crop during the early part

⁸ An illustration of this type of disadvantage is provided by the problem of utilizing curing barns. No more firing is required when a barn is filled to capacity than when it is half full, and reduction below four acres would ordinarily result in a crop too small to use one barn to capacity.

of the marketing season and hence had not benefited from the price increases which occurred subsequent to the time when the plan was undertaken. Such growers who signed contracts for 1934 received a "price equalizing payment." This payment was made at the rate of 20 per cent of the net proceeds from tobacco sold prior to the closing of the markets; and 10 per cent of the proceeds from sales between September 25, when the markets reopened, and the date when it was judged that prices were reflecting nearly the full effects of the program. Although they were made only to growers who contracted to curtail acreage and production in 1934 and hence were part of the payment in return for that reduction, these payments were really made for the purpose of equalizing growers' returns on the 1933 crop. In the case of no other kind of tobacco was any substantial part of the 1933 crop sold before the 1934 production plan was inaugurated. Therefore, price equalizing payments were employed only in connection with the plan for flue-cured tobacco and there only in the one year.

The plans applied to Burley, fire-cured, and dark air-cured tobaccos each provided for four types of cash payments to growers. The character of these payments was the same for each kind of tobacco, although the rates varied. The payments provided were as follows: "Rental payments" at flat rates per acre of required reduction; "first adjustment payments" based upon the value of tobacco produced on each particular farm in 1933; "second adjustment payments" based upon comparable values for 1934; and, finally, "deficiency payments" at specified rates per pound for each pound by which the individual grower's actual production fell short of the amount he was entitled to produce under the terms of his contract. The first adjustment

payment was determined from the value of tobacco produced in 1933, since it was deemed to be desirable to make this payment early in the season before the value of the 1934 crop would be known but still to have it based upon the value of product for the particular farm. The deficiency payments were comparable to those made under the plan for flue-cured tobacco.

For the reader who is interested, details regarding the payments provided for the different kinds of tobacco, are given in Appendix D, page 291, together with the modifications made by administrative rulings or by amendments to the contracts.

SUPPLEMENTARY PROVISIONS OF THE CONTRACTS

Besides the central provisions covering the determination of bases, specification of reductions, and stipulation of payments to producers, all of the contracts contained various supplementary provisions. While the wording was not the same in all cases, the content of these provisions is substantially similar for all the plans, and they may be summarized collectively.

Each contract required that all land taken out, or kept out, of tobacco production should be tillable and suitable for tobacco and should not include waste, gullied, or eroded land. Furthermore, the use of such acreage was limited by the provisions of the contracts. In all of the plans the original requirement has been that one-half of this acreage on each farm be kept idle or planted only to soil improvement crops. Use of the remainder is restricted to the growing of food crops for home consumption or for growing feed crops for the production of livestock or livestock products to be consumed on the farm.⁹

⁹ By successive administrative rulings permitting the use of contracted or rented acreage in drought areas for feed-crop production and relaxing the re-

In order to prevent any expansion of other farm enterprises as a result of the curtailment in tobacco production, the contracts typically provide that the total acreage planted to crops on the particular farm, plus the acreage rented to the Secretary, must not exceed the total crop acreage in 1932 or 1933. The total acreage planted to other crops designated as basic in the Adjustment Act is likewise limited in the same manner, except as it may be modified by other contracts covering those crops. A similar restriction is placed upon the number of any kind of livestock designated as basic under the act.

While contracts for tobacco other than cigar leaf allotted to each producer the number of pounds he could market as well as the acreage he could plant to tobacco, it was recognized that high yields might result in a production greater than this production allotment, even though plantings were kept within the limits required. In such cases the contracts specifically required that the excess over the allotment should be disposed of as the Secretary might direct. It has been noted that by Administrative Ruling No. 23 and No. 36 growers were permitted to market a portion of such excesses for all tobaccos excepting Maryland.

Other provisions of the contracts prohibit growers from selling tobacco plants to, or permitting the use of their curing barns by, others who are not subject to similar reduction contracts. Likewise each contracting producer is required to cover any other farm owned or operated by him with a similar contract if tobacco is grown.¹⁰

striction on the production of livestock, these provisions were made largely inoperative in 1934.

¹⁰ Two minor exceptions to this provision are permitted by Administrative Ruling No. 21. These apply in situations (1) where farms are leased for 1934 only, and (2) where the farmer has full ownership of one farm and part interest in another.

For the protection of tenants the contracts prohibit producers from reducing the number of their tenants or sharecroppers below the number they had in 1933. The distribution of adjustment payments (including deficiency and price equalizing payments, but not rental payments) among tenants and croppers is also required.¹¹

Each contract was so drawn that when filled out and signed by the grower it constituted an offer on his part to enter into a contract under the terms prescribed. This offer was checked for accuracy and, if necessary, adjustments were made in the data submitted by the grower. Bases, allotments, and acreage to be kept out of production were computed from these data and, if adjustments were made, the contract was returned to the producer for his approval of such corrections. Following that approval, acceptance of the offer by the Secretary of Agriculture caused it to become a contract between the producer and the Secretary.

As a result of pressure to get a program for flue-cured tobacco under way and to open the markets as quickly as possible, it was decided to sign up the growers on a preliminary agreement which pledged them to participate in the plan for reducing production when its details were worked out. This sign-up furnished the basis for negotiation of the marketing agreement, without waiting until final contract forms could be prepared.¹² Aside from its

¹¹ No provisions relating to landlord-tenant relationships were included in the initial contracts for cigar filler and binder tobacco. Such a requirement was included in all the other plans, however, and was added to the cigar plan in 1934 by the provisions of Rider A. One purpose of the supplemental first payment provided by that rider was to influence producers to accept this requirement.

¹² The essential language of this agreement was as follows: "The undersigned will, when it is presented to him by or on behalf of the Secretary of Agriculture, sign a formal agreement with the Secretary of Agriculture by which the undersigned will agree to reduce his production on his farm of flue-cured tobacco for the years 1934 and 1935 in such amount as the Secretary, in his

effect upon the manner in which the sign-up was conducted, this use of a preliminary agreement made no significant alteration in the general procedure.

discretion, may designate for each such year, provided that in no event shall the required reduction during any year be more than 30 per cent of the average production of his farm during the years 1931, 1932, and 1933; such reduction shall be based on acreage and/or poundage; and the consideration for such reduction shall be the payment to the undersigned by the Secretary of rental and/or benefit payments in such amount, and at such times as the Secretary may determine."

CHAPTER VII

OPERATION OF THE PRODUCTION PLANS

Once the detailed features of the several production plans were worked out, there remained in each case the task of securing growers' co-operation and working out the numerous administrative details. Actually this problem differed for the different kinds of tobacco as well as for the different areas, so that some variations in administrative procedure resulted. For the most part, however, these variations were of minor rather than major importance. While this phase of the experience contributed numerous troublesome problems, those problems have not been insurmountable and in the aggregate have not greatly limited the success of the program as a whole. Furthermore, they have not differed greatly from the difficulties encountered by the AAA in connection with its other production programs, such as those for cotton and wheat. For these reasons a detailed discussion of the procedures by which tobacco growers were signed up and the manner in which the operation of the respective plans was supervised is unnecessary.¹ Instead it will suffice for the purposes of this analysis to indicate the general procedures followed, the major problems which arose, and the manner in which they were met.

SECURING THE CO-OPERATION OF GROWERS

In order to establish the different tobacco plans in operation it was necessary to inform growers regarding the con-

¹ The reader who is especially interested in this matter is referred to other publications of The Brookings Institution pertaining to this same general study. (See list of publications in final pages of this book.)

templated procedure and to enlist their co-operation by signing them up on the respective contracts. Typically, this phase of the work involved a campaign to sign up as high a proportion of the growers of the particular kind of tobacco as was possible.² This represented the stage in the development of each plan at which the scene of operations shifted from Washington to the producing districts.

The first step involved in securing growers' co-operation was the dissemination of information regarding the projected plan and its expected effects. Ordinarily this included: The announcement of details regarding the plan; publication of news articles throughout the areas; radio talks by members of the AAA; district, county, and local meetings; distribution of leaflets, forms, and other explanatory material; and in some cases, a canvass of individual growers by local committeemen.

When the first plan for the filler and binder types of cigar tobacco was formulated, a general schedule for the sign-up campaign was worked out which was followed fairly closely, although minor modifications were made in the different districts. In essence the procedure followed in each district was: (1) A representative of the Tobacco Section was assigned to each district and a committee was selected to work with him.³ (2) The district agent called together county agents⁴ and this committee for a meeting

²The plans for Maryland tobacco constituted an exception to this statement (see pp. 140-41).

³For the most part members of these committees were nominated by those who represented the different areas in the conferences where the plans were formulated. They were appointed by the AAA, usually after some inquiry regarding their status in the area. The so-called representatives of the Tobacco Section were not necessarily regular AAA employees. In some instances a member of the staff of a state agricultural college was employed as this representative during the period of the sign-up.

⁴Many counties had not previously employed county agents. In those in-

to tell them about the plan and with their aid selected growers to act as local advisors. (3) Each county agent called together his advisors, explained the plan to them, and appointed three to five of them as a county committee. In some counties the agents appointed these committeemen only after they had been selected by an informal vote of the growers. (4) Local meetings were held where the plan was explained to growers by county agents and members of the regional and county committees. (5) Local offices were established where county agents or other extension workers and county or local committeemen served as field assistants to help growers fill out their contracts and to receive the signed forms. (6) In some instances committeemen canvassed growers who did not come to the local offices to sign up.

The campaigns to sign up growers in the Southern tobacco areas were conducted under different circumstances from those which were encountered in the cigar districts. The conditions which had resulted in the closing of the flue-cured markets encouraged a rapid sign-up in that area. Before the details of the plan were worked out, meetings had been held and plans made for conducting the sign-up. When the forms were ready, it became a matter of public concern throughout the region that producers sign as quickly as possible. In South Carolina the Governor declared a two-day business holiday so that all citizens would be released from their regular duties in order to assist in signing up the tobacco growers.

stances emergency agents were employed by the AAA for the purpose of carrying on the educational sign-up and compliance work connected with AAA programs. Most of these emergency agents in tobacco producing counties have since been made county agents under the regular Extension organization. A substantial part of the expense in employing these agents has been met by the Extension Service out of funds made available for that purpose by the AAA.

While the pressure was not so great in the other regions where the succeeding plans were offered, nevertheless each was looked upon as furnishing the one opportunity for higher prices on the 1933 crop. Once the flue-cured markets were reopened at a much higher level of prices following completion of the sign-up and negotiation of the marketing agreement, farm leaders in other areas became convinced that a similar program would benefit their growers. Consequently there was no lack of local assistance in enrolling producers in these areas.

So far as the AAA was concerned the plans for reducing production of the various tobaccos appear to have been offered purely on the basis of their financial advantage to the individual grower. It was pointed out that curtailment of production would tend to reduce the excessive stocks which were depressing prices and would result in benefit to all growers. But individuals were not asked to participate merely on the ground that reduction would benefit the industry. Instead they were told quite frankly that the program would be administered so as to insure a larger net return for producers who signed contracts than they would receive if they did not participate. This attitude is admirably summed up in the "statement of policy" which was printed and distributed with respect to several of the plans:

It is the policy of the Agricultural Adjustment Administration to offer cigar-tobacco growers a program that will enable those who accept it to receive more net from their farms than they would receive if they did not accept it. That is the policy this year and will continue to be the policy in 1934 and 1935, if it appears advisable to restrict acreage during those years. The powers granted under the Agricultural Adjustment Act will be used effectively in carrying out this policy.

Thus the opportunity was to be offered to each grower as

a business proposition. It was for him to determine whether or not the various benefits he would receive, including the cash payments, would offset the disadvantages. Still, when it became a matter of community concern that growers sign up promptly so that the markets could be reopened under the terms of a marketing agreement, as it did in the flue-cured areas, it is probable that more pressure was used in influencing growers to participate. To whatever extent this may have been true, however, it appears that the pressure developed locally and was not sponsored by the AAA.

One other factor appears to have had a significant influence upon the sign-up obtained in Southern tobacco producing areas. This was the appearance of the move to tax tobacco not produced under contract, which resulted in the passage of the Kerr-Smith Act. The drive for this legislation began while campaigns were under way in some areas, and the prospect for its ultimate enactment doubtless caused some producers to sign who would not otherwise have participated, or to accept adjustments in their contracts. Furthermore, Section 14 of this act directed the Secretary "not to refuse on the ground of lateness any offer by a tobacco producer to become a contracting producer, if such offer is filed with the Secretary of Agriculture within 30 days after the date of the enactment of this act." Under these circumstances sign-ups were reopened in all areas affected and a number of additional contracts were received after the Kerr-Smith Act was approved. This number was not especially large, however, and it appears that most producers participated for reasons other than the stimulus afforded by the projected tax.

The extent to which growers participated in the plans may be summarized briefly for the different kinds of to-

bacco. Almost 18,000 producers of cigar filler and binder tobacco in the continental United States participated in the plan offered them in 1933. This is estimated to have been roughly three-fourths of those who were eligible. When account is taken of the fact that this was the first tobacco plan offered, that planting was well under way when the campaign was conducted, and that some growers had at least prepared their land if not actually planted the tobacco for a larger acreage than they could grow if they signed contracts, this appears to have been a reasonably successful campaign.

CONTRACTS IN PRINCIPAL CIGAR FILLER AND BINDER DISTRICTS,
1933 AND 1934^a

| District | 1933 | Amended by Rider A in 1934 | New Contracts in 1934 | Total in 1934 |
|-------------------------------|--------|----------------------------------|-----------------------------|------------------|
| New England..... | 1,345 | 1,074 | 1,914 | 3,259 |
| Pennsylvania-New York..... | 3,976 | 3,493 | 1,095 | 5,071 |
| Miami Valley..... | 4,764 | 2,966 | 301 | 5,065 |
| Wisconsin..... | 7,583 | 6,499 | 1,649 | 9,232 |
| Total..... | 17,668 | 14,032 | 4,959 | 22,627 |

^a Data compiled by the Tobacco Section, AAA. Does not include contracts in Georgia-Florida or Puerto Rico.

It has been noted that, when the cigar program was continued in 1934, producers who had participated in 1933 were offered additional payments if they amended their contracts by signing Rider A. Just over 14,000 growers availed themselves of this privilege, the others continuing their former contracts without amendment. At the same time practically 5,000 growers signed up who had not participated in 1933. As a result, it is estimated that at least 90 per cent of the eligible farms in the cigar areas were

under contract in 1934. The table on page 158 shows the number of contracts in effect in 1933, the number of these which were amended by Rider A in 1934, the new contracts obtained in 1934, and the total number of contracts in effect in 1934 for the four filler and binder areas.

The number of contracts in effect does not of course measure at all accurately the extent to which tobacco production

TOBACCO ACREAGE UNDER CONTRACT IN 1934 ^a

| Kind | Number of Contracts in Effect | Aggregate Base Acreage | |
|------------------------------|-------------------------------|------------------------|--|
| | | Number of Acres | Percentage of Av. Acreage of All Growers 1931-33 |
| Flue-cured..... | 111, 925 | 971, 453 | 97. 6 |
| Burley..... | 109, 424 | 430, 290 | 89. 8 |
| Dark air-cured..... | 10, 078 | 44, 524 | 76. 0 |
| Fire-cured..... | 23, 749 | 158, 445 | 83. 6 |
| Maryland..... | 702 | 7, 139 | 20. 0 |
| Cigar filler and binder..... | 22, 663 | 132, 762 | 90. 7 ^b |
| Total..... | 278, 541 | 1, 744, 613 | 91. 6 |

^a Data from the Tobacco Section, AAA.

^b Based on 1931-32 two-year average cigar-leaf acreage.

has been brought under the plans, because of the variation in the size of farms operated by different producers. A more satisfactory basis for comparing the sign-ups secured for the principal kinds of tobacco is the proportion of acreage customarily engaged in tobacco production which is under contract. For this reason the extent of participation in the separate plans is summarized in the table on this page by showing the numbers of contracts in effect in 1934, the total base acreages under these contracts, and the percentages which these acreages represent of the average acreages grown in the three years 1931 to 1933.

As would be expected from the conditions under which the plan was inaugurated, the highest percentage sign-up was obtained in the flue-cured area. Aside from cigar leaf, which has been discussed, the next largest percentage was secured under the Burley plan. It will be recalled that Burley growers were enrolled under conditions somewhat similar to those in the flue-cured area, although grower unrest attributable to the impending low prices was not so extreme. None the less, these conditions favored a rapid and complete sign-up of growers.

Somewhat smaller percentage sign-ups were obtained in the dark air-cured and fire-cured districts. Even in these cases, however, the factors which have been mentioned appear to have added a considerable stimulus for growers to participate in the plans.

With respect to the Maryland plan it will be remembered that only a limited sign-up was sought, since the plan was intended to reduce production on only a limited number of farms which were believed to produce tobacco of relatively poor quality.

ADMINISTRATIVE ORGANIZATION

Programs and policies for administering the Agricultural Adjustment Act with respect to tobacco, and for carrying out the provisions of the Kerr-Smith Act, are formulated by the Tobacco Section. In this work the Section is responsible directly to the central administrative offices of the AAA, which in turn receive their authority from the Secretary of Agriculture. When plans are being formulated, the Section consults with regional advisory committees selected from among the growers of the types of tobacco to be affected. Originally, these committees were

selected upon the basis of recommendations by growers and state extension services.

During the periods while initial plans were being formulated, representative research and extension workers from the states in which the principal producing areas are located were invited to Washington to consult with the Tobacco Section and the respective advisory committees. Frequently some of these state workers remained in Washington for several weeks to help work out details after a general plan had been decided upon. In this manner they advised and assisted the staff of the Tobacco Section while plans were being worked out.

Administration of the tobacco program in the field is supervised by the Tobacco Section but is handled almost entirely through the state extension services. In most cases an office has been established to head up the work in the state, with a "state tobacco agent" in charge. Ordinarily this agent is the extension director or some member of the extension staff designated by him. Within each county the program is administered through the county agent's office. Under this set-up, both the state agents and county agents are considered to be direct representatives of the AAA.

A system of grower committees supplements the Extension Service in administering the several tobacco plans, especially within the counties. A state committee ordinarily is selected by each state agent and serves in an advisory capacity to the state office in much the same manner that the regional committees already referred to advise the Tobacco Section. County committees likewise advise the county offices, but to a degree they also share the responsibility for administering the plans in their respective

counties. However, there has been some variation in the relative responsibility assumed by the county agents on the one hand and the county committees on the other.⁵ Also, these committees have not been chosen in a uniform manner in all counties. In general, county committees in the cigar filler and binder districts and in the flue-cured tobacco producing region were appointed by the respective county agents. In some instances these appointments were made upon the recommendation of local committeemen selected by the growers themselves.

Under the succeeding plans adopted for Burley, dark air-cured, fire-cured, and Maryland tobaccos, an attempt has been made to provide for local administration of an even more democratic character, by establishing county production control associations similar to those employed under several other commodity programs of the AAA.⁶ These associations for the most part work with the county agent through county control committees elected by the directors of the association from their own number. These control committees take the place of the appointed committees provided under the plans for cigar and flue-cured tobaccos.

Each tobacco production control association has as its

⁵ To some extent the degree of responsibility assigned to these committees has depended upon the policies of the extension services in the several states; to some extent upon the attitudes of the respective committees themselves. In some counties the committees have been largely responsible for the program, either because of their own initiative or because the county agents have encouraged them to administer the work so far as possible. In other cases the committees have operated virtually under the direction of the county agents. On the whole, it appears that grower committees, whether selected by the administrators of the program or elected by the growers themselves, have been responsible for the supervision of the several tobacco plans to a lesser degree than in the case of any other commodity program of the AAA.

⁶ Production control associations are employed in the programs for corn and hogs, wheat, and cotton.

membership those growers within the county who signed contracts. The associations are not incorporated, and operate only under the supervision and direction of the Tobacco Section, with the approval of and in behalf of the Secretary of Agriculture. As set forth in their articles of association, they are established "to co-operate with the Secretary of Agriculture in making effective the provisions of the Agricultural Adjustment Act . . . in their application to tobacco *and for no other* purpose, except as may be prescribed by the Secretary of Agriculture."⁷ The character of this function will be clear from the discussion in succeeding sections covering the various phases of administering the plans.

A distinctive feature of the plans employing control associations is that all local administrative expenses are incurred by the association and are deducted from the cash payments made to growers. Each contract provides that a pro rata share of these expenses for the county is to be deducted from one of the later payments in each year and paid to the treasurer of the association. Thus growers in effect pay all expenses incurred by the association out of the money they receive as benefit payments and they are naturally interested in having these expenses kept at a minimum. This arrangement is in direct contrast to that under the plans for the cigar and flue-cured areas, where all local administrative expenses are paid directly by the AAA. These expenditures are made out of funds which would otherwise be available for benefit payments, however, so that in practice it makes little difference to the grower which method is used.

⁷ The articles of association for county tobacco production control associations and the administrative rulings governing their organization and operation are reproduced in Appendix E, pp. 301-13.

CHECKING BASE ACREAGE AND PRODUCTION

It has been noted that under the plans used the reduction to be made, the size of allotments, and the amounts of the cash payments were calculated from a base determined in the contract. Although a variety of optional methods was provided for the determination of these bases, each involved the use of data regarding acreage or production on the individual farm in some earlier period. Accordingly, each producer was required to supply such data at the time he signed. Since it was obviously to the advantage of any individual producer to overstate these figures in order to secure a larger base, it was necessary to check the data submitted with all contracts and, if necessary, adjust the growers' figures so as to eliminate overstatement. As with several other AAA commodity programs, this proved to be one of the very troublesome problems encountered.

A large part of the work involved in eliminating inaccuracies in the contracts was done by county and local committees under all of the tobacco plans. Thus under the plan applied to cigar filler and binder tobacco in 1933, the county committees reviewed all the contracts immediately after the sign-up was effected to determine whether or not they could be certified as eligible for acceptance by the AAA. This review included an examination of the supporting evidence offered by growers to prove the accuracy of their statements relative to acreage in the base years, consideration of reliability of these figures in the light of the committee's knowledge of conditions in the locality, and the actual measurement of a large number of fields by field assistants in order to check the statements of growers. In all of this work the local advisors were called on to aid the committee because of their greater knowledge of conditions in their particular locality. After certifications by

the county committees, contracts were forwarded to the regional office and thence to the Tobacco Section.

A more difficult problem was presented in the case of the plans for the tobaccos other than cigar leaf, because in those cases it was necessary to check production as well as acreage figures. The general procedure followed in these areas was: (1) To establish official estimates of acreage and production of the particular kind of tobacco involved during each of the base years for each county; (2) to procure estimates of acreage and production by non-signers in each county, usually through a survey intended to cover all growers who did not sign; (3) to require the county offices to adjust contract figures to a point where they would not exceed the official figures less the acreage and production estimated for non-signers in the county.

The official figures were established by the Tobacco Section assisted by state statisticians and the Division of Crop and Livestock Estimates of the United States Department of Agriculture. The bases from which these figures were determined included: (1) The available crop estimates; (2) census figures for the years 1919, 1924, and 1929; (3) figures submitted by growers in their contracts and figures obtained from surveys of non-signers; and (4) measurements of fields on a considerable number of farms in most counties.⁸

The state offices were responsible for seeing that total

⁸ The state figures to which contracts were adjusted were mainly the preliminary estimates supplied by the Division of Crop and Livestock Estimates, adjusted in those instances where the other available information indicated that they did not accurately reflect production shifts during the base years. These data are generally admitted to be less reliable when broken down by counties; hence there was more variation in the manner in which county figures were determined. County production figures were determined by multiplying the approved acreages by a yield calculated from census, crop estimate, and contract data.

acreage and production figures for contracts approved within each county did not exceed the official estimates less the estimates for non-signers. Responsibility for checking the reliability of each grower's figures and making the required adjustments rested largely upon the county committees. The manner in which these committees were authorized to adjust contract figures in order to reduce overstatement is well illustrated by the following extract from instructions given the county committees in North Carolina:

In general, you may follow two methods in obtaining a reduction in estimates. First you may distribute the necessary total reduction between individual contracts as you think advisable in order to eliminate the over-run for your county. Farmers can then be informed of the reduction and advised that unless they substantiate their estimate with the acceptable documentary evidence, they must agree to the reduction you ask or their contract cannot be accepted. If, after these individual adjustments have been made, the county totals are above the official totals, a pro rata cut may be made on all contracts that are not substantiated by acceptable documentary evidence. This pro rata cut will be much smaller than it would have been had no individual adjustments been made. Further, where committeemen are certain that an adequate and full reduction has been made by a producer, the forms used in making the adjustment may be marked "acceptable documentary evidence," approved by the local committee and by the chairman of the county committee, and the contract will not be subjected to further pro rata cut.

The second method of adjustment, that of a pro rata cut for the county, is simpler from your standpoint, but it may be entirely unfair to producers who have submitted accurate figures. In the event that the county agent and county committee feel, however, that all producers have submitted estimates that are equally accurate or inaccurate, the county committee may inform the state office by letter that they prefer to give producers in that county the pro rata cut rather than to attempt individual adjustments. At

the same time, each producer should be notified that the estimates on his contract will be cut pro rata along with estimates of other producers in the county unless acceptable documentary evidence is offered in support of his estimates within a specified time from the date the notice is mailed. A list of all producers supplying acceptable evidence should be prepared at the end of the week and forwarded to the state office at Raleigh. The cuts will then be applied at Raleigh and the contracts will be forwarded to Washington for payment.

Producers should be urged to submit evidence whenever possible and to help you in making adjustments. It may be well to notify each producer that lists showing the name of each grower and the estimates of acreage and production submitted are open for inspection and that any reports as to overstatement of estimates will be considered as confidential and investigated by the county committee.

It is not feasible to attempt an estimate, from the data available, of the absolute amount of overstatement which occurred in all of the tobacco areas. In the cigar filler and binder districts, where growers had an opportunity to become reasonably well acquainted with the provisions of the contracts before signing, and where county and local committees had time to measure fields and otherwise check the figures submitted by growers, it is doubtful if the overstatements were of much significance. In at least one of these districts there appears to have been no overstatement for the area as a whole.

Significant overstatements did occur in all of the other areas. Data furnished by the various state offices showed numerous instances where the county total of the original contract figures exceeded the approved quotas by very considerable margins.⁹ Part of this overstatement probably

⁹ In general production tended to be overstated by a larger percentage than did acreage. For example, a tabulation prepared by one state office showed overruns in the total acreage reported by all growers in that state who had signed

was unintentional on the part of growers. Tobacco fields are typically very small and frequently irregular in shape. Under such circumstances estimates may well be grossly inaccurate. There seems to be less basis, however, for the larger overstatement of production which occurred. Although few growers keep farm records, and sales slips had been lost in many cases, at the time of marketing each grower must have known the quantity of tobacco which he sold. In fact, there seems no escape from the conclusion that overstatement was intended by a large number of growers. Some deliberately padded their acreage and production figures in order to obtain the financial benefits which would accrue from having a larger base. Part of the over-run which appeared when contracts were submitted to the state offices may have resulted from a tendency on the part of local committeemen to help neighbors who had obtained low yields during one or more of the base years. In a few cases where a county had very short crops in one of the years, committeemen appear to have felt that growers could rightfully claim intended acreage and production for that year.

The amount of overstatement varied considerably with the procedure followed in conducting the sign-up and in checking the contracts. There was also considerable variation in the extent to which adequate data could be obtained to substantiate growers' figures. In some counties, available warehouse records and the measurement of fields furnished complete evidence for a majority of growers.

The greatest overstatement occurred for flue-cured tobacco. In this case it appears that the rapidity with which

contracts up to Jan. 15, 1934 of 15 per cent for 1931 and 1932 and 8 per cent for 1933. The over-run in production as reported by those same contracts was 30 per cent for 1931, 40 per cent for 1932, and 6 per cent for 1933.

the preliminary sign-up was conducted was partly responsible. Although another complete sign-up was undertaken when the final contract forms were available, and data from the preliminary agreement were not used, many growers entered the same estimates a second time.

By the procedures which have been described contract figures were adjusted to the approved figures for each county. It is by no means certain, however, that over-run was completely eliminated in the process. Several possible reasons may be mentioned for such a situation. In the first place the official estimates to which the contract figures were adjusted were admittedly less satisfactory than could be desired. Although the best that could be obtained under the circumstances, it is probable that they overstate acreage and production during the base period for some counties or localities. Secondly, checking contract data against approved county totals involved estimates of acreage and production not under contract. While surveys were made in most areas to determine this information, these surveys were necessarily hastily made by county agents and committeemen who were already very busy. As a result, complete lists of non-signers with accurate information regarding their acreage and production during the base period were obtained for very few counties. To the extent that these were under-estimated, contract data could be overstated without appearing as over-run in comparison with the official figures. Finally, in some counties it was not possible to eliminate the over-run by correcting individual contracts and consequently flat cuts were made. To the extent that growers did not participate uniformly in the original overstatement, such cuts obviously penalized those who made honest estimates. This was recognized from the beginning and the committees were urged to

make individual adjustments so far as possible. However, flat cuts were approved by some committees, either to eliminate the whole of the original over-run or to take care of the over-run remaining after the more apparent individual adjustments had been made. As judged by the number of complaints received from producers who claim not to have received equitable bases and allotments, the most unsatisfactory situations appear to have developed in counties where pro rata adjustments were made. In some individual cases, bases were increased in order to correct obvious inequities.

To the extent that inaccuracies exist in the contracts as finally approved, they impose certain disadvantages upon the producers who submitted accurate figures in the beginning. However, the number of cases of this character appears to have been kept at a minimum by the policy of using pro rata cuts in as few counties as possible. Furthermore, so far as the plans for reducing production through contracts with growers are concerned, a partial protection was afforded by the fact that a grower who was not satisfied with his base after the adjustments were made could reject it and stay out of the plan entirely. This protection was only partial, however, since it forced him to forego any benefits he might otherwise have received. With the injection of the Kerr-Smith Act, to be discussed shortly, this measure of protection against an inequitable base was largely removed.

Despite this recognition of the character and importance of the problem created by growers' overstatements of their acreage and production, its significance should not be over-estimated. Although it has added to administrative difficulties, it does not appear to have limited seriously the success of the plans for reducing tobacco production.

SUPERVISION OF COMPLIANCE

The further problem of supervising growers' compliance with the terms of their contracts remained even after producers had been enrolled under the plans for curtailing production. This supervision has not only involved the checking of acreage and production to see that allotments were not exceeded but also has required verification of a number of other items. The most important of these were: (1) The grower's proof regarding the value of tobacco produced and sold;¹⁰ (2) the division of payments between landlords and tenants as required by the contracts in those cases where tenants were involved; (3) adherence to the requirement that the number of tenants should not be reduced; (4) the use of contracted or rented acreage and also the requirement prohibiting increases in other commodities for which increases were not authorized.

While there was naturally some variation in the exact procedure followed in supervising compliance, the methods in general may be described quite briefly. As was the case in checking the original contract data, county agents and committees were given the chief responsibility for certifying compliance. In this work they had the assistance of local committees and employed field agents, referred to as "supervisors." Frequently, members of local committees served as supervisors. For the most part the check of the acreage planted, the use of land kept out of production, the division of payments with tenants, and the conformity with the requirement that no tenants be displaced was made by these agents. After certification by the county office, compliance forms were forwarded to the

¹⁰ Required for the determination of at least one of the cash payments under each of the plans, excepting only those for Georgia-Florida shade tobacco and for Puerto Rican tobacco during the first season of operation. See p. 142.

state office where they were subject to review. From the state office they were sent to the Tobacco Section for approval.

The general procedure may be illustrated by that used for flue-cured tobacco. At some time during the period between planting and harvesting the crop, each farm under contract was to be visited by a supervisor and a form filled out showing: (1) Base tobacco acreage; (2) acreage planted to tobacco in 1934; (3) the 1934 acreage allotment; (4) the amount by which planting exceeded allotment; (5) whether the producer elected to destroy such excess or retain it and receive a lower adjustment payment; (6) rented acreage; (7) the method used in measuring land; and (8) the name of the person who assisted in measuring the land.

The supervisor was required to measure all fields planted to tobacco and to determine that the producer had a sufficient number of rented acres—and to measure these also in case of any doubt. At the same time he was to record on the back of the form any evidence that rented acreage was not being used in accordance with the terms of the contract.

While making this certification the supervisor checked the number of tenants and obtained from the producer an explanation in case there was any difference from the required number. The producer then signed a statement, appended as part of the form, certifying that he had examined and concurred with the supervisor's report; that specified numbers of tenants were engaged in 1933 and 1934, together with his explanation if the number in 1934 was smaller than that for 1933; and that the price equalizing payment had been divided with tenants in accordance

with the terms of the contract.¹¹ This statement also contained the formal acceptance by the producer of the reduced payment provided under the terms of Administrative Ruling No. 23 for those cases in which the producer elected to grow an increased acreage of tobacco in accordance with that ruling.

This form then went to the county office where the data were checked and a determination made as to whether compliance had been obtained. In the event compliance required that acreage be destroyed, the producer was notified of the amount to be destroyed and this destruction was required to be certified by a supervisor. In instances where complaints were received that a producer had reduced his number of tenants or had failed to divide the price equalizing payment with them, he was notified to that effect and required to submit explanation or substantiating evidence before his compliance was certified by the county office.

Certification of the net value of tobacco marketed, which was required for the computation of adjustment payments under nearly all plans, also constituted a considerable problem. In order to facilitate this work, the contracts for flue-cured, Burley, dark air-cured, and fire-cured tobaccos provided that each producer should keep a marketing card. On this card was to be entered for each day's transactions the date, quantity of tobacco, and net sale value. The producer was to affirm the bona fide character of the entries as part of his application for the adjustment payment (in some cases made a part of the card) and deliver the card

¹¹ Under most of the tobacco contracts the rental payment was made as soon as the contract was approved, and before acreage compliance was determined. The price equalizing payment on flue-cured tobacco was also made at that time.

to the county office, where it was to be checked and the amount of the adjustment payment computed.¹²

Substantially this procedure was carried out in the marketing of the 1933 crops of Burley, dark air-cured, and fire-cured tobacco. However, a different procedure was used for flue-cured tobacco, since a large part of the 1933 crop had been sold before the final contract was prepared. In each case where a part of the 1933 crop had been sold within the period for which price equalizing payments were provided, the necessary data regarding the producer's receipts from sales were obtained from warehouse records. Either the producer procured copies of the sales slips covering his transactions and submitted them to the county office, or he gave the name of the warehouse through which his sales were made and the sales slips were procured by a representative of the Tobacco Section. Similar proof was obtained in connection with the cigar-leaf and Maryland plans. Since Maryland payments were based upon the value of the 1932 crop, growers were required to submit to the county agents sales slips covering their disposal of that crop, procuring duplicates from their brokers if necessary.

This phase of compliance certification for the 1934 crop was worked out in combination with the operation of the Kerr-Smith Act. In the administration of this act each grower was issued an allotment card showing the amount of tobacco on which he was entitled to receive tax-payment warrants and on which the quantities sold and the serial numbers of the tax-payment warrant covering his sales were recorded. When warrants were issued at

¹² In case any tobacco remained in the hands of the producer at the close of the marketing season or at the time surrender of the card was required, provision was made for including an appraisal of its value.

the time a sale was made, a duplicate was forwarded to the county office. Each warrant showed the name of the producer, the serial number of his contract, the number of pounds sold, the gross sale price, and the net sale price. These warrants, together with the individual allotment cards which were also surrendered to the county office, furnished the data for filling out the principal compliance form from which the amounts of adjustment payments were calculated. After being signed by the producer and certified by the county committee, this form furnished the basis upon which payments were distributed.

ADMINISTRATION OF THE KERR-SMITH ACT

The provisions of the Kerr-Smith Tobacco Control Act were outlined in Chapter I as furnishing part of the legislative basis for the tobacco program of the AAA. Likewise in Chapter IV it was pointed out that in its operation this act supplements the plans for restricting production through voluntary contracts with individual growers. To complete this discussion of AAA activities in controlling tobacco production, it is necessary to review the manner in which the Kerr-Smith Act has been administered in relation to the other procedures.

Three principal steps were involved in the administration of the Kerr-Smith Act in 1934: (1) The determination of the tax rate within the limits prescribed by the legislation; (2) allotment of tax-payment warrants to producers who were entitled to receive them; (3) collection of the tax on sales to which it applied, but which were not covered by warrants. With respect to 1935, a fourth step was required; namely, the determination of the number of tobacco producers who favored application of the tax

in that year. The administration of the law may be considered most conveniently in relation to these steps.

It will be recalled from the earlier description of the legislation that a tax of 33 $\frac{1}{3}$ per cent of the sale price is levied upon the first sale of tobacco to which the act is applicable. At the same time, however, it is provided that the Secretary shall prescribe a lower rate, not less than 25 per cent, to be in effect for such period as he designates, if he determines and proclaims that such a rate will best effectuate the declared policy. Under this authority a rate of 25 per cent of the sale price was proclaimed upon the first bona fide sale of all tobacco harvested subsequent to June 28, 1934 and prior to May 1, 1935 of the types to which the act was applicable.¹³ No official statement was made as to the basis for the finding that the 25 per cent rate would best effectuate the declared policy of the act, but it appears that three principal considerations were involved: (1) The 1934 crop was practically all planted when the act was passed and the tax would probably have but little effect upon production in that year; (2) the lower rate would be less burdensome upon producers who were unable to obtain equitable allotments under the contracts in counties where the warrants available for non-signers were not sufficient to cover their tobacco; and (3) the lower rate was expected to serve effectively in preventing those who were unwilling to participate in the program in 1934 from being in a better financial position than those who had signed contracts. This reflected an interpretation by the AAA that one of the purposes of the tax was to prevent non-signers from deriving greater benefits from the program than were received by participating growers, but not to penalize them by reducing their returns below the level

¹³ Proclamation No. 1 of the Secretary of Agriculture, July 3, 1934.

they would have received in the absence of any program.

Once established, the tax is collected by the Bureau of Internal Revenue as provided in the act. This is accomplished by requiring that a memorandum of sale be executed covering each day's sales by the producer and that revenue stamps to the amount of the tax (except when the sale is covered by tax-payment warrants) be affixed to that memorandum and cancelled.¹⁴

The major problem in administering the Kerr-Smith Act pertains to the issuance of tax-payment warrants to growers. This function was assigned wholly to the AAA and is most closely related to the control of tobacco production. So far as this involved the issuance of warrants to growers who had signed contracts, the procedure followed in 1934 was simple. No applications were required and each contracting grower was given an allotment card showing the allotment for his farm upon which he was entitled to receive tax-payment warrants. Upon making a sale through an auction warehouse, the grower presented this card, together with the proper evidence of the sale, to the agent of the Secretary of Agriculture on duty at the warehouse. This agent issued a warrant covering the sale and entered a record of the transaction upon the grower's allotment card, so that at all times it showed the balance upon which the producer was entitled to receive further warrants. The seller then surrendered the warrant to the agent of the warehouse (or to the buyer if the sale was not made on an auction floor) and it was attached to the record of the sale.

With respect to non-contracting growers, each individ-

¹⁴ This procedure was not put into operation until Aug. 1, 1934, since the auction markets did not open until that date and some time was required to work out the necessary details. Individuals who sold tobacco prior to that date were required to file returns covering such sales.

ual was urged to make application under the provision of the act which authorizes the Secretary to issue warrants to growers who could not obtain equitable allotment under the contracts offered. These applications were passed upon by the county committees, in accordance with instructions issued by the Tobacco Section, and allotments were made only upon their recommendation. These recommendations, both for approval and disapproval, were reviewed by the respective state offices, where they were approved before allotment cards and tax-payment warrants were issued to applicants.

Certain restrictions were placed upon the issuance of tax-payment warrants to non-signers. First, the act placed a definite limit upon the amount of tobacco upon which such warrants could be issued by providing that it should not exceed 6 per cent of the total allotments to contracting growers in the county. Second, only growers who could not obtain equitable allotments under a contract were eligible. Third, no allotment was authorized to an individual non-signer in excess of the estimated quantity of tobacco which he would market in 1934. Finally, two-thirds of all the warrants issued to non-contracting growers within a county (in pounds of tobacco) were required to be upon allotments of 1,500 pounds or less.

Beyond these limitations the county quota of tax-payment warrants could be distributed among the applicants who were found to be eligible to receive them, although of course all allotments were subject to review by the AAA. Where the limited number of warrants available was not sufficient to cover the applications which merited approval, instructions of the Tobacco Section provided that the supply should be prorated among such applicants, not

allotted merely to the first growers who applied. It was also suggested that growers who had increased their acreage in 1934 should be allotted warrants on a correspondingly smaller percentage of their estimated production. These and similar recommendations were followed by the committees, at least in most instances. On the whole it would appear that, as the act was administered in 1934, the county committees had considerable responsibility in making the allotment of tax-payment warrants to non-signers.

In the allotment of tax-payment warrants to non-signers the greatest single difficulty arose out of the fact that, under the act, such allotments were limited to 6 per cent of the allotments under contracts *in each county*. By this provision the quantity of tobacco on which warrants could be issued to non-signers depended in part upon the sign-up secured. Not only did this sign-up vary from plan to plan, but it also differed in counties under the same plan. Thus in a county the quantity of tobacco produced by growers who could not obtain equitable bases, and who were therefore entitled to receive tax-payment warrants, might be exactly 6 per cent of the allotments which could be made to growers who were eligible for contracts. If all of these eligible growers signed contracts, then producers who were not eligible for contracts could be awarded tax-payment warrants covering all of the tobacco they produced. On the other hand, if only 50 per cent of the eligible growers agreed to participate, then the total quantity of warrants which could be awarded to the non-signers in that county was automatically reduced one-half.

Such difficulties were greater in practice than this illustration would suggest. One reason was that the percentage sign-up secured reflected the proportion of growers who

could secure equitable bases. Counties in the heart of a major producing area tended to have relatively few producers who were entitled to warrants as non-signers on the ground that they could not obtain equitable bases under contracts. However, these same counties tended to have high percentage sign-ups, with the result that more warrants were available than were needed for non-signers. Exactly the opposite situation obtained in other counties where the sign-up was lower and where more warrants were needed.

Because of the completeness of the sign-up obtained under the flue-cured plan, fewer counties in that area were affected by this limitation. Even there, however, at least some leaders have pointed out the need for a modification of the act to remove the 6 per cent restriction as it applies to individual counties. In the Burley, dark air-cured, and fire-cured regions, the supply of warrants for non-signers who appeared rightfully entitled to them under the provisions of the act proved to be less adequate.

Another factor which limited the number of warrants available to non-signers in 1934 was the interpretation placed upon the provisions of the act relating to the proportion to be issued to growers whose allotments were 1,500 pounds or less. At the time these provisions were interpreted as meaning that the proportion of warrants issued to growers whose allotments were above 1,500 pounds was required to be not more than one-third of the total *issued*. In other words, if no applications were made by small growers, no warrants could be issued to large growers who had not signed contracts.

In addition to being allowed to sign regular contracts after the passage of the Kerr-Smith Act, growers in the Burley, fire-cured, and dark air-cured areas were given the

privilege of signing modified contracts at about the time the markets opened for sale of the 1934 crop of these types.¹⁵ These contracts committed the growers to participate in the reduction of acreage and production in 1935 on a basis comparable with other producers but required no reduction and provided no benefit payments with respect to the 1934 crop. Instead they required merely that the quantity marketed in 1934 should not exceed the base tobacco production and that any tobacco produced in excess of the base should be rendered unmerchantable. In this manner warrants were issued to a number of producers who did not increase the quantity of tobacco they marketed in 1934 and who agreed to make reductions in 1935.

Thus tax-payment warrants were issued covering all but a small percentage of the tobacco on which the Kerr-Smith tax was levied in 1934.¹⁶ As a result, the total collections, as reported by the Bureau of Internal Revenue, amounted to only \$3,208,586.32 up to April 30, 1935. By the terms of the Kerr-Smith legislation, proceeds derived from the tax are "available to the Secretary of Agriculture for administrative expenses and refunds of taxes and other payments under this act." Hence, they are not available for benefit payments or other expenses of the AAA as are the tobacco processing taxes.

¹⁵ The regular contract forms were used, but with "Rider B" (AAA Form 164) attached.

¹⁶ The proportion of total sales (in dollars) upon which the tax was paid in cash was approximately as follows for the different kinds of tobacco: Flue-cured, 2 per cent; Burley, 22; fire-cured, 17; and dark air-cured, 30.

CHAPTER VIII

FINANCING THE PROGRAM

Processing and related taxes constitute an essential element in the general procedure provided by the Agricultural Adjustment Act for application to the commodities designated as basic. The rates of these taxes are determined by the Secretary of Agriculture under stated conditions and within prescribed limits. They become effective only upon the proclamation of certain findings which the Secretary is authorized to make, subject to the approval of the President. The proceeds derived from all taxes imposed under the act are specifically appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products, for administrative expenses, rental and benefit payments, and for refunds on taxes. In this manner provision is made for continuous financing of the AAA without the necessity for annual appropriations. Other funds have been made available for use by the AAA, but thus far no part of these has been set aside for tobacco.¹ All expenditures in connection with the tobacco program are being financed out of proceeds from processing and related taxes.

PROCESSING TAX PROVISIONS AFFECTING TOBACCO

Application of the tax to each individual basic commodity is wholly dependent upon the decision to make

¹ An initial fund of 100 million dollars was appropriated and a provision of the National Industrial Recovery Act authorized the President to allocate a further sum not in excess of 100 million dollars for carrying out the purposes of the Agricultural Adjustment Act. Other funds have been appropriated for special uses in connection with AAA activities. See lists of amendatory and related legislation in *Compilation of Agricultural Adjustment Act as Amended and Acts relating Thereto as of June 29, 1934, AAA.*

payments to growers of that commodity. This is set forth clearly in Section 9(a) of the Adjustment Act as the sole condition required to make the levy effective:

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 terminate at the end of the marketing year current at the time the Secretary proclaims that rental or benefit payments 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. . . ."

The rate of the tax is determined in all instances by the Secretary in accordance with a formula set forth in Sections 9(b) and (c) of the act. The first of these sections prescribes that "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 . . . except that if the Secretary [finds] that a tax at that rate will cause such a reduction in the quantity of the commodity domestically consumed as will result in the accumulation of surplus stocks . . . then the processing tax shall be at such rate as will prevent such accumulation of surplus stocks and depression of the farm price of the commodity." This section was amended by the Jones-Costigan Sugar Act, approved May 9, 1934, so as to provide for a different rate of tax upon the processing of a commodity for a particular purpose, if on investigation the Secretary finds that such a different rate is necessary to prevent the accumulation of surplus stocks in that branch of the industry. The succeeding section defines "fair exchange value" as ". . . 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. . . ."

Once established the processing tax is "levied, assessed, and collected upon the first domestic processing of the commodity, whether of domestic production or imported" and must be paid by the processor.² Certain exemptions, abatements, and refunds, however, are provided. Upon certification by the Secretary of Agriculture that any class of products is of such low value compared with the quantity of the commodity used in their manufacture that the tax would substantially reduce that use and increase the surplus, Section 15(a) requires the Secretary of the Treasury to "abate or refund any processing tax assessed or paid after the date of such certification with respect to such amount of the commodity as is used in the manufacture of such products." Paragraph (b) of the same section stipulates that no tax shall be required on processing for home consumption and exempts products processed for sale by the original producer, under certain conditions, although these have no real significance with reference to tobacco. Section 15(c) provides for refunds of the tax on any product delivered for charitable distribution. Finally, Sections 17(a) and (b) provide for refunds upon the exportation of any product processed from a commodity upon which the tax has been paid, and authorize processing for export without payment of the tax upon the giving of satisfactory bond.

Two other directly related taxes are provided which are of significance in connection with the tobacco program.

² "In the case of tobacco, the term 'processing' means the manufacturing or other processing (except drying or converting into insecticides and fertilizers) of tobacco." Sec. 9(d-3).

The first of these is to be collected, at a rate equivalent to that of the processing tax, upon all "floor stocks" of products processed from any commodity on which a processing tax is levied, which are held by processors or dealers at the time the tax first takes effect, excepting only stocks in the hands of retail dealers (not held in warehouses) that are sold or otherwise disposed of within 30 days. The same sections (16 [a] and [b]) provide for corresponding refunds and abatements on floor stocks held at the time the processing tax is wholly terminated. The original act made no provision for additional collections, abatements, or refunds on floor stocks in the event of changes in the rate of processing tax, but this provision was added by the Flanagan amendment, approved June 26, 1934 and made applicable from June 1.

The second related tax is a compensating levy upon any article manufactured from a commodity upon which a processing tax is in effect where such manufactured article is imported into the United States. This tax is also equivalent to the rate of the processing tax then in effect.³

TAXES LEVIED UPON TOBACCO

Regulations were issued on September 14 prescribing the marketing year, announcing the rate of processing tax, and establishing the appropriate conversion factors for each

³ Taxes collected under this provision upon articles coming from possessions of the United States to which the act does not apply are required to be held as a separate fund and paid into the respective treasuries of those possessions to be used for the benefit of agriculture. Sec. 15(e).

Similar compensating taxes upon so-called competing commodities are required by Sec. 15(d), but these need not be considered with reference to tobacco.

To determine equivalent tax rates for different products, conversion factors are necessary. The Secretary of Agriculture, with the approval of the President, is specifically empowered to make regulations "with the force and effect of law" establishing these conversion factors. Sec. 10(c).

kind of tobacco.⁴ In each case October 1, 1933 was designated as the beginning of the marketing year and as the date when taxes would become effective. With the exception of that on cigar-leaf tobacco, the tax rates per pound (farm sales weight) were established at the full difference between the current average farm price and the fair exchange value as then computed for each kind of tobacco treated as a separate commodity. The rate for cigar tobacco was established at approximately one-half this difference. Equivalent rates were established for tobacco in processing order,⁵ the amounts being in accordance with the respective weight relationships determined to exist between such tobacco and the farm sales weight. All of these rates are shown in the first table in Appendix F, page 314.

In computations for purposes of determining these tax rates "current average farm price" was considered to be the weighted average price received by producers for the whole crop, most of which was sold during the twelve months preceding October 1, 1933. Likewise, average prices of things farmers buy over that same period were used in determining "fair exchange value" and hence that figure also was an average. This means that tax rates were established for the marketing season beginning October 1, 1933 on the basis of the difference between estimated average prices for the 1932 crop and calculated parity or "fair exchange value" for the period from October 1, 1932 to September 30, 1933.

⁴ AAA Form T-17 covering cigar-leaf tobacco, and Form T-18 covering all other types.

⁵ The term "order" when applied to tobacco refers to the moisture content. This content is ordinarily controlled at different points according to the intended disposition, in which case it is said to be placed in "processing order," "export order," etc. Tobacco at "farm sales weight" is in the order and condition in which it is usually delivered by growers.

Parity prices, in comparison with current average farm prices as computed by the Adjustment Administration when the processing tax rates were determined, are shown on page 88. Each of the "differences" shown in the third column of that tabulation represents the maximum rate of tax possible under the act with data then available.

Certain approximations and estimates were involved in these computations which are confusing unless properly understood. In the first place, it was necessary to use the index of prices paid by farmers on a marketing year basis. Data from which this index is compiled had been reported quarterly during most of the years in the base period designated by the act. Therefore, this conversion was accomplished by averaging the reported figures for the fourth quarter of each calendar year with those for the succeeding three quarters.

Secondly, only preliminary estimates regarding farm prices for the 1932 crop were available in September 1933 when the computations had to be completed. Even for those types where marketing had been completed some months before, at least some revisions might be expected. In other cases, however, considerable quantities remained unsold in the hands of producers. Under these circumstances, the estimated prices to be received for the remaining portions of the crop were included in the computations, except in the case of Maryland tobacco. In determining the tax rate for this tobacco, a special procedure was followed which will be discussed presently.

To the extent that revisions have been made in later estimates of prices received by farmers for the 1932 crop, it follows that tax rates were established at slightly different levels than they would be on the basis of more recent, and presumably more accurate, data. Since the prices esti-

production and continue throughout the year. Consequently only roughly three-quarters of the 1932 crop had been sold at the time the processing tax was put into effect. The information available indicated that prices received by farmers for this portion of the crop had been substantially above those of the preceding season and well above parity for the prescribed marketing year.

However, it was reported that sales of Maryland tobacco from January 1, 1933 up to September, when the computations were being made for the purpose of determining tax rates, had consisted mainly of the better grades, most of which are used in the domestic manufacture of cigarettes. To a considerable extent the export grades were still unsold, and it was expected that their sale during the remainder of the year would greatly reduce the average price for the crop. Lack of detailed knowledge regarding the quality of this unsold tobacco constituted a handicap in any attempt to estimate its value, and there was not sufficient time to make a complete study as a basis for such an estimate. Consequently, it was not feasible to determine this tax rate on the same basis as was used for the other kinds of tobacco.

In this situation the procedure followed was to use the average of all sales of Maryland tobacco during the period from October 1, 1932 to September 30, 1933 as the current average farm price. Thus, sales of the 1931 crop during the last months of the corresponding marketing season were averaged with the first nine months' sales from the 1932 crop and the tax was determined on the basis of the difference between that average and parity, as calculated for the same twelve months. Sales during the remainder of the year, however, were made at prices materially higher than had obtained during the corresponding months of the

preceding year, with the result that in 1932 the crop appears to have averaged well above parity. As a result a processing tax of 1.7 cents per pound was levied on a commodity, the 1932 crop of which sold at prices exceeding parity by 1.8 cents per pound.

At first there was no authority to establish different rates of tax upon tobacco used in the manufacture of individual products and the initial rates of processing taxes were made uniform for all tobacco of a given kind, regardless of the use to which it was put. For example, with these rates in effect the same amount of tax was collected for each pound of cigar-leaf tobacco used in the manufacture of scrap chewing tobacco as was collected for the higher priced grades used in cigars. Furthermore, under these rates different kinds of tobacco used in the manufacture of chewing were subject to quite different rates of tax. Thus brands manufactured mostly from Burley tobacco were subject to a processing tax of 2 cents per pound, whereas those manufactured from flue-cured tobacco were taxed 4.2 cents per pound. From the beginning both these situations were unsatisfactory to the manufacturers of chewing tobacco. They contended not only that the tobacco they used should be taxed at a lower rate because the product was of low value and because otherwise consumption would be curtailed, but also that the tax should be uniform on all tobacco used in the manufacture of chewing.

Under the authority of the amendment made by the Jones-Costigan Sugar Act, and following a public hearing regarding the results of the tax rate then in effect, the tax on flue-cured tobacco used in the manufacture of plug chewing tobacco and twist was reduced as of August 1,

1934.⁶ The new rate established at that time was 3.3 cents per pound farm sales weight with equivalent rates for unstemmed and stemmed tobacco in processing order of 3.7 and 4.8 cents per pound respectively.

Similarly, when the tax on Burley was increased as of October 1, 1934, a special rate of 4.1 cents per pound was made effective for all Burley tobacco used in the manufacture of plug chewing and twist. The corresponding rates on unstemmed and stemmed Burley in processing order were 4.7 and 6.4 cents per pound.⁷

In January 1935 a complete schedule of special processing tax rates for tobacco manufactured into chewing was announced and was made effective February 1. This schedule is shown in Table II, Appendix F, page 314. It will be noted that rates are now substantially uniform and are considerably lower than those previously in effect.

Substantial changes have occurred both in tobacco prices and in the prices paid by farmers since the period on which initial processing rates were based. In practically all cases, farmers received higher prices for their 1933 crop than they did for tobacco produced in 1932 and further advances have appeared thus far in the 1934-35 marketing season. At the same time, parity prices have increased because of changes in the level of prices for articles farmers buy. As a result of these changes in actual prices and in parity prices, the differences upon which initial tax rates were based have been altered. This raises the question as to whether the act requires a readjustment of the tax rates under such circumstances.

From the language of the legislation quoted earlier in this chapter, there appears to be no question as to the man-

⁶ *Tobacco Regulations, Series 2, Revision 1*, AAA, July 1934.

⁷ *Tobacco Regulations, Series 1, No. 1*, AAA, October 1934.

ner in which the tax rate is to be determined, either when first made effective or when changed as a result of findings by the Secretary of Agriculture. To the layman at least, this language would seem to imply also an intent that tax rates should at all times approximate fairly closely the difference between actual price and fair exchange value. The difficulties, both for the processors and for the government, which would be created by changes in the tax during the marketing season must be apparent and need not be elaborated here. Such difficulties, however, would not prevent adjustments in the rates at the beginning of each new season to the average difference between farm prices and parity for the previous season.

Specifically with reference to the times when tax rates are to be changed, the act provides only that it shall be at "... such intervals as the Secretary finds necessary to effectuate the declared policy. . . ." This wording has been interpreted as meaning that, once a tax rate was established, it could not be changed unless the Secretary found that a change was necessary to effectuate the declared policy of the act.⁸ Under this interpretation two rates were changed as of the beginning of the 1934-35 marketing season. Both applied to types on which the tax rate was at wide variance with the difference between parity and the prices received by farmers for the preceding crop. In other cases no changes were made, although price relationships were such that somewhat different rates would have been required had they been established at that time.

⁸ The language quoted appears in Sec. 9(a) of the act. An illustration of the manner in which it is interpreted is furnished by the following sentence from an announcement, issued July 31, 1934, that the cotton processing tax would remain unchanged. "No adjustment of the rate of tax may be made unless the Secretary finds it necessary to make such an adjustment to effectuate the declared policy of the act." *AAA Press Release No. 234-35.*

The rates which were changed applied to Maryland and Burley tobaccos respectively. The situation with respect to Maryland tobacco at the time the initial tax rates were established, and the special procedure followed in determining the rate for this type, have been described. When prices for the portion of the 1933 crop sold prior to the time the new computations were being made were also maintained above the parity level, the tax rate was reduced to zero as of October 1, 1934.⁹

In the case of Burley tobacco the difference between farm prices and parity, as calculated just prior to the opening of the 1934-35 marketing season, was more than three times the tax rate in effect. Accordingly, the rate was increased from 2 cents to 6.1 cents per pound farm sales weight, with appropriate adjustments in the rates applicable to Burley tobacco in processing order.

Price increases for several kinds of tobacco, without corresponding increases in prices paid by farmers, have materially reduced or altogether eliminated the difference between farm prices and parity. Although no announcement has been made as yet, the policy followed with respect to Maryland and Burley types suggests that such rates are likely to be adjusted at the close of the present marketing season.

RECEIPTS AND DISBURSEMENTS

Receipts from the collection of these taxes apparently are proving ample to finance the plans undertaken. Exact

⁹ Perhaps the reader will agree with the author that it is difficult to recognize immediately any distinction between reducing a tax rate to zero and removing the tax. Such distinction as there is rests upon the legal contention that Congress levied the tax through the provisions of the act, but delegated to the Secretary of Agriculture responsibility for making certain findings required to determine the tax rate and make it effective. Under this interpretation the Secretary has no power to impose or remove a processing tax.

comparisons of receipts and disbursements are difficult, however, because substantial parts of the payments in connection with the plans applied to a given year's crop are not made until the following year and overlap the earliest payments pertaining to the succeeding crop.

One possible comparison would be to balance total receipts during the twelve months from October 1 to September 30 with the total disbursements made in connection with the corresponding crop. Such a comparison on an annual basis, however, presents certain difficulties. In the first place, a reduction plan involving benefit payments was applied to cigar tobacco in 1933, but not to other types. On the other hand, taxes were made effective for all kinds of tobacco as of October 1, 1933. Thus within a given period of tax collection, commitments were incurred for one more year of crop reduction for cigar tobacco than for the other major types.

In the second place, payments have not been completed in connection with the 1934 plans. Because of the manner in which adjustment payments are determined, as described in Chapter VI, it is difficult to estimate the exact expenditures required under these commitments.

Third, there is a question as to whether all of the commitments made under the plans in a given year should be assigned to that particular crop. For example, the plan for controlling flue-cured production in 1934 provided price equalizing payments to growers who participated and who had marketed their previous crop early in the marketing season when prices were low. Although these payments were made as part of the benefit payments for controlling production in 1934, their purpose was to adjust producers' returns for the 1933 crop. Inclusion of the total of these payments, \$4,458,470, as part of the cost of the 1934 program

distorts the comparison by showing an abnormally high cost for that season.

For these reasons it is deemed inadvisable to attempt annual comparisons. Instead the probable total of rental and benefit payments for 1933, 1934, and 1935, including expenses incurred by county control associations, may be

ESTIMATED INCOME AND EXPENDITURES AS RENTAL AND
BENEFIT PAYMENTS ^a

| Type | Expenditures | Income ^c |
|----------------------|-------------------------|---------------------|
| Flue-cured | \$23,287,790 | \$26,647,785 |
| Burley | 17,876,916 ^b | 21,101,805 |
| Maryland | 154,400 ^b | 176,600 |
| Dark air-cured | 790,570 ^b | 1,652,440 |
| Fire-cured | 2,282,692 ^b | 2,323,440 |
| Cigar leaf | 13,979,185 | 11,137,584 |
| Total | \$55,935,040 | \$62,540,923 |

^a Estimated income from Oct. 1, 1933, when tobacco processing taxes were first made effective, to Sept. 30, 1935, and estimated expenditures as rental and benefit payments in connection with control of production in 1933, 1934, and 1935. Estimates furnished by the Tobacco Section, AAA.

^b Includes administrative expenses incurred by county control associations. See p. 163.

^c With the termination of a tax, refunds or abatements upon floor stocks are required as explained on p. 185. In these estimates deductions were made to cover probable refunds on floor stocks.

balanced against estimated tax collections up to September 30, 1935, the close of the present marketing year as defined for tax purposes. This comparison is shown in the accompanying table. In considering these estimates, however, it must be borne in mind that the amount of payments still to be made, especially those in connection with the 1935 crops, cannot be arrived at with any high degree of accuracy. Furthermore, tax collections may vary somewhat

from the data given, which include estimated collections for the remainder of the period up to September 30, 1935. It appears from these estimates that taxes collected on each kind of tobacco are approximately in proportion to aggregate payments to growers. Each group is financing its own program in line with the policy established, with the single exception of cigar tobacco, where it appears that the income from taxes during two years may not prove sufficient to finance three years of acreage reduction. However, prices for cigar filler and binder tobacco have by no means reached parity, and it appears likely that a tax will be collected in the 1935-36 marketing year. If this is done, at least 4.5 million dollars of additional revenue should be obtained, which would be more than sufficient to balance income with expenditures for the cigar types.

Although rental and benefit payments constitute by far the most important group of expenditures in connection with the tobacco program, some outlay is required for general administrative expenses. These include a share of the expenses incurred by the central administrative office of the AAA, expenses of the Tobacco Section in Washington, and other expenses incurred by the various field offices and field representatives other than those included under the county control associations. Obviously, some of these expenses cannot be allocated accurately to the respective commodity programs. However, such a determination has been made as accurately as possible for the period from May 12, 1933 to January 1, 1935 and has been included in a statement of expenditures issued by the office of the Comptroller of the AAA. This report shows total general administrative expenses assignable to the tobacco program of \$2,076,897. Of this amount, \$953,442 was incurred in Washington and \$1,123,455 in the field.

Local administrative expenses under the plans for Burley, Maryland, dark air-cured, and fire-cured tobacco are incurred by the county production control associations. Such expenses are deducted from rental and benefit payments to producers within the respective counties and therefore are included in the estimated expenditures for those payments.

If the present estimates are borne out, total income will exceed disbursements as rental and benefit payments, including administrative expenses incurred by county control associations, by some 6.5 million dollars up to the close of the present marketing year. This should prove more than ample to cover all general administrative expenditures required by the program up to the close of the present marketing year.

CHAPTER IX

RESULTS OF THE PROGRAM IN 1933 AND 1934

The preceding chapters have discussed the basis for the program of tobacco adjustment, described the principal procedures which have been applied thus far, and reviewed operations through the 1934 crop season. There remains for two final chapters the task of evaluating results obtained, appraising the importance of the several principal methods used, and considering the conclusions which may be drawn from the early tobacco adjustment experience.

When summarizing the objectives of the AAA with respect to tobacco, it was pointed out in Chapter IV that raising incomes of tobacco growers to satisfactory levels and keeping them there represented the ultimate goal. This goal was to be attained through the achievement of several intermediate objectives, each related to a specific aspect of the problem as viewed by the administrators of the act. However, raising prices—to parity if possible—constituted the principal immediate objective. As a first step in evaluating the results of the program, it is therefore appropriate to consider the extent to which it has contributed towards the attainment of the price-raising objective.

PRICE INCREASES IN 1933 AND 1934

Relatively large increases in prices for most types of tobacco have taken place since the program was introduced in 1933. These may be observed from the following estimates of annual average prices received by farmers for the past three crops (in cents per pound):¹

¹ Prices for 1932 and 1933 are season's average prices as reported by the

| Kinds | 1932 | 1933 | 1934 |
|-------------------------------|------|------|------|
| Flue-cured | 11.5 | 15.3 | 27.1 |
| Burley | 12.5 | 10.6 | 17.0 |
| Maryland | 17.0 | 17.5 | |
| Dark air-cured | 4.2 | 7.3 | 7.6 |
| Fire-cured | 6.2 | 9.1 | 11.0 |
| Cigar filler and binder | 5.9 | 7.2 | 11.1 |
| Cigar wrapper | 50.6 | 57.7 | 63.7 |

In every case except Burley the 1933 price was greater than that received for the 1932 crop and all of the prices for 1934 represent considerable increases over both the 1932 and 1933 figures. The price of Burley tobacco had been strengthened in 1932 by an unusual demand situation. Ten-cent cigarettes had been introduced in the preceding year and the manufacturers of those brands had not yet obtained adequate supplies of tobacco, which caused them to buy unusually large quantities of the 1932 Burley crop.

The extent to which these advances have restored the base period relationship between prices received by farmers for tobacco sold and the prices paid for articles purchased may be illustrated by comparing the prices just shown with parity as computed for the same three years. The results of such a comparison are shown in the following tabulation of the same prices expressed as percentages

Division of Crop and Livestock Estimates. Prices shown for 1934 were compiled by the Tobacco Section of the AAA from data obtained in the administration of the Kerr-Smith Act. Tax-payment warrants and records pertaining to the collection of the Kerr-Smith tax furnish these data for each individual sale of tobacco by producers and hence furnish a reliable basis for computing average prices. Since the marketing of the crop was either complete or practically complete for flue-cured, Burley, dark air-cured, and fire-cured, prices for those tobaccos represent practically a final estimate. In the case of cigar tobacco, marketing will not be completed for some months and the prices shown are estimates on the basis of sales thus far. Sales of Maryland tobacco will continue throughout the calendar year and do not as yet furnish a basis for a reliable estimate.

of parity for the corresponding kinds of tobacco in the respective years.²

| Kinds | 1932 | 1933 | 1934 |
|-------------------------------|-------|-------|-------|
| Flue-cured | 72.8 | 85.0 | 140.6 |
| Burley | 85.6 | 63.5 | 95.5 |
| Maryland | 112.6 | 101.2 | |
| Dark air-cured | 56.8 | 86.9 | 84.4 |
| Fire-cured | 69.7 | 89.2 | 96.3 |
| Cigar filler and binder | 46.4 | 56.3 | 80.3 |
| Cigar wrapper | 98.3 | 98.0 | 101.4 |

On the basis of these data there can be no doubt that tobacco prices have progressed a long way towards the desired relationship with prices paid. In one case, flue-cured, they have even overshot the mark by 40 per cent.

Prices for those kinds of tobacco, which were materially below parity in 1932, and towards which the program was chiefly directed, have increased very much more than has the level of prices paid for articles purchased. Among these tobaccos only Burley failed to show a substantial gain in 1933, but this was made up the following year. Only in the case of dark air-cured was there a failure to record an additional increase in 1934.

There remains, however, the question as to how much

² Computation of parity for the 1934 crop requires the use of an estimate regarding the average index of prices paid for the twelve-month period October 1934-September 1935. In these calculations an estimated index figure of 128 was used, which allows an eight-point increase in the index of prices paid over the preceding twelve-month period. Should the level of prices paid turn out to be lower, parity prices for 1934 would be reduced and the percentages shown would correspondingly understate the increase in actual prices relative to parity. If prices paid by farmers increase during the remainder of the 1934-35 marketing year at the same rate as during the first part of the year, the figure used will be approximately correct.

Strictly speaking, there are no separate parities as shown for cigar filler and binder and cigar-wrapper tobacco, since all cigar leaf has been designated as a single commodity. For purposes of this illustration, however, they have been computed separately according to the parity formula.

the AAA contributed to this progress and how far it was brought about by other factors. Perhaps this question cannot be answered conclusively, but at least some enlightenment may be obtained by bringing up to date the statement of facts pertaining to the various aspects of the situation as it was presented in Chapter III for the period preceeding the enactment of the adjustment legislation. In this way it may be possible to arrive at an understanding of the developments in the major factors which in the aggregate determine price changes, and thus to form an estimate regarding the net results of the program.

CHANGES AFFECTING MARKET DEMAND

Domestic consumption of all tobacco products except chewing increased during the period under consideration. This is shown by the following tabulation of tax-paid withdrawals for the past three years, in each case on a calendar year basis:³

| Products | 1932 | 1933 | 1934 |
|--|-----------|-----------|-----------|
| Small cigarettes (In millions of cigarettes) | 103,591.0 | 111,768.0 | 125,618.0 |
| Large cigars (In millions of cigars) | 4,691.0 | 4,592.0 | 4,868.0 |
| Smoking tobacco (In millions of pounds) | 242.3 | 242.2 | 243.9 |
| Snuff (In millions of pounds) | 36.4 | 36.3 | 37.2 |
| Chewing tobacco (In millions of pounds) | 69.9 | 62.7 | 63.2 |

The most spectacular increase, it will be noted, occurred in the consumption of cigarettes, by all odds the most important class of products. The 1934 withdrawals of 125,618 million were the largest ever recorded, exceeding the depression low reached in 1932 by almost 25 per cent

³ Data from Tables IV and V, pp. 260-62.

and the previous high of 1930 by nearly 5 per cent. Although the other increases shown are not of equal importance with that for cigarettes, at least they indicate that previous declines in the requirements of domestic manufacturers for raw tobacco have ceased for the time being.

Exports of flue-cured tobacco during the twelve months following the opening of the marketing season for the 1933 crop increased more than 20 per cent over the preceding year. At the same time other tobacco exports remained much nearer their former level.⁴ In recent months, however, exports of flue-cured tobacco have been smaller than they were in the same months a year ago, indicating that the total for the 1934-35 marketing season will be about the same as it was following the 1932 crop. Shipments of dark air-cured tobacco to foreign countries during the early part of the 1934-35 season have been about 15 per cent above what they were in the same months of either of the past two years, but exports of the fire-cured types have been slightly below the level of last year.

As a result of changes in the quantities of tobacco used by domestic manufacturers and in the amounts exported, disappearance during the twelve months following production of the 1933 crop increased for each kind of tobacco excepting dark air-cured and cigar leaf. The most pronounced increase occurred in the case of flue-cured tobacco, which benefited not only from the increase in cigarette consumption, but also from the expansion in export demand. The course of domestic consumption and exports as reported during the early part of the season suggests that disappearance in the 1934-35 marketing year may be greater than in the preceding year for dark air-cured, fire-

⁴ Burley exports also increased very materially, but as yet this outlet takes only a small portion of the Burley supply.

cured, and Burley tobacco, although it may be slightly smaller for the flue-cured types. This estimate is only tentative, however, and conclusive data will not be available until stocks are reported as of the beginning of the marketing periods for tobacco produced in 1935.

CHANGES IN ACREAGE AND PRODUCTION

The next step in considering the tobacco situation as it has developed since the AAA program was undertaken is to note the changes in acreage and production.

The total acreage of tobacco harvested was almost 25 per cent greater in 1933 than in the preceding year. Curtailments in 1934, however, more than offset that increase and brought the estimate approximately 5 per cent below what it had been in 1932.

These changes are shown by the data on acreage harvested during the three-year period, which are included in the last three columns of the table on page 204. The expansion in 1933 was mainly the result of increases in flue-cured and Burley acreage of more than 50 per cent and 20 per cent respectively. Fire-cured tobacco also was increased approximately 5 per cent, but this had only a small influence upon the total. Because of the large relative importance of flue-cured and Burley tobaccos, these increases much more than offset the curtailments in the other principal types. The acreages of Maryland, dark air-cured, and cigar-wrapper types were all reduced slightly in 1933. In the case of the cigar filler and binder types, however, acreage harvested declined from 123,200 acres in 1932 to 62,200 in 1933, a reduction of almost 50 per cent.

Each kind of tobacco shared in the reduction in acreage from 1933 to 1934, with the exception of the cigar-wrapper

types, which returned to their 1932 figure. Following these reductions, the acreage of each kind excepting flue-cured and cigar wrapper was somewhat lower than in 1932. Although the acreage of flue-cured tobacco was reduced more than 224,000 acres from 1933 to 1934, it exceeded that harvested in 1932 by more than 92,000.

TOBACCO ACREAGE UNDER CONTRACT IN 1934 AND ACREAGE HARVESTED, 1932-34^a

| Kinds | Acres under Contract in 1934 | | Acres Harvested | | |
|------------------------------|------------------------------|------------------|-----------------|---------|---------|
| | Total Bases | Total Allotments | 1932 | 1933 | 1934 |
| Flue-cured..... | 971,453 | 698,600 | 618,100 | 935,000 | 710,800 |
| Burley..... | 430,290 | 259,075 | 419,400 | 508,700 | 348,100 |
| Maryland..... | 7,139 | 5,354 | 35,000 | 34,000 | 32,300 |
| Dark air-cured.. | 44,524 | 31,070 | 48,600 | 41,800 | 40,100 |
| Fire-cured..... | 158,445 | 118,020 | 159,200 | 168,100 | 151,200 |
| Cigar filler and binder..... | 132,762 | 41,450 | 123,200 | 62,200 | 45,400 |
| Cigar wrapper.. | b | b | 6,900 | 5,900 | 6,900 |

^a Data on acreage under contract compiled by the Tobacco Section, AAA, from reports of field agents. Data on acreage harvested from Table III, pp. 252-53.

^b Contracts were offered only in the Georgia-Florida district.

Like acreage, tobacco production increased from 1932 to 1933 and decreased in 1934. Production of the principal types, as estimated for each of the years under consideration, is shown in the table on page 205. It will be noted from this table that while the production of flue-cured and Burley tobaccos increased 96 and 23 per cent respectively from 1932 to 1933, both decreased sharply in 1934, along with the other types which the AAA program sought to reduce. On the other hand Maryland and cigar-

wrapper tobaccos, for which no effort was made to reduce total production, increased in that year.⁵

TOBACCO PRODUCTION UNDER CONTRACT IN 1934 AND PRODUCTION OF THE PRINCIPAL KINDS, 1932-34
(In thousands of pounds)

| Kinds | Under Contract in 1934 ^a | | Estimated Production ^b | | |
|------------------------------|-------------------------------------|------------------|-----------------------------------|---------|----------------------|
| | Total Bases | Total Allotments | 1932 | 1933 | 1934 |
| Flue-cured..... | 731,302 | 543,590 | 376,819 | 738,583 | 555,839 ^c |
| Burley..... | 327,955 | 197,650 | 310,400 | 383,342 | 232,706 ^c |
| Maryland..... | 4,578 | 3,433 | 27,125 | 20,400 | 23,418 |
| Dark air-cured | 36,787 | 25,750 | 39,368 | 31,862 | 37,722 ^c |
| Fire-cured..... | 118,204 | 88,650 | 125,472 | 128,043 | 114,770 ^c |
| Cigar filler and binder..... | d | d | 139,451 | 68,935 | 54,266 |
| Cigar wrapper | e | e | 6,934 | 6,156 | 7,048 |

^a Compiled by the Tobacco Section, AAA, from approved contracts.

^b Data from Table III, pp. 252-53.

^c Sales during the 1934 marketing season, compiled by the Tobacco Section, AAA, from reports showing quantities of tobacco for which Kerr-Smith tax was paid both with tax payment warrants and in cash.

^d No base production was established under cigar filler and binder plan.

^e Contracts offered only in the Georgia-Florida district.

⁵ Whether or not the later decrease fully offset the increase from 1932 to 1933 is not entirely clear from the information available at the present time. According to the December 1934 estimate of the Division of Crop and Live-stock Estimates, it did not, and total production was nearly 7 per cent greater in 1934 than in 1932, although it was about 20 per cent smaller than in 1933.

On the other hand data on the volume of tobacco sold, compiled from tax-payment warrants and tax collections under the Kerr-Smith Act, indicate that the estimate may be revised downward for some types when the next report is issued in June 1935 and when it can be checked against information as to the quantity marketed.

The 1934 figures used for flue-cured, Burley, dark air-cured, and fire-cured are those for sales as compiled in the administration of the Kerr-Smith tax. Since the marketing of these types is either completed, or practically so, the sales figures are considered to be more satisfactory for the present purposes than those furnished by the December crop estimate. This is particularly true

EFFECTS OF THE PROGRAM UPON PRODUCTION

How far was the AAA responsible for the reductions shown to have been made in acreage and production in 1934? In order to obtain even a tentative answer to this question it is necessary to estimate how much tobacco would have been grown had there been no effort to control production. The only basis upon which such an estimate can be made is what producers have done in the way of increasing or decreasing acreage under similar conditions in the past. Since no previous conditions are known to have been fully comparable to those which would have obtained in 1934 had there been no AAA program, it must be apparent that the volume of tobacco which would have been produced if there had been no attempts at restriction cannot be calculated with any degree of precision. For that reason it is believed that only a general evaluation is justified and no numerical statement is attempted.

It was suggested in the final section of Chapter III, in connection with the analysis of major changes in tobacco prices which occurred during the period from 1919 to 1932, that prices received for the preceding crop and the current level of returns from enterprises which farmers can substitute for tobacco production have been the most important factors in determining the acreage of tobacco planted in a particular area in a given season.

to whatever extent discrepancies between the two sets of data may be caused by farmers' rendering unmerchantable all or part of the excess over their allotments, as required by their contracts. Of course any evasions of the tax or failures to obtain complete appraisals of unsold tobacco would cause the sales figures to be too small, but from the manner in which the tax was administered this is believed to be of minor importance.

In the other cases where substantial portions of the crops are still in growers' hands, the December estimates are used.

Thus, any substantial increase in price one year would be expected to result in increased planting the following year unless prospective returns from some other enterprise, such as cotton, improved at the same time.

While no exhaustive examination has been made of the situations for all enterprises which may be substituted for tobacco in the different districts, it does not appear that improvements in the prospects for returns from such alternative enterprises were sufficient to have caused an appreciable shift out of tobacco production in 1934.⁶ Therefore, exclusive attention may be given to the probable effects of tobacco prices in 1933 upon plantings in 1934.

With the prices which farmers received for their 1933 crops there can be little doubt that acreage in 1934 would have been considerably larger had there been no restraint by the AAA. The situation, however, differed materially between the different kinds of tobacco. It may be judged that acreage of flue-cured tobacco would have been maintained, probably have been increased, in 1934 in view of the fact that the price had increased one-third from 1932 to 1933. Thus the production plan applied to these types may be credited with at least the full amount of the 224,200 acres of reduction which actually occurred. On

⁶ To the extent that tobacco was produced upon farms covered by contracts under other commodity programs there would have been some limitations of shifts into or out of tobacco production. For example, if cotton were the major crop other than tobacco and if the farm were covered by a cotton contract, it is apparent that acreage could not be shifted from tobacco to cotton without violating that agreement. Furthermore, since the cotton contract prohibited any increase in the acreage of other basic agricultural commodities, it appears that tobacco acreage could not have been increased on such farms regardless of the price received in 1933. Under these circumstances the only feasible procedure seems to be to consider the probable shifts in acreage which would have occurred in 1934 in the absence of any AAA commodity programs, although it is recognized that such programs as that for cotton might have affected tobacco acreage even though no tobacco contracts had been used.

the other hand, Burley prices declined in 1933, but it is doubtful if this would have caused much of a change in acreage had there been no program in 1934.

Still other situations obtained for the dark air-cured, fire-cured, and cigar filler and binder types. In each of these cases acreage had been declining prior to inauguration of the adjustment plans. Consequently, the options through which bases were determined for farms under contract (see page 282) enabled producers who had made such reductions to obtain bases larger than their actual acreage grown in 1933.⁷ Under these circumstances the reductions in acreage and production specified by the contracts prevented expansion beyond the amounts allotted, but did not cause corresponding reductions from the acreages grown in 1933. In each case, however, it appears that the program should be credited with reducing the 1934 acreage below what would have been planted following the prices received in 1933.

With respect to cigar filler and binder tobacco it will be recalled that an acreage reduction plan was applied in

⁷ This may be observed most clearly from the data which have been presented for dark air-cured tobacco. In the table on p. 159 it was shown that total base acreage under contract amounted to 76 per cent of the estimated average acreage harvested from 1931 to 1933. In other words, about three-fourths of the land ordinarily used in the production of these types was signed up. However, the total base acreage for the farms under contract was greater than the total acreage harvested in 1933, as is shown in the table on p. 204. If the producers under contract had grown an acreage of tobacco equal to their allotments (31,070 acres), and if the non-signers had raised tobacco on an acreage equal to one-fourth of the total harvested in 1933 (10,450 acres), then total acreage of dark air-cured tobacco in 1934 would have been 41,520 acres without any violations by contracting producers and presumably without any increases on the part of non-signers. Such an acreage would have been practically as large as that produced in 1933 and greater than the 40,100 acres actually produced in 1934. Had there been no program in 1934, however, it is probable that a much larger acreage would have been planted following the increase of more than 70 per cent in 1933 prices.

1933. Acreages of these types had been declining prior to that time and the low level of prices received for the 1932 crop suggests that the curtailment would have continued. In this situation it would seem that only a part of the reduction in acreage made in 1933 may be attributed to the plan in 1933, although it is known to have been responsible for part of the curtailment, since more than 12,000 acres were destroyed after planting. With the increased sign-up obtained in 1934 and with a large number of producers choosing the option of making a 100 per cent reduction, it is believed that nearly the entire decrease from 1933 to 1934 was caused by the program.

Two conclusions are indicated by the analysis thus far. First, the plans for controlling production were effective in reducing the acreage and production of tobacco in 1934 below what it would have been following the prices received in 1933. This is consistent with the conclusion reached in Chapter VII that contracting producers generally complied with the terms of their contracts and that the methods applied were effective in holding production within predetermined limits. Second, the amounts of reduction varied among the different kinds of tobacco and were not proportionate to the rates stipulated in the contracts. In some cases the acreage planted in the absence of the program would probably have been less than the bases from which allotments were calculated, and the actual reductions attributed to the plans were less than the reductions from the base stipulated by the contracts. In other cases it appears that harvested acreage would have exceeded base acreage and that the actual amount by which the program restricted production was greater than the calculated reduction from the total bases.

While these conclusions relate to the effectiveness of the

method in limiting production under a given price situation—namely that which obtained in 1933—they do not answer the question whether 1934 production was smaller than it would have been in the absence of any AAA program. In other words, had there been no program of any character, would prices have been lower in 1933, thereby causing acreage and production to be reduced in 1934? This question can best be considered by continuing the analysis of price changes.

EFFECTS UPON PRICES RECEIVED IN 1933

The market situations for the 1933 crops of tobacco created by the developments pertaining to domestic consumption, exports, and production may be summed up in terms of total market supplies in relation to requirements. It will be recalled from the discussion in Chapter III that acreages were reduced in 1932 for all kinds of tobacco as a result of extremely low prices in the preceding year. Because of these curtailments, 1932 production was smaller than disappearance during the succeeding twelve months in the cases of flue-cured and dark air-cured tobaccos. As a result, at the beginning of the marketing season for the 1933 crop, carry-overs of those types were smaller than they had been the previous year—the difference being only slight in the case of dark air-cured tobacco, but more than 20 per cent for flue-cured. In each other case production exceeded disappearance, and carry-overs in 1933 were increased.

When 1933 production, as shown on page 205, is added to these carry-overs, however, it indicates that total supply at the opening of the market season was greater than it had been the year before in every instance excepting dark air-cured and possibly cigar leaf. If allowance is made for

the large quantity of unsold tobacco held by producers in cigar districts (see note 9, page 64), which is not included in the figures shown, it appears that stocks of cigar leaf had also increased, although the amount of this increase is uncertain. The reduction in supply of dark air-cured tobacco was by no means large. These changes are shown in the following comparisons of supplies at the beginning of each of the two years (in millions of pounds):

| Kinds | 1932 | 1933 |
|----------------------|---------|---------|
| Flue-cured | 1,250.7 | 1,419.8 |
| Burley | 1,008.2 | 1,119.7 |
| Maryland | 60.8 | 61.0 |
| Dark air-cured | 124.3 | 113.1 |
| Fire-cured | 340.9 | 344.1 |
| Cigar leaf | 640.6 | 552.9 |

When the facts with respect to consumption and exports presented earlier in this section are considered in relation to these market supplies, it is difficult to see that the 1933 situation had improved over the preceding year, except possibly in the case of flue-cured tobacco. In that instance supplies were not especially excessive, though they had increased somewhat over the preceding year, and it appears that export demand for these types had increased substantially. Also the increase in cigarette consumption which began in 1933 doubtless strengthened the demand for flue-cured tobacco as well as for Burley and Maryland.⁸ Even in the case of flue-cured tobacco the factors

⁸ Presumably, however, this factor had the most effect upon the market for Maryland tobacco, because the crop was not sold until the following calendar year. At that time the increased use of cigarettes was more apparent than it was in the middle of 1933 when marketing of the flue-cured crop began.

An increased demand by domestic manufacturers for the lower grades of Maryland tobacco also appeared during this period. Apparently there is a tendency to substitute a small quantity of this tobacco, formerly exported, for Burley in certain types of products.

which have been discussed could not have caused the more than 30 per cent increase in price which actually occurred, if anything like the relationships of previous years are assumed. For the other types on which marketing agreements had been negotiated these factors indicate that 1933 prices would probably have been lower than the 1932, whereas they were higher in all cases excepting Burley. Prices for this type had been above their usual relationship to supply in 1932, as already noted. (See page 199.)

Before this price enhancement can be attributed to the AAA program, certain other factors must be considered as possibly responsible. Prices of all commodities were rising during the same period and tobacco markets may have been affected by the same set of influences. With respect to the probable importance of this consideration, attention is called to two points. First, there is no valid reason why one type of tobacco would be affected more than another by factors causing a rise in the general price level, except as it may have been marketed at a later date, when that rise had progressed further. If this is true, then Maryland tobacco should have benefited more from such factors than any of the other types, since it is sold throughout the calendar year following its production. Yet from 1932 to 1933 it increased only one-half cent per pound. This is much less than would be expected in comparison with the other types towards which the AAA directed its efforts to control production, if factors behind the rise in the general level of prices were responsible for the excess of prices above those which would be estimated from the factors which have been considered.

In the second place, even if it is assumed that influences back of the rise in general price level caused the same per-

centage increase in tobacco prices as occurred in the index of prices for all commodities, still the prices received in 1933 are not fully explained for most types. Thus a part of the prices received for flue-cured Burley, dark air-cured, fire-cured, and cigar filler and binder tobacco in 1933 must be attributed to the adjustment program, unless some other explanation is found.

Devaluation of the dollar and the gold-buying program are frequently advanced as explanations of the higher prices received both in 1933 and 1934. Without going into an exhaustive analysis of this influence it will suffice to point out that any possible effects have already been taken into account in the preceding discussion. To the extent that the monetary program was a stimulus to a rise in all prices, it was allowed for in the consideration of price level as a possible factor. Beyond this effect it is possible, in fact probable, that depreciation of the currency stimulated exports by lowering prices in terms of foreign currency.⁹ This, however, was taken into account when the volume of exports was considered as indicating the level of export demand.

From these considerations it is concluded that the program was effective in increasing prices to growers for the

⁹ It is easy to over-estimate the importance of this factor on a product subjected to import duties by foreign countries as high as those applied to tobacco. For example, American tobacco shipped to the United Kingdom, where the largest increase in flue-cured purchases occurred, is subject to a duty of approximately \$2.32 per pound. With a market price of 20 cents per pound in the United States, the price abroad would be \$2.52 plus transportation charges. Under these circumstances a change in exchange rate equivalent to a 50 per cent reduction in the price in the United States would cause a change of considerably less than 5 per cent in the net cost to the purchaser. For the same reason, moderate changes in market prices are likely to cause small changes in exports, and the demand of export buyers is relatively inelastic over a period of time, although this statement must be modified when applied to certain countries—particularly those using the lower grades of tobacco shipped out of the United States.

1933 crop. These increases were secured through the temporary use of marketing agreements, as described in Chapter V. As pointed out in that discussion, the principal basis for the price enhancement was the prospect for future control of production. The character of the estimates required in any analysis to determine the exact amounts of the prices to be attributed to the program are such that they cannot be made with any high degree of precision. For that reason quantitative estimates of the effects on prices for the different kinds of tobacco are not attempted in this analysis. From the evidence which has been considered, however, it is believed that the effects were quite substantial for each kind of tobacco to which the program applied in 1933. It is possible that prices for the 1933 crop of Maryland tobacco also were strengthened by the prospect for control of all supplies in the future, even though no efforts were made to raise 1933 prices for this type. If there was such an effect, however, it must have been small and its existence cannot be demonstrated.

EFFECTS UPON PRICES RECEIVED IN 1934

A similar analysis of the situation in 1934 credits an even greater price-raising effect to the program in that year. In the price increases which occurred, the curtailment of 1934 production was of course a most important factor. To the extent that the conclusion already stated with respect to the influence of the production control plans upon this crop is accepted, it follows that a share of the price increase is credited to the AAA program. At the same time other factors have been noted which undoubtedly had a strengthening effect upon prices for several types in 1934. These were the increased consumption of

cigarettes and the increase in exports for some kinds of tobacco. No doubt these developments were partly responsible for the extraordinary rise of prices for flue-cured tobacco relative to other types, which has caused them to exceed the parity goal by some 40 per cent. For the other types, however, it would appear the strengthening of demand represented hardly more than a checking of previous declines and would not of itself account for any material improvement in the price situation.

If previous relationships are assumed to exist between prices and the various statistical factors considered thus far, they explain part of the increase in prices from 1933 to 1934. Even when all of those factors, including the curtailment of production attributable to the program, are taken into account, however, they do not explain the whole of the increases which have occurred. It would seem, therefore, that some other influence contributed toward the rise in tobacco prices in 1934.

One development which may have contributed to this increase was the destruction of some tobacco produced in excess of allotments. Yields were generally good in 1934 and as a result a number of producers, especially in the Burley, dark air-cured, and fire-cured producing areas, harvested more tobacco than they were entitled to sell, even though their plantings had not exceeded the respective acreage allotments. Under these circumstances it was necessary for them to render unmerchantable a portion of the tobacco harvested in order to comply with the terms of the contracts. There would seem to be no question but that most producers faced with such a problem would sacrifice the poorest quality of tobacco they had, thereby improving the average quality sold and consequently in-

creasing the average price received. In no event, however, could this have influenced prices for flue-cured or cigar tobacco, since no tobacco of these types was destroyed.

While the withholding of low-grade tobacco from the market doubtless had an influence on the level of prices in a few areas, there is no information available from which the amount of that influence can be determined. On the whole it is judged to have been of minor rather than of major importance and can by no means be used to explain the portion of the price advance which is not accounted for by the statistical factors already mentioned. To obtain the most probable explanation of this price increment it is necessary to consider what effects injection of the production control plans had upon competition and the price-making process.

EFFECTS OF DIRECT CONTROL OF PRODUCTION UPON COMPETITION

Competitive conditions in the manufacture and sale of tobacco products and their relation to the behavior of prices received by producers for leaf tobacco were considered in the final section of Chapter III. The significant conclusions from that examination were:

1. The cost of raw tobacco is a relatively small element in the price at which manufactured products are offered to consumers.
2. Revenue taxes constitute a very large element in the consumers' cost, an element which is fixed and does not change with variations in the price of raw materials.
3. The production of some types of tobacco products in which the largest volume of leaf tobacco is used is concentrated in the hands of a small number of large manu-

facturers. This is a result of the advantages of large-scale production in this particular field.

4. The small number of manufacturers enables each company, when determining its selling prices, to take into account the effect of its own price policy upon the market as a whole. This, together with factors tending to prevent new competitors from entering the field, causes price competition to be limited. Competitive advertising constitutes the principal method by which manufacturers seek to increase their volume of business.

5. The result of all these conditions has been a high degree of stability in prices for manufactured tobacco products. Such variations as have occurred have been unrelated to the changes in prices of leaf tobacco.

6. The volume of products consumed, and hence the raw material requirements of domestic manufacturers, are determined by the quantities which consumers will buy at these relatively fixed prices. As a result the manufacturers' demand for tobacco is very inelastic when the total quantity they will take over a period of years is considered. Within any season, however, their demand is elastic because tobacco can be held over a period of years, and storage costs can be balanced against the estimated advantages of building up inventories in periods of low prices in anticipation of curtailed production and higher prices in the future.

7. High import duties, transportation costs, and prevalence of government tobacco monopolies in foreign countries tend to cause similar inelasticity in the export demand for most types and grades.

8. Under these conditions the quantity of tobacco used over a period of years is relatively independent of the

producers' price and that price tends continuously towards a level which will call forth just the volume of production required.

When a program of production control by the government is introduced into this situation just one important condition is changed: the volume of tobacco produced is no longer dependent upon the price received by the producer. If under such a program the volume of tobacco produced over a period of years is adjusted so as to balance the volume of the different types exported, plus the volume required for the manufacture of the products consumed at the stable prices, then the program does not decrease total production over that period, even though it may change it considerably within individual years. The reason is that, in the absence of any direct control over production, prices to producers would be established at the level which would cause growers to produce this same quantity. Since prices to consumers are independent of raw tobacco prices, at least within the limits involved in raising farm prices to parity in 1934, it follows that the volume taken over the period of years, and therefore the total volume produced, would be the same in either case.¹⁰

¹⁰ Certain minor limitations which do not destroy the validity of the general analysis must be placed upon this statement. First, the volume exported might be slightly different under the two conditions, although it appears that such a difference in 1934 would have been negligible. Second, to the extent that direct control effected a different net change in inventories during the period as a whole, a corresponding difference would appear in the volume produced. The longer the period considered, however, the less important this would be. And under any reasonable assumptions it would be of little significance. Finally, to the extent that the control program resulted in curtailed expenditures for advertising as considered in the succeeding paragraphs, it would reduce consumption by whatever amount that advertising would otherwise have caused.

No information is available from which the effects of advertising upon total consumption can be demonstrated, but the most tenable supposition is that tobacco advertising is chiefly significant as a method for securing

The significance of this change in the competitive situation lies in the fact that, under a program of direct production control, prices need not be held down to their minimum level in order to prevent production from expanding in the future. Hence, an added form of competition among buyers is made possible: competition to obtain possession of the supply of raw material. Once a manufacturer is convinced that production will be restricted by the government so as to balance market requirements, he can proceed to bid up prices in order to obtain a larger portion of that supply, or even to keep a competitor from procuring an adequate supply of a particular type or grade. This can be done without fear that the higher prices will cause production to expand and correspondingly to lower prices in the future, thereby enabling competitors to obtain cheaper supplies. Of course, a limit is set to such operations by the practical consideration that at some point the restriction on production will be relaxed even though there be no shortage in total supplies. Just where this point will be cannot be determined, but there is no reason to believe it will prevent prices from rising to the present parity level.

It must not be understood that, given a direct control over production, prices will necessarily rise in this manner. The point is that under such conditions the price can be either at the same level which would have obtained for the same supply in the absence of the control, or can be much higher. Between those points, price is to a degree

business which would otherwise go to a competitor rather than in its effect upon total consumption. It should be remembered that the war-time stimulus to cigarette smoking among men was largely independent of any advertising effort, and that the demand of women smokers reached large proportions before any direct appeal to women was brought into cigarette advertising.

non-determinate. Given a fairly stable situation in the industry, with no new competitors seeking to establish themselves and with margins narrow enough so that no company is inclined to attempt a material expansion, price might reasonably be expected to tend toward the lower limit. However, with excessive spreads, with certain well-financed companies seeking to absorb the business of weaker competitors, or with new manufacturers entering the field, the price might be forced materially higher. For example, it is reasonable to suppose that manufacturers of standard brands of cigarettes, now retailing for the most part at two packages for 25 cents, desire to prevent losses of volume to manufacturers of 10-cent brands. Prior to the development of the control plans, two principal methods were available: advertising and lowering retail prices. The first is effective only within limits and has not proved adequate to prevent a substantial loss of business to the new brands. The second means practically a price war.

Under the new conditions, however, a third method is available, namely the bidding up of tobacco prices. This would increase the costs of manufacturers of the lower priced brands, whose margins necessarily are narrow. Thus an effective weapon against price competition is afforded which may be used at much less cost to the established industry than a price war.

If the foregoing analysis is accepted, it must be apparent that a given supply of tobacco might sell anywhere within a range of prices under a control program, depending upon conditions at the time. For that reason a statistical analysis of supply-price relationships will not reveal the whole of the price influence of such a program. The approximate price increase associated with the actual reduc-

tion of supplies may be determined, but such further increase as may result from effects upon the competitive process through which prices are established cannot be ascertained statistically, at least with the data which are now available. However, there is ample indication that these effects were of considerable importance in determining the results of the tobacco program in 1933 and 1934.

Conditions in several branches of the industry during this period have been of the character which would tend to cause tobacco prices under a production control program to be established well above those which would otherwise prevail for crops of similar size. Manufacturers' margins had increased to unprecedented levels, as was shown in Chapter III. In spite of the factors tending to prevent new competitors from entering the field, 10-cent brands of cigarettes had appeared in 1931 and were making substantial gains at the expense of other brands. Cigarette prices were being lowered to meet this competition, indicating that manufacturers' margins had finally increased to a point where the stable structure of prices for cigarettes was breaking down. The manufacture of cigars was being concentrated in the hands of a smaller number of units, of which a few had come to control a relatively large part of the total volume. Under such circumstances, the established manufacturers could well afford to enter into marketing agreements to raise prices in 1933, once they were satisfied that production would be controlled in the future. For similar reasons their competition for control of the tobacco produced in 1934 appears to have been the important factor causing prices in that year to be established above their former relationship to supply.

The cost of the program, both processing taxes and increases in tobacco prices, has been borne by the manufacturers—in effect as an increase in their cost for raw material. For the same reasons that prices of manufactured products have in the past been independent of variations in tobacco prices within relatively wide limits, these costs have not been passed on to consumers. Former profit margins of manufacturers have been greatly reduced largely because of this factor, although increases in other costs and lower prices for some products have contributed to the same result. Whereas the total profits available for distribution as dividends by the 34 leading manufacturers of tobacco products were 146 million dollars in 1932, they were only 80 million in 1933, and 100 million in 1934. At the same time, the gross receipts of farmers (not including benefit payments) from the sale of tobacco retained for domestic manufacture increased from 68 million dollars in 1932 to 128 million in 1933 and 159 million in 1934.

EFFECTS UPON INCOME FROM TOBACCO PRODUCTION

Having considered the extent to which the tobacco program has attained the objective of curtailing production in order to reduce excessive stocks and raise prices, there remains the question as to whether progress has been made towards the major goal of increasing income of farmers. Since it has been concluded that the program did contribute substantially towards the enhancement of prices in both 1933 and 1934, this task consists mainly in determining whether or not those increases plus the disbursement of benefit payments offset the curtailment in volume of production.

Producers in most areas received greater total returns

from the sale of their tobacco produced in 1934 than they did for the larger production of 1932 or 1933. This is shown by the following summary of annual farm values for the three years (not including benefit payments):¹¹

| Kinds | 1932 | 1933 | 1934 |
|-------------------------------|-----------|-----------|-----------|
| Flue-cured | \$ 43,158 | \$112,992 | \$150,504 |
| Burley | 38,909 | 40,452 | 39,560 |
| Maryland | 4,611 | 3,570 | ... |
| Dark air-cured | 1,634 | 2,317 | 2,854 |
| Fire-cured | 7,769 | 11,609 | 12,678 |
| Cigar filler and binder | 8,164 | 4,959 | 5,997 |
| Cigar wrapper | 3,512 | 3,552 | 4,489 |

In the case of Burley, the extreme reduction in volume from 1933 to 1934 slightly lowered the total value. Only in the case of the cigar filler and binder types did the reduction in volume offset price advances to an extent that 1934 farm value was reduced below the corresponding value in 1932. With respect to these types, account should be taken of the fact that farmers did not actually receive as much for their 1932 crop as the data just presented would indicate. The reason for this was that not nearly all of their tobacco was sold, but much of it was still stored on farms late in 1933. To the extent that the program helped create market conditions which facilitated the sale of this tobacco at somewhat higher prices, it is apparent that its effects upon the incomes of producers in the cigar-tobacco districts was greater than is shown by the preceding data.

Although the data included in the preceding paragraph illustrate the situation with respect to farmers' receipts

¹¹ Values for flue-cured, Burley, dark air-cured, and fire-cured in 1934 were estimated by the Tobacco Section, AAA, from reports of sales of tobacco to which the Kerr-Smith tax applied. Other data are from reports of the Division of Crop and Livestock Estimates.

from sales of tobacco, they do not show changes in aggregate incomes of producers. In the first place they do not include the cash payments to growers in connection with the production control plans. When these payments, including both those already disbursed and those still to be paid in connection with the 1934 program as shown on page 195, are added to the aggregate proceeds from sales of tobacco, the following estimates of producers' gross income from tobacco are obtained:

| Kinds | 1932 | 1933 | 1934 |
|----------------------|-----------|-----------|-----------|
| Flue-cured | \$ 43,158 | \$117,450 | \$165,652 |
| Burley | 38,909 | 40,452 | 53,908 |
| Maryland | 4,611 | 3,570 | ... |
| Dark air-cured | 1,634 | 2,317 | 3,354 |
| Fire-cured | 7,769 | 11,609 | 14,291 |
| Cigar leaf | 11,676 | 10,590 | 17,909 |

These estimates show that in 1934 gross income including benefit payments was well above either 1932 or 1933. For each kind of tobacco except cigar leaf it was equal to or above the gross farm value of the 1931 crop, and in the case of flue-cured it was larger than in any year since 1919.

For most of the types where acreage was reduced materially in 1934, the increase in farmers' net income from tobacco production has been even greater than the advance in gross returns. This is true because total expenses are reduced by the curtailment of acreage. Although some expenses do not vary with acreage and production, cash outlays for fertilizer and many other items are approximately in proportion to the amount of tobacco grown in a given year. It was pointed out in Chapter II that expenses of this kind are relatively large for tobacco in most producing areas. To whatever extent the reduction of acreage and

production curtailed such expenditures, the total expense to be deducted from the gross income was smaller. Under such conditions the greater influence upon net incomes would necessarily follow. No data can be presented on this aspect of the situation at the present time, but a general consideration of the conditions under which tobacco is produced suggests that it is quite large in view of the relatively high cash expenses per acre in most tobacco producing areas.

The results of the AAA tobacco program in 1933 and 1934 may now be summarized. Growers' incomes from tobacco production in both years have been materially higher than they would have been if there had been no program. This enhancement of incomes resulted partly from the distribution of cash payments to producers and partly from the fact that prices were substantially higher than those which would otherwise have been received. In 1933 these prices were obtained under marketing agreements negotiated with the principal domestic manufacturers. However, the basis for the price increases was mainly the prospect for controlled production in future years. In 1934 acreage and production under the several production plans were smaller than would otherwise have followed the prices received in 1933, and this curtailment resulted in higher prices to growers. At the same time, the competitive situation in the tobacco manufacturing industry caused price gains from the production plans to be much greater than have formerly accompanied similar reductions in market supplies, and also caused the benefits to producers to be derived from the former profit margins of tobacco manufacturers.

CHAPTER X

LONGER TERM POSSIBILITIES AND LIMITATIONS

The analysis of results in 1933 and 1934 has, in effect, constituted an evaluation of the effectiveness of the tobacco program in attaining the objectives of the AAA with respect to enhancement of prices, curtailment of production, reduction of carry-overs, redistribution of consumers' expenditures for tobacco products between growers and manufacturers, and increasing producers' incomes. It is now appropriate to consider the extent to which the experience thus far makes it possible to appraise the methods used as possible devices to be employed in a more permanent program for the stabilization of the tobacco producing industry.

CONTINUATION OF THE PROGRAM IN 1935

All essential features of the program as it was applied in 1934 are being continued in 1935, although some modifications are being made.¹ The Secretary of Agriculture has already notified all contracting producers, excepting those in Puerto Rico, that he has exercised his privilege

¹ The rates of reduction are changed somewhat for 1935. Contracting producers of cigar filler and binder tobacco must keep one-third of their base acreage out of production instead of having a choice between three optional rates. Allotments under the plan for flue-cured tobacco are increased to 85 per cent of the bases instead of being kept at 70 per cent where they were in 1934, thus requiring only a 15 per cent reduction for these types. Similarly a 20 per cent reduction is being required for fire-cured and dark air-cured tobacco, whereas last year producers of these types had to make reductions of 25 and 30 per cent respectively. The reduction under the Burley plan is to be 40 per cent instead of the optional rates of 1934. The principal provisions of the plans for 1935 are outlined in Appendix D, p. 282.

of continuing their contracts in force with respect to production in 1935.

Producers who have not previously participated in the production control plans are being given the opportunity of signing contracts for 1935 if they desire. Furthermore, "special base contracts" are being offered producers who have been unable to obtain equitable allotments under the regular contracts because of their inability to establish satisfactory bases through the options provided.²

The Kerr-Smith tax is to be applied to each principal kind of tobacco excepting Maryland in 1935. As a basis for the determination which this act requires the Secretary of Agriculture to make with respect to the number of producers who favor the application of this tax, a producers' referendum has been conducted in each area. Tabulations of the results show that growers overwhelmingly favor such application. Producers (including sharecroppers and other tenants) who voted on this question control a very large portion of the land on which tobacco

² *Special Base Tobacco Contract*, AAA Form T-173 for flue-cured, Burley, fire-cured, and dark air-cured tobacco. A similar contract is being offered to producers of cigar filler and binder tobacco. The distinctive feature of this contract is that the base acreage for each farm is either the average acreage planted on that farm in those years from 1929 to 1934 inclusive when tobacco was grown, the average acreage grown from 1929 to 1934 by the contracting producer, or the acreage which could be produced in 1935 with the barns, equipment, and labor now on the farm. The one of these options to be used "shall be selected by the county committee in accordance with instructions of the Secretary of Agriculture: Provided, That in no event shall the proportion that the recommended base acreage bears to the land on the farm suitable for tobacco production be larger than the proportion for typical neighboring farms covered by tobacco production adjustment contracts." (*Application for Special Base Contract*, AAA Form T-172. See Also *Instructions to Field Workers for Special Base Tobacco Contracts*, AAA Form T-174.) The base production under this contract is to be the base acreage times the average base yield for typical neighboring farms with similar soils. No special base contracts are to be approved for a farm already covered by a contract or for which an equitable allotment can be established under a regular contract.

is grown in the different areas, the percentage ranging from approximately 80 in the area where fire-cured tobacco is produced to 96.3 in the area of flue-cured production. Of these growers, more than 90 per cent in each area voted in favor of the application of the tax in 1935, except in the case of the cigar-tobacco districts, where the percentage was 87.8. More than 99 per cent of the votes cast by growers of flue-cured tobacco favored the tax.

Thus the program for next year involves continued control of acreage and production through growers' contracts, with benefit payments out of proceeds from processing taxes and a supplementary use of the Kerr-Smith tax. The probable results from continuation of the program in this form may be considered as a first step in evaluating the measures applied to tobacco from a longer time point of view. The possibilities and limitations of such a policy, so far as they may be judged from these observations of the program in operation thus far, may be set forth conveniently in terms of the basic considerations involved.

FINANCIAL BENEFITS TO PRODUCERS

Would a control program continued in accordance with present policies result in financial benefits to producers over a period of years? In the analysis of results obtained in 1934, it was concluded that the advance in producers' prices attributable to the AAA program resulted partly from the curtailment in volume produced and partly from the effects of the existence of an effective control program upon the price-making process. In regard to the first of these, there appears to be no reason to assume that a comparable restriction in supply would not result in a similar support of prices within a given year. It should be noted,

however, that a continuation of the policy of adjusting production to a level which would reduce carry-overs considered to be excessive, but which would not reduce the quantity consumed, would bring about only a very slight reduction of production over a period of years. Under such circumstances, the probability of significant price enhancement or material additions to producers' incomes appears relatively small in so far as it depends upon the production of less tobacco than would otherwise be produced during the next several years.

With regard to the permanent effects of production control upon the competitive situation, a less definite answer must suffice. It was pointed out in the preceding chapter that direct control of production had the effect of making producers' prices non-determinate between a minimum equal to the price which would have been received for the same volume in the absence of any control, and a maximum considerably higher though somewhat indefinite. However, since the program itself would constitute an additional factor tending to limit competition in the sale of tobacco products, it seems not unreasonable to suppose that over a period of time prices to growers would tend strongly towards the minimum limit. For the next year, or even for two or three, it is probable that prices would be above previously established supply-price relationships, due to the continued operation of the same factors which existed last year. It is quite possible, however, that this influence would decrease rather rapidly if manufacturers' margins were kept low enough to prevent price cutting or the expansion of lower priced brands, and conceivably it might never be as great again as it was in 1934. The conclusion with respect to this aspect of the question is, there-

fore, that producers would probably receive some price benefits from the permanent control of production, although over a period of years it is unlikely that such benefits would be comparable with those received in the past year.

In addition to benefits in the form of price enhancement, the program presents the possibility of additions to producers' incomes through benefit payments. Thus far the burden of tobacco processing taxes has fallen upon the manufacturers. Prices to consumers have not been raised and certainly producers' returns have not been lowered below previous relationships to supply as a result of the program. Therefore, benefit payments have been net additions to farmers' incomes and could be used to increase growers' returns in future years even though prices were not increased by the program. In fact, so long as prices remain below parity, the smaller the increases secured, the higher the processing tax rate could be in the succeeding marketing season, and the larger the proceeds which would be available for distribution as benefit payments. Under these circumstances the scheme could be used to obtain returns approximately equal to parity price for producers of any kind of tobacco which is entirely consumed within the country. Since processing taxes are not levied upon exports, however, returns on types which are exported could only be increased by the amount of the benefit payments which could be made out of the proceeds of the tax upon tobacco processed for domestic use. For such types producers' returns could not be maintained at the parity level through benefit payments alone.

In the case of types for which consumption was being maintained or increased, returns equal to parity price on

the quantity sold would obtain for producers a total income equal to what they received in the base period designated by the Adjustment Act. For types whose use is declining at all rapidly, however, the maintenance of producers' incomes through processing taxes and benefit payments would be more difficult because of decreased volume.³

It should be noted in this connection that the burden of the tax may not remain permanently upon the manufacturers and processors. Given the condition of stabilized competition in the industry which was suggested as a possible development under a continued control program, it is quite conceivable that taxes would no longer be absorbed entirely by the manufacturers, but would result in increased prices to consumers with a corresponding curtailment of consumption. The experience gained in 1934, as well as a theoretical consideration of the various factors involved, indicates small probability that this development would result from the enhancement of producers' prices to the present parity level. Of course there is a point beyond which further enhancement of manufacturers' raw material costs, including processing taxes, would result in increased prices for tobacco products. It has been noted, however, that these prices are independent of tobacco prices within relatively wide limits, and it may be that manufacturers' margins could be narrowed somewhat further

³ In the years when the program caused less tobacco to be grown than would have been produced in the absence of production control, some gains in the form of reduced expenses of production would also be obtained. Over a period of years, however, these would be small, since it has been shown that total production over such a period probably would be about as large under the program as it would be without any control of production. Under these circumstances any important reductions in cost would have to result from the stabilization of acreage, and it is not clear that these would not be more than offset by the increases in costs as a result of the effects of the production control plans in restricting farm management adjustments by individual farmers.

before the level of retail prices for tobacco products would be increased appreciably.

Even though retail prices were not raised above present levels through the continued operation of an adjustment program, the burden of such a program might fall upon consumers in a very real sense. This would be the result if the program prevented a decline in prices to consumers which would otherwise have taken place. It was pointed out earlier in this discussion that shortly before the Adjustment Act was passed manufacturers' margins had reached levels which were beginning to attract new capital into the industry in spite of the many difficulties to be encountered by anyone seeking to enter the field in competition with the established companies, or by a manufacturer seeking to increase volume by lowering prices. This was another way of saying that the various restraints upon competition had maintained the stable price structure about as long as possible in the face of declining prices for leaf tobacco and other costs. This was especially true with respect to cigarettes, where the introduction of the 10-cent brands might have been the forerunner of a period of competitive price cutting by manufacturers.

Had this developed, it follows that consumers would have received the benefit of lower prices, and no doubt consumption would have been increased somewhat. Before it is concluded that the tobacco program should be charged with the maintenance of consumer prices above the levels which would otherwise have prevailed, however, two additional aspects must be considered. First, while the program did increase raw material costs both as a result of higher prices and the levying of processing taxes, and therefore may be considered as one factor lessening

the tendency for a lowering of retail prices, it was by no means the only factor. Other costs rose also, as for example labor costs under the National Recovery Administration. Of even greater importance is the possibility that the period of lower prices would have been of only temporary duration in any case. While this obviously cannot be judged with any degree of certainty, it appears not unlikely that such would have been the case and that afterwards prices would have returned to roughly their present levels.

In view of the considerations advanced in the preceding paragraphs, it seems most reasonable to conclude that the burden upon consumers of continuing the program along its present lines would be quite small and that the resulting curtailment of consumption would likewise be small, if not entirely negligible. If this is correct, then it may be concluded that a continuous direct control of tobacco production, under the conditions likely to prevail in the next few years, would result in most years in financial benefits to tobacco producers as a group, although it is unlikely that such benefits would be as large as those received in 1934.

PERMANENT CONTROL OF PRODUCTION

If the conclusions with respect to probable results from a reasonably permanent direct control of production are accepted, the question immediately presented is: Can such control be obtained by the methods used in 1934 and now being continued in 1935? The answer to this question depends upon several considerations. Prominent among these are: The legal status of the various measures, including the Kerr-Smith tax; producers' attitudes towards the program and the manner in which these attitudes are affected by the results obtained; the necessity for flexibility

to permit individual farm adjustments; and the amounts of money available for rental and benefit payments.

Legal status assumed. No attempt has been made in this book to appraise the legal status of the various devices provided by the Agricultural Adjustment Act and the Kerr-Smith Act. In considering the probable results from a permanent use of these devices, however, it must be noted that broad questions of constitutionality are as yet unanswered with respect to both acts. Numerous cases relating to the Adjustment Act have been brought before lower courts and a variety of decisions have been rendered with respect to specific features. Also, in two cases the legality of the Kerr-Smith tax has been contested. In one of these the act was held to be unconstitutional in a federal district court.⁴ As yet, however, no decision upon the constitutionality of either of these laws has been rendered by the Supreme Court of the United States. Under these circumstances, the present observations with respect to the possibilities and limitations of the tobacco program as a permanent institution are tentatively stated on the assumption that its continuance in its present form is legally possible.

Attitudes of growers. The possibility of building a permanent program around the device of controlling production through voluntary contracts depends, among other things, upon growers' attitudes. Not only do these attitudes determine whether or not producers will enter into such contracts, but they may also determine the extent of compliance. For example, it must be fairly obvious from a practical point of view that enforcement of all the tobacco

⁴ Decision by Judge Dawson in the Western District of Kentucky on Apr. 13, 1935. This case will be appealed. The other case was argued before Judge Hayes of the Middle District of North Carolina. It was taken under advisement on Mar. 20, 1935 but no decision has been rendered.

contracts in 1934 would have been entirely beyond the power of the government if a majority of growers had sought to escape compliance, and if sentiment in the respective areas had been in opposition to such enforcement.

For the present there can be little question that tobacco producers favor continued control of production. As has been shown, growers have experienced a decided improvement in their economic situation, and they are inclined to credit this improvement even more exclusively to the efforts of the AAA than has the preceding analysis. Under these circumstances it appears that the desire for comparable benefits under a continuation of the program far outweighs the desire to expand production stimulated by the relatively profitable returns received in 1934. In support of this statement, two significant developments may be cited. First, strong opposition was expressed in some regions, especially in the area where flue-cured tobacco is produced, to any increase in allotments for 1935. When the details of the plans for 1935 were first announced and it was made clear that contracting growers would be permitted to produce more tobacco than in 1934, many producers and farm leaders objected on the grounds that it would mean giving up gains already made.⁵ Not until the AAA had explained its position that the Adjustment Act only authorized efforts to raise prices to parity, and that further curtailment of production in order to raise prices above parity might have an adverse effect upon exports, did these expressions become less frequent.

A second development which is strongly indicative of

⁵ Strong protests against any move to relax the restrictions on production were also made by political leaders who apparently judged it to be in their interest to voice publicly their opposition to "anything which would lower prices growers received for tobacco," and by local newspapers in parts of the area where flue-cured tobacco is produced.

growers' attitudes toward the tobacco program was the growers' vote with respect to application of the Kerr-Smith tax in 1935. It was noted on pages 227-28 that a very high proportion of the growers voted on this question in each producing region, and that an equally large proportion of those who voted favored the use of the tax. Even allowing for the possibility that some individuals voted for this application on the ground that a program of control through contracts and benefit payments would be continued anyway, the results of these referenda must be admitted as evidence of a very favorable attitude among growers.

Although at present a vast majority of tobacco growers favor continuation of the program along its present lines, it is possible that this attitude will be changed in the future. For example, the spectacular price advances which took place in 1934 account for a substantial part of the favorable attitude towards the program. But it was emphasized in the early part of this chapter that the same degree of control over production in future years might result in benefits to growers substantially smaller than those obtained in 1934. To the extent that benefits were reduced or (of equal importance) to the extent that growers failed to recognize the benefits actually secured, it is possible that producers might lose their regard for the general plan. It is probable, however, that under such conditions growers would at first demand more control rather than an abandonment of the program.

Flexibility required. Still another problem involved in appraising the possibilities of controlling production over a period of time is that of determining the probable effect in restraining individual farmers from working out the most desirable organization of their farming operations.

Such a restraint might seriously limit the benefits received by a considerable group of producers and affect their attitude towards the program. Undoubtedly one of the best features of the plans developed for the control of tobacco production has been their flexibility in application to particular local conditions and even to conditions on individual farms. To some extent this adaptability has resulted from the recognition of the extreme variability of farming conditions and the development of separate plans for each tobacco producing area. Beyond this, however, the provision of optional methods for determining bases, the authorization of optional rates of reduction under some plans, and the issuance of rulings permitting growers to market in excess of their allotments if they accepted reduced benefit payments, all contributed towards making the plans adaptable to a variety of conditions on individual farms.

This flexibility, however, only made the plans adaptable to the varied conditions to be found at the time they were applied. It made no provision for adjustments such as would ordinarily take place over a period of years. A number of new producers normally appear each year and shifts in production are constantly occurring among all classes of farm products, which may involve expansion of tobacco acreage on some farms and contraction on others. No great pressure on the plans develops from interrupting these changes for one or two seasons, but a strong demand for adjustments by regions as well as by individual farms would certainly follow any attempt to prevent changes over a long period.

To a certain extent, the character of this demand would depend upon the degree to which producers were able to readjust their systems of farming to the changed condi-

tions created by the control program itself. If the relaxation of restrictions on the use of the land taken out of production provided for in the 1935 program, plus the opportunities already available for the substitution of new enterprises, should enable growers generally to work out economical combinations of enterprises for their farms, then a great deal less opposition to control of tobacco production may be expected to develop than if growers find it necessary to continue substantially their former combinations but with a reduced acreage in tobacco. In the latter instance they are likely to consider the program as purely an emergency measure and to judge it a failure if it does not soon create conditions under which they can return to growing tobacco up to the full capacity of their farms.

The foregoing consideration suggests an important field for further research if an attempt is to be made to continue an adjustment program for tobacco. This research should determine as accurately as possible the character of shifts in production which are likely to be needed in the various areas during the next few years, and then deal exhaustively with the farm management adjustments for individual farms through which these changes can be worked out. Only on the basis of such study can the needed modifications of control programs be developed.

Many members of the AAA staff are fully conscious of the importance of having investigational work of this general character undertaken at the earliest possible date. Already the Program Planning Division of the AAA and the Bureau of Agricultural Economics are co-operating in studying various aspects of the general problem of regional adjustment, and undoubtedly their work, together with that of the state experiment stations, will contribute much information needed for future guidance of the va-

rious commodity programs. However, it is important that agricultural experiment stations also study this problem within specific areas in order to determine the character of inequalities among producers which may develop under the control programs as a result of holding in check desirable shifts in production. These studies will naturally consider the types of adjustments which farmers are making under the control programs, others which can be made under present circumstances, and the modifications of the control plans which may be necessary in order to permit the needed farm adjustment within the area.

Financing through processing taxes. The foregoing consideration of the possibility of keeping tobacco production under control has assumed that benefit payments would be continued. This raises the question whether a permanent control program for tobacco can be financed out of proceeds from the processing taxes provided under the Adjustment Act. From one point of view an answer to this question has already been presented in the two preceding chapters. In Chapter VIII it was noted that, despite a possible interpretation of the act that present tax rates could be continued even after prices reached parity, there is a strong probability that a given rate will be reduced to zero at the beginning of the marketing year following a year in which average prices for the corresponding kind of tobacco have equalled or exceeded the parity level. It was also suggested that rates would be adjusted when the difference between actual prices and parity was substantially changed. In view of the price changes discussed in Chapter IX, this indicates that the tax on flue-cured tobacco may be removed entirely as of October 1, 1935 and the other rates at least reduced to the point where revenues would be very much smaller indeed. If these changes are

made, it follows that benefit payments could not be continued indefinitely on anything like their present basis.

A possible course to follow under these circumstances would be to use intermittently the devices provided by the Adjustment Act to collect processing taxes, make benefit payments, and control production following seasons when tobacco prices were below parity, but to abandon those procedures whenever excessive carry-overs were eliminated and prices brought up to parity. At first glance, this use of the control procedures would seem to have certain attractive possibilities in that it would be somewhat automatic in operation and would function only when needed. A more critical appraisal of probable results, however, creates doubt as to whether any satisfactory program of this intermittent character could be worked out.

One of the major objections to abandonment of control over production when prices reach a desired level and re-establishment of that control when prices fall below parity is the probability that such a procedure would increase the magnitude of fluctuations in production and prices. This, it will be remembered, would be in direct opposition to the agricultural planning objective discussed in Chapter I as representing one of the goals prominent in the minds of the administrators of the act—especially those who contemplate the evolution of a permanent national policy towards agriculture out of the present AAA commodity programs.

If control over tobacco production were removed after a marketing season in which prices had been raised substantially as a result of control, there can be little doubt that acreage planted the following year would be increased. This response would be intensified in any period when the returns to be obtained from alternative enterprises had

not increased in proportion to the rise in tobacco prices. Under such circumstances it must be clear that prices would again be depressed, necessitating the re-establishment of a control program. The price increases secured while the control was in force would prove to be a factor stimulating increased production and consequently lower future prices, thus causing less rather than more stability in the tobacco producing industry.

In attempting to analyze the sources of the price gains secured in 1934, it was pointed out that one factor may have been the fact that so long as production was kept under direct control each buyer could buy at higher prices without fear of causing an increase in production which would enable competitors to obtain cheaper supplies while he carried inventories obtained at the higher cost. It will be seen that intermittent operation of the control program would remove this factor entirely and consequently reduce the probable benefits to tobacco growers.

The failure to provide a basis for financing the program after prices have reached parity constitutes one defect of the parity or fair exchange value formula for permanent use in determining rates of processing taxes. It indicates that proceeds from taxes levied according to such a formula will not continuously finance a program for maintaining market prices of tobacco at parity by paying producers to control production.⁶

While no attempt is made to pass judgment upon the parity concept as it may relate to any other product, two further observations regarding its application to tobacco grow out of this analysis. First, it has proved to be a

⁶ It has been pointed out, however, that it might be so applied that market returns *plus benefit payments* would equal parity and possibly could be held there over a considerable period for some types.

workable formula for defining the goal in a short-run program for increasing the returns of tobacco growers. The analysis of the operation of the tobacco program has shown that it has yielded substantial financial benefits to producers. For the most part the cost has been borne by manufacturers as reductions in their margins, which had increased enormously in previous years, primarily because of the limited nature of competition in manufacture and sale of tobacco products. Viewed in the most realistic manner, therefore, the program has taken from manufacturers part of their returns attributable to certain defects, or limitations, of the competitive price-making process, and has distributed them to the producers of raw tobacco. It has not operated to correct or eliminate those defects so far as they may affect the prices paid by consumers. In fact, the control of production might in time have some effect in perpetuating such limitations. The real effect has been upon the distribution of consumers' expenditures for tobacco products between the manufacturer and the grower.

Second, the designation of the post-war base period for tobacco constitutes a recognition in the act itself of the fact that the pronounced shifts among the several classes of tobacco products had created price relationships quite different from those which had existed in the pre-war years adopted as the base period for other commodities. Given a continuation of the present trends in consumption of cigarettes and other types of tobacco products, it is equally apparent that price parity with the designated tobacco base period would represent an unsatisfactory goal for price adjustment in the future. It is entirely possible not only that prices of flue-cured tobacco could be held at

parity through a production program, but that they might exceed that level even without such a program. On the other hand, maintenance of prices for the dark tobaccos and for cigar filler and binder types at their base period relationships to the index of prices paid by farmers may require such large curtailments of acreage and production that growers would be better off if a lower goal were set.

THE KERR-SMITH TAX

The possible place of the Kerr-Smith Act in a permanent tobacco program remains to be considered. The possibilities and limitations of this device might be appraised from several points of view. For example, it might be considered only as a procedure supplementing the use of producers' contracts, benefit payments, and processing taxes, or viewed as a possible alternative to those procedures in maintaining a control over tobacco production.

The Kerr-Smith tax as applied in 1934 served two purposes. It prevented producers who had not entered contracts with the AAA from benefiting more from the program than those who participated. In that year, however, the number of producers who were eligible for equitable bases under the contracts offered, and who did not sign up, was relatively small. Of greater significance is the fact that it provided an additional influence in securing compliance by growers who did sign contracts. The prospect of its passage may also have caused some growers to sign contracts. Beyond this, the tax had little influence upon production by non-signers in 1934. It was not enacted early enough to influence plantings in the areas where it was applied, and as administered it furnished relatively little incentive for a non-signer to curtail production.

With respect to its effect in future seasons, the continued use of the Kerr-Smith tax would certainly discourage increases in production on the part of non-signers. This assumes that such producers would not be given tax-payment warrants and would bear the full rate of the tax on all tobacco they sold. Under such conditions their returns would be reduced and they would have no incentive to expand tobacco production because of the price increases secured through the control program.

It is probable also that the tax could be used in lieu of processing taxes and benefit payments and could be administered so as to control production effectively. For example, present allotments could be continued for all tobacco producers and tax-payment warrants issued to all producers who did not market in excess of their allotments. The refusal of warrants to producers who marketed in excess of their allotments would subject them to the tax upon their entire production. However, some modification of the present act might be required before it could be used in this manner, since its provisions for the issuance of tax-payment warrants are conditioned upon the use of contracts under the Adjustment Act.

Applied in this way, the economic effects of the tax would be exactly the same as those obtained from the processing tax and benefit payments when the incidence of the tax is wholly upon the producer. In such a case the levy of a processing tax results in lower prices to producers and reduced returns from the sale of their products. Distribution of proceeds from the tax as benefit payments gives these returns back to producers who participate in the plan. Thus the processing tax under such circumstances has the effect of a penalty upon those who do not qualify for payments.

From these evaluations it is concluded that the Kerr-Smith tax provides a highly effective supplement to the voluntary procedures for controlling tobacco production. In effect it makes the control of supplies much more certain than it would be otherwise. On the other hand, several reservations must be made before it is accepted as a desirable procedure to be incorporated in a long-time national policy. Reasonable justice requires that ample provision be made for producers who are ineligible for equitable bases under contracts. It has been pointed out that the provision for tax-payment warrants to such producers was entirely inadequate in some counties in 1934, although the difficulty was lessened by the compromise effected through the use of Rider B. Possibly the special base contracts being used in 1935 will take care of all such cases next year, but it is imperative to be certain that this is true before approving the tax procedure. Moreover, the mere fact that this device makes control over production more complete and effective, gives a greater importance to the question already discussed whether such control is desirable unless flexibility can be provided to permit shifts in production and other farm adjustments. Until this flexibility can be worked out and until the needed research basis for its administration can be obtained, there is good ground for skepticism regarding any control over production which is more rigid than that provided by the use of voluntary contracts and benefit payments.

SUMMARY

Immediately after the approval of the Agricultural Adjustment Act, the AAA proceeded with vigor and initiative in the development of a tobacco program. Prices for the principal kinds of tobacco had been at or near their lowest

level since before the war, and there was little prospect that they would improve greatly in 1933. In this situation, a diversified but closely co-ordinated program was applied under the wide range of powers provided by the adjustment legislation. Marketing agreements with the principal domestic manufacturers were used temporarily as a means of securing increased returns for growers from the sale of tobacco produced in 1933. However, plans for controlling production of the several kinds of tobacco have constituted the most fundamental part of the program as a whole. The prospect for a limitation of production under these plans furnished the principal basis upon which it was possible to negotiate increased prices in 1933. Beyond that, they have been administered with the purpose of so adjusting production that market supplies would be brought into line with market requirements, carry-overs reduced to proportions considered to be more normal, and the foundation laid for a more permanent improvement in the economic situation of tobacco growers.

In the development of this program and in the supervision of its operation, numerous complex problems have been encountered. While these greatly added to the difficulties of the AAA, they did not prevent the program from being carried through 1933 and 1934 in such a manner that producers derived substantial financial benefits. On the whole, remarkable ability and originality in meeting these problems have been displayed by those responsible for the administration of the program. Certainly these qualities have been evident from the manner in which the program has been made applicable to the widely varying farm conditions under which tobacco is grown. By treating tobacco as six separate basic agricultural commodities with a dis-

tinct production control plan for each, by making provision for optional choices by individual producers, and by amending those plans through administrative rulings while the plans have been in operation, a desirable flexibility has been obtained. While these adaptations to varying conditions in tobacco growing areas may not have been sufficiently perfect to assure equal benefit to all producers, at least they appear to have kept at a minimum the number who may have been harmed.

The program has been effective in obtaining substantial benefits for producers, in both 1933 and 1934. Growers' aggregate incomes from tobacco production increased very considerably in these years because of price enhancements attributable to the program, and because of the benefit payments made in connection with the production control plans. Processing taxes have furnished adequate revenues for financing the program. The benefits received by growers have been derived from the former profit margins of the manufacturer, while it appears that consumers of tobacco products have borne little if any of the cost.

The full results of continuing the tobacco program over a period of years cannot be determined on the basis of the first two seasons of operation. It is concluded, however, that tobacco producers would receive significant financial benefits if the program were continued according to present AAA policies, although it is improbable that such benefits would be as great as they have been thus far. It may be that the benefits to be secured would not permanently justify the maintenance of the complex and expensive administrative machinery required for a program of this type. Furthermore, it is entirely possible that other effects, including those upon consumers, would

be of a more undesirable character from a longer time point of view. But the evidence seems clear that during its first two seasons of operation the program has been successful in attaining the objectives which were sought with respect to tobacco.

In reaching this conclusion, the present book has not considered the legal status of the various features of the tobacco program, nor the broad questions of public policy which are involved in appraising the objectives towards which the program has been directed. Such topics will be discussed as part of an appraisal of the Agricultural Adjustment Act and its effects upon agriculture as a whole, to be incorporated in a final volume in this series at a somewhat later date. In the meantime, if the general objectives of the Agricultural Adjustment Act and the Kerr-Smith Act are accepted as representing sound public policy, and if these acts are sustained by the courts as constitutional uses of legislative powers, then the general scheme of operation merits consideration for continued application to tobacco.

APPENDIXES

APPENDIX A

TOBACCO STATISTICS

I. TOTAL FARM VALUE OF TOBACCO PRODUCTION IN THE UNITED STATES, 1909-34^a

| Year | Thousands of Dollars | Year | Thousands of Dollars | Year | Thousands of Dollars |
|-----------|----------------------|-----------|----------------------|-----------|----------------------|
| 1909..... | 106,374 | 1918..... | 402,264 | 1927..... | 250,462 |
| 1910..... | 102,142 | 1919..... | 451,171 | 1928..... | 274,620 |
| 1911..... | 85,210 | 1920..... | 260,350 | 1929..... | 286,152 |
| 1912..... | 104,063 | 1921..... | 196,113 | 1930..... | 212,467 |
| 1913..... | 122,481 | 1922..... | 286,417 | 1931..... | 129,689 |
| 1914..... | 101,411 | 1923..... | 288,102 | 1932..... | 107,821 |
| 1915..... | 96,281 | 1924..... | 236,937 | 1933..... | 179,486 |
| 1916..... | 169,672 | 1925..... | 230,642 | 1934..... | 240,937 ^b |
| 1917..... | 300,449 | 1926..... | 231,208 | | |

^a Prior to 1919 values are based on December 1 price. Thereafter the weighted average price for the crop marketing season is used. Compiled from *U. S. Department of Agriculture Yearbook*, 1934, p. 484, and from *Crops and Markets*, U. S. Department of Agriculture. Data for the early period are considered to be less reliable than those beginning with 1919.

^b Preliminary.

II. INDEX OF PRICES PAID BY FARMERS FOR COMMODITIES BOUGHT, 1910-34^a (1910-14 = 100)

| Year | Index | Year | Index | Year | Index |
|-----------|-------|-----------|-------|-----------|------------------|
| 1910..... | 98 | 1919..... | 202 | 1928..... | 155 |
| 1911..... | 101 | 1920..... | 201 | 1929..... | 153 |
| 1912..... | 100 | 1921..... | 152 | 1930..... | 145 |
| 1913..... | 101 | 1922..... | 149 | 1931..... | 124 |
| 1914..... | 100 | 1923..... | 152 | 1932..... | 107 |
| 1915..... | 105 | 1924..... | 152 | 1933..... | 109 |
| 1916..... | 124 | 1925..... | 157 | 1934..... | 123 ^b |
| 1917..... | 149 | 1926..... | 155 | | |
| 1918..... | 176 | 1927..... | 153 | | |

^a *Crops and Markets*, U. S. Department of Agriculture, February 1935, p. 71.

^b Preliminary.

III. STATISTICS OF UNMANUFACTURED
By Types or Groups of Types Designated
1. Acreage Harvested

| Year | Flue-Cured | | Burley | | Maryland | |
|----------------------|--------------------|-------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|
| | Thousands of Acres | Percentage of 1919-28 Average | Thousands of Acres | Percentage of 1919-28 Average | Thousands of Acres | Percentage of 1919-28 Average |
| 1919.. | 812 | 98.2 | 362 | 110.3 | 29 | 98.3 |
| 1920.. | 909 | 110.0 | 364 | 110.9 | 31 | 105.1 |
| 1921.. | 612 | 74.0 | 233 | 71.0 | 26 | 88.1 |
| 1922.. | 660 | 79.8 | 323 | 98.4 | 26 | 88.1 |
| 1923.. | 805 | 97.4 | 390 | 118.8 | 27 | 91.5 |
| 1924.. | 754 | 91.2 | 348 | 106.0 | 32 | 108.5 |
| 1925.. | 835 | 101.0 | 345 | 105.1 | 30 | 101.7 |
| 1926.. | 801 | 96.9 | 347 | 105.7 | 31 | 105.1 |
| 1927.. | 958 | 116.0 | 241 | 73.4 | 32 | 108.5 |
| 1928.. | 1,120 | 135.5 | 330 | 100.5 | 31 | 105.1 |
| 1929.. | 1,088 | 131.6 | 425 | 129.5 | 33 | 111.9 |
| 1930.. | 1,128 | 136.5 | 482 | 146.8 | 35 | 118.6 |
| 1931.. | 977 | 118.2 | 512 | 156.0 | 38 | 128.8 |
| 1932.. | 618 | 74.8 | 419 | 127.6 | 35 | 118.6 |
| 1933.. | 935 | 113.1 | 509 | 155.0 | 34 | 115.3 |
| 1934 ^b .. | 711 | 86.0 | 348 | 106.0 | 32 | 108.5 |

2. Production

| Year | Flue-Cured | | Burley | | Maryland | |
|----------------------|--------------------|---|--------------------|---|--------------------|---|
| | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance |
| 1919.. | 476.9 | 92.3 | 300.3 | 116.7 | 19.6 | 83.4 |
| 1920.. | 616.0 | 119.2 | 287.7 | 111.8 | 27.1 | 115.3 |
| 1921.. | 358.8 | 69.5 | 175.7 | 68.3 | 18.6 | 79.1 |
| 1922.. | 415.4 | 80.4 | 276.4 | 107.4 | 20.0 | 85.1 |
| 1923.. | 580.7 | 112.4 | 340.4 | 132.3 | 21.4 | 91.1 |
| 1924.. | 437.3 | 84.6 | 295.8 | 115.0 | 24.5 | 104.3 |
| 1925.. | 575.1 | 111.3 | 277.8 | 108.0 | 24.7 | 105.1 |
| 1926.. | 560.1 | 108.4 | 288.8 | 112.2 | 26.0 | 110.6 |
| 1927.. | 718.8 | 139.1 | 176.2 | 68.5 | 26.2 | 111.5 |
| 1928.. | 739.1 | 143.1 | 269.1 | 104.6 | 20.5 | 87.2 |
| 1929.. | 749.8 | 145.1 | 342.2 | 133.0 | 24.8 | 105.5 |
| 1930.. | 864.3 | 167.3 | 357.7 | 139.0 | 18.7 | 79.6 |
| 1931.. | 669.9 | 129.7 | 435.3 | 169.2 | 28.1 | 119.6 |
| 1932.. | 376.8 | 72.9 | 310.4 | 120.6 | 27.1 | 115.3 |
| 1933.. | 738.6 | 143.0 | 383.3 | 149.0 | 20.4 | 86.8 |
| 1934 ^b .. | 564.5 | 109.3 | 283.0 | 110.0 | 23.4 | 99.6 |

TOBACCO STATISTICS

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TOBACCO IN THE UNITED STATES, 1919-34^a as Separate Basic Agricultural Commodities

1. Acreage Harvested

| Dark Air-Cured | | Dark Fire-Cured | | Cigar | | Year |
|--------------------|-------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|--------|
| Thousands of Acres | Percentage of 1919-28 Average | Thousands of Acres | Percentage of 1919-28 Average | Thousands of Acres | Percentage of 1919-28 Average | |
| 174 | 158.6 | 396 | 147.2 | 181 | 116.6 | ..1919 |
| 137 | 124.9 | 310 | 115.2 | 179 | 115.3 | ..1920 |
| 80 | 72.9 | 220 | 81.8 | 167 | 107.6 | ..1921 |
| 135 | 123.1 | 316 | 117.4 | 154 | 99.2 | ..1922 |
| 142 | 129.4 | 327 | 121.5 | 162 | 104.4 | ..1923 |
| 115 | 104.8 | 279 | 103.7 | 172 | 110.8 | ..1924 |
| 111 | 101.2 | 275 | 102.2 | 153 | 98.6 | ..1925 |
| 90 | 82.0 | 234 | 87.0 | 125 | 80.5 | ..1926 |
| 53 | 48.3 | 150 | 55.7 | 121 | 78.0 | ..1927 |
| 60 | 54.7 | 184 | 68.4 | 138 | 88.9 | ..1928 |
| 73 | 66.5 | 223 | 82.9 | 144 | 92.8 | ..1929 |
| 78 | 71.1 | 233 | 86.6 | 154 | 99.2 | ..1930 |
| 88 | 80.2 | 233 | 86.6 | 151 | 97.3 | ..1931 |
| 49 | 44.7 | 159 | 59.1 | 130 | 83.8 | ..1932 |
| 42 | 38.3 | 168 | 62.4 | 68 | 43.8 | ..1933 |
| 40 | 36.5 | 151 | 56.1 | 52 | 33.5 | ..1934 |

2. Production

| Dark Air-Cured | | Dark Fire-Cured | | Cigar | | Year |
|--------------------|---|--------------------|---|--------------------|---|--------|
| Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | |
| 134.7 | 145.9 | 287.3 | 134.9 | 219.5 | 119.9 | ..1919 |
| 110.2 | 119.4 | 240.7 | 113.1 | 223.3 | 122.0 | ..1920 |
| 66.9 | 72.5 | 170.4 | 80.0 | 212.7 | 116.2 | ..1921 |
| 117.5 | 127.3 | 250.1 | 117.5 | 172.2 | 94.0 | ..1922 |
| 120.3 | 130.3 | 261.4 | 122.8 | 191.3 | 104.5 | ..1923 |
| 92.2 | 99.9 | 213.9 | 100.5 | 179.9 | 98.3 | ..1924 |
| 92.3 | 100.0 | 210.8 | 99.0 | 194.5 | 106.2 | ..1925 |
| 78.4 | 84.9 | 188.8 | 88.7 | 146.5 | 80.0 | ..1926 |
| 36.7 | 39.8 | 113.5 | 53.3 | 138.9 | 75.9 | ..1927 |
| 43.9 | 47.6 | 136.5 | 64.1 | 162.9 | 89.0 | ..1928 |
| 61.4 | 66.5 | 187.3 | 88.0 | 169.4 | 92.5 | ..1929 |
| 61.0 | 66.1 | 166.3 | 78.1 | 178.5 | 97.5 | ..1930 |
| 73.8 | 80.0 | 188.1 | 88.4 | 187.2 | 102.2 | ..1931 |
| 39.4 | 42.7 | 125.5 | 58.9 | 146.4 | 80.0 | ..1932 |
| 31.9 | 34.6 | 128.0 | 60.1 | 75.1 | 41.0 | ..1933 |
| 34.3 | 37.2 | 128.9 | 60.5 | 61.3 | 33.5 | ..1934 |

III. STATISTICS OF UNMANUFACTURED
By Types or Groups of Types Designated
3. Stocks

| Year | Flue-Cured As of July 1 | | Burley As of October 1 | | Maryland As of January 1* | |
|---------------------|----------------------------|--|---------------------------|--|------------------------------|--|
| | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance |
| 1919.. | 382.6 | 74.1 | 288.2 | 112.0 | 22.9 | 97.4 |
| 1920.. | 355.4 | 68.8 | 330.8 | 128.6 | 18.0 | 76.6 |
| 1921.. | 562.3 | 108.8 | 395.3 | 153.6 | 15.4 | 65.5 |
| 1922.. | 517.4 | 100.2 | 340.6 | 132.4 | 11.9 | 50.6 |
| 1923.. | 511.8 | 99.1 | 408.8 | 158.9 | 7.6 | 32.3 |
| 1924.. | 550.0 | 106.5 | 516.7 | 200.8 | 12.9 | 54.9 |
| 1925.. | 530.6 | 102.7 | 546.8 | 212.5 | 16.3 | 69.4 |
| 1926.. | 527.9 | 102.2 | 553.3 | 215.0 | 20.1 | 85.5 |
| 1927.. | 543.3 | 105.2 | 537.6 | 208.9 | 16.4 | 69.8 |
| 1928.. | 663.2 | 128.4 | 422.5 | 164.2 | 21.8 | 92.8 |
| 1929.. | 694.4 | 134.4 | 403.0 | 156.6 | 16.7 | 71.1 |
| 1930.. | 709.0 | 137.2 | 448.1 | 174.2 | 18.4 | 78.3 |
| 1931.. | 800.9 | 155.0 | 521.6 | 202.7 | 22.7 | 96.6 |
| 1932.. | 873.9 | 169.2 | 697.8 | 271.2 | 33.7 | 143.4 |
| 1933.. | 681.2 | 131.9 | 736.4 | 286.2 | 40.6 | 172.8 |
| 1934 ^b . | 769.1 | 148.9 | 837.8 | 325.6 | 37.6 | 160.0 |

4. Supply^d

| Year | Flue-Cured As of July 1 | | Burley As of October 1 | | Maryland As of January 1* | |
|---------------------|----------------------------|--|---------------------------|--|------------------------------|--|
| | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance |
| 1919.. | 859.5 | 166.4 | 588.5 | 228.7 | 42.5 | 180.9 |
| 1920.. | 971.4 | 188.0 | 618.5 | 240.4 | 45.1 | 191.9 |
| 1921.. | 921.1 | 178.3 | 571.0 | 221.9 | 34.0 | 144.7 |
| 1922.. | 932.8 | 180.6 | 617.0 | 239.8 | 31.9 | 135.7 |
| 1923.. | 1,092.5 | 211.5 | 749.2 | 291.2 | 29.0 | 123.4 |
| 1924.. | 987.3 | 191.1 | 812.5 | 315.8 | 37.4 | 159.1 |
| 1925.. | 1,105.7 | 214.0 | 824.6 | 320.5 | 41.0 | 174.5 |
| 1926.. | 1,088.0 | 210.6 | 842.1 | 327.3 | 46.1 | 196.2 |
| 1927.. | 1,262.1 | 244.3 | 713.8 | 277.4 | 42.6 | 181.3 |
| 1928.. | 1,402.3 | 271.4 | 691.6 | 268.8 | 42.3 | 180.0 |
| 1929.. | 1,444.2 | 279.6 | 745.2 | 289.6 | 41.5 | 176.6 |
| 1930.. | 1,573.3 | 304.5 | 805.8 | 313.2 | 37.1 | 157.9 |
| 1931.. | 1,470.8 | 284.7 | 956.9 | 371.9 | 50.8 | 216.2 |
| 1932.. | 1,250.7 | 242.1 | 1,008.2 | 391.8 | 60.8 | 258.7 |
| 1933.. | 1,419.8 | 274.8 | 1,119.7 | 435.2 | 61.0 | 259.6 |
| 1934 ^b . | 1,333.6 | 258.1 | 1,120.8 | 435.6 | 61.0 | 259.6 |

TOBACCO IN THE UNITED STATES, 1919-34 (Continued)
as Separate Basic Agricultural Commodities

3. Stocks

| Dark Air-Cured As of October 1 | | Dark Fire-Cured As of October 1 | | Cigar As of October 1 | | Year |
|-----------------------------------|--|------------------------------------|--|--------------------------|--|--------|
| Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | |
| 97.4 | 105.5 | 206.3 | 96.9 | 363.3 | 198.4 | ..1919 |
| 121.5 | 131.6 | 249.7 | 117.3 | 416.3 | 227.4 | ..1920 |
| 120.3 | 130.3 | 221.4 | 104.0 | 427.4 | 233.4 | ..1921 |
| 98.7 | 106.9 | 175.8 | 82.6 | 480.6 | 262.5 | ..1922 |
| 110.8 | 120.0 | 189.0 | 88.8 | 498.1 | 272.0 | ..1923 |
| 119.9 | 129.9 | 201.4 | 94.6 | 515.5 | 281.5 | ..1924 |
| 114.7 | 124.3 | 222.6 | 104.6 | 490.1 | 267.7 | ..1925 |
| 123.5 | 133.8 | 252.3 | 118.5 | 484.7 | 264.7 | ..1926 |
| 112.2 | 121.6 | 252.0 | 118.4 | 413.7 | 225.9 | ..1927 |
| 84.5 | 91.5 | 188.4 | 88.5 | 376.7 | 205.7 | ..1928 |
| 67.3 | 72.9 | 151.1 | 71.0 | 374.4 | 204.5 | ..1929 |
| 61.6 | 66.7 | 150.5 | 70.7 | 364.8 | 199.2 | ..1930 |
| 69.5 | 75.3 | 178.9 | 84.0 | 414.9 | 226.6 | ..1931 |
| 84.9 | 92.0 | 215.4 | 101.2 | 494.2 | 269.9 | ..1932 |
| 81.2 | 88.0 | 216.1 | 101.5 | 477.8 | 261.0 | ..1933 |
| 75.5 | 81.8 | 206.9 | 97.2 | 453.6 | 247.7 | ..1934 |

4. Supply

| Dark Air-Cured As of October 1 | | Dark Fire-Cured As of October 1 | | Cigar As of October 1 | | Year |
|-----------------------------------|--|------------------------------------|--|--------------------------|--|--------|
| Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | Millions of Pounds | Percentage of 1919-28 Average Disappearance | |
| 232.1 | 251.5 | 493.6 | 231.8 | 582.8 | 318.3 | ..1919 |
| 231.7 | 251.0 | 490.4 | 230.3 | 639.6 | 349.3 | ..1920 |
| 187.2 | 202.8 | 391.8 | 184.0 | 640.1 | 349.6 | ..1921 |
| 216.2 | 234.2 | 425.9 | 200.0 | 652.8 | 356.5 | ..1922 |
| 231.1 | 250.4 | 450.4 | 211.6 | 689.4 | 376.5 | ..1923 |
| 212.1 | 229.8 | 415.3 | 195.1 | 695.4 | 379.8 | ..1924 |
| 207.0 | 224.3 | 433.4 | 203.6 | 684.6 | 373.9 | ..1925 |
| 201.9 | 218.7 | 441.1 | 207.2 | 631.2 | 344.7 | ..1926 |
| 148.9 | 161.3 | 365.5 | 171.7 | 552.6 | 301.8 | ..1927 |
| 128.4 | 139.1 | 324.9 | 152.6 | 539.6 | 294.7 | ..1928 |
| 128.7 | 139.4 | 338.4 | 158.9 | 543.8 | 297.0 | ..1929 |
| 122.6 | 132.8 | 316.8 | 148.8 | 543.3 | 296.7 | ..1930 |
| 143.3 | 155.3 | 367.0 | 172.4 | 602.1 | 328.8 | ..1931 |
| 124.3 | 134.7 | 340.9 | 160.1 | 640.6 | 349.9 | ..1932 |
| 113.1 | 122.5 | 344.1 | 161.6 | 552.9 | 302.0 | ..1933 |
| 109.8 | 119.0 | 335.8 | 157.7 | 514.9 | 281.2 | ..1934 |

III. STATISTICS OF UNMANUFACTURED
 By Types or Groups of Types Designated
5. Disappearance^e

| Year | Flue-Cured Beginning July 1 | | Burley Beginning October 1 | | Maryland Beginning January 1 ^e | |
|--------|--------------------------------|-------------------------------------|-------------------------------|-------------------------------------|--|-------------------------------------|
| | Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average |
| 1919.. | 504.1 | 97.6 | 257.7 | 100.2 | 24.5 | 104.3 |
| 1920.. | 409.1 | 79.2 | 223.2 | 86.7 | 29.7 | 126.4 |
| 1921.. | 403.7 | 78.1 | 230.4 | 89.5 | 22.1 | 94.0 |
| 1922.. | 421.0 | 81.5 | 208.2 | 80.9 | 24.3 | 103.4 |
| 1923.. | 542.5 | 105.0 | 232.5 | 90.4 | 16.1 | 68.5 |
| 1924.. | 456.7 | 88.4 | 265.7 | 103.3 | 21.1 | 89.8 |
| 1925.. | 577.8 | 111.8 | 271.3 | 105.4 | 20.9 | 88.9 |
| 1926.. | 544.7 | 105.4 | 304.5 | 118.3 | 29.7 | 126.4 |
| 1927.. | 598.9 | 115.9 | 291.3 | 113.2 | 20.8 | 88.5 |
| 1928.. | 707.9 | 137.0 | 288.6 | 112.2 | 25.6 | 108.9 |
| 1929.. | 735.2 | 142.3 | 297.1 | 115.5 | 23.1 | 98.3 |
| 1930.. | 772.4 | 149.5 | 284.2 | 110.5 | 14.4 | 61.3 |
| 1931.. | 596.9 | 115.5 | 259.1 | 100.7 | 17.1 | 72.8 |
| 1932.. | 569.5 | 110.2 | 271.8 | 105.6 | 20.2 | 86.0 |
| 1933.. | 657.0 | 126.0 | 281.9 | 109.6 | 23.4 | 99.7 |

6. Exports^f

| Year | Flue-Cured | | Burley | | Maryland | |
|---------------------|-----------------------|-------------------------------------|-----------------------|-------------------------------------|-----------------------|-------------------------------------|
| | Millions of Pounds | Percentage of 1923-28 Average | Millions of Pounds | Percentage of 1923-28 Average | Millions of Pounds | Percentage of 1923-28 Average |
| 1923.. | 203.2 | 61.8 | 6.9 | 71.5 | 19.2 | 121.2 |
| 1924.. | 299.8 | 91.1 | 8.5 | 88.1 | 13.7 | 86.1 |
| 1925.. | 314.2 | 95.5 | 6.9 | 71.5 | 14.8 | 93.4 |
| 1926.. | 324.4 | 98.6 | 7.7 | 79.8 | 14.5 | 91.2 |
| 1927.. | 341.4 | 103.8 | 20.4 | 211.4 | 21.3 | 134.5 |
| 1928.. | 491.0 | 149.2 | 7.5 | 77.7 | 11.6 | 73.5 |
| 1928.. | 463.8 | 141.0 | 6.1 | 63.2 | 12.3 | 77.7 |
| 1930.. | 449.0 | 136.5 | 11.0 | 114.0 | 10.3 | 65.3 |
| 1931.. | 438.3 | 133.2 | 10.2 | 105.7 | 8.0 | 50.7 |
| 1932.. | 288.2 | 87.6 | 14.1 | 146.1 | 10.8 | 68.3 |
| 1933.. | 336.4 | 102.2 | 12.2 | 126.4 | 9.8 | 61.8 |
| 1934 ^b . | 345.5 | 105.0 | 18.8 | 194.8 | 7.6 | 47.9 |

TOBACCO IN THE UNITED STATES, 1919-34 (Continued)
as Separate Basic Agricultural Commodities5. Disappearance^e

| Dark Air-Cured Beginning October 1 | | Dark Fire-Cured Beginning October 1 | | Cigar Beginning October 1 | | Year |
|---------------------------------------|-------------------------------------|--|-------------------------------------|------------------------------|-------------------------------------|--------|
| Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average | |
| 110.6 | 119.8 | 243.9 | 114.6 | 166.5 | 91.0 | ..1919 |
| 111.4 | 120.7 | 269.0 | 126.4 | 212.2 | 115.9 | ..1920 |
| 88.5 | 95.9 | 216.0 | 101.5 | 159.5 | 87.1 | ..1921 |
| 105.4 | 114.2 | 236.9 | 111.3 | 154.7 | 84.5 | ..1922 |
| 111.2 | 120.5 | 249.0 | 117.0 | 173.9 | 95.0 | ..1923 |
| 97.4 | 105.5 | 192.7 | 90.5 | 205.3 | 112.1 | ..1924 |
| 83.5 | 90.5 | 181.1 | 85.1 | 199.9 | 109.2 | ..1925 |
| 89.7 | 97.2 | 189.1 | 88.8 | 217.5 | 118.8 | ..1926 |
| 64.4 | 69.8 | 177.1 | 83.2 | 175.9 | 96.1 | ..1927 |
| 61.1 | 66.2 | 173.8 | 81.6 | 165.2 | 90.2 | ..1928 |
| 67.1 | 72.7 | 187.9 | 88.3 | 179.0 | 97.8 | ..1929 |
| 53.1 | 57.5 | 137.9 | 64.8 | 128.4 | 70.1 | ..1930 |
| 58.4 | 63.3 | 151.6 | 71.2 | 107.9 | 58.9 | ..1931 |
| 43.1 | 46.7 | 124.8 | 58.6 | 162.8 | 88.2 | ..1932 |
| 37.6 | 40.7 | 137.2 | 64.4 | 99.3 | 54.2 | ..1933 |

6. Exports^f

| Dark Air-Cured | | Dark Fire-Cured | | Cigar | | Year |
|-----------------------|-------------------------------------|-----------------------|-------------------------------------|-----------------------|-------------------------------------|--------|
| Millions of Pounds | Percentage of 1923-28 Average | Millions of Pounds | Percentage of 1923-28 Average | Millions of Pounds | Percentage of 1923-28 Average | |
| 16.3 | 89.0 | 221.0 | 131.6 | 0.5 | 52.6 | ..1923 |
| 18.7 | 101.9 | 221.1 | 131.7 | 1.8 | 189.5 | ..1924 |
| 20.9 | 113.8 | 150.7 | 89.8 | 1.1 | 115.8 | ..1925 |
| 16.4 | 89.2 | 151.5 | 90.2 | 0.8 | 84.2 | ..1926 |
| 22.8 | 124.1 | 150.1 | 89.4 | 0.7 | 73.7 | ..1927 |
| 15.1 | 82.0 | 113.2 | 67.4 | 0.8 | 84.2 | ..1928 |
| 22.0 | 120.0 | 115.1 | 68.5 | 5.5 | 578.9 | ..1929 |
| 21.4 | 116.8 | 132.3 | 78.8 | 5.2 | 547.4 | ..1930 |
| 17.6 | 96.1 | 87.1 | 51.9 | 4.8 | 505.3 | ..1931 |
| 17.5 | 95.1 | 103.0 | 61.3 | 0.9 | 94.7 | ..1932 |
| 13.9 | 75.7 | 97.0 | 57.8 | 2.4 | 252.6 | ..1933 |
| 12.9 | 70.2 | 84.4 | 50.3 | 1.9 | 200.0 | ..1934 |

III. STATISTICS OF UNMANUFACTURED
By Types or Groups of Types Designated
7. Farm Prices*

| Year | Flue-Cured | | Burley | | Maryland | |
|--------|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------|
| | Cents per Pound | Percentage of 1919-28 Average | Cents per Pound | Percentage of 1919-28 Average | Cents per Pound | Percentage of 1919-28 Average |
| 1919.. | 44.4 | 184.9 | 33.2 | 149.1 | 26.5 | 115.3 |
| 1920.. | 21.5 | 89.5 | 13.5 | 60.6 | 17.8 | 77.4 |
| 1921.. | 21.9 | 91.2 | 21.5 | 96.6 | 16.9 | 73.5 |
| 1922.. | 27.2 | 113.3 | 26.8 | 120.4 | 23.8 | 103.5 |
| 1923.. | 20.8 | 86.6 | 20.0 | 89.8 | 27.7 | 120.5 |
| 1924.. | 21.6 | 90.0 | 20.1 | 90.3 | 22.7 | 98.7 |
| 1925.. | 20.0 | 83.3 | 18.0 | 80.9 | 23.7 | 103.1 |
| 1926.. | 24.9 | 103.7 | 13.1 | 58.8 | 20.2 | 87.9 |
| 1927.. | 20.5 | 85.4 | 25.9 | 116.4 | 23.4 | 101.8 |
| 1928.. | 17.3 | 72.1 | 30.5 | 137.0 | 27.2 | 118.3 |
| 1929.. | 18.0 | 75.0 | 21.8 | 97.9 | 27.7 | 120.5 |
| 1930.. | 12.0 | 50.0 | 15.5 | 69.6 | 26.6 | 115.7 |
| 1931.. | 8.4 | 35.0 | 8.7 | 39.1 | 15.0 | 65.2 |
| 1932.. | 11.5 | 47.9 | 12.5 | 56.2 | 17.0 | 73.9 |
| 1933.. | 15.3 | 63.7 | 10.6 | 47.6 | 17.5 | 76.1 |

8. Farm Value

| Year | Flue-Cured | | Burley | | Maryland | |
|--------|---------------------|-------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
| | Millions of Dollars | Percentage of 1919-28 Average | Millions of Dollars | Percentage of 1919-28 Average | Millions of Dollars | Percentage of 1919-28 Average |
| 1919.. | 211.8 | 165.3 | 99.9 | 168.3 | 5.2 | 99.4 |
| 1920.. | 132.5 | 103.4 | 38.8 | 65.3 | 4.8 | 91.8 |
| 1921.. | 78.7 | 61.4 | 37.8 | 63.8 | 3.1 | 59.3 |
| 1922.. | 112.8 | 88.1 | 74.2 | 125.0 | 4.8 | 91.8 |
| 1923.. | 120.7 | 94.2 | 68.0 | 114.6 | 5.9 | 112.8 |
| 1924.. | 94.5 | 73.8 | 59.5 | 100.2 | 5.6 | 107.1 |
| 1925.. | 115.0 | 89.7 | 50.0 | 84.2 | 5.9 | 112.8 |
| 1926.. | 139.7 | 109.0 | 37.7 | 63.5 | 5.3 | 101.3 |
| 1927.. | 147.3 | 115.0 | 45.6 | 76.9 | 6.1 | 116.6 |
| 1928.. | 128.1 | 100.0 | 82.1 | 138.2 | 5.6 | 107.1 |
| 1929.. | 134.9 | 105.3 | 74.7 | 125.8 | 6.9 | 131.9 |
| 1930.. | 103.5 | 80.8 | 55.3 | 93.1 | 5.0 | 95.6 |
| 1931.. | 56.4 | 44.0 | 37.8 | 63.7 | 4.2 | 80.3 |
| 1932.. | 43.2 | 33.7 | 38.9 | 65.5 | 4.6 | 88.0 |
| 1933.. | 113.0 | 88.1 | 40.5 | 67.9 | 3.6 | 68.8 |

* Compiled from U. S. Department of Agriculture Yearbook, 1934, pp. 488-91 and 495-96, and from office records of the Bureau of Agricultural Economics, U. S. Department of Agriculture.

^b Preliminary.

* Of the year following production.

TOBACCO STATISTICS

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TOBACCO IN THE UNITED STATES, 1919-34 (Continued)
as Separate Basic Agricultural Commodities

7. Farm Prices

| Dark Air-Cured | | Dark Fire-Cured | | Cigar | | | | | | Year |
|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|--------|---------|-------------------------------|--------|---------|--------|
| Cents per Pound | Percentage of 1919-28 Average | Cents per Pound | Percentage of 1919-28 Average | Cents per Pound | | | Percentage of 1919-28 Average | | | |
| | | | | Filler | Binder | Wrapper | Filler | Binder | Wrapper | |
| 15.6 | 139.8 | 17.9 | 131.2 | 18.8 | 29.7 | 78.0 | 133.1 | 148.9 | 99.3 | ..1919 |
| 8.2 | 73.5 | 10.4 | 76.2 | 13.5 | 24.6 | 75.0 | 95.5 | 123.4 | 95.5 | ..1920 |
| 14.0 | 125.4 | 17.2 | 126.1 | 13.2 | 14.2 | 70.6 | 93.4 | 71.2 | 89.9 | ..1921 |
| 14.4 | 129.0 | 16.0 | 117.3 | 15.2 | 20.5 | 70.7 | 107.6 | 102.8 | 90.0 | ..1922 |
| 10.6 | 95.0 | 12.7 | 93.1 | 16.5 | 21.9 | 83.3 | 116.8 | 109.8 | 106.1 | ..1923 |
| 11.6 | 103.9 | 14.9 | 109.2 | 14.9 | 16.2 | 73.1 | 105.4 | 81.2 | 93.1 | ..1924 |
| 8.1 | 72.6 | 10.2 | 74.8 | 10.7 | 15.3 | 83.8 | 75.7 | 76.7 | 106.7 | ..1925 |
| 7.2 | 64.5 | 7.8 | 57.2 | 9.9 | 20.2 | 83.3 | 70.1 | 101.3 | 106.1 | ..1926 |
| 10.2 | 91.4 | 15.1 | 110.7 | 13.7 | 19.0 | 86.9 | 97.0 | 95.3 | 110.7 | ..1927 |
| 11.7 | 104.8 | 14.2 | 104.1 | 14.9 | 17.8 | 80.5 | 105.4 | 89.3 | 102.5 | ..1928 |
| 10.8 | 96.8 | 13.2 | 96.8 | 12.7 | 20.4 | 82.0 | 89.9 | 102.3 | 104.4 | ..1929 |
| 7.9 | 70.8 | 8.5 | 62.3 | 8.3 | 15.3 | 80.1 | 58.7 | 76.7 | 102.0 | ..1930 |
| 3.4 | 30.5 | 5.1 | 37.4 | 6.8 | 8.7 | 62.8 | 48.1 | 43.6 | 80.0 | ..1931 |
| 4.2 | 37.6 | 6.2 | 45.5 | 4.8 | 6.8 | 50.6 | 34.0 | 34.1 | 64.4 | ..1932 |
| 7.3 | 65.4 | 9.1 | 66.7 | 5.7 | 8.5 | 57.7 | 41.0 | 42.6 | 73.5 | ..1933 |

8. Farm Value

| Dark Air-Cured | | Dark Fire-Cured | | Cigar | | Year |
|---------------------|-------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|--------|
| Millions of Dollars | Percentage of 1919-28 Average | Millions of Dollars | Percentage of 1919-28 Average | Millions of Dollars | Percentage of 1919-28 Average | |
| 21.0 | 206.5 | 51.5 | 181.4 | 60.7 | 155.9 | ..1919 |
| 9.0 | 88.3 | 24.9 | 87.9 | 49.6 | 127.5 | ..1920 |
| 9.4 | 92.1 | 29.3 | 103.1 | 37.4 | 96.1 | ..1921 |
| 17.0 | 166.8 | 40.1 | 141.5 | 36.9 | 94.7 | ..1922 |
| 12.8 | 125.3 | 33.3 | 117.3 | 46.8 | 120.3 | ..1923 |
| 10.7 | 105.0 | 31.9 | 112.3 | 34.5 | 88.7 | ..1924 |
| 7.4 | 73.2 | 21.4 | 75.6 | 30.7 | 78.9 | ..1925 |
| 5.6 | 55.4 | 14.8 | 52.2 | 28.0 | 72.0 | ..1926 |
| 3.8 | 36.9 | 17.1 | 60.4 | 30.3 | 77.9 | ..1927 |
| 5.1 | 50.6 | 19.3 | 68.2 | 34.2 | 88.0 | ..1928 |
| 6.6 | 65.0 | 24.8 | 87.4 | 38.1 | 97.8 | ..1929 |
| 4.8 | 47.6 | 14.2 | 49.9 | 29.6 | 76.1 | ..1930 |
| 2.5 | 24.7 | 9.6 | 33.7 | 19.1 | 49.0 | ..1931 |
| 1.6 | 16.1 | 7.8 | 26.5 | 11.2 | 28.9 | ..1932 |
| 2.3 | 23.9 | 11.6 | 38.1 | 9.0 | 23.1 | ..1933 |

⁴ Computed by adding production and stocks as reported on the date nearest the beginning of marketing season.

⁵ Computed by subtracting from supply, stocks as reported on the date nearest the beginning of the next marketing season.

⁶ By calendar years, converted to green weight basis.

⁷ Average price received by producers for entire crop.

IV. CONSUMPTION OF PRINCIPAL TOBACCO
(Tax-paid)

| Year | Large Cigars | | Small Cigarettes | |
|-----------|--------------------|-------------------------------|------------------------|-------------------------------|
| | Millions of Cigars | Percentage of 1919-28 Average | Millions of Cigarettes | Percentage of 1919-28 Average |
| 1901..... | 5,927 | 82.5 | 2,457 | 3.5 |
| 1902..... | 6,424 | 89.4 | 2,837 | 4.0 |
| 1903..... | 6,749 | 93.9 | 3,129 | 4.5 |
| 1904..... | 6,780 | 94.3 | 3,297 | 4.7 |
| 1905..... | 7,008 | 97.5 | 3,575 | 5.1 |
| 1906..... | 7,323 | 101.9 | 4,468 | 6.4 |
| 1907..... | 7,215 | 100.4 | 5,268 | 7.5 |
| 1908..... | 6,833 | 95.1 | 5,735 | 8.2 |
| 1909..... | 6,935 | 96.5 | 6,975 | 9.9 |
| 1910..... | 7,075 | 98.4 | 8,641 | 12.3 |
| 1911..... | 7,287 | 101.4 | 10,103 | 14.4 |
| 1912..... | 7,380 | 102.7 | 13,215 | 18.8 |
| 1913..... | 7,727 | 107.5 | 15,795 | 22.5 |
| 1914..... | 7,377 | 102.6 | 16,500 | 23.5 |
| 1915..... | 7,096 | 98.7 | 17,939 | 25.6 |
| 1916..... | 7,664 | 106.6 | 25,234 | 36.0 |
| 1917..... | 8,180 | 113.8 | 34,805 | 49.6 |
| 1918..... | 7,455 | 103.7 | 37,913 | 54.0 |
| 1919..... | 7,250 | 100.9 | 44,776 | 63.8 |
| 1920..... | 8,502 | 118.3 | 44,621 | 63.6 |
| 1921..... | 6,961 | 96.9 | 50,869 | 72.5 |
| 1922..... | 7,215 | 100.4 | 53,566 | 76.3 |
| 1923..... | 7,379 | 102.7 | 64,453 | 91.8 |
| 1924..... | 7,003 | 97.4 | 71,010 | 101.2 |
| 1925..... | 6,921 | 96.3 | 79,959 | 113.9 |
| 1926..... | 6,960 | 96.8 | 89,450 | 127.5 |
| 1927..... | 6,891 | 95.9 | 97,179 | 138.5 |
| 1928..... | 6,786 | 94.4 | 105,919 | 150.9 |
| 1929..... | 6,849 | 95.3 | 119,045 | 169.6 |
| 1930..... | 6,167 | 85.8 | 119,640 | 170.5 |
| 1931..... | 5,599 | 77.9 | 113,460 | 161.7 |
| 1932..... | 4,691 | 65.3 | 103,591 | 147.6 |
| 1933..... | 4,592 | 63.9 | 111,768 | 159.3 |
| 1934..... | 4,868 | 67.7 | 125,618 | 179.0 |

^a Compiled from data of Bureau of Internal Revenue, and Tobacco Section, AAA.

TOBACCO STATISTICS

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PRODUCTS IN THE UNITED STATES, 1901-34a
(withdrawals)

| Snuff | | Smoking Tobacco | | Chewing Tobacco | |
|--------------------|-------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|
| Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average | Millions of Pounds | Percentage of 1919-28 Average |
| 17.2 | 45.2 | 111.6 | 47.7 | 184.5 | 138.5 |
| 18.3 | 48.0 | 121.3 | 51.8 | 183.1 | 137.5 |
| 19.5 | 51.3 | 130.5 | 55.7 | 189.2 | 142.1 |
| 20.6 | 54.3 | 148.5 | 63.4 | 183.1 | 137.5 |
| 21.9 | 57.7 | 165.0 | 70.5 | 179.7 | 134.9 |
| 23.1 | 60.6 | 174.5 | 74.5 | 187.5 | 140.8 |
| 23.0 | 60.4 | 180.7 | 77.2 | 185.9 | 139.6 |
| 24.8 | 65.2 | 188.7 | 80.6 | 187.8 | 141.0 |
| 29.5 | 77.6 | 207.4 | 88.5 | 205.4 | 154.3 |
| 31.5 | 82.8 | 212.3 | 90.7 | 200.3 | 150.5 |
| 29.1 | 76.5 | 208.7 | 89.1 | 185.3 | 139.2 |
| 31.4 | 82.7 | 216.7 | 92.5 | 186.3 | 139.9 |
| 32.9 | 86.6 | 219.2 | 93.6 | 189.2 | 142.1 |
| 30.8 | 81.0 | 223.6 | 95.5 | 180.4 | 135.5 |
| 32.2 | 84.7 | 234.4 | 100.1 | 175.8 | 132.0 |
| 34.4 | 90.4 | 238.8 | 102.0 | 191.4 | 143.8 |
| 34.6 | 90.9 | 239.4 | 102.2 | 202.5 | 152.1 |
| 37.1 | 97.6 | 232.4 | 99.3 | 182.8 | 137.3 |
| 35.0 | 92.1 | 227.7 | 97.2 | 160.6 | 120.6 |
| 36.1 | 95.0 | 211.2 | 90.2 | 152.5 | 114.5 |
| 35.7 | 93.8 | 222.0 | 94.8 | 128.9 | 96.8 |
| 38.2 | 100.4 | 243.3 | 103.9 | 138.7 | 104.2 |
| 39.4 | 103.8 | 234.3 | 100.0 | 138.4 | 103.9 |
| 39.0 | 102.5 | 245.9 | 105.0 | 128.1 | 96.2 |
| 37.8 | 99.4 | 244.8 | 104.5 | 127.6 | 95.8 |
| 38.1 | 100.2 | 246.0 | 105.1 | 125.9 | 94.6 |
| 40.2 | 105.7 | 236.7 | 101.1 | 117.2 | 88.0 |
| 40.7 | 107.0 | 229.8 | 98.1 | 113.7 | 85.4 |
| 40.0 | 105.3 | 228.4 | 97.5 | 109.3 | 82.1 |
| 40.1 | 105.5 | 230.3 | 98.3 | 98.5 | 74.0 |
| 39.5 | 104.0 | 248.5 | 106.1 | 79.5 | 59.7 |
| 36.4 | 95.8 | 242.3 | 103.5 | 69.9 | 52.5 |
| 36.3 | 95.6 | 242.2 | 103.4 | 62.7 | 47.1 |
| 37.2 | 97.8 | 243.9 ^b | 104.1 ^b | 63.2 ^b | 47.5 ^b |

^b Estimated.

V. CONSUMPTION OF CIGARS IN THE UNITED STATES BY PRINCIPAL PRICE CLASSES, 1919-34a
(Tax-paid withdrawals)

| Year | Class A ^b | | Class B ^b | | Class C ^b | | Classes D and E ^b (Millions of cigars) | Total (Millions of cigars) |
|-----------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|--|-------------------------------|
| | Millions of Cigars | Percentage of 1919-28 average | Millions of Cigars | Percentage of 1919-28 average | Millions of Cigars | Percentage of 1919-28 average | | |
| 1919..... | 2,095 | 74.2 | 2,808 | 181.6 | 2,263 | 85.3 | 84 | 7,250 |
| 1920..... | 2,043 | 72.4 | 2,620 | 169.5 | 3,641 | 137.3 | 198 | 8,502 |
| 1921..... | 2,157 | 76.4 | 1,901 | 123.0 | 2,722 | 102.7 | 181 | 6,961 |
| 1922..... | 2,872 | 101.8 | 1,613 | 104.3 | 2,578 | 97.2 | 152 | 7,215 |
| 1923..... | 2,863 | 101.4 | 1,632 | 105.6 | 2,723 | 102.7 | 161 | 7,379 |
| 1924..... | 2,893 | 102.5 | 1,381 | 89.3 | 2,565 | 96.7 | 164 | 7,003 |
| 1925..... | 3,027 | 107.2 | 1,141 | 73.8 | 2,566 | 96.8 | 187 | 6,921 |
| 1926..... | 3,208 | 113.6 | 957 | 61.9 | 2,614 | 98.6 | 181 | 6,960 |
| 1927..... | 3,457 | 122.5 | 758 | 49.0 | 2,493 | 94.0 | 183 | 6,891 |
| 1928..... | 3,610 | 127.9 | 649 | 42.0 | 2,354 | 88.7 | 173 | 6,786 |
| 1929..... | 3,859 | 136.7 | 582 | 37.7 | 2,236 | 84.3 | 172 | 6,849 |
| 1930..... | 3,833 | 135.8 | 394 | 25.5 | 1,798 | 67.8 | 142 | 6,167 |
| 1931..... | 3,960 | 140.3 | 173 | 11.2 | 1,367 | 51.6 | 99 | 5,599 |
| 1932..... | 3,735 | 132.3 | 53 | 3.4 | 842 | 31.8 | 61 | 4,691 |
| 1933..... | 3,932 | 139.3 | 34 | 2.2 | 574 | 21.6 | 52 | 4,592 |
| 1934..... | 4,197 | 148.7 | 60 | 3.9 | 566 | 21.3 | 45 | 4,868 |

^a Compiled from Bureau of Internal Revenue data.

^b Classified according to prices for which intended to retail, as follows:

A—Not more than 5 cents each.

B—More than 5 cents and not more than 8 cents each.

C—More than 8 cents and not more than 15 cents each.

D—More than 15 cents and not more than 20 cents each.

E—More than 20 cents each.

APPENDIX B

MARKETING AGREEMENT FOR FLUE-CURED TOBACCO ¹

PART I

The parties to this agreement are the contracting buyers and the Secretary of Agriculture of the United States.

Whereas, it is the declared policy of Congress as set forth in Section 2 of the Agricultural Adjustment Act, approved May 12, 1933, as amended—

(a) 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 that farmers buy equivalent to the purchasing power of agricultural commodities in the base period, the base period in the case of all agricultural commodities except tobacco being the pre-war period, August 1909-July 1914, and in the case of tobacco the base period being the post-war period, August 1919-July 1929:

(b) To approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets; and

(c) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer above the percentage which was

¹ *Agreement No. 15, Marketing Agreement Series, AAA.*

returned to the farmer in the pre-war period, August 1909-July 1914; and

Whereas, the parties hereto are desirous of readjusting the price average for flue-cured tobacco and of establishing a minimum average price therefor so as to compensate the grower thereof, increase such grower's purchasing power, and thereby to effectuate the declared policy of the said act; and

Whereas, the market prices of flue-cured tobacco have been unduly depressed far below the fair exchange value, as defined in said act, of said commodity; and

Whereas, a grower of such tobacco receiving the fair exchange value thereof will have an increased purchasing power affecting and improving the flow of commodities in interstate commerce; and

Whereas, the marketing, selling, buying, and distributing of flue-cured tobacco affect, and are in both the current of interstate and foreign commerce and the current of intrastate commerce, which are inextricably intermingled; and

Whereas, The American Tobacco Company, Liggett & Myers Tobacco Company, R. J. Reynolds Tobacco Company, P. Lorillard Company, Philip Morris and Company, Ltd., Inc., Larus & Brother Company, Continental Tobacco Company, and Brown and Williamson Tobacco Corporation, and their respective subsidiaries and affiliates ordinarily buy approximately ninety per cent (90%) of the flue-cured tobacco used for domestic manufacture in the United States; and

Whereas, pursuant to the Agricultural Adjustment Act, the parties hereto, for the purpose of correcting conditions now obtaining in the production of flue-cured tobacco and the marketing thereof, and to effectuate the declared policy of the act, desire to enter into a marketing agreement under the provisions of Section 8 (2) of the act;

Whereas, the contracting buyers desire to co-operate in effectuating such declared policy by entering into this agreement with a view to securing for the growers a better and stable price for their product and in so doing avoid placing any undue burden on consumers; and

Whereas, the contracting buyers represent that this agreement requires them to purchase substantially larger quantities of flue-cured tobacco from the 1933 crop than are necessary under the present inventory positions of the respective contracting buyers, and to pay therefor higher prices than they have been paying on the markets:

Now, therefore, the contracting buyers hereby agree with the Secretary of Agriculture and with each other, each for himself and not the one for the other, and the Secretary, as expressly in this agreement provided, hereby agrees with the contracting buyers as follows:

PART II

1. As used in this agreement, the following words and phrases are defined as follows:

(a) "Secretary" means the Secretary of Agriculture of the United States.

(b) "Act" means the Agricultural Adjustment Act approved May 12, 1933, as amended.

(c) "Person" means individual, partnership, corporation, and association, or any other business unit.

(d) "Flue-cured tobacco" means tobacco of types 11, 12, 13, and 14, as defined by the Bureau of Agricultural Economics of the Department of Agriculture of the United States of America in Regulatory Announcement No. 118.

(e) "Market" means auction warehouse floor on which flue-cured tobacco is bought and sold.

(f) "Grower" means any person—(1) who produces flue-cured tobacco, excepting a person having no financial interest in such tobacco, and (2) who shall have signed

production or acreage reduction contracts with the Secretary in respect of the 1934 and 1935 crops of flue-cured tobacco, and (3) who shall sell on markets flue-cured tobacco of the 1933 crop produced by him.

(g) "Buyer" means any person who purchases flue-cured tobacco on any market in the United States.

(h) "Contracting buyers" means [corporations mentioned in Part I], and such other buyers as may become parties signatory to this agreement, according to the terms hereof.

(i) "Subsidiary" means any person of or over which a contracting buyer has, either directly or indirectly, factual or legal control, whether by stock ownership or in any other manner.

(j) "Affiliate" means any person who has, either directly or indirectly, factual or legal control of or over a contracting buyer, whether by stock ownership or in any other manner, or the factual or legal control of or over which is, either directly or indirectly, in a person which has, either directly or indirectly, factual or legal control of or over a contracting buyer.

2. This is a limited marketing agreement, the sole purpose of which is to establish the minimum quantity of and price to govern purchase of flue-cured tobacco by the contracting buyers for the 1933 marketing season from September 25, 1933, to March 31, 1934, inclusive.

PART III

1. (a) Each of the contracting buyers will purchase on the markets between September 25, 1933, and March 31, 1934, inclusive, a number of pounds of flue-cured tobacco of the 1933 crop at least equal to the number of pounds that it and all its subsidiaries and affiliates used of flue-cured tobacco (farm sales weight) in manufacturing business in the United States during the fiscal period comprising the twelve months ended June 30, 1933.

(b) With respect to all of its purchases of flue-cured tobacco on the markets between September 25, 1933, and March 31, 1934, inclusive, out of the 1933 crop of flue-cured tobacco, for use in its manufacturing business in the United States, each contracting buyer will purchase in the usual and ordinary manner, except with respect to prices as provided in this agreement, against the requirements of such contracting buyers just as though this agreement were not in effect and will not buy unduly of the high grades in order to defeat the purpose of this agreement or concentrate its purchases in any geographical region.

(c) The farm sales weight of flue-cured tobacco referred to in paragraph (a) and (b) of this section shall be computed by taking the sum of (1) 113% of the quantity of tobacco used in manufacture from which stem has not been removed, and (2) 145% of the quantity of tobacco used in manufacture from which stem has been removed.

(d) The average price per pound to be paid by the contracting buyers for all their purchases on the markets between September 25, 1933, and March 31, 1934, inclusive, out of the 1933 crop of flue-cured tobacco for use in their manufacturing business in the United States, shall be at least seventeen cents (17c) per pound when all such purchases by the contracting buyers are taken collectively.

(e) In the event that the total amount actually paid for all purchases referred to in paragraph (d) of this section by the contracting buyers is less than the total amount that would have been paid therefor at the average price of seventeen cents (17c) per pound, then the deficiency shall be made up as follows:

(1) There shall be computed the percentage which said deficiency is of the total amount actually paid by the contracting buyers for all such purchases, and

(2) Each of the contracting buyers will pay, as hereinafter provided, an amount equal to said percentage of the

total amount actually paid by it for all its said purchases.

(3) Such payments shall be made to the Secretary or upon his order, within thirty (30) days after notification of the amount so computed, for distribution to the growers in such manner as the Secretary may determine.

If the total quantity purchased by any one of the contracting buyers is less than the total quantity which it is obligated to purchase pursuant to Section 1(a) of Part III hereof, then such contracting buyer shall pay to or upon the order of the Secretary within thirty days after notification thereof seventeen cents (17c) for each pound of such difference, and such payment shall be in addition to any deficiency under the preceding provisions of this section.

2. During the period of this agreement the contracting buyers will use all reasonable effort to protect the consumers of their products against profiteering and agree that the price of any merchandise sold by them after the date hereof shall not be increased over the price of January 3, 1933, by more than is made necessary by actual increase in production, replacement, and invoice costs of merchandise, or by taxes or other costs resulting from action taken pursuant to the act, since July 1, 1933, and, in setting such price increases, to give full weight to probable increases in sales volume.

3. (a) Without any limitation in any way whatsoever of the provisions contained in paragraph (b) of this section, each of the contracting buyers, if and as required by the Secretary, shall submit to him reports, properly verified under oath, showing—

(1) Its usings of flue-cured tobacco and the using of each of its subsidiaries and affiliates in manufacturing business in the United States during the fiscal period comprising the twelve months ended June 30, 1933.

(2) The quantity of flue-cured tobacco purchased by it on markets between September 25, 1933, and March 31, 1934, inclusive, for such manufacturing business in the United States, and the amount paid therefor,

and for the verification of said reports shall, if requested by the Secretary, make available to the Secretary its records and the records of its agents, subsidiaries, and affiliates and of the agents of its subsidiaries and affiliates in respect of such flue-cured tobacco using, such purchases, and the amounts paid therefor during the respective periods mentioned.

(b) The contracting buyers shall severally furnish to the Secretary from time to time, on forms to be supplied by him, information necessary for him to determine whether the terms of this agreement are being or have been performed by them, and the pertinent books, records, accounts, memoranda, documents, papers, and correspondence (including the pertinent books, records, accounts, memoranda, documents, papers, and correspondence of agents, affiliates, subsidiaries, and of agents of affiliates and subsidiaries) shall be made available to the Secretary for verification of such reports. In case of failure to make reports as provided herein, the Secretary shall have the right to examine such books, records, accounts, memoranda, documents, papers, and correspondence to ascertain the foregoing information. All information (unless it would have been otherwise legally obtainable by the Secretary without becoming his confidential information) obtained by or furnished to the Secretary pursuant to the foregoing provisions of this paragraph, if designated in writing as confidential when so obtained or furnished, shall remain the confidential information of the Secretary in accordance with the applicable General Regulations, Agricultural Adjustment Administration. Because of the limited purpose

and duration of this agreement, this clause shall not be considered as creating a precedent.

4. This agreement shall become effective at such time as the Secretary may declare above his signature attached hereto, and this agreement shall continue in force only until March 31, 1934; except that paragraph (e) of Section 1 and Section 3 of Part III shall remain in effect until sixty (60) days after the date of the last payment under said paragraph (e).

5. The benefits, privileges, and immunities conferred by virtue of this agreement shall cease upon its termination, except with respect to acts done prior thereto.

6. This agreement may be executed in multiple counterparts, which when signed by the Secretary shall constitute, when taken together, one and the same instrument as if all such signatures were contained in one original.

7. After this agreement first takes effect any buyer may become a party to this agreement with the consent of the then parties hereto, if a counterpart thereof is executed by him and by the Secretary. This agreement shall take effect as to such new contracting party at such time as the Secretary may declare above his signature attached to such counterparts, and the benefits, privileges, and immunities conferred by this agreement shall then be effective as to such new contracting party.

8. If any provision of this agreement is declared invalid, or the applicability thereof to any person, circumstance, or thing is held invalid, the validity of the remainder of this agreement and the applicability thereof to any other person, circumstance, or thing shall not be affected thereby.

9. The Secretary may, by a designation in writing, name any person (including any officer or employee of the government) to act as his agent in connection with any of the provisions of this agreement.

PART IV

In witness whereof, the contracting parties, acting under the provisions of the Agricultural Adjustment Act, for the purpose and subject to the limitations therein contained, and not otherwise, have hereunto set their respective hands and seals.

[Signatures]

Whereas, it is provided by Section 8 of the act as follows:

In order to effectuate the declared policy, the Secretary of Agriculture shall have power * * * to enter into marketing agreements with processors, associations of producers, and others engaged in the handling in the current of interstate or foreign commerce of any agricultural commodity or product thereof, after due notice and opportunity for hearing to interested parties. The making of any such agreement shall not be held to be in violation of any of the anti-trust laws of the United States, and any such agreements shall be deemed to be lawful: *Provided*, That no such agreement shall remain in force after the termination of this act;

and

Whereas, due notice and opportunity for hearing to interested parties has been given pursuant to the provisions of the act, and the regulations issued thereunder; and

Whereas, the Secretary finds (1) that the contracting buyers are engaged in the handling of tobacco and products thereof in the current of interstate and foreign commerce; and (2) that the marketing and distribution of tobacco and products thereof in intrastate commerce is inextricably intermingled with their marketing and distribution in interstate and foreign commerce; and

Whereas, it appears after due consideration that this agreement will tend to effectuate the policy of Congress declared in Section 2 of the act, as hereinbefore in this agreement set forth;

Now, therefore, I, Henry A. Wallace, Secretary of Agri-

culture, acting under the provisions of the Agricultural Adjustment Act, for the purpose and within the limitations therein contained, and not otherwise, do hereby execute this agreement under my hand and official seal of the Department of Agriculture, in the City of Washington, District of Columbia, on the twelfth day of October, 1933, and pursuant to the provisions hereof declare this agreement to be effective on and after September 25, 1933, eastern standard time, 6 a. m.

Approved. It being of course obvious that no officer of the government can by agreement limit or curtail any authority vested in him by law, nothing contained herein shall be construed by the parties to this agreement as attempting to limit or curtail such legal authority.

(Signed) H. A. WALLACE,
Secretary of Agriculture.

APPENDIX C

OTHER TOBACCO PROPOSALS CONSIDERED

The Department of Agriculture committee in charge of the early plans for administering the Agricultural Adjustment Act with respect to tobacco gave most of its attention to the possibility of reducing production through the use of voluntary contracts, benefit payments, and associated devices authorized by the provisions of the act. In the early conferences held in Washington with agricultural college representatives and growers of cigar leaf, the most time was devoted to analyzing these provisions in relation to the problem presented by the cigar-tobacco situation. Other possibilities under the legislation were discussed before those attending the conferences were asked for their suggestions, but both growers and college representatives appear to have accepted immediately the general view that the act contemplated restriction of production as the fundamental feature of any plan adopted. Accordingly, the attention of the groups was quickly turned to the problem of working out the details of such a plan.

This task was assigned to the committee selected at the conference held on June 5. (See page 97.) Since the planting season was at hand, time was considered to be a most important factor in these deliberations, especially by the growers present. Consequently the committee was asked to report back the next day with a detailed plan, including a tentative producer's contract form. Actually their proposal was submitted on the second day following.

On June 6, while the producers' committee was at work, the first conference was held with the cigar-leaf dealers and cigar manufacturers, also in Washington. When this group was asked for suggestions, their spokesman sug-

gested that they would like about three weeks in which to develop a plan for the improvement of conditions confronting all branches of the cigar industry. After it was pointed out that a procedure would be proposed by other groups within the next few hours, however, he indicated a desire to have his group participate in the discussion of any such proposal. Accordingly, those present were invited to a joint meeting on the evening of June 7, at which time the tentative plan formulated by the producers' committee was presented informally. The principal features of this plan were:

1. To pay benefits to growers for reducing the acreage grown in 1933 to one-half that grown in 1932.

2. To make these benefit payments on an acre basis for land withheld from production, varying them among the different areas or types of tobacco so as to approximate 40 per cent of the fair exchange value per acre.¹

3. To obtain revenue for benefit payments by levying processing taxes at rates of from three to four cents per pound on cigar types of tobacco manufactured during the marketing year beginning October 1, 1933.

Following the presentation of the committee proposal, the manufacturers and dealers introduced informally an alternative suggestion worked out by them after their conference the day before. In brief, this suggestion was that whatever amount of money the Department of Agriculture decided to appropriate for benefits be used to acquire stocks then being held by pools or others—packers and manufacturers excepted—in the respective cigar-leaf pro-

¹ Fair exchange value per acre to be the ten-year average yield times parity price. The plan as presented specified the method by which the amount of these payments would be computed for each region and outlined the basis for determining the reductions to be made by individual growers in order to effect an equitable acreage adjustment for each area. It also included an estimate of the expenditure required for such a program, but these details need not concern us at this point.

ducing states, in order that such stocks might be sold for nicotine extract purposes or exported without re-entry permit. The manufacturers contended that such a plan would permit a greater reduction of stocks from a given expenditure of money than could be secured by paying benefits for acreage reduction. Also that it would reduce stocks by eliminating the poorest quality product, which was still in the hands of producers.² After discussion, there was general agreement among those present that a combination of the two proposals might be worked out which would relieve the growers and, at the same time, benefit the industry as a whole.

A plan was finally drafted for the cigar filler and binder types which incorporated the principles of both these proposals. Under its terms, supplies were to be curtailed in two ways. First, acreage was to be reduced in 1933, 1934, and 1935 by a scheme essentially similar to that first recommended in the conferences. Second, additional payments were to be made to growers for destroying or diverting to non-commercial uses a portion of the tobacco still in their hands from production in former years.³ This plan was

² The manufacturers maintained that a large part of the unsold tobacco reported for the various producing sections was so low in quality that it could not properly be classed as cigar tobacco. This appears to have been conceded for all principal sections except the Connecticut Valley. The manufacturers' representative agreed that an acreage reduction program would be desirable in that area, even though his proposal was adopted for the other sections. Likewise, the immediate reaction of representatives of growers, excepting those from the Connecticut Valley, was favorable to the manufacturers' proposal. The Connecticut growers' representative adhered consistently to the view that control of production on a reasonably permanent basis was absolutely essential. The manufacturers also mentioned the assistance their plan would give the government in liquidating certain substantial loans made on tobacco by the Farm Board.

³ It was estimated that about 34 million pounds of low-grade product could be removed from the commercial supply by this procedure. As then contemplated this feature of the plan was to be carried out through a separate contract with growers. Only growers who had already qualified for payments under the acreage reduction contracts were to be eligible and payments were

submitted to the chief administrative officers for approval. On June 17 the first part of the plan was announced as approved and the second was mentioned as under consideration.⁴ Details of the acreage reduction plan were officially announced on June 25, to "... be put into effect immediately..." At the same time the second procedure was referred to as follows:

Plans for reducing stocks of those farmers who accept the plan to reduce production are being considered. If such a reduction of existing stocks of tobacco appears to be sound public policy, agreements will be offered at some later date under which growers will be paid for diverting a portion of the surplus stocks to non-commercial uses.⁵

This proposal was never approved and no further mention of it has appeared in succeeding AAA releases. At least three factors appear to have influenced the decision to reject this proposal. In the first place the comptroller raised a question about the legality of using for such a purpose the funds then available. Although there appeared to be no question as to whether funds collected from processing taxes could be so used under the authority of Section 12 (b), doubt was expressed as to whether funds could be advanced by the Treasury in anticipation of receipts from tax collections, as was authorized for benefit payments. Secondly, it has been noted that the policy gradually developing was in opposition to any use of powers

to be made only for the diversion of tobacco which such growers had owned continuously since its production. The quantity which an individual could so divert and receive payment on was to be fixed as a specified amount per acre of land taken out of tobacco under the terms of his production contract. It was planned to specify these amounts for each district so that they would roughly correspond to the yields usually obtained. Payments were to be approximately 35 per cent of the parity price on the number of pounds diverted or destroyed. This part of the plan was to be used for only one year.

⁴ AAA Press Release No. 1358-33, June 17, 1933.

⁵ AAA Press Release No. 1411-33, June 25, 1933.

conferred by the act to attempt to raise prices through stabilization purchases or removal into non-competitive markets. Third, it was later decided that the quality of much of this tobacco was better than first reported and that much of it could best be used in the usual outlets for stemming grades.

Thus the scheme of curtailing acreage was adopted as the procedure for reducing supplies of filler and binder tobacco. The procedure proposed for shade tobacco was of somewhat different character, because of the different situation to be encountered. Since it was deemed inadvisable to make this tobacco a separate commodity, a relatively small amount of revenue would be available from a processing tax. The rental or benefit payments which could be made out of this revenue would only obtain a small curtailment in acreage, especially since large payments per acre of reduction would be required because of the high value of the product. Stocks in the Connecticut Valley were not considered to be excessive, and it was thought that satisfactory results would be obtained if acreage in this area were held at about its 1933 level. In the Georgia-Florida district prices were relatively lower and stocks were judged to be more excessive, with the excess consisting largely of low grades. In both districts, shade-tobacco is produced by a relatively small number of growers and handled by only a limited number of dealers, most of whom are themselves producers. For these and related reasons the cigar-wrapper plan, submitted for administrative approval along with the filler and binder plan, contained several distinctive features. These were (1) to reduce 1933 production in the Georgia-Florida district approximately 20 per cent by paying producers to leave unharvested an average of four leaves on each plant and also to limit their marketings to not more than 960 pounds of tobacco from each acre; (2) to allot to individual growers

in each area the acreage which could be produced in 1934 and 1935; (3) to establish a system for grading all tobacco grown in each district; and (4) to enter into marketing agreements with initial handlers. Under the terms of these agreements all tobacco would be sold on the basis of standard grades, minimum prices would be established for purchases from growers and sales by handlers, dealers would be required to handle only tobacco grown under the acreage allotments, and certain fair trade practices would be required.

The agreement and license which resulted from this proposal have already been discussed as embodying the whole plan applied to Connecticut Valley shade-tobacco (page 127). It has not been possible, however, to bring the handlers in the Southern area together on a similar agreement, as was contemplated in the proposed plan. As a result only the suggestion for restricting production has been applied in that district.

When the developments occurred in the flue-cured area which resulted in the speedy adoption of a plan for limiting future production of those types (see pp. 100-05), the AAA, supported by the growers' advisory committee, turned immediately to the general procedure which was being applied to cigar filler and binder tobacco. Later, when Burley plans were worked out, a similar decision was reached, again with the support of an advisory committee. This was not, however, the only procedure advocated at the time. Other proposals were advanced and in some instances received extensive support.

The ones of these which were most frequently and aggressively urged upon the AAA all contemplated some scheme whereby the government would purchase considerable quantities of tobacco under its authority to use tax proceeds for "removal of surplus agricultural products" provided by Section 12 (b) of the act. The greatest pres-

sure developed in favor of a provision urged for incorporation in the marketing agreement for Burley tobacco. (See page 116.) Under this plan (which was also urged for flue-cured tobacco, although not so aggressively in that case) the government would have agreed to stand ready to buy, at specified minimum prices, a quantity roughly equal to the difference between the total of the commitments made by manufacturers under the agreement and the total production as then estimated. Manufacturers contended that such purchases were necessary to prevent a large unsold surplus from remaining on the market after each of them had bought the quantity specified in the agreement, and that they could not afford to pay the stipulated prices unless they were protected against the possibility of this surplus being released on the market at lower prices, where it could be obtained by possible new competitors.

Many growers and their representatives urged the adoption of this scheme because they believed it to be the only way in which satisfactory prices could be obtained for the 1933 crop. Although they endorsed reduction of production as a program for future years, they did not believe it would increase prices until its effects appeared in the markets in the form of reduced supplies, possibly two or three years later. The marketing agreement, they thought, would be ineffective in securing the desired immediate price advance unless the government stood ready to buy any tobacco not taken by the manufacturers at the minimum prices agreed upon.

It also appears that this plan found favor with some who controlled redrying and warehousing facilities. No doubt these anticipated the possibility of handling any tobacco purchased and held by the government. Although mention was made in discussion of the plan that some of the tobacco so purchased would be diverted to by-product uses or sold in non-competing markets, including exports with-

out re-entry permits, the assumption was that most of it would be resold as part of the domestic supply after production had been reduced. For this purpose it was provided as part of the proposal that such purchases would be automatically transferred to domestic manufacturers at the cost price plus agreed upon holding charges, whenever production was reduced below manufacturers' usings in the preceding year. This transfer would not all be made at one time, but in any one season it would equal the amount by which production fell short of manufacturers' usings. Sponsors of this scheme contended that it would be subject to none of the hazards ordinarily associated with government price stabilization purchases, since disposal of those purchases was provided in the plan and would require only that production be reduced below manufacturers' usings by the amount so purchased.

These plans received a considerable measure of influential support from within the AAA. Policies were not yet developed and individuals within the organization favored different procedures. As has been noted, one group led by Administrator Peek definitely favored the use of the powers to expand markets and remove surpluses in combination with marketing agreements and licenses as the principal part of the program. Accordingly this group favored these tobacco proposals and used all of its influence to secure administrative approval. Others in the staff held opposite views, even to the extent of opposing the price and quantity fixing agreements finally used. Members of the Tobacco Section favored the agreements providing they were supplemented by an effective procedure for restricting production, but they opposed any form of stabilization purchases.

In the case of the suggested cigar plan the Administrator preferred that it be approved at once, but was willing to go ahead with the production program pending decision upon

the proposal to buy up low-grade cigar tobacco held by producers. Ultimately he was overruled with respect to this latter proposal. In the case of the flue-cured agreement the Administrator's position was upheld, and the plan was carried out as noted. With respect to Burley, however, the Administrator declined to approve the production reduction plan unless the provision for stabilization purchases was included in the marketing agreement. This difference was one of those which were waiting to be settled at the time the Administrator resigned on December 8, 1933. Three days later the plans for reducing production of Burley and fire-cured tobacco were officially announced. The following day a similar plan for the dark air-cured types was made public.

APPENDIX D

SUMMARY OF TOBACCO PRODUCTION ADJUSTMENT PLANS

I. OPTIONS FROM WHICH EACH PRODUCER CHOSE THE BASE FOR HIS FARM

Cigar Filler and Binder: New England, Pennsylvania- New York, Miami Valley, and Wisconsin

OPTIONS IN CONTRACT

- (a) 80 per cent of average acreage planted in 1931 and 1932.
- (b) Entire acreage planted in 1932, provided it did not exceed acreage planted in 1931.
- (c) Average acreage planted in 1931 and 1932, provided planted acreage in 1932 exceeded planted acreage in 1931.

ADDITIONAL OPTIONS IN "RIDER A"

- (d) Two-thirds of acreage planted in 1931.
- (e) 50 per cent of acreage planted in 1930.

Cigar Filler and Binder: Puerto Rico

OPTIONS IN CONTRACT

- (a) Average acreage planted in crop years 1929-30, 1930-31, 1932-33, and 1933-34.
- (b) 85 per cent of average acreage planted in crop years 1929-30, 1930-31, and 1932-33.
- (c) 85 per cent of average acreage planted in crop years 1929-30, 1930-31, and 1933-34.
- (d) 85 per cent of average acreage planted in crop years 1929-30, 1932-33, and 1933-34.
- (e) 85 per cent of average acreage planted in crop years 1930-31, 1932-33, and 1933-34.

Cigar Wrapper: Georgia-Florida

PROVISIONS OF ORIGINAL CONTRACT OFFERED
IN 1933

No base determined in 1933 since the contract only limited the amount harvested from all acres planted. Provided for determining a base acreage in subsequent years as follows:

(a) The Secretary or his agent to determine total acreage to be grown by producers in 1934 and/or 1935, after consultation with representative growers.

(b) After such determination, a committee of growers designated by the Secretary or his agent was, on or before January 15, 1934, to assign to each farm a base tobacco acreage for 1934 and/or, on or before January 15, 1935, a base acreage for 1935. Such bases were subject to approval by the Secretary or his agent.

PROVISION OF REVISED CONTRACT
FOR 1934 AND 1935

Base tobacco acreage for each farm to be average number of acres harvested in the years 1929-33 inclusive, as determined by a committee designated by the Secretary. In no event could base acreage be less than one acre.

Flue-Cured

OPTIONS IN CONTRACT

(a) Average acreage and production of years 1931-33 inclusive.

(b) 85 per cent of average acreage and production of any two years in the period 1931-33 inclusive.

(c) 80 per cent of acreage and production in 1933.

(d) 70 per cent of acreage and production in either 1931 or 1932.

Burley

OPTIONS IN CONTRACT

(a) Average acreage and production of years 1932 and 1933.

(b) 80 per cent of average acreage and production of years 1931-33 inclusive.

(c) 80 per cent of acreage and production in 1932.

(d) 75 per cent of acreage and production in 1933.

OPTION ADDED BY ADMINISTRATIVE RULING NO. 1

(e) 70 per cent of 1931 acreage and 60 per cent of 1931 production. Offered only to producers whose production in both 1932 and 1933 was abnormally low because of drought, hail, or storm damages, and restricted to farm or farms actually affected by such weather conditions.

Fire-Cured

OPTIONS IN CONTRACT

(a) Average acreage and production of 1932 and 1933.

(b) Acreage and production in 1932, provided acreage in that year was not more than 10 per cent greater than in 1933.

(c) Acreage and production in 1933, provided acreage in that year was not more than 20 per cent greater than in 1932.

(d) 80 per cent of 1933 acreage and production.

(e) 50 per cent of 1931 acreage and production.

OPTIONS ADDED BY ADMINISTRATIVE RULING NO. 14

(f) 80 per cent of the 1932 acreage and production.

(g) An acreage equal to that provided by any one of the options (a) through (f) and the production obtained by applying to this acreage a yield per acre equal to two-thirds of the yield per acre in any of the years 1931, 1932,

or 1933. Offered only to producers whose production in two of the three years 1931-33 was abnormally low because of drought, flood, hail, or storm damage.

Dark Air-Cured

OPTIONS IN CONTRACT

Identical with options (a) to (e) provided in the fire-cured contract.

OPTIONS ADDED BY AMENDMENT NO. 1 TO
ADMINISTRATIVE RULING NO. 14

Identical with options (f) and (g) provided for fire-cured tobacco by Ruling No. 14.

SPECIAL OPTIONS ADDED BY ADMINISTRATIVE
RULING NO. 15 FOR GROWERS OF VIRGINIA
SUN-CURED TOBACCO

- (f) 85 per cent of the 1931 acreage and production.
- (g) The 1932 acreage and production.
- (h) The 1933 acreage and production.

Maryland

PROVISIONS OF CONTRACT

(a) *Base acreage*—average of tobacco acreage in 1932 and 1933.

(b) *Base yield*—average of tobacco yield per acre in 1931 and 1932.

(c) *Base production*—product of base acreage and base yield.

OPTION ADDED BY ADMINISTRATIVE RULING NO. 16

In those counties in the state of Maryland which for purposes of tobacco production are commonly referred to as "upper country," the "base yield per acre" for a farm, as set forth in paragraph 3 of the contract, may be 90 per

cent of the tobacco yield per acre in 1931, in lieu of "the average tobacco yield per acre in 1931 and 1932" which is provided under (b) of said contract.

II. PROVISIONS RELATING TO REDUCTIONS AND ALLOTMENTS

Cigar Filler and Binder: New England, Pennsylvania-New York, Miami Valley, and Wisconsin

TERMS OF CONTRACT

1933: *Contracted acreage.* 50 per cent of the base tobacco acreage required to be taken out, or kept out of production in 1933.

1934: *Contracted acreage.* Producers who did not amend their contracts by signing "Rider A" were required to maintain the same reduction in 1934.

1935: *Contracted acreage.* $33 \frac{1}{3}$ per cent of the base tobacco acreage. Administrative Ruling No. 45 permits a grower to plant more than the remaining $66 \frac{2}{3}$ per cent of his base providing he does not exceed 75 per cent, and providing he accepts reduced payments. In such a case the contracted acreage is to be 25 per cent of the base.

TERMS OF "RIDER A"

1934: *Contracted acreage.* Either $33 \frac{1}{3}$ per cent, 50 per cent, or 100 per cent of the base to be kept out of tobacco production depending upon option chosen by producer.

1935: *Contracted acreage.* $33 \frac{1}{3}$ per cent of the base tobacco acreage. Administrative Ruling No. 44 permits a grower to plant more than the remaining $66 \frac{2}{3}$ per cent of his base providing he does not exceed 75 per cent, and providing he accepts reduced payments. In such a case the contracted acreage is to be 25 per cent of the base.

Cigar Filler and Binder: Puerto Rico

TERMS OF CONTRACT

1933-34: *Reduction required.* Second and third crops of tobacco not to be harvested.

1934-35: *Allotted acreage.* To be one of the following as chosen by producer:

(a) 60 per cent of base, from which only first and second crops of tobacco could be harvested.

(b) 75 per cent of base, from which only first crop could be harvested.

1935-36: *Reduction required.* Not yet announced.

Cigar Wrapper: Georgia-Florida

TERMS OF ORIGINAL CONTRACT OFFERED IN 1933

1933: *Contracted acreage.* Number of acres on each of which 8,000 or more tobacco plants suitable for harvest were grown plus the number of such plants grown on all other land in the farm divided by 8,000.

Reduction required.

(a) Average of four stalk leaves per plant to be left unharvested.

(b) Total quantity marketed not to exceed 960 pounds per contracted acre.

TERMS OF REVISED CONTRACT FOR 1934 AND 1935

1934: *Acreage allotment.*

(a) If base is five acres or less, allotment equals base.

(b) If base exceeds five acres, allotment is two thirds of base, but not less than five acres.

Contracted acres. Difference between the base acreage and the acreage allotment.

Production allotment. A number of pounds equal to 900 times the acreage allotment.

Reduction. "If the total quantity of tobacco harvested in 1934 on all farms covered by this and like contracts shall exceed the aggregate initial production allotment of all such farms and if the quantity of tobacco harvested on this farm in 1934 shall exceed the initial production allotment for this farm there shall be withheld from market a proportion of such excess harvested on this farm which when added to a like proportion of such excess harvested on all other farms covered by this and like contracts will equal the aggregate of such excess harvested in 1934 on all farms so covered. Such excess so withheld from market shall be disposed of as the Secretary may direct." (Form T-78, paragraph 8.)

1935: *Acreage allotment.* The acreage grower could plant in 1935:

- (a) If base is five acres or less, allotment equals base.
- (b) If base exceeds five acres, allotment is 80 per cent of base, but not less than five acres.

| | | |
|------------------------------|---|--|
| <i>Contracted acres.</i> | } | Same as for 1934 except as affected by change in allotments. |
| <i>Production allotment.</i> | | |
| <i>Reduction.</i> | | |

Flue-Cured

TERMS OF CONTRACT

1934: *Rented acreage.* 30 per cent of base acreage to be kept out of production in 1934 and rented to the Secretary.

Acreage allotment. 70 per cent of the base acreage. Administrative Ruling No. 23 permitted a grower to plant up to 80 per cent of his base, provided he either destroyed such excess or accepted reduced payments.

Production allotment. 70 per cent of the base production. Any tobacco produced in excess of allotment required to be disposed of as directed by the Secretary. Ad-

Administrative Ruling No. 23 permitted the grower to market up to 80 per cent of his base providing he accepted reduced payments.

1935: *Rented acreage.* 15 per cent of the base acreage.
Acreage allotment. 85 per cent of the base acreage.
 Administrative Ruling No. 37 permits a grower to plant up to 90 per cent of his base providing he accepts reduced payments.

Production allotment. 85 per cent of the base production. Ruling No. 37 permits a grower to market up to 12.5 per cent in excess of his allotment providing he accepts reduced payments.

Burley

TERMS OF CONTRACT

1934: *Rented acreage.* Either one-third or one-half (as chosen by producer) of the base acreage to be kept out of production in 1934 and rented to the Secretary.

Acreage allotment. Difference between the base acreage and the rented acreage.

Production allotment. Established at two-thirds or one-half of the base production, depending upon the rate of reduction chosen. Any tobacco produced in excess of this allotment required to be disposed of as directed by the Secretary. Administrative Ruling No. 36 permitted a grower to market such excess up to an amount equal to 10 per cent of his allotment providing he accepted reduced payments.

1935: *Rented acreage.* 40 per cent of the base tobacco acreage to be kept out of production.

Acreage allotment. 60 per cent of base acreage.

Production allotment. 60 per cent of the base tobacco production.

Fire-Cured

TERMS OF CONTRACT

1934: *Rented acreage.* 25 per cent of the base acreage to be kept out of production and rented to the Secretary.
Acreage allotment. 75 per cent of the base acreage.

Production allotment. 75 per cent of base production. Administrative Ruling No. 36 permitted a grower to market up to 15 per cent in excess of his allotment if he accepted reduced payments.

1935: *Rented acreage.* 20 per cent of base acreage.
Acreage allotment. 80 per cent of base acreage.
Production allotment. 80 per cent of base production.

Dark Air-Cured

TERMS OF CONTRACT

1934: *Rented acreage.* 30 per cent of the base acreage to be kept out of production in 1934 and rented to the Secretary.

Acreage allotment. 70 per cent of the base acreage.
Production allotment. 70 per cent of the base production. Administrative Ruling No. 36 permitted a grower to market up to 15 per cent in excess of his allotment if he accepted reduced payments.

1935: *Rented acreage.* 20 per cent of base acreage.
Acreage allotment. 80 per cent of base acreage.
Production allotment. 80 per cent of base production.

Maryland

TERMS OF CONTRACT

1934: *Rented acreage.* 25 per cent of the base acreage to be kept out of production and rented to the Secretary.

Acreage allotment. 75 per cent of the base acreage.

Production allotment. 75 per cent of the base production. Grower was prohibited from marketing any tobacco produced in 1934 in excess of this allotment.

1935: *Rented acreage.*
Acreage allotment.
Production allotment. } Unchanged from 1934.

III. PROVISION RELATING TO PAYMENTS

Cigar Filler and Binder: New England, Pennsylvania-New York, Miami Valley, and Wisconsin

TERMS OF CONTRACT

1933: *First payment.* Rate stated in contract. Uniform rate per contracted acre for all farms within one district but variation from district to district. (See schedule below.)

Second payment. Rate per contracted acre to be 40 per cent of average market value per acre of tobacco harvested on given farm in 1933, but with a specified minimum. (See schedule below.)

Specified rates per acre for first payments and minimum rates for second payments for the four districts were:

| District | First | Second (Minimum) |
|---------------------------------|-------|---------------------|
| New England | \$47 | \$28 |
| Pennsylvania-New York | 24 | 15 |
| Miami Valley | 15 | 9 |
| Wisconsin | 20 | 12 |

1934: *First payment.* To be identical with that for 1933 unless producer amended his contract by signing "Rider A."

Second payment. To be determined exactly as in 1933 except that minimum rate per acre was increased by \$4.00 in New England area and by \$2.00 in the other three districts.

TOBACCO UNDER THE AAA

TERMS OF "RIDER A"

1934: *First payment.* As provided in contract.

Supplemental first payment. At a specified rate per contracted acre.

Second payment. As provided in contract, excepting that (a) if 33 $\frac{1}{3}$ per cent reduction was chosen, then 35 instead of 40 per cent of value of tobacco harvested became basis for computing rate per acre and a new schedule of minimum rates applied, and (b) if 100 per cent reduction was chosen, a schedule of flat rates per acre applied. These minimum and flat rates for second payments, together with the rates of supplementary first payments, are given below:

| District | Supplemental | Minimum | Flat |
|-----------------------------|--------------|---------|---------|
| New England | \$7.00 | \$28.00 | \$16.00 |
| Pennsylvania-New York | 4.00 | 14.00 | 8.50 |
| Miami Valley | 3.00 | 9.00 | 5.50 |
| Wisconsin | 3.00 | 12.00 | 7.00 |

WHERE "RIDER A" WAS NOT EXECUTED

1935: *First payment.* Rate announced in notification to producers. (See schedule on page 293.)

Second payment. Rate per contracted acre to be 30 per cent of average market value per acre of tobacco harvested on the farm in 1935, but with a specified minimum and with a flat rate specified for farms on which no tobacco is grown in 1935. In the event the acreage planted exceeds 66 $\frac{2}{3}$ per cent of the base, as permitted by Administrative Ruling No. 45, the rate of the second payment is to be based on 25 per cent instead of 30 per cent of the average market value.

Specified rates per acre for first payments, minimum rates for second payments, and specified rates for second payments in case no tobacco was grown, were:

| District | First | Second | |
|-----------------------------|-------|-----------|---------------------------|
| | | (Minimum) | (If no tobacco was grown) |
| New England | \$36 | \$21 | \$72 |
| Pennsylvania-New York | 18 | 11 | 36 |
| Miami Valley | 12 | 8 | 24 |
| Wisconsin | 15 | 9 | 30 |

WHERE "RIDER A" WAS EXECUTED, INCLUDING ALL NEW CONTRACTS SIGNED AFTER 1933

1935: *First payment.* Rate announced in notification to producers. (See schedule below.)

Second payment. Rate per contracted acre to be 35 per cent of average market value per acre of tobacco harvested on the farm in 1935, but with a specified minimum and with a flat rate specified for farms on which no tobacco is grown in 1935. In the event the acreage planted exceeds 66 2/3 per cent of the base, as permitted by Administrative Ruling No. 44, the rate of the second payment is to be based on 30 per cent instead of 35 per cent of the average market value.

Specified rates per acre for first payments, minimum rates for second payments, and specified rates for second payments in case no tobacco was grown, were:

| District | First | Second | |
|-----------------------------|-------|-----------|---------------------------|
| | | (Minimum) | (If no tobacco was grown) |
| New England | \$47 | \$28 | \$94 |
| Pennsylvania-New York | 24 | 14 | 48 |
| Miami Valley | 15 | 9 | 30 |
| Wisconsin | 20 | 12 | 40 |

Cigar Filler and Binder: Puerto Rico

TERMS OF CONTRACT

1933-34: *First payment.* To be \$10 per *cuerda* (1.01 acres) harvested in 1933-34 by priming, and \$15 per *cuerda*

harvested by stalk cutting. To be made after satisfactory proof by grower that second and third crops had not been harvested.

1934-35: *Rental payment.* To be \$30 per *cuerda* of rented acreage of 1934-35.

Adjustment payment. To be 30 per cent of market value of tobacco harvested on given farm in 1934-35, but not less than \$20 per *cuerda* of rented acreage.

1935-36: Not yet announced.

Cigar Wrapper: Georgia-Florida

TERMS OF CONTRACT

(Both original and revised)

1933: Two payments, each at the rate of \$30 per acre of crop grown under contract terms.

1934: The same as 1933.

1935: The same as 1933 and 1934.

Flue-Cured

TERMS OF CONTRACT

1934: *Rental payment.* To be \$17.50 per rented acre.

Adjustment payment. To be determined in one of the two following ways, but in no event to be based on a net average market price exceeding 21 cents per pound:

(a) Base acreage of four acres or more. To be 12.5 per cent of the net market value of crop grown on farm in 1934 up to an amount equal to initial production allotment.

(b) Base acreage under four acres. Rate to be increased 0.5 per cent for each tenth of an acre under four, except that it could not exceed 25 per cent.

In the event a producer planted in excess of his acreage allotment, as permitted by Administrative Ruling No. 23, a deduction from his adjustment payment equal to \$17.50 times a number of acres equal to 10 per cent of the base was

required. No part of this deduction could be made from tenants' shares.

In the event marketings exceeded the production allotment as permitted by the same ruling, the adjustment payment was determined as follows:

(a) If the base acreage was 4 acres or more, the adjustment payment was reduced in proportion to such excess. The following tabulation shows the rates used for marketings equal to different percentages of the base:

| Percentage of Base | Percentage Rate of Payment |
|-----------------------|-------------------------------|
| 70.1 to 72 | 12 |
| 72.1 to 74 | 11 |
| 74.1 to 76 | 10 |
| 76.1 to 78 | 9 |
| 78.1 to 80 | 8 |

(b) If the base acreage was less than four acres, the rate of the adjustment payment was increased above that provided in the applicable section of the tabulation above by one-half per cent for each tenth of an acre difference, but in no case could it be more than two times the rate shown.

Price equalizing payment. To be paid to any contracting producer who sold any part of his 1933 crop prior to and including October 28, 1933. To be 20 per cent of net proceeds from tobacco sold from August 1 to September 1, 1933, and 10 per cent of such proceeds from September 25 to October 7, 1933, except that the latter period was extended through October 28 for tobacco sold on South Carolina and border markets.

Tobacco produced in 1933 but sold prior to August 1, 1933 was brought under 20 per cent rate established by contract for period beginning with this date by Administrative Ruling No. 27.

Deficiency payment. Two cents for each pound by

which 1934 production was, for any reason, short of initial production allotment.

1935: *Rental payment.* To be at same rate as in 1934. In the event plantings exceed the acreage allotment as permitted by Ruling No. 37, the rental payment is to be reduced one-half.

Adjustment payment. To be determined in one of the two following ways, but in no event to be based on a net average market price exceeding 21 cents per pound.

(a) Base acreage of four acres or more. To be 6.25 per cent of the net market value of crop grown on farm in 1935 up to an amount equal to initial production allotment.

(b) Base acreage under four acres. Rate to be increased one-quarter per cent for each tenth of an acre under four, except that it could not exceed 12.5 per cent.

In the event the quantity of tobacco marketed exceeds the production allotment as permitted by Administrative Ruling No. 37, the producer must accept an adjustment payment calculated as follows:

(a) If base tobacco acreage is four acres or more, the adjustment payment would be reduced in proportion to such excess. The following tabulation gives the rates of payment for different percentages of excess:

| Percentage over Allotment | Percentage of Market Value |
|------------------------------|-------------------------------|
| Under 1.1 | 6 |
| 1.1 to 3.0 | 5 |
| 3.1 to 5.0 | 4 |
| 5.1 to 7.0 | 3 |
| 7.1 to 9.0 | 2 |
| 9.1 to 11.0 | 1 |
| 11.1 to 12.5 | 0 |

(b) If the base acreage is less than four acres, the rate of the adjustment payment is to be increased above that pro-

vided in the applicable section of the above tabulation by one-fourth of 1 per cent for each tenth of an acre difference, but in no case can it be more than two times the rate shown.

Deficiency payment. One cent for each pound by which 1935 production was, for any reason, short of initial production allotment.

Burley

TERMS OF CONTRACT

1934: *Rental payment.* To be \$20 per acre rented.

First adjustment payment. In no event to be less than \$15 or more than \$45 per acre, or less than:

(a) 10 per cent of net sale value of 1933 crop if 1934 acreage and production were reduced $33\frac{1}{3}$ per cent, or

(b) 15 per cent of the same value if a 50 per cent reduction was made.

Second adjustment payment. To be not less than:

(a) 15 per cent of net sale value of tobacco produced in 1934 up to a quantity equal to initial production allotment or adjusted production allotment, whichever is smaller, if acreage and production were reduced $33\frac{1}{3}$ per cent, or

(b) 35 per cent of same value if 50 per cent reduction was made.

In either case pro rata shares of administrative expense of county tobacco production control associations were deducted and paid to association.

In the event a producer marketed tobacco in excess of his production allotment, as permitted by Administrative Ruling No. 36, the rate of the second adjustment payment was reduced in proportion to such excess. The following tabulation gives the rates of payment for different percentages of excess and for the two optional amounts of reduction:

| Percentage over Allotment | 50 Per Cent Reduction | 33 1/3 Per Cent Reduction |
|---------------------------|-----------------------|---------------------------|
| Under 2.1 | 34 | 14 |
| 2.1 to 4.0 | 33 | 13 |
| 4.1 to 6.0 | 32 | 12 |
| 6.1 to 7.0 | 31 | 11 |
| 7.1 to 8.0 | 30 | 10 |
| 8.1 to 9.0 | 29 | 9 |
| 9.1 to 10.0 | 28 | 8 |

Deficiency payment. Two cents for each pound by which 1934 production was for any reason short of initial production allotment.

1935: *Rental payment.* The same as in 1934.

First and second adjustment payments. To be at rates determined by Secretary so as to tend to give producers fair exchange value for such portion of 1935 production as equals domestic consumption.

Deficiency payment. The same as in 1934.

Fire-Cured

TERMS OF CONTRACT

1934: Identical with those in Burley contract except that rates were slightly different. These were:

Rental payment. \$12 per rented acre.

First adjustment payment. To be determined on the basis of 7.5 per cent of net market value of 1933 crop, with minimum of \$10 and maximum of \$35 per rented acre.

Second adjustment payment. To be determined on the basis of 7.5 per cent of net market value of 1934 crop.

In the event a producer marketed tobacco in excess of his production allotment, as permitted by Administrative Ruling No. 36, the rate of the second adjustment payment was reduced in proportion to such excess. The following tabulation gives the rates of payment for different percentages of excess:

| Percentage over Allotment | Percentage Rate of Payment |
|---------------------------|----------------------------|
| Under 2.1 | 7 |
| 2.1 to 5.0 | 6 |
| 5.1 to 8.0 | 5 |
| 8.1 to 11.0 | 4 |
| 11.1 to 13.0 | 3 |
| 13.1 to 15.0 | 2 |

Deficiency payment. 1.25 cents per pound.

1935: *Rental payment.* The same as in 1934.

First and second adjustment payments. To be at rates determined by the Secretary so as to tend to give producers fair exchange value for such portion of 1935 production as equals domestic consumption.

Deficiency payment. The same as in 1934.

Dark Air-Cured

TERMS OF CONTRACT

1934: Identical with those provided in fire-cured contract, except that 10 per cent of respective market values was used in determination of first and second adjustment payments.

In the event a producer marketed tobacco in excess of his production allotment, as permitted by Administrative Ruling No. 36, the rate of the second adjustment payment was reduced in proportion to such excess. The following tabulation gives the rates of payment for different percentages of excess:

| Percentage over Allotment | Percentage Rate of Payment |
|---------------------------|----------------------------|
| Under 3.1 | 9 |
| 3.1 to 6.0 | 8 |
| 6.1 to 9.0 | 7 |
| 9.1 to 11.0 | 6 |
| 11.1 to 13.0 | 5 |
| 13.1 to 15.0 | 4 |

1935: Provisions same as in fire-cured contract.

Maryland

TERMS OF CONTRACT

1934: *Rental payment.* \$20 per rented acre.

Adjustment payment. To equal at least 25 per cent of amount computed as follows: Base yield times number of rented acres times average market price (up to 15 cents per pound) received for 1932 crop sold from farm. Pro rata share of administrative expenses of county control association to be deducted, but minimum of \$15 per rented acre assured after deduction of expenses.

1935: *Rental payment.* }
Adjustment payment. } The same as in 1934.

cultural Adjustment Administration (hereinafter referred to as the Tobacco Section) issued January 8, 1934, relating to the organization and operation of tobacco production control associations.

ARTICLE IV—MEMBERSHIP

SECTION 1. Any producer of tobacco on land situated in the above-named county or counties, who has executed an offer for a tobacco production adjustment contract with the Secretary of Agriculture on a tobacco production adjustment contract form provided by the Secretary of Agriculture, shall be a member of the association. Any such membership shall cease if the producer's offer is withdrawn or is rejected, or when the producer ceases to be a party to a tobacco production adjustment contract.

SEC. 2. Each director, member of committee, and officer, other than the secretary and the treasurer of the association, is required to be a member of the association and shall cease to hold office when he ceases to be a member of the association.

ARTICLE V—VOTING

Only members of the association shall be entitled to vote. Each member present at meetings in his community shall be entitled to one vote. Each director present at meetings of the board of directors shall be entitled to one vote. Each committeeman present at meetings of his committee shall be entitled to one vote.

ARTICLE VI—ELECTION, DUTIES, AND AUTHORITY OF DIRECTORS, COMMITTEES AND OFFICERS

SECTION 1. Each community shall have a community committee of three members elected from those producers living in the community who are present and eligible to vote at meetings in the community. This committee shall

consist of a chairman, a vice-chairman, and one other member. The chairman shall, by virtue of his election as such chairman, also be a member of the board of directors of the association. The community committee shall assist in checking and approving contracts; ascertain and report the acreage and production of tobacco on farms within the community; and obtain such other information and perform such further duties as may be required by the Tobacco Section.

SEC. 2. The board of directors of the association shall consist of the chairmen of the community committees. Subject to the approval of the Tobacco Section, the board of directors is authorized to and shall: Define community limits, after the preliminary establishment thereof by the county agricultural extension agent (hereinafter referred to as the "county agent"); determine the budget for the association; authorize expenses within the budget; decide appeals of members of the association from decisions of the county control committee (except any such decision which by administrative ruling or regulation issued or approved by the Secretary of Agriculture is made final and conclusive); remove officers of the association and members of the county control committee; determine compensation, if any, of officers and employees of the association; and authorize the employment of such clerical personnel as may be necessary for the operation of the association.

SEC. 3. The board of directors shall elect from its membership a president of the association, who shall by virtue of his election as such president also be chairman of the county control committee. The president shall preside at all meetings of the board of directors and of the county control committee, in addition to his duties as a member of each body.

SEC. 4. The board of directors shall elect from its mem-

bership two persons who, together with the president, shall constitute the county control committee. The county control committee is authorized to and shall consider each offer for a tobacco production adjustment contract on file in the count(y)(ies) and make recommendations to the Secretary of Agriculture concerning the advisability of accepting each such offer, and shall determine in connection with each such offer, the following:

1. The base tobacco acreage.
2. The tobacco acreage allotment.
3. The rented acres.
4. The base tobacco production.
5. The initial production allotment.

The county control committee will perform such further duties as may be prescribed by the Tobacco Section and may hold such meetings and conduct such investigations as may be necessary to the performance of its duties.

SEC. 5. The board of directors shall elect from its membership a vice-president of the association, who shall not be (unless the county has been divided into not more than three communities) a regular member of the county control committee but who shall serve as a member when any regular member is unable to serve. The vice-president shall perform the duties of president in the absence of the president or on account of his inability to serve.

SEC. 6. The board of directors shall elect a secretary of the association who may or may not be a member, and who may be the county agent. The secretary of the association shall keep all books and records of the association, except the accounting records.

SEC. 7. The board of directors shall elect a treasurer of the association who may, or may not, be a member of the association. The treasurer of the association shall have the custody of all funds of the association, and shall keep the

accounting records as prescribed by the Comptroller of the Agricultural Adjustment Administration under Article X, Section 1.

ARTICLE VII—TENURE OF OFFICE

Each of the first directors, committeemen, and officers shall be elected to serve until the regular annual meeting of the board of directors, to be held on or about June 30, 1935, or until he ceases to be a member of the association, or resigns, or is removed. Thereafter, each director, committeeman, and officer shall be elected to serve until the regular annual meeting of the board of directors is held on or about June 30 of the year following his election, or until he ceases to be a member of the association, or resigns, or is removed, from such office.

ARTICLE VIII—MEETINGS

SECTION 1. One regular meeting of members of the association in each community shall be held upon call of the president of the association on or about June 15 of each year, beginning with the year 1935. Other meetings may be called by the president of the association in any of the communities for the purpose of filling vacancies in the membership of community committees, or for purposes of disseminating information to the members. Such meetings shall be presided over by the chairmen or vice-chairmen of the respective community committees. Notice of any meeting for election shall be mailed by the secretary of the association to each member living in the community at least 7 days prior to the date of such meeting.

SEC. 2. A meeting of the board of directors shall be held on or about June 30, 1934, for the purpose of determining the budget for the succeeding fiscal year. Thereafter, a meeting shall be held on or about June 30 of each year for the purpose of electing officers and determining the budget

for the succeeding fiscal year. Such other meetings of the board of directors as may be necessary to the performance of its duties or the filling of vacancies in the offices of the association and in the membership of the county control committee, shall be held on call of the president of the association.

SEC. 3. Meetings of the county control committee shall be called by the chairman.

SEC. 4. A majority of the members of the board of directors or of any committee shall constitute a quorum for the transaction of business at any meeting.

ARTICLE IX—ADMINISTRATIVE EXPENSES

The administrative expenses of the association shall be met by the provisions made therefor in the respective tobacco production adjustment contracts and in accordance with regulations and administrative rulings applicable thereto, heretofore, or hereafter prescribed by the Secretary of Agriculture and/or the Tobacco Section.

ARTICLE X—ACCOUNTABILITY FOR FUNDS

SECTION 1. The treasurer of the association shall have the custody of all funds of the association, and shall be held accountable therefor under the accounting procedure and instructions prescribed by the Comptroller of the Agricultural Adjustment Administration.

SEC. 2. All administrative expenses shall be paid by the treasurer of the association on warrants of the chairman of the county control committee for expenses duly authorized by the board of directors.

SEC. 3. The treasurer of the association shall execute and file with the Tobacco Section a bond prescribed by the Secretary of Agriculture or the Tobacco Section for the faithful performance of the duties of his office, unless a blanket bond covering the treasurer of this association and

the treasurers of similar associations is issued by the Secretary of Agriculture.

ARTICLE XI—BOOKS AND RECORDS

SECTION 1. All books and records of the association shall be kept in the form and manner prescribed by the Tobacco Section and/or the Comptroller of the Agricultural Adjustment Administration, and shall be open to examination by the officers and board of directors of the association and any authorized representative of the Secretary of Agriculture, the Comptroller of the Agricultural Adjustment Administration, or the Tobacco Section.

SEC. 2. All books and records of the association of whatever nature are the property of the Secretary of Agriculture and may be used only in accordance with regulations and administrative rulings prescribed by him or the Tobacco Section.

ARTICLE XII—TERMINATION OF THE ASSOCIATION

The Secretary of Agriculture may, in his sole discretion, at any time when it shall appear to him that the conduct of the association is not furthering the purpose or intent of the act, or is no longer necessary to effectuate the declared policy under the act, withdraw his approval, whereupon the association shall cease to exist, at the time specified by the Secretary in his notice of withdrawal.

APPROVAL BY SECRETARY OF AGRICULTURE

The above articles of association are hereby approved and the above-named association is hereby declared to be organized effective the day of
, 193 , in accordance with the terms of
 said articles this day of
 193 . Said articles shall be subject to administrative rulings
 now or hereinafter prescribed by the Tobacco Section and

shall be subject to amendment by the Secretary of Agriculture.

SECRETARY OF AGRICULTURE,

By

**ADMINISTRATIVE RULINGS WITH RESPECT TO THE
ORGANIZATION AND OPERATION OF TOBACCO
PRODUCTION CONTROL ASSOCIATIONS²**

ORGANIZATION

Under the terms of the tobacco production adjustment contracts for Burley, fire-cured, dark air-cured, and Maryland tobacco, each producer who has executed an offer on one of the prescribed contract forms, becomes a member of a tobacco production control association to be organized in his county. The county agent (or in the absence of a county agent, the emergency agricultural agent) will supervise the organization of the association in his county at the earliest practicable date following completion of the sign-up campaign.

The forms to be used in connection with the organization of the association are:

Form T-58—Articles of Association.

Form T-59—Certification by County Agent.

Form T-72—Certificate of Organization Meeting of Board of Directors.

Form T-71—Certificate of Community Organization Meeting.

Form T-74—Notice of Community Organization Meeting.

Form T-70—Bond of Treasurer.

² Form T-73, AAA, January 1934.

ESTABLISHMENT OF COMMUNITIES.—The county agent will make the preliminary determination of the limits of the communities in the county in which community organizations will be formed.

COMMUNITY ORGANIZATION MEETING.—As soon as all offers for contracts have been received from any community, a list of the producers making such offers shall be prepared, and a date set for a meeting of such producers, for the purpose of electing a community committee. Notice on Form T-74 (Notice of Community Organization Meeting) shall be mailed to each producer at least 5 days before the date set for the meeting. The county agent, or a person designated by him, shall preside at such meeting.

ELECTION OF COMMUNITY COMMITTEE.—At each community meeting, a chairman, vice-chairman, and one other member of the community committee shall be elected by written ballot from those producers present and eligible to vote. A Certificate of Community Organization Meeting, Form T-71, shall be prepared in triplicate and signed by the presiding officer, a copy of which shall be given to the chairman of the community committee as his certificate of election as such chairman and as a member of the board of directors of the association. The original and the other copy shall be forwarded to the county agent.

ORGANIZATION MEETING OF BOARD OF DIRECTORS.—As soon as meetings have been held in all communities a meeting of the board of directors shall be called by the county agent who shall act as presiding officer until a president of the association is elected. The order of business at such meeting shall be as follows:

- (a) The presiding officer shall call the roll of communities.
- (b) Directors shall present certificates of election.
- (c) The Articles of Association shall be adopted.
- (d) The following officers shall be elected: (1) presi-

dent, (2) vice-president, (3) secretary, (4) treasurer, (5) members of the county control committee.

(e) The budget shall be determined.

(f) Necessary expenses shall be authorized.

(g) Other business.

After the meeting the county agent will prepare and sign the certificate of such meeting on Form T-72 and shall prepare and sign the Certification by County Agent on Form T-59.

ARTICLES OF ASSOCIATION.—The Articles of Association, Form T-58, shall be prepared in duplicate, leaving blank the effective date of the organization. The county agent will then mail the following forms to the Tobacco Section, Agricultural Adjustment Administration, Washington, D. C.:

(1) T-58—Articles of Association, in duplicate.

(2) T-59—Certification by County Agent.

(3) T-72—Certificate of Organization Meeting of Board of Directors.

(4) T-71—Certificates of Community Organization Meeting (one original copy for each of the several communities with a list attached of the names of all members in the community, with the word "present" opposite the name of each person who attended).

(5) Budget for fiscal year ending June 30, 1934, in triplicate.

Upon receipt by the Tobacco Section of the above documents they will be reviewed, and if approved, the original Articles of Association will be signed and returned to the association as its charter.

OPERATION OF THE ASSOCIATION.—Thereafter the association will operate in accordance with the provisions of the Articles of Association.

ORGANIZATION OF SPECIAL ASSOCIATIONS.—Two or more counties may set up a single association. Where two coun-

ties join in setting up a single association, there shall be a single board of directors. This board shall elect a single set of officers and a single control committee. The counties so joining may or may not have the same number of communities and directors.

Where three or more counties join in setting up a single association each county may be regarded as a community or may be divided into two or more communities, each community electing a single representative to the board of directors.

An association formed pursuant to the foregoing provisions shall take its name from all the counties (listed in alphabetical order) which comprise the association.

Subject to the approval of the Tobacco Section, a county having a small membership and so located as to make it impracticable to join with one or more other counties in a single association, may set up a county association in which the county shall be considered as one community, and the regularly elected members of the community committee shall also be the members of, and shall comprise, the board of directors of the association.

BOND OF TREASURER

The treasurer of each association shall execute a bond on Form T-70 with a surety approved by the Secretary of Agriculture, in an amount equal to fifty per cent (50%), approximately, of the annual budget. Such bond when executed shall be filed with the Tobacco Section. The treasurer may be reimbursed by the association for the premium paid on such bond.

BUDGET

As heretofore prescribed, the board of directors shall prepare a budget covering estimated expenses to the end of the present fiscal year (June 30, 1934) which shall be sub-

mitted to the Tobacco Section for approval. All expenses incidental to the sign-up campaign and to the operation of the association shall be borne by the association, except salaries of such clerks and stenographers employed by county agents to assist in the sign-up campaign, as have been provided for by the Tobacco Section of the Agricultural Adjustment Administration.

This budget shall be submitted in triplicate, the original to be certified to by the president and secretary of the association, and shall provide for the following classification:

Personal Services.—Under this caption should be entered by title each employee of the association who is to draw compensation, together with the rate of pay and the period during which he is to be employed, showing the total amount to be paid to him. The total amount to be paid to all persons should also be shown.

Travel.—Under this caption should be stated the rate per mile to be allowed for the use of personally owned automobile in the association's business and the total amount which it is estimated will be expended for travel.

Subsistence.—Under this caption should be a statement of the per diem allowance, if any, for subsistence expenses or a statement that reimbursement is to be made only for actual subsistence expenses incurred. Also show the total amount which it is estimated will be spent for this item.

Equipment.—Under this caption should be shown the estimated number of each item of office equipment to be purchased and the estimated unit cost, as well as the total amount estimated to be expended for all equipment.

Stationery and Supplies.—Under this caption should be shown the estimated cost for all items of this nature to be purchased.

Printing.—Under this caption show the estimated cost of publication of reports in county newspapers as well as the cost of any printing that may be necessary.

Postage.—Total amount to be spent for this purpose.

Organization Expenses.—Under this caption give a detailed list of such expenses as have been incurred on behalf of the association prior to the date of organization.

Miscellaneous.—Total of items not otherwise classified.

MISCELLANEOUS

All accounts and reports to the Tobacco Section shall be rendered on letter-size paper.

Expenses of the association are to be met by the payment of a pro rata part of the adjustment payments to the association. Consequently each member is personally interested in holding these expenses to a minimum, consistent with good administration.

(Signed) J. B. HUTSON
*Chief, Tobacco Section,
Agricultural Adjustment Administration.*

APPROVED:

(Signed) HENRY A. WALLACE
Secretary of Agriculture.

DATED: January 8, 1934.

APPENDIX F

TOBACCO PROCESSING TAX RATES

I. INITIAL RATES OF TOBACCO PROCESSING TAXES^a

Effective October 1, 1933

(In cents per pound)

| Kind | Farm Sales Weight | In Processing Order | |
|---------------------|-------------------|---------------------|------------------|
| | | Unstemmed | Stemmed |
| Flue-cured..... | 4.2 | 4.7 | 6.1 |
| Burley..... | 2.0 | 2.3 | 3.1 |
| Maryland..... | 1.7 | 1.8 | 2.4 |
| Dark air-cured..... | 3.3 | 3.8 | 5.1 |
| Fire-cured..... | 2.9 | 3.2 | 4.1 |
| Cigar-leaf..... | 3.0 | 3.75 ^b | 5.0 ^b |

^a *Tobacco Regulations, Series 1 and Series 2, AAA, September 1933.*

^b Sweated.

II. RATES OF PROCESSING TAXES ON TOBACCO MANUFACTURED INTO CHEWING^a

Effective February 1, 1935

(In cents per pound)

| Kind | Farm Sales Weight | In Processing Order | |
|---------------------|-------------------|---------------------|---------|
| | | Unstemmed | Stemmed |
| Flue-cured..... | 2.0 | 2.3 | 2.9 |
| Burley..... | 2.5 | 2.9 | 3.9 |
| Dark air-cured..... | 2.0 | 2.3 | 3.1 |
| Fire-cured..... | 2.0 | 2.2 | 2.9 |
| Cigar-leaf..... | 2.0 | 2.5 | 3.3 |

^a *Tobacco Regulations, Series 1, No. 2, AAA, Jan. 19, 1935.*

III. CURRENT RATES OF TOBACCO PROCESSING TAXES^a

Except on Tobacco Manufactured into Chewing

(In cents per pound)

| Kind | Farm Sales Weight | In Processing Order | |
|-------------------------------|-------------------|---------------------|---------|
| | | Unstemmed | Stemmed |
| Flue-cured..... | 4.2 | 4.7 | 6.1 |
| Burley..... | 6.1 | 7.0 | 9.5 |
| Maryland..... | 0.0 | 0.0 | 0.0 |
| Dark air-cured..... | 3.3 | 3.8 | 5.1 |
| Fire-cured..... | 2.9 | 3.2 | 4.1 |
| Cigar-leaf ^b | 3.0 | 3.75 | 5.0 |

^a *Tobacco Regulations Series 1, No. 1, AAA, October 1934, which reprinted all preceding regulations and revisions issued up to that time. Current rates on Burley and Maryland were made effective as of Oct. 1, 1934. The rates on other types have not been changed since they were first made effective except as shown in Table II above.*

^b When fire-cured tobacco is processed as cigar-leaf (see p. 31), the rate of tax on sweated, unstemmed weight is 3.25 cents per pound and on stemmed weight is 4.3 cents per pound (made effective Feb. 1, 1935), *Tobacco Regulations, Series 1, No. 2, AAA, Jan. 19, 1935.*

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