

WHEAT
AND THE A A A

BY
JOSEPH STANCLIFFE DAVIS

WASHINGTON, D. C.
THE BROOKINGS INSTITUTION

1935

WHEAT AND THE AAA

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DIRECTOR'S PREFACE

In June 1933, The Brookings Institution announced "A Concurrent Study of the Operation of the Agricultural Adjustment Act." In so doing, it explained the nature of the undertaking in the following terms:

The Agricultural Adjustment Act of 1933 launches the government upon a vast experiment in the social control or direction of a major industry. Ordinarily when such economic ventures have been undertaken, no means have been at hand for conducting a scientific study of the experiment while it was in progress. Reliance has been placed upon casual, unorganized observation and upon opinions expressed by various persons whose observation was fragmentary or who consulted a very incomplete and often distorted record of what actually had been undertaken and of the results which had actually come from the undertaking. In the present instance the Institute of Economics of The Brookings Institution felt that it would be wise if a different course could be followed. We proposed a project for the concurrent study of this experiment on a basis as nearly scientific as it could be made. The essence of this proposal was that we should undertake at once a careful and comprehensive observation of the course of the experiment and provide a record of continuous readings of the various phenomena connected with it.

Before undertaking this project we ascertained from the Secretary of Agriculture that such a plan would be viewed with favor by him and his associates and that they would do whatever they could to facilitate the making of such a study. In the conduct of the work the Director of the Institute has associated with him Dr. John D. Black of Harvard University and Dr. Joseph S. Davis of the Food Research Institute during such part of the year as they can be spared from their other duties. The working force is divided into two parts: first, a staff of eleven specialists, together with the necessary clerical, statistical, and stenographic assistants working in Washington; and, second, a group of approximately twenty-five "resident observers" located at various strategic points throughout the territory in which adjustment efforts are being undertaken. It is the task of the Washington staff to study the development of plans and activities of the

Agricultural Adjustment Administration attached to the United States Department of Agriculture and to guide the collection of field observations by resident observers. These two sets of material will be co-ordinated and made the basis of an interpretative study of the operation of the act. This will include an analysis of its underlying philosophy, the measures undertaken to accomplish its several objectives, the success attained by these efforts, together with apparent reasons for success and failure, the redirection of effort or redefining of objectives which take place during the course of the experiment, and appraisal of the results attained.

The resident observers are in most cases located at agricultural colleges and experiment stations. They are men who have already lived and worked in the agricultural environment of the several regions and who have many lines of contact with farmers, farm organizations, trade groups, and the like. This connection with the agricultural life of the section will enable them to get a much more intimate and understanding account of what transpires than would be possible by sending field workers from outside into the respective regions. These resident observers will work under a general plan progressively developed from the Washington office, but will be expected to exert their own originality to make their reports of developments as illuminating and suggestive as possible.

After this study had been under way for approximately a year, we issued four preliminary publications in pamphlet form dealing with the corn-hog, the dairy product, the wheat, and the cotton phases of the adjustment effort. These pamphlets were designed merely to furnish the public with an unbiased account of the factual details of the AAA program as it had worked out during the initial year of operation. The time has now arrived when it seems appropriate for us to present a second group of publications, these not to be limited to a merely historical statement of what has transpired but, upon such a foundation, to present our own interpretation and critical analysis of the significance and

value of the results achieved. The present volume is the first of this second series of publications. It will be followed within the next two months by five other publications of generally similar character. They will deal with tobacco, marketing agreements and licenses, dairy products, livestock, and cotton respectively. Somewhat later we expect to present a final report presenting more generalized conclusions of the study as a whole, appraising the results of the adjustment undertaking upon the business of agriculture, upon the consumer, and upon the national economy.

The author of this volume has long been associated with the Food Research Institute and has been a close student of the wheat problem. He thus sees the present adjustment effort in the perspective of antecedent undertakings running back some twenty years. These began with national controls and interallied machinery set up during 1916-18 to meet the problem of war-time scarcity. They were gradually abandoned in 1919-21, to be later followed by a period of wheat abundance, disastrously low prices to producers, and increasingly numerous and varied control measures. By and large, these measures, which came into force during 1929-32, served to intensify the "world wheat crisis," and eventually a new approach to the problem of wheat surplus was authorized in the Agricultural Adjustment Act of 1933. An ambitious wheat adjustment program combining restriction of acreage with special payments to contracting growers was soon supplemented with other actions bearing on wheat, by the AAA and other federal agencies. As part of the same program, the United States took the lead in successful efforts for an international agreement, under which world wheat adjustment was sought.

In this book Dr. Davis gives in due perspective an orderly survey and objective analysis of these major politico-economic experiments up to the end of March 1935, with some reference to the near outlook. After sketching the conditions, ideas, and legislation that led up to the actual experiments, he presents an outline of the AAA wheat program followed by a detailed analysis (Chapters III to VI) of the central element of that program, namely the application of the "voluntary domestic allotment plan" to wheat, and (Chapters VII to X) supplementary elements of that program as it evolved, including the international wheat agreement. Chapters XI to XIII deal with early results of the program, attitudes with reference to it, and the immediate outlook.

Up to this point the author has confined his statement of conclusions to those which he regards as established by the evidence presented. In the concluding chapter, however, his discussion is pitched in a somewhat different key. As he clearly states in the introductory paragraphs, he there extends his analysis and appraisal to include his personal views, based not merely upon the materials assembled and analyzed in this volume but upon a broad experience in the field of wheat economics and upon his general economic philosophy. Even readers who do not fully accept the appraisals contained in this chapter will undoubtedly find them illuminating and helpfully stimulating to their own further thinking on the problem. This chapter should not be read and certainly should not be judged until one has carefully followed the data and reasoning which the author has traced in the preceding chapters, constituting as they do the principal root and stalk from which the writer's conclusions have grown.

DIRECTOR'S PREFACE

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Although the author makes acknowledgement to numerous individuals for the help which they have rendered in the preparation of this volume, I desire to add also on behalf of the Institution and the staff employed on this study an expression of appreciation to the Secretary of Agriculture, the Administrator of the Agricultural Adjustment Act, and all his assistants who have manifested so cordial a willingness to assist us in getting at the materials necessary for the conduct of our study, without at any time attempting to influence the conclusions to which we might come. We wish to express also our appreciation of the splendid work of the resident observers in the several states and their administrative superiors who have been equally co-operative and constructive with reference to the local phases of the work. While none of these people are in any way responsible for the conclusions which we are presenting, the work could not have been carried to a successful conclusion without their generous assistance.

This manuscript has been read and approved by a committee consisting of Charles O. Hardy as representative of the Institute of Economics staff as well as John D. Black and myself, who, along with Dr. Davis, are jointly responsible for the conduct of the AAA study as a whole. As in all the volumes in this series, the final conclusions are those of the individual author on the basis of his specialized study of a particular commodity. None of these books are to be regarded as Institution pronouncements either as to the AAA effort in the given commodity field or with reference to the program in its entirety.

EDWIN G. NOURSE

Institute of Economics
April 1935

Director

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For basic published and unpublished studies on wheat, and for permission to draw freely upon them, the author is indebted to the Food Research Institute; Chapters I and IX are based largely on work done there. Chapter III is based chiefly on the work of Sherman Johnson, who was the author's associate in this study for some nine months. Alan MacLeod, who succeeded him after serving as our wheat observer in the Northwest till June 1934, contributed heavily to Chapters IV, VII, XI, and parts of others. For the work as it stands, however, I must assume full responsibility.

JOSEPH STANCLIFFE DAVIS

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CHAPTER I
THE WHEAT BACKGROUND OF THE
ADJUSTMENT ACT

Wheat was the greatest single focus of interest in the post-war agitation for agricultural relief and advancement through commodity measures, in the formulation of several prominent plans, and in the eventual adoption of the Agricultural Marketing Act of 1929. Developments in the wheat situation during the four ensuing years of depression notably influenced the character of the Agricultural Adjustment Act of 1933 and the initial commodity programs under it. In the administration of both laws, wheat and cotton have held positions of special prominence. As a background for consideration of policies, program, and operations of the Agricultural Adjustment Administration in respect to wheat, it is therefore essential to review salient developments in the wheat situation prior to the passage of the Adjustment Act.

PRE-WAR AND WAR DEVELOPMENTS

From early days wheat has been a staple foodstuff and a major food crop of the United States. It rose in importance with the post-revolutionary expansion in the Mississippi Valley, and ever since has been outstanding in our agriculture and our national economy. Wheat growing in this country was facilitated and stimulated by successive waves of railroad construction in the decades after 1830, by the invention and improvement of harvesting machinery, by the opening of the British market following the repeal of the Corn Laws in 1846, by great improvement and cheapening of ocean transport, and by widespread application of

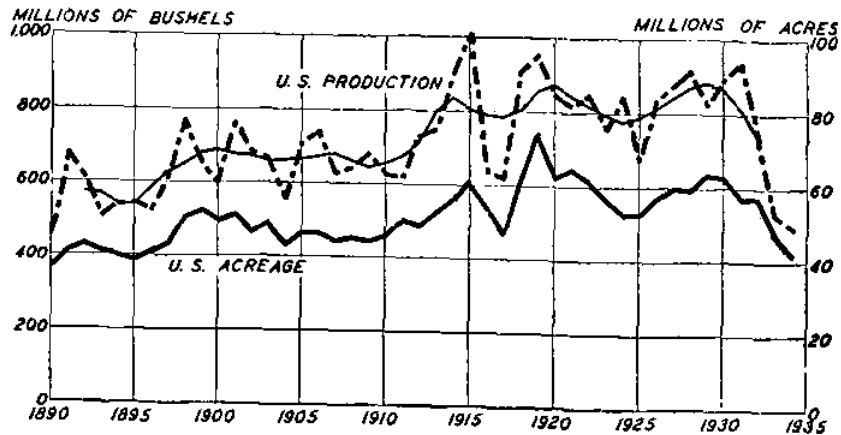
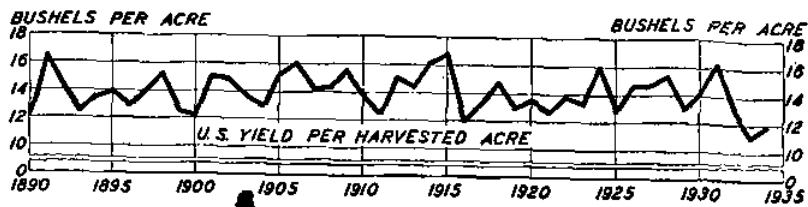
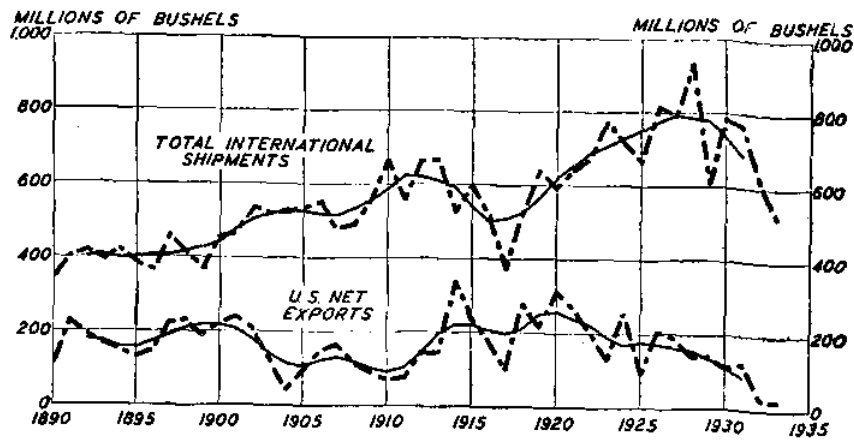
the roller-milling process in the 1880's which gave hard wheats the preference in milling bread flours.

International trade in wheat was very small until the middle of the nineteenth century. As it rose by leaps and bounds in the ensuing decades, the United States was in most years the world's greatest exporter. When international shipments of wheat and flour came to average some 400 million bushels a year in the 1890's, our net exports averaged about 44 per cent of the total trade and represented a third of our wheat production. In 1879, 1891, and 1897 the coincidence of good crops here with short crops in Europe led to large exports at attractive prices and gave a pronounced stimulus to business in this country, twice facilitating revival from depression and once (1891-92) helping materially to reverse a recession under way. Amid wide fluctuations from year to year, due chiefly to variations in crops here and abroad, the general trend of our wheat exports was upward at a fairly constant rate from about 1830 to about 1900. This trend reached its peak about the turn of the century, when for six years (1897-98 to 1902-03) our net exports averaged 219 million bushels a year and constituted nearly half of the world trade in wheat and flour. The chart on page 3 illustrates this as well as other points mentioned below.

In the first decade of the twentieth century the volume of international trade rose to a level exceeding 500 million bushels; but the United States contribution tended irregularly downward as Russia rose to pre-eminence among grain exporters¹ and as Argentina,

¹ See V. P. Timoshenko, *Agricultural Russia and the Wheat Problem*, 1932, especially Chap. XV. Russia's wheat exports exceeded those of the United States in 1895, 1904, 1905, 1909, 1910, 1911.

INTERNATIONAL TRADE IN WHEAT AND FLOUR, 1890-1934^a
 With United States Net Exports and Wheat Crop Estimates



^a Shipments data are those of Broomhall, as assembled by the Food Research Institute, for years beginning about Aug. 1, 1890; they slightly understate the total volume of international trade. United States net exports data for crop years beginning July 1890; they exclude shipments to Alaska, Hawaii, and Puerto Rico, which have averaged about 3 million bushels a year since the war. Crop data are latest revised estimates of the Bureau of Agricultural Economics, which appear somewhat below the truth for part of the 1890's, and are estimates at best. The smoothed curves are centered two-year averages of successive four-year averages.

Canada, and Australia in turn assumed increasing importance. Our harvested wheat acreage tended downward from the 1899 peak of 52.3 million acres; and with rapidly expanding population and consumption at home, it seemed to many observers only a question of time before the United States would cease to be a net exporter and become a net importer instead.²

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

When war broke out in Europe in 1914, the United States chanced to have a high yield on a record acreage. A bumper crop here coincided with a short crop in Europe, sub-normal crops in Canada and India, a crop failure in Australia, and war conditions interfering with shipments from Russia's moderate crop and Argentina's big one. In consequence, United States exports in 1914-15 made an all-time record of 335 million bushels, over 60 per cent of all international shipments. The big crop and heavy exports at good prices helped

² See Sir William Crookes, *The Wheat Problem*, 1899, and J. S. Davis, "The Specter of Dearth of Food: History's Answer to Sir William Crookes," *Facts and Factors in Economic History*, 1932.

to counteract other factors making for industrial depression here before the war boom started, and served also to stimulate sowings for the next crop. In 1915, with acreage and yield still higher, the United States harvested an all-time record crop now reckoned at 1,009 million bushels. This, however, happened to coincide with large crops in other overseas exporting countries and better crops in Europe. Consequently our net exports of 240 million bushels were far smaller than in 1914-15, though still as large as the largest in any preceding crop year.

With very poor crops in 1916 and 1917, due mainly to adverse weather affecting both acreage and yield,³ the big surplus carried over from the crop of 1915 was readily absorbed. Exports declined sharply, and wheat prices advanced in extreme degree even in relation to the rising level of commodity prices. After the United States entered the war in April 1917, the economic stimulus was reinforced by official propaganda to induce concentrated efforts to increase wheat production. The slogan was, "Food will win the war." With more favorable weather, the immediate results were a sharp increase in harvested acreage in 1918, to above the 1915 level; a crop of 913 million bushels; and net exports of 277 million bushels. Continuation of the same pressures, coupled with favorable weather in the autumn and winter, brought the 1919 harvested acreage to an extraordinary peak of 73.7 million acres. Even with yields below average the 1919 harvest proved second only to the huge crop of 1915. At the high prices then prevailing this crop had a farm value

³ The average yield per harvested acre was lower in 1916 than in any other year between 1890 and 1933; in 1917 abandonment of fall-sown acreage was exceptionally heavy.

slightly exceeding 2 billion dollars, more than double that of the 1915 crop and about treble that of the 1909 crop, which was the most valuable prior to 1914. (See charts on pages 3 and 8.)

Another result of war conditions, however, was to bring about a marked contraction in per capita consumption of wheat in the United States, which had been tending slightly downward for some years before the war. High prices, propaganda to use substitutes to save wheat for export, increased mechanization, and changes in age and occupational distribution of the population, all contributed to this end. After the war, other forces prevented recovery of per capita consumption. (See chart on page 226.)

POST-WAR DEVELOPMENTS TO 1929

War-time demands *not only* stimulated westward expansion of wheat growing but also, particularly for the crop of 1919, led to marked revival of wheat culture in sections where wheat land had been converted to other uses. This revival was purely temporary, however, and at no time since the war has total seeded or harvested acreage approached the 1919 peak. (See charts on pages 3 and 353.) Wheat acreage and production remained, nevertheless, far above pre-war levels; on the whole, fresh expansion in the western part of the Great Plains more than offset continued contraction east of the Mississippi. The average harvested area in the decade 1920-29 was little short of the high mark of 1915 and 25 per cent larger than the average in 1900-09. Wheat production in the later decade averaged 822 million bushels, according to revised estimates, or 23 per cent larger than in 1900-09. Even the short crop of 1925 was up to the pre-war average, and

the average post-war crop was above the pre-war peak prior to 1914. (See chart on page 3.)

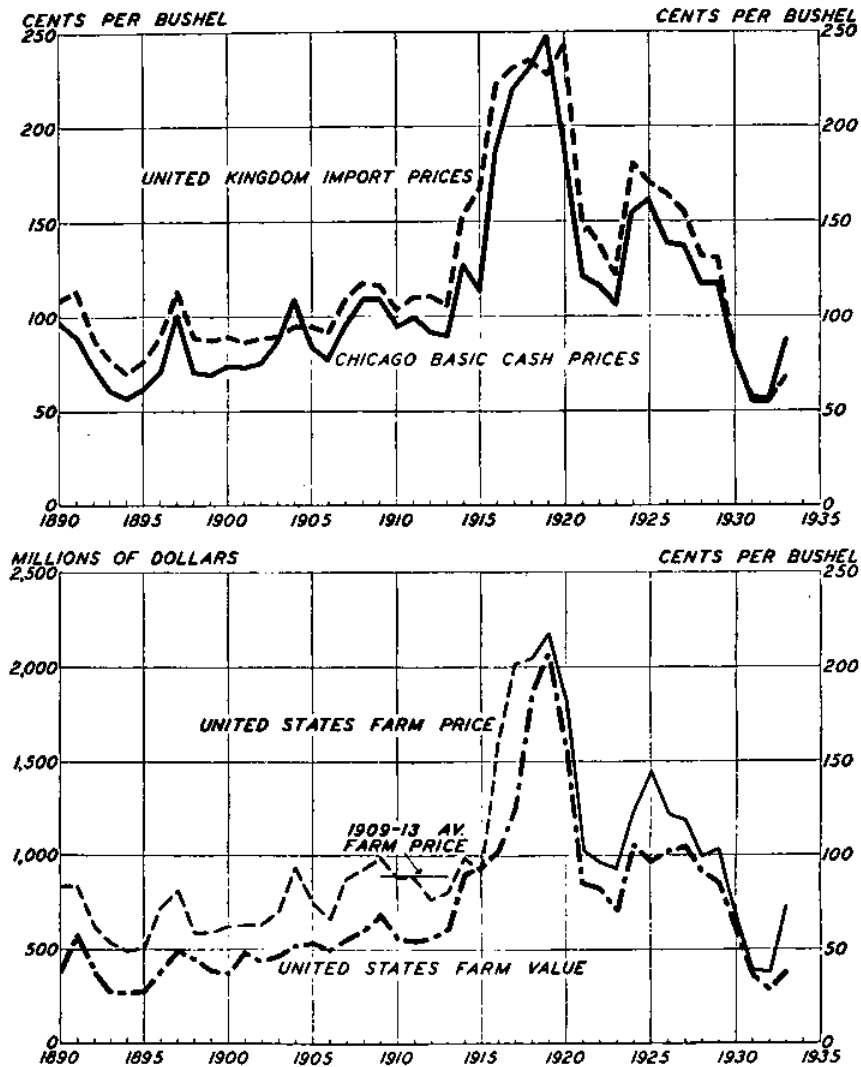
The immediate aftermath of the war encouraged curtailment of only exceptionally high-cost wheat production in this country. European production remained at a low level until 1921. The U.S.S.R.,⁴ due to drastically shrunken crops, was out of the international market and in need of wheat imports which she was largely unable to buy. Australia had a succession of poor crops. Consequently the export market absorbed large quantities of United States wheat for a time. In the four years ending with 1921-22, our net exports averaged 267 million bushels a year, well above any other four-year average.

In spite of strong foreign demand and the settling back to lower acreage here after 1919, prices of wheat fell drastically in the price deflation of 1920-21, though at first—for special reasons—more slowly than prices of most other agricultural and industrial products. Wheat prices sagged further in 1922 and 1923, as production in Europe and elsewhere continued to recover while European buying power was severely restricted. In 1923 the United States happened to have a moderate crop of mediocre quality when most other countries, including those in Europe, had large crops. Our net exports shrank to 132 million bushels, and the farm value of the crop to about a third of the 1919 peak. (See chart on page 8.) Wheat growers' costs fell too, but only with a pronounced lag, and wheat farmers experienced acute financial distress with sharp declines in their land values.

It was in this three-year depression period, from the

⁴ Union of Socialist Soviet Republics, comprising most of what was formerly the Russian Empire.

WHEAT AND THE AAA

SIGNIFICANT WHEAT PRICE SERIES AND FARM VALUE OF UNITED STATES WHEAT CROPS, 1890-1933^a

^a Annual averages of monthly average prices, as computed by the Food Research Institute, for crop years beginning August 1890 for prices of British import wheats, and July 1890 for Chicago basic cash prices. On the latter, see *Wheat Studies of the Food Research Institute*, November 1934, Vol. XI, No. 3. United States crop values are computed from revised official estimates of production and (a) Dec. 1 farm price to 1918 and (b) weighted averaged farm price from 1919.

middle of 1921 to the spring of 1924, that agitation for farm relief rapidly gained headway, with special emphasis on price-raising measures on behalf of wheat growers. The Emergency Tariff Act of May 27, 1921 imposed a duty of 35 cents a bushel on wheat,⁵ which the Tariff Act of 1922 reduced to 30 cents, effective September 21, 1922; but on April 6, 1924 President Coolidge raised the rate to 42 cents, at which it has since remained. The earlier post-war duties had sharply restricted imports of Canadian wheat (except for milling in bond) and the higher rate proved well-nigh prohibitive until 1934. It gave more or less substantial protection to Northwestern growers of hard red spring wheats, particularly of premium grades, and also to growers of hard wheats in the Pacific Northwest; but it ordinarily had no considerable influence on prices or production of other wheats. Hence agrarian leaders loudly proclaimed that the duty was ineffective and must be reinforced by other measures.

An abrupt change in the wheat situation occurred in 1924, as a result of an unusual conjuncture. Though acreage was reduced by low prices and adverse weather, excellent yields brought a good crop in this country while Europe, Canada, and Argentina had short crops and the U.S.S.R. remained out of the export market. This happened to coincide with a marked revival of confidence in Europe's future, following favorable acceptance of the Dawes Committee report; and this was accompanied by liberal private loans to European countries. The results were striking advances in wheat prices, United States exports, and gross and net returns

⁵The Underwood Tariff Act had lowered the duty on wheat from 25 to 10 cents a bushel, effective Mar. 1, 1914, and when we entered the war wheat and flour were put on the free list.

from the crop. (See charts on pages 3 and 8.) Wheat growers generally regarded this, not as remarkably good fortune, but as a return to normal.

In 1925, moreover, the United States had so small a crop east of the Rockies that the tariff duty had substantial price effects; our wheat prices were above levels permitting liberal exports ("export parity") while world wheat prices remained firm, and returns to our wheat growers were generally remunerative in spite of the small crop and low exports. About this time, improved tractors and combines began to come into much wider use in important wheat sections, and costs per bushel tended to decline. With good crops from larger acreages in 1926 and 1927 and strong foreign demand, the farm value of these two crops exceeded 1 billion dollars each, and exports averaged about 200 million bushels a year.

Nevertheless, growers regarded even the wheat prices of 1926-27 and 1927-28 as unfairly low. It was in these years that demands for aid to wheat growers and other farmers swelled to such proportions that Congress eventually passed two successive McNary-Haugen bills designed "to make the tariff effective for agriculture." These President Coolidge vetoed in March 1927 and May 1928. Dissatisfaction increased when wheat prices fell in 1928-29 nearly to the low level of 1923-24, under the influence of a large crop here coinciding with bumper crops almost everywhere else outside of Russia and India. Mr. Hoover reckoned with this feeling in the 1928 presidential campaign. While cold toward the equalization fee plan of the American Farm Bureau Federation and the export debenture plan of the National Grange, he saw fit to promise to call Congress in special session to enact, in

aid of agriculture, legislation of which he had indicated some features in his campaign speeches. He fulfilled this promise; and Congress, with wheat prominently in view, passed the Agricultural Marketing Act in May 1929. Another of the new Administration's early acts was to persuade the railways to grant special export rates for several months in the hope of accelerating wheat exports from our large accumulated stocks.

During these post-war years wheat remained an outstanding crop and export. Though it was of smaller relative importance in our agriculture and export trade than in many earlier decades, our all-time peak of production (in terms of four-, five-, or six-year averages) was reached in 1926-31. Wheat was grown, though not every year, on perhaps 1.5 million farms,⁶ and to some extent in all states but a few in New England and the South. It was a major crop in four principal areas: the hard winter wheat belt centering in west-central Kansas; the hard spring wheat belt stretching from Minnesota to Montana, where macaroni wheat (*durum*) is also produced; the Pacific Northwest centering in southeastern Washington, where (as in California) white wheat predominates; and the Middle West where, as in the East and Southeast, chiefly soft red wheat is grown. The accompanying dot map shows the acreage distribution for the crop of 1929, according

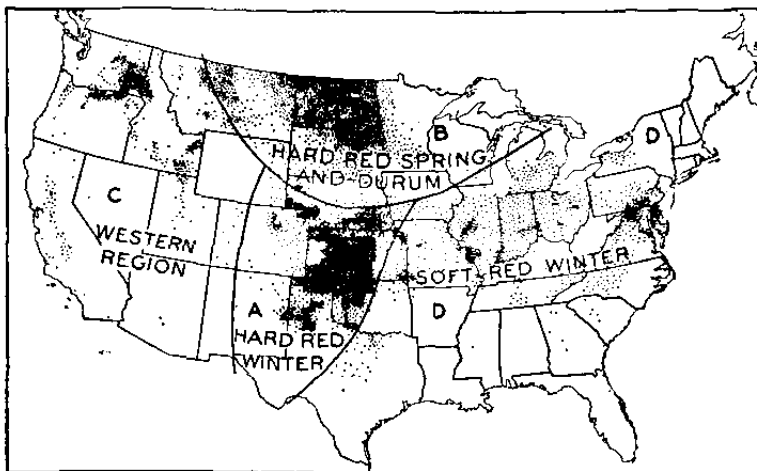
⁶Census reports show in thousands the following number of farms on which wheat was harvested in the years designated:

Crop of	Winter Wheat	Spring Wheat	Gross Total	Net Total
1919	1,740	567	2,307	2,225
1924	1,033	268	1,301	...
1929	941	317	1,258	1,208

Three dots in the last column indicate that no data are available. The number of *wheat farms* is much larger than recent census data show. See pp. 96-97.

to census data;⁷ and the changes in harvested acreage from 1919 to 1934 are shown by groups of states in the chart on page 13. Most of the wheat crop was produced between the Mississippi River and the Rocky

WHEAT ACREAGE HARVESTED, 1929^a



^a Slightly adapted from *Neg. 25026-A*, Bureau of Agricultural Economics; based on census data for 62 million acres, each dot representing 10,000 acres.

Mountains. After 1922-23 most of our wheat grain exports consisted of hard red winter wheat from the Southwest, durum from the Northwest, and soft white wheat (especially club varieties) from the Pacific Northwest,⁸ and for the most part of grades below the average used domestically.

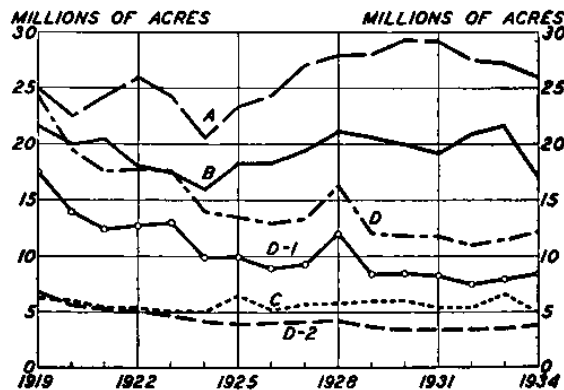
The area harvested for wheat grain averaged about

⁷ Dot maps in the *Yearbook of Agriculture*, 1933, pp. 141-43, show the distribution of the crop according to census data for 1869, 1889, 1899, 1909, and 1929.

⁸ See Bureau of Agricultural Economics estimates in *World Wheat Prospects*, Jan. 29, 1935, p. 33. In 1924-25 considerable hard red spring, and in 1926-27 considerable soft red winter, were exported.

one-sixth of the total crop acreage, and only corn and sometimes hay occupied a larger acreage. Though in tonnage and farm value wheat ranked a poor second to corn, it remained by far the most important cash crop except cotton. In the six years 1924-29, gross farm in-

WHEAT ACREAGE HARVESTED, 1919-34
By Groups of States^a



^a Data as given in Table II, p. 446, are sub-totals of latest official estimates by states, grouped broadly in accordance with regions indicated on the accompanying dot map. Wyoming is included in Group A. Group D consists of two sub-groups: D-1, comprising the states of Ohio, Indiana, Illinois, Missouri, Iowa, Michigan, and Wisconsin; and D-2, comprising all states east and south of these.

come from wheat was about 7 per cent of gross income from all farm production. In terms of both farm income and volume of production, however, animal products and fruits and vegetables were gaining in absolute and relative importance, and dairy and poultry products combined were far more important than wheat. A notable readjustment was taking place in American agriculture under the influence of economic forces. Feed grains were losing ground because of the substitution of automotive equipment for horses and mules, and

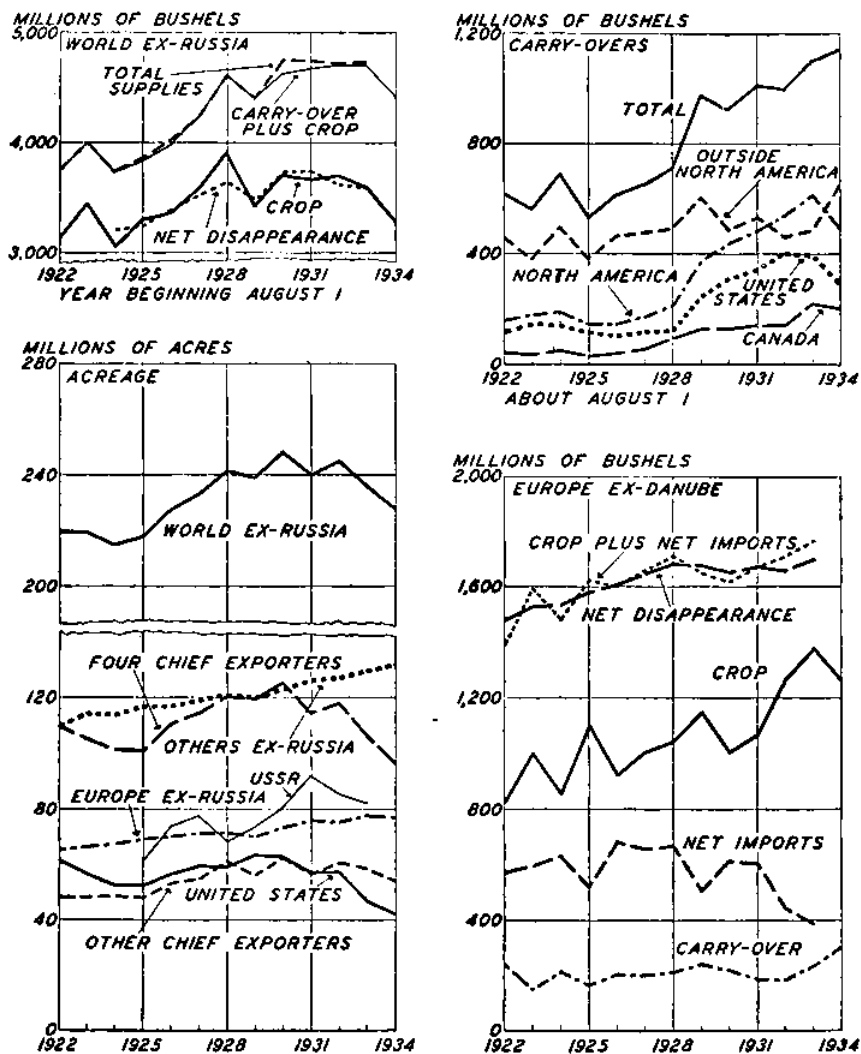
wheat because of rising competition of other exporters in the expanding world market.

The world wheat situation underwent a striking development from 1924 to 1929, as the next chart partially reveals. Wheat acreage increased generally, but most strikingly in North America, Argentina, Australia, and the U.S.S.R. The post-war recovery in wheat yields continued as an upward trend, most notably in importing Europe. World wheat production consequently tended upward to its record peak in 1928. International trade in wheat climbed to fresh high levels, exceeding 950 million bushels in 1928-29. The U.S.S.R. continued a negligible exporter, and India and the Danube Basin exported much less than in pre-war years; Canada, Argentina, and Australia, however, pressed increasing supplies onto world markets. United States exports, while remaining above pre-war levels, tended downward from their post-war peak. Wheat consumption expanded materially both in Europe and in ex-European countries in the post-war decade, as in the two pre-war decades.⁹ In the United States, however, per capita human consumption of wheat remained so much lower than before the war that the difference represented well over 100 million bushels a year. (See charts on pages 3 and 226.)

The expansion of world wheat acreage, production, and consumption in 1924-29 was the result of a combination of factors. Among these were the attractive wheat prices of the middle of the decade; substantial improvement in world economic conditions and prospects; somewhat increased protection to continental European wheat growers after 1925, though up to the middle of

⁹ See especially M. K. Bennett, "Per Capita Wheat Consumption in Western Europe . . ." *Wheat Studies of the Food Research Institute*, March 1935, Vol. XI, No. 7.

SIGNIFICANT WORLD WHEAT DATA, 1922-34^a



^a Data of Food Research Institute. "World ex-Russia" is exclusive of the U.S.S.R., also China, Turkey, and a number of minor wheat producers for which comparable data are lacking for part or all of the period. "Europe ex-Danube" is exclusive of Hungary, Yugoslavia, Rumania, and Bulgaria, as well as the U.S.S.R. "Total supplies" include exports from the U.S.S.R. In "net disappearance," account is taken of changes in reported or estimated carry-over. Net imports and net disappearance data are for crop years beginning August 1.

1929 such protection was no greater than before the war, if as great; revival of wheat acreage and output in the U.S.S.R. under her "new economic policy"; and general confidence that the upward trend in international trade and wheat consumption would continue. The remarkably big crop of 1928, however, was due not merely to the preceding expansion of acreage, but to the coincidence of this with generally exceptional yields such as had previously occurred in 1898 and 1915.

World wheat stocks had been reduced to abnormally low levels after the short world crop of 1924. After a year or two stocks were up to reasonably satisfactory levels, and by the middle of 1928 they were again large, as they had been four years earlier. So huge was the 1928 crop, however, that in spite of exceptionally large consumption in 1928-29 the year-end stocks were of extraordinary size. The full extent of this increase was not then realized. For most countries statistics of stocks were incomplete or lacking, and no comprehensive estimates were then available. The Argentine crop of 1928 was materially under-estimated, and likewise Argentine stocks in mid-1929. It was commonly assumed, in trade and official circles, that Europe had used up her large supplies of domestic and imported wheat, whereas the European carry-over later proved to be high. Few realized, in midsummer 1929, that stocks of old-crop wheat were around 970 million bushels as compared with an average of 600 million at corresponding dates in 1922-26; and it was not generally known that North American stocks were double average size.

Moreover, few then foresaw the calamitous world-wide recession that was in store, with its drastic influence on commodity prices, international trade, finance, and consumption; or could anticipate the government policies

that would be adopted to meet it and their adverse effects on wheat movement, consumption, and prices. The prevailing opinion, in both trade and government circles, was that wheat prices were abnormally low in 1928-29; but in retrospect it is clear that speculative forces held them above levels appropriate to the real conditions. The danger signals given by unprecedentedly high "visible supplies" of wheat were largely ignored. As the 1929 harvest in the Northern Hemisphere approached, with prospects of a smaller crop in the United States and a poor crop in Canada, the conviction prevailed that 1929-30 would see higher prices and ready absorption of surplus wheat stocks. This was the situation when the Federal Farm Board came into existence in July 1929, and when the financial crisis broke in the New York stock market in October. In his annual report for 1929, written shortly after this, the Secretary of Agriculture observed that the agricultural situation was remarkably free from evidence of over-production.

Looking back, it is easy to see that a vulnerable wheat situation was developing in 1924-29, that false ideas of "normal" wheat prices were commonly held, and that American wheat growers might well have faced the necessity of adjusting their ideas and their wheat culture to altered economic conditions. With Europe increasing her wheat yields and wheat production,¹⁰ with acreage expanding in Canada, Argentina, and Australia by low-cost methods, with the U.S.S.R. recovering toward an export basis, with the United States a creditor nation, and with reduced per capita consumption here, we could not safely count on maintaining our wheat production and exports at levels that had been economically appro-

¹⁰ Increased yields were a much more important factor than increased acreage.

priate during the war and early in the post-war decade. The rest of the world would not take big exports of American wheat at prices that our growers regarded as remunerative. Yet the ideas persisted that the export market was indefinitely elastic; and that wheat prices below average pre-war prices, adjusted for changes in the general price level, were unjustly and uneconomically low. These ideas explained the continued search for some politically acceptable scheme to assure wheat growers what was called "fair exchange value" for their crop.

THE DEPRESSION YEARS 1929-32

Even in the absence of financial crisis, the wheat situation would have proved difficult in 1929-30. It is true that, because of short crops in Canada, Argentina, and Australia and reduced output in the United States, these four countries harvested nearly 600 million bushels less than in 1928. The world crop of 1929, ex-Russia, however, eventually proved small only by comparison with the bumper harvest of 1928; it was exceeded by only two other previous crops, those of 1915 and 1927. More important still, importing Europe had the largest wheat crop since the war and excellent crops of other grains and potatoes also. Europe was therefore in an ideal position to curtail imports, and would have done so in the absence of the financial stress which soon developed. The position was almost the reverse of the conjunctures that had proved so favorable to United States wheat growers in 1879-80, 1891-92, 1897-98, and 1924-25. Unaware of this, expecting that a large import demand would develop, and believing that the advance in world wheat prices was merely delayed by heavy sales from Argentina, speculative interests in North America held wheat confidently. The Canadian

wheat pools shared in this tendency. In the same confidence the Federal Farm Board undertook, late in October 1929, to make fixed loans to wheat co-operatives.

The vulnerable wheat situation, misjudged as it was, contributed to the economic crisis that followed the speculative disaster; and in turn the general crisis, as it spread from country to country, intensified the wheat crisis.¹¹ As the expected European demand failed to materialize, as European countries raised tariff barriers against imports to protect their own growers and reduce their foreign payments, and as speculative confidence was shaken by these developments in addition to the stock-market crash, wheat prices crumbled in the first half of 1930. To save the wheat co-operatives to which it had made fixed loans, the Federal Farm Board in February 1930 sanctioned the organization of the Grain Stabilization Corporation, which lent support to the domestic wheat market.¹² The Canadian wheat pools also sought and obtained official financial support. The confidence of private speculators, already weakened, was further undermined as these moves were made.

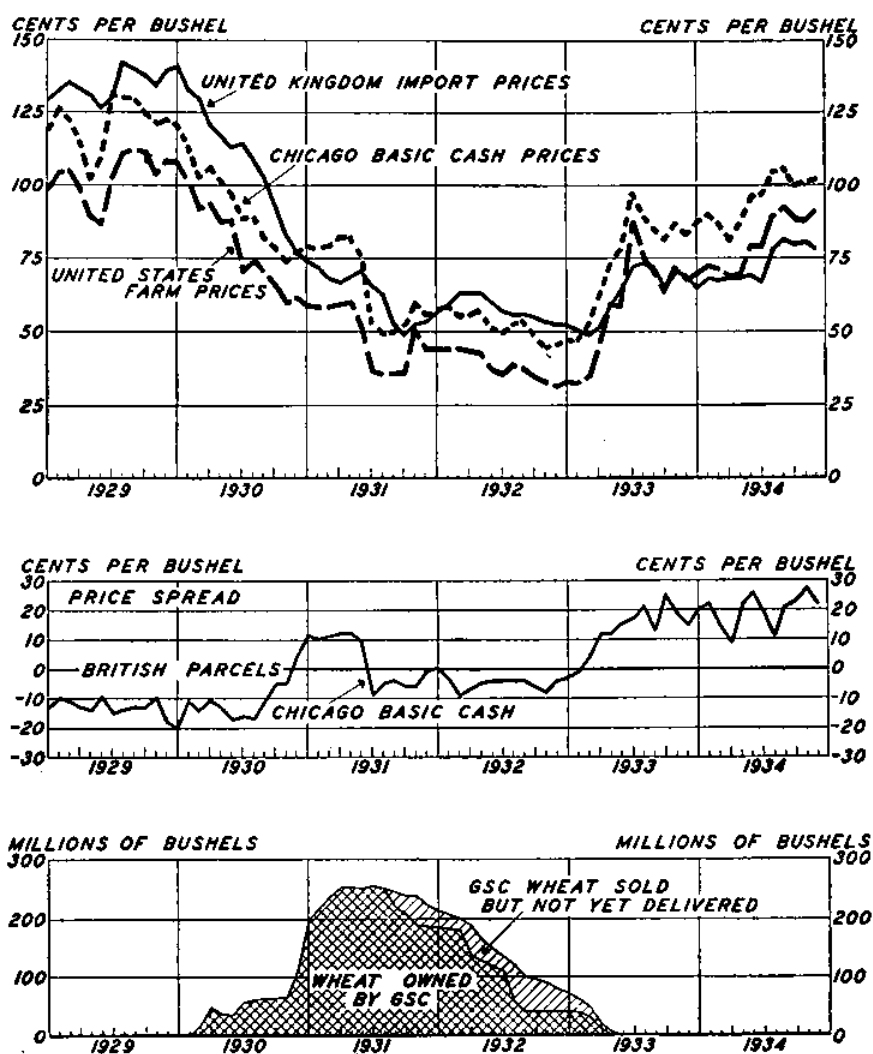
Hopes had been pinned on a short world crop in 1929 to correct the unbalanced position created by the bumper crop of 1928; but the event proved that world wheat supplies for 1929-30, including carry-over, were large instead of small. Effective import demands were sharply curtailed because of Europe's big crops, powerful holding in North America, generally reduced buying power in importing countries, some increase in import restric-

¹¹ See J. S. Davis, "Wheat, Wheat Policies, and the Depression," *Review of Economic Statistics*, Apr. 15, 1934, pp. 80-88, and V. P. Timoshenko, *World Agriculture and the Depression* (*Michigan Business Studies*, Vol. V, No. 5), 1933.

¹² See *First Annual Report of the Federal Farm Board*, December 1930, pp. 26-36; and *Wheat Studies of the Food Research Institute*, December 1930, Vol. VII, pp. 145-64.

tions, and reluctance to lay in stocks of imported wheat. From a peak of about 950 million bushels in 1928-29, net exports of net exporting countries fell to about 630

COURSE OF WHEAT PRICES AND STABILIZATION HOLDINGS, 1929-34^a



^a Prices in terms of United States currency. Average farm prices as computed by the Bureau of Agricultural Economics; other price data as computed by the Food Research Institute; Farm Credit Administration data on month-end holdings of stabilization wheat.

million in 1929-30 — an amazing and unprecedented drop. With some reduction in world consumption attributable partly to reduced incomes, world wheat stocks at the end of the crop year fell but little below the high peak of 1929; and carry-overs actually increased further in the United States and Canada. (See chart on page 15.)

The world wheat crisis was aggravated in 1930-31. Again the world crop, ex-Russia, was gravely underestimated. It eventually proved second only to that of 1928; and, with heavy carry-overs, total wheat supplies were even larger than in 1928-29. By a notable coincidence, the U.S.S.R. chanced to have excellent yields on a large acreage and the best crop since 1913. Since the Soviet government urgently needed foreign exchange to meet heavy commitments for imported equipment and supplies, Soviet exports during the crop year reached 114 million bushels—more than in all the previous post-war years combined. Australia too had officially stimulated wheat acreage expansion as a means of meeting her financial commitments abroad, and had a record crop and export surplus. These forces accentuated price declines that would otherwise have occurred. Tariff increases, milling quotas, and other import barriers were multiplied in Europe and elsewhere. While these served to protect domestic growers, they also restricted imports and consumption, and thereby contributed to depress wheat prices further in free import markets and in exporting countries.

Under the influence of these forces, world wheat prices fell, by the end of 1930, to levels below the historic lows of the middle 90's, and to levels unprecedentedly low in terms of other commodities. In the United States, the Federal Farm Board intervened with full

force. Its own explanation, as given in its third annual report (page 64), ran thus:

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

From its operations earlier in 1930, the Grain Stabilization Corporation held on June 30 at least 57.4 million bushels.¹³ By the end of October it held 66.4 million, and the Farmers National Grain Corporation held additional quantities purchased, with Farm Board support, ostensibly for drought relief. Beginning in mid-November, the Grain Stabilization Corporation virtually pegged wheat prices in the principal domestic markets for the rest of the crop year. In the process it raised its holdings to 256 million bushels out of a record total carry-over of 340 million bushels. These operations served to restrict our exports, to increase our carry-over, and to support wheat prices here above levels to which they would have fallen. In the absence of such operations, however, it is

¹³ The 1930 *Report* (p. 32) said "something over 60 million bushels of wheat and futures." The 1931 *Report* (p. 37) said "a total of 65,545,201 bushels of cash wheat and contracts for future delivery." We infer that part of this represented contracts with wheat co-operatives on which delivery was made after June 30. The 1931 *Report* (p. 39) stated that the GSC made purchases of limited quantities in mid-August, and larger ones in late September and October. The chart on p. 20 reflects no substantial purchases.

highly probable that other influences would have operated in the same direction, though not to the same extent. Farm prices of wheat, moreover, were not as effectually supported as market prices; and benefits to wheat growers were further limited by the fact that well over half the marketed crop had been sold before prices were pegged at levels themselves regarded as cruelly low.¹⁴

Largely owing to exceptionally heavy feed use of wheat in the United States and Canada following a short corn crop here, and to liberal exports to China, world wheat disappearance reached a fresh peak in 1930-31, although European wheat consumption again declined. Nevertheless, the world carry-over rose to a new peak of about 1,000 million bushels. The world wheat crop of 1931, ex-Russia, and Soviet exports, were both smaller than in the preceding year, but total wheat supplies for 1931-32 were about as large as in 1930-31. Severe depression continued to reign in world wheat markets. Thanks to a high yield per acre, the United States' crop proved the largest since 1919. Including a huge carry-over, our wheat supplies totalled 1,272 million bushels¹⁵—the largest in history, and double ordinary domestic utilization for all purposes including seed and feed.

The Federal Farm Board, with the balance of its 500 million dollar revolving fund all tied up, had to begin liquidation. Early in the crop year 1931-32 the Grain Stabilization Corporation sold 47.5 million bushels of its wheat holdings to the governments of Brazil, Germany, and China. Another 60 million bushels it sold by degrees—at the rate of 5 million a month in July-

¹⁴ See the Federal Farm Board's three annual reports, and *Wheat Studies of the Food Research Institute*, December 1931, Vol. VIII, pp. 149-67.

¹⁵ Including 15 million bushels of stabilization wheat stored in Canadian elevators.

October, 7 million in all in November-February, and 33 million in all in March-June. In March 1932, under a congressional resolution, 40 million bushels were transferred to the American Red Cross for relief disposition.

Wheat prices in the United States sagged sharply to low levels early in the summer of 1931, when stabilization purchases ceased. From about 60 cents in May, the average farm price dropped to about 36 cents in July and slightly lower in August and September. At the low level prevailing through the year, feed use of wheat was nearly as heavy as in 1930-31. But as the Farm Board liquidated its holdings, other holders took up the burden. Wheat prices rose above the extremely low points of the summer, and stood too high to permit liberal exports. Including Grain Stabilization Corporation export shipments, our net wheat exports for the year were not much larger than in 1930-31. Our carry-over rose to a new peak of about 400 million bushels, and the world carry-over failed to decline appreciably.

In 1932-33 world wheat supplies were nearly as large as in each of the two preceding years, for declines in Soviet exports were partly offset by a larger world crop ex-Russia. Importing European countries, with acreage expanded under extreme protection, had excellent yields and a total crop even larger than in 1929. With wheat consumption restricted in Europe, her net imports shrank from 606 million bushels in 1931-32 to 441 million—the lowest since 1916-17. World wheat prices sagged to fresh low points in the winter of 1932-33. In terms of gold, prices of wheat imported into Great Britain averaged 52 cents a bushel for the crop year, as compared with previous lows of 57 cents in 1931-32 and 69 cents in 1894-95. At its low point for the year the United States average farm price stood at 31.6 cents on

December 15, and the weighted average for the crop year was 37.9 cents. The farm value of the crop, including seed, was put at 282 million dollars—the lowest since 1894-95 — and the cash income from wheat at 195 million.

Again in 1932-33, as in the preceding year, other holders took up the burden of carrying wheat as the Grain Stabilization Corporation continued its liquidation, finally completed in April 1933.¹⁶ Our wheat prices were not low enough to permit liberal exports, and our net exports plus shipments to possessions shrank to 36.5 million bushels, the smallest since 1868-69. Consequently, in spite of a much reduced crop and fairly liberal feed use, our carry-over declined very little from its 1932 peak. Meanwhile the Canadian carry-over—owing to a large crop, restricted export outlets, and government supported stabilization operations — rose to the record height of 218 million bushels. World wheat carry-overs reached a new peak of about 1,100 million bushels.

It is a striking fact that the United States wheat carry-over reached its peak not in July 1931, when the Grain Stabilization Corporation ceased purchasing, but in July 1932, after it had liquidated 147 million bushels of its holdings; and that stocks in July 1933, when stabilization holdings had been completely liquidated, were but little below the 1932 peak. This is shown by the carry-over figures given on page 26, in millions of bushels, including United States grain stored in Canada.

¹⁶ Holdings of owned wheat on June 30, 1932 were 108.7 million bushels. Of this, 45 million more were soon turned over to the Red Cross for relief disposition; 22.5 million more were sold in July, August, and early September, and another 9 million in January-February. The last 32.3 million bushels were sold in March-April 1933 though deliveries were not completed until May. See the chart on p. 20.

July 1	Total	GSC	Other
1929	245	—	245
1930	308	57	251
1931	340	256	84
1932	401	109	292
1933	395	—	395
1934	290	—	290

Farm Board actions contributed, both in 1929-30 and in 1930-31, to restrain exports and to increase the carry-over, as anticipation of governmental interposition probably had already done in 1928-29. But even without these factors notable increases in stocks would presumably have occurred under the influence of the same forces that raised the carry-over while stabilization holdings were being liquidated.¹⁷ For the great increase in 1929-31 and the huge stocks of wheat that remained when the new Administration took office in March 1933, the Farm Board had by no means the major responsibility. It was a convenient "devil" to blame, but the principal forces responsible were those which led American farmers, merchants, and speculators to prefer to hold wheat rather than to sell freely at prices that seemed too low.

Such, then, was the wheat situation in the twelve months encompassing the presidential campaign and the change of Administration. A world wheat crisis was in the making when a bumper crop was harvested in 1928. It developed apace in the midst of world-wide business recession in 1930, and grew worse rather than better in the next two years. It was at its worst in the crop year 1932-33, when the Agricultural Adjustment Act was for-

¹⁷ For the same reasons, stabilization operations can properly be credited with only part of the influence that kept United States wheat prices above export parity in 1929-30 and 1930-31.

mulated and passed. It was heavily responsible for characteristic features of the act, the wheat adjustment program, efforts to secure international action in solving the world wheat problem, and the export subsidy operations in our Pacific Northwest.

CHAPTER II

THE ADJUSTMENT ACT AND THE WHEAT PROGRAM

The Agricultural Adjustment Act of May 12, 1933 was concerned with improving the financial position of American agriculture in general. Throughout the evolution of the measure, however, wheat and wheat growers held the center of interest. Many of the provisions were considered most fully in advance as they might apply to wheat, and wheat was named first on the restricted list of "basic" agricultural commodities to which alone certain outstanding provisions could be applied. In pledging support for the act and urging immediate adoption of a wheat program under it, the Master of the National Grange voiced a common view when he said, late in May 1933:

. . . Wheat is the keystone in the food arch of our civilization. It is also basic in much of the agriculture of the nation. Lifting wheat prices and increasing the purchasing power of the wheat-producing farmer will have the larger effect of influencing favorably general agricultural prices. Wheat has been for centuries not only essential in the life of much of the world's population, but it has also been a symbol of value. The positive effect of lifting wheat prices would be far-reaching, and the indirect benefits accruing to agriculture would also be substantial.¹

It is therefore appropriate here to summarize the evolution of the act, the philosophy which underlay it, and its principal features and their derivation, before turning to the wheat program that was formulated and applied.

¹ *Minutes of Informal Public Conference of Wheat Growers, Handlers, and Processors* (held by the AAA, May 26, 1933), p. 31. This statement of L. J. Taber was submitted after the close of the conference.

EVOLUTION OF THE ACT

The Roosevelt Administration took the position that the electorate had given it a mandate for a policy of vigorous action along the whole "economic front." Faced at once by a severe banking crisis, it undertook to formulate a huge program of relief, recovery, and reform. By a series of extraordinary acts passed in special session within 100 days, Congress vested in the President unprecedented powers to employ at his discretion in coping with the "national emergency."² Among the first bills submitted, on March 16, was one that emerged on May 12 and is commonly called the Farm Act of 1933.³ In transmitting to Congress the draft bill, which then contained only Titles I and II, President Roosevelt wrote:

At the same time that you and I are joining in emergency action to bring order to our banks, and to make our regular federal expenditures balance our income, I deem it of equal importance to take other and simultaneous steps without waiting for a later meeting of the Congress. One of these is of definite constructive importance to our economic recovery.

It relates to agriculture and seeks to increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities, and at the same time greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.

Deep study and the joint counsel of many points of view have

² Among these, in order of signature, were:

May 12: Farm Act, Federal Emergency Relief Act

May 18: Tennessee Valley Authority Act

May 27: Securities Act

June 5: Uniform Value of Coins and Currencies (Resolution)

June 10: Reconstruction Finance Corporation Act

June 13: Home Owners' Loan Act

June 16: National Industrial Recovery Act, Banking Act, Farm Credit Act, Emergency Railroad Transportation Act

³ 48 Stat. L. 31 (73 Cong., Public No. 10, H. R. 3835). See the AAA's *Compilation of Agricultural Adjustment Act as Amended and Acts Relating Thereto as of June 29, 1934*.

produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture.⁴ If a fair administrative trial of it is made and it does not produce the hoped-for results, I shall be the first to acknowledge it and advise you.

The proposed legislation is necessary now for the simple reason that the spring crops will soon be planted, and if we wait for another month or six weeks the effect on the prices of this year's crop will be wholly lost.

The Farm Act as passed contained three parts: Title I, soon officially designated the Agricultural Adjustment Act, is our principal concern here; Title II, called the Emergency Farm Mortgage Act, vested important powers and responsibilities in the Farm Credit Administration set up by executive order of March 27, effective May 27; Title III, known as the Thomas ("inflation") amendment, gave the President broad powers in relation to currency.

In important particulars the Adjustment Act represented an evolution of the "domestic allotment" or "transferable rights" plan,⁵ first brought to public attention by Professor John D. Black in the spring of 1929, in testimony before House and Senate Committees on Agri-

⁴ A similar idea had been expressed by Mr. Hoover, in his Palo Alto speech accepting the Republican nomination for the presidency on Aug. 11, 1928: "A nation which is spending 90 billions a year can well afford an expenditure of a few hundred million for a workable program that will give to one-third of its population their fair share of the nation's prosperity."

⁵ This is now acknowledged to have been originated by Beardsley Ruml, then director of the Laura Spelman Rockefeller Memorial Foundation, though it somewhat resembled an earlier plan presented unofficially by W. J. Spillman of the Department of Agriculture.

In February 1933 the Bureau of Agricultural Economics issued a valuable mimeographed bibliography (No. 41): Louise A. Bercaw, *The Domestic Allotment Plans for the Relief of Agriculture: Selected References*.

culture and in his book *Agricultural Reform in the United States*. The cardinal feature of this plan, considered with reference to wheat, was to give to every grower a certificate expressed in bushels representing his pro rata share, on the basis of his average production in some recent period of years, in approximately the amount of wheat domestically consumed for food. These certificates were to be salable to millers, who were expected to buy them at approximately the tariff rate per bushel; and they were to be required to surrender to federal officials, on the first sale of flour for domestic use, such certificates in amounts corresponding to the amount of wheat ground into this flour. Thus it was hoped that with no complex machinery, no disturbance of wheat production or marketing, no export dumping, no burden on the federal treasury, and little or no stimulus to production, the sale of their "transferable rights" in the "domestic allotment" would bring wheat growers a supplementary income sufficient to satisfy their ideas of "fair return."

A radically modified version of this plan, called the "voluntary domestic allotment plan," was crystallized by a group led by Professor M. L. Wilson of Montana State Agricultural College. This group held a quiet conference at Chicago on April 10, 1932 at which the plan was discussed in some detail. Agreement was reached that it should be pushed, and Mr. Wilson was empowered to appoint a committee to draft a bill and to press for its passage. Participants in this conference were George N. Peek of Moline, Illinois; Henry A. Wallace of Des Moines, Iowa; Louis S. Clarke, president of the Mortgage Bankers Association of Omaha, Nebraska; R. R. Rogers, assistant secretary of the Prudential Life Insurance Company; Henry I. Harriman of

Boston;⁶ W. R. Ronald, editor of the *Evening Republican*, Mitchell, South Dakota; and several agricultural and other economists. Here for the first time were definitely incorporated the production control, farm contract, and cash benefit features that earlier plans had lacked.

This version was presented to the House and Senate Committees on Agriculture in April 1932. There it proved a worthy competitor of the "three-way" bill sponsored by the three major farm organizations embodying the favorite scheme of each. It formally came before Congress in the Fulmer-Walsh and Hope-Norbeck bills in June and July 1932.⁷ Some of its features were incorporated in several emergency bills after it became clear that more permanent legislation could not then be passed.

The voluntary domestic allotment plan won support

⁶ Mr. Harriman, who in May 1932 was elected president of the United States Chamber of Commerce, contributed important ideas to the plan and came out publicly for it. On May 19, at the San Francisco meeting of the Chamber, he outlined the allotment plan in a paper on "Interrelation of Agriculture and Other Fields of Business." Later he included in a 14-point business platform, presented at a dinner meeting of American Trade Association Executives: "7. Adopt an agricultural program which includes a fair trial of the Domestic Allotment Plan, say for wheat and cotton, the gradual reduction of sub-marginal lands under cultivation, and the repeal of that portion of the Farm Board Act which authorizes the attempt to equalize prices by government purchase." (*Nation's Business*, July 1932, Vol. 20, pp. 20, 59.) At a round table on "Production Control," at the summer session of the American Institute for Co-operation, Mr. Harriman discussed the domestic allotment plan and expressed the belief that "it should be given a fair trial." (*American Co-operation*, 1932, pp. 533-43.) In all this he spoke as an individual interested in agriculture, "not in his official capacity," and he defended his position after attacks by grain men and millers. These attacks won the plan favor with farm organization leaders.

⁷ In this form the plan and its probable working were analyzed at some length by J. S. Davis in "The Voluntary Domestic Allotment Plan for Wheat," *Wheat Studies of the Food Research Institute*, November 1932, Vol. IX, pp. 23-62; this study contains references pertinent to this and other paragraphs.

from various Republican leaders, and their party platform contained the following pertinent plank:

We will support any plan which will help to balance production against demand, and thereby raise agricultural prices, provided it is economically sound and administratively workable without burdensome bureaucracy.

But in his speech accepting the Republican nomination on August 11, 1932, President Hoover indicated his opposition when he said:

. . . There is no relief to the farmer by extending government bureaucracy to control his production and thus curtail his liberties, nor by subsidies that bring only more bureaucracy and ultimate collapse. I shall oppose them.

Governor Roosevelt, on the other hand, had been won over to the plan soon after his nomination for the presidency. In his campaign speech at Topeka on September 14, without naming it, he gave it a virtual endorsement by enunciating the following six points upon which he made bold to say that "most of the reasonable leaders of agriculture have agreed":

1. The plan must provide for the producer of staple surplus commodities, such as wheat, cotton, corn (in the form of hogs), and tobacco, a tariff benefit over world prices which is equivalent to the benefit given by the tariff to industrial products. This differential benefit must be so applied that the increase in farm income, purchasing and debt-paying power will not stimulate further production.

2. The plan must finance itself. Agriculture has at no time sought and does not now seek such access to the public treasury as was provided by the futile and costly attempts at price stabilization by the Federal Farm Board. It seeks only equality of opportunity with tariff protected industry.

3. It must not make use of any mechanism which would cause our European customers to retaliate on the grounds of

dumping. It must be based upon making the tariff effective and direct in its operation.

4. It must make use of existing agencies and so far as possible be decentralized in its administration so that the chief responsibility for its operation will rest with the locality rather than with newly created bureaucratic machinery in Washington.

5. It must operate as nearly as possible on a co-operative basis and its effect must be to enhance and strengthen the co-operative movement. It should, moreover, be constituted so that it can be withdrawn whenever the emergency has passed, and normal foreign markets have been re-established.

6. The plan must be, in so far as possible, voluntary. I like the idea that the plan should not be put into operation unless it has the support of a reasonable proportion of the producers of the exportable commodity, on which it is to apply. It must be so organized that the benefits will go to the man who participates.

In speeches shortly before the election Governor Roosevelt spoke of "my plan" for agriculture in terms that are to be interpreted as referring to this one.

Farm organization and co-operative leaders, previously generally cold toward the allotment plan, met twice in October 1932 and came over toward it.⁸ After the decisive November election they quickly came further; and by mid-December they were actively collaborating with the developers of the plan⁹ in formulating a bill to which they pledged unanimous support.¹⁰ Introduced on January 3, 1933 as the Jones bill (H.R. 13991), it was endorsed by a majority of the House

⁸ See letter of Edward A. O'Neal, president of the American Farm Bureau Federation, to M. L. Wilson, May 27, 1933, in *Minutes of Informal Public Conference of Wheat Growers, Handlers, and Processors*, pp. 35-40.

⁹ Chiefly M. L. Wilson, and Mordecai Ezekiel of the Farm Board staff. Others who assisted were Henry Morgenthau Jr., William I. Myers, and Rexford G. Tugwell, advisers of the president-elect who became prominent in the new Administration; and Frederick P. Lee, who later served as Mr. Peek's personal counsel in the AAA.

¹⁰ See also 72 Cong., 2 sess., *Agricultural Adjustment Program, Hearings* before House Committee on Agriculture, Dec. 14-20, 1932, Serial M.

Committee on Agriculture¹¹ and debated and passed by the House on January 12.

In a special report dated December 7, accompanying its third annual report to Congress, the Federal Farm Board had gone on record in favor of certain principles that were embodied in this bill.¹² Secretary of Agriculture Hyde, however, opposed the Jones bill on the ground that it "would not afford substantial relief to agriculture, and contemplates such drastic regulation as to be impossible of effective administration."¹³ In the Senate it was held up and radically altered in committee, and eventually failed to come to a vote before the session ended.

¹¹ H. rep. 1816 (eight members signed a minority report).

¹² "One of the present needs is not to stabilize the variations in farm prices but to raise their general level up to the average level of other commodities. To help raise the level of farm income, devices other than stabilization are required. In the light of the experience with stabilization over the past three years the Board recommends that any new legislation be based on the following two principles, which have been demonstrated by experience to be essential for effective relief:

"(1) Prices cannot be raised unless some one pays the cost. The new plan must be self-sustaining, with a continuous method of covering the costs. Prices of other products are now 40 per cent above the prices at which farm products are selling. If the new method raised prices to domestic consumers to the level of prices of other commodities, that would not be giving farmers an unfair advantage.

"(2) Prices cannot be kept at fair levels unless production is adjusted to meet market demands. Many farm products are now being produced in quantities in excess of those which the market will take. Higher prices, without regulation of production, would stimulate still more over-production. Any method which provided higher prices and did not include effective regulation of acreage or of quantities sold, or both, would tend to increase the present surpluses and soon break down as a result. To be of lasting help, any plan must provide a system of effective regulation, so that our millions of farmers can plan and adjust their production on a dependable basis instead of competing blindly with each other."

¹³ See his unsigned letter to Senator McNary, dated Feb. 16, 1933, in *Agricultural Adjustment Relief Plan*, Hearings on H. R. 13991 before Senate Committee on Agriculture and Forestry, Jan. 25-Feb. 6, 1933, pp. 10-13.

Twelve days after the new Administration took office, President Roosevelt transmitted the draft of a new bill embodying this plan, which had been evolved in conference with farm leaders, and urged that it be enacted at once.¹⁴ This soon passed the House, but was held up and modified in the Senate;¹⁵ after adjustment in conference and repassage by both houses, it was finally signed on May 12. Thus the Agricultural Adjustment Act came into existence. The Farmers Union, under the leadership of its national president, John A. Simpson, had turned hostile to the bill chiefly because it failed to include what this organization considered a vital provision guaranteeing farmers "cost of production" on the part of their output consumed domestically.¹⁶ Other farm leaders, however, generally regarded the measure as essentially their own.

In the later stages of the evolution of the Adjustment Act considerable attention had been given to cotton; this was responsible for Sections 3-7 based on the Smith bill which Congress passed shortly before March 4 but which President Hoover chose not to sign. Some attention had been given, chiefly in the winter of 1932-33, to possible application of the plan to corn and hogs, and much less to other commodities even in the later stages. George N. Peek, who was actively concerned with the form of the bill, was largely responsible for having pro-

¹⁴ See his message quoted above, p. 29, and statement by Secretary Wallace in *USDA Press Release No. 938-33*, Mar. 18, 1933.

¹⁵ 73 Cong., 2 sess., *Agricultural Emergency Act to Increase Farm Purchasing Power*, Hearings before Senate Committee on Agriculture and Forestry, Mar. 17-28, 1933.

¹⁶ See Mildred Simpson's letter of Oct. 18, 1934, and report to the Farmers Union Convention, in *South Dakota Union Farmer*, Nov. 14 and 28, 1934, on her late father's position and activities; and in the latter issue the report of Simpson's successor, E. H. Everson, broadcast on Nov. 20, 1934.

visions for marketing agreements worked into the final measure.¹⁷

THE ACT AND ITS PHILOSOPHY

The Adjustment Act authorized a fresh attack on the same agricultural problem that the McNary-Haugen bills, the export debenture plan, the domestic allotment plan, and the Agricultural Marketing Act had all been designed to solve—the problem of increasing the purchasing power of farmers by steps directed mainly toward raising prices of farm products.¹⁸ The McNary-Haugen plan, with reference to wheat, had as its central objective *the maintenance of prices in this country above an export basis by the amount of the tariff duty (42 cents a bushel)*. Arrangements were to be made to buy enough wheat to accomplish this result, and to dispose of the “surplus,” mainly in export markets, for what it would bring; and an “equalization fee” was to be collected at some point in the channels of trade to provide a fund out of which losses on surplus disposal would be paid. The debenture plan contemplated a slightly disguised export subsidy initially equal to half our tariff rate, with the intent of maintaining domestic prices this far above an export basis. The Marketing Act contemplated price raising and price stabilization mainly through strengthening farmers’ co-operatives, if necessary to be re-enforced by operations of stabilization

¹⁷ See D. A. FitzGerald, *Livestock under the AAA, 1935*, Chap. IX; and E. G. Nourse, *Marketing Agreements under the AAA, 1935*, Chap. I. The Rainey-Norbeck bill, which nearly passed Congress toward the close of the session in July 1932 and provided for benefit payments without production control, had been drafted by men whose concern was more with corn and hogs rather than wheat.

¹⁸ On these and other proposals, see J. D. Black, *Agricultural Reform in the United States, 1929*, especially Chaps. III, VIII-XV; J. S. Davis, *The Farm Export Debenture Plan, 1929; Annual Reports of the Federal Farm Board, 1930-32*.

corporations under their nominal control but with funds lent by the Federal Farm Board.

In considerable part, the philosophy underlying the new act was identical with that which underlay those earlier schemes.¹⁹ Agriculture was regarded as an industry of peculiarly fundamental importance which had been effectually discriminated against. Farmers were held incapable of organizing to foster their interests and secure their "rights," to the extent that other groups had done. Indexes of prices and statistics of income were held to support the conviction that agriculture suffered from "price disparities" and was not getting its "fair share" of the national income. Vigorous governmental aid was regarded as essential both to correct injustices and to strengthen the foundations of national prosperity. "Surpluses" of important farm products were viewed as the crux of the difficulty, and commodity measures as the appropriate means of correction.

In some important respects, however, changed conditions had given rise to evolution of ideas. Aid to agriculture was now viewed as vital to general economic recovery. Organized "control" of production was now considered essential, while "control of surpluses" in existence was relegated to a secondary position. It was felt necessary to vest in the Secretary of Agriculture wide discretion as to formulation and execution of specific commodity programs, and it was felt that certain difficulties could be met by resort to contracts between the Secretary of Agriculture and individual farm producers, with farmers participating heavily in formulating and administering the programs.²⁰

¹⁹ We do not mean to imply that all supporters of any scheme completely agreed in their several "philosophies."

²⁰ See especially Mordecai Ezekiel's memorandum in *Agricultural Adjustment Program*, Hearings before House Committee on Agriculture,

In the title of the whole measure of which the Adjustment Act comprises the first 19 sections, the opening words run: "An act to relieve the existing national economic emergency by increasing agricultural purchasing power. . . ." The Adjustment Act proper begins with a declaration of emergency, followed by a declaration of policy:

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.

Sec. 2. It is hereby declared 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. The base period in the case of all agricultural commodities except tobacco shall be the pre-war period, August 1909-July 1914. . . .

(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

Dec. 14-20, 1932, Ser. M, pp. 359-80; and Mordecai Ezekiel and L. H. Bean, *Economic Bases for the Agricultural Adjustment Act*, December 1933.

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.

Here appear the convictions that agriculture is a (or the) "basic industry"; that the extreme plight of agriculture is in part the cause of general depression and its persistence; that aid to agriculture is prerequisite to general economic recovery; that the evil to be set right is a "severe and increasing disparity between the prices of agricultural and other commodities"; and that the national emergency calls for emergency measures to cure this evil.

Here also is suggested a formula, later (Section 9) made specific for purposes of fixing rates of processing tax, by which "parity prices" or "equality of purchasing power" are to be ascertained. The attainment of such "parity prices" "at as rapid a rate as is deemed feasible" appears to be set up as a specific goal. The means indicated are "readjusting farm production" so as to establish and maintain a "balance between the production and consumption of agricultural commodities," and providing appropriate marketing conditions therefor. Ostensibly as a protection to the consumers' interest, a limit is set upon the extent to which retail expenditures for agricultural commodities may be raised by the measures authorized to be taken.

The "parity price" idea and the phrase "fair exchange value" trace back to the ratio-price feature of the plan which George N. Peek and General Hugh S. Johnson had set forth early in 1922 in their pamphlet *Equality for Agriculture*.²¹ As such it was embodied in

²¹ First published anonymously, and in October 1922 under their names. Mr. Peek spoke often on this subject and led the long fight for adoption of the plan.

the first McNary-Haugen bill, which was introduced in Congress January 16, 1924 and rejected the following June. For reasons of political strategy, the ratio-price principle was replaced in later proposals (including the McNary-Haugen bills vetoed by President Coolidge in March 1927 and May 1928) by the "principle" of "making the tariff effective for agriculture."²² This remained a feature of the allotment plan until after the election of 1932, though certain parity price provisions had appeared in the Hope-Norbeck bills of July 1932.²³ In December 1932, however, the "parity price" principle definitely replaced the "tariff effectiveness" principle in the bill, and it survived in spite of strong pressure from Farmers Union leaders to substitute a "cost of production" principle. Supporters of the measure urged that here was a yardstick both definite and fair; indeed, in Section 9 (b) and (c) of the act "fair exchange value" (the Peek-Johnson phrase) was used to denote what have come to be called "parity prices."²⁴ It was apparently implied that restoration of agricultural income and purchasing power would be achieved by re-establishing prices of farm products at the indicated levels, and that the desirable "balance between the production and consumption of agricultural com-

²² Black, *Agricultural Reform*, Chap. VIII.

²³ See Governor Roosevelt's third point, quoted above, p. 34. The first draft bill embodying the voluntary domestic allotment plan, prepared late in April 1932, was called "an act to make the tariff effective on the domestic consumption of farm products," and a slightly later draft "a tariff effectivation act." In the Hope-Norbeck bills the processing tax was called a "tariff adjustment change" and benefit payments were called "tariff benefits." See also J. S. Davis, in *Wheat Studies of the Food Research Institute*, November 1932, Vol. IX, pp. 36-38.

²⁴ Answering a question by Senator Norris regarding this term, Secretary Wallace said before the Senate Committee on Agriculture (p. 25 of reference cited in note 15, p. 36) on Mar. 17, 1933: ". . . this concept is rather a new concept in the idea of social justice. It is just gradually coming into use."

modities" would be one which resulted in such prices for all farm products.

The act is permissive rather than mandatory. It grants the Secretary of Agriculture powers of unprecedented extent "in order to effectuate the declared policy," but leaves him wide discretion as to the steps to be taken, the organization to be set up, and the modifications to be made. Certain powers are applicable with respect to any agricultural commodity or product thereof; this is true of provisions in Section 8 (2) and (3) authorizing the Secretary to enter into marketing agreements with and to license "processors, associations of producers, and others" handling these products in interstate or foreign commerce. Certain provisions (Sections 3-7) apply only to cotton. Most of the provisions of the act, however, are applicable only to "any basic agricultural commodity." The original act (Section 11) designated seven of these: "wheat, cotton, field corn, hogs, rice, tobacco, and milk or its products, and any regional or market classification, type or grade thereof." Eventually, by amendments in the spring of 1934, several other commodities were added to the list.²⁵

²⁵ The Jones-Connally Cattle Act of April 7, 1934 added cattle, rye, flax, barley, grain sorghums, and peanuts; the Jones-Costigan Sugar Act of May 9, 1934, added sugar beets and sugar cane. Till the act was passed, there was much controversy as to what commodities, if any, should be specifically designated, and such provisions were repeatedly changed. The Jones bill (H. R. 13991) was to apply "solely with respect to wheat, rice, cotton, peanuts, tobacco, butterfat, and hogs by reason of the fact that the prices for these basic commodities are a controlling factor in establishing prices for other domestic agricultural commodities." Other criteria were stated in the AAA's first extensive report, *Agricultural Adjustment* (released Mar. 26, 1934), p. 6: that the United States produces an export surplus of nearly all of these commodities; that they were in a relatively worse economic position; and that each is processed for human consumption. Actually, however, other considerations were

The vital provisions regarding basic commodities (Sections 8, 9) authorize the Secretary to provide for reduction in acreage, production for market, or both, "through agreements with producers or by other voluntary methods"; "to provide for rental or benefit payments in connection therewith or upon that part of the production . . . required for domestic consumption"; and to proclaim the coming into effect of taxes, at rates determined according to specified procedures, on the processing of such commodities, together with floor stocks and compensatory taxes, in order to obtain revenues for the extraordinary expenses in contemplation.

Here were incorporated several of the essential elements in the voluntary domestic allotment plan as it was worked out initially for wheat and presented to congressional committees in the spring of 1932; unlike all other earlier plans, this sought to raise prices mainly by organized reduction of acreage and/or production. No explicit provision was made for allotments to producers on the basis of their pro rata share of production "required for domestic consumption," which had been a feature of the original and later versions of the domestic allotment plan; but such devices lay within the scope of the powers granted to the Secretary. The "voluntary" character of the plan was reflected in the individual farm contract feature, which had been devised to meet constitutional and psychological obsta-

too powerful to permit any clear-cut principles to be followed. Producers of some major commodities, including cattle, sheep, and wool, opposed having these specifically included, while producers of others, including dairy products and peanuts, sought to have those included. The Administration desired to have the list small at the outset, until its programs could be tried out, but it did not want to oppose the wishes of any important group of producers.

cles.²⁶ Not all growers, but only contract signers, could qualify for benefit payments. The combination of benefit payments and processing taxes was equivalent to the feature of the earlier allotment plan under which "transferable rights" issued to growers would have been required to be bought by processors of commodities for domestic use.²⁷ The processing tax was essentially the same device as the "equalization fee" of earlier plans, with the point of collection more specifically designated; but the rate was to be determined by the difference between "fair exchange value" and current farm price, instead of by the tariff rate or estimated losses on disposal of surpluses; and the proceeds were to be used mainly for rental or benefit payments.

Provisions for disposal of surpluses, export subsidies, and/or stabilization operations are not the heart of the Adjustment Act, as they were in different earlier schemes. Yet Section 12 (b) made all funds appropriated under the act, including processing and related taxes, available among other things "for expansion of markets and removal of surplus agricultural products."

In addition to the tax provisions, the act made an outright appropriation of 100 million dollars, to be available till expended, for carrying out its purposes. This was soon supplemented by presidential allocations, under the "Bankhead amendment" incorporated in the

²⁶ On the constitutional aspects, see L. S. Hulbert, an attorney of the Federal Farm Board, "Legal Status of Plans for Production Control," *American Co-Operation*, 1932, pp. 504-15. Hulbert concluded: "In my opinion there is ample justification for the view that the voluntary domestic allotment plan is constitutional."

²⁷ In the discussions out of which Black's version of the domestic allotment plan emerged, H. I. Richards urged that a combination of processing taxes and benefit payments was preferable to the transferable rights feature; but the author of the plan, Dr. Ruml, opposed this as giving the appearance of a dole to farmers.

National Industrial Recovery Act, of 60 million dollars in connection with the acquisition of cotton and cotton futures from the Farm Credit Administration, 37 million in connection with the corn-hog program,²⁸ and 3 million for subscription to the capital of the Commodity Credit Corporation. Subsequent amendments added further substantial appropriations, none of which had much bearing on the wheat program.²⁹

The production control features of the Adjustment Act were distinctly novel. Advocates of the McNary-Haugen bills had either scouted the view that production restriction was necessary or feasible, or had argued that actual or potential increases in the equalization fee would serve to restrain increases in production. Supporters of the Grange's export debenture plan and the Farmers Union's cost of production plan also considered that official restraint of production was neither necessary nor desirable. The earlier form of the domestic allotment plan contained no specific production control features; indeed, its authors regarded it as essential that producers be left free to produce and market what they chose. Professor Black inclined to the view that the "transferable rights plan" would tend somewhat to stimulate production, but proposed no production control.³⁰ The Agricultural Marketing Act merely gave the Farm Board power to "advise as to the prevention" of over-production of agricultural commodities. The emergency bills that were evolved out of discussions of the domestic allotment plan contained provisions for processing taxes and benefit payments but none for production control.

²⁸ *Agricultural Adjustment*, AAA, 1934, pp. 34, 287, 366n.

²⁹ See the AAA's *Compilation of the Act*, p. 17, note 11.

³⁰ Dr. Ruml regarded it as a production control measure as compared with other popular schemes.

It was only in the spring of 1932, after the failure of Farm Board advice appreciably to affect acreage or output of wheat and cotton, the accumulation of huge carry-overs of both, and notable reductions in export outlets for both, that organized control of production was grafted onto the domestic allotment plan. It was embodied in the Fulmer-Walsh and Hope-Norbeck bills of June-July 1932, but was not accepted by farm organization leaders until after the election. Though Mr. Peek, the first administrator of the Agricultural Adjustment Act, has repeatedly condemned the principle,³¹ in general the AAA has regarded it as a cardinal element of its policy and programs. In words the more significant as coming from another former advocate of the McNary-Haugen plan, Administrator Chester C. Davis concluded his address before the Illinois Agricultural Association on January 25, 1934:

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

³¹ Three representative expressions of Mr. Peek's views are found in (1) a report in December 1924 to President Coolidge's "Agricultural Conference," by the American Council of Agriculture of which Mr. Peek was president; (2) his testimony before the Senate Committee on Finance on Feb. 14, 1933; and (3) an address by him on Nov. 20, 1934.

His principal points of criticism are as follows: (a) attempts to adjust production must fail, so great are variations in yield; (b) such attempts might prove dangerous to the national welfare, if reduced acreage were accompanied by short yields; (c) reduction of acreage in basic crops presents serious problems in determining the use of the acres "vacated"; (d) restriction of acreage is "repugnant to human nature"; (e) since "all wealth comes from productive effort," we cannot "increase our wealth by continued restriction of production." On the positive side, Mr. Peek has urged increasing export sales in preference to reducing production and, where resort to the latter is made, reducing production before harvest only in areas where it is excessive.

Despite these views, Mr. Peek apparently accepted the production control feature of the voluntary domestic allotment plan in April 1932, and as administrator he reluctantly approved the wheat adjustment program with such features (see pp. 53-57, 243).

agricultural prices fixed at parity without regard for the quantity you produce, then fire your farm leaders; discharge those of us who are temporarily trying to serve you in Washington—and hire some magicians. We don't know how to do it.

Unlike most of the recovery legislation, the Adjustment Act was not limited to a definite duration. Nor was it, ostensibly, a permanent act. Under Section 13 it is subject to termination when the President shall find and proclaim "that the national economic emergency in relation to agriculture has been ended"; but in the light of post-war history this "emergency" might readily be interpreted as of indefinite duration. The President is authorized to terminate earlier, with respect to any basic commodity, such provisions as he may find no longer "requisite to carrying out the declared policy with respect to such commodity." In fact, the act may be considered as nearly permanent as any law. Its provisions are very elastic; it has already been repeatedly amended, and further amendments are in prospect; but unless or until it is repealed it may continue to furnish the core of legislation on behalf of agriculture.

In summary, then, the Adjustment Act is largely *permissive*, though mandatory in certain details; relief of the national emergency by *increasing agricultural purchasing power* is given as the objective, and attainment and maintenance of "*parity prices*" for farm products are set up as intermediate goals; emphasis is laid on *reduction or adjustment of production* as the principal means, with *marketing agreements* and *licensing powers* as auxiliary resources; *contracts with producers* to reduce their acreage or production are contemplated, and *rental or benefit payments* as compensation to contracting farmers; and *taxes*, chiefly on processing of basic farm products, are authorized to pro-

vide funds for benefit payments in cases where such plans are applied to such products.³²

THE AAA AND FORMULATION OF THE WHEAT PROGRAM

Section 10(a) of the act makes only incidental reference to "the Agricultural Adjustment Administration, which the Secretary shall establish in the Department of Agriculture for the administration of the functions vested in him by this title." The Secretary of Agriculture is specifically authorized to appoint such officers and employees under the civil service, and such experts outside the civil service (at salaries not over \$10,000 a year), as he finds necessary. In fact, therefore, the AAA has been developed and reorganized as experience has dictated, without the usual limiting factor of specific budget appropriations; and it has been a major concern of Secretary Wallace himself.

George N. Peek was promptly named administrator, and for the first four months Charles J. Brand served as coadministrator. They were assisted by a general counsel, a comptroller, an administrative officer, and a consumers' counsel, each with his staff. Four divisions were organized, each headed by a director: production (Chester C. Davis), processing and marketing (General W. I. Westervelt), finance (Oscar Johnston), and information and publicity (A. D. Stedman). Within the first two divisions commodity sections were organized. The Wheat Section of the Production Division was one of the first to be set up, and was logically put in charge of M. L. Wilson. After August 10, when

³² Section 10(f) of the act makes it applicable to the continental United States, including Alaska, and to Hawaii and Puerto Rico, but not to other island possessions. Further details of the act, amendments thereto, and related legislation, in so far as they are pertinent to wheat, will be referred to in connection with our discussion of operations under the act.

he was appointed to head the Division of Subsistence Homesteads in the Department of the Interior, George E. Farrell became associate chief and later chief of the Wheat Section; but on July 1, 1934 Mr. Wilson came back as Assistant Secretary of Agriculture. When the Grain Section of the Processing and Marketing Division was set up in June 1933 it was put in charge of a grain man, Frank A. Theis of Kansas City,³³ with whom a former miller, Clement H. Cochran, was soon associated.

Chester C. Davis succeeded Mr. Peek as administrator on December 15, 1933, and early in 1934 the AAA was reorganized. The commodity sections (some of them now merged) were put under a single Commodities Division headed by an assistant administrator (Victor Christgau), and to this were assigned the Field Investigation Section and the Contract Records Section. A new Program Planning Division was set up under another assistant administrator (H. R. Tolley), and to this the Replacement Crops Section was transferred. A third assistant administrator (A. D. Stedman) headed the Division of Information, to which the Consumers' Counsel's office (under Frederic C. Howe) was subordinated. Other shifts were made, and some sections were eliminated after the retransfer of jurisdiction over certain codes to the NRA and the formation of the Federal Alcohol Control Administration.³⁴

On February 5, 1935 a further reorganization of the AAA was announced by Administrator Davis. The Commodities Division was subdivided into six smaller divisions reporting directly to the Administrator's office. George E. Farrell heads the new division covering

³³ Late in 1934 Mr. Theis was succeeded by A. J. Weaver.

³⁴ *Agricultural Adjustment*, pp. 13-16.

wheat, rye, flax, and the marketing of grain. The Legal Division was consolidated with the offices of the Solicitor of the Department, and the Comptroller's Office was put under the Finance Division. An operating council was set up to include the Secretary, the Administrator, the Solicitor, the heads of the six new commodities divisions and of the Finance, Planning, and Information Divisions, and the Consumers' Counsel.³⁵

Before the AAA was set up, much progress had been made toward formulating a wheat program. M. L. Wilson, whose prime responsibility this became, had long devoted his energies to this object while seeking to evolve legislation under which it could be applied. Secretary Wallace had been in close touch and sympathy with this work, not only after his appointment but long before. Mordecai Ezekiel, whom the Secretary appointed as his economic adviser, had worked closely with Wilson for over a year and with the farm organizations on the bills. In the weeks preceding the passage of the act, a small group had been intensively working on details of a wheat program. These included Wilson, Ezekiel, and two of the early appointees in the Wheat Section—A. J. Weaver from the Federal Farm Board staff and C. C. Conser from Montana State College.

Farm organization leaders had worked on the farm bill throughout the period of its consideration in Congress. Soon after the act was signed, a group of these leaders met in Washington with specific reference to a wheat program; and on May 18, 1933, after extended

³⁵ *AAA Press Release No. 1535-35*. Subsequently it was announced that Calvin B. Hoover would replace Frederic C. Howe as Consumers' Counsel.

discussion, they drew up a memorandum to the Secretary and Administrator summarizing their conclusions and recommendations. This was presented and discussed at an "informal public conference of wheat growers, handlers, and processors" held by the AAA on May 26, at which various organizations were invited to express their views "for the guidance of the Administration, in formulating its wheat policy."³⁶ The farm leaders pressed for the prompt application of the allotment plan to wheat, with early distribution of benefit payments. Spokesmen representing grain dealers and milling interests generally had come to accept this as inevitable, in spite of their earlier criticisms of it. At this conference they refrained from direct attacks, in some degree indorsed the plan, and beyond this limited themselves to cautions on particular points and pledges of co-operation in what should be undertaken.³⁷ Under these circumstances "wheat adjustment" naturally became the center of the wheat program that was evolved in the spring, summer, and autumn of 1933.

This evolution took place under important influence from developments in the domestic and international situation, some of which were already under way. Of outstanding and concomitant importance were the deterioration of prospects for the United States wheat crop of 1933; the departure from the gold standard and subsequent commitments by the Administration to a policy of raising the general level of commodity

³⁶ See official minutes of this conference, cited in note 1, p. 28.

³⁷ See Chap. XII. The spokesman for the Farmers National Grain Dealers Association opposed any wheat program. Henry Stude, representing the baking industry, pledged its co-operation in whatever the group would agree upon.

prices; and bullish speculation in wheat and other commodities engendered by these events.

Later developments more than bore out early forecasts of the United States crop, though final official estimates for both winter and spring wheat were a little higher than those of May 1 and July 1 respectively. Now estimated at 529 million bushels, the 1933 crop was the smallest since 1894 and well below ordinary domestic requirements for seed, food, and feed. Only in the Pacific Northwest was there a serious surplus problem. Under the circumstances, tentative plans for cutting production in 1933 were quietly shelved, the maximum acreage reduction to be asked for 1934 and 1935 was set as low as 20 per cent, and export promotion measures were confined to the North Pacific region. Despite the huge domestic carry-over, the short crop of 1933 would have caused a material advance in wheat prices in this country. It was reinforced by developing prospects, later proved correct, for a small crop in Canada. Eventually these influences were offset in considerable degree by bumper crops in Europe, but this in turn greatly facilitated reaching the international wheat agreement, signed late in August, under which the principal exporting countries agreed to limit their exports and reduce their wheat production for 1934.

To the stimulus to rising wheat prices given by maturing prospects for small crops in North America were added the Administration's action in abandoning the gold standard (effectually on April 19), repeated assurances from the White House that the Administration was determined to raise the general level of prices, political pressure for currency inflation, and the inflationary powers granted to the President under the Thomas amendment to the farm bill. Moreover, with

the reopening of the banks in mid-March and the radiation of a confident spirit from the White House, popular and business sentiment changed from gloomy despair to excited hope. From a low point in March, industrial activity rose by leaps and bounds to a peak in July. Speculation in wheat, cotton, and other commodities developed apace, and stocking up by mills and consumers contributed to business activity, speculation, and price advances.

One result was to limit the rates of processing taxes to much lower figures than had been contemplated in the winter of 1932-33, and thereby to restrict funds available for rental and benefit payments. Another was to pave the way for a collapse of the speculative boom, which occurred soon after the middle of July, followed by a pronounced business recession. The severe break in the grain markets precipitated regulation of the grain exchanges, which led in turn to the adoption of a code under the influence of this experience.

ELEMENTS OF THE WHEAT PROGRAM

The outstanding element of the wheat program was the application of what was called the wheat adjustment plan. This was officially announced in broad outline on June 16, 1933, in a statement approved by the President,³⁸ which made public the following major decisions:

(a) Allotment benefits would be paid to co-operating wheat producers in 1933, 1934, and 1935.

(b) To qualify for such benefits a grower had to agree to reduce his wheat acreage for 1934 and 1935

³⁸ See *Handbook of Organization and Instructions (W-15)*, AAA, Wheat Section, issued August 1933, pp. 1-3. Also included in the "wheat primer," *A Balanced Harvest (W-6)*, prepared for circulation to wheat growers.

by not more than 20 per cent of his average acreage in a three-year base period, and to sow enough acres to yield, at an average rate, at least the number of bushels in his allotment.

(c) Such allotments would be proportionate to the individual grower's share in the total amount of wheat "domestically consumed."

(d) Co-operating wheat producers should organize into county wheat production control associations, with directorates of their own choosing, expenses of local operation to be deducted pro rata from benefit payments made within each county.

(e) Two-thirds of the first year's allotment benefits would be paid "about September 15, provided the plan gets under way and is carried through as scheduled"; and the balance on evidence of fulfillment of contract as to acreage planted for the 1934 harvest. Growers failing to comply were to forfeit rights to further payments in 1934 and 1935.

(f) A processing tax was to be proclaimed beginning with the 1933 marketing year.

This was the wheat adjustment plan proper. On June 20, formal proclamation was made of the intention to make benefit payments in the marketing year 1933-34; provisional data on wheat acreage and production by states were given out; and four regional conferences for discussion of the plan were called. On June 26, following a conference with wheat processors on June 19, an executive order was issued proclaiming a processing tax on wheat, effective July 9, initially at the rate of 30 cents a bushel. State and county allotment totals, and rates of benefit payment in 1933-34, were announced on July 24. On August 28 the Secretary proclaimed that 15 per cent reduction from base period seeded

acreage would be required of contracting farmers for the 1934 crop. In the course of the summer and autumn other details of the plan were worked out and announced, and the educational and sign-up campaigns carried through as described in Chapter III.

Three supplementary elements of the wheat program were briefly mentioned in the first official statement of June 16: participation in an international wheat agreement; facilitation of exports of wheat; and domestic disposal of surplus wheat for relief. Grain exchange regulation and certain codes soon became a fourth.³⁹

1. Acting on a suggestion made by the Argentine Minister of Agriculture in the fall of 1932, an international commission of experts put on the agenda of the World Monetary and Economic Conference the subject of an international agreement for coping with the world wheat crisis. In May 1933 representatives of the four chief wheat exporting countries held preliminary conferences first at Geneva and then in London. Sessions continued in close conjunction with the Economic Conference, with heads of several national delegations taking a leading part. Sessions were resumed on August 21 with representatives of other exporting and importing countries. A few days later representatives of 22 nations reached an agreement designed to raise wheat prices in the near future and later, by temporarily restricting exports and production and working toward expansion of imports and consumption. In conjunction with commitments by other exporting and importing countries, the United States agreed to limit net exports in 1933-34 to 47 million bushels and apparently to reduce acreage for the crop of 1934 by 15

³⁹ In later discussing operations under these phases of the program, we shall touch upon various other proposals which were not adopted.

per cent from the average for 1931-33. Though not legally within the sphere of the AAA, this constituted a significant element in its wheat program.

2. With a view to promoting wheat and flour exports, the Reconstruction Finance Corporation had, on July 10, 1933, authorized the Chinese government to borrow up to 10 million dollars to purchase wheat and flour in this country; but for several months no orders were placed. By proclamation of July 24 the Secretary of Agriculture stated that 2 cents per bushel out of the 30-cent processing tax would be reserved for use in facilitating exports if opportunity should arise. Urgent demands for such action came from the Pacific Northwest, where a huge regional carry-over had been followed by a good crop. After hearings in Portland in August and September, a marketing agreement was signed, effective October 11, which provided for a system under which losses on export sales of wheat and flour might be borne by AAA funds.

3. No general arrangements for purchases of wheat for relief use had been made when, in mid-October 1933, the wheat market had a severe sinking spell. Then, for a time, what were essentially market stabilization purchases were made through the Farm Credit Administration and the Farmers National Grain Corporation. The wheat thus bought, amounting to some 16 million bushels in all, was disposed of by the Federal Surplus Relief Corporation in relief channels for feed and food.

4. A fourth auxiliary element in the wheat program was suddenly introduced late in July 1933. The wheat market had broken sharply on July 19-20 following the extraordinary speculative advance. The exchanges closed on July 21-22, and reopened on July 24 with

temporary restrictions on price fluctuations. After conference of exchange representatives with Administrator Peek and Secretary Wallace on July 24, these regulations were made more stringent. In the first half of August trading was permitted only at or above minimum closing prices on July 31. The exchanges continued to operate under regulations of their own making but acceptable to Department of Agriculture officials until, in March 1934, a code for the grain exchanges was approved to be effective March 31. Other codes affecting concerns processing or distributing wheat and wheat products were developed within the jurisdiction of the AAA. Leaders in the wheat program, however, never regarded the codes as an integral part of it.

The four secondary elements in the wheat program are discussed in Chapters VII to X, in an order the reverse of that here used. Operations under the wheat adjustment plan are considered in Chapters III to VI. Before getting into these details, however, it is pertinent to distinguish the underlying, the intermediate, and the immediate objectives of the wheat program,⁴⁰ and briefly to indicate how the several elements of the program were related to these objectives.

The underlying objective was to raise the income of wheat producers to a satisfactory level and to keep it there, or as near to this as possible. The act seemingly implied that this objective would be attained if the intermediate objectives were achieved.

The intermediate objectives of the wheat program, under explicit terms of the act as interpreted by the

⁴⁰ At the outset, no such sharp formulation was made, and even now those concerned with the AAA wheat program might not all agree precisely with the outline we give.

AAA, were: (1) to raise wheat prices toward "parity" levels; (2) to secure reductions in wheat production that would seem appropriate to this end; and (3) in so far as wheat prices might fall short of parity, to supplement the growers' income from the sale of wheat by payments calculated to yield the equivalent of "parity prices" on roughly the amount of wheat used domestically for food.

The direct or immediate objectives of the program, as it evolved, included five distinguishable elements:

1. To distribute to wheat growers substantial cash payments during 1933-34, and probably 1934-35 as well, in order (a) to relieve their financial distress; (b) to increase their available income for purchase of goods and payments of interest and taxes; and thereby (c) to promote early general economic recovery.

2. To raise wheat prices to growers for 1933-34 to some extent, through (a) early adoption and operation of an international wheat agreement; (b) the market influence of a program for restraint of wheat acreage seeded for 1934 and possibly 1935; (c) subsidizing exports from the Pacific Northwest, so as to raise wheat prices there and check wheat and flour shipments into Eastern markets, in competition with Eastern and Southwestern wheat and milling interests; and (d) checking severe price declines through surplus relief purchases.

3. To raise or support wheat prices in 1934-35, through (a) reduction of United States wheat acreage for 1934; (b) reduction of foreign wheat acreage and production under the international agreement; and (c) expansion of foreign imports and consumption under that agreement.

4. To improve the marketing conditions for wheat through (a) the measures mentioned under the two pre-

ceding heads; (b) temporary regulation of the grain exchanges; and (c) codes for grain exchanges and for country and terminal elevators.

5. To develop a machinery for "control" of wheat production in future in this country and abroad.

Production control, processing taxes, the international wheat agreement, contracts with individual growers, central and county organizations, the North Pacific export agreement, and codes were viewed simply as means designed to facilitate reaching these direct objectives. The wheat adjustment program with benefit payments was designed to contribute heavily toward attaining the first objective, moderately toward the second, materially toward the third, and substantially toward the fifth.

Farm organization leaders, and wheat growers themselves, were consciously most interested in the first two objectives, particularly the first; only secondarily interested in the third and fourth; and little interested in the fifth. Only the more far-sighted students of the wheat problem evinced much interest in the last; but after the middle of 1933 M. L. Wilson, Secretary Wallace, and later Chester C. Davis, H. R. Tolley, and others repeatedly stressed its importance.

CHAPTER III
DOMESTIC WHEAT ADJUSTMENT
EFFORTS, 1933

The word "adjustment," in the phrase "wheat adjustment program," contained two distinct meanings—production adjustment and income adjustment. In the main, it was income adjustment that dominated the thinking of those who evolved the plan and program. Restrictions on wheat acreage were expected to keep wheat production below what it otherwise would be, and particularly to prevent increased income of wheat growers from stimulating expansion of production and thus defeating the primary objective of the program. Whatever production adjustments might contribute toward raising farm prices was considered so much to the good; but it was hoped that wheat would continue to flow into export, and expected that ordinarily wheat in the United States would sell in line with world market prices. Benefit or adjusted payments, which we shall consider in Chapter V, were relied upon to supplement farm prices of wheat in such a way that "parity" in a special sense might be attained and maintained. In this chapter and the next we shall consider how the production adjustment program was worked out and applied.

The wheat adjustment program proper, as finally evolved, contemplated three years of benefit payments and processing taxes, and two years of acreage restriction, under contracts by individual farmers with the Secretary of Agriculture. For 1933-34, eligible growers were eventually offered a "benefit" or "adjustment" payment of from 28 to 30 cents per bushel on an allotment

representing 54 per cent of the average production on their wheat land in 1928-32; this in return for restricting their acreage sown to wheat to 85 per cent (but not less than 54 per cent) of the average sown on their land for the crops of 1930-32. They were offered the prospect of further payments in 1934-35 and 1935-36, and took the risk of being required to restrict their acreage sown for 1935 by not more than 20 per cent of the average for 1930-32.

Prompt distribution of benefit payments was requested on behalf of wheat growers and desired by the Administration to relieve acute agricultural distress, to improve the financial position of farm creditors (including local government units), and to contribute to business recovery. Item 11 of the initial statement of the wheat program began:

In general, the plan is intended to obtain for the wheat growers, who will co-operate with the Agricultural Adjustment Administration by agreeing to adjust production, a sum equivalent to the parity price on that portion of their production which is required for domestic consumption. This sum will be made up of two parts: (a) The prevailing market price at which the grower sells his wheat, and (b) the payment made under the act. The income of the grower will be independent of the prevailing open-market price or of the world price at which the surplus sells. This is exactly what farmers have been asking for.

It was in this limited sense that "parity prices" for wheat were taken as an immediate objective of the program and that potential co-operators were told: "A powerful feature of the wheat adjustment program is that it assures a parity price."¹

Back of this, however, lay the objective of raising ac-

¹ *A Balanced Harvest (W-5)*, AAA, p. 7. Even in this sense, this was an overstatement, as was the next to last sentence in the preceding quotation. See pp. 157-58, 414.

tual farm prices of wheat to "parity" levels. Said the *Handbook of Organization and Instructions* (page 11):

This wheat adjustment plan starts with the assumption that wheat farmers have not received their fair share of the national income during the past several years. . . . In the belief that farmers have a right to such a fair return Congress has designated the 1909-14 relative price of wheat as parity for that commodity. The Agricultural Adjustment Administration is charged with the responsibility of bringing back this pre-war relationship between farm prices and the cost of things farmers buy as it relates to wheat. The wheat adjustment plan seeks to bring about and maintain parity prices for wheat.

Contraction of sown acreage was sought as a means of reducing wheat production in order thereby to raise wheat prices. It was decided not to attempt to eliminate all the carry-over surplus at one move and to restrict our production thenceforth to domestic requirements plus a margin for safety. "A long-time program of wheat production adjustment" was therefore regarded as necessary, and the initial program represented only an experimental beginning.

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

expected to help toward raising world wheat prices, but corresponding prices in the United States were expected to come into adjustment with world prices so that exports would flow out naturally. The scheme itself therefore carried no *assurance* that it would even reduce our surplus wheat stocks, much less raise our wheat *prices* to "parity" or to profitable levels.

The task of applying the adjustment program called for important central decisions; regional conferences with agricultural leaders; a far-flung educational campaign; the formation of county associations of wheat growers who were disposed to co-operate in the program, and of county and community committees for local administration; getting individual farmers to sign applications for contracts; a series of adjustments to bring farm totals and official estimates of acreage and production into line; signature, checking, and approval of individual contracts; distribution of the first instalment of benefit payments; and, at a later stage, checking on compliance with contracts and payment of the second instalment. As was recognized in advance, and as the event proved, the adjustment program was truly "a gigantic undertaking."

ALLOTMENTS AND ACREAGE REQUIREMENTS

The general principles as to allotments and benefit payments were set forth in the first formal statement of the wheat program, June 16, 1933.² On June 20 the intention to make benefit payments in 1933-34 to growers who would agree to reduce acreage for 1934 and 1935 was formally proclaimed. On July 24 it was

² *A.A.A. Press Release No. 1346-33*; also reprinted in the *Handbook of Organization and Instructions (W-15)* and *A Balanced Harvest (W-5)*. The grounds for the specific decisions reached are discussed in Chap V.

announced that the allotment ratio³ would be 54 per cent. It seemed to follow that each individual allotment would be 54 per cent of the average production on the contracting farmer's land in the base period 1928-32. The allotment "appertains to the farm . . . and not to the individual producer," in order to tie in with the contractual obligation regarding acreage.

It was early recognized, however, that many farmers could not submit evidence of wheat production on their farms for all the years 1928-32. Instead, under what was called the "standard plan," applicants for contracts were asked to report such production in the three years 1930-32. This average for each, after necessary adjustments and official approval, was then multiplied by an adjustment factor computed from the three- and five-year averages for the county, to arrive at a figure for base production for calculation of the individual allotment. County data on acreage, yield, and production in the two base periods, adjustment factors, and allotments were released between July 24 and August 1, 1933.⁴ County acreage and production data served as checks on totals drawn from applications for contracts, but only in this sense did individual allotments represent subdivisions of county and state allotments. Subsequently, revisions of basic estimates were made in numbers of counties, and these required corresponding changes in adjustment factors and allotments.

Three exceptions to this standard plan were authorized to be employed by special permission. (1) To meet

³ We use this term in preference to the clumsier official one—"domestic taxable consumption percentage."

⁴ *Wheat Statistics and Allotments, County Adjustment Factors, County Wheat Statistics*, AAA (unnumbered mimeographed releases).

conditions where wheat is alternated with summer fallow (as commonly in the Pacific Northwest), a four-year average might be used in computing the individual's acreage and production; the production in such cases was adjusted to the five-year county average. (2) The individual's five-year average might be used without adjustment. (3) Most important, so numerous were requests from the Great Plains states for a system under which allotments would be based on the individual's average wheat acreage times the county average yield, that eventually a system for using a modified county average was authorized and extensively employed.⁵

If reliable individual data for production in each of the base years 1928-32 had been available, their use would have been preferred. Still fairer, had it been practicable, would have been the use of average sown acreage in some such period as 1928-32 times average individual yields over a ten-year period. Abandonment of fall-sown acreage was very heavy in the Middle West in 1928 and in Washington in 1930, and generally fairly heavy in the main wheat states east of the Rockies in 1932; and spring wheat abandonment was exceptionally large in 1931. Because of peculiarities of these three years, the use of county adjustment factors in arriving at individual allotments under the standard plan was generally fairer than if allotments had been based on individual production data for 1930-32 only. The simple fact emerged, however, that no uniform plan could be

⁵ After deducting from county production totals the production of those using their individual three-, four-, or five-year averages, an average yield for others was computed by dividing this balance by the sum of the base acreage of non-applicants and farmers applying for this exception. This average yield, if it did not exceed the five-year average yield for the county, was used in deriving the base period production of farmers choosing exception 3.

wholly fair to all concerned. The alternatives, drafted to meet urgent requests from growers who felt that the standard plan would give them too low allotments, added greatly to the administrative burden without ensuring wholly just distribution of allotments.

In practice, therefore, it is by no means strictly true that individual allotments represent 54 per cent of the wheat production on those particular farms in the base period 1928-32. Some were higher, some lower. Not only were reported individual figures subjected to more or less adjustment; the application of any plan but that of the individual five-year base involved more or less departure from the principle.⁶

Wheat allotments were initially assigned to 2,245 counties in 42 wheat-producing states, and payments were eventually made in about 1,760 counties in 37 states. Wheat acreage was negligible in 1930-32 in New Hampshire, Massachusetts, Rhode Island, Connecticut, Florida, and Louisiana, and no applications for contracts were received from Maine, Vermont, South Carolina, Alabama, and Mississippi. In general, the wheat program was of negligible concern in New England and in the Southeast, south of North Carolina and Tennessee.⁷

Allotments were to serve primarily as the basis for calculating individual benefit payments. The processing tax rate was fixed at 30 cents a bushel by proclamation of June 26. On July 24 it was announced that the first payment to contracting growers would be 20 cents per bushel of allotment, to be made as soon as contracts

⁶ See Sherman Johnson, *Wheat under the Agricultural Adjustment Act: Developments up to June 1934*, pp. 15-19. Much of the material in this chapter and the next is somewhat more fully discussed by Johnson.

⁷ See Tables III-VI, pp. 448-51.

were approved, and that the second payment, to be made after demonstration of "fulfilment of the contract in his plantings for the harvest of 1934," would be "8 to 10 cents less a pro rata share of local costs of administration."⁸

The initial statement of the wheat adjustment plan provided that in order to receive benefit payments, "the grower must co-operate as follows":

(a) Agree, if required, to reduce his wheat acreage for 1934 and 1935 by not more than 20 per cent of his average acreage during the three-year base period, and

(b) Sow to wheat in a workmanlike manner the number of acres that, at his average yield for the three-year base period, should produce the number of bushels allotted to him and on which his payments are based.

It was soon made clear that "wheat acreage" and "average acreage" meant seeded, not harvested acreage.

Ostensibly the AAA thus set limits to its ability to restrict wheat production,⁹ but it held in reserve the possibilities of taking measures to eliminate growing wheat from harvest for grain, and special steps to expand exports or divert wheat to feed use. The decisive reason for setting the maximum required reduction as low as 20 per cent was to strengthen the hands of American negotiators at the international wheat conference. It was feared that if a more drastic cut were called for, or if no limit or a higher one were set, other nations might say: "We do not need to reduce acreage; let the United States do it all." There was also danger that absence of a limit, or stipulation of a higher one, might put obstacles in the way of a heavy sign-up or perhaps

⁸ *USDA Press Release No. 137-34.*

⁹ See p. 62.

lend weight to opposition from the grain trade and consumers.

In discussions of the program the figure of 20 per cent was commonly used until late in August, and wheat growers expressed no significant objection to it. During this interval the Secretary of Agriculture deferred announcement of the specific figure for 1934, saying that it would depend upon whether or not international agreement was reached; on August 15 he said that if this effort failed, the percentage would be put lower than the United States would be willing to agree to in concert with other exporting countries.¹⁰ For a time, indeed, before wheat prices crashed after their extreme speculative advance in July, it was uncertain whether any reduction at all would be required for 1934; but on July 18, just before the break occurred, Secretary Wallace issued a statement clearly indicating that acreage restrictions would be applied to the crop of 1934.¹¹ Finally on August 28, three days after the main agreement had been signed at London but two days before Argentina's signature had been formally affixed to the supplementary agreement, the Secretary announced that 15 per cent reduction from the average seeded acreage for 1930-32 would be required of contract signers.¹²

This figure represented no nice calculation as to what would be our optimum acreage or production for 1934. It was largely determined by the use of a 15 per cent figure in the London agreements, though the base periods were not identical.¹³ For convenience in calculation a round figure was obviously desirable. In view of the

¹⁰ USDA Press Release No. 337-34. See also Chap. X of this book.

¹¹ USDA Press Release No. 96-34.

¹² AAA Press Release No. 440-34.

¹³ See pp. 334-36.

London commitment a lower figure could hardly be chosen. A higher figure would have required explanations reflecting lack of confidence in a full sign-up; it might also have deterred some growers from signing and have been open to attack by the grain trade or the general public. Yet even with the optimistic official expectations of the sign-up that were then held, it could have been readily computed that 15 per cent reduction of *sown acreage, by those who chose to sign contracts, from their average for 1930-32, must fall short of ensuring a 1934 crop of a size conforming to the London commitment.*¹⁴

Not until months later did all co-operating wheat growers know their individual contract limits on acreage seeded. After applications for contracts were in, a protracted period of adjustments of acreage data was found necessary in many counties. Though some county totals were eventually raised, *individual adjustments were all downward.*¹⁵ Consequently many growers planted their winter wheat before they were officially advised of the maximum acreage their contracts entitled them to sow for 1934.

A special reason accounted for the provision requiring each co-operating farmer to seed no fewer acres than would, at his average yield in 1930-32, produce the amount of his allotment. Since reduction of wheat output was a major objective of the program, it might have seemed reasonable to set up no obstacles to prevent in-

¹⁴ No one can state authoritatively what figure would have been selected if the London wheat conference had broken up without agreement, in June or in August. It might have been as high as 15 per cent, as low as 10 per cent, or even lower if the break-up had occurred in June. Had no international agreement ever been in contemplation, the figure might have been set well above 15 per cent.

¹⁵ See note 38, p. 87.

dividual growers from reducing as much beyond 15 per cent as they might choose, or even from seeding no wheat at all. It was felt, however, that public sentiment would condemn as a bonus, or dole, payment of benefits to growers who set out to produce less than their "share" of domestic consumption. The contract even provided (Section 17) that if a signer had planted less than 54 per cent of his approved base acreage for 1933 ("unless the failure to seed such an acreage is clearly shown to have been due to the producer's regular rotation practice"), his first year's benefit payment would be adjusted downward; thus if he had sowed no wheat he was entitled to no payment, and if 40 per cent of his approved base acreage, to only 40/54 of his full benefit payment. The same section made it a condition of the contract that each signer must sow for 1934 at least 54 per cent of his approved base acreage; as we shall see, this requirement was later substantially moderated.

ORGANIZATION FOR THE WHEAT PROGRAM

The central organization, comprising the Wheat Section, the Contract Records Section, and the auditing and disbursing organizations of the AAA, had to be built from the ground up. Contributions of men, information, and experience were drawn from the Bureau of Agricultural Economics, state agricultural colleges, and elsewhere. Vital parts, however, were played by two established agencies: the Division of Crop and Livestock Estimates of the Bureau of Agricultural Economics—a mature organization with state statisticians and valuable data and experience, which nevertheless were not wholly adequate for the new task; and the Extension Service of the Department of Agriculture, together with the state extension services and their 2,200

county agents and 190 "emergency agents," who "constituted the 'shock troops' out on the firing line. . . ." ¹⁶

In applying the program a large number of detailed decisions had to be reached. Consideration had to be given to a great variety of special problems arising out of very diverse conditions in different sections; forms, instructions, regulations, and administrative rulings had to be drawn up and released;¹⁷ and legal and accounting requirements of the government had to be met. In more or less important details the wheat adjustment procedure was adapted and modified, especially during the earlier phases. This flexibility had decided advantages in making it possible to meet situations that had not been foreseen and to reconcile principles that sometimes came into conflict. On the other hand, it entailed delays in preparation of forms and regulations, and made fresh difficulties when early rulings were changed.

A happy mean was sought between dictatorial centralization and unwieldy decentralization. Perhaps inevitably, all final decisions rested with the AAA. At almost every step, however, the Wheat Section asked or welcomed the views of farmers and extension workers. This was the policy and practice not only of M. L. Wil-

¹⁶ *Agricultural Adjustment*, AAA, p. 17. The services of the Extension Service were gratefully acknowledged by Administrator Davis in his address before the Land Grant College Association, Nov. 19, 1934. By December 1933 there were 2,566 county and emergency agents.

¹⁷ "Wheat regulations," promulgated by the Secretary of Agriculture with "the force and effect of law," and deemed part of the terms of the wheat allotment contract, were issued to supplement and govern applications, contracts, and articles of association. *Administration of the Wheat Adjustment Plan*, Ser. 2 (W-25), was approved on Sept. 18, 1933. "Administrative rulings," issued from time to time by the Wheat Section, represented interpretations of one or more of these basic documents, either defining their stipulations more closely or authorizing exceptions to be used under special conditions. Up to the end of 1934, 40 such rulings had been issued. These are given in W-41 (revised), issued Feb. 18, 1935.

son, its first chief, but of George E. Farrell, an experienced extension man who became associate chief on August 25, 1933 and chief on January 20, 1934.

On July 25 a National Wheat Advisory Committee was appointed to consist of Cal A. Ward, Salina, Kansas; Walter J. Maddox, Bismarck, North Dakota; A. R. Shumway, Milton, Oregon; and William H. Settle, Indianapolis, Indiana.¹⁸ These men were wheat farmers and farm organization leaders, each from a different major wheat region. The brief on the wheat program submitted on behalf of organized agriculture in May 1933¹⁹ had recommended the appointment of such a committee to consist of "five members, two to be nominated by organized agricultural groups"; and also the setting up in each wheat state of a council of five members—two to be named by organized wheat producers, one by the state extension service, one by organized consumers, and one by the Agricultural Adjustment Administrator. The latter recommendation was not acted upon.

The AAA has never appointed state administrators; an early amendment to the act (June 16, 1933) provided that these should be appointed subject to confirmation by the Senate, and so under political influence. Nor has it yet set up any regional organization, as was contemplated for a time and is again under discussion. In the main, the Wheat Section has worked mainly through state extension directors and its own temporary state agents.²⁰ In the early months, a vast amount of correspondence about the program came to the De-

¹⁸ Since early in 1935, these have been called regional wheat advisers.

¹⁹ See Chap. II, pp. 50-51.

²⁰ See pp. 118 ff.

partment of Agriculture. Since those who might have answered the questions raised were overwhelmed with developing the program itself, there was great delay in answering. Inevitably, concentration of activities in Washington was such as to slow up the machinery in many particulars.

Spokesmen for the voluntary allotment plan had laid great stress on the part to be played by local organizations of participating growers. The act barely mentioned this,²¹ but the AAA has consistently treated it as a cardinal feature of its adjustment operations. The wheat program is officially characterized as "conducted co-operatively by the Agricultural Adjustment Administration of the United States Department of Agriculture, the Co-operative Extension Service of the Department, and the state agricultural colleges in the wheat-producing states, and the county and district wheat production control associations."²² Eventually 1,347 such associations of participating growers were set up covering 1,758 counties.²³ Initially it was suggested "that in counties producing less than 100,000 bushels, possibly 200,000 bushels, of wheat annually, wheat farmers may not feel justified in organizing county . . . as-

²¹ Section 10(b) reads: "The Secretary of Agriculture is authorized to establish, for the more effective administration of the functions vested in him by this title, state and local committees, or associations of producers, and to permit co-operative associations of producers, when in his judgment they are qualified to do so, to act as agents of their members and patrons in connection with the distribution of rental or benefit payments." The only steps yet taken under this provision are of the kind discussed in this section. In Kansas, at least, the Governor appointed a state committee, later retracting the step when this plan was abandoned.

²² Headnote of *Wheat Production Adjustment*, a mimeographed bulletin issued from time to time by the Wheat Section (the Extension Service issued the first eleven numbers).

²³ "The Facts about Wheat," *Wheat Circular No. 1*, AAA, pp. 14-15 (with map).

sociations."²⁴ In some states (notably Texas, Indiana, and Maryland) county associations were set up regardless of the number of applicants for contracts; in others district associations covering two or more counties were organized.

Until these associations could be set up, the county agent or emergency assistant generally (in important wheat counties except in South Dakota) had the aid and counsel of a temporary campaign committee "representative of the entire county and its various grower groups," sometimes with representation of banking, elevator, and other business interests. This he was instructed to appoint in co-operation with representatives of farm organizations and the county government.²⁵ An early task of the agent and this committee was to district the county into townships or other units of suitable size for local educational and sign-up meetings. These units were known as "communities." The applicants for contracts were invited to meet by communities as provisional members of a county control association, in order to elect a community committee of three including a chairman who was to serve as a member of the board of directors of the county association.

This board of directors was required at its organization meeting to adopt articles of association prescribed by the Secretary of Agriculture,²⁶ and to elect a president, vice-president, secretary, treasurer, and an allotment committee consisting of the president and two

²⁴ Initial statement of wheat plan, in *Handbook* (W-15), p. 2. On p. v of the same is a map showing counties with production averaging 200,000 bushels or more in 1928-32.

²⁵ In many cases such temporary committeemen were subsequently continued in office by election.

²⁶ Issued as W-7, Aug. 11, 1933, and reprinted in *Handbook* (W-15), pp. 62-65.

other members with the vice-president as an alternate. The county agent might be and frequently was elected secretary; save in this case, all officers except the treasurer had to be elected from the board itself. Associations were designed to function solely in connection with the wheat program and were warned not to usurp functions of existing farm or co-operative organizations.²⁷

Nominally, the board of directors of the association bore the responsibility for local administration of the wheat program with respect to applications, allotments, adjustments, contract signing, distribution of benefit checks, and compliance. The board's functions were performed mainly by the county allotment committee, with the essential aid of the county agent or even under his leadership; but the board itself heard appeals from decisions (on allotments and other matters) of the allotment committee. In some cases the board as such practically failed to function.

Provision was made for allowing association officials and committeemen subsistence and expenses within limits set by the Secretary of Agriculture; and the directors might also, with the approval of the Secretary, vote compensation to members of allotment and community committees, the secretary (if other than the county agent), and field supervisors. Common rates were \$3.50 and \$4.00 per day. Budgets covering estimated association expenses up to June 30, 1934 had to be submitted to the Secretary of Agriculture on or before the filing of contracts; and no claims for expenses were approved until, by the acceptance of contracts, the legal existence of the association was recognized. This gave

²⁷ *Handbook* (W-15), p. 37. Behind this warning lay the threat that an association should cease to exist if and when the Secretary of Agriculture should withdraw his approval. No such action has yet been taken.

material incentives to push the procedure as fast as possible, and may have prevented a few disgruntled association leaders from throwing up their jobs. The prolonged delays in paying subsistence and expense claims caused hardships to many active participants in the local administration; but when the cash finally came it assuaged bitterness, and the income and prestige went far to compensate for the burden of responsibilities and work entailed. In many counties, committee members did work that could have been done better and at less expense by clerical assistants.

The men elected as officers and committeemen were generally above the average in training and ability, though many were inexperienced or otherwise poorly qualified. They were usually neither the largest nor the smallest wheat growers. They included both owner-operators and tenants — the latter not in proportion to their numbers. Usually they had been previously active in farmer organizations, co-operatives, school work, or other community activities, but a good deal of latent leadership was uncovered by the program. Stress was rightly laid on reputation for honesty and ability to do the work. Partisan influence played much less part in the selection than many had feared, and as a rule the work of the organization was free from the influence of local politics, farm organization affiliations, and other special factors of this nature.

After wheat contracts were signed, association membership was restricted to contract signers. These members met by communities in June or July 1934 to elect community committees for the second year of the program; following these elections, the boards of directors met to elect officers and allotment committees. The tendency was to re-elect those who had served during the

first year, though a few of the abler men felt indisposed to carry the burden longer and some of the less competent were displaced; retiring directors were often replaced by men who had shown up well as community committeemen.

On the whole, the local organization plan has worked well. Spokesmen for the AAA are disposed to play up the contributions of farmers in carrying through the program, but there is much sincerity behind such a statement as the following:²⁸ "Perhaps the greatest accomplishment of the past year has been the demonstration that farmers can and will work together in a big undertaking of this kind."

As experience has accumulated, improvements in system have been made. In many states a uniform book-keeping system has been set up for county associations; an assistant agent has been assigned to audit accounts in each county, to bring records up to date, and to train secretaries, stenographers, and allotment committees in handling accounts; and most accounts are required to pass through the state office before being submitted to Washington.

THE EDUCATIONAL CAMPAIGN

A central feature of the wheat adjustment program was that it should rest on the voluntary co-operation of individual growers.²⁹ In consequence, a heavy sign-up was a prime essential for success in production control. This depended not merely on the attractiveness of

²⁸ *Wheat Production Adjustment*, Oct. 8, 1934.

²⁹ Significant departures from this principle, and the one that growers should be otherwise left free to produce and sell as they choose, were made with the passage of the Bankhead and Kerr-Smith acts in the spring of 1934, under which penalty taxes were imposed on ginnings of cotton and sales of tobacco above assigned quotas. With wheat, however, the principle has thus far been adhered to.

the terms offered, but on how well the opportunity to join was brought home to every eligible farmer, and on the extent to which understanding and co-operation could be developed. From the outset, therefore, great stress was laid on plans for a far-reaching educational campaign to reach every wheat grower.

Preliminary to this campaign, four two-day regional conferences of agricultural college officials, extension workers, and farm leaders with representatives of the Wheat Section, the Division of Crop and Livestock Estimates, and the Extension Service were held.³⁰ These conferences gave state leaders opportunity to learn directly about the provisional program and to contribute ideas while its details were in process of formulation.

Following these, extension officials usually arranged for a state-wide conference of extension workers to plan the state program and give county agents background and training for their work. Some district conferences also were held. If the county employed a regular agricultural extension agent, he was given charge of the educational and sign-up campaign in that county, and sometimes in adjoining counties where no regular agent was employed; otherwise an "emergency agricultural assistant" was appointed at the expense of the AAA. Presentations to the rank and file of wheat growers were commonly made by these agents and/or men from the state college or extension service.³¹

It proved impracticable to get farmer meetings under

³⁰ Beginning June 26, 1933 at Kansas City, Mo., June 30 at Spokane, Wash., July 7 at Fargo, N. Dak., and July 10 at Columbus, Ohio.

³¹ Summary statistical data, to some extent incomplete, on assistance rendered the AAA in the wheat adjustment program to Nov. 30, 1933 are given in M. C. Wilson, "Statistical Results of Co-operative Extension Work, 1933," *Extension Service Circular 200*, August 1934.

way much before mid-August. Tentative mimeographed copies of the official *Handbook of Organization and Instructions* were sent out July 29-31, though the definitive handbook was not printed till August 25.³² Printed copies of the "wheat primer," *A Balanced Harvest*, and a work sheet, *Planned Production Means More for Your Wheat*, were released on August 10 for distribution to wheat growers. In the interim and subsequently, a stream of information and instructions for campaign workers was accompanied by a swelling tide of publicity material. The AAA and the Extension Service prepared mimeographed or printed leaflets explaining the plan, and also specimen forms, news releases, posters for advertising meetings, charts and film strips for use at meetings, and draft radio talks. State extension offices relayed this material and added much of their own. They prepared news articles and releases, preliminary or supplementary forms, and suggestions for circular letters to be sent out by county agents, and generally suggested programs of procedure for use of county agents. Metropolitan dailies, local newspapers, and farm journals carried publicity material, news items, and notices and reports of meetings. The radio was used extensively, not only in the states but also on nation-wide hook-ups. AAA officials spoke on National Farm and Home Hour programs and gave special evening broadcasts.

In the county agent's office a mailing list of all wheat growers in the county was prepared. Though procedures varied a good deal, ordinarily each grower was sent a wheat primer, one or more work sheets, an application for contract, a specimen copy of the wheat contract, and

³² Correspondence and negotiations led to the issuance, in mid-September, of codified *Supplemental Instructions to Community Committees and County Allotment Committees (W-24)*.

one or more circular letters explaining these and their use, together with notice of a community meeting. Sometimes such materials were given out at the meeting.

The local community meetings were the heart of the personal educational campaign, though in some states they were preceded by a state-wide and/or county-wide public meeting. The purpose was to inform wheat growers with regard to the world wheat situation, to get them to understand the "philosophy" or "economics" of wheat adjustment, to acquaint them with details of the program, and thus to give them a basis for deciding whether or not to "co-operate" and how to proceed if they chose to sign up. This was a large order for one meeting. Generally at least two or three were needed, but usually time permitted only one. In some cases, however, part of the presentation was cut short and the signing of applications began at the first meeting. In most cases, the sign-up was postponed until after the first meeting, and often community committeemen held one or more subsequent local meetings.

In many states and counties the educational campaign was successful in reaching practically all eligible growers, and in informing them of the opportunities offered by the program. The meetings were largely attended by farmers, who usually permitted no irrelevant interruptions. In sections where wheat is relatively unimportant, much less interest was aroused, but in many of these the coverage was fairly good. Speakers often made the point that a high sign-up was essential to the success of the program, and in many areas it was set forth that the response would test the willingness of farmers to co-operate with one another and with the government for their own benefit. But efforts to persuade or force reluctant farmers to sign were not common, except as

farmers themselves brought pressure on their neighbors.

The educational campaign, nevertheless, disappointed its leaders and the Wheat Section at one point. A prime objective had been to get farmers thoroughly to understand and accept the philosophy or economics underlying the plan.³³ As a rule, this was put first on the program at meetings, and conscientious efforts were made to make it clear. But the time was limited, and farmers were generally eager to get down to what the program offered and involved for them individually. Consequently, many extension workers believed that most farmers made their decisions without more than cursory attention to the larger concepts of agricultural adjustment and hence without fully grasping the picture of the world situation, the national "necessity" for curtailment of wheat output, and the economic soundness of the plan as its sponsors presented them. In the winter of 1933-34 plans for a second educational campaign were considered with special reference to this objective, but absorption in the corn-hog campaign and other factors prevented their realization.

THE SIGN-UP

After the educational meeting or meetings had been held, applications for a wheat contract were signed.³⁴

³³ Pp. 5-16 of the *Handbook* (W-15) were devoted to this subject. In other pages it was again touched upon, and a good deal of the literature distributed had to do with it. "The Secretary of Agriculture wants each American wheat producer to know this story of wheat in all its ramifications. He wants each wheat producer to understand the nature of the wheat problem and to know what can be done to solve it. . . . [He] is emphatic in his statement that producers must understand the causes of the wheat problem before they can solve their economic ills. . . ." *Handbook*, p. 38.

³⁴ Facsimiles of application and contract are given in the *Handbook* (W-15), pp. 52-61, and in *Agricultural Adjustment*, AAA, 1934, pp. 335-42.

These contained the legal description of the farm; the tenure, and the share basis if share rented; a statement of wheat acreage seeded and harvested, and of wheat production, in each year of the "individual farm base period"; and a statement of acreage in various crops, idle, or fallowed in 1933. The operator's signature, duly witnessed, was required; in case of tenant farms the landlord's signature was not essential at this stage. The application had to be filled out in triplicate—the original for the Wheat Section, one copy for the farmer, and one for the allotment committee. It had to be accompanied by two copies of a sketch map of the farm showing specified information, and, if possible, by evidence bearing on the crops of 1928-32—the operator's statement of disposal of these crops, threshermen's certificates, and/or certificates of purchase. On each application the community committee was required to certify, with specified exceptions, "that we are personally familiar with the farm covered by this application and that the statements in the application and in the above-listed documents . . . are correct to the best of our knowledge and belief." The county allotment committee eventually set down its findings as to the base period, the base acreage, the base production, the farm allotment, and the percentage shares of adjustment payments, and recommended "that the Secretary of Agriculture enter into a wheat allotment contract with the producer on the basis of such facts."

In considering his prospective gain or loss by signing up, each grower had a complex problem to decide. On the one hand, he could count on benefit payments for 1933-34 to an amount that he could approximately compute; and he could reasonably expect additional payments in each of the next two years though no one could

forecast their amounts. On the other hand, he had to agree to restrict his seeded acreage for 1934 by an amount which, after late in August, he thought he could figure; he would thus limit his output for 1934, but he could not well forecast how much less wheat he would have to sell or use. He could anticipate that wheat prices would be higher with a large sign-up than if the sign-up was small; but he could not forecast the prices he would get, or how his gross or net returns from sales would compare if he signed or stayed outside. He faced the probability of restriction of acreage also for 1935, by some amount between zero and 20 per cent of his base acreage, but he could not possibly forecast how much that might cost him. He also faced the task of setting aside contracted acres and using these under more or less definite restrictions in 1934-35; and he faced the prospect of similar restrictions—perhaps more onerous, perhaps less so—in 1935-36. In some areas, the requirement to sow at least a specified minimum acreage loomed as a handicap. After adjustments were made in acreage and production figures, many applicants for contracts found their prospective benefits and obligations different from what they had earlier anticipated.

Many wheat growers found the first year's benefit payment so large a factor in their calculations that they felt it necessary to accept the obligations forthwith, and very short crops in 1933 left many with so little income that they could ill afford not to sign. Many others found that they could meet the prospective obligations with little or no sacrifice, and could thus regard benefit payments largely as "velvet." On the other hand, many found that the prospective benefits were small in proportion to the prospective disadvantages. Many more found it hard to strike a balance.

During the campaign, September 25 was set as the final date for receiving applications; but in numerous counties, by special permission, the period was extended for ten or fifteen days, or even more. In many cases the first opportunity for signing applications was offered at some central point where facilities and guidance were provided on one or more sign-up days following the community educational meeting. Sometimes the opportunity was first offered at the community organization meeting at which community committeemen were elected. These committeemen often took an active part in getting growers to sign applications, and received additional applications while considering the early ones.

At a later stage, generally after the state board of review had completed its work and the county allotment committee had made further adjustments necessary, formal contracts were filled out in triplicate and signed. Usually the allotment committee designated places in each community where, on specified dates, the contracts could be signed in the presence of a member of the community committee. Originals of such contracts were then submitted by the allotment committee to the Wheat Section, together with corresponding applications and other relevant materials; the allotment committee retained one copy and the signer another. The contracts became binding on acceptance by the Secretary of Agriculture, of which notice was sent after approval in Washington.

Where wheat farms were operated in whole or in part by tenants, signatures of both landlord and tenant were required on final contracts, accompanying applications, and compliance certificates. Where an estate in process of settlement was involved, more signatures were necessary. This requirement entailed delays in many cases of absentee ownership, and completion of

some contracts was prevented by inability to get the necessary signatures.³⁵ Arrangements were made for multiple contracts where large tracts (in California and elsewhere) were owned by an individual or company but operated, under general supervision, by a more or less shifting group of tenants.

The landlord shares in the obligations under the contract. He stands to lose by cancellation of the contract by reason of a tenant's non-compliance.³⁶ Moreover, the contract (Section 8) prohibits an owner or operator from offsetting reduction in wheat acreage under contract by increase on other lands not under contract. Under Administrative Ruling No. 8 the wheat acreage seeded on such other land might not exceed either the base period acreage named in the contract or that sown for 1933, whichever was larger. Ruling No. 18, however, permitted such increases by a contracting landlord provided offsetting reductions were made on other lands not under contract, if located in the same county. Ruling No. 17, as revised in No. 37, permitted "joint compliance" on land under contract owned by two or more parties but operated as a unit by one operator or related operators. Ruling No. 28 permitted joint compliance, under the supervision of one control association, on land operated by separate tenants of a single landlord under a common rotation system that could not be followed on individual units. Such arrangements, though obviously desirable, complicated the checking of compliance.

The policy of the Wheat Section has been to give

³⁵ See note 26, p. 156. Many forms of legal complications arose, and these continue to vex the administrators of the program.

³⁶ If such violation occurs in spite of *due diligence exercised by the* landlord to prevent it, the allotment committee hears the case and *recommends appropriate action to the Secretary of Agriculture.*

benefit payments to the actual grower, so far as possible. Claims to benefit payments were in principle determined by rights in the crop, hence cash tenants were entitled to all adjustment payments. Obviously, however, the landlord might reckon with this fact in agreeing to the terms of new leases. Under crop-share leases payments were divided between landlord and tenant, and separate checks issued, in proportion to their respective shares in the crop. For a time the Wheat Section followed the rule that only two parties, landlord and tenant, would be recognized.³⁷ This promised to result in real inequities where tracts of federal, Indian, or other lands were leased for cash and cropped (usually on shares) by sub-tenant farmers. In such cases sub-tenants were encouraged to participate by signing and complying.

Where tenants changed during the life of the contract, special arrangements were made. Thus a tenant who planted and harvested the crop of 1933 was entitled to 1933-34 benefit payments, and his successor to later ones. To such a tenant the first year's payment was a simple bonus, and the succeeding tenant had only two years of benefit payments in return for two years of acreage restriction. In some Eastern states it is customary for rented farms to change hands in the spring, and for the incoming tenant to agree to harvest the crop for one-half of the outgoing tenant's share. Ruling No. 29 permitted both such tenants to sign the contract and receive corresponding shares of the year's payments. If an incoming tenant refused to comply with the contract, rights to payments ceased and the landlord and previous tenant became liable to repay what they had already received.

³⁷ This was never embodied in the contract, regulations, or rulings, but was indicated in an Extension news release.

OVER-RUNS AND ADJUSTMENTS

When the data reported on individual applications were totalled for the base period by counties and states, and when to these were added the totals obtained by canvasses of non-applicants (in counties where the sign-up exceeded 60 per cent of production, or wheat growers, in the base period), there emerged evidence of more or less substantial divergence from standing official estimates in production, acreage, or both. The official instructions were that *A* (the average total production of applicants in the base period) plus *B* (the total average production of non-applicants in the same period) must equal *C* (the official estimate).³⁸ They seldom did so, where this check was available; and cases of "over-run" were common. Though the original instructions had not required checking on acreage in the same way, experience showed even greater necessity for this, since even the farm allotment depended partly on the reported acreage seeded.

Where *A* plus *B* was greater or less than *C*, something was obviously wrong. If the official estimates could have been regarded as definitive, it would have followed that all the errors were in *A* and/or *B*. Actually, no figure was wholly above question. The Division of Crop and Livestock Estimates considered its state estimates close to the truth, subject to its usual revision procedures, but was not disposed to regard its county estimates (for which hitherto there had been no effective demand) as equally accurate.³⁹ This Division alone

³⁸ *Handbook* (W-15), p. 28. But if *A* plus *B* fell below *C*, neither *A* nor *B* might be raised.

³⁹ Official preliminary county estimates of production had been prepared largely on the basis of (1) United States census data by counties for 1924 and 1929, which were not uniformly complete—particularly for the western part of the Great Plains where land is farmed by "suitcase farmers"

could furnish effective protection against any general tendency of applicants to "pad" their figures of production (and so claim excessive adjustment payments) and acreage (thereby limiting their obligations to reduce acreage). Under such circumstances the perspicacity, courage, and diplomacy of representatives of the Division of Crop and Livestock Estimates were put to a severe test.

While the preliminary official estimates of acreage and production by counties were in many instances below the truth, there is no doubt that applicants as a group overstated the facts, however many were honest, accurate, or both.⁴⁰ Most farmers do not customarily keep careful records of their acreage, production, and disposition of specific crops. Changes in ownership and control of wheat lands were considerable in a period

who live at a distance and camp on the land when necessary to work on the crop; (2) annual or biennial censuses taken by local assessors, available for only a few states; (3) considerable data on railroad shipments, in varying degrees incomplete as to production and not always readily compiled by counties where grown; and (4) sample reports by volunteer crop reporters in the years in question. County estimates of seeded acreage usually had been derived from estimates of production, yield per harvested acre, harvested acreage, and percentage abandonment. Further evidence studied during 1933 showed that county estimates were least accurate in areas where wheat acreage had been rapidly expanding or contracting, especially where new ground had been broken to wheat.

In the early days of the AAA this Division urged that in view of the importance of accurate county data which it did not pretend to possess, funds be made available to it to make special surveys designed to yield improved data for use in the wheat and other programs. In retrospect, it seems clear that such a move would have saved much money and avoided much delay and dissatisfaction; but the proposal was turned down as involving needless expenditure.

⁴⁰ In several states for which we have this information, yield per acre as calculated from applicants' data ran well above (in one state consistently about 20 per cent above) corresponding yields computed for non-applicants. This reflected in part a real difference, but much of it must be attributed to biased statements by applicants, revealing what some called a "coefficient of mendacity."

covering the planting and harvesting of the crops of 1930 to 1933, and the operator in 1933 often had no reliable information covering the period when he was not in control. Reports of share tenants to their landlords tend to be biased downwards, and so do reports to assessors. Statements in connection with seed loans, however, have an upward bias, and the wheat program offered even greater incentive to overstatement.

In part the errors may be classed as unintentional. As the cotton plow-up campaign revealed, many farmers do not know the actual size of their fields, and in the absence of special incentives are liable to overstate or understate their acreage. Such errors, in percentage terms, are likely to be relatively greater where farms are small. Farmers with large holdings commonly think of their crop acreage in terms of survey units such as sections, half-sections, or quarter-sections, making no allowance for roads, turn-rows, gullies, and other waste land. With financial incentives favoring overstatement, farmers are subject to more or less unconscious memory bias, and tend to resolve doubts in favor of higher figures or to remember and report as wheat acreage land that was in sod or summer fallow in one or more years of the base period.

In the absence of reliable evidence, however, deliberate overstatement occurred to an extent that often could not be specifically detected with the checks available. Such padding appears to have been more prevalent in areas with extensive seed-loan experience, where farmers had become accustomed to exaggeration and tended to carry it over into their applications for wheat contracts. In some areas, where farm leaders sought to have the county average plan used for determining allotments, they urged farmers to report large acreages. In

some communities the standards of integrity were low for other reasons.

The requirement that applicants' data be published in local newspapers may have limited the prevalence of deliberate overstatement, but such publication yielded comparatively few specific complaints for investigation by allotment committees. In some areas of large overrun, special notices were sent to all applicants urging them to report cases of suspicion of overstatement. In a few counties these brought considerable response; sometimes as many as 10 per cent of the applications were called into question.

The initial responsibility for adjusting county totals to the official figure rested with the county allotment committee, aided by its secretary (usually the county agent). Applications were examined for possible discrepancies. Evidence submitted was gone over with care and additional evidence gathered. So far as possible, deductions were made for roads, turn-rows, gullies, etc. Numerous checks of individual farms were made. In the principal wheat regions, where applications covered most of the wheat growers, such adjustments sufficed to eliminate only a limited part of any considerable overrun. In some areas the crux of the difficulty was with production, in others with acreage—largely depending on which was more important to the apparent interests of the growers, or sometimes on which the evidence for checking was least adequate.

Since complete reconciliation was beyond the power of county allotment committees, and since the County Acceptance Unit in Washington was too remote, a state board of review was set up in almost every state to review county summaries, make additional checks, assist county allotment committees in making adjustments,

and submit analyses with recommendations for the use of the Wheat Section and the County Acceptance Unit. Each state board was appointed by the state director of extension at the request of the Wheat Section. It consisted of three members—the state agricultural statistician and usually two leading members of the agricultural economics or extension staff. Most boards worked out special techniques of analysis and adjustments.⁴¹ In the more difficult cases, responsible representatives of the Division of Crop Estimates and the Wheat Section conferred with the state board at critical stages. Sometimes the standing official estimate was held to, and all required adjustments were made in applicants' figures; sometimes the official estimate was revised so that no further adjustments were necessary; sometimes figures reported for non-applicants were scaled down; and in numerous instances compromises were worked out.

On the basis of accumulated evidence, including that brought forward in connection with the program and considered by state statisticians sitting on boards of review, and after extended conferences in which the chief of the Division of Crop and Livestock Estimates took an active part, the official estimates for a good many counties were more or less radically raised or lowered. As the saying went, acres or bushels were "moved" from one county to another. State totals were altered in 17 states, in most cases upward but for the most part by

⁴¹ For example, in some of the Northwestern states, the boards of review instructed allotment committees in the use of various ratios (acreage of land in crop to total acreage, acreage of wheat to acreage of land in crop, etc.) to enable them to detect townships or communities in which overstatement was likely. In this way effort could be concentrated on small areas and allotment committees were not left with the hopeless feeling that they were totally without information as to where the overstatement might be.

small amounts or percentages; the more important of these are shown in the accompanying table.

PRINCIPAL CHANGES IN OFFICIAL ESTIMATES OF BASE PRODUCTION AND ACREAGE, DECEMBER 1933^a

State	1928-32 Average Production		1930-32 Average Acreage	
	Absolute Change (In thousands of bushels)	Percentage Change	Absolute Change (In thousands of acres)	Percentage Change
United States.	+15,416	+1.8	+1,800	+2.8
Kansas.	+8,255	+4.9	+975	+7.8
Texas.	+3,334	+8.8	+417	+10.6
Illinois.	+974	+3.1	+92	+4.9
New Mexico.	+862	+26.2	+73	+17.9
Missouri.	+728	+3.7	+82	+5.6
North Dakota.	+648	+0.6	+91	+0.9
Washington.	+315	+0.7	-6	-0.2
Minnesota.	+267	+1.3	+32	+2.4
Wyoming.	+132	+3.6	+22	+6.5
South Dakota.	-126	-0.3	-12	-0.3
Nebraska.	-164	-0.3	+41	+1.1

^a Changes were also made in Arizona, California, Colorado, Indiana, Michigan, and Wisconsin. See *Agricultural Adjustment*, p. 59; and Johnson, *Wheat under the Agricultural Adjustment Act*, p. 80. The Division of Crop and Livestock Estimates made its revisions of state and national totals in accordance with its customary procedure, and these do not represent response to pressures that arose in applying the wheat program.

The most important revisions in county estimates were made in the panhandle of Texas, western Kansas, western North Dakota, and northeastern Montana. Revisions of 10 per cent or more were common in these areas; changes of from 20 to 25 per cent or more were not uncommon; and in a few extreme cases the changes ran considerably higher. Presumably additional revisions—more or less material relatively, though not large in absolute terms—would have been called for in many less important wheat counties if data on acreage and production of non-applicants had been gathered every-

where; in the absence of these data, checks on overstatement were generally less adequate.

After the final official estimates were reached, there often remained more or less important adjustments to be made in applicants' figures to make *A* plus *B* equal *C*. In numerous cases the remaining over-run (to be eliminated by county allotment committees) exceeded 10 per cent and in a few counties it ran over 20 per cent. County and local committees were urged so far as possible to make reductions on an individual farm basis, with reference to the character of the evidence supporting the applicant's figures.⁴² Often a "blanket" percentage cut was used for part, if not all, of the reduction.

In consequence, in a high percentage of cases, especially where the sign-up was heavy, the final figures on seeded acreage, base production, allotments, maximum and minimum acreage to be seeded for 1934, and contracted acreage differed more or less from those submitted on applications. While there is good reason to believe that the adjusted figures were considerably closer to the truth than were the data first submitted on applications, injustices between counties and among individuals were by no means eliminated, and to some extent honest farmers suffered because overstatements of other applicants in the county escaped detection. Moreover, the procedure entailed material delays in getting applications approved and contracts signed and approved; and completion of these steps was required before the initial benefit payments were sent out or county committee expenses paid.

⁴² Instructions in the *Handbook* (W-15), p. 28, would indicate that figures of applicants submitting satisfactory evidence should not suffer reductions, while those without satisfactory evidence should be given a horizontal cut. Later, this distinction between "satisfactory" and "unsatisfactory or no evidence" was found difficult to make.

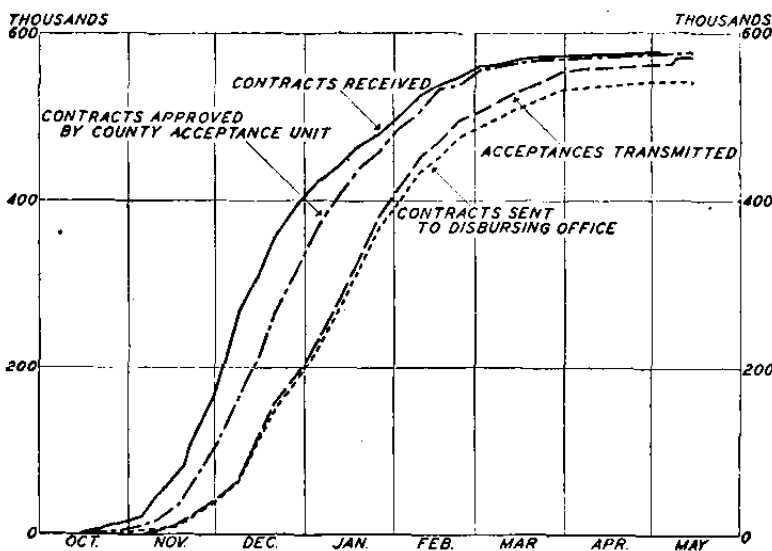
Throughout this disheartening "adjustment" period county allotment committees, with few exceptions, worked conscientiously to eliminate overstatements even though this sometimes involved incurring ill will. Personal or political influence seems to have played little or no part in determining action on individual cases. Widespread efforts are being made, through the distribution of farm account books, to get farmers to keep accurate records, and the official hope is that these will enable future programs to be carried out with substantially less delay, difficulty, and error.

After the required adjustments in applications had been made, the contracts filled out and signed, and the approval of the board of review secured, the contracts and relevant documents were sent to the Wheat Section. Here they were examined, county by county, by the County Acceptance Unit—a temporary body consisting of four farmers (the members of the National Wheat Advisory Committee), four extension leaders, and four state statisticians. Samples of the contracts from each county were checked over to determine that correct methods had been used in making all computations. In troublesome cases careful consideration of the accumulated evidence on a county was required.

Following approval by the County Acceptance Unit, contracts went to the Contract Records Section of the Commodities Division of the AAA. This section checked, tabulated, and recorded individual farm contracts from each of the commodity sections. Irregular individual contracts were held up after the bulk of those in a county were passed. After each contract had been checked for essential information and computation, it was tabulated by means of punch-card tabulating equipment. After tabulation, an audit was made by the

Rental and Benefit Section of the Comptroller's Office of the adjustment payments due on the contracts.⁴³ Checks in accordance with this audit were made out by the Disbursing Office, a branch of the regular disbursing agency of the Department of Agriculture. These

INDICATORS OF COURSE OF ACTION ON WHEAT CONTRACTS, 1933-34^a



^a Cumulative data of Wheat Section, AAA.

checks were mailed to the county association for distribution to individual contract signers.

When it is realized that nearly 600,000 contracts with some 800,000 claimants for benefit payments had to go through this process, the magnitude of the task becomes apparent. The chart above shows the progress of the work, and the chart on page 161 shows the flow of benefit payments in terms of dollars.

⁴¹ On July 1, 1934 these two sections were combined into the Rental and Benefits Audit Section of the Comptroller's Office.

EXTENT OF GROWER PARTICIPATION

The sign-up of approved contracts was not completed by the end of 1933, some additional participants were admitted on applications signed in the spring of 1934, and some contracts still awaited approval at the end of 1934. Nevertheless, it is appropriate here to summarize the extent to which wheat growers "co-operated" in the wheat program initiated in the summer of 1933. This can be considered from any one of three standpoints: the proportion of eligible wheat farmers who participated; the proportion of total wheat production in 1928-32 that was grown on the lands under contract; and the proportion of the average acreage sown to wheat in 1930-32 which the contracts really covered.

The first approach is the most difficult to make. Over 585,000 contracts were received for approval. Of these 578,523 had been approved up to November 30, 1934, and a few still awaited final action. In addition, benefit payments for participation otherwise than by formal contract will probably be paid in something like 1,000 cases. Including landlords and tenants and ignoring duplications, there were over 800,000 contract signers representing around 580,000 farm units treated as distinct for purposes of the wheat contract. What one really wishes to know, however, is what proportion of wheat growers who were technically eligible to sign contracts actually co-operated; and this cannot be ascertained.

The census of 1930 reported 1,208,091 farms on which wheat was harvested in 1929.⁴⁴ Such a figure, however, materially understates the number of *operating* farm units for which contracts might have been

⁴⁴ See note 6, p. 11.

signed. The census missed some farms on which wheat was harvested in 1929. Farms "eligible" for contract included all those on which wheat was sown in one or more of the years 1930-32 or produced in one or more of the years 1928-32. Among these were farms on which wheat was grown in rotation but did not happen to be sown for the 1929 harvest, those on which wheat was sown for the crop of 1929 but not harvested, and those on which wheat was first planted after 1929. With no adequate basis of estimate, we consider that there must have been at least 1,500,000 farms, in the census sense, for which wheat contracts might have been signed.

Even with this figure, however, one cannot safely compare the number of contracts signed. To some extent, a single contract covers what the census would call two or more farms; but to a much larger extent, in the case of wheat contracts, more than one contract was required for what the census would call one farm. In the principal wheat regions, many a farmer grows wheat on his owned farm and on rented land as well, and many a tenant farmer grows wheat on land rented from two or more landlords. In such cases two or more contracts were required. Such factors largely explain why in four important wheat states, as shown in Table V, page 450, the number of contracts approved up to October 16, 1934 exceeded the number of farms reported by the census as having harvested wheat in 1929. We consider it highly probable that the number of farms (in the census sense) signed up was not over 500,000, if as large.

In view of such facts, we think it probable that participants in the program represented something like one-third of the number of farmers who could properly

be called wheat growers and were technically eligible to sign. In the principal wheat sections the proportion was far higher, often over three-fourths; but it was much smaller in sections where wheat is not a major crop, and generally east of the Mississippi River.

The sign-up in terms of acreage or production in the base period can be expressed with a smaller margin of error. The calculated percentages given in Tables III and IV, pages 448 and 449, however, rest on the unsafe assumption that the finally approved figures for base acreage and production of contract signers are accurate in total, if not contract by contract.⁴⁵ Actually, there is good reason to believe that these figures are still above the truth, particularly so in counties and states where a large or considerable proportion of wheat acreage was not signed up and adjustments for over-runs were not made. To this extent the percentages given overstate the sign-up; but whether the aggregate overstatement is 2 per cent, 5 per cent, or more, we have no present basis for judging.

The allotments assigned imply production in 1928-32 on farms under contract averaging about 650 million bushels, or some 75 per cent of total production in the base period as officially estimated. The average per contract was about 1,140 bushels per year; for individual contract signers it was probably at least 1,300 bushels; for eligible non-signers it was probably well under 300 bushels, though there is no basis for arriving at an accurate figure. Approved acreage of contract signers in the base period 1930-32 was about 51.4

⁴⁵ Comparison of base period acreages of contract signers with totals for 1930-32 is also slightly inaccurate because some counties, and individuals in numerous counties, used four- and five-year bases instead of the standard base. See Johnson, *Wheat under the Agricultural Adjustment Act*, pp. 57-58.

million acres,⁴⁶ or nearly 78 per cent of the total average acreage seeded in these years according to revised estimates. In most counties and many states, approved contract figures showed somewhat higher yield per seeded acre on farms under contract than on those not signed up; but the geographical distribution of sign-up in relation to customary yields was such that the reverse was true for the United States as a whole.

The extent of grower participation somewhat disappointed official expectations. Ezekiel and Bean⁴⁷ had reasoned that the allotment plan, by promising more income to co-operators than to non-participants, "should induce nearly all farmers to participate in production control." M. L. Wilson said on October 4, 1933, when the application sign-up was practically completed: "Taking the nation as a whole, an 80 per cent sign-up . . . will mean the success of the acreage control campaign."⁴⁸ But his earlier discussions of the plan implied that he hoped for and expected considerably more.

The broad geographical distribution of the sign-up is shown in the next chart. The sign-up was heaviest in the surplus-producing states, and where large wheat production per farm was the rule. In Kansas, the Dakotas, and Montana, it was over 89 per cent of the base acreage. In most other wheat states west of the Mississippi the sign-

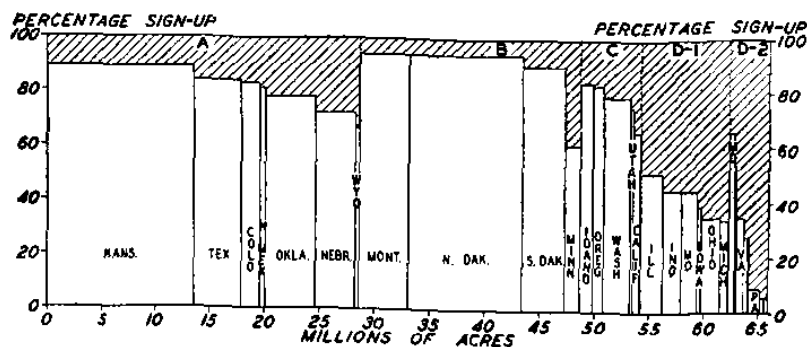
⁴⁶ Preliminary data based on applications for contract and partly estimated, released Feb. 26, 1934, indicated 52.1 million acres covered by applications under the first sign-up. Some applications were not followed by signed contracts, and approved acreages were in many instances below those stated in these applications.

⁴⁷ *Economic Bases for the Agricultural Adjustment Act*, p. 58. The present writer was also in error in November 1932 when he said of the plan as presented in the Hope-Norbeck bills: "It is not unlikely that, at the outset, contracts might be signed for nearly all of the allotments authorized." *Wheat Studies of the Food Research Institute*, Vol. IX, p. 50.

⁴⁸ *AAA Press Release No. 787-34.*

up was 75 to 85 per cent of the total base acreage. The exceptions, in the order of size of base acreage, were: Nebraska (72), Missouri (45), Minnesota (61), California (66), Iowa (39), Wyoming (67), Nevada (57), and Arizona (22). East of the Mississippi the sign-up

ACREAGE SIGN-UP ON 1933-35 WHEAT CONTRACTS^a
By States and Groups of States



^a Data of Wheat Section, AAA, as given in Table III, p. 448. The shaded area indicates the acreage not signed up.

was much lower; only Illinois (51), Maryland (66), and Kentucky (54) showed over 50 per cent of base acreage signed up. As a group the states producing predominantly soft red winter wheat had a sign-up of under 40 per cent of the base period acreage.⁴⁹ In the four principal states of this group—Illinois, Ohio, Indiana, and Missouri—the sign-up averaged about 44 per cent. In Pennsylvania it was only 9 per cent and in New York only 6.

Variations in sign-up among states and counties were due in some measure to differences in the attitudes and efforts of state extension service and county

⁴⁹ The official figures show 38 per cent, but probably overstate the truth; for in a considerable part of this territory no data were collected on the acreage and production of non-participants, and there was consequently no adequate basis for checking of acreage reported by signers.

agents.⁵⁰ As a rule, where wheat growing was a minor enterprise, farmers were more apathetic and the campaign was usually not vigorously prosecuted.⁵¹ In the main, however, other factors were responsible for the extent to which the sign-up failed of completeness.

In the major wheat-producing sections, low base period acreage, production, or both, constituted the principal reason for non-signing. On the western fringe of the hard winter wheat belt, for example, land had only recently been broken to wheat and had been seeded in only one or two years of the base period. (Some farmers, indeed, had first broken land to wheat in 1933 and had no base at all.) Even after provisions were made whereby land which had first produced wheat in 1932 might be planted to within 85 per cent of that year's acreage, the base for allotment remained very low (see page 108). Under these conditions the inducement to participate generally proved too small in comparison with the sacrifice entailed. Many farmers, however, who had grown wheat in only two years of the base period, signed up because of extreme need of cash income and discouraging prospects for 1934, even though the contract required them to reduce their acreage far below what they had seeded in 1932 or 1933.

Where wheat production is a minor enterprise, a different reason for non-signing predominated. The majority of farmers who grow wheat plant only a few acres per farm, chiefly for home use as poultry feed, flour, and straw for bedding animals. Also, wheat is a

⁵⁰ This partially explains the wide differences between Pennsylvania (9 per cent), Maryland (66), and Virginia (35), where agricultural conditions were not radically dissimilar.

⁵¹ Such a contrast appeared, for example, between eastern Oregon and the Willamette Valley.

characteristic element in their crop rotation practice. To many such farmers, prospective benefit payments (often under \$20 per farm) seemed quite too small to offset the trouble of filling out forms and meeting contract requirements, and the loss in output of grain and straw. In such sections the signers were chiefly farmers with larger acreages in wheat who could make convenient adjustments, or who had already reduced or were planning to reduce their wheat acreage from that of the base period and thus could get benefit payments at little or no sacrifice.

There are also many farmers in minor wheat-producing sections who raise wheat at irregular intervals. Some of these had low base acreage, or perhaps grew no wheat in 1933 and were therefore entitled to no payment for 1933. Some planned to seed no wheat in 1934, others to seed much more than their contracts would have permitted, regardless of wheat price prospects. Some farmers had stopped raising wheat, and did not wish to obligate themselves to raise any in 1934 or 1935. In a large variety of cases of some such character, the program entailed obligations that outweighed the prospective benefits.

A large number of other reasons contributed in some unascertainable degree to prevent applications or completion of contracts. Some farmers felt that they had already cut their wheat acreage to the point where further reduction would result in uneconomic farming. Restrictions on the use of acres taken out of wheat, and uncertainty as to such use, presented obstacles to signing, particularly in diversified farming areas of the East. Landlord-tenant complications were a factor: sometimes a landlord owning several farms found the terms too restrictive to be willing to sign for any; some-

times he objected to the basis for dividing the adjustment payments; sometimes he was not fully informed or obstinately refused to sign even though his financial interest lay in signing. Lack of adequate information about the plan was a factor, particularly in sections where little wheat was grown. In some such areas it was feared that local costs of administration would absorb much of the benefit payments. Some farmers were skeptical about actually getting any payments until they saw their neighbors getting and spending theirs. Doubtless some farmers stayed out in order to increase their acreage just because so many others were agreeing to cut theirs, but this does not seem to have been nearly as important a factor as some advance critics of the plan had prophesied.

Leaders of a few religious sects opposed acreage reduction on principle, and some farmers were unwilling, on religious or other grounds, to sign any sort of contract. In many cases Farmers Union or Farmers Holiday leaders, who regarded the program as far too conservative, urged farmers not to sign, but they seem not to have had much influence on the sign-up. In a few instances, communities with strong Republican sentiments, or those settled by first generation immigrants of one nationality, had a smaller sign-up than otherwise comparable communities.

Altogether, the array of reasons for non-participation proved far more imposing and influential than had been expected. In spite of numerous modifications in detail to meet varied conditions, anything approaching a uniform program was insufficient at some point or other to make effective appeal to all farmers' interests. In general, growers were encouraged to decide the question on the basis of whether it would pay them to join, though com-

munity sentiment probably swayed more individuals to go in than to stay out. Had adjustment payments per bushel been twice as high, the sign-up would have been larger but would probably not have exceeded 85 per cent of base acreage or production. Had the crop of 1933 been normal, the sign-up might have been smaller, for where that crop was short farmers with little wheat to sell could ill afford to forego the cash benefits promised.

CHAPTER IV
DOMESTIC WHEAT ADJUSTMENT
EFFORTS, 1934

The first phase of the wheat adjustment program, discussed in the preceding chapter, was by no means completed by the end of 1933. Adjustment and approval of contracts continued on an important scale in the early weeks of 1934, and at a diminishing rate thereafter. Overlapping the completion of this work were several new phases. A supplementary sign-up opportunity was offered in the spring of 1934. Provisions regarding the use of "contracted acres" were substantially modified in view of the drought. Plans for checking compliance with contracts were evolved and applied. Arrangements for the crop year 1934-35 were made in the light of changed conditions. These we have now to consider.

THE SECOND SIGN-UP OPPORTUNITY

Long before definitive figures were available regarding the results of the sign-up campaign, it was clear that contract signers would represent not more than 80 per cent of the acreage seeded to wheat in the base years 1930-32. It was easy to see that even if those signers were representative, if they all faithfully fulfilled their obligation to reduce their seeded acreage by 15 per cent, and if non-signers as a group planted only as much as in the base period, the total seeded acreage would be reduced by less than 15 per cent of the average in 1930-32. Such a sign-up gave no assurance that the United States would fulfill its pledge under the international wheat agreement. On October 26, 1933, in

announcing preliminary figures on signed applications for contracts, Secretary Wallace stated the government's intention to fulfill its obligation to the letter, and said that means of taking out of production additional wheat acreage would be worked out with the county associations.¹

The December official estimate of winter wheat acreage sown had indicated that fall-sown acreage was only 7.2 per cent (since revised to 5.2) below the average sown for the crops of 1930-32, and still less below the base period under the international agreement (1931-33 average). Early in February, our representatives gave formal assurance "that the United States would take such steps as necessary to keep the acreage of wheat harvested in 1934 to 85 per cent of the base planted acreage minus the normal abandonment."² It was then clear that it was unsafe to count upon nature to reinforce the adjustment efforts sufficiently to ensure attainment of this result.

While there could be held in reserve emergency measures to remove sown acres from harvest for grain, such as had been tentatively considered in the spring of 1933, it was deemed prudent and politic to take further measures to hold down seeded acreage or to secure mid-season diminution of seeded acres. Since the United States had taken the lead in urging acreage reduction, it could ill afford to encourage suspicions that it might eventually fail to redeem its own pledge. Other exporting countries had not yet applied effective measures to reduce their acreage. It was obviously desirable to have something tangible to report at the April meeting of the international wheat advisory committee.

¹ *AAA Press Release No. 945-34.*

² See Chap. X, p. 337.

Moreover, from practically all of the wheat-growing states came reports of non-signers who now wished to sign up. There were pleas of lack of information about the plan, misunderstanding of information received, illness during the sign-up campaign, and "bureaucratic" refusal to admit applications after specified dates—even though the final date for receiving applications had been deferred in numerous counties. As benefit payments flowed into a section, some were effectually converted from skeptics into believers. Changes in the outlook for their 1934 crop increased the interest of some non-signers. Finally, it was felt that by certain modifications of the contract terms some additional participation might be secured.

Nevertheless, the decision to reopen the sign-up was not easy to reach. In various sections local sentiment was against the move. It was argued that excuses for not signing earlier were flimsy, that no plan should be selected that would admit new signers on terms as favorable as or more favorable than those previously offered, and that few additional participants could be secured on any other basis. Further, there were numerous counties in which state and local leaders feared that additional applications might call in question the contractual figures already arrived at. This applied particularly where conservative allowances had been made for acreage and/or production of non-signers.

Eventually, on February 26, 1934, the immediate reopening of the wheat program for additional signatures was officially announced. New participants were initially offered the same terms as those available to earlier signers, except that they would not be entitled to the first instalment of the 1933 benefit payment (20 cents

a bushel).³ Subsequently, new signers who could give evidence that they had filed their applications for contracts by the end of 1933 were authorized to receive the first instalment as well. On March 8 special terms were offered to farmers who first planted wheat for the 1932 crop.⁴ There was a considerable area of newly broken wheat land in the Southwest, chiefly in Kansas, Oklahoma, and Texas. Under the original contracts such "one-year men" not only had a very low base for benefit payments but were required to seed for 1934 not over 28.3 per cent of the acreage they had seeded for 1932. The modified terms offered did not liberalize the allotment, which by the regular calculation was one-fifth of 54 per cent of production in 1932; but a grower's entire 1932 acreage, instead of one-third of it, was accepted as the base from which to compute the required contraction. Signers were to be entitled to both instalments of benefit payments for 1933-34, and permitted to comply by removing excess planted acreage from production. Former signers in this class were accorded the same privilege.

During the new sign-up, moreover, somewhat similar but complex relaxations were made in respect to acreage bases for farmers with established rotations, to improve the terms somewhat for farmers who customarily plant wheat only once in three, four, or five years.⁵

In sharp contrast to the earlier effort, no active campaign to get additional signers was planned or made. No educational or sign-up meetings were held,⁶ and

³ AAA Press Release No. 1924-34.

⁴ The same. Land on which wheat was first planted for the crop of 1933 was not affected by these provisions.

⁵ USDA Weekly News Series No. 195, Mar. 10, 1934.

⁶ In many states the extension service was engrossed in the corn-hog campaign and could ill spare time for additional work on the new wheat sign-up.

farmers were not urged to submit applications. Beyond items in local newspapers explaining the new opportunity to sign applications, little or nothing was done to bring it home to those who had not previously signed. Provisions for accepting new applications were only gradually made, in the course of March or early April. On March 3 a campaign story released to state extension editors set April 15 as the closing date.⁷ This was later extended in some states to May 10, and on May 11 to May 16 to allow farmers in drought states to come in.⁸

The net results of reopening the sign-up were very slight. New contracts numbered 10,130, and represented only 782,620 wheat acres—an addition of about 1.5 per cent. In announcing the plan, Mr. Farrell had stated: "Field workers have predicted a heavy additional sign-up in the area east of the Mississippi River, where the original sign-up was lightest." Actually most of the new signers were in sections where the earlier sign-up had been heavy. Less than 200 "one-year men" actually chose to join. Most of the new contracts were signed by men who had not learned of the plan in its early stages or were afraid to sign till they saw others get their benefit checks. Many were signed by those who had not completed their earlier applications in the time allowed, or had dropped them because of irregular base periods. In sections where government seed loans have been numerous, a few new signers were those who felt their status as borrowers would be improved if they co-operated in the wheat program.

The contribution of the second sign-up toward fulfilling our international commitment was negligible.

⁷ *Local Wheat Campaign Story No. 15.*

⁸ *AAA Press Releases Nos. 2445-34, 2559-34.*

The chief purpose actually served was to silence criticisms of eligible growers who had complained of "bureaucracy" and inflexibility in the administration of the program.

Additional relaxations of contract terms proved more important in reducing spring wheat *seeded* acreage for 1934. Administrative Ruling No. 30, approved December 1, 1933, authorized waiver of the contract requirement that there must be seeded to wheat 54 per cent of the producer's average annual wheat acreage, provided natural forces prevented seeding or were such as to make it useless. In counties designated by the Wheat Section, allotment committees were authorized to approve written requests for such exemption so that growers might be entitled to full adjustment payments. During the spring of 1934, a large proportion of the counties of the spring wheat belt were brought under these provisions by designation as *drought areas*. Ruling No. 33, approved March 3, 1934, authorized any grower, anywhere, to seed less wheat for 1934 than the minimum acreage specified in his contract, or even none at all; but under its terms he was entitled to a 1934 adjustment payment only in the proportion that his sown acreage bore to his contractual minimum. These rulings, however, had little bearing on the acreage seeded or harvested for 1934, and were of chief significance in easing the terms of compliance with contracts and permitting the receipt of full benefit payments. As matters turned out, the great drought of 1934, following heavy abandonment of fall-sown acreage, made it unnecessary to resort to more vigorous measures to secure the pledged reduction in harvested acreage. This drought, moreover, influenced the wheat program at other

points and, for the time being, greatly simplified the knotty problem of "contracted acreage."

THE DROUGHT AND CONTRACTED ACREAGE

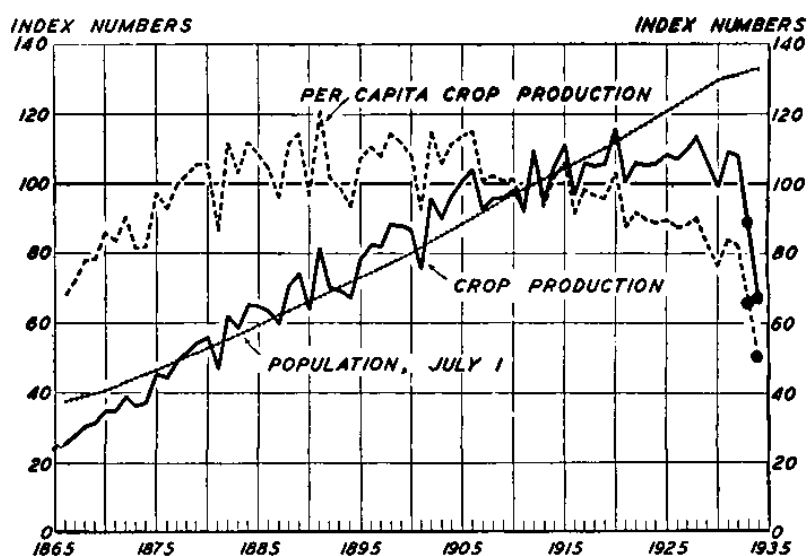
Drought is nothing new in American agriculture. Almost every year some sections experience it. Widespread drought, seriously affecting crop production, occurred in 1881, 1887, 1890, 1894, 1901, 1911, 1916, and 1924. With the expansion of production into the sub-humid stretches of the Great Plains, more of our agriculture is exposed to the ravages of drought in spite of improvements in farming technique and equipment. In the midst of what climatologists call a dry cycle, four of the past six years have been drought years. The first annual report of Secretary of Agriculture Hyde opened with reference to "widespread drought during the growing season of 1929. . . ." His second began: "The worst drought ever recorded in this country prevailed during much of the 1930 growing season and greatly reduced farm production." That of 1933 was still more severe. With but little influence from AAA crop restrictions except in cotton, the latest official index of crop production in the United States declined by about one-sixth, to the lowest point since 1901, as shown by the chart on page 112.

It remained for 1934, however, to set a new record.⁹ "Never before, in the weather history of the United States," said Dr. J. B. Kincer of the Weather Bureau, "has so little rain fallen over so wide a territory throughout the growing season as this year." Never before has the volume of our national crop out-turn been so drastically reduced by natural causes, with such seri-

⁹ The drought is more fully discussed in D. A. FitzGerald, *Livestock under the AAA*, 1935, Chap. X.

ous consequences to our livestock population. The index of crop production, with limited influence from AAA crop restrictions (of major importance in cotton), fell to about two-thirds of the pre-war five-year average, the lowest point since 1890. In per capita terms the 1934

INDEX NUMBERS OF CROP PRODUCTION AND POPULATION,
1866-1934^a
(1910-14 average=100)



^a Slightly adapted from *Neg. 27731*, Bureau of Agricultural Economics. Crop indexes are based on production of corn, wheat, oats, barley, rye, flaxseed, buckwheat, cotton, potatoes, sweet potatoes, tobacco, and tame hay. Data for 1933 and 1934 (preliminary) are marked by solid circles.

crop output was the lowest in at least 70 years. As far back as statistical estimates extend, we have no previous indication of comparable reductions in two successive years, or of such severe curtailment in a single year. In our previous history, very short crops of wheat and corn had never occurred in the same year. Until 1933 and 1934, really short crops of both winter and spring wheat had not coincided since separate estimates have

been made (1909), and usually shortage in one has been more or less offset by better than average crops of the other. In 1934 winter wheat, spring wheat, corn, and most other food and feed crops were all short. For wheat and corn the acreage restrictions achieved by the AAA programs were relatively minor as compared with the reduction effected by drought.

The change in prospects developed abruptly. As of April 1, private forecasts of the 1934 winter wheat crop averaged 506 million bushels, and it looked as if the total might exceed 700 million bushels. East of the Rockies, despite extremely poor conditions as of December 1, abandonment of winter wheat acreage appeared close to average. The Pacific Northwest, with light abandonment and big yields expected, had prospects for a crop at least equal to the average for 1928-32; and California, an important domestic market for wheat from that region, had in prospect the biggest crop since 1928.¹⁰ Under the influence of bearish private and official crop forecasts, reinforced by statements of Secretary Wallace indicating that in view of crop prospects Chicago and Liverpool prices inevitably "would work closer together," wheat prices slumped sharply between April 10 and 19, as "tired long speculators" liquidated holdings.¹¹ For the time, prospects pointed to lower prices, higher processing taxes, and increased benefit payments in 1934-35, and more stringent acreage curtailment for 1935.

From late April onward, however, the drought grew progressively worse. While its effects extended far and

¹⁰ Nat C. Murray's report. The official forecasts as of April 1 were less bearish.

¹¹ See *Wheat Studies of the Food Research Institute*, May 1934, Vol. X, pp. 270-71, and below, Chap. VIII, pp. 255-56.

wide, they were most devastating to wheat in the Great Plains states where the sign-up had been especially high, and to corn in the corn belt where most of the corn loans were made and most of the corn-hog contracts signed. The drought played havoc with our second "planned harvest,"¹² and caused radical modifications in AAA plans for wheat and other crops.

Among the modifications introduced were those on the use of the "contracted acres" which wheat co-operators undertook "to take out or keep out of wheat production" for 1934. Since before the Adjustment Act was passed, the problem of controlling such acreage had loomed as one of the most difficult to solve. The wheat contract stipulated:

5. The contracted acreage of 1934 and 1935 shall be posted [that is, marked out] by the producer in such manner as the Secretary or his authorized agent may direct, or may be posted by an authorized agent of the Secretary.

6. The contracted acreage of 1934 and 1935 shall not be used for the production of any nationally produced agricultural product for sale, but may be used as follows: Summer fallowed; planted to soil improving or erosion preventing crops, or to food crops for home consumption on this farm, or to feed crops for the production of livestock (or livestock products) for home consumption or use on this farm.

This statement gave rise to misunderstanding. Many farmers thought they could use contracted acres to raise feed for work horses, and for dairy and meat animals kept for family use, and thereby release other land for production of commodities for sale. The Replacement Crops Section, established on August 12, 1933, on August 31 approved a regulation prohibiting such shifts.¹³

¹² Secretary Wallace had written "1933—Our First Planned Harvest," for *Hears's International Cosmopolitan*, December 1933.

¹³ *Wheat Regulations*, Ser. 2, (W-25), Sec. 506.

In September the chief of this section issued a clarifying statement, saying: "It is clearly the intent of the AAA that the contracted acreage shall not be used in contributing to surpluses of any agricultural product." Seven "approved practices" were listed: (1) permit ground to lie unplanted; (2) practice summer fallowing; (3) plant to permanent pasture; (4) plant to meadow crops; (5) practice weed control; (6) plant forest trees; and (7) plant soil improvement crops.¹⁴ With little modification, these regulations stood until the spring of 1934.

With the onset and progress of the drought, all such restrictions were notably relaxed. On May 23, 1934 "drought counties" were designated within which contracted acres might be pastured. On May 29, permission was granted to use such acres for planting and harvesting forage crops, except corn and grain sorghums, throughout the country. On June 23 permission was granted for harvesting seed from pasture or meadow crops growing on contracted acres, in view of the reduced surplus of seed and the unfavorable condition of pasture and meadow crops for seed harvest. On June 30 planting contracted acreage with corn and grain sorghums for roughage was authorized in all states. This ruling removed the last restrictions of any kind on the use of such acres for production of forage or pasture crops for 1934.¹⁵

Most of the assembled information as to the uses made of contracted acres was secured when compliance was checked, and in some cases land then idle may later

¹⁴ *Practices Approved by the AAA for Contracted Acres Retired from Wheat Production in Connection with the Wheat Allotment Contract* (unnumbered mimeographed release), AAA.

¹⁵ *AAA Press Release Nos. 2701-34, 2958-34, 3034-34.*

have been put into crop. Sometimes the shifting of contracted acreage from one field to another added to the difficulty of securing data.¹⁶ A survey made by the Replacement Crops Section showed that from 60 to 85 per cent of contracted acreage in the Great Plains states was idle or fallow in 1934. At the time of the survey, food and feed crops on contracted acres were unimportant in this area, and continuance of the drought prevented much planting after the contract modifications on May 29.

In the soft winter wheat regions, contracted acres usually produced forage crops of some sort or were planted to soil improvement crops, and only rarely were left idle. New seedings for pasture and hay were especially important in Ohio, Indiana, Missouri, Kentucky, Virginia, and New Jersey, where these uses accounted for half or more of the contracted acres. In the Pacific Northwest contract signers left a good part of their contracted acreage fallow or idle, and put from 20 to 45 per cent into new seedings of pasture and hay.¹⁷ Where work stock are commonly fed on straw and chaff, many farmers substituted wheat hay grown on contracted acres.

With the drought experience in view, emphasis has been shifted from the earlier negative demand—"contracted acres must not add to surplus"—to a positive principle: "the results [of the survey of the uses to which contracted acres were put] disclose the begin-

¹⁶ In Nebraska allotment committees allowed contract signers to transfer contracted acres to abandoned wheat land in order to make use of subsoil moisture present in land which had been lying idle as contracted acreage during the early spring. Similar shifting of contracted acreage was practiced in Kansas, and probably elsewhere. This practice had not been approved by the Wheat Section up to Mar. 1, 1935.

¹⁷ *USDA Weekly News Series No. 339*, Sept. 27, 1934.

ning of what we plan as the long-time development in land use growing out of the program." Commenting on the crop shift taking place on contracted acres, the chief of the Replacement Crops Section said:

By using the . . . contracted acres largely for leguminous crops and grasses, farmers are maintaining and increasing soil fertility providing a better farm rotation, increasing the amount of pasture and home-grown roughage feed, and lessening labor costs in feeding livestock and general farm operations.¹⁸

PLANS FOR ENSURING COMPLIANCE

The voluntary contract scheme of securing reduction in wheat out-turn faced a crucial test: Would signers fulfill the obligations they had assumed? Overseeding, heavy use of fertilizer, biased selection of contracted acres, and certain uses of these acres might, if sufficiently general, defeat the crop reduction objective; and even less widespread violation of contract terms would threaten the program if it led other signers to be more lax in the second year. Some early critics of the plan prophesied that the contractual restrictions would be so widely evaded that, with expansion by non-signers, wheat production would be increased instead of reduced.

Administrators of the plan recognized these dangers and were concerned to guard against them, rather than to assume that compliance would be automatic. Moreover, adjustment payments were payable under a contract which provided penalties for violation — with minor exceptions, cancellation of the contract, loss of rights to future payments under it, and the obligation to refund previous instalments; hence it was held legally necessary that proper "certificates of performance" be submitted to the AAA before further benefit payments could be made. As time passed, and with

¹⁸ *AAA Press Release No. 134-35*, July 18, 1934.

experience gained in the wheat sign-up campaign and in checking on fulfillment of 1933 cotton contracts, increasingly strict provisions for testing and ensuring compliance with wheat contracts were worked out. Yet it was considered essential that all such provisions should be so applied as to win cordial local support.

At an early stage it was contemplated that the county allotment committee should "certify to the reductions made by individual farmers."¹⁹ This requirement was soon reinforced: each county committee was to "certify to the farm allotments of its members"; but "farm allotment supervisors" were to be appointed to check "each individual co-operating farm," and their certificates of performance coupled with the allotment committee's certifications were to constitute formal proof of compliance.²⁰ At their organization meetings these associations were informed that some sort of re-check on inspections would be made. Eventually, in all important wheat-producing states, state wheat agents were appointed by the Wheat Section to take charge of all compliance work, and these worked under its instructions both in general and on specific points.

While the compliance machinery was thus put essentially under centralized control, pains were taken to develop and maintain local attitudes favorable toward compliance and to give no occasion for resentment toward "policing." The title "farm allotment supervisors" was gentler than "inspectors." These were selected for each county or district from a list of names submitted by the allotment committee, and it was

¹⁹ *Handbook* (tentative issue sent out July 29-31, 1933), p. 30.

²⁰ *Handbook of Organization and Instructions* (W-15, released Aug. 25, 1933), pp. 19, 49, 64. The articles of association of the county wheat production control associations provided for the appointment of farm supervisors by the Wheat Section.

charged with drafting the budget covering the cost of the check-up (but not the re-check). In the educational campaign preceding the sign-up, and on various occasions later, it was sought to get farmers to understand the larger bearings of the adjustment plan and to feel that it was their own, so that each might be eager to live up to his contract and to have his neighbors do likewise. In the AAA circular letter to directors of extension which gave instructions regarding compliance,²¹ the hope was expressed that the main responsibility for ensuring compliance could be left with the contract signers and the county control association. Supervisors were instructed to approach the farmer in a friendly spirit, to answer his questions and clear up misunderstandings, and to maintain the attitude of good-will agents.

The extension service, which had appropriately played a large role in the work preceding the sign-up, welcomed lighter responsibilities for ensuring compliance because of its policing aspects. But the county agent was usually secretary of the control association and worked closely with the allotment committee; and the counsel and aid of the state extension service were enlisted in the selection of state wheat agents, the training of supervisors and re-check engineers, the provision of equipment, and other matters.²²

The plan was to have inspection work start "when the wheat has grown sufficiently for it to be distinguished as wheat, either when it is standing alone or in a mixture with other grain."²³ In fact, delays which not merely proved irritating, but in many cases gave rise to consid-

²¹ *Wheat Work No. 8*, May 21, 1934.

²² *Handbook on Compliance (W-40)*, p. 1.

²³ The same, p. 4.

erable difficulties and expense, arose in getting the inspection machinery set up and functioning.

Factors responsible for these delays lay principally within the AAA. The Wheat Section was breaking new ground. Throughout the fall and winter of 1933-34, difficulties connected with adjustments and approval of contracts so fully absorbed its attention that too little time was given to maturing plans for checking compliance. In particular, the preparation of instructions for measurements and for filling out the required forms was not begun early enough. Late in March the *Handbook of Compliance* was prepared, and shortly distributed, and negotiations were started toward the appointment of acceptable state wheat agents. For a time, action was retarded by uncertainties arising from plans to set up a Compliance Section. This section was established on April 12, but merely as a co-ordinating agency; and the commodity sections remained responsible for developing compliance methods, forms, instructions, and execution.

It was well along in May before detailed instructions on measurement were sent to the field. Difficulties in procuring the appointment of suitable men for state wheat agents resulted in not filling these positions until late in May. This left too little time for the necessary preparations to be made in the states so that check-up everywhere could be made before harvest, especially since the harvest was one or two weeks earlier than usual in various sections of the Southwest and Pacific Northwest. Wheat was heading in almost all states before measurement was begun, and in every state some wheat was cut and threshed before inspection was concluded or the check on compliance completed. In most of the northern Great Plains states, moreover, the grasshopper eradication campaign and the federal

cattle-buying program demanded so much time from the extension service that the training of supervisors for wheat inspection had to be put off.

Several consequences of these delays deserve passing mention. Extreme pressure on those concerned with compliance was entailed. The check-up ran over into harvest time, when farmer supervisors had to get back to their own farm work; this resulted in more turnover in the group of supervisors. In the aggregate and in many sections, though not universally, more than the planned number of supervisors were appointed so as to shorten the inspection period. Supervisors were given less training. Measurements were made more hurriedly. Re-check engineers were able to measure only 2 or 3 per cent of the inspected farms, instead of 5 per cent as planned; and often easily measured fields were selected. New regulations had to be framed to cover cases where overplanting was discovered only after harvest. Farmers who were required to do certain things to have their performance certified found compliance more burdensome than if the check-up had come earlier. Special problems arose because of the severe drought, which caused widespread abandonment of seeded acreage, especially in spring wheat territory. In retrospect it is clear that the compliance arrangements should have been completed two or three months earlier, and the work done at least a month earlier than it was.

COMPLIANCE PROCEDURE

State wheat agents were appointed by the Wheat Section, usually at the suggestion of the state director of extension. Political influence, which in some cases threatened to prevent desirable appointments, was successfully minimized by reason of the special qualifica-

tions necessary, the temporary nature of the appointment, and the strenuous work involved. With few exceptions the appointees had been working on the program from its inception, some as county agents and others as members of allotment committees. Appointments were for three months, but in a few instances the term was extended by from one to four weeks and in one state by almost three months.

Farm allotment supervisors were officially appointed by the state wheat agent. Each association was asked to recommend one person for each 50 farms under contract within its jurisdiction. From those recommended, one for each 75 farms under contract was selected for training, and after training one or more for each 100 farms were employed. This was the general plan,²⁴ and it was broadly carried out. In practice, however, the secretary of the county association, assisted by the allotment committee, usually had the principal voice in the selection of those for training; and extension specialists and re-check engineers who conducted the training had a large voice in the final selection. While political or other local or personal influence may sometimes have affected recommendations for these positions, it appears not to have affected the final selection. As a rule applicants who lacked the requisite ability dropped out or were weeded out before they were appointed, or in some cases later under the test of practice.

The principal duties of the supervisors were to visit each farm under contract, to get the farmer to complete his "Operator's Certificate of Compliance" and sometimes other required forms, to make and record field measurements of both seeded acres and contracted

²⁴ *Handbook on Compliance* (W-40), p. 4.

acres, and to ascertain and record the use of fertilizer and of contracted acres. The general instructions²⁵ called for measuring the sides of each field, the angles between the sides, and the slope of sides where it exceeded 8°. Each supervisor worked in a community other than the one in which he lived. As a rule assistants were employed, and two (sometimes three) men worked together. Duplicate records were made for each farm; one of these was retained by the supervisor, the other turned in to the association for computation of areas.

Before the work was started, applicants reported to a county or regional training school conducted by the state wheat agent, extension specialists, and/or district supervisors who had received special training at the state extension office. Frequently the re-check engineer in whose district the farm supervisors were to work attended the training school and helped with the calibration of instruments and the practice measurements. At these training schools the mornings were usually taken up with explaining how and why the measurements were to be made, and what the objectives of the wheat program were. In the afternoon applicants were taken to a practice field and measurements made and instruments calibrated. Usually a short written examination was given before the training school ended.

In some states farmers were reported to have made the best supervisors. Usually younger men proved more satisfactory than older ones. College and high-school students were employed to a considerable extent in some counties, but were often reported less satisfactory than farmers. Before inspection was completed there was

²⁵ *The Measurement of Fields under Production Control Contracts* (W-42, issued May 1934, superseding W-127 and W-135).

quite a turnover of supervisor personnel, for such reasons as incompetence, work too fatiguing for the pay, better job offered elsewhere, or work requiring attention on the supervisor's own farm.

The essentials of a satisfactory method of measurement were that it should be economical, reasonably accurate in the hands of slightly trained men, and as rapid as possible in operation. The Wheat Section recommended that farm supervisors measure linear distances by surveyors' chains, revolutions of a calibrated wheel, or other simple device, and angles between the sides by a simple survey instrument.²⁶ This method was generally employed. Wheels were most commonly used for measuring distances, except where the ground was so rough or vegetation so dense that wheel measurement gave rise to danger of serious error; then surveyors' chains or tapes were usually substituted.²⁷ In Nebraska the "Walking A" was used extensively—a device shaped like a capital "A" with the points a known distance (usually 5 feet) apart; and survey instruments were used only in measuring the more "difficult" fields. In five counties in Washington and Oregon

²⁶ The same, p. 1.

²⁷ The survey instruments used in different states and sections differed little except in details of materials used and sighting devices. The wheels varied much more. The general specifications merely required that the wheels be of sufficient diameter and weight to be unaffected by weeds and other plants encountered on the edge of fields; that no wheel be less than two feet in diameter; that the weight of the wheel be *not great* enough to form a depressed track; that the tire be kept free of trash or mud; that pneumatic tires, if used, be kept inflated to a constant moderate pressure; that the nature of the ground surface be fairly uniform on all sides of all fields measured; and that the exact number of revolutions per mile under actual field working conditions be found by a field test. (The same, p. 3.) Some state wheat agents arranged with the state agricultural college or contracted for wheels and survey instruments to be *made in quantity and sold to each association*. Some merely furnished specifications and allowed associations to secure their own equipment. Some supervisors supplied their own wheels without cost.

field measurements were replaced by aerial photographs.

In practice, wheels used ranged from old automobile tires with boards nailed across them to act as spokes, or old cultivator wheels with diameters of only slightly over two feet, to large wheels constructed of lath with a diameter of about six feet. Bicycle wheels were much used, also iron wheels specially constructed to have a circumference of one-half rod. A few supervisors attached odometers (mechanical revolution counters) to their wheels, but the common practice was to count the revolutions indicated by a "clicker" attached to the spokes which sounded with each turn of the wheel.²⁸ Wheels were calibrated by counting revolutions of the wheel when run a measured distance over ground similar to that upon which acreage measurements were to be made.

Widespread abandonment of wheat, especially in spring wheat states, created a special problem. Where all wheat was abandoned, farmers and allotment committees objected to having any expense incurred for inspection or measurement, and considered the check-up requirement mere red tape. Some administration officials considered rough measurements worse than none, and feared that the government would appear ridiculous if measurements were made where no crops were growing. Under instructions from the Wheat Section, state wheat agents required farms to be visited in all such cases so that the necessary certificates could be made; but they exercised discretion as to the care with which contracted acres should be measured. In some drought states, no measurement was made where a

²⁸ In some counties where distances were great, wheels were run from cars, but this worked badly; or distances were measured by means of an electrical attachment causing the front wheel of the car to sound the horn at each revolution.

farmer was able to show fields containing many times the acreage required to be contracted, or the supervisor merely indicated to such farmer that a measurement of so many feet in each direction would give him the required contracted acres. In other drought states, measurement of contracted acres was made with some degree of accuracy.

Acreages were computed not by the farm supervisors but by an office force of "computists," usually at the office of the association. Sometimes, where contracts were few, offices were set up at some central point and one or more computists employed to serve two or more associations. These were officially appointed by the state wheat agent, but they were paid by the association and usually hired by its secretary assisted by the allotment committee. Computists were usually recruited from high-school graduates, college students, or other persons with some mathematical or engineering training. The Wheat Section's instructions for *The Computation of Acreage under Production Control Contracts*²⁹ were supplemented by a practical demonstration given by the re-check engineer or district supervisor. The field measurements were first plotted, and areas then computed either by the use of triangle formulas or, in some instances, a planimeter.

"Special inspectors" or re-check engineers were employed—usually one for each four or five associations—by the state wheat agent at the expense of the Wheat Section. They were men with engineering training, usually chosen from the unemployed. They received instructions from the state wheat agent assisted by exten-

²⁹ Form W-137 issued in mimeographed form, replaced by W-43 issued in printed form in May 1934.

sion officials, sometimes with a representative of the Wheat Section present; later they were supplied with printed directions.³⁰ Initially they assisted in training (and selecting) farm supervisors, and in helping to inspect and calibrate equipment. Thereafter they were instructed:

(1) To sample the surveying work of each of the compliance supervisors at the earliest opportunity, to aid them in acquiring skill and judgment in measuring fields according to the instructions to field workers. (2) To discover and report at the earliest opportunity workers who cannot succeed with the work, and hence may be wasting their time without remuneration. (3) To examine office work and aid office workers in the office of the wheat production control association in systematizing their work. (4) To re-check the performance of field workers to maintain the standard of surveying and to aid them to accomplish their work with facility. (5) To complete the inspection for each association as soon after the field measurements are completed as is possible in order to expedite the approval of compliance reports, thus releasing the payments to farmers on the wheat contracts, and the pay to the compliance supervisors for the field measurement work.

Aerial surveys were used in Whitman, Garfield, and Walla Walla counties, Washington, and Umatilla and Wasco counties, Oregon.³¹ The first request for permission to use this method came from Whitman, the largest

³⁰ *The Second Inspection of Acreage under Wheat Contracts (W-44)*, issued in printed form June 9, 1934.

³¹ Approval of resort to aerial survey was delayed for some weeks because (1) the unemployment situation seemed to favor methods employing more men; (2) the price initially quoted for making the pictures was considerably higher than could be afforded; and (3) the contract for taking the pictures involved so large a sum that special arrangements satisfactory to the Comptroller's Office had to be made by the Wheat Section before it could be signed. After permission was granted to Whitman County on June 10, several other counties in the Pacific Northwest asked like permission, and the method might have been used elsewhere if arrangements could have been made earlier.

wheat-producing county in the United States.⁸² It has a very high percentage of total land in crop and of crop land in wheat. The topography is rolling, and measurement by the ordinary method was found to be difficult, inaccurate, costly, and slow.

Pictures were taken from an altitude of 12,000 to 14,000 feet and were on a scale of approximately 1,000 feet to one inch, each picture covering about one section of land. Planes flew north and south along parallel lines covering a strip of land about one section wide at each flight. Pictures were taken only between 10:00 A.M. and 3:00 P.M., as shadows made by the hills before and after this period caused unsatisfactory results. With clear weather and good flying conditions, a single plane equipped with two cameras could photograph 20 to 30 thousand acres daily.

Taking the photographs cost about one cent per acre. Ground crews were necessary to supplement and check the information obtained from airplane pictures. Measurements from the pictures proved accurate when checked by engineers. No trouble was experienced in distinguishing between the different crops growing. The cost of checking compliance in Whitman County by this method amounted to \$10.17 per contract, or 6.6 cents per acre of base acreage. In Wasco County, Oregon, where the method recommended by the Wheat Section and the aerial survey method were both used, the average cost per farm (not including the cost of filling out compliance forms) using the ground method was \$15.09, while using the air method it was only \$12.18.

⁸² Carl G. Izett, secretary of its wheat production control association, was the leader in promoting and applying aerial photography to checking compliance. Our account is based mainly on reports from him and other county agents and observers in Washington and Oregon, and items in the *Pullman Herald*.

More information was obtained by the aerial survey. The aerial maps will serve for checking compliance in 1935, since areas of all fields are shown and supervisors will need only to check on the use of these fields. Moreover, many farmers are anxious to obtain copies of the photographs of their own farms, and the proceeds of such sales will reduce cost of inspection somewhat. The photographs bid fair also to be useful in connection with land planning and erosion control. On the basis of the 1934 experience, the method is being considered for more widespread use in 1935. For economical use, a large proportion of the land measured must be in the crops being inspected, since the cost is the same for photographing a section of land regardless of the amount of land in crops.

COMPLIANCE RESULTS

The check showed some form of non-compliance in not over 10 per cent of the total number of contracts. Excess of seeded acreage was by all odds the commonest form. In several hard winter wheat states, more or less considerable scale-downs in acreage were made after farmers had sown their wheat,³³ and the percentage of non-compliance there raised (and ran considerably above) the general average. In many cases, in the last analysis, the criterion of compliance employed was not seeded acreage, but acreage harvested or expected to be harvested for grain; hence abandonment due to adverse weather permitted many growers to be regarded as complying though their seeded acreage exceeded the approved figure.

Where acreage figures submitted by contract signers

³³ All farmers eventually received notices of acceptance which indicated definitive acreage limits.

were not altered or where, as in spring wheat regions, the permitted acreage was known before seeding, the reason commonly given for unintentional overseeding was that acreage of fields had been inaccurately estimated. In a few cases ignorance or misunderstanding of contract requirements was the excuse. Clearly deliberate overseeding appears to have been uncommon.

Where the check indicated that a contracting farmer had excess acreage for harvest, or had failed to comply with some other significant requirement, the general policy was to permit him to make amends rather than suffer the stated penalties for violation of contract. Allotment committees were encouraged to recommend, on a sheet attached to the Proof of Compliance, appropriate lesser adjustments, and the Wheat Section generally approved these recommendations. Most of the excesses were small, and the practice was to treat such as unintentional. Only where it was patent that violation was deliberate and where contract signers refused to make required adjustments were certificates of compliance refused, the contracts cancelled, benefit payments stopped, and refund of previous payments claimed.

Where seeded acreage exceeded 85 per cent of the approved base period acreage, several possibilities for compliance were offered. (1) Abandonment due to adverse weather might be shown. This was common. (2) Excess wheat acres might be plowed under. In some instances this had been done before inspection, and there was then no check on the quality of the crop turned under. (3) Wheat from excess acres might be cut for hay. Frequently the supervisor revisited the farm to check upon this, but he seldom could check the representativeness of the standing wheat thus removed from

harvest for grain. (4) If the wheat had been cut but not threshed, sheaves representing the production of the excess acres might be set aside for feed use, and supervisors were required to see that this was done before certifying compliance. (5) If threshing had been completed before inspection, an amount of grain representing the crop of the excess acres might be donated to relief agencies or be cracked and/or mixed with other grains for feed use, and a certificate to this effect (Form W-48) signed by the farmer, the supervisor, and the allotment committee.³⁴ (6) The contract signer might explain how the overseeding had occurred and execute an agreement (Form W-46), subject to the approval of the allotment committee and acceptance by the Secretary of Agriculture, to make an additional reduction in acres seeded for harvest in 1935 equal to the excess acres of 1934. This entailed deferring 1934 adjustment payments until proof of compliance for 1935 should be accepted. (7) If overseeding was charged to errors in estimating acreage in wheat and summer fallow, the grower might claim (on Form W-37) an established rotation period and agree to make corresponding additional reduction in acreage seeded for 1935, without deferment of 1934 payments.

The course actually chosen was not wholly at the option of the contract signer but depended, where a requirement was imposed, to a large extent on the recommendation of the state wheat agent. In the drought devastated areas, abandonment generally sufficed. Where inspection was completed before harvest, plowing up was permitted but seldom required or chosen,

³⁴ In a few isolated cases, where it could not be used for feed, excess wheat was burned. This was not countenanced by the Wheat Section, which urged donation of the grain for relief under such conditions.

and cutting excess acres for hay was most common. Where threshing was completed before non-compliance was ascertained, growers were permitted to adjust by method (5), (6), or (7). The recommendation of the state wheat agent and the possibility that overseeding was deliberate were governing factors in the choice of method; where the violation seemed obviously unintentional, method (7) might be used, while if intentional violation was suspected, method (5) or (6) was used.

Largely because of rulings modifying the contract requirement that there should be seeded "an acreage sufficient at the average yield in the base period . . . , to produce the farm allotment . . . for this farm,"³⁵ violation by underseeding was not common. Administrative Ruling No. 39, approved December 1, 1933, permitted signers to secure exemption from this requirement without dockage of benefit payments in areas where adverse natural conditions prevented seeding or rendered it inadvisable. Eventually 486 counties in 16 states were designated, on recommendation of state extension officials, under this ruling for 1934. Up to May 4, when only 352 of these counties had been so designated, the exempted area covered about 69 per cent of the acreage signed up in the first campaign, including almost all the spring wheat area.³⁶ Administrative Ruling No. 33, approved March 3, 1934, reduced the penalty for underseeding to reduction of adjustment

³⁵ In some areas, particularly Ohio, Indiana, and Illinois, this contract requirement had given rise to considerable criticism from farmers who regarded it as forcing them to plant more than their rotation scheme or other plans called for, and the sign-up there was smaller for this reason.

³⁶ *AAA Press Release Nos. 2277-34, 2414-34, 2504-34*, Apr. 4, 23, May 4, 1934. The number of counties so designated was as follows: Montana 34, North Dakota 52, South Dakota 61, Nebraska 88, Colorado 29, Kansas 62, Oklahoma 9, Texas 10, Minnesota 1, Idaho 4, Oregon 2.

payments in the ratio that the acreage actually seeded bore to the required minimum.

As we have seen, provisions regarding the use of contracted acres were also so modified as the result of the drought, that violations of contract on this score were practically negligible even outside the drought areas. Land not under contract but on a separate farm operated by a contract signer was required to be reported on the Proof of Compliance. It proved sufficient to leave it to the county allotment committee and interested neighbors to check on the observance of the contractual requirement not to increase wheat acreage on such land. The limits as to the use of fertilizer were of no practical importance in those large sections of the wheat-growing territory where fertilizer is not used on wheat. In general, no effort appears to have been made to go beyond the contract signer's statement on this point. There were no reports, such as were common in respect to cotton, that unusual amounts of fertilizer were being purchased or applied.

On the whole, so far as we can judge, the check on compliance was generally adequate, and even under a semi-centralized system, it was made and followed up without arousing hostility to the "policing" involved. While many signers had not precisely fulfilled their obligations, comparatively few had violated them flagrantly and deliberately. The test, however, was less crucial than had been expected. More numerous violations might well have been found if the drought had been less widespread and less severe, and if relaxation of restrictions previously imposed had been less general. Under the circumstances surrounding the signing of contracts and adjustment of contract figures, and the

difficulties and delays incidental to the first year under a wholly new scheme, the essential purpose was amply served by treating relatively minor non-compliance with leniency. To some unascertainable extent, however, undetected violations occurred to the profit of the violator by selection of poorer acres for contracted acres or abandonment, by use of excess wheat for hay or feed as replacement of other feed that the violator might have used, and otherwise.

The cost of checking compliance ran considerably higher than early budget estimates, except in a very few localities where because of drought little if any measuring was done, or where budget estimates had been set unusually high. Early estimates of the local cost had mostly run from \$0.75 to \$1.50 per contract; in most counties the cost actually ran from \$2.00 to \$5.00 per contract. In some drought areas where measurements were not required, the cost of inspection was less than \$1.50 per contract; but where fields were large and/or irregular and the terrain rough, costs ran up to \$12.00 per contract, with a few isolated cases as high as \$20.00 or over. The task was taken more seriously, was performed more carefully, and proved in fact more expensive than had been first contemplated.

Rates of pay for supervisors and computists were set by the county associations. Though suggestions as to reasonable rates were made by various state wheat agents or extension officials, with some response from the associations, there was little uniformity within states and less between states. Generally supervisors were paid so much per contract, sometimes according to a sliding scale varying with the acreage covered, or the number or irregularity of the fields measured; in a few counties payment was on a per diem basis. Sal-

aries of state wheat agents and of re-check engineers (the latter usually at \$10.00 per day), and other costs of instruction and supervision, were borne directly by the Wheat Section.

Deductions from gross benefit payments for local costs of administration in 1933-34, "paid largely to growers who served on county and community committees," ran to about 4.8 million dollars.³⁷ This means an average of 1.37 cents per bushel of allotment. Where the sign-up and wheat acreage per farm were large and the local administration efficient, costs per bushel were less, sometimes much less; under the reverse conditions they ran well above this average. Even under otherwise similar conditions, differences in efficiency were reflected in considerable variations in local unit costs.

In addition, directly chargeable against wheat tax collections—

The administrative expenses of the wheat program during the first year were approximately 3 million dollars, or 2.4 per cent of the total amount collected. This included handling and auditing the contracts and compliance certificates, field expenses other than those of the local association expenses, money paid to the Co-operative Extension Service to further wheat program activities carried on by that service, and handling funds, issuing checks, and collecting the processing tax by the Department of the Treasury.³⁸

The sum of these and local costs, 7.8 million dollars for 1933-34, averaged 2.23 cents per bushel of allotments to contract signers. The first statement of the adjustment program included an estimate that "the

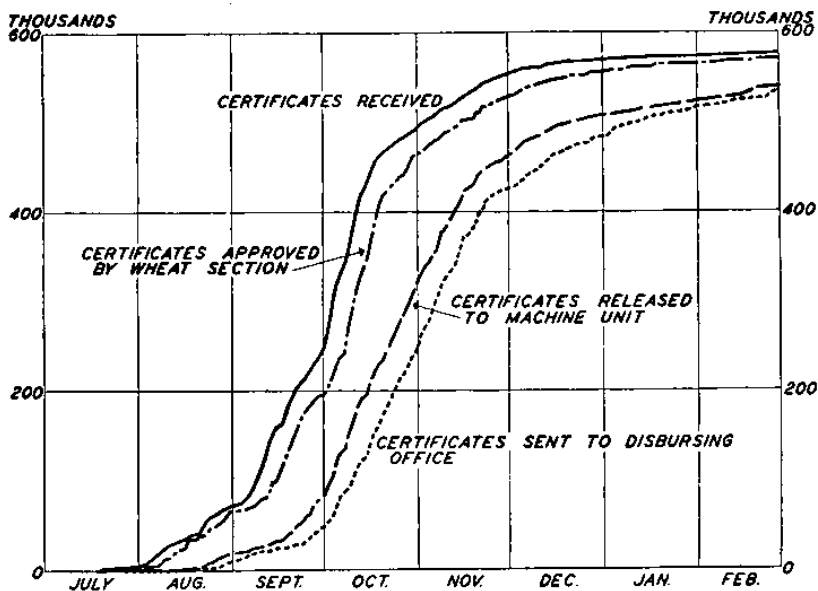
³⁷ "The Facts about Wheat," *Wheat Circular No. 1*, January 1935, p. 12.

³⁸ The same, p. 13. This figure does not include any share in the general overhead of the AAA. See Table VII, p. 452, for a classification of total AAA expenditures through January 1935.

whole plan could be accomplished at an annual administrative cost of not to exceed 2 cents a bushel."

The course of compliance certificates through the Washington office is indicated in the accompanying cumulative chart. The late start in checking compliance

INDICATORS OF COURSE OF ACTION ON WHEAT COMPLIANCE CERTIFICATES FOR 1934^a



^a Cumulative data of Wheat Section, AAA.

was partly responsible for delays in receipt of certificates at the Wheat Section, but the procedure in the field was time consuming. Also, county associations found the forms complicated; hence many errors were made in filling them out, and time was lost in getting these corrected. After approval by the Wheat Section the auditing process took time. Many troublesome cases largely account for the fact that even by the end of 1934 a considerable number were not yet approved so

that the final steps could be taken and checks sent out.³⁹ It was mid-October before four-fifths of the certificates reached the Wheat Section and late November before as many had been approved. These delays retarded payments of the second instalment of adjustment payments for 1933 and of the first for 1934 as well.

ARRANGEMENTS FOR 1934-35

Since the wheat contracts are to run through 1934-35, the second year of the program involves essentially continuation under existing contracts. The processing tax was kept at 30 cents per bushel. The rate of benefit payments was held at 29 cents (gross) per bushel of allotment, of which the first instalment was kept at 20 cents. The proclamation of July 9, 1934 announcing these decisions stated that acreage reduction required for 1935 would not be over 15 per cent of the base acreage; and on August 23 the figure was set at 10 per cent.⁴⁰ It was estimated that 46,350,000 acres would be seeded by participants, and perhaps 16 million more by non-signers; and that with average weather conditions this might yield a crop of 775 million bushels.⁴¹

Because of the emergency caused by the drought, the AAA made liberal purchases of seed grain, including hard red spring and durum wheat. Up to early December 1934, it had acquired the following amounts which on December 3 it offered for sale in drought

³⁹ Some payments on the second instalment were held up for reasons indicated on p. 131 and note 26, p. 156.

⁴⁰ AAA Press Release Nos. 51-35, 442-35.

⁴¹ In reporting these decisions, the *Northwestern Miller* stated (Aug. 29, 1934, p. 544), apparently on good authority: "If before the crop is brought to harvest high yields and a bumper crop are indicated, some of the growing grain might be stored as insurance against future shortage. The government would lend money on stored grain to provide an incentive for holding it off the market."

counties through county drought committees at cost prices indicated below:⁴²

Type	Bushels	Price
Marquis, Ceres	5,050,000	\$1.35
Durum varieties	1,150,000	1.60

The amounts so available represent over one-fourth of the spring wheat seed requirements for 1935. Up to the end of March 1935 very little of this wheat had been sold. This was partly because prospects for spring seeding were very bad in the western half of the spring wheat belt; and partly because, in the absence of legislation authorizing government loans for seed purchases on special terms, farmers most urgently in need of seed had no credit to use in buying it. On March 21, however, the President signed a bill providing 60 million dollars for feed and seed loans, and steps have since been taken to facilitate distribution of seed to farmers who cannot afford to buy it.

Because of the feed shortage in 1933-34, Administrative Ruling No. 3 (issued September 12, 1933) had authorized contracting growers in emergency areas to seed excess wheat acres for winter pasture and for hay, provided they filed a written statement promising to plow this land or cut the wheat for hay before grain harvest. Many contracting farmers planned in 1934 to seed their full acreage or more, with a view to removing it before harvest if they had to. For these reasons, and because of higher wheat prices, it is not surprising that

⁴² *AAA Press Release No. 1094-35*, Dec. 3, 1934. The general principles and outline of procedure to govern distribution had been announced in *AAA Press Release No. 734-35*, Oct. 6, 1934. In a release of Feb. 8, 1935 (*No. 1547-35*) announcing the completion of purchases, stocks on hand Feb. 5 were reported as: hard spring, 5,590,804 bushels; durum, 876,140 bushels.

winter wheat acreage seeded was officially reported in December 1934 nearly 6 per cent larger than in 1933, the largest in three years, and slightly above the average sown for harvest in 193 .⁴³ The most substantial increases over last year, according to this preliminary report, were in the hard winter wheat states (except Colorado, where conditions were very unfavorable), Missouri, Washington, and Montana.

Provisions regarding the use of contracted acres for 1935, as set forth in September 1934,⁴⁴ were much more liberal than were originally specified for 1934, though less liberal than after relaxations in the spring of 1934. Early steps were taken to give contract signers a clear understanding of what to do and what not to do in order to comply with their contracts for 1935.⁴⁵ Emergency rulings designed to meet particular situations in 1934 were not to apply in 1935. Warning was given that contract violation, whether intentional or unintentional, would receive less lenient treatment than in 1934. Producers were instructed to measure their wheat land before planting because "it is just as much

⁴³ Pertinent official estimates of winter wheat sown for harvest in the years indicated are summarized below, in thousands of acres, for the groups of states used in Table II, p. 446:

Year	Total	A	B	C	D-1	D-2
1930-32 av.	44,165	27,995	1,205	3,698	7,831	3,437
1933	42,669	26,179	1,401	3,821	7,741	3,527
1934	41,850	25,299	1,289	3,218	8,265	3,779
1935	44,306	26,850	1,206	3,575	8,819	3,856
<i>1935 as a percent-</i>						
<i>age of 1930-32 av.</i>	100	96	100	97	113	112

⁴⁴ Administrative Ruling No. 40, Sept. 13, 1934.

⁴⁵ *Wheat Compliance for 1935* (W-47). This was preceded by two sets of suggestions to county association officers; *1935 Wheat Acreage on Farms under Wheat Allotment Contracts* (W-168), Aug. 2, 1934; and *Notifying the Wheat Producer of his Maximum Wheat Acreage for 1935* (W-169), Sept. 22, 1934.

a violation of contract to overplant half an acre as it is to overplant 25 or 30 acres." Eventually, however, these moves were largely nullified.

On March 20, 1935, Secretary Wallace announced removal of all restrictions on planting spring wheat in 1935, without reduction in benefit payments, for all "farmers under wheat allotment contracts who sign agreements to offset 1935 increases with corresponding reduction next year."⁴⁶ This move was based on persistence of extreme drought in a belt including the western parts of the Dakotas and eastern Montana, south to the Texas panhandle; prospects for a small acreage planted to spring wheat;⁴⁷ and indications of a fairly small total crop in 1935. This was shortly followed by radical relaxation of contract requirements affecting winter wheat.⁴⁸

Methods of checking compliance in 1935 are expected to be generally similar to those employed in 1934, though somewhat greater use of aerial photography is likely. Measurements had been made by January 31 in a few winter wheat counties, and it is planned to begin the work in all regions much earlier than last year.⁴⁹ With an earlier start and the experience gained in 1934, the corresponding check on compliance can probably be made in 1935 with less delay, difficulty, and expense; but the compliance check will probably be put to a test even less severe than in 1934.

⁴⁶ *AAA Press Release No. 1789-35.*

⁴⁷ Based on acreage intentions as of Mar. 1, the Crop Reporting Board had just estimated spring wheat plantings only slightly larger than the small acreage sown in the preceding spring, and with average abandonment only 17,847,000 acres for harvest.

⁴⁸ "Supplementary Contract Approved for Increases in Wheat Plantings," *AAA Press Release No. 1862-35*, Apr. 1, 1935. Legal complications raised by these relaxations appear to have been ironed out.

⁴⁹ *AAA Press Release No. 1062-35*, Nov. 26, 1934.

CHAPTER V
WHEAT BENEFIT OR ADJUSTMENT
PAYMENTS

What are now called rental, benefit, or adjustment payments were a cardinal element in the domestic allotment plan from its inception. In Black's 1929 form of the plan no such term was used; transferable certificates were to be issued to all wheat growers in terms of allotments expressed in bushels, and these were to be salable to millers at something like the tariff duty per bushel. In Wilson's revision of the plan in the spring of 1932 "tariff benefits" were to be paid in cash, at the tariff rate per bushel of allotment, to those growers who contracted to reduce their acreage. In the revised plan of December 1932 the name was changed to "benefit payments" and the tie-up with tariff rates eliminated. While the Agricultural Adjustment bill was under discussion, the idea of land leasing gained support in various quarters and the words "rental or" were inserted.

The Adjustment Act contains only a few brief references to rental and benefit payments, and leaves to the Secretary of Agriculture wide discretion regarding rates, amounts, and methods of allocation and payment. The principal provision is found in the opening sentences of "Part 2—Commodity Benefits":

Sec. 8. In order to effectuate the declared policy, the Secretary of Agriculture shall have power—

(1) To provide for reduction in the acreage or reduction in the production for market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments

in connection therewith or upon that part of the production of any basic agricultural commodity required for domestic consumption, in such amounts as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments. . . .

Such payments, it will be observed, are authorized only in the case of commodities designated as "basic" and only in order to effectuate the policy declared in Section 2. Clearly they may be used in connection with arrangements for securing reductions in acreage and/or production for market, and with wheat they have been employed only thus. In view of the additional words, "or upon that part of the production . . . required for domestic consumption," it might appear that they could be employed independent of reduction programs¹ or even in connection with programs for adjusting production upwards; but the legal basis for such use is open to doubt in view of other passages in the act.

Section 9 (a) of the act makes the imposition of processing taxes on any basic commodity conditional upon determination to make rental or benefit payments on that commodity, and 9 (b) requires the termination of such taxes "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." Section 12 makes available for such payments both the proceeds of such taxes² and

¹ Thus far the AAA has uniformly tied benefit payments in with some form of reduction efforts. In connection with emergency purchases of cattle in the summer and autumn of 1934, part of the payments made were designated benefit payments, and viewed as consideration for the reduction in cattle by co-operating farmers and for their obligation to participate in a subsequent cattle adjustment program.

² The act does not prohibit drafts upon processing taxes collected on one basic commodity to pay rental or benefit payments to producers of another; and most of such payments to corn growers have come out of taxes collected on the processing of hogs.

the initial appropriation of 100 million dollars, and authorizes the Secretary of the Treasury to make such advances to the Secretary of Agriculture as may be required for this and other stated purposes.

Sections 3-7 of the act authorized the taking over of cotton controlled by government agencies and the delivery of options thereon to supplement cash rental payments offered to induce growers to plow up cotton in 1933. Section 8 (1) as quoted above continues:³

Under regulations of the Secretary of Agriculture requiring adequate facilities for the storage of any non-perishable agricultural commodity on the farm, inspection and measurement of any such commodity so stored, and the locking and sealing thereof, and such other regulations as may be prescribed by the Secretary of Agriculture for the protection of such commodity and for the marketing thereof, a reasonable percentage of any benefit payment may be advanced on any such commodity so stored. In any such case, such deduction may be made from the amount of the benefit payment as the Secretary of Agriculture determines will reasonably compensate for the cost of inspection and sealing, but no deduction may be made for interest.

No use has been made of this provision, and when advances to corn growers were authorized in the autumn of 1933 on the security of corn stored on farms, these bore no relation to benefit payments.⁴

PURPOSES AND CONCEPTS OF PAYMENTS

Provisions for payments to contracting wheat growers were made with three distinguishable purposes in

³ By the Jones-Costigan Sugar Act of May 9, 1934, an additional provision was inserted, applicable only to sugar beets and sugar cane.

⁴ Proposed amendments to the act, supported by the AAA, would authorize benefit payments to be made in "quantities of one or more agricultural commodities acquired by the Secretary" in connection with loans under the "ever-normal granary" plan provided for in another proposed amendment. See 72 Cong. 2 sess., *Amendments to Agricultural Adjustment Act*, Hearings on H. R. 5585 before House Committee on Agriculture, Feb. 28-Mar. 6, 1934, pp. 1-7.

view: (1) to induce wheat growers to agree to restrict or reduce their wheat acreage for 1934 and 1935; (2) to give them a supplementary income when their returns from wheat sales had been extremely low and promised still to be low; and (3) thereby to stimulate the purchase of goods by wheat farmers and payments on debts and taxes, and thus to accelerate business recovery. For the last two purposes, early payment was regarded as highly desirable, almost essential; for the first, however, it seemed necessary that the contractual consideration be paid only on proof that the contractual obligation would be or had been fulfilled. In practice a compromise was made: the larger first instalment was made payable on approval of an acceptable contract (which proved to be much later than was first hoped) and the second on evidence that the first year's obligations had been met.

The term "bonus," though occasionally used by farmers and even by some spokesmen for the program in the field, was frowned upon by the AAA because of implications regarded as objectionable. The gentler term "benefit payments," which appears in the act and which was commonly used in the early stages, was soon more or less displaced because it seemed to stress but one purpose of the payments. The term "adjustment payments," which had been embodied in some drafts of the bill, soon came to be the preferred official designation because it suggested the dual idea of payment for adjusting production, for which compensation was due, and a payment to adjust the wheat growers' income to a level regarded as more nearly fair. The *Handbook of Organization and Instructions* (pages 47-48) said:

. . . Adjustment payments to wheat growers under the Agricultural Adjustment Act are not bonuses, nor charity, nor doles. Neither do they represent subsidies or gifts by the government.

These adjustment payments are a part of the national plan to aid each grower to adjust his acreage to meet demand. The plan emphasizes a new policy in co-operation whereby those who co-operate to control production receive the rewards of co-operation.

Administrator Davis said at St. Paul late in 1934:

. . . These payments are just as much a part of the farmer's earned income as the market price he receives. They are not gifts or subsidies. The consumer has paid for them in the cost of the goods he buys. They are definitely a part of the farmer's price, but he receives them only if he adjusts his productive effort to the level that is best for his industry.⁵

The nature of the service to be rendered by co-operating farmers is in sharp contrast to previously well-established notions of service. It consists of planting less with a view to producing less; in effect, adjustment payments are made for *not* producing. In the face of a huge carry-over of wheat, reduction of wheat output was officially regarded as the needed service to the nation, in precisely the same sense that an increase of production would be regarded as the appropriate service in the face of dearth of wheat.

Naturally enough, no effort was made to compute what would be a proper compensation for the service rendered; or what relief to wheat farmers, individually or as a group, was needed; or what amount of payments, how distributed, would best promote business recovery. Payments were distributed without respect to specific needs or to their particular disposition by recipients. Payments were indeed apportioned according to computed average production in the base period 1928-32, in return for reduction of acreage from the average sown for the crops of 1930-32; but the same pro rata payments went to those who, in the absence of

⁵ AAA Press Release No. 751-35, Oct. 12, 1934.

the scheme, would have planted more wheat than in the average base period or less than they actually did plant for the 1934 crop, and whether the contracting farmer incurred much or little or no sacrifice in complying. Those who found their prospective adjustment payment a sufficient inducement—or more than sufficient—signed contracts; those who did not, remained outside the program.

While the Wheat Section has tended to stress the concept of adjustment payments for services rendered, the income adjustment idea has figured prominently in AAA justifications of the scheme. The payments are treated as an income supplement sufficient to bring the returns of co-operating farmers, in the aggregate though not one by one, to a "fair" or "parity" level on their pro rata "share" of something approaching the amount of wheat consumed domestically for food.⁶ The view is simply that farmers are entitled to what the act designates as "fair exchange value" for their wheat; and that if they get less than this for what they sell, the difference should be made up, at least to those who fall in with a national wheat plan, on something like their usual arithmetic share of domestic wheat consumption for food.

In expounding this concept, AAA spokesmen easily fall into a habit of speaking of these payments as an addition to the farmer's price, as Administrator Davis did in the quotation given above. Such language, how-

⁶ See *AAA Press Release No. 1346-33*, June 16, 1933. According to the *Handbook* (W-15), p. 13, "The farmer . . . produces two fields of wheat, as it were: One for the domestic market upon which he receives the world price plus the adjustment payments, and one for the foreign market upon which he receives the world price alone." Events have not borne out expectations that United States wheat prices would be on an export basis; both in 1933-34 and 1934-35 they have been above Liverpool prices instead of below. See middle section of chart on p. 20.

ever, leads to some confusion.⁷ "Price" is a market fact—here a return per bushel of wheat sold. Adjustment payments per bushel of allotment are not a price in any comparable sense. The farmer gets what he can for whatever wheat he sells regardless of how much he sells, of what it is used for or where, of the "world price," or of the size of his allotment. In addition, if he is a co-operator, he gets his benefit payment per bushel of allotment. The two sets of income he may add together; but adding the benefit payment per bushel of allotment (gross or net) to the price per bushel sold yields a highly artificial sum.⁸ The AAA has indeed sought, with substantial success in its first two years, to make the national average price per bushel of wheat sold by all farmers during the year, plus the gross benefit payment per bushel of allotment, approximate more or less closely the legally computed "parity prices" of wheat per bushel; and some AAA spokesmen appear to regard this as the proximate goal of "adjustment" efforts. But attainment of "parity prices" in this special sense, for co-operating wheat growers collectively,⁹ is a very different matter from restoring average prices on all wheat sold by farmers to the "parity price" level. The two should not be confounded.

Finally, there has been some tendency to stress the

⁷ In *Wheat Studies of the Food Research Institute*, November 1932, p. 25, the present writer criticized this practice as it had appeared in earlier discussions of the plan by Black, Wilson, and others.

⁸ To the miller, of course, the processing tax is an addition to the price he pays for wheat.

⁹ For wheat growers individually no such attempt has been made. Local farm or "parity" prices are not computed; variations in type, quality, and time of sale affect the price realized by individual growers; benefit payments bear no relation to the grower's production or marketings; rates of benefit payments are more or less fixed, regardless of changing prices; and deductions from benefit payments are made to cover local expenses of administering the plan.

concept reflected in the phrase "tariff benefits," as benefit payments were called in the Hope-Norbeck bills of July 1932. In arguing, as Secretary Wallace and others do, that "the processing tax is the farmer's tariff,"¹⁰ it is held that benefit payments paid out of processing tax collections are the economic equivalent of price advantages reaped by those who benefit from protective tariff duties; and also that they constitute a reasonable offset to the farmer's burden from tariffs that raise the cost of what he buys—a burden which no one has succeeded in computing in any trustworthy manner. This concept evidently has a wide appeal, but here too clear thinking requires one to look below the surface.

Benefit payments are indeed loosely comparable with financial advantages that some concerns in protected agricultural and manufacturing industries derive from tariff protection; and a processing tax, in so far as it raises prices to consumers, is like many protective duties. Beyond this the analogy is misleading. The processing tax is an addition to the tariff influence, not a substitute for it,¹¹ even where the tariff plays an important part in supporting farm prices, as with wheat in the past two years. Protective duties are sometimes urged on the ground that eventually consumers will get lower prices because of increased domestic output under the tariff stimulus, and sometimes this has followed; no such claim for the AAA programs is offered. No tariff duty has hitherto been reinforced by *public* restraints on production designed to raise prices, as is characteristic of current adjustment programs. No tariff duty assures

¹⁰ Henry A. Wallace, *New Frontiers*, 1934, pp. 212-13. See p. 190.

¹¹ The effective tariff rate on imported sugar was reduced by more than the rate of the processing tax, but it was coupled with stringent import quota provisions.

the protected producers of returns enhanced to the full extent of the duty on most of the output consumed domestically, and few actually have this effect in the long run; but something like this is sought under the AAA processing tax—on wheat with substantial results.

Many non-agricultural industries nominally protected by tariff duties produce for foreign markets and sell here at prices below those prevalent abroad; but none of these has obtained, as a substitute for tariff protection or in addition to it, a cash supplement calculated to yield a computed "parity price" for about what it sells in the domestic market—as now in the case of wheat and some other farm products. In no other instance have consumers faced the necessity of paying prices enhanced by the combined influence of a tariff duty and production restrictions, plus an internal revenue tax for the benefit of the producers, as under the present wheat program. If these points are well taken, there are important qualifications to the doctrine that the combination of processing taxes and benefit payments is essentially a "farmer's tariff." In calling attention to these distinctions we are not concerned with the relative merits of the tariff and AAA policy; and we cannot go into the whole question of our highly protective tariff policy in its relation to agriculture.

In the foregoing discussion of purposes and concepts of the payments to wheat growers, we have sought merely to elucidate and clarify, without expressing or implying either criticism or endorsement of the principle of benefit or adjustment payments. In the succeeding sections of this chapter, we shall consider objectively how this feature of the program was put into practice with wheat, and how it has worked in the first two years.

ALLOTMENTS FOR BENEFIT PAYMENTS

Under all the earlier, maturer, and final forms of the domestic allotment plan, wheat "allotments" in terms of bushels were to be assigned to each eligible grower. These were merely to serve as the basis for distribution of benefits—salable certificates under the early form, cash payments under the form embodied in the act. They were intended to be issued in proportion to average wheat production in a past "base period" on the land now farmed by the eligible grower, and to bear no relation to his current or future production or sales.¹² The first step necessary, therefore, was to fix what may be called the national quota or allotment, in order to derive from it an allotment ratio or percentage that could be used in determining individual allotments from the base production of individual farmers.

Under Black's 1929 version of the plan, the national quota was to be derived by estimating, for the year in which it was to be used, "the total consumption by domestic mills using wheat, less the wheat equivalent of wheat flour and other wheat products both exported and imported," thus specifically excluding wheat used for seed or feed.¹³ In discussions of the plan as it evolved, the aggregate quota was usually spoken of as total "domestic consumption," which was sometimes interpreted to include seed use and food use. In the first

¹² The Rainey and other emergency bills modeled on the allotment plan provided for issuing benefits on marketings, but this was opposed by sponsors of the broader plan as tending to stimulate production and as lacking the "insurance" feature. Under the British Wheat Act, 1932, cash payments are distributed in proportion to certified sales of millable wheat. See *Wheat Studies of the Food Research Institute*, November 1932 and July 1933, Vol. IX, pp. 27-28, 332-36; and notes by Alfred Plummer and J. S. Davis in *Quarterly Journal of Economics*, February 1935, Vol. XLIX, pp. 356-63.

¹³ *Agricultural Reform*, p. 272.

formal statement of the wheat adjustment program, June 16, 1933, items 1, 3, and 4 read:

Benefits in consideration of co-operation will be paid annually in 1933, 1934, and 1935, on allotments based on the domestically consumed part of the preceding three-year average production of each wheat grower who signs a contract to reduce acreage for 1934 and 1935 crops, if required.

The allotment of each grower is his proportionate share of the total amount domestically consumed, and bears the same proportion to the total domestic consumption as his average three-year production bears to the average total three-year production.

On the basis of information already available in the Department of Agriculture, each state will be allotted for the purpose of determining payments that number of bushels of wheat which represents its proportion of the average domestic consumption for the base period. The county allotments, in turn, will be apportioned on the same basis. Within the county the allotments to individual farmers will be made by the county wheat production control association, and these allotments will be published in the county press.¹⁴

The base period for calculation of state, county, and individual allotments was actually taken as 1928-32, not 1930-32.¹⁵ This made important differences to individual growers. It was on the whole fairer because one or two years of good or bad crops had less weight, and 1928 and 1929 were fairly normal wheat years. Also, the change tended to increase allotments of growers who had been reducing their wheat acreage and to decrease allotments of those who had been increasing acreage.¹⁶

Detailed planning quickly led to more significant

¹⁴ *AAA Press Release Nos. 7070, 7071, June 16, 1933, and Handbook (W-15), pp. 1-2.*

¹⁵ First clearly indicated by material given out on July 24, referred to on p. 153.

¹⁶ See pp. 65-66.

changes. The national quota was not set equal to "average domestic consumption" in the base period, even though by this time AAA officials interpreted domestic consumption to include only wheat used for human food. Three of the best available estimates of this figure, for the base years chosen, center around 504 million bushels,¹⁷ whereas total domestic utilization of wheat in this period (including seed and feed) averaged close to 700 million bushels out of crops averaging 860 million. Rather, an estimate was made of the "normal consumption of wheat" in 1933-34, less amounts to be exempted from the processing tax. This estimate may be summarized as follows, in millions of bushels:¹⁸

Normal domestic consumption for food:		
As flour	500	
As breakfast foods.....	15	515
		—
Estimated exemptions:		
Milled for wheat growers.....	20	
Delivered to charitable organizations	35	55
		—
Net wheat taxable.....		460

At this time the average production of wheat in the base period 1928-32 was estimated at 844 million bushels. The allotment ratio or "domestic taxable consumption percentage" therefore worked out to 54.4 per cent, and for convenience in calculation it was taken as 54 per cent. On this basis state and county allotments aggregating 456.2 million bushels were computed

¹⁷ Approximately the average of the latest available estimates of the Bureau of Agricultural Economics, Martin Newell of the *Northwestern Miller*, and the Food Research Institute. See pp. 356-57.

¹⁸ *Handbook* (W-15), p. 20. The later estimate next mentioned was not published as such, but is largely reflected in budget figures in *Agricultural Adjustment*, AAA, p. 286.

and given out on July 24, 1933.¹⁹ Subsequently, when official estimates of production in the base period were revised upwards (in total to 860.2 million bushels)²⁰ the allotment ratio was left unchanged and the aggregate allotment became about 464.5 million bushels.²¹

In the foregoing estimate, "net wheat taxable" was not precisely a forecast of the amount of wheat on which taxes would accrue, net, in 1933-34. It naturally ignored wheat milled for export as flour, on which taxes might be collected and the equivalent later claimed as refund, and took no account of floor stocks taxes or subsequent refunds thereon. But it also made no allowance for subnormal consumption in 1933-34, or for reduced milling in that year due to advance stocking up by consumers before the tax became effective on July 9.

Late in July 1933 a more careful official estimate was made, taking these into account. This estimate may be summarized as follows, in millions of bushels:

Total grind, 1933-34.....	450	
Less exemptions and evasion.....	50	
	<hr/>	
Total grind subject to tax.....		400
Less: Refunds on charitable deliveries	25	
Drawbacks on flour exports..	15	40
		<hr/>
Net millings on which tax would accrue		360

Had this conservative estimate been available earlier, the allotment ratio might conceivably have been put as low as 43 per cent (on the revised production figures, 42 per cent). On the basis of net tax-paying millings in

¹⁹ *Wheat Statistics and Allotments*, AAA (unnumbered mimeographed release).

²⁰ See *Agricultural Adjustment*, p. 59, and above, pp. 91-92.

²¹ See Table IV, p. 449.

1933-34, an allotment ratio of 44 to 45 per cent would be indicated.²²

By contrast, calculations based on total domestic consumption for food in the base period 1928-32 would have yielded close to 60 per cent, and those based on total domestic utilization in the same base period about 80 per cent. Interpretation, method of estimate, and accuracy of forecast obviously figured heavily in determining the allotment ratio and thus the amount of benefit payments finally authorized. In effect, contracting growers have been given claim to benefit payments on more than their pro rata share of current tax-paying domestic consumption in 1933-34 or 1934-35, but on less than their pro rata share of total domestic consumption for food use in either these years or the base period.

COMPARISON OF PAYMENTS AND FORECASTS

The aggregate amount of wheat adjustment payments depended mainly on three factors: (1) the rate of payment per bushel of allotment; (2) the allotment ratio just discussed; and (3) the percentage of the national quota represented by contract signers. All of these fell considerably lower than had been anticipated when the allotment plan and Adjustment Act were under consideration.

Until late in 1932 the plan had called for fixing the rate of processing tax on wheat, and of gross benefit payments per bushel of allotment as well, at the tariff

²² See below, p. 200. In 1934-35, though actual domestic consumption for food may be no larger than in 1933-34, if indeed as large, milling for domestic use will presumably be larger because total flour stocks in July 1934 were probably fairly normal instead of high as in 1933. Reliable estimates of legitimate exemptions and illegitimate evasion of the tax are still difficult to make. At present writing the processing tax seems likely to accrue (net) on well over 400 million bushels in the current year, but not on as much as the national allotment of 464.5 million.

rate of 42 cents a bushel.²³ When, after the election, the shift was made to the basis of the difference between currently computed "parity prices" and actual farm prices, higher rates were expected to be applied. It was natural (see chart on page 196) that figures of 60 cents or thereabouts should have been employed in illustrative calculations,²⁴ and this prospect reinforced political strategy in leading framers of the measure to adopt the "parity price" basis, which Mr. Peek had long preferred, instead of the tariff basis.

After the marked advance in wheat prices in the spring of 1933, due mainly to the drought that gravely reduced the crop and to the trade response to the new monetary policy, application of the formula resulted in fixing the tax rate at 30 cents a bushel. A 2-cent reserve for promoting exports was chiefly responsible for keeping the initial rate of gross payments assured to growers down to 28 cents per bushel of allotment; and in May 1934 this was raised to 29 cents.

The allotment ratio, or fraction of the crop in the base period on which benefit payments would be reckoned, was also commonly over-estimated in the earlier consideration of the plan. In testimony before a Senate committee in the spring of 1932, M. L. Wilson used a round figure of 80 per cent,²⁵ and in his public discus-

²³ 72 Cong. 1 sess., *Farm Relief*, Hearings on S. 123 before Senate Committee on Agriculture and Forestry, Apr. 26-29, 1932 (M. L. Wilson's letter of Apr. 20, 1932 to Senator McNary, incorporated with Wilson's testimony at hearings, p. 61). Under the Hope-Norbeck bills, as the present writer showed (*Wheat Studies of the Food Research Institute*, November 1932, pp. 43-44, 52), other limiting factors might have held the rate below 42 cents.

²⁴ 72 Cong. 2 sess., *Agricultural Adjustment Program*, Hearings before House Committee on Agriculture, Dec. 14-20, 1932; especially p. 121, testimony of Fred J. Lingham.

²⁵ 72 Cong. 1 sess., *Farm Relief*, Hearings on S. 123 before Senate Committee on Agriculture and Forestry, Apr. 26-29, 1932, p. 60. Ezekiel, in his memorandum in December 1932, used 51.5 per cent.

sions of the plan he commonly used 75 or 80 per cent. As we have seen, the figure finally arrived at was 54 per cent, and it might conceivably have been put as low as 42 per cent.

Different combinations of these various allotment ratios and rates per bushel of allotment yield striking differences in benefit payments when comparably expressed per bushel of production in the base period. Thus 80 per cent of 60 cents is 48 cents; 75 per cent of 42 cents is 31.5 cents; 54 per cent of 29 cents is 15.7 cents—the actual figure reached; and 42 per cent of 29 cents is 12.2 cents. All of these ignore deductions for local costs of administration, which proved to average over 0.7 cents per bushel of base production, or nearly 1.4 cents per bushel of allotment.

Furthermore, in advance discussions it was rashly assumed that practically all wheat growers would qualify for benefit payments. Actually, signed contracts represented not over 78 per cent of the *acreage* seeded in the base period 1930-32 and some 75 of the *production* in the base period 1928-32; and not quite all of these qualified for both first and second instalments at the full rate.²⁶

For these various reasons, accrued gross benefit payments for the first year fell far short of early forecasts.

²⁶ See Tables III and IV, pp. 448-49. Adjustment payments are to be made in a few cases in the absence of an approved contract, under the terms of Section 8 (1) of the act which mentions "other voluntary methods" as well as "agreements with producers." Some cash tenants did not succeed in getting their landlord's signature; some eligible operators had scruples against signing formal contracts; and in some other cases an acceptable contract was not completed. If, however, the operator indicated his intention to co-operate in the program and proved that he had done so, he is to be paid on the regular basis; but no payment will be made to those responsible for withdrawal, rejection, or cancellation of any such contract. See *Instructions to County Allotment Committees* (W-171), Oct. 1, 1934.

In illustrative calculations in 1932 the first year's wheat benefit payments were usually put at 180 to 200 million dollars. As late as May 26, 1933, at the first public informal conference held by the AAA, the spokesman for organized wheat growers (M. W. Thatcher) took 60 cents per bushel as the "price disparity" and the level of the processing tax, assumed that 550 million bushels would be processed, and inferred that the first year's benefit payments would total 330 million dollars. On June 16, one official release said "not less than" 150 millions. Late in July, when the campaign was launched, the prospective total was put at 127 to 136 millions.²⁷ The latest estimate of the gross payment due for 1933-34 is 98.6 million dollars. The net figure, after deductions for local expenses of administration, is estimated at about 94 million dollars.

Nevertheless, the benefit payments offered gave ample inducement for a large sign-up. As we have seen (pages 100-04), dissatisfaction with the amount of benefit payments did not loom large among the numerous causes for non-signing; and in the face of other factors, larger benefit payments would probably not have weighed heavily in increasing the extent of participation in the contracts offered.

The artificial sum of the weighted average price per bushel sold by all growers and the net benefit payment per bushel of allotment was slightly below the average "parity price" (\$1.03) in 1933-34, and the corresponding sum in 1934-35 will be slightly above the higher "parity price" (about \$1.11) in the second year.

If benefit payments are to be regarded as part of the farmers' price, however, a more logical way to proceed is to add net benefit payments to returns from sales by

²⁷ AAA Press Release Nos. 1346-33, 1385-33, 1429-33, 169-34.

contract signers and divide this sum by the number of bushels they sold. By this test, as nearly as we can estimate, contract signers in the aggregate got perhaps 10 cents more than the computed "parity price" per bushel in 1933-34, and will get from 20 to 25 cents per bushel above the higher computed "parity price" in 1934-35.²⁸ Had the crops of 1933 and 1934 been of average size, however, this method of calculation would have yielded average "prices" below the computed "parities."

Following out the idea of payment for service rendered, one may express the adjustment payments in terms of the reductions obtained in wheat acreage and in production. The net acreage reduction by contract signers, *from what they would otherwise have planted*, we have roughly estimated at 4.5 million acres.²⁹ For such "adjustment" co-operating farmers may be considered to have received an average rental of over \$20 per acre. The net reduction in the crop of contract signers, *below what they would otherwise have harvested*, we have estimated at about 35 million bushels. In a sense, therefore, the bushels not raised netted the contract

²⁸ As the crop of 1933 turned out, farm marketings of new-crop wheat probably may be taken as about 370 million bushels, as compared with domestic food consumption of 470 to 480 million and a national allotment of 464.5 million. Marketings in 1933-34 by contract signers probably did not exceed 260 million bushels, as compared with their total allotments of about 350 million.

Of the 1934 wheat crop of under 500 million bushels, probably only about 300 million bushels were produced by contract signers. This proportion is much smaller than the percentages of total acreage and production in the base periods, since drought was serious in important wheat-growing areas where the sign-up was large, and fairly good yields were obtained in many sections where the sign-up was low. Of this 300 million bushels, probably about 100 million will be used by the growers for seed, feed, and food, and about 200 million will be sold.

²⁹ For the basis of some of the estimates used here, and the program's effect on exports and on consumption, see Chap. XI. We attribute to the drought much of the reduction in acreage planted to spring wheat.

signers, on the average, something like \$2.70 per bushel. For the *net* reduction in 1934 output attributable to the program, which we estimate at about 30 million bushels, the cost to the AAA was well over \$3.00 per bushel. Obviously, however, this is an unduly limited standpoint from which to view the wheat program and its results.

COURSE OF PAYMENTS

Not only did the rate of payment and total payments fall far short of early expectations; but the distribution of benefit payments was far slower than had been planned and expected.

At the conference on the wheat program held on May 26, 1933, Mr. Thatcher voiced the hope of farm leaders that the first 70 per cent of the 1933-34 payment (which he then forecast at 231 million dollars) could be made by July 15, 1933. Item 6 of the June 16 formal statement of the program began: "Distribute two-thirds of the payments about September 15, provided the plan gets under way and is carried through as scheduled." The press release of July 24 announcing rates of benefit payments said:

Checks for the initial adjustment payments are scheduled to be mailed as soon as county wheat production control associations can be organized to administer the act locally, and complete the farm allotments. The second payment will be made next spring.³⁰

The wheat primer widely distributed in August said (page 7): "Two-thirds of the money will be paid this fall, from September 15 onward." The *Handbook* (W-15, page 17), also issued in August, mentioned "on or after September 15, 1933," for the first payment, and for the second, "on or about June 1, 1934, after proof

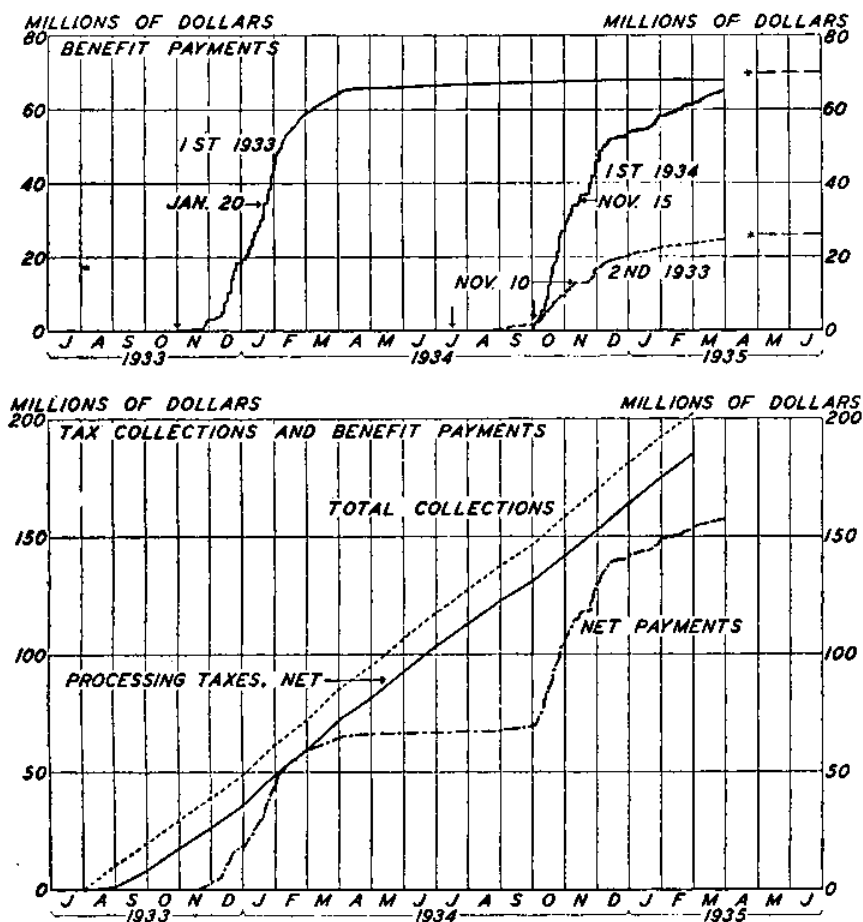
³⁰ AAA Press Release No. 137-34.

of compliance." This optimistic schedule could not be lived up to. "Completing the farm allotments" was soon officially interpreted to mean definitive acceptance of formal contracts, county by county, by the Secretary of Agriculture. As we have seen, not only this process but "proof of compliance" proved far more formidable tasks than were anticipated.

The actual course of wheat adjustment payments, as they were mailed from Washington, is shown in the accompanying chart in the form of cumulative curves. The second instalment is shown in terms of net payments, since the gross payment due was reduced by deductions to cover local expenses incurred. The first wheat checks were sent out on October 31, but only 23 per cent had been mailed before Christmas 1933; the bulk of the first 1933 instalment, however, reached growers before March 1, when farm taxes are commonly payable. The first checks for the second 1933 instalment were mailed on July 13, 1934, but few went out before September 1; half of the estimated total had been sent out by November 10 and 80 per cent by December 31. Payments on the first 1934 instalment, however, began on October 3, 1934, and were made thereafter as rapidly as proof of compliance was received. Whereas half of the first 1933 instalment was not completed until January 20, 1934, half of the first 1934 instalment was completed by November 15, 1934.

Of total net benefit payments estimated due for 1933-34—some 94 million dollars—slightly over 67 million had been sent out by June 30, 1934, and 92.2 million by the end of March 1935. By the latter date, 65.2 million dollars (or 93 per cent of the estimated total) had also been paid on the first instalment of 1934-35 benefit payments, which with the second instalment are expected

WHEAT BENEFIT PAYMENTS AND TAX COLLECTIONS^a
 (Cumulatively from July 1933 to March 30
 and February 28, 1935, respectively)



^a AAA daily data for benefit payments. The second instalment of the 1933 payment is net (after deductions for local administration costs). Initial and median dates of each instalment are indicated. The horizontal lines marked with an asterisk indicate prospective totals of the first 1934 instalment and the second 1933 instalment (net).

Bureau of Internal Revenue data on tax collections to the end of each month, which exclude unallocated collections. The lower tax curve indicates collections of processing taxes (and the very small import compensatory taxes) less refunds. See Tables VIII and IX, pp. 452-53.

to total about 101.6 million gross and 97 million net.

In presenting these facts bearing on the course of payments, we do not imply that the AAA has simply confirmed the reputation of the United States government for being "slow pay." Commendable efforts to expedite payments were successfully made, but the procedures and complications were such that serious delays were inevitable. If surprise is warranted, it is merely that AAA spokesmen so gravely under-estimated the complications and held out hopes that they were unable to fulfill.

As additions to the farmers' income, the benefit payments were most welcome whenever they came. As a stimulus to general business recovery, they greatly disappointed the hopes of sponsors of the Agricultural Adjustment Act. As we have seen, they were smaller than had been expected, and more delayed in distribution. In addition, it had been reasoned that business recovery would be stimulated by getting benefit payments out well in advance of taxes collected to cover them.³¹ In fact, as shown by the lower section of the chart, wheat processing and related taxes were collected well in advance of the distribution of benefit payments.³² Hence wheat payments made little contribution to business recovery, even in agricultural sections, until after the end of 1933.

DISTRIBUTION AND USE OF PAYMENTS

Owing to the geographical distribution of wheat production and the sign-up, three-fourths of the wheat benefit payments went to growers in the hard winter wheat

³¹ Mordecai Ezekiel and Louis H. Bean, *Economic Bases for the Agricultural Adjustment Act*, p. 66.

³² The position in respect to all AAA payments and tax collections is discussed by J. S. Davis, "AAA as a Force in Recovery," *Journal of Farm Economics*, February 1935, Vol. XVII, pp. 1-19 (with discussion by Mordecai Ezekiel and T. W. Schultz).

BENEFIT PAYMENTS

states (Group A) and the hard spring wheat states (Group B); about 14 per cent of the total went to Pacific and tributary states (Group C); about 9 per cent went to states in the main soft winter wheat section (Group D-1); and only 2.3 per cent to other soft winter wheat states (Group D-2).

WHEAT BENEFIT PAYMENTS AND CASH INCOME FROM WHEAT PRODUCTION
(In thousands of dollars)

Group of States	Benefit Payments Accrued (Gross)		Cash Income from Production		Benefit Payments as Percentage of Wheat Cash Income ^a	
	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35
A.....	45,650	46,620	73,658	99,089	38.3	32.0
B.....	27,985	28,784	59,161	36,472	32.1	44.1
C.....	13,770	14,150	48,130	47,523	22.2	22.9
D-1.....	8,924	9,568	70,768	77,633	11.2	11.0
D-2.....	2,271	2,386	23,643	28,452	8.8	7.7
Total.....	98,600	101,508	275,360	289,169	26.4	26.0

^a Sum of gross benefit payments accrued and cash income from production.

The accompanying table summarizes, for these groups of states, the gross benefit payments estimated to be due for each of the first two years of the program, in comparison with latest official estimates of cash income from wheat production.³³ Of the sum of these two items, here inexactly termed wheat cash income, benefit payments accrued constitute the percentages shown in the last two columns. These percentages are high for two

³³ These are based on state-by-state estimates of the Division of Crop and Livestock Estimates released late in March 1935, partially given in Table VI, p. 451. In Washington, Oregon, and northern Idaho, cash income from wheat production and marketings was significantly enhanced by operations under the export subsidy arrangement. See below, pp. 294-96.

groups of hard wheat states, because short crops reduced their cash income from production while a high sign-up resulted in large benefit payments. Corresponding percentages are low for the soft winter wheat states, where wheat crops were fairly good and the sign-up on wheat contracts was relatively small.

More detailed figures bring out much sharper variations among states in the importance of benefit payments relative to wheat cash income. In South Dakota, at one extreme, gross benefit payments represented 92 per cent of the wheat cash income in 1933-34, for the 1933 crop was an almost complete failure and the sign-up very high. In Pennsylvania, near another extreme, gross benefit payments constituted under 4 per cent of estimated wheat cash income, for the 1933 crop was fairly good and the sign-up very low. Corresponding percentages for other outstanding states are: Kansas, 45; Texas, 42; Idaho, 35; Montana, 33; Oklahoma, 29; North Dakota, 28; Nebraska, 26; Washington, 20; California, 13; Illinois, 12; and Ohio, 8. Similar contrasts appear in data for 1934-35.

Particularly with a view to early increase in the effective purchasing power of farmers, the AAA sought to have adjustment payments kept as free as possible from all claims by creditors. Many wheat growers owed the federal government on seed loans, and existing law provided that debts due the United States by any individual or firm should be deducted from any payments by the government to such debtors.³⁴ Interpreting such loans as not yet due, Secretary Wallace was able to announce on August 17, 1933 that adjustment payments would

³⁴ 18 Stat. L. 481.

be subject to no offset for debts to the government.³⁵ On September 12, Administrative Ruling No. 15 stated that no interest in the crop arising out of a creditor relationship to the farm operator would be recognized. Six days later, a regulation was approved reversing instructions previously given in the *Handbook* (page 34) in respect to farms sold on crop payment contracts. In such cases, the operator-purchaser was now deemed the owner for purposes of adjustment payments, and the seller was denied any share of payments arising out of his rights in the crop.³⁶

Returns from sample surveys made in a number of states at various times indicate, nevertheless, that recipients of benefit payments generally used substantial amounts to pay debts of various kinds—store accounts, doctors' and dentists' bills, equipment obligations, back interest and taxes, bank and government loans, and in some areas instalments on mortgage debts. In many areas from one-half to two-thirds of the first benefit payment was used to pay debts and taxes, and this went far toward rehabilitating the farmer's credit standing. Most of the rest was used for current household necessities, current farm expenses, and current taxes and interest. The proportions applied to different purposes varied widely in different sections, according to the degree of financial stringency to which farmers had been reduced; and the considerable evidence we have assembled on this point does not lend itself to summarization or comparisons that we can safely regard as representative.

All the evidence and relevant testimony indicate the real importance attached to this flow of income. Con-

³⁵ *AAA Press Release 359-34.*

³⁶ *Wheat Regulations, Ser. 2 (W-25), Sec. 508, p. 9.*

centrated as it was, it promptly made itself felt in each community. It went far to improve the banking situation and local business in the wheat sections, and the business of many concerns (such as mail-order houses, equipment companies, and others) that are heavily dependent on farmer buying. The finances of local government units were conspicuously improved, and consequently the position and income of their employees, including school teachers. Much of the increased enrollment in state agricultural colleges, generally reported in the fall of 1934, is attributed to increased farm income in which wheat benefit payments played their part. So are increased sales of automobiles in communities dependent largely on wheat, though many of these sales were made not to recipients of adjustment payments but to others who were indirectly aided by those payments.

Whether the benefit payments were used very differently from what their recipients would have used an equal addition to their income from wheat sales, it is difficult to say. Certainly, as a rule, their use was carefully planned well in advance of their receipt, and farm wives usually had a large voice in this planning. Since most recipients regarded these checks as a windfall, it seems possible that a larger fraction may have gone into special comforts, and a smaller part into farming operations, than would have been the case with ordinary additions to farm income of the same amount. But essential needs were so urgent that comparatively little went into other forms of expenditure.

Beyond any doubt, the receipt of benefit payments greatly improved the spirit of every community into which they flowed in any considerable amount, and crystallized sentiment strongly in favor of the wheat program and the Administration in general. In this respect

they were, in our opinion, more influential than a corresponding enhancement of wheat sales returns would have been. This result was the more pronounced, however, because wheat prices also were materially higher than in 1932-33. This attitude was strengthened when, largely as a result of another very short crop, wheat prices rose further in 1934.

INSURANCE ASPECTS

A striking feature of the benefit payments, as employed in the AAA wheat program and others, is that these are paid to participants in proportion to their production in some past period, and bear no relation to the current production, current prices, or current sales and sales proceeds of individual farmers or the whole farm group. J. D. Black rightly stressed the "insurance aspects" of his early version of the domestic allotment plan,³⁷ and this feature was retained in the programs applied under the Adjustment Act. The appeal of the wheat program in 1933 was greater because many growers had suffered disastrously from drought in 1933 and felt that they could not afford to turn down any assured cash income. The wheat growers' satisfaction with the program was further enhanced wherever they were hard hit by the drought of 1934.

AAA spokesmen have naturally stressed the advantage that this has brought growers. Secretary Wallace said in Bismarck, North Dakota, on June 6, 1934:

So for years farmers have looked for some social device, some collective machinery, which would shield them from devastation by a whim of nature. . . .

If for no other reason, society can approve such a social mechanism as crop insurance against natural disaster because it comes

³⁷ *Agricultural Reform*, pp. 285-87.

closest to guaranteeing continuous production of the nation's food supply.

.....

If you will search your memories a little, you will recall that one of the advantages claimed for the McNary-Haugen plan was that it provided a form of all-hazard crop insurance for the producer of staple crops. That idea has been a part of many farm relief proposals since the war.

And now, in the Agricultural Adjustment Act, this form of insurance is a reality. It may not provide as much to the individual grower as he needs, but it goes a long way towards it. Wheat growers have already had one benefit payment, and another one is coming along now. Corn-hog producers are beginning to get their first payments, and a second will be due in the fall. They have that much margin against utter economic ruin in a drought such as this, and they have that much less need for relief.³⁸

In tending to some extent to moderate income fluctuations, benefit payments are like insurance. They accrue to the contracting wheat grower for being and having been a grower, and for agreeing to reduce or restrict his wheat acreage. Since he has certain fixed charges, it obviously reduces his financial hazards to have part of his income thus assured. Never before has he enjoyed this advantage.

Beyond this point, however, the analogy to insurance is technically inappropriate. The fundamental principle of insurance is to collect "premiums" from those subject to certain risks, such premiums varying with exposure to these risks; to distribute payments, in proportion to losses, to those who suffer losses; and to make no payments to those who suffer no losses. In none of these respects does the AAA program provide insurance. The funds out of which benefit payments are paid are collected not from producers subject to the hazards con-

³⁸ AAA Press Release No. 2751-34.

cerned, but initially from processors, and ultimately largely from consumers and to some extent from processors and producers in proportions difficult to determine. There is no approach to the principle of collecting premiums varying with the risks. The payments are not distributed in proportion to losses incurred, and those who incur no losses get just as much per bushel of past production as those who incur serious losses. The aggregate payments are unaffected by the extent of loss experienced. The happy experience with benefit payments in two years of short crops in many sections serves to accentuate interest in finding some practical form of true insurance that can be applied to serve this purpose more effectively.

CHAPTER VI

WHEAT PROCESSING AND RELATED TAXES

Vital and extensive portions of the Agricultural Adjustment Act provided for financing the AAA and its programs for basic agricultural commodities, without the limitations that apply when annual appropriations are required. Authority was conferred on the Secretary of Agriculture, under stated conditions and within limits indicated, to make certain findings and determinations which cause processing taxes to become effective or the rates thereof to be altered or adjusted. These provisions involve large questions of constitutional law, fiscal policy, administrative convenience, and social justice.

The first of this series of taxes became effective on the processing of wheat on July 9, 1933. Prospects for its application had important effects on the course of milling and some influence on wheat and flour prices. Its subsequent effects have also been important though less striking and more difficult to appraise. Collections of these taxes have amply sufficed to finance the wheat program. Thus far this basic element of the act and actions under it have withstood attack from various quarters.

MAJOR TAX PROVISIONS OF THE ACT

The act defined the conditions under which processing and related taxes may take effect and are collected, changed, and removed.¹ Processing taxes may become effective only on agricultural commodities designated as

¹The original provisions, chiefly in Sections 9-12 and 15-19, have already been amended several times without altering their general character. See the AAA's *Compilation of Agricultural Adjustment Act as Amended and Acts Relating Thereto as of June 29, 1934*. In speaking of the powers under the act, we have used the somewhat cumbersome phraseology that reflects the interpretation held by the AAA's legal

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“basic,” for which the Secretary determines that rental or benefit payments are to be made.² If he does so, Section 9(a) requires:

. . . 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 therefore 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.

For each commodity the marketing year is to be “ascertained and prescribed” by the Secretary. Under Section 9(a) and (d) it is further prescribed that:

. . . The processing tax shall be levied, assessed, and collected upon the first domestic processing of the commodity, whether of domestic production or imported, and shall be paid by the processor . . .

. . . In case of wheat, rice, and corn,³ the term “processing”

staff. We do so without prejudging the constitutional issues involved. In effect, resort to a processing tax and changes in rates depend on decisions of the Secretary of Agriculture within limits specified in the act.

² Under Section 11, the Secretary of Agriculture is authorized to designate as a separate basic commodity “any regional or market classification, type, or grade” of a commodity specified by the act as basic; and he “shall exclude from the operation of the provisions of this title, during any period, any such commodity or classification, type, or grade thereof if he finds, upon investigation at any time and after due notice and opportunity for hearing to interested parties, that the conditions of production, marketing, and consumption are such that during such period this title cannot be effectively administered to the end of effectuating the declared policy with respect to such commodity or classification, type, or grade thereof.” Under this provision tobacco has been subdivided into six basic commodities, on which different rates of processing tax have become effective and for which divergent programs have been applied. (See Harold B. Rowe, *Tobacco Under the AAA*, 1935, Chap. VIII.) Similar action might conceivably have been taken with wheat, but this would have multiplied complications that could ill be faced at the outset.

³ For several other basic commodities also the term “processing” is defined by the act or its amendments; for others the Secretary is authorized to define it by regulation, giving “due weight to the customs of the industry.”

means the milling or other processing (except cleaning and drying) of wheat, rice, or corn for market, including custom milling for toll as well as commercial milling, but shall not include the grinding or cracking thereof not in the form of flour for feed purposes only.

The act does not specify, however, whether the tax is to be levied on the farm product, such as wheat grain or cotton as picked, or the product resulting from the first processing, such as flour or cotton lint.

Section 9(b) and (c) set forth a formula to govern the fixing of the tax rate:

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. . . .

. . . the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power, with respect to articles farmers buy, as such commodity had during the base period specified in section 2 [for wheat, August 1909 to July 1914]; and the current average farm price and the fair exchange value shall be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture. . . . In computing the current average farm price . . . of wheat, premiums paid producers for protein content shall not be taken into account.⁴

While this is the basic formula, provision is made for fixing the rate at some lower point,

. . . if the Secretary has reason to believe that the tax at such rate *on the processing of the commodity generally or for any particular use or uses*⁵ will cause such reduction in the quantity of the commodity or products thereof domestically consumed as to result in the accumulation of surplus stocks of the commodity or

⁴ The "available statistics" of the Department of Agriculture afford no basis for giving effect to this last provision. In the past two years protein premiums paid have been so low that if the necessary statistics were available they would show that exclusion of such premiums would have resulted in only a very slight lowering of the current average farm price and only a slight increase in the maximum rate of tax.

⁵ Italicized words inserted by Jones-Costigan Sugar Act of May 9, 1934.

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products thereof or in the depression of the farm price of the commodity

The language quoted above might seem to imply that the rate of tax should be altered from month to month as the difference between "fair exchange value" and "current average farm price" changes, for the words are "shall be at such rate . . . ," not "shall be initially fixed at such rate"; and in Section 9(a) it is prescribed that "The rate of tax shall conform to the requirements of sub-section (b)" in which the foregoing words appear. The next sentence of Section 9(a), however, reads:

. . . Such rate shall be determined by the Secretary of Agriculture as of the date the tax first takes effect, and the rate so determined shall, at such intervals as the Secretary finds necessary to effectuate the declared policy, be adjusted by him to conform to such requirements.

At the outset the Secretary stated: "the act requires that the taxes shall not exceed the amount necessary to restore the pre-war exchange value of the farmers' products."⁶ On various occasions later the impression was given that the tax would be lowered if current farm prices plus the rate of tax should exceed the current average farm price. The standing official interpretation, however, leaves changes in rates, within broad limits, to the Secretary's discretion; and when, near the beginning of the second marketing years for wheat and cotton, fresh calculations on the basis of current prices would have warranted minor reductions in tax rates, they were not changed.⁷

⁶ *AAA Press Release No. 1130-33*, exclusive to financial and commercial papers as of the date of signing of the act.

⁷ See *AAA Press Release No. 234-35*, July 31, 1934, entitled "Cotton Processing Tax to Remain Unchanged," of which two pertinent sentences read: "No adjustment of the rate of tax may be made unless the Secre-

Stability of the tax rates is obviously advantageous from two standpoints. The AAA can make its commitments with reasonable assurance, as it could hardly do if the rate were subject to frequent modifications. Millers and flour purchasers, who face numerous complexities in the event of any changes in the rate, are strongly opposed to frequent changes and are disposed to regard as objectionable any change except removal of the tax or a substantial reduction to a level from which no increase would later be made.

The act provides for certain exemptions, abatements, and refunds of the processing tax. First, in Section 15 (a) there is a provision for conditional exemption of products of low value, the consumption of which may be found likely to be substantially reduced by collection of the tax.⁸ Second, Section 15 (b) contains a definitive

tary finds it necessary to make such an adjustment to effectuate the declared policy of the act. The Secretary has not done so, nor do the facts warrant a finding at this time."

⁸ As liberalized by the Flannagan amendment of June 26, 1934, this provision reads (*italicized words indicate alterations or additions*):

"If *at any time* the Secretary of Agriculture finds, upon investigation and after due notice and opportunity for hearing to interested parties, that any class of products of any commodity is of such low value, *considering* the quantity of the commodity used for their manufacture, that the *imposition of the processing tax would prevent in whole or in large part* the use of the commodity in the manufacture of such products and thereby substantially reduce consumption and increase the surplus of the commodity, then the Secretary of Agriculture shall so certify to the Secretary of the Treasury, *specifying whether such result will in his judgment most effectively be prevented by a suspension of the imposition of the processing tax or a refund of the tax paid, with respect to such amount of the commodity or any product thereof as is used in the manufacture of such products, and thereafter, as shall be specified in such certification, (1) the imposition of the processing tax shall be suspended with respect to such amount of the commodity as is used in the manufacture of such products, and thereafter, as shall be specified in such certification, (2) the imposition of the processing tax shall be suspended with respect to such amount of the commodity as is used in the manufacture of such products until such time as the Secretary of Agriculture, after further investigation and due notice and opportunity for hearing*

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exemption of the tax on processing by or for the farm producer, within stated limits, and a conditional exemption of such processing for sale:

No tax shall be required to be paid on the processing of any commodity by or for the producer thereof for consumption by his own family, employees, or household; and the Secretary of Agriculture is authorized, by regulations, to exempt from the payment of the processing tax the processing of commodities by or for the producer thereof for sale by him where, in the judgment of the Secretary, the imposition of a processing tax with respect thereto is unnecessary to effectuate the declared policy.

Third, Section 15(c) provides for refunds of the tax collected in respect of deliveries for charitable distribution or use. After serious delays in securing such refunds had occurred, owing chiefly to complications on deliveries to state welfare organizations, this provision was broadened and modified by the Dieterich amendment approved June 16, 1934, permitting credits in lieu of refunds of such sums under regulations established by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury, within limits specified.⁹ Fourth, in Section 17 there is a provision for

to interested parties, revokes his certification to the Secretary of the Treasury, or (3) the Secretary of the Treasury shall refund (in accordance with the provisions of, to such persons and in such manner as shall be specified in, such certification) the amount of any tax paid (prior to the date of any revocation by the Secretary of Agriculture of his certification to the Secretary of the Treasury, upon further investigation and after due notice and opportunity for hearing to interested parties) under this title with respect to such amount of the commodity or any product thereof as is used after the date of such certification in the manufacture of such products."

⁹ As amended (italics indicate changes): "Any person, *including any state or federal organization or institution*, delivering any product to any organization for charitable distribution, or use, *including any state or federal welfare organization, for its own use, whether the product is delivered as merchandise, or as a container for merchandise, or otherwise*, shall, if such product or the commodity from which processed is under this title subject to tax, be entitled to a refund of the amount of

refunds of or virtual exemption from the processing tax (or related tax as mentioned below) on products exported.¹⁰

Supplementary to the processing taxes, provision is made in Section 16 for collecting taxes at equivalent

any tax due and paid under this title with respect to such product so delivered, or to a credit against any tax due and payable under this title of the amount of tax which would be refundable under this section with respect to such product so delivered: Provided, however, That no tax shall be refunded or credited under this section, unless the person claiming the refund or credit establishes, in accordance with regulations prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury (1) that he has not included the tax in the price of the product so delivered or collected the amount of the tax from the said organization, or (2) that he has repaid, or has agreed in writing to repay, the amount of the tax to the said organization. No refund shall be allowed under this section unless claim therefor is filed within six months after delivery of the products to the organization for charitable distribution or use. The word state as used in this section shall include a state and any political subdivision thereof."

State authorities and millers were both actively interested in securing the passage of such an amendment, which was drafted in the AAA; see *Northwestern Miller*, June 20, 1934, p. 278.

¹⁰ As amended by the Jones-Costigan Sugar Act of May 9, 1934, effective as of the date of the original act, the section reads (italics indicate changes, and leaders mark omissions not applicable to wheat):

"(a) Upon the exportation to any foreign country (and/or to the Philippine Islands, the Virgin Islands, American Samoa, the Canal Zone, and the Island of Guam) of any product with respect to which a tax has been paid under this title, or of any product processed wholly or partly from a commodity with respect to which product or commodity a tax has been paid under this title, the tax due and paid shall be refunded. The refund shall be paid to the exporter or to the consignor named in the bill of lading under which the product is exported as determined under regulations prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury. . . . The term "product" includes any product exported as merchandise, or as a container for merchandise, or otherwise.

"(b) Upon the giving of bond satisfactory to the Secretary of the Treasury for the faithful observance of the provisions of this title requiring the payment of taxes, any person shall be entitled, without payment of the tax, to process for such exportation any commodity with respect to which a tax is imposed by this title, or to hold for such exportation any article processed wholly or partly therefrom." (The word partly was substituted for *in chief value*.)

rates on stocks of products in the hands of processors and wholesalers when the tax first takes effect, and for refunding or abating taxes on such stocks held when the processing tax is "wholly terminated"; and also for collection of similar taxes on retail stocks held in warehouses when the tax first takes effect and such other retail stocks then held "as are not sold or otherwise disposed of within 30 days thereafter," but with specific provision against refund or abatement on "the retail stocks of persons engaged in retail trade, held on the date the processing tax is wholly terminated."¹¹ The original act made no provision for adjustments of the tax on stocks in the event of increase or decrease in the rate of processing tax. The Flannagan amendment, approved June 26, 1934 and applicable from June 1,

¹¹ As amended by the Jones-Costigan Sugar Act, and without portions applicable solely to sugar beets and sugar cane, the section reads: "(a) Upon the sale or other disposition of any article processed wholly or in chief value from any commodity with respect to which a processing tax is to be levied, that on the date the tax first takes effect or wholly terminates with respect to the commodity, is held for sale or other disposition (including articles in transit) by any person, there shall be made a tax adjustment as follows:

(1) "Whenever the processing tax first takes effect, there shall be levied, assessed, and collected a tax to be paid by such person equivalent to the amount of the processing tax which would be payable with respect to the commodity from which processed if the processing had occurred on such date. *Such tax upon articles imported prior to, but in customs custody or control on, the effective date, shall be paid prior to release therefrom. . . .*

(2) "Whenever the processing tax is wholly terminated, there shall be refunded to such person a sum (or if it has not been paid, the tax shall be abated) in an amount equivalent to the processing tax with respect to the commodity from which processed.

(b) "The tax imposed by sub-section (a) shall not apply to the retail stocks of persons engaged in retail trade, held at the date the processing tax first takes effect; but such retail stocks shall not be deemed to include stocks held in a warehouse on such date, or such portion of other stocks held on such date as are not sold or otherwise disposed of within 30 days thereafter. The tax refund or abatement provided in sub-section (a) shall not apply to the retail stocks of persons engaged in retail trade, held on the date the processing tax is wholly terminated."

required supplementary collections, or abatements or refunds, under such conditions.

The obvious intent of the floor stocks tax provisions was to prevent disturbances of the course of trade in response to anticipation of imposition of processing taxes, changes in tax rates, and removal of a tax. With similar intent, at the request of flour millers and the flour trade, Section 18 made provision for payment of the tax by the vendee to the vendor, under bona fide contracts existing when the tax was first imposed but providing for delivery after that date, where such contracts had not specifically prohibited such addition to the purchase price.

Also with the intent to prevent trade dislocation, provisions were made for levying compensatory taxes. Imported raw materials, such as Canadian wheat, were made subject to the regular processing taxes. Under Section 15 (e) import compensatory taxes are to be collected at equivalent rates on—

. . . any article processed or manufactured wholly or in chief value from such commodity and imported into the United States or any possession thereof to which this title applies, from any foreign country or from any possession of the United States to which this title does not apply, a compensating tax equal to the amount of the processing tax in effect with respect to domestic processing at the time of importation. . . .¹²

Under Section 15 (d) compensatory processing taxes

¹²The Jones-Costigan Sugar Act substituted "partly" for "in chief value"; inserted after "apply" the words "whether imported as merchandise, or as a container of merchandise, or otherwise"; and after "domestic processing" the words "of such commodity." A proviso following the word "importation," left unchanged by the amendment, is of no practical importance for wheat; under it, import compensatory taxes on articles from possessions of the United States to which the Adjustment Act does not apply "shall be held as a separate fund and paid into the Treasury of the said possessions, respectively, to be used and expended by the governments thereof for the benefit of agriculture."

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are to be imposed "on the first domestic processing" of commodities competing with a basic commodity on which processing taxes are in force, when "the Secretary of Agriculture finds, after due investigation and due notice and opportunity for hearing to interested parties," that the payment of the processing tax "is causing or will cause to the processors thereof disadvantages in competition from such competing commodities by reason of excessive shifts in consumption between such commodities or products thereof." The Secretary is authorized to fix the rate for such tax, and subsequently to alter it by similar procedure on the same principles, at the point "necessary to prevent such disadvantages in competition" but not exceeding the rate per equivalent unit of the basic commodity.

All processing and related taxes are required by Section 19 to "be collected by the Bureau of Internal Revenue under the direction of the Secretary of the Treasury" and "paid into the Treasury of the United States," subject to all pertinent "provisions of law, including penalties," applicable under certain revenue acts and other statutes.¹³ The taxes thus collected do not, however, become an integral part of Treasury revenues. On the contrary, under Section 12(b) of the act it is provided:

. . . the proceeds derived from all taxes imposed under this title are hereby appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products and the following purposes under Part 2 of this title: Administrative expenses, rental and benefit payments, and refunds on taxes.

To insure against temporary shortage of funds for commodity programs, Section 12(a) appropriated 100

¹³ For details, see *Compilation of Agricultural Adjustment Act as Amended*, AAA, pp. 26, 56-59.

million dollars for administrative expenses and rental and benefit payments under the act, to be "available until expended"; and further authorized the Secretary of the Treasury to advance to the Secretary of Agriculture, "out of any money in the Treasury not otherwise appropriated," additional amounts needed for the stated purposes. Thus extraordinary liberty of financial action was granted the Secretary of Agriculture.

Finally, provisions were made to temper the burden on taxpayers. First, under Section 19 (b), "the Secretary of the Treasury is authorized to permit postponement of the payments of taxes imposed by any return under this title," for a period originally set at not over 90 days and, by the Flannagan amendment approved June 26, 1934, at not over 180 days. Second, under Section 19 (c), to prevent imposing "any immediate undue financial burden upon processors or distributors," those subject to the taxes are made eligible for RFC loans under Section 5 of the Reconstruction Finance Corporation Act.¹⁴

CONSUMER PROTECTION

In order to facilitate passage of the Adjustment Act and to quiet subsequent objections to processing taxes, provisions "to protect the consumers' interest" were inserted. First, under Part (3) of Section 2, farm production is to be readjusted—

. . . 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.

The precise interpretation of this language is in doubt;

¹⁴ Certain other tax provisions of the act are mentioned in later sections of this chapter.

it makes a considerable difference whether the calculations are made for agricultural commodities one by one, or for all agricultural products combined. For bread, flour, and several other important individual food products an approximation to such a percentage can be reached. For all wheat products combined, or all pork products combined, the task of reaching an accurate percentage is more difficult. For all food products of agricultural origin the task is extremely difficult, and for all agricultural products combined it is well-nigh impossible. Only an approach to an answer is afforded by recent computations of the new Division of Marketing Research in the Bureau of Agricultural Economics,¹⁵ covering ten foods comprising beef, pork products, hens, eggs, milk, butter, cheese, potatoes, flour, and bread, and notably excluding fruits and vegetables. These yield the following percentages of farm value of the farm products to the retail value of specified products:

Year	Ten Foods	Flour	Bread
1913	56.5	56.4	22.8
1910-14 av.	53.8	60.0	...
1923-29 av.	39.1	52.2	20.5
1934	38.5	38.1	15.8

The wheat processing tax itself, by raising prices of wheat products to consumers without correspondingly raising farm prices of wheat, tends to lower the *percentage* of retail prices of flour and bread that wheat growers get in prices for their wheat as such. If one adds to farm prices of wheat in 1934, however, 29 cents for gross benefit payments per bushel of allotment to contract signers, the corresponding percentages are raised to 52.2 for flour and 21.5 for bread.

¹⁵ F. V. Waugh, *The Margin between Farm Prices and Retail Prices of Ten Foods*, March 1935.

For agricultural products as a group and probably for wheat in particular, it is safe to assert that Section 2(3) will neither limit the AAA nor afford any real protection to consumers. For the most part, consumers do not buy "agricultural commodities"; the bread that consumers buy represents much more than the farmer's wheat, and its economic value, in much greater degree than before the war, is dependent on other ingredients and numerous services that are rendered by intermediate processors and handlers. The percentage spread between farm prices of materials and consumers' retail expenditures for their products has widened for causes that are very unlikely to be reversed. Among these are increased average distances between farm source and consumer purchase; higher average shipment costs; refinements in processing; increase in packaging, delivery, and other services; and relatively higher levels of wage costs which are not offset by other economies in distributive channels. All these help to explain why the farm price of wheat not only is, but is likely to remain, a smaller fraction of the retail price of flour or bread than it was before the war.

Further, Section 9(e) of the act requires the Secretary, at the time the processing tax or a change in the rate becomes effective, to make public "such information as he deems necessary" on certain specified points¹⁶ "in order to prevent pyramiding of the processing tax and profiteering in the sale of the products derived from the

¹⁶ These are: ". . . (1) the relationship between the processing tax and the price paid to producers of the commodity, (2) the effect of the processing tax upon price to consumers of products of the commodity, (3) the relationship, in previous periods, between prices paid to the producers of the commodity and prices to consumers of the products thereof, and (4) the situation in foreign countries relating to prices paid to producers of the commodity and prices to consumers of the products thereof."

commodity. . . ." This the Secretary has done, and to some extent followed up with the aid of the Consumers' Counsel and his staff; and this unit of the AAA has sought in various ways to see that consumers' interests are duly protected. Except in producing some irritation among the trades concerned, these efforts appear to have been largely barren of results. The terms "pyramiding" and "profiteering" are difficult of interpretation; available statistics on retail bread prices afford insecure basis for determining the facts; and mere publicity constitutes very limited power of correcting what appear to be abuses. As the chart on page 363 shows, margins between retail and wholesale prices of bread appear to have widened considerably since the wheat processing tax was imposed, but to be no wider than was common before the depression.

As we have already seen, the legal formula limited the initial rate of the tax, but interpretations have weakened the protection of consumers' interests that its sponsors first saw in the provisions regarding alteration of rates. In a radio address on the farm bill on March 18, 1933, Secretary Wallace said:

. . . The consumer's interest is amply safeguarded, first of all, by the fact that the tax passed on to him by the processor *declines* just as rapidly as the price the farmer receives for his product climbs to the pre-war level. Once pre-war parity has been reached, the tax is completely removed. . . .¹⁷

The Secretary did not choose to raise the rate later in 1933-34 when the formula would have permitted an in-

¹⁷ *AAA Press Release No. 938-33*. Since early in the 1934-35 marketing season, prices on several types of tobacco have been above both pre-war parity and the higher tobacco price parity indicated by the act; but no tax has yet (Mar. 31, 1935) been removed on this ground. On the basis of prices at the close of the 1933-34 season, the rate on one type was reduced to zero as of Oct. 1, 1934, and some other changes were made. See Rowe, *Tobacco under the AAA*, Chap. VIII.

crease, but he has similarly not exercised his authority to reduce the rate in the course of this crop year, when if changed it would have been reduced by several cents.¹⁸

Moreover, under Section 9(b) quoted on page 172, some processing tax rates (for example, on field corn, cigar-leaf tobacco, and peanuts) initially became effective at lower rates than would have resulted from the use of the prescribed formula, evidence having convinced the Secretary that undue reduction of consumption would result if the tax were collected at the full rate. This limitation has not affected, and seems unlikely to affect, the wheat processing tax.¹⁹

Altogether, the legal limitations in the consumers' interest are much less significant in reality than in appearance. More potent safeguards lie in the caution imposed on the AAA by the fear lest a rising tide of consumer protests should sweep away the processing tax system and thus destroy the financial foundation of the whole program. This explains why AAA spokesmen have gone to considerable lengths in putting the processing tax in a favorable light, and why the Consumers' Counsel has directed much energy toward cultivating consumers' attitudes friendly to the whole program, with wholehearted acceptance of the agrarian viewpoint of the AAA.²⁰

WHEAT TAXES AND AAA PHILOSOPHY

From a fiscal standpoint the processing tax on wheat and related taxes on wheat products constitute excise

¹⁸ See above, p. 173, and chart on page 196.

¹⁹ In his initial statement on the farm bill, Mar. 18, 1933 (*USDA Press Release No. 938-33*), Secretary Wallace said: "The amount of the tax . . . cannot be greater than is required to bring the market price up to the pre-war parity price [then figured at 38 cents]. . . . The chances are that the tax would start at a relatively low figure, so as not to restrict retail sales of flour and thus reduce consumption."

²⁰ This is frankly set forth in *Consumers' Guide*, AAA, Dec. 31, 1934, p. 2.

taxes at high rates. The financial burden they impose on consumers is in direct proportion to their ordinary consumption of wheat products in terms of volume.²¹ In general this consumption is not in proportion to income; by and large, it is above average in low income groups and below average in high income groups.²² A tax of uniform amount on all, regardless of income, would take a much higher proportion of the income of low income groups; would bear most heavily upon them; and would run counter to one of the accepted canons of taxation—"ability to pay." A tax of higher amount on low income groups is even more sharply "regressive."

The tax, moreover, provides funds to be used in securing reduction or restraint of wheat supplies, with a view to raising wheat *prices* to farmers and indirectly to millers and consumers also. Hence, the tax is serving to burden consumers indirectly as well as directly, and regressively in both respects, though retail prices of flour and bread are lower than in several years before the depression (see chart on page 363).

Hitherto, internal taxes on foodstuffs, particularly necessities of life, have been generally avoided in the United States even though we have never adopted the former British slogan, "No tax on bread." Protective duties have, indeed, been imposed on various foodstuffs and food products, though not on coffee or tea. Wheat and flour duties have had negligible effects on consumers in most years, though in 1925-26 after a small crop of bread wheat east of the Rockies, in 1930-31 when extensive stabilization purchases were made, and in the past two years, the duties have served to keep wheat

²¹ See pp. 362-65.

²² This is revealed in studies of the Bureau of Home Economics and implied in their per capita allowances for wheat flour needed at four dietary levels, mentioned below, pp. 380-81.

and flour prices higher than they would otherwise have been. In no instance until this year, however, could it be argued that anything like the full tariff duty was borne as a tax by consumers.²³

The nearest parallel to the new processing taxes is afforded by internal revenue taxes long since imposed at high rates on tobacco and margarine. The tobacco taxes (to which processing taxes are now added) are imposed on what has been considered a luxury rather than a necessity, at least beyond a moderate limit of use, and the taxes are roughly in proportion to value of product, not to quantity consumed. Thus they are far less regressive than the wheat taxes. The margarine tax, imposed on demand of dairy interests to restrict the use of a butter substitute, may be as regressive as the wheat tax if one considers both its direct and indirect effects. Also deserving of mention are the more or less general sales taxes which have been adopted by an increasing number of states in recent years and urged in vain upon Congress; but though foodstuffs are commonly subject to these sales taxes, the rates are generally low as compared with processing tax rates even when both are comparably expressed in terms of retail prices.

In the face of these facts, advocates of the levy on wheat (and other products) sought to put it in a very different light. In the decade 1922-32 influential farm groups had fought for the adoption of some form of

²³ On some other products such as butter and meats, tariff duties have imposed somewhat more of a burden on consumers than is true of the wheat and flour duties. Sugar affords the most conspicuous example of effective tariff duties of high rate in proportion to retail prices. However, it is probable that the long-run effect of general application of protection to sugar producers has been to stimulate world production so greatly that sugar prices to consumers have fallen lower than if no protection had been applied. In practically all of these other instances, moreover, consumption of the product rises with incomes, so that the tax on consumers is less regressive than it is in the case of wheat.

the McNary-Haugen plan embodying an "equalization fee." This fee was essentially the counterpart of the present processing tax, though ideas varied as to whether it should be collected on wheat at the country elevator, by the railways, or at mills or terminal elevators. Its advocates opposed the use of the word "tax" and commonly asserted or implied that the fee would fall directly on the farm seller, although it was an integral part of a scheme avowedly designed to raise prices of wheat to domestic consumers.²⁴ In retrospect, it is safe to say that the direct burden of the equalization fee on wheat would have fallen mainly on consumers; but in the absence of any production control provisions, expansion of wheat production might soon have saved consumers from bearing any considerable burden if that scheme had been put into force.

Early advocates of the domestic allotment plan also sought to avoid the use of the word tax. In Black's version, allotment certificates in terms of bushels were to be issued to wheat growers, and millers were to be required to buy these and turn them in for every bushel of wheat processed for domestic consumption—thus avoiding even the appearance of a tax.²⁵ To obviate objections on constitutional grounds, the more direct procedure was embodied in the voluntary domestic allotment plan, but in the Hope-Norbeck bills of July 1932 the levy was termed a "tariff adjustment charge." When in December 1932 it was agreed to use the uncamouflaged term "processing tax," M. L. Wilson said:

. . . it is not a tax in the sense that you think of taxes. It is

²⁴ See J. D. Black, *Agricultural Reform in the United States, 1929*, Chaps. III, VIII. President Coolidge's veto messages condemned it as a tax; the Attorney-General's opinion, however, was that it could "not be sustained under the taxing power of the Constitution."

²⁵ The same, Chaps. X, XII.

a fee, or it is a charge to restore equality. It is maintaining a relationship, or to maintain a balance for the producers of these farm commodities, when they find themselves in a competitive situation in which they are more or less helpless and which . . . place their commodities in such an economic situation that the price of these commodities falls proportionately much below the level of other commodities.²⁶

In short, the new processing tax was represented in principle as the old equalization fee, different only in details of its determination and application, and in the use of the revenues it was to yield. At this time, Dr. Ezekiel presented a memorandum discussing the incidence of the proposed tax on several commodities, and concluded that the wheat tax would fall mainly on consumers.²⁷ Farm spokesmen, dropping the older idea that it would and should fall on the farm sellers, joined Wilson and Ezekiel in justifying the tax on other grounds. Ezekiel put it thus:

The plan asks city people to return to farmers, on certain specified products, that part of the prices of those products which has been wiped out beyond the reductions which have occurred in prices of all products. In return for this higher price for farm products it promises to city dwellers a definite increase in demand for industrial products, which will create jobs, reduce unemployment, and help restore prosperity. The apparent cost to consumers may very quickly be more than offset by the upswing in business which the very operation of the plan will help to bring out. At the same time, by correcting the agricultural difficulties which have helped bring about and intensify the depression, this plan will be one element in a broad program looking toward the restoration of prosperity on a broad and lasting basis.²⁸

This argument is not merely an effort to justify

²⁶ 72 Cong. 2 sess., *Agricultural Adjustment Relief Plan*, Hearings on H. R. 13991 before House Committee on Agriculture, Dec. 15, 1932, p. 146.

²⁷ The same, p. 375.

²⁸ The same, p. 363. See also Mordecai Ezekiel and L. H. Bean, *Economic Bases for the Agricultural Adjustment Act*, December 1933.

levying taxes of some kind to provide the funds called for; there runs through it (and the act itself) the theory that consumers enjoy an unfair advantage if the price they pay for food includes less than a minimum for the farm producer, and that the tax incidentally serves to correct this injustice. It is clearly implied, if not directly asserted, that consumers have no proper ground for complaint about food prices so long as farmers get less than the equivalent of "parity prices" (inclusive of benefit payments) on the amount domestically consumed for food. Further, it is persuasively urged that what may seem a burden, in paying higher food prices, will prove no net burden because improved business activity and employment will so promptly follow improvement in farm income caused by the program.

Advocates of the measure succeeded in persuading many—in labor, business, and political circles—to view the wheat processing tax in this light. Hence there was good prospect for passing a bill including it, whereas there was little prospect of pushing through Congress a general sales tax, increases in income tax rates, or other additions to the general revenue to meet the contemplated expenditures for farm relief and agricultural adjustment. Furthermore, no such addition to the general revenue would have left so largely to the discretion of the Secretary of Agriculture the determinations leading to the application of a tax and the adjustment of tax rates. Finally, it was anticipated that the public would generally be more or less unconscious of the tax and would pay the resulting higher prices with little or no protest, while other revenue raising measures would be subject to more vigorous attack from the taxpayers. Subsequently, on various occasions, the Secretary of Agriculture and other officials have stressed the insignifi-

cance of the amount of the taxes; the "total contribution of the average family," from all processing taxes thus far imposed, is only "around \$20 a year."²⁹

Political feasibility, administrative flexibility, and prospects of public acceptance constituted powerful reasons for choosing the processing tax device. Thus far, as Secretary Wallace has made clear in his *New Frontiers*, a survey of possible substitutes has yielded nothing that impresses him as an acceptable alternative. He even finds a peculiar psychological advantage in the processing tax (page 217) :

. . . The present act forces all the people concerned with the product in trouble—wheat, for example—to think about the nature and magnitude of the trouble, because the fact that the processing tax is measured by the discrepancy between the market price and parity price; and the money for straightening out the trouble is obtained from the consumers of that particular product.

Harking back to the "equality for agriculture" arguments for "making the tariff effective for agriculture" by one plan or another, Secretary Wallace further says (pages 212-13) :

. . . Fundamentally the tariff and the processing tax are twins. . . .³⁰

To all intents and purposes the processing tax is the farmer's tariff. It is the only effective form of tariff for producers of export crops, prices for which are determined on a world market.

²⁹ Henry A. Wallace, "We Tax Bread and Meat," *New Frontiers*, 1934, Chap. XVI, especially pp. 211-12.

³⁰ Here he notes "three important differences: (1) the processing tax is admittedly an emergency measure, whereas the tariff has been with us for generations; (2) the total cost of the tariff is apparently many times that of the processing tax; (3) the ad valorem rates of the Smoot-Hawley tariff on many important items are far higher than the rates of the processing tax." We have noted some others on pp. 148-49.

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If America is to remain on a highly protectionist basis, therefore, the processing tax form of tariff protection, or its equivalent, would seem to be no more than just.³¹

In the philosophy of the Adjustment Act and the AAA, therefore, the processing tax is an instrument not only for agricultural relief and adjustment but also for economic recovery and social justice. "Parity prices," or their equivalent in price plus tax, are represented as requisite to give farmers their due and to afford a stimulus for a return to normal business activity, employment, and income for all. In such a picture, the view of processing taxes as mere taxes, regressive or otherwise, is completely submerged.

THE TAXES APPLIED TO WHEAT

The processing tax on wheat and related taxes on wheat products were the first to become effective.³² On June 23, 1933, a week after the wheat program was formally announced in outline, tax regulations were signed by the Acting Secretary of Agriculture and on June 26 were approved by the President giving notice of a processing tax of 30 cents per bushel to come into force on July 9, 1933, which was designated as the beginning of

³¹ J. D. Black took a similar position in 1929 (*Agricultural Reform*, p. 317) when he ridiculed the official condemnation ("coming from the haunts of the protective system!") of the equalization fee as a sales tax, and concluded that a program of price raising involving protective tariffs, export debentures, and allotment plans "is workable—and desirable if the country is to remain on as highly protective a basis as since 1896."

³² In the following lists of basic commodities, those on which processing taxes had come into force up to Mar. 31, 1935 are indicated in italics: (a) original act—*wheat, cotton, field corn, hogs, rice, tobacco*, milk and its products; (b) additions by later acts: rye, flax, barley, grain sorghums, cattle, *peanuts, sugar beets*, and *sugar cane*. Under an amendment approved Mar. 18, 1935, a processing tax on *rice* became effective Apr. 1, 1935.

the marketing year.³³ The tax regulations designated conversion factors which were based on available statistics of the Department of Agriculture and had been arrived at after consultation with the trades. These factors, in conjunction with the effective rate on wheat, automatically determined the rates of tax applicable to flour stocks of various wheat products and rates of refunds legally authorized. On flour, the rate so calculated was \$1.38 per barrel, implying an average wheat requirement of 4.6 bushels per barrel of flour.³⁴

While this was a reasonable ratio to select, many individual merchant mills require somewhat less wheat per barrel of flour. This is particularly true for most flour now commonly exported, notably that from Canadian wheat milled in bond and from Pacific Northwest wheats. Under these circumstances, some mills exporting flour have found it advantageous to pay the wheat processing tax and claim the refund on flour exported. Under regulations of the Bureau of Internal Revenue, however, mills grinding Canadian wheat in bond are required to process under the special bond referred to in Section 17(b) of the act, and hence pay no tax on this processing and have no claim to refund on exports of flour. Some other mills have chosen to follow this same procedure.

For a time it was uncertain whether the processing tax would be based on wheat or on wheat products. Preliminary discussions in milling circles indicated a sharp

³³ *Wheat Regulations*, Ser. 1. Delays in reaching decisions on the program prevented the choice of the more appropriate date July 1.

³⁴ Average ratios disclosed by monthly census reports from merchant mills usually range from 4.55 to 4.67, and those of the more comprehensive biennial census data from 4.62 to 4.71. The ratio customarily used by the Departments of Agriculture and Commerce in converting flour exports to wheat is 4.7 bushels per barrel. In the Pacific Northwest the trade customarily uses 4.5 for that area.

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cleavage of opinion, with Southwestern millers favoring the wheat basis and Northwestern and other millers generally favoring the products basis. The difference of opinion rested chiefly on experience with varying yields of different wheats and different methods of handling wheat. After vain attempts to reach agreement it was decided, shortly after the bill was passed, that each group should prepare a brief supporting its position and that the Millers National Federation should present both briefs impartially to the Department officials.⁸⁵

Those favoring the wheat basis argued: (1) that Congress clearly intended this; (2) that auditing of the tax returns and consequently administrative expenses would be vastly less; (3) that less additional work would be imposed on millers; (4) that the tax passed on to consumers should properly vary with the wheat required to produce the flour sold; (5) that a tax of \$1.38 per barrel would mean more than 30 cents a bushel for Southwestern hard wheat millers, and that they would be subject to complaints that they were passing on too much.

Those favoring the products basis argued: (1) that the tax levied at a uniform rate per pound on all products of wheat for human consumption would be "simple, uniform, non-discriminatory, easy of ascertainment and collection, and . . . produce no sectional or other advantages or disadvantages in competition"; (2) that the tax should be collected on the basis of sales of products, and be required to be separately shown on all invoices, avoiding all forms of protest and complication, which could not be done if the tax were imposed on a wheat basis; (3) that differences in the amount of wheat

⁸⁵ The two briefs are summarized in the *Northwestern Miller*, June 21, 1933, pp. 637, 655.

required to mill a barrel of straight flour (from 252 to 292 pounds) rested partly on regional differences and partly on differences in efficiency which should be retained but not "projected into" processing taxes;³⁶ (4) that the tax on a wheat basis would effectually discriminate against low-yielding or high-dockage wheats, and against higher grades of flour which require more wheat per barrel; (5) that mill records already available would serve if the products basis were chosen, while the wheat basis would require additional weighing and recording; (6) that changes in the tax rate would involve far less difficulty as to floor stocks if the products basis were used.

When the Millers National Federation met in June 1933, discussion revealed that sentiment had been crystallizing in favor of the products basis, and the gathering voted decisively or "overwhelmingly" to recommend this. A. J. Weaver of the Wheat Section, who spoke at this meeting, confirmed unofficial reports that the wheat basis had been tentatively decided on.³⁷ The General Counsel of the AAA having decided that this was what the act required, it was made definitive by official proclamation June 26.

³⁶ As compared with a flat \$1.38 per barrel, the rates of tax per barrel under varying rates of wheat requirement or extraction may be illustrated as follows:

Bushels per Barrel	Tax per Barrel	Percentage Extraction	Tax per Barrel
5.0	\$1.50	50	\$1.96
4.9	1.47	55	1.78
4.8	1.44	60	1.63
4.7	1.41	65	1.51
4.6	1.38	70	1.40
4.5	1.35	75	1.31
4.4	1.32	80	1.22
4.3	1.29	85	1.15
4.2	1.26	90	1.09

³⁷ *Northwestern Miller*, June 28, 1933, pp. 690, 692.

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Initial difficulties over weighing the wheat for determination of the tax have been largely ironed out. On contracts outstanding on July 9, 1933 the tax was collected on the products basis,³⁸ as a concession to millers. In practice, millers generally add the wheat processing tax on their "cost cards," and thereafter treat this item like any element in cost. Theoretical tendencies toward discrimination against low-yielding wheat, including wheat with shriveled kernels,³⁹ have not yet proved important. Contrary to their expectations, millers generally find no evidence that the tax has borne more heavily upon higher grades of flour. While the dominant view among millers is that a wrong decision was made, opposition to it is largely quiescent. By an amendment added by the Jones-Costigan Sugar Act of May 9, 1934, Congress forbade specific reference to the tax in relation to price, orally or in writing, in connection with any offer of purchase or sale of commodities subject to the tax, or their products.

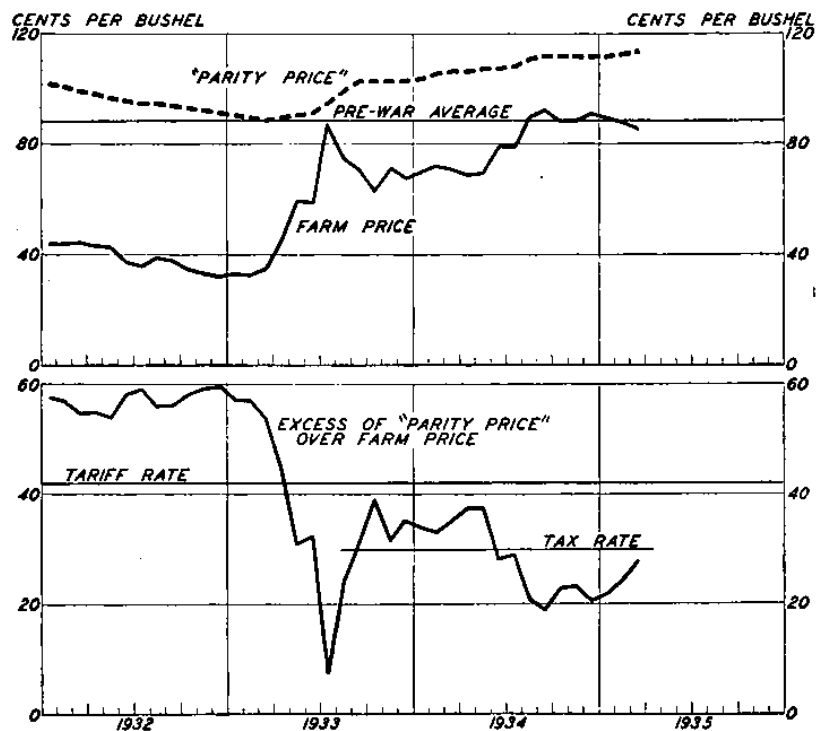
The basic rate of 30 cents a bushel was reached by the use of the formula prescribed in the act. Department of Agriculture data showed 88.4 cents per bushel as the average farm price for wheat in the pre-war base period. The weighted average farm price on June 15, 1933 was 58.7 cents. The latest index of prices farmers pay available up to the time of making the decision was 100. On this basis the "fair exchange value" of wheat was calculated as 88.4 cents and the maximum processing tax rate at 88.4—58.7, or 29.7 cents; hence

³⁸ See *The Hook-Up* (organ of the Millers National Federation), Sept. 6, 1933.

³⁹ See R. J. S. Carter, "Processing Tax Penalty on Shriveled Wheat," *Northwestern Miller*, Oct. 10, 1934, p. 133. If the tax should have the effect suggested, it may appear in slightly higher milling ratios (that is, fewer average bushels per barrel), hence in a reduced number of bushels of wheat reported processed.

the nearest round figure was the rate announced. When the June index of prices paid became available it stood at 103; this would have warranted a tax rate of 32.4 cents a bushel, and the rate might have been fixed at 32 or 32.5 cents if this information had been available earlier.

FARM PRICE OF WHEAT COMPARED WITH COMPUTED "PARITY PRICE," 1932-35^a



^a Data of Bureau of Agricultural Economics, partially given in Table XI, p. 454, and Table XV, p. 458. Latest data plotted are for Mar. 15, 1935.

For a few weeks following the announcement of the wheat program wheat prices surged upward, chiefly under the influence of bad crop news, inflation pros-

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pects, and resulting speculative activity. (See chart on page 207.) This led to demands from some quarters for reduction or elimination of the tax. On the basis of July 15 quotations, when prices had almost reached their peak, the farm price was within 8 cents of the "fair exchange value" as it may now be computed.⁴⁰ This demand was resisted, and the tax was kept at 30 cents through the marketing year even though from September through May, as shown by the accompanying chart, the spread between "fair exchange value" and current farm prices was over 30 cents. For the first marketing year the spread averaged 31.2 cents or 29.9 cents, according as one uses the unweighted or weighted average farm price. Such close agreement with rates calculable in the preceding June was fortuitous.

The rate has thus far (March 31, 1935) remained unchanged. Computations as of June 15, 1934 showed the average farm price 28.1 cents below the computed "parity price." After July the spread narrowed considerably further, and in 1934-35 the sum of average farm prices and gross benefit payments per bushel of allotment to co-operating wheat growers will probably exceed the promised "parity" by 6 or 7 cents a bushel.

Import compensatory taxes on wheat products took effect along with the processing and floor stocks taxes. In the summer and early autumn of 1933, when flour prices were held up by the tax, there was some demand for applying compensatory processing taxes on corn and rye on the ground that competition of these products was adversely affecting flour consumption, particularly in the Southeast. When a processing tax became effec-

⁴⁰ Some bakers, with legal and technical advice, seriously considered taking legal steps to get back part of the tax they had paid on floor stocks, on the ground that the rate had been set too high; but no such action was pressed.

tive on field corn on November 5, it was a straight processing tax for the benefit of corn-hog producers; but the rate was set so low (5 cents a bushel compared with a legal maximum of 28 cents), in order to prevent reductions in certain outlets, that it served only slightly to check the competition of corn meal with flour. The early complaints of disadvantageous competition died out, and the 1934 crops of corn and rye were so short that the complaints have not been revived.

Millers have borne a slight added burden from processing taxes on cotton affecting cotton flour sacks, and from compensatory taxes on paper sacks, effective August 1 and December 1, 1933, respectively. Wheat growers in some sections, notably the Pacific Northwest, were also affected by the cotton compensatory taxes on jute, effective December 1 at 2.9 cents per pound, which meant an additional cost of over 2 cents per grain sack. Coupled with advances in prices of jute and sacks due to depreciation of the dollar against sterling and Indian rupees, this made grain sacks about as expensive as in pre-depression years. In turn this gave impetus to the movement to expand bulk handling facilities in the Pacific Northwest, where well over half of the grain moves in sacks to mills and terminals. Protests from that area contributed materially to the elimination of this tax, effective June 12, 1934. At the same time the processing tax on cotton manufactured into large-sized cotton bags was removed, and various other modifications were made in compensatory taxes on jute and paper products, including removal of some that were of concern to millers.⁴¹

⁴¹ *The Jute Tax and its Cost to Farmers of the Pacific Northwest*, AAA, Mar. 24, 1934. See also *Jute Regulations*, Ser. 1 and revisions; *Paper Regulations*, Ser. 1 and revisions; and *Cotton Regulations*, Ser. 2 and revisions, issued at various times by the AAA.

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WHEAT TAX COLLECTIONS

Collections of wheat processing and related taxes, monthly and cumulatively from July 1933, are shown graphically in the chart on page 161.⁴² From the outset to July 31, 1934 and for the whole period to February 28, 1935 the total collections were as follows, in thousands of dollars:

Tax	First 13 months	First 21 months
Processing	113,964	188,440
Floor stocks	13,606 ⁴³	13,754
Import compensatory.	22	37
Total	127,592	202,231

The floor stocks taxes represent the equivalent of some 10 million barrels of flour or about 46 million bushels of wheat—somewhat above the early forecast of 40 million bushels made by the AAA. Import compensatory taxes have yielded negligible revenue, but in conjunction with tariff duties they have served the intended purpose of preventing significant importations of flour and other wheat products. Processing tax *accruals* in July-June somewhat exceeded collections in

⁴² Total collections of agricultural adjustment taxes to Feb. 28, 1935 were 732 million dollars, distributed as follows:

Wheat.	202.2	Tobacco	39.7
Cotton	210.2	Tobacco sale	3.0
Paper and jute	11.7	Sugar cane and beets.	43.2
Cotton ginning	0.6	Peanuts	1.3
Field corn	9.2	Undistributed	0.8
Hogs	210.0		

⁴³ Including 2,625 on retail dealers' stocks, held in warehouses on July 9 and elsewhere on August 8, and 10,982 on other floor stocks held on July 9. See pp. 176-78.

August-July,⁴⁴ but only a small part of the refunds due (on wheat processed for export and for charitable distribution) had been made up to July 31.⁴⁵ We are disposed to infer that processing taxes accrued, net, on 380 to 390 million bushels in the crop year 1933-34.

Such a figure is well above the conservative forecast made by the AAA in July 1933, chiefly because exemptions and refunds fell considerably lower than was expected; but it is far below the earlier forecast (if one may so regard it) of 460 million bushels, on the basis of which the allotment ratio had been fixed.⁴⁶ For this disparity there were two principal reasons in addition to the fact that the tax, becoming effective only on July 9, accrued on about 2 per cent less than a full year's processing.

First, flour sales to consumers had been materially speeded up in the three months before the tax became effective, and fell off to some corresponding extent in July-December 1933. This stocking up was due to widespread expectations that flour prices would go materially higher because of the tax, the short wheat crop of 1933, and the Administration's announced intention to

⁴⁴ To quote *Internal Revenue Collections, Fiscal Year 1934*, p. 6: "The processing taxes are due to be paid not later than the last day of the month next following the month in which the commodity is processed; the taxes on flour stocks other than retail stocks within 30 days after the effective date of the tax, and on retail stocks within 60 days after such date; and the compensating taxes when the articles imported are withdrawn from customs custody and control. However, a number of extensions of time were granted in which to make payment of processing and flour taxes."

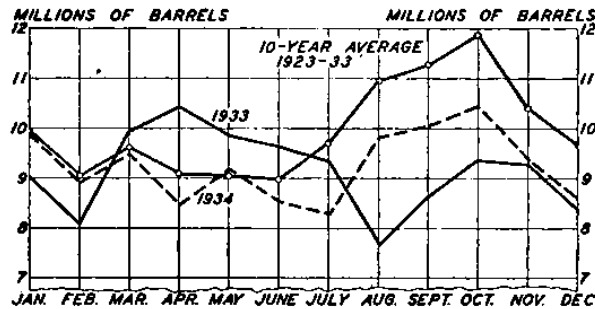
⁴⁵ Grave delays occurred in making refunds. Only \$881,000, representing less than 3 million bushels, had been refunded up to the end of July 1934, and only \$3,532,000 up to the end of 1934. Under the Flannagan amendment of June 26, 1934, approved refunds accrued have been credited against current taxes due. This practice renders impossible close estimation of net processing tax accruals by months or crop years.

⁴⁶ See p. 152.

raise the level of prices generally. Its effects on the course of milling are clearly evident in the accompanying chart, which shows a relatively high level of flour production in March-July 1933 and a relatively low level in August-October following. The aggregate effect cannot be ascertained, but careful estimates suggest that millings were increased on this score by 3 or 4 million barrels of flour in 1932-33 and were correspondingly reduced in 1933-34.⁴⁷

ESTIMATED FLOUR PRODUCTION

(Monthly for calendar years 1933-34, with ten-year average by months)^a



^a Data of Bureau of Agricultural Economics, chiefly from *World Wheat Prospects*, Sept. 27, 1934, p. 17. The average is for ten Januarys, 1924-33, ten Julys, 1923-32, etc. These estimates, for recent years, probably run slightly above the truth.

Second, actual consumption was over-estimated and was in fact somewhat curtailed by the marked advances in prices of flour and bread. Actual wheat consumption for food in 1933-34 fell at least 20 million bushels short

⁴⁷ See further, pp. 356-57. In *Wheat Studies of the Food Research Institute*, November, 1932, p. 43, the present author called attention to the probability of such anticipatory stocking up and its prospective depressing effect on the first year's tax collections. The application of flour stocks taxes failed to prevent such disturbance of the course of milling.

of the 515 million bushel estimate made by the AAA in June 1933.⁴⁸ We have thus far been unable to check results with forecasts as to the amounts of wheat processed for farmers and legally or illicitly exempted from the tax,⁴⁹ or on the amounts processed for charitable distribution on which tax refunds could be secured.⁵⁰ The forecasts of the latter, at least, were liberal rather than unduly conservative, for under the relief system commonly employed, with cash grants or store orders, the tax has been paid on most wheat milled into flour and baked into bread used by families on relief.

In any event, the tax collections proved adequate to finance the first year of the wheat program. Some reserve must be made for refunds of taxes on flour stocks that may be held when the tax is terminated; but net collections of processing and import compensatory taxes through July 1934 (113.1 million dollars) slightly exceeded the sum of refunds accrued but not paid (roughly about 3.5 million dollars), gross adjustment payments "earned" through June 1934 (about 98.6 million), the estimated cost of the export subsidy (about 6.5 million), and costs of administration not deducted from benefit payments (about 3.0 million).⁵¹ This close fit was in large measure the fortuitous result of compensating errors: four significant figures—net processing

⁴⁸ In Chap. XI we consider this problem in conjunction with the question of how far the processing tax was responsible.

⁴⁹ First estimated at 20 million bushels ("farmers' wheat milled for own use"), later at 50 million.

⁵⁰ First estimated at 35 million bushels, later at 25 million. *Handbook of Organization and Instructions* (W-15), p. 20; *Agricultural Adjustment*, p. 286.

⁵¹ See "The Facts about Wheat," *Wheat Circular No. 1*, January, 1935, pp. 12-13. *Agricultural Adjustment* (G-8, published March 1934) on pp. 285-86 gave revised budget estimates applicable to the first year's program that may be summarized as follows, in millions of dollars (disregarding dates of collection, payment, or refund):

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tax accruals, sign-up, benefit payments, and costs of the export subsidy—each fell 20 per cent or more below preliminary expectations. Had a wheat plow-up campaign been called for in the spring of 1934, it would presumably have caused a deficit on the first year's operations.

In timing, wheat tax collections have kept well ahead of program expenditures. This is broadly shown by the chart on page 161. The two lowest curves would be somewhat closer together if one were to add to net benefit payments the expenditures for the export subsidy and for local and central administrative costs. Up to the end of 1934 the full comparison runs approximately as follows, in millions of dollars:⁵²

Net collections:		
Tax collections	181.3	
Refunds	3.5	177.8
<hr/>		
Tax Collections:		
Processing	120.0	
Floor stocks	12.0	132.0
<hr/>		
Refunds, drawbacks, and reserve:		
On processing for charitable distribution.....	7.5	
On exports	4.5	
On floor stocks taxes.....	12.0	24.0
<hr/>		
Net collections		108.0
Disposition:		
Benefit payments	102.2	
Removal of surplus.....	8.0	
Administration expense	4.3	114.5
<hr/>		
Net deficit		6.5

⁵² Collections and refunds data as reported by Bureau of Internal Revenue, inclusive of floor stocks taxes of 13.7 million dollars. Data on net benefit payments and local costs (the latter only for 1933-34) from the Wheat Section. Other data from AAA Comptroller's statements. See also Tables VIII and IX, pp. 452-53.

Expenditures:	
Benefit payments, net	142.4
Local costs, 1933-34	4.8
Costs of tax collection	1.4
Other costs, AAA	3.0
Export subsidy cost	6.1
	157.7
Excess of collections	20.1

From a fiscal standpoint, therefore, the wheat program has thus far been "self-supporting."

For 1934-35 as a whole processing tax collections bid fair to be larger than in August-July 1933-34, chiefly because of the more normal course of milling operations; but they are unlikely to approach the "normal" level implied in the early estimate of 460 million bushels. Expenditures under current commitments for the 1934-35 program, however, promise not to exceed those of last year, slightly higher benefit payments being more than offset by material reductions in costs of Pacific Northwest operations. Hence this year's excess of wheat revenues may considerably exceed last year's small surplus.

CHAPTER VII

GRAIN EXCHANGE REGULATION AND THE PRINCIPAL CODES

From the domestic wheat adjustment efforts and the accompanying features of benefit payments and processing taxes, we now turn to the supplementary elements in the AAA wheat program. These we shall consider in the order in which they tie in best with grain market developments.

In the present chapter we give a summary discussion of the principal code negotiations and codes relating to the grain trade and the flour-milling industry. These and other codes bearing upon agriculture were early brought within the jurisdiction of the AAA, though the National Recovery Administration retained jurisdiction over the labor provisions;¹ and code negotiations added heavily to the burdens upon the AAA staff during its first year. This work had hardly begun, however, when a disastrous break in the grain markets precipitated regulation of futures trading by the grain exchanges, under government pressure, prior to the adoption of a grain exchange code.

EXCHANGE REGULATIONS AND CODE FORMULATION

On July 19 and 20, 1933, after a striking advance in the two preceding weeks, the grain market broke severely; wheat futures prices dropped by as much as

¹By Executive Order of June 26, 1933 the President delegated to the Secretary of Agriculture the principal responsibility for developing codes for food and tobacco trades and industries under the National Industrial Recovery Act of June 16. This order was extended in scope and made more explicit on Oct. 20. On Jan. 28, 1934 authority over certain codes was returned to NRA, and on March 30, 1935 the milling code, the country elevator code, and others were similarly transferred.

31 cents in two days, and prices of other commodities and corporation stocks broke concurrently. The collapse of prices was the inevitable consequence of the extreme and rapid advance in the preceding weeks, when professional and amateur speculators had bought heavily under the influence of under-estimates of the carry-over, bad crop news, excessive expectations of effective early steps to raise prices of commodities in general, and actual depreciation of the dollar. The course of wheat prices in Chicago is sufficiently indicated by daily prices of September futures, shown in the chart opposite, and the extent to which "inflation" prospects were a factor is broadly indicated in the upper section of the chart showing changes in the price of gold as computed with dollar rates of exchange on London.

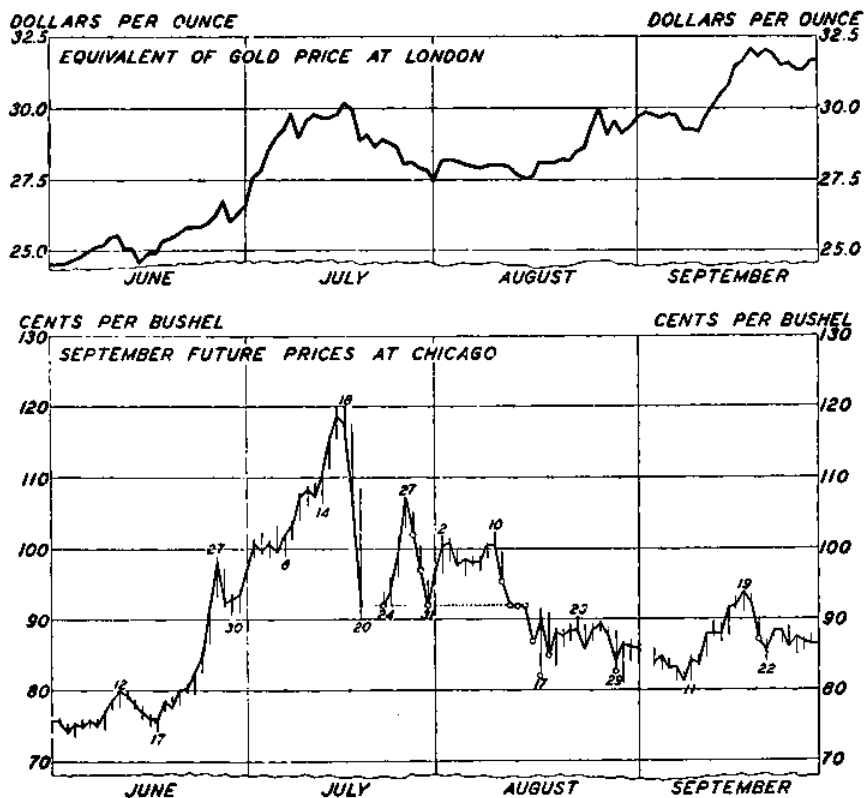
The extreme advance and abrupt decline were only moderately affected by developments in the AAA wheat program. Prospects for the passage of the Adjustment Act and early application of the domestic allotment plan to wheat, with a processing tax, contributed to stimulating mill purchases and flour production in the spring of 1933, and advance stocking up by consumers was largely responsible for the lower level of milling activity after the processing tax became effective on July 9.² By affecting mill demand for wheat favorably in the spring and unfavorably in the summer, these factors helped somewhat to promote the price advance and in turn to reduce support for the market as it rose to its final peak and for several months thereafter. Yet no specific influence on the grain market seems to have been exerted by news of the passage of the act, the outline of the wheat program, the processing tax rate, or its coming into effect. The plan to reduce wheat

² See pp. 200-01, with chart.

acreage for 1934 was long too indefinite, and always too remote and uncertain in its prospective effect on wheat supplies, to be a material market factor. Curiously enough, however, the timing of the market collapse—though not the break itself—was influenced by an extended statement released by Secretary Wallace on

DAILY PRICES OF SEPTEMBER WHEAT FUTURES AT CHICAGO,
JUNE-SEPTEMBER, 1933^a

Together with Concurrent Prices of Gold



^a Gold prices computed from London open-market price of gold and noon cable rates on sterling exchange in New York. Wheat price data as reported by Grain Futures Administration. Vertical lines indicate daily ranges, and the continuous line indicates daily closing prices. Hollow circles indicate days on which prices declines reached limits determined by effective regulations, and the horizontal dotted lines indicate the period in which the fixed minimum prices indicated were in effect.

July 18, 1933, when the market was at its peak; for in arguing that the "wheat production control plan is imperative," the Secretary presented a less bullish interpretation of the wheat situation than active speculators were entertaining.³ On July 20, moreover, the Department of Agriculture reinstated its regulation (suspended nine months earlier by Secretary Hyde) requiring current reports of all large holdings in contract markets.⁴

By order of the Chicago Board of Trade, with corresponding boards in other centers following suit, grain futures markets were closed on July 21-22.⁵ Ostensibly this was to enable clerks to catch up and rest up, but the prime reason was to give time for formulating plans to check panicky selling and for facilitating settlement of highly vulnerable accounts. Invoking its Rule 81, the Chicago Board of Trade on July 21 prescribed limits on daily fluctuations in prices (wheat, 8 cents; corn and barley, 5 cents; oats, 4 cents) from closing prices of the preceding day. Sales were not permitted beyond these limits or below closing prices registered on July 20.⁶

On July 22, "in view of the present critical grain market situation and in order to get prompt action," Administrator Peek called a "national grain confer-

³ *USDA Press Release No. 96-34*. Events have shown that the Secretary's statements were in no sense unduly bearish.

⁴ The requirement that all clearing members of the several contract markets report daily to the Grain Futures Administration regarding the individual open commitments of large operators was suspended on Oct. 22, 1932, in order again to test the contention of the trade that the discontinuance of reports would result in improved markets for producers. A similar test had been made during February-October 1927 with what was described as "conclusive results." *Report of the Chief of the Grain Futures Administration, 1933*, p. 4.

⁵ Except for a 15-minute period on July 22, when the Chicago market opened for the clearing of weekly privileges.

⁶ *AAA Press Release No. 136-33*, July 22, 1933.

ence" for Monday, July 24, "to consider what steps can be taken under the act to maintain fair and stable grain prices for farmers."⁷ At this conference, as throughout subsequent code negotiations, grain exchange representatives were in a difficult position. They had always desired that public supervision, regulation, or "interference" be kept to a minimum. Yet Mr. Peek emphasized that unless the trade corrected conditions which permitted such speculative crises, the government would take steps that would amount to drastic regulation. He said on July 24:

We are not going to superimpose something on the grain trades until after they have had an opportunity to work out their problems themselves. . . . Abuses exist in the grain trades. The trades, acting as the marketing medium of the farmers, should correct these abuses. If they do not succeed, then the government will act.⁸

Representatives of the exchanges therefore faced the practical necessity of recommending changes in their regulations such as would keep the government from taking matters into its own hands, and yet would impose no more severe or lasting restrictions than were required to convince the Department of Agriculture that the exchanges could and would govern themselves satisfactorily.

At this conference, exchange representatives recommended that fixed minimum price limits were necessary only to meet the temporary emergency and should be removed as soon as market conditions permitted; and that limits on daily fluctuations from the close on the preceding day should be lowered to 5 cents on wheat, rye, and barley, 4 cents on corn, and 3 cents on oats. To prevent the recurrence of violent price changes they

⁷ *AAA Press Release No. 127-34.*

⁸ *AAA Press Release No. 142-34.*

further recommended that the different exchanges modify their permanent rules so as (1) to provide for permanent limitation of daily price fluctuations; (2) to limit open lines of speculative commitments; (3) to prescribe adequate margin requirements, particularly increasing requirements on large speculative lines; and (4) to eliminate trading in "indemnities" ("puts," "calls," etc.). In respect to limitation of open lines and to margin requirements, due consideration was to be given to properly identified hedging commitments.⁹ Effective July 28, minimum prices were removed and limits on daily fluctuations were reduced as recommended. But after the market had declined to the limit on each of three succeeding market days, closing prices on July 31 were established as minimum prices for the period August 1-15.¹⁰ (See chart on page 207.)

After submitting their recommendations on July 24, the trade representatives promised to ask their respective exchanges to draft permanent code proposals (on which some progress had already been made); and in closing the conference Mr. Peek warned that no time should be lost in doing so. On August 9 a draft code for the grain exchanges was submitted to the AAA. This dealt at some length with trade practices. Trading in indemnities, except those good from one day to the close of trading on the next, was to be abolished. Minimum margin requirements, to be figured on a sliding scale,¹¹ were to be enforced on all open contracts except

⁹ *AAA Press Release No. 154-34*, July 25, 1933.

¹⁰ From Aug. 15 to Sept. 13 minimum prices were in force on the Winnipeg exchange.

¹¹ Ten per cent of the market price on the first 250,000 bushels, 15 per cent on the next 1,750,000, and 20 per cent on open contracts above 2 million bushels.

hedging or spreading trades. Existing daily limits on price fluctuations were to continue in force. Each exchange was to invest its board of directors or governors, or a properly constituted committee, with authority (1) to establish or remove limitations on daily fluctuations, subject to the approval of the Secretary of Agriculture; (2) to put limits on open contracts; and (3) to fix margin requirements above the minima set forth in the code. For the proper enforcement of the code provisions, each exchange was to authorize its board, or a specially constituted committee, to investigate transactions of any member and to make recommendations to the proper authority in the exchange for disciplinary action.

Frank A. Theis of the AAA, who presided at the conference, said at its conclusion: "It is apparent that you are making a sincere effort to present something constructive which can be placed in this code when it is completed."¹² Early in the conference, Mr. Peek had reiterated his attitude toward the exchanges, saying:

We have one responsibility under the law. That is to get the farmers' prices up to parity and to keep them from falling below that point. . . . Unless we can get these farm prices up—I don't mean after the farmer has sold his grain but before he has sold his grain—I anticipate that you will face legislation next winter which may make what we are talking about now fade into insignificance compared with the restrictive provisions that will be placed upon you. . . . It is in the interest of the nation, I think, that everything that can be done shall be done to keep him [the farmer] conservative. He is not going to remain so under conditions—and I don't say imposed by you or by anybody else in particular, such as have existed during the last

¹² *AAA Press Release No. 283-34*, Aug. 9, 1933. Attached to this was the "text of the proposed code for grain exchanges."

few years. That has got to be changed, and if this code doesn't go far enough to correct the abuses on the exchanges then I urge you with all the sincerity I have in my heart to undertake to do whatever is necessary to clean your own house and justify your existence as the market for the farmers' grain. That's all.¹³

The rapid progress made up to this point did not continue. A month passed before the draft code was formally submitted with but few significant changes.¹⁴ Not until November 16 was a formal public hearing called to consider the draft as revised by the AAA.¹⁵

The revised draft was similar to the preceding ones in its provisions on labor and trade practices, but it provided for greater government authority in respect to administration, reports, and business conduct committees. The Secretary of Agriculture was empowered to secure information or obtain access to books and records. A "code supervisory committee" of seven, to be appointed by the Grain Committee on National Affairs as under the preceding draft, was empowered to administer the code, subject to review, disapproval, and regulation by the Secretary of Agriculture, and to use every reasonable effort to prevent violation. Each exchange was to adopt a "Business Conduct Committee Rule" to govern the selection of such a committee, to be composed of exchange members not financially interested in speculative futures trading. It was to have power to investigate transactions of any member, and to that end (1) to examine any and all books, records, accounts, and papers of such members; (2) to require

¹³ The same.

¹⁴ *AAA Press Release No. 580-34*, Sept. 9, 1933. This provided that meetings of the code committee might be attended by the Secretary of Agriculture or his representative.

¹⁵ "Proposed Code of Fair Competition for Grain Exchanges and Members Thereof," drafted Nov. 9, 1933.

reports as to the facts of any transactions; and (3) to make recommendations for disciplinary action to the proper authority in the exchange.

The code hearing on November 27-28 brought out strongly the desire of the exchanges to retain as large a degree of self-government as possible. Proponents of the code urged that nothing be included which might seriously cripple or tend to displace the existing marketing system. They argued that desirable flexibility of code provisions could best be obtained by giving each exchange considerable voice in its administration. At least two representatives of the AAA appeared skeptical about the exchanges' ability to govern themselves. E. W. Burgess, Mr. Peek's assistant, introduced amendments to write the rules and regulations of the exchanges into the codes, thus putting federal authority behind those regulations. In doing so, he remarked that in the past the exchanges had been unable to carry out their own rules and regulations and that apparently the shadow of government authority was necessary to secure enforcement. B. P. Parry of the Consumers' Counsel proposed amendments designed to limit open futures accounts, except hedges and spreading trades, to 2 million bushels, and to give the Secretary broad powers governing the time and place of deliveries on futures contracts. The Farmers National Grain Corporation, which had had serious difficulties with the Chicago Board of Trade, submitted amendments designed to allow co-operatives all exchange privileges enjoyed by any other member. No other member of the grain trade proposed significant amendments at this hearing. As was to be expected, trade proponents of the code (members of the Grain Committee on National Affairs) opposed all major amendments submitted during the hearing.

THE GRAIN EXCHANGE CODE

As was the experience with other codes, the work of putting the grain exchange code into finished form proceeded slowly. Finally, on March 20, 1934, it was signed by the President to become effective March 31.¹⁶ As compared with the code submitted at the hearing in November, the changes were minor. Trading in indemnities was barred. On speculative transactions, margin requirements were placed at 10 per cent on all open contracts up to 2 million bushels, with a 15 per cent additional margin (effective August 1) on lines over that amount.¹⁷ Administration of the code was left in the hands of a code authority of seven members appointed by the Grain Committee on National Affairs, with power to insure compliance, to investigate suspected violations, and to report them to the Secretary of Agriculture.

The code was accepted by the trade with some misgivings. Peter B. Carey, president of the Chicago Board of Trade, said: "It is so drastic that many of our people honestly believe its provisions will not permit the market sufficient facility of operation to distribute the grain to the farmer's advantage." And Robert P. Boylan, vice-president of the same body, said:

. . . The Chicago Board of Trade intends to abide by, and live up to, the provisions of the code to the letter, and to enforce the provisions against its members in the most complete good faith. . . . This, however, is not the same thing as saying that we all have confidence that the provisions will accomplish the

¹⁶ *AAA Press Release No. 2169-34*, Mar. 20, 1934.

¹⁷ For transactions representing hedges or spreads no margin requirements are specified, except that on spread accounts between different grains (for example, "long" wheat and "short" corn) any quantity in excess of 2 million bushels is treated as a speculative transaction to the extent of such excess.

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results which are looked for and hoped for by officials of the Department of Agriculture who asked, and indeed, in some cases insisted, that they be incorporated in the code.¹⁸

Other groups, however, felt that the code did not go far enough. At its annual meeting on December 11-13, 1933, the American Farm Bureau Federation had passed a resolution condemning the proposed code for failing to give recognition to grain co-operatives or to reduce speculation in grains. Similar sentiments were expressed by the Farmers Union and National Grange.¹⁹ The Grain Futures Administration considered that the code, while going far in some directions, fell short in others of ensuring the desired degree of control of futures trading. Members of Congress who had sought more rigorous measures were not satisfied. Three days after the code went into effect, hearings were opened on a bill (H. R. 9623) to amend the Grain Futures Act. Among other things, this bill limited the size of a speculative line held by any individual and prohibited trading in indemnities. One reason given for the proposed legislation was that the code was only a temporary measure.²⁰ This bill, after being broadened to include cotton, was passed by the House on June 4. The Senate committee, at a special meeting, voted to report it without including cotton, but had not done so before Congress adjourned.

On June 26 Chicago newspapers reported that, at a meeting of brokers on the Board of Trade, the Administration was charged with having broken an agreement that there would be no grain-trade legislation if an

¹⁸ For this and the preceding quotation, see 73 Cong. 2 sess., Hearing before House Committee on Agriculture on H. R. 8829, Apr. 11, 1934, pp. 86, 145.

¹⁹ The same, p. 81.

²⁰ The same, p. 29.

acceptable code was adopted. Impressions to this effect doubtless rested on inferences drawn from such statements as those of Mr. Peek, mentioned above. Secretary Wallace promptly denied that any such commitment had been made, and expressed the hope that "the decent element in the Board of Trade will keep those reckless ones in check so that they will not turn loose on the country the hatred and confusion in which they specialized in the closing days of the Farm Board."²¹ Concern regarding whether the code would prevent further attempts to impose legislative restrictions was voiced by the chairman of the code authority in October 1934. He said:

. . . We call attention to our own strict regulation and the additional regulation under the code and further urge that operations under the code should be thoroughly developed and experience gained before resorting to further legislative regulation.²²

On January 3, 1935, however, substantially the same bill was introduced as H. R. 3009. After hearings on this bill a slightly revised one (H. R. 6772) was favorably reported to the House on March 18.²³

Fears that the code might prove so onerous a burden on markets as to reduce sharply the trading in futures appear to have been unfounded. Trading in "job lots" has increased somewhat, though this may be attributable to drought damage influencing small speculators, including farmers, to speculate in the hope of a rising market. From the standpoint of controlling speculative

²¹ *AAA Press Release No. 3013-34*, June 28, 1934.

²² *Southwestern Miller*, Oct. 16, 1934, p. 41.

²³ Commodity Exchange Act, 74 Cong. 1 Sess., H. rep. 421. The various viewpoints are expressed in 74 Cong. 1 sess., *Regulation of Commodity Exchanges*, Hearing on H. R. 3009 (Commodity Exchange Act) before House Committee on Agriculture, Feb. 5-8, 1935, Ser. B.

excesses, the margin requirements are of most importance. To some extent, they have probably reduced the size of holdings, curtailed operations by foreign traders, and consequently reduced the volume of trading, though their influence is obscured by other factors. The reduction, however, has not been sufficient to affect market liquidity, ample hedging facilities having been provided.²⁴ It is reported that margin requirements of the code have benefited some commission houses by reducing losses previously incurred on business accepted on inadequate margin.

Limits on daily fluctuations have been operative on only five occasions (on wheat alone, four²⁵) between March 20, 1934 and March 20, 1935. Some fear had been expressed that the mere existence of such limits would tend, when the market approached the limit, to "drag" the price down (or up) to the limit. No evidence of such a tendency has yet been found, but the market has so seldom approached the limit of fluctuation allowed that no definite conclusions are warranted.

²⁴ Official data compiled from *Trade in Grain Futures* show the following average daily volume of futures trading in wheat on the Chicago Board of Trade (in millions of bushels):

Month	1929	1930	1931	1932	1933	1934
January	35.0	44.3	11.1	23.7	17.3	16.8
February	33.8	58.1	14.6	29.1	13.1	14.6
March	36.2	39.5	14.1	28.2	26.8	11.8
April	42.5	50.4	22.4	37.3	54.6	20.9
May	40.0	33.7	21.4	26.8	49.1	34.3
June	46.1	47.1	23.6	27.3	60.5	34.7
July	93.5	45.2	20.9	20.1	70.2	36.9
August	70.2	50.6	19.3	37.7	24.0	39.6
September	48.2	40.5	16.9	27.7	27.6	20.8
October	56.4	37.2	30.0	23.2	33.3	25.1
November	62.5	40.4	55.3	25.3	31.0	22.4
December	55.0	16.1	29.7	15.4	18.7	18.5

²⁵ Apr. 19 and May 10, 28, and 31, 1934.

In practice, administration of the code has been handled by the code authority, apparently to the satisfaction of the government.²⁶ The exchanges have set up a comprehensive system of supervision of margin requirement provisions which appears to be working effectively. Only minor and unimportant complaints have reached the code authority, and no serious controversies or cases of non-compliance have yet come to its attention. It considers the code to have had a wholesome and constructive influence on futures trading and the markets in general. Expenses of administering the code have been small—the budget for the year ending May 31, 1935 being only \$13,400.²⁷

Effective December 24, 1934, the terminal grain elevator industry was brought under the grain exchange code, on the ground that most of its members were also members of the grain exchanges. This action was taken at the request of the Terminal Elevator Grain Merchants Association, representing about 80 per cent of the storage capacity and over 50 per cent of the operators of terminal elevators.²⁸

²⁶ "We have made every effort to meet the views of the Administration in working out a code, even though most of it was reluctantly accepted by most of the trade. Not a single complaint has been heard from governmental quarters against the grain exchanges in the manner in which we have administered our code." Address by George H. Davis, chairman of the national code authority for grain exchanges, before convention of Grain and Feed Dealers National Association, October 1934. *Southwestern Miller*, Oct. 16, 1934, p. 21.

²⁷ According to *NRA Press Release No. 6317*, July 9, 1934, the five principal exchanges were to contribute the following percentages: Chicago Board of Trade, 40.0; Kansas City Board of Trade, 17.5; Minneapolis Chamber of Commerce, 17.5; Merchants Exchange of St. Louis, 7.5; and Duluth Board of Trade, 5.0. A 2.5 per cent contribution was required of each of five others: Buffalo Corn Exchange, Chicago Open Board of Trade, Milwaukee Grain and Stock Exchange, Omaha Grain Exchange, and New York Produce Exchange.

²⁸ *AAA News Digest*, Nov. 24, 1934. The association had presented a simple draft code on Aug. 7, 1933. Its provisions related almost wholly to

As an influence toward the attainment of "parity prices" for grain (mentioned by Mr. Peek as the major concern of the AAA and as something that should be furthered by the code), the grain exchange code has not figured. So far as the wheat-growers' interest is concerned, the most that can reasonably be hoped from satisfactory operation of the code is that speculative excesses, both bullish and bearish, shall be made less frequent and less serious, if not eliminated. Such an achievement will be quite as much in the interest of the nation as a whole as of the wheat growers.

THE COUNTRY GRAIN ELEVATOR CODE

The country grain elevator industry had no association sufficiently representative to carry on code negotiations with the government. At the suggestion of the AAA, the Grain and Feed Dealers National Association called a meeting in Chicago on July 27, 1933, to which representatives of all country elevator associations were invited. At this meeting there was organized a National Federation of Country Grain Elevator Associations, open to all associations then functioning, and its seven directors served as a code committee. They submitted a draft code on August 16. Following protracted discussions within the AAA and among representatives of the industry a formal hearing was held on December 20. After the almost interminable discussion of details which afflicted the progress of most codes had run its course, the code was approved on May 8, 1934, to become effective May 21.

Early drafts of the code, in response to suggestions

labor, but it forbade sales of grain at prices representing an intentional loss for competitive purposes. (*AAA Press Release No. 273-34*, Aug. 7, 1933.) This was formally submitted on Sept. 16, 1933, but practically no further progress was made with it.

received by the code committee, incorporated provisions for regulating or guaranteeing margins and profits.²⁹ The AAA, however, objected to these;³⁰ and in subsequent drafts there remained only the provision that "no elevator operator shall purchase or offer to purchase grain at a price which represents an intentional merchandising loss for competitive purposes."

Other "unfair methods of competition" prohibited in early drafts were: over- and under-grading; over- and under-docking; payments or promises outside the regular price offered and paid for grain; free storage of grain except as provided by law; and buying and selling of grain by those engaged in the business of transportation for hire and not owning or operating grain-handling facilities.³¹ The last provision represented an attempt to prevent truckers and "scoop shovelers" from buying grain. The AAA, objecting, informed the code committee that it could apply the code to truckers only by including them in the "country grain elevator in-

²⁹ Two different early drafts read: "Section 3. No elevator or warehouse shall purchase or offer to purchase grain at a price which represents an intentional merchandising loss for competitive purposes; an association or groups of associations of elevators may under this code, and upon the evidence examined, determine a reasonable and fair grain handling and merchandising cost for their particular region, subject, however, to the approval of the Secretary of Agriculture; but that this determination of a reasonable and fair margin of cost shall not be applied in any state where it would be in conflict with any existing anti-discrimination law." And "No elevator shall purchase or offer to purchase grain at a price which represents an intentional merchandising loss for competitive purposes; an association or group of associations representing 70 per cent of the elevators in their particular crop area not less than a state, may, under this code and upon the evidence examined, determine a reasonable and fair grain-handling and merchandising cost for that area; subject, however, to the approval of the Secretary of Agriculture, but that this determination of a reasonable and fair margin of cost shall not apply to handling or storage charges in any state where it would be in conflict with state law."

³⁰ Supplement to code draft prepared in October 1933.

³¹ Code draft submitted Aug. 16, 1933.

dustry" and giving them representation on the code committee. This was done and, since there was no association of truckers handling grain, the Secretary of Agriculture appointed one man to represent them.

Another section in some code drafts which caused much discussion read:

Books and records of the elevator shall be kept open to the Secretary of Agriculture during the regular business hours of any day, but information obtained by the Secretary of Agriculture shall not be made public except upon demand of either house of Congress of the United States or upon order of any court of competent jurisdiction.

This provision aroused much protest; members of the industry argued that they might be put to a great deal of expense since many operators are unskilled in keeping books. Accordingly, the approved code authorizes the Secretary to request information but does not permit him access to elevator books and records.

Administration of the code was put in the hands of a code authority consisting of eleven members selected by various groups within the industry.³² Representatives of the Secretary of Agriculture and of the Administrator of the National Recovery Act were authorized to attend meetings of the code authority, but were not given a vote. Powers of the code authority were limited. Decisions on matters of policy and inclusion of further

³² One member each elected by the Pacific Coast region; the Northwest region, embracing the spring wheat area; the Southwest region; the Central and Eastern states region; the Farmers National Grain Corporation; members of the industry owning or operating independent farmers' co-operative elevators not owned by or affiliated with the Farmers National Grain Corporation; members of the industry who own or operate an elevator or elevators at a single station which are not co-operatively owned by producers and which have permanent facilities for the storage of grain; members who own or operate line elevators; members who do not own permanent storage and assembling facilities. These nine members elect two members at large. Approved code, p. 11.

fair trade practices were left to the Secretary, the code authority having power to make recommendations only. In case of suspected violations of the code, the authority is to investigate and attempt to secure compliance; failing this, violations are to be reported to the Secretary.

During early negotiations, while members of the industry thought that the code would authorize elevator associations to set margins and profits, they were hopeful, even enthusiastic, over the prospects of operating under a code. The elimination of such provisions, the delay in securing code approval, and the discouraging crop prospects all combined to dampen enthusiasm. Even after approval of the code, further weeks of negotiation were necessary before the code authority was able to function.

Operations under the code for the first eight months have indicated that, while it may cause elevators to grade a little more closely and to provide the farmer with less free storage, it has not been universally popular with elevator operators.³³ Acute dissatisfaction, however, seems to have been largely confined to the Southwest, where, owing to drought, the elevator business has been seriously depressed.³⁴ The Southwestern member of the national code authority said, however, in urging support from the trade:

The adoption of the code was not one of choice and it will continue a national law in spite of individual wishes in the matter. If it has not been specifically beneficial, we must grant

³³ By July 27, 1934 the code authority had received about 100 complaints dealing with "fair trade practices," at least one-third of which charged violation of storage provisions.

³⁴ Declining revenues and threatened loss of employment caused exemptions from code rates of wages for a period of ten months following Sept. 25, 1934 to be made to elevator operators in towns of less than 10,000 in all drought areas, providing hours of employment were correspondingly decreased. *NRA Press Release No. 7988*, Sept. 26, 1931.

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that there is nothing in the code that injures the industry, which cannot be said of many industrial codes. . . .³⁵

Reports from other states have been more favorable. Expense of administering the code has been estimated at \$26,800 for the period June 1, 1934 to July 1, 1935. The budget originally submitted amounted to \$30,000,³⁶ but the NRA did not allow pre-code expenses to be included in this figure.

Code authorities have expressed the view that whatever its value to the elevator industry, the code will certainly benefit the farmer. In the past much grain has been lost by producers through storing grain in elevators not complying with state or federal warehouse or grain storage laws.³⁷ Some benefits to producers may also accrue through closer and more accurate grading, and through other "fair trade practices" imposed; but it is possible that the net effect of these provisions on

³⁵ *Kansas City Grain Market Review*, Nov. 9, 1934. In response to a recent questionnaire only two members of the Kansas Grain Dealers Association admitted they had received any benefit from the code and only six favored giving it further trial.

³⁶ *NRA Release No. 6316*, July 9, 1934.

³⁷ In this connection another point deserves passing mention. Section 8 (5) of the Adjustment Act provides: "No person engaged in the storage in a public warehouse of any basic agricultural commodity in the current of interstate or foreign commerce, shall deliver any such commodity upon which a warehouse receipt has been issued and is outstanding, without prior surrender and cancellation of such warehouse receipt. . . ." A hearing was held in Chicago Aug. 11, 1933, at which elevator operators complained that uncertainties over interpretation of this provision were hampering grain movement and causing congestion. On September 9 Secretary Wallace issued detailed warehouse regulations (*USDA Press Release No. 559-34*) under which it was ruled that "the provision applies only to strict bailment contracts for warehousing, but not for warehousing contracts where there is an implied understanding, by trade custom or otherwise, that the warehouseman may dispose of the grain and pay the market price therefor to the farmer as of the date the farmer surrenders his warehouse receipts since under such circumstances the warehouseman does not receive the grain for storage in a strict sense." The farmer may compel actual retention of his grain if his warehouse receipt is stamped, upon issue, "strictly storage, to be retained on premises."

farmers as a group will be small, since benefits received by some farmers will be more or less offset by losses to others. This code was among those transferred to NRA jurisdiction March 30, 1935.

EVOLUTION OF THE MILLING CODE

Flour millers welcomed the opportunity to develop a code, in the hope that it would help them cope with the serious problems that their industry has faced in the post-war period and particularly during the depression years. The background of these difficulties is suggested in the chart on page 226, and a few words of elucidation are pertinent.

Production and exports of flour had expanded rapidly during the closing decades of the nineteenth century. Indeed, around the turn of the century, when our wheat and flour exports reached a high peak, net exports of flour ran about 18 million barrels a year and once (1902-03) exceeded 20 million. Apart from the sharp drop in flour exports caused by the short crop of 1904, their trend was downward in the pre-war decade when domestic population was increasing rapidly and wheat production failed to expand. Higher exports in the first two years of the war were naturally followed by a drop after the short crop of 1916; but in 1917-18 most of our wheat exports were shipped as flour, and in 1918-19 net exports of flour (including shipments to expeditionary forces and relief organizations in Europe) reached an all-time peak of nearly 30 million barrels. In the next two years net exports dropped sharply, then rose, and from the subsequent peak in 1923-24 the trend was irregularly downward until 1929-30. In subsequent years the decline was even more drastic, to under 5 million barrels in 1932-33 and under

4.5 million in 1933-34; and over half of these exports consisted of flour milled in bond from Canadian wheat.³⁸ The shrinkage of flour exports has been due mainly to three factors: higher barriers to imports of flour in many countries; increased competition from Canadian, Australian, Argentine, British, Japanese, and other exporting mills; and speculative and governmental actions causing American wheat to sell higher than wheat in other flour-exporting countries.³⁹

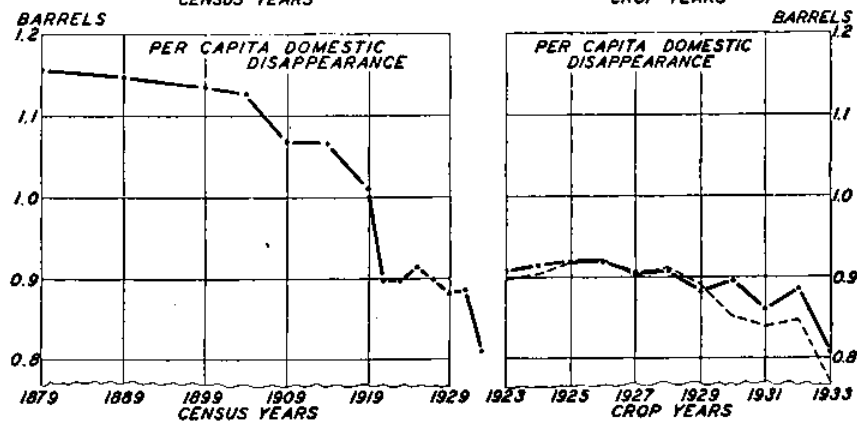
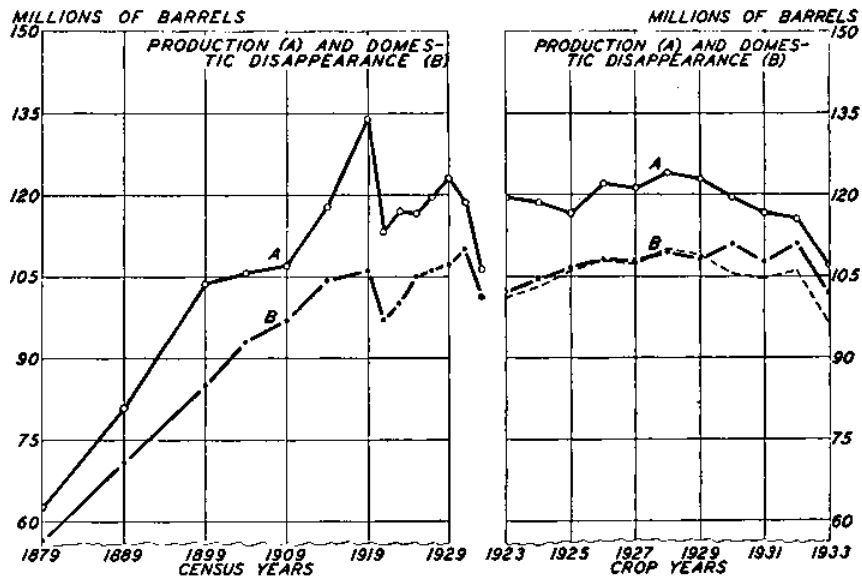
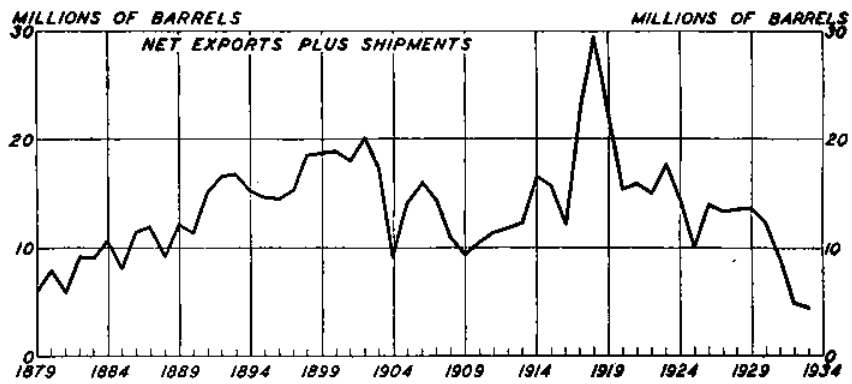
No less important than shrinkage of export outlets have been changes in domestic demand for flour. Since 1914 the rate of population increase has notably declined. Per capita consumption of flour, which was declining slightly before the war, fell sharply during the war and did not materially recover afterwards. In the years preceding the current depression total flour consumption in the United States was not much larger than before the war. War measures were partly responsible for the sharp decline reflected in the lower section of the chart on page 226, but not for its persistence. The lower post-war level is partly attributable to expansion of the use of commercially baked products and to accompanying changes in bakers' formulas by which water and other ingredients have come to represent an increasing proportion to flour.⁴⁰ Much more of it is due to lessened physiological requirements per capita and to effectual displacement of bread by sugar, fruits, vegetables, and other articles in a more diversified diet. During the depression, per capita consumption has de-

³⁸ The figures plotted include shipments to Alaska, Hawaii, and Puerto Rico, which since the war have averaged over 500,000 barrels a year.

³⁹ See two studies by Alonzo E. Taylor, *Wheat Studies of the Food Research Institute*, November 1930, Vol. VII, No. 1; and October 1934, Vol. XI, No. 2.

⁴⁰ See Tables 15 and 16 in V. G. Pickett and R. S. Vaile, *The Decline of Northwestern Flour Milling*, University of Minnesota, 1933.

SIGNIFICANT FLOUR STATISTICS FOR THE UNITED STATES, 1879-1934^a



^a Net exports plus shipments for crop years beginning July 1, 1890, as computed by the Food Research Institute and published in *Wheat Studies*,

clined further, in the very years when population increase was slowest and net exports were shrinking to levels not reached since shortly after the Civil War. Flour output fell in 1933-34 to levels not touched since about 1910.⁴¹

Over a long period there has been a tendency for custom mills and small merchant mills to shrink in number and relative importance,⁴² and also toward increased concentration in larger mills in important milling centers such as Minneapolis, Kansas City, and Buffalo. In recent years this has been followed by somewhat increased concentration of ownership, with larger companies producing an increasing proportion of the total output. Internal readjustments of importance to the industry have been necessitated by geographical shifts in wheat production in relation to domestic population concentration and diminished export outlets. Flour milling has declined in Minneapolis and the Northwest generally, while in Buffalo and the Southwest it has risen in relative importance.⁴³

December 1927, p. 101, and December 1934, p. 190. Other data as estimated by the Bureau of Agricultural Economics for census years 1879-1933 and for crop years beginning July of years indicated; these are chiefly from *World Wheat Prospects*, Sept. 27, 1934. The light dashed lines in the right-hand section show roughly comparable estimates of the Food Research Institute; the truth probably lies between the two curves shown. Data on domestic disappearance overstate flour consumption in 1932-33 and understate it in 1933-34.

⁴¹ See Holbrook Working's study, "Statistics of American Wheat Milling and Flour Disposition since 1879," *Wheat Studies of the Food Research Institute*, December 1927, Vol. IV, No. 2; *World Wheat Prospects*, Bureau of Agricultural Economics, September 1934, pp. 14-15; and further below, p. 357.

⁴² During the depression, however, the output of such mills has risen, though there is no trustworthy basis for estimating the extent of the increase.

⁴³ See Pickett and Vaile, *The Decline of Northwestern Flour Milling*. During the past 20 years the aggregate daily capacity of mills of 250 or more barrels' daily capacity, according to trade data, has fallen in Minneapolis mills from 74,600 barrels to 47,500, and in interior Minnesota mills from 48,125 to 37,925.

Statistics of flour output in relation to mill capacity, usually expressed on a 24-hour basis, suggest exceptionally large "excess capacity"⁴⁴—indeed, more than can fairly be said to exist. Few mills can operate continuously through a year or more, and variations in conditions from one year to another, and within a season, economically justify maintenance of much more milling capacity than would theoretically be required to produce the entire flour output. In the Northwest a good deal of mill capacity has been scrapped since the war; but since millers are often reluctant to accept adverse conditions as more or less permanent, elimination of obsolete or out-of-position mills does not always accompany building of new ones. Some net expansion of milling capacity has occurred since the war, and with shrinkage in domestic and foreign outlets since 1928-29, surplus milling capacity has increased during the depression.

Millers also have complained that the severe competition induced by this situation has been made keener by increased concentration in the baking industry and by extension of chain-store operations, which have forced milling margins on millions of barrels below even direct costs of operation. In recent years a great deal of low-grade flour that formerly moved into export has gone into the domestic flour trade, particularly through chain stores and other private-brand buyers such as jobbers and wholesale grocers.⁴⁵ Millers also have argued that mills have been subjected to increased carrying charges by reason of delayed flour deliveries and buying wheat earlier in the season—the latter largely for technical reasons. At code hearings they

⁴⁴ Edwin G. Nourse and Associates, *America's Capacity to Produce*, 1934, pp. 186-93.

⁴⁵ Some observers count this among the factors responsible for the unexpected decline in flour consumption during the depression.

voiced the fear that if competition continued unregulated they would be forced to do one of three things: to continue to exact higher prices on their sales to moderate and small buyers in order to offset the losses sustained on sales to large buyers, with resulting disadvantage to a large number of ultimate consumers; if this proved impossible, to exhaust their surplus built up in prior years and thus injure and ultimately ruin their financial standing and eventually eliminate many units; or to attempt to depress the wheat market in order to make ends meet.⁴⁶ In the light of recent British experience, many American millers hoped that a code would be helpful in coping with this situation.⁴⁷ They believed, among other things, that if a minimum conversion charge were set, and enforced, destructive price cutting would cease and profitable operation would be assured.

Two earlier attempts in this direction had failed. In 1926 the flour-milling industry adopted a code of fair trade practice—essentially a declaration of policy with respect to rebates, concessions to buyers, sales below cost, and other major “abuses.” Millers were asked as good business men to observe this code, and many attempted to comply. In the absence of any authority for enforcement, the competitive situation soon forced abandonment of the effort. In 1929, the president of the Millers National Federation appointed a trade practice committee to recommend to the industry a set of trade rules for consideration. A tentative code was discussed at six regional hearings of millers, early in

⁴⁶ Testimony of Carl Dietz, in Hearings on code of fair competition for the wheat flour-milling industry, pp. 529, 543. The last point can hardly be taken seriously.

⁴⁷ In Great Britain, where concentration of milling has gone much further than in the United States, the financial position of the milling industry has been materially improved in recent years with the aid of a thoroughgoing “rationalization” undertaken with government approval.

1930. After revision by the committee, a new draft was presented to a mass meeting of the industry and adopted by it in May 1930. The plan was to seek official sanction for this code at a trade practice conference under the supervision and jurisdiction of the Federal Trade Commission. Before this step could be taken, however, conflict of opinion between the Federal Trade Commission and the Department of Justice, with respect to the legality of the trade practice procedure, led to indefinite postponement.⁴⁸

When it became evident that the National Industrial Recovery Act was going to be passed, the executive committee of the Millers National Federation started to develop a code for the milling industry along the lines contemplated in the bill, and the president of the federation shortly appointed a special committee for this purpose. On June 22, 1933, at the call of the federation,⁴⁹ a huge mass meeting of the industry was held in Chicago to consider the tentative code developed by the committee. Various amendments were made by the convention; and without a dissenting vote it directed the federation's executive committee, on behalf of the industry, to present the amended draft to the Secretary of Agriculture for his approval. This presentation was made at an informal hearing held on July 28, 1933. Then followed weeks of discussion both within the industry and with AAA officials. Among the obstacles that delayed action were continuing efforts to devise a master code for all food industries, and the persistence of the marketing agreement idea mentioned below. Finally, on October 10, 1933, the proposed code was formally filed with the Secretary of Agriculture.

⁴⁸ Based on statement of George Livingston, executive vice-president of the Millers National Federation, prepared for the record of the code hearing held in Washington, Jan. 15-17, 1934.

⁴⁹ George Livingston, testimony at code hearing, separate statement.

For several months after the Adjustment Act was passed, Mr. Peek nursed the idea that a marketing agreement might be arranged whereby millers would agree to pay farmers "parity prices" for their wheat in 1933-34, at least to the extent of wheat ground for food use.⁵⁰ No formal conferences on this matter were held, and it was not discussed in the "informal public conference of wheat growers, handlers, and processors" held on May 26, 1933. However, the wheat growers' brief of May 18, which was read at this conference, contained this pertinent paragraph:

We cannot believe that early success can attend any program predicated only on agreements with processors and handlers looking to the maintenance of parity price for agricultural commodities.

The *Northwestern Miller* said editorially on June 21:

The shock to the milling industry by last week's announcement by Secretary Wallace that the maximum conversion [processing] tax would be applied to wheat effective within the next few weeks was in some degree mitigated by dissipation of fear of the greater peril of an attempt to enhance and control wheat prices by trade agreements.

On July 27, however, the head of the Processing and Marketing Division of the AAA (General Westervelt) said:

. . . No definite proposals for a marketing agreement affecting wheat have been made, but the wheat processing tax and the necessity of preventing its being pyramided may raise the question.⁵¹

While the code for the milling industry was in draft form, Mr. Peek brought the idea up again; and at times he gave the impression that if millers agreed to

⁵⁰ See Edwin G. Nourse, *Marketing Agreements under the AAA*, Chap. I.

⁵¹ *AAA Press Release No. 143-34*, p. 6.

it they could practically write their own code, while without an agreement no code for the industry would be approved.⁵²

On October 19 a tentative plan, prepared by E. W. Burgess of Mr. Peek's staff, was informally discussed with millers' representatives.⁵³ Four points in this proposal deserve emphasis in connection with our earlier discussion of the evolution of the wheat program. It was sought to graft upon the allotment plan, already in operation, certain major features of the old McNary-Haugen plan, to be reinforced by agreements with millers and grain dealers. One proposed corporation would accumulate much of the carry-over and treat it as a reserve against crop shortage. The wheat price structure was to be crystallized, and incidentally futures trading would have been eliminated. Acreage and production restraints were in the future to be replaced by the Simpson or Farmers Union plan for allotment of marketing quotas to individual growers. Such a plan was obviously quite at variance with much of the AAA philosophy and practice, and it found no support within the Wheat Section or the Grain Processing and Marketing Section.

The millers' representatives at this conference raised various objections to the plan, which they regarded as wholly impractical.⁵⁴ Shortly after, Mr. Peek was quoted as having expressed the belief that it would be impossible to work out a parity price agreement with

⁵² *Southwestern Miller*, Oct. 31, 1933, p. 25.

⁵³ This was summarized in the *Northwestern Miller*, Nov. 1, 1933, p. 292.

⁵⁴ A special bulletin of the Millers National Federation (dated October 28) stated in reporting that conference: "From the time that this idea was first brought up the federation took the position that while we are in sympathy with the desired objective, the practical difficulties in the way of putting any such idea into effect would be so great as to make it utterly impossible of achievement."

millers, and that the incomplete agreement still in contemplation did not provide for fixing minimum prices that millers must pay.⁵⁵ Thereafter, while progress continued on the code, the marketing agreement plan faded out of the picture, and with Mr. Peek's departure from the AAA on December 15 it disappeared.⁵⁶

Differences of opinion within the industry, and between the industry and AAA officials, continued to delay progress in code negotiations. The public hearing was held January 15, 1934. On March 29 the code committee quit, charging that the AAA laid down requirements which millers could not accept;⁵⁷ and several weeks elapsed before it resumed work. Eventually, on June 9, the code for the flour-milling industry was approved, to become effective June 13, 1934.⁵⁸

THE MILLING CODE

The code prohibited rebates, payments of commission to buyers, unearned service payments, waiving of carrying charges, guaranties against price decline, fictitious and discriminatory prices, and selling for more than 90 days in advance. It regulated marketing practices of various kinds. It forbade the sale of flour at an intentional merchandising loss, and defined minimum "stop-loss" prices; but this latter provision was "stayed" because of NRA policy until the Secretary should declare an emergency to exist in the flour-milling industry. The giving of premiums was forbidden from

⁵⁵ *Northwestern Miller*, Nov. 1, 1933, p. 287; *Southwestern Miller*, Oct. 17, pp. 23, 26, and Oct. 31, p. 25. The millers were not yet convinced that the idea was dropped for good.

⁵⁶ Distillers, under a marketing agreement approved Dec 9, 1933, agreed to pay parity prices for cereals. At the request of the industry, the agreement was terminated on Apr. 20, 1934.

⁵⁷ *Northwestern Miller*, Apr. 4, 1934, p. 38.

⁵⁸ *AAA Press Release No. 2813-34*, June 9, 1934.

November 1, 1934; but this provision was stayed indefinitely.⁵⁹ Labor provisions were outlined. Administration was vested in a code authority of 16 members of the industry selected on a regional basis, each miller being entitled to one vote for every 10,000 barrels of flour output, or part thereof, in the calendar year 1933.⁶⁰ The authority has no power to enforce penalties for code violation, but may secure action through supplying the Secretary with information. It has authority to obtain information and reports from members of the industry, and to recommend to the Secretary actions or measures to govern members of the industry in their relations with each other.

The approved code differs in many respects from earlier drafts. Conspicuous throughout the discussion had been the "stop-loss" feature. The draft of October 10 prohibited sales below minimum costs and gave formulas for determining such minima. At this time the industry was strongly in favor of some such provision. The AAA, however, was unwilling to assent to figures as liberal as those suggested, and this weakened the millers' eagerness for the stop-loss feature. At the code hearing in January some millers expressed doubts as to the advisability of including the provision, and fears that any fixed minimum might prove a maximum

⁵⁹ Millers had debated this matter since the inception of code negotiations. Two referenda were taken in September and December 1934 with the following results:

	For Premiums	Against Premiums
Number of mills:		
September	51	311
December	67	550
Millions of barrels represented:		
September	20	48
December	23	81

⁶⁰ AAA Press Release No. 614-35, Sept. 20, 1934.

as well. As the code neared approval, millers of the Northwest and Pacific Northwest voiced fears that enforcement of the stop-loss would eliminate many customary factors of safety and tolerance, that minimum price bases would become standard prices, and that established trade connections could not be protected during intervals of price disadvantage.⁶¹

Notwithstanding such distrust of the provision, millers generally were greatly disappointed over its effectual elimination in the approved code and have continued to seek its reinstatement. At their convention in June 1934 they protested against the stay of the stop-loss provision and called upon the Secretary to declare an emergency within the industry so as to bring it into force;⁶² and on June 28 the Southwestern Millers League passed a resolution asking for reinstatement of the provision.⁶³ On July 16, however, Code Director Dietz said:

. . . the National Industrial Recovery Act of which our code has become a part, as well as the order under which the modifications were made and the code approved by the President, both specifically and definitely declare against destructive price cutting. This fundamental principle has exactly as much force as though it were spelled out in the code itself and hence must be observed.

To aid in enforcing this principle, he announced that a system of daily sales and price reports to the regional code directors was to be put into effect.⁶⁴ On August 7, 1934 the code committee began work on a formal application to the Adjustment Administration that an emergency in the industry be declared. The request was

⁶¹ *Northwestern Miller*, Apr. 18, 1934, p. 159.

⁶² The same, June 13, 1934, p. 671.

⁶³ *Southwestern Miller*, July 3, 1934, p. 6.

⁶⁴ *Northwestern Miller*, July 18, 1934, p. 167.

not granted, but on September 14, the AAA announced the reinstatement of the first section of Article IX prohibiting destructive price cutting.⁶⁵ Thus far (March 31, 1935), the stop-loss provision remains stayed.

Millers also disagreed on the proposed limitation of machine-hour operation; small millers generally favored limitation while the large ones did not. The code draft of October 10, 1933 prohibited (1) any plant from operating more than 144 hours a week, (2) operation of existing capacity that had not been active for an aggregate of 90 days or more during the three-year period immediately prior to the effective date of the code, and (3) construction or operation of additional mill capacity requiring new capital investment except in replacement of capacity destroyed or abandoned, or until permission should be obtained from the Secretary. At the code hearing, small millers insisted that greater restriction was to be desired. Polls taken in 1933 favored little or much restriction, depending on whether the vote was counted on a capacity or a unit basis.⁶⁶ Representatives of small mills argued that without restriction such price cutting would ensue that they would find it difficult to survive. It is a pertinent fact that in recent years, by and large, the smaller the mill the lower has been the percentage of capacity used. On this point the small mills lost their fight and the approved code made no mention of any limitation.

⁶⁵ AAA Press Release No. 615-38, Sept. 30, 1934.

⁶⁶ A poll conducted by the Southeastern Millers Association brought forth 979 replies, of which 899 or 91.8 per cent favored restriction of machine hours to 120 hours or less per week. Testimony of R. P. Johnson, in code hearings, p. 401.

A poll conducted by the Millers National Federation showed 357 mills out of 595 voting (about 60 per cent) favoring restriction to 120 hours or less per week, while on a capacity basis 75 per cent of the votes were for 144-hour or unlimited operation. *Northwestern Miller*, Dec. 13, 1933, p. 662.

At the hearings it was charged that small millers were given little voice in framing the code and that they would be inadequately represented on the proposed code authority. The National Independent Millers Association and the American Millers Association, two trade associations of small millers, urged that regional members of the code authority be elected by a majority vote in which the mill unit and capacity would have equal weight. The basis finally adopted did not meet these demands; but one vote for each 10,000 barrels of output, or fraction thereof, ensures small mills a substantial aggregate voting power.

Part of the delay in reaching agreement on the code was caused by certain differences of opinion between the AAA and members of the industry. The former wished access to all books and records of mills where some form of price fixing was attempted under the code, while the code committee was unwilling to grant as wide powers as seemed to be demanded. The approved code permits the Secretary to request reports from members of the industry but gives him no power to examine books and records. The AAA desired sharp limitation of the powers of the code authority, while the millers sought to retain full jurisdiction within the industry.⁶⁷ On this point, as we have seen, the Administration view prevailed.

The code budget for the year ending October 1, 1935 amounts to \$244,722.96. The basis of contribution is 2.6 mills (plus 0.375 mills if needed) per barrel of flour produced in the previous year, with a minimum assessment of \$8.00 per mill per year.⁶⁸

It is too early to speak with confidence about the

⁶⁷ *Northwestern Miller*, Dec. 6, 1933, p. 592.

⁶⁸ *NRA Release No. 8384*, Oct. 20, 1934.

practical significance of the code in operation. Conflicting opinions exist within the industry, and usually reliable trade journals are considered by various millers to give a somewhat biased view. Speaking before the Piedmont Millers Association on November 23, 1934, M. A. Briggs of the national code authority observed that whereas during code negotiations many millers in all regions had opposed the code, meetings of late had been characterized by an about-face on the part of a majority of the opposition, and that at present millers generally recognize the code to be a decided benefit.⁶⁹ This statement would not command universal assent. In any case, there is as yet no indication that the code is facilitating effective grappling with the more deep-seated problems facing the milling industry, or that it has any significant bearing on the position of wheat growers. The transfer of the milling code to the jurisdiction of the NRA, on March 30, 1935, seems to imply a recognition of this latter fact, though the Secretary of Agriculture retains certain powers in connection with the codes transferred.⁷⁰

⁶⁹ *Northwestern Miller*, Dec. 5, 1934, p. 635.

⁷⁰ See *AAA Press Release No. 1917-35*, Apr. 8, 1935.

CHAPTER VIII

SURPLUS-RELIEF OPERATIONS

The operations discussed in this chapter partook of a dual nature. In immediate objective and in timing of purchase they were market supporting operations essentially like the wheat stabilization purchases under the Federal Farm Board, particularly those of November 1930. In avowed objective and in use of the wheat purchased, they were relief operations akin to the Red Cross disposition of stabilization wheat during 1932 and 1933. The official phrase "surplus-relief operations," used in preference to "stabilization operations," suggested their double purpose—to relieve the market of part of the price depressing surplus and to distribute for relief the amounts purchased. In retrospect, however, it is clear that here was no settled policy, but a temporary expedient devised to meet an emergency created by a fresh collapse of the grain market in mid-October 1933. The aggregate amounts involved were insignificant, by almost every standard of comparison. Paradoxically, herein lies the principal significance of the operations in connection with the wheat program of the AAA. Indeed, like the international wheat agreement, they lay technically outside the field of even the Department of Agriculture. As a dramatic episode in the history of a critical period, however, they merit fuller discussion here than their place in the AAA program alone would justify.

BACKGROUND OF THE OPERATIONS

The policies pursued in 1933-34 were greatly influenced by events and actions in the four preceding years. The Federal Farm Board had been reluctant to make

use of the stabilization provisions of the Agricultural Marketing Act, but soon felt it necessary to do so. Outstanding among its operations were the stabilization purchases of wheat and cotton which it sanctioned and directed, and loan operations of a related character on these and several other farm products. The results of this experience were unhappy. Under the conditions, it proved impossible to do more than check price declines somewhat, for a time. The trades affected roundly scored the operations in principle and practice, though some influential grain men had favored the initial moves. Farmers were so greatly disappointed in the net results that they turned against the provisions. Even the Farm Board, while defending the operations and pointing out positive contributions it considered they had made, took pains to point out grave limitations of the device. The Democratic party platform of 1932 condemned "the extravagance of the Farm Board, its disastrous action which made the government a speculator in farm products . . .," while the Republican platform was conspicuously silent on the subject of stabilization operations. Democratic campaign speakers flayed both the provisions and operations thereunder, and Republican speakers did not rally strongly to their defense. Thus this experiment, for the launching of which there had been non-partisan support, was recognized as an economic and political failure.

One of President Roosevelt's early actions, under legislative authority conferred by the old and new Congress, was to abolish not only the Board itself, most of whose functions were transferred to the new Farm Credit Administration, but also "the functions vested in the Federal Farm Board by Section 9 of the Agricultural Marketing Act," except as necessary for orderly

liquidation of the activities of existing stabilization corporations.¹ The Grain Stabilization Corporation's holdings of wheat, which had stood at 50 million bushels on February 28, 1933, were completely disposed of early in May, and a few weeks later the last remnant of cotton stabilization holdings was sold.

A cardinal feature of the domestic allotment plan, in its earlier and maturer forms, was that under it the flow of commodities to market would not be stimulated, impeded, or interfered with. The Hope-Norbeck bills of July 1932, it is true, contained a section authorizing "a minor stabilization operation" under specified circumstances;² but this failed to reappear in subsequent bills. In October 1932, M. L. Wilson listed among the specifications of "a program of agricultural reconstruction": "There must be no price fixing and no interference with the present commercial channels in handling and marketing."³ This was a powerful argument for his plan, particularly in trade circles where hostility to stabilization operations was most pronounced.

As finally passed, however, the Adjustment Act contained two provisions that opened doors for stabilization operations in certain guises. Section 8 (1) authorized advances of benefit payments on the security of any non-perishable agricultural commodity properly stored on farms. For various reasons, no use has yet

¹ Executive Order of March 27, 1933 (73 Cong. 1 sess., H. doc. 7) which became effective May 27, 1934, after Congress had not seen fit to reject or modify it. When other sections of the Agricultural Marketing Act were repealed or amended by the Farm Credit Act of June 16, 1933 (73 Cong. Public No. 75, H.R. 5790) Section 9 was not mentioned since it had already been effectually repealed.

² Quoted and briefly discussed in *Wheat Studies of the Food Research Institute*, November 1932, Vol. IX, p. 60.

³ In his address before the Mortgage Bankers' Association of America, Oct. 12, 1932.

been made of this authority. Section 12(b) made funds appropriated in or arising from taxes imposed under the act available, among other things, "for expansion of markets and disposal of surplus agricultural products. . . ." These powers have been used in several instances, but for wheat, thus far, only in the case of the Pacific Northwest.

In the AAA circular entitled *A Balanced Harvest*, published in August 1933 and widely distributed to wheat growers, they were told (page 7) :

The entire crop will be left to flow unhindered in the usual market channels. It will seek sale unhindered at prices set by supply and demand. The farmer will send his wheat to market just as he does now and take the price current at such time as his judgment dictates. . . .

Appended to this circular was the initial White House statement of the wheat adjustment plan, which contained these sentences (page 12) :

The plan permits a free supply-and-demand price for wheat to operate in all markets of the United States. When this open-market price and the world price for wheat become adjusted the way will be open for the free export movement of American wheat without detriment to the farmers' income on that portion of their wheat required for the domestic markets.

The same statement, however, contained two other pertinent paragraphs (page 11) :

Supplementing this plan, every effort will be made to dispose of existing surplus supplies in foreign markets. The Agricultural Adjustment Administration will co-operate with existing agencies to facilitate export movement of wheat as authorized by the act.

A study will be made of the practicability of taking out of the market a portion of the supply of types of wheat produced this year in excess of requirements. Any supplies of wheat acquired in this manner might be disposed of through relief agencies such as the American Red Cross.

The inclusion of these two elements in the wheat program was due primarily to two influences. First, Administrator Peek, who was with great difficulty prevailed upon to sanction the wheat adjustment program with its acreage restriction provisions, was a firm believer in dealing with regional surpluses when and where they arose, and also in the policy of absorbing losses on exports where necessary to move such surpluses.⁴ Second, Pacific Northwest wheat interests had already made known their predicament and sought aid in exporting their surplus; and the Reconstruction Finance Corporation was about to authorize a loan to the Chinese government for the purchase of wheat and flour, which was expected to help in this direction.

The disposition of wheat for relief might also have attained substantial proportions. Under two joint resolutions of Congress (approved March 7 and July 22, 1932) 57 million bushels of stabilization wheat had been disposed of for relief through the Red Cross, most of it in 13 months beginning April 1932.⁵ But no fresh plans for relief disposition of wheat had been formulated when, in the highly critical month of October 1933, an emergency precipitated action to support the wheat market.

On October 4, however, there was chartered in Delaware the Federal Surplus Relief Corporation, with a

⁴ See note 31, p. 46, and E. G. Nourse, *Marketing Agreements under the AAA*, Chap. I. Mr. Peek's reluctance accounted for some delay in adopting the wheat program, and his consent was evidently won partly by inclusion of these elements.

⁵ Of 85 million bushels acquired from the Grain Stabilization Corporation, about 28 million were used to pay milling, transportation, and terminal charges; about 7.5 million were distributed for livestock feed; and about 49.5 million were converted into wheat products and distributed for human consumption. See the official report by the American National Red Cross, *The Distribution of Government Owned Wheat and Cotton*, June 1934.

membership restricted to persons holding the offices of Federal Emergency Relief Administrator, Secretary of Agriculture, and Federal Emergency Administrator of Public Works. Its original directorate consisted of Messrs. Hopkins, Wallace, and Ickes, to whom on December 8 Governor Myers of the FCA was added. While the FSRC was given very broad powers, its primary purposes were:

1. To assist in relieving the existing national emergency by the purchase, processing, and distribution for consumption of agricultural and other products as a means to remove surpluses and improve prices;

2. To apply these surplus agricultural and other products in the form of foodstuffs, clothing, fuel, and otherwise to the relief of hardship and suffering caused by unemployment.⁶

This agency co-operated with the AAA in purchasing hog products for relief distribution during 1933-34 and disposed of the butter stabilization purchases made out of AAA funds in August-December. For processing and distributing such products, and for the purchase, processing, and transport of other surplus products for relief, the corporation receives funds as agent from the states and territories; and costs of local distribution are paid out of state relief funds. The corporation's administrative expenses are paid out of funds from the same sources.

THE MARKET COLLAPSE

For several months wheat markets in the United States had been powerfully influenced, and at times dominated, by factors lying outside the economic facts of the wheat situation. Although a huge carry-over added to the short crop of 1933 ensured supplies far

⁶ See its initial report in *Monthly Report of the Federal Emergency Relief Administration*, December 1933, pp. 39-45; also *Report of Federal Surplus Relief Corporation . . . to December 31, 1934*.

above a year's domestic requirements, speculative interests held wheat prices far above Liverpool prices. In terms of either gold or British currency, Liverpool prices declined almost continuously for seven weeks following a brief period of firmness late in August. This decline occurred under the influence of bearish developments in the international wheat situation, including "upward revisions of European crop estimates, continued pressure of continental wheats on British markets, and improved prospects for the Southern Hemisphere crop. . . ."⁷ Chicago prices, when expressed in terms of gold, erratically followed Liverpool prices under the influence of the same wheat forces; but prices in our currency fluctuated far more widely.

Early in October 1933 the opinion prevailed that the market was due to advance rather than to decline. The Bureau of Agricultural Economics began its monthly survey of *World Wheat Prospects*: "The smaller world crop for the current season and the constructive nature of the London wheat agreement, seem likely to result in some advance of world wheat prices, from recent levels. . . ."⁸ But the dominant influence on United States markets was uncertainty over what the Roosevelt Administration was going to do next in its efforts to raise commodity prices. On Monday October 2, the *New York Times* said in its grain market column:

Efforts to follow market fluctuations caused by gossip as to currency inflation and its possible effect on grain markets in North America, kept traders highly nervous last week.

The slimmest rumor regarding inflation starts a buying movement and a sharp advance, while denials are equally potent

⁷ *Wheat Studies of the Food Research Institute*, January 1934, Vol. X, pp. 165-67.

⁸ Dated Sept. 30, covered in Associated Press Dispatch dated Oct. 2, published in *New York Times*, Oct. 4, 1933.

in creating price depressions. Against efforts of the Agriculture Department to devise methods of putting and holding prices at a level where it thinks the farmer will be benefited, there is an independent belief that the world's wheat situation warrants maintenance of the present price levels, with possibility of their material elevation with any encouragement from Washington, as well as heavy persistent buying by professional speculators.

Tuesday's issue reported of Monday's market:

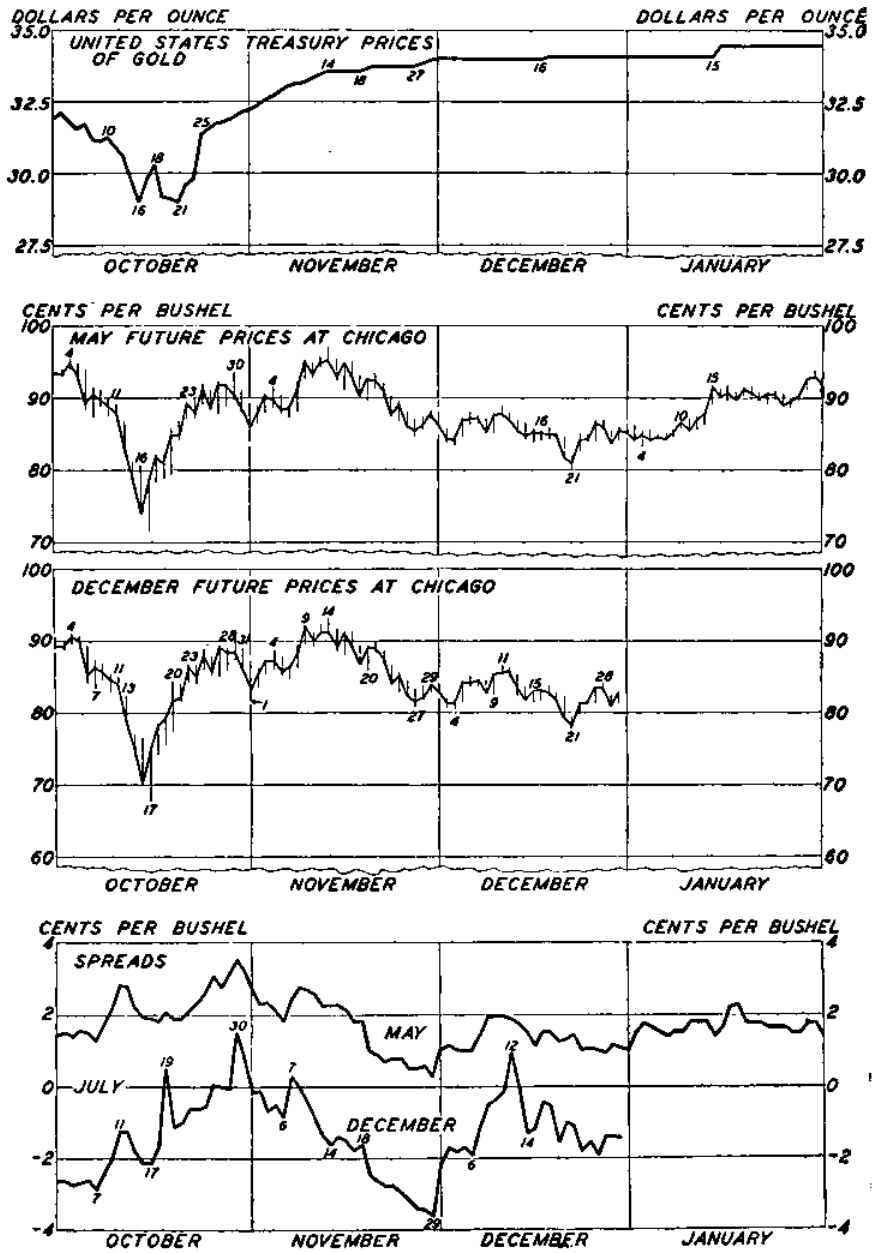
Important announcements relating to the government's efforts to advance the prices of agricultural commodities are expected soon by operators on the Board of Trade here, and it is believed they will be more important as market factors than the purchases of large quantities of grain and provisions for relief purposes. There is a strong belief that higher prices will result, and there was some early buying of wheat today on this expectation, but when no statement of the government's monetary policy appeared, the markets weakened.

On October 3 "the usual roar of the pits quieted almost to a whisper"⁹ as operators marked time awaiting more important announcements. Advances on October 4 were attributed to belief that the President would announce his monetary policy that night in a speech in New York; and declines next day to disappointment that he had not done so.

Gradually there spread an opinion that government measures calculated to raise prices in general, and of wheat in particular, were not at hand and might even be indefinitely deferred. As the dollar rose on the exchanges and the Treasury price paid for newly mined gold declined, prices of wheat, cotton, other commodities, and corporation stocks also fell. (See the chart on page 247.) This opinion turned into conviction when, after the close of the markets on October 11, the Treasury made the "surprise move" of calling 1,875 million

⁹ Sales of all wheat futures in Chicago dropped below 10 million bushels, an exceptionally low figure.

**DAILY WHEAT FUTURES PRICES AT CHICAGO,
OCTOBER 1933-JANUARY 1934^a**
Together with Concurrent Treasury Prices of Gold



^a Wheat price data as reported by Grain Futures Administration. See note to the chart on p. 207. Spreads shown in the lowest section are computed from closing prices, with the July future as the base.

dollars of the Fourth Liberty Loan for retirement on April 15, 1934 and offered new 10 to 12 year bonds bearing low interest rates. This action was widely construed as indicating that inflationary measures were shelved for at least a considerable period. Speculators had bought and held wheat futures in expectation that fresh currency moves would be radical instead of conservative. Now they suddenly shifted to the view "that inflation would not enter into the Administration's monetary policy" and, almost completely ignoring other factors,¹⁰ sold wheat freely. From the high of 91 cents a bushel on October 4, December futures in Chicago had eased off to about 84 cents on October 11. A precipitate decline in the four succeeding market days carried the price down to a low of 67.5 cents on October 17—the lowest level since April.

This development, with broadly corresponding declines in other commodity and security markets, precipitated fresh Administration decisions. In his dramatic radio address on Sunday, October 22, President Roosevelt incorporated the sort of pronouncement which the speculative markets had expected earlier and then given up hope for. Some pregnant passages ran:

I do not hesitate to say, in the simplest, clearest language of which I am capable, that, although the prices of many products of the farm have gone up and although many farm families are better off than they were last year, I am not satisfied either with the amount or the extent of the rise, and that it is definitely a part of our policy to increase the rise and to extend it to those

¹⁰ The market paid little attention to the news of the signing of the North Pacific export agreement on October 11. Market reports attributed "a sharp decline" in the Liverpool market on the following days to uneasiness there over the prospect of subsidized export sales; but daily closing prices in Liverpool over the period show no significant deviation from their steady decline.

products which have as yet felt no benefit. If we cannot do this one way we will do it another. Do it, we will.

.

Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the government has been to restore commodity price levels. . . .

.

No one who considers the plain facts of our situation believes that commodity prices, especially agricultural prices, are high enough yet.

Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first. . . .

He then announced the inauguration of a new gold-purchase program, as "a policy and not an expedient," with a view "to prevent dollar disturbances from swinging us away from our ultimate goal, namely, the continued recovery of our commodity prices," and "to establish and maintain control."

STABILIZATION PURCHASES

On October 14 there was "a decided change in sentiment in some quarters" of the grain market. The *New York Times* reported:

. . . It was asserted at the last that the liquidation was about completed, and that the technical position of the markets was the strongest since last spring, when they were gathering strength for the upturn, which did not culminate until July.

Nevertheless, the sharp decline continued as "stale long accounts" were thrown overboard when their holders were unable to meet demands for additional margins. The situation was complicated by serious unrest in the grain states, reflected in Governor Langer's embargo on wheat shipments from North Dakota on October 16 and the Farmers Holiday Association agitation. The

New York Times reported of operations on October 17:

There was heavy liquidation of wheat early, . . . but this met equally aggressive buying headed by a large professional speculator.

Later it was announced that the government was buying cash and December wheat for relief purposes and the market started to advance.

After the close it was announced that the government's purchases of wheat had been around 1 million bushels, but it was not disclosed whether the buying would continue. As only slightly more than 225,000 barrels of flour could be produced from this amount of wheat, a small amount in comparison with the number of families in the country drawing relief, heavy additional purchases are expected.

The operator credited with heavy buying of wheat futures said the market had had its break and was now in a position to advance rapidly.

Thus were inaugurated the "surplus-relief purchases." Since official utterances on the subject have been very guarded, we quote below the two excerpts from the *Northwestern Miller* of October 25 which, with due allowance for its special viewpoint, we regard as substantially accurate. In an editorial entitled "Along Farm Board Trails" it said:

No single event in the kaleidoscopic activities of recent weeks has been more illustrative of the confused state of affairs at Washington than last week's overnight entry of the government into the wheat market. As far as previously known, flour and bread had not been included in the nation-wide relief program provided by Congress. Yet, without preliminary announcement and with only vague statements from officials, the government appeared in active support of wheat prices by purchase of both cash and futures. Subsequently, it was briefly explained that purchases were for account of emergency relief.

It must be admitted that the action, measured by its immediate effect, was well timed. Long continued uncertainties about government policies had so weakened investment interest in wheat as to result in a severe, if fairly orderly, decline in prices,

with the bottom still undetermined. The grain trade, as a whole, welcomed the interference. Held to blame for a falling market which it had no means to stop and well aware that the wheat debacle was endangering the whole Administration recovery program, it saw in government market support at least a breathing spell.

To millers the quick price upturn was less welcome. Flour buyers, for weeks discouraged by sinking markets, had begun to recover confidence and flour buying just had been resumed in volume. Given another forty-eight hours, it is entirely probable that mill buying of wheat against actual sales of flour would have come to the rescue of price. This influence was, of course, put at an end when government buying sent the market on an upswing and the groundhog scurrying back to his hole. . . .

A news item in the same issue (p. 224) stated:

The purchases were started more as an expedient to halt a declining market than as a premeditated policy of building up stocks for relief purposes. Money for the operations was supplied by the Farm Credit Administration, which took over the remaining activities of the defunct Federal Farm Board.

Henry Morgenthau, Jr., head of the Farm Credit Administration, stated that disposal of the government wheat stocks probably would be left largely to Harry L. Hopkins, federal relief administrator. Mr. Hopkins, in turn, said that the various state relief commissions had supplies of flour on hand or under contract to last 30 to 45 days, and that, inasmuch as there was no reason to rush plans for grinding the wheat, he would give the matter further thought.

In the first five days, October 17-21, net purchases for surplus relief were made as follows, in thousands of bushels:¹¹

October	Futures	Cash Grain	Total
17	2,000	154.0	2,154.0
18	1,000	165.5	1,165.5
19	1,800	48.0	1,848.0
20	1,000	90.0	1,090.0
21	300	229.5	529.5
Total	6,100	687.0	6,787.0

¹¹ These figures, based on daily net position data kindly furnished us

According to trade reports, the government agents (Farmers National Grain Corporation) "bought car lots on all the big markets and futures on the Board of Trade at Chicago, Kansas City, and Minneapolis."

Ordinary purchases of such quantities would have had no great influence on the grain markets, but government purchases with no clear limits in sight were an altogether different matter. Prices advanced sharply as traders who were caught short hastened to cover their positions, as in November 1930; and on October 21, December futures touched 84 cents and closed at about 82. Official utterances in the early weeks easily led to expectations that large purchases were contemplated. The *Northwestern Miller* of October 25 (page 223) reported about 350 million dollars of federal funds available for relief purchases, and quoted Mr. Hopkins as saying on behalf of the FERA: "We certainly will buy up the dairy products surplus, and I expect the surpluses of other farm products." The trade first guessed that a total of 40 million bushels of wheat might be bought, and a little later some thought it might reach 100 million.¹²

For three days following the President's radio address, wheat prices advanced further as prices of gold moved sharply upward. (See the chart on page 247.) On October 24, December futures declined, largely on reports "that the government had withdrawn as a buyer from the wheat market having covered its present needs for relief purposes."¹³ Next day wheat prices ad-

by the FSRC, were not given out at the time, though in press conference on October 25 Secretary Wallace said, in reply to questions, that the FCA had bought 6.8 million bushels and had stopped buying, but for how long he did not know. See *Southwestern Miller*, Oct. 31, 1933, p. 25.

¹² The same, Oct. 31, 1933, p. 25.

¹³ *New York Times*, Oct. 25, 1933.

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vanced sharply as the gold-purchase plan became effective and a high price for gold was named. A sharp reaction on October 26 and 27 was reversed on fresh reports that the government had bought cash wheat in several leading markets. On Saturday, October 28, however,

Government support was necessary . . . to prevent the grain markets from dropping to the limits allowed by the rules of the Exchange, and pit brokers estimated that houses presumably acting for the Emergency Relief organization bought around 3 million bushels of wheat in the last fifteen minutes of trading, of which about 1.5 million were said to have been taken in the final five minutes.

Actual purchases in these two days were as follows, in thousands of bushels:

October	Futures	Cash Grain	Total
27	—	52.5	52.5
28	4,420	99.0	4,519.0
	<hr/>	<hr/>	<hr/>
Total to date..	10,520	838.5	11,358.5

Continuation of this policy would have led to a substantial repetition of the price pegging undertaken by the Grain Stabilization Corporation in November 1930; but this time it was not continued. As disposition was made of purchased wheat, the net position was maintained for about six weeks at around 11.5 million bushels,¹⁴ and on December 15-16 it was increased by about a million bushels; but subsequent purchases appear to have been small, and the maximum holdings did not quite reach 12.5 million bushels. Data on total purchases have not been given out, but we infer that they did not much exceed 16.3 million bushels.¹⁵ The market

¹⁴ *FERA Press Release No. 360*, Nov. 8, 1933, reported purchases to have totalled 11,579,000 bushels, including 4,810,000 in December futures, 5,770,000 in May futures, and about 999,000 in cash wheat.

¹⁵ See pp. 257-58.

slumped for two days at the end of October, rose in the next two weeks to a high of 93 cents (December futures) on November 14, and then gradually settled down to lower levels, between 80 and 85 cents, without serious interposition by government agencies.

There is no doubt that here was a market stabilization operation, in origin and motive, and the purchase and handling operations were conducted by the same organization that had served the Grain Stabilization Corporation. It differed from "minor" stabilization operations under the Federal Farm Board primarily in that the FSRC stood ready to pay the bill and distribute the product for relief up to some maximum that was never approached. In this as in other surplus-relief operations, the FSRC played a passive role in decisions to purchase, even out of FERA funds; and at no time did it have a program of buying wheat or other surplus products for use in regular relief channels.¹⁶

The relief purchases were sufficient to affect hedging operations through disturbing spreads between futures such as December, May, and July,¹⁷ as shown in the chart on page 247; but transfers of holdings of December futures into the May were skilfully made. Total purchases for relief disposition, however, were very small in relation to surplus stocks, trade expectations, and early indications from the FERA as to what could readily be distributed as surplus-relief flour.

Two factors militated against large surplus-relief distribution of flour and other cereal foods. Local relief agencies were disposed to oppose commodity distribution, on the ground that it would adversely affect the morale of the recipients. More important was the fear

¹⁶ See the FSRC report of operations to Dec. 31, 1933, already cited.

¹⁷ This is briefly discussed in *Wheat Studies of the Food Research Institute*, January 1934, Vol. X, pp. 169-70.

of arousing opposition from local merchants if large amounts were distributed. These factors limited the readiness with which state funds could be made available for surplus-relief operations. Had these conditions been different, much larger wheat purchases might have been made. Of predominant importance, however, were decisions not to carry through the market stabilization operations.

In the absence of authoritative information as to the forces responsible for cutting the purchases short, we regard as especially significant certain utterances of Secretary Wallace, a director of FSRC.¹⁸ Discussing other surplus-removal purchases in his speech at Muncie, Indiana, on November 14, 1933 he said: "I hate stabilization operations because I know they almost invariably mean trouble later on." Wheat prices rose in January 1934 under the stimulus of other forces, and May futures remained above 85 cents until mid-April, when a sharp break to lower levels occurred. The government did not intervene to check or reverse this movement; and on April 23 Secretary Wallace, in a speech at Nebraska City, took occasion to condemn the Federal Farm Board policies and apparently sought to spike the guns of those who might demand fresh stabilization purchases.¹⁹ A few days earlier the Secre-

¹⁸ On Nov. 15, 1933, Governor Morgenthau of the FCA became Acting Secretary of the Treasury, but we attribute to this no bearing on the slackening of purchases thereafter.

¹⁹ "Burying the heritage of the Federal Farm Board is dictated by the permanent and genuine interest of agriculture. It is in the interests of wheat growers that the channels of trade be kept clear, so that their wheat can move normally into export. Blockade of these channels, resulting from the accumulation of immense wheat stocks which always follows a Farm Board price-fixing experiment, causes immense losses to the farmers which far overbalance any temporary price benefits. . . . We want to avoid inviting a repetition of these punishments in the future. Hence no repetition of that stabilization experiment is to be expected." *AAA Press Release No. 2890-34*, p. 16.

tary denied having said that the break in wheat prices was due to the break in silver prices.²⁰ He added:

. . . The real cause of the break is that we have in prospect a winter wheat crop 140 million bushels in excess of last year and sooner or later it was inevitable that Chicago and Liverpool wheat prices would work closer together. It is fortunate that the break took place at a time of year when the farmers had very little wheat on hand. We hope that the world wheat conference will strengthen the world wheat price sufficiently so that in regaining our rightful place in the world wheat trade we will not be doing so at too great a sacrifice in price.

In view of such prospects, the Secretary implied that he would regard a decline of wheat prices to export parity as normal, rather than as a movement to be checked; and he did not shrink from making statements that the trade would necessarily consider bearish.²¹

DISPOSITION OF WHEAT PURCHASED

At first it was contemplated that all the wheat purchased would be converted into flour and breakfast cereals. Before arrangements to this end had been made, urgent calls for feed relief came from drought-stricken areas; and on November 8, 1933, Administrator Hopkins announced that the FERA was prepared to make 5.5 million bushels of wheat available for feed "to save" the livestock needed to produce food for farm families on relief rolls in hard-hit drought areas in Texas, Oklahoma, New Mexico, Colorado, Kansas, South Dakota, North Dakota, and Wisconsin.²² On February 5, 1934, Mr. Hopkins announced:²³

²⁰ *AAA Press Release No. 2387-34*, Apr. 19, 1934.

²¹ On the trade reaction, see *Northwestern Miller*, Apr. 25, 1934, p. 223.

²² *FERA Press Release Nos. 360, 389*, Nov. 8, 13, 1933; *Southwestern Miller*, Nov. 14, 1933. The first allotment of 32 carloads was made available to the Kansas Emergency Relief Committee.

²³ *FERA Press Release No. 604*.

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In response to urgent requests from storm- and drought-stricken areas, all the remainder of the grain owned by the Federal Surplus Relief Corporation will be distributed by state relief administrations as food for livestock to carry the farm animals through until spring pasturage opens.

In all, this outlet absorbed something like 12.7 million bushels of the wheat purchased, of which about 6.7 million bushels were disposed of in December-January and the rest mainly in February-March. Where possible, futures were exchanged for cash wheat located in or near the areas concerned, and cash wheat already held was distributed locally or shipped for feed to destinations at a distance. In part, however, wheat futures were exchanged for other grains more accessibly located.²⁴ At a total cost to the FSRC of 9.1 million dollars, quantities of grain were thus distributed for feed as indicated in the tabulation following.²⁵

²⁴ Announced in *FERA Press Release No. 491*, Dec. 23, 1933.

²⁵ See *FERA Press Release No. 604*, Feb. 5, 1934, and *Monthly Reports of the Federal Emergency Relief Administration*, which show the following totals by states, in thousands of bushels:

State	Wheat	Corn	Oats	Barley	Milo
South Dakota	2,385	2,083	467	4	—
North Dakota	2,196	664	222	—	—
Minnesota	1,049	286	172	100	—
Wisconsin	1,035	389	257	—	—
Florida	222	12	—	—	—
Texas	213	76	—	—	—
Montana	182	—	—	—	—
Michigan	159	—	—	—	—
Iowa	158	55	—	—	—
Nebraska	151	—	—	—	—
Kansas	132	16	—	—	25.5
New Mexico	105	39	58	—	—
Oregon	52	—	—	—	—
Oklahoma	46	75	50	—	—
Washington	39	—	—	—	—
Colorado	27	31	—	—	—
Alabama	4	—	—	—	—
Idaho	1	—	—	—	—
Virginia	—	—	2	—	—

Grain	Bushels	Total Cost	Cost per Bushel
Wheat	8,156,066	\$6,695,531	\$0.821
Corn	3,726,574	1,913,795	0.514
Oats	1,228,245	435,597	0.355
Barley	103,750	51,186	0.493
Milo	25,500	11,089	0.435

Some 3.6 million bushels of wheat were disposed of for food, at a cost to the Corporation of about 4.8 million dollars, as indicated below:

	Flour (737,090 barrels)	Milkowheat (20,296,440 pounds)
Bushels of wheat...	3,390,614	206,136
Total costs	\$3,611,706	\$1,179,227
Unit cost of product	\$4.90 per bbl.	\$0.058 per lb.

The flour and cereal foods were distributed for supplementary relief. The flour arrangements were completed early in December, in consultation with a representative committee of millers for milling the wheat, on much the same basis as the American Red Cross had handled stabilization wheat.²⁶ The distribution of flour among states and communities was determined on the basis of relief case loads. Cash wheat, for which futures were exchanged, was prorated among mills serving each territory, on the basis of this past production; and orders were given as to how the flour was to be packed and to whom it was to be shipped. Under directions from the FSRC, details were handled by the Farmers National Grain Corporation up to the point of delivery of the wheat, then by the mills up to the point of de-

²⁶ In return for wheat furnished to the mill (ordinarily No. 2 hard winter or better, or equivalent), millers were required to deliver straight flour on the basis of 4.6 bushels per barrel. Millers were to receive 55 cents per barrel for conversion, plus the Millers National Federation differential for flour sacks, less a credit for by-products on the basis of 76 pounds per barrel at the gross bulk market price of such feed, as of the time the wheat was milled, with an allowance of \$1.00 per ton for selling expense.

livery of the flour, and beyond that by relief agencies.

The relief flour so distributed represented only about 0.7 per cent of the probable flour consumption during the year. Like other surplus-relief commodities, it was given over and above relief in other forms, such as cash or grocery orders. The FSRC believes that it was almost wholly a net addition to the quantity of flour that would otherwise have been consumed.²⁷ No complaints that sales of flour and bread were affected, such as had arisen when larger quantities had been earlier distributed by the Red Cross, were received. Presumably the amounts were too small, in any community at any time, to have a noticeable effect on flour sales by millers or grocers. It is reasonable to believe, however, that families on relief who received a sack of flour in addition to a weekly cash payment used flour somewhat more freely but diverted their cash expenditures from flour or bread to other things. If so, the flour distribution for relief did not to the full extent increase flour consumption above what it would otherwise have been. Had 40 million bushels of wheat been converted into relief flour and distributed by the FSRC, it could doubtless all have been used (with somewhat greater waste); but flour *sales* would probably have been reduced by the equivalent of at least 20 to 30 million bushels, and flour consumption increased by not over 10 to 20 million bushels.

OTHER STABILIZATION PROPOSALS

Numerous suggestions for other forms of wheat price stabilization came to nothing. One of these, the

²⁷ The official view was expressed in *Agricultural Adjustment*, AAA, p. 201, relative to all products disposed of for surplus relief: "Since they are given to persons who otherwise would not be able to buy them, ordinary sales of these commodities are not decreased."

scheme whereby millers might be induced to pay growers "parity prices," we have discussed in the preceding chapter. Some consideration was given to a proposal for purchasing wheat of contracting growers, storing it on their farms, and later tendering it back to them for benefit payments; on examination this scheme held promise of such complications that it seemed impracticable, at least in the first year. A more radical demand, which the governors of five Northwestern states urged in person on the President and Secretary Wallace early in November 1933, called for fixing prices on each of several grains on the basis of cost of production; the Secretary, however, effectually resisted this appeal on the grounds that it was impracticable as well as impolitic.²⁸

The *Northwestern Miller* of October 25, 1933 reported (page 222):

A new program of loans to wheat growers has been worked out by the Administration, but there has been no official announcement of its application. The plan contemplates loans of about 70c bu. or more on wheat held on farms, to growers who have contracted with the government to reduce production. The loans would be extended on the basis of the parity price of about \$1.04 bu., minus the processing tax of 28c or 30c. The plan would have something of the nature of price pegging, although its effect in that direction would not be immediately apparent because of the large amount of wheat now moved off farms.

Such a step would have been broadly in line with the cotton-loan policy announced September 22, and the corn-loan offer announced October 25, which had been adopted under great pressure, political and otherwise.²⁹

²⁸ Henry A. Wallace, *New Frontiers*, 1934, pp. 56-58.

²⁹ See Henry I. Richards, *Cotton under the Agricultural Adjustment Act*, 1934, pp. 69-71, 94-98; D. A. FitzGerald, *Corn and Hogs under the Agricultural Adjustment Act*, 1934, pp. 56-60.

The Commodity Credit Corporation, organized on October 17, was authorized to make loans on or to purchase agricultural or other commodities that might be designated by the President. Its capital stock of 3 million dollars was subscribed for by the Secretary of Agriculture and the Governor of the FCA out of funds allocated by the President under the Bankhead amendment to the National Industrial Recovery Act, and the RFC assured it of ample loanable funds.³⁰

There was some pressure for such loans on wheat from the hard winter wheat belt. There was much more from farmers in southern Idaho, who felt strongly that they were not getting their due share of benefits under the wheat program. The principal market for their surplus is in California, where terminal prices of wheat ordinarily tend to equal Portland prices plus coastwise freight charges. After the North Pacific export arrangement went into effect late in October, however, wheat prices did not rise as much in California as at Portland, Oregon; and southern Idaho gained little even indirectly from the export subsidy operations.

Though a wheat loan plan was drafted for consideration, it was reported temporarily shelved as early as October 26 and soon rejected by the AAA for various reasons. Unlike corn, most wheat needs to move to market. As a result of the short crop of 1933 the movement of wheat from farms was not large enough to be a material factor depressing prices, hence retardation of the movement under way was regarded as undesirable. Since a much larger crop could be reasonably expected in 1934 with lower market prices then, encouragement to farmers to hold their wheat could easily prove disadvantageous to them. The experience of the

³⁰ AAA Press Release No. 944-34, Oct. 25, 1933.

Farm Board indicated there were large risks of over-lending, with eventual depression of the farmer's price. Moreover, farm storage facilities for wheat were by no means satisfactory, and there was special danger of weevil damage. Finally, farm prices plus benefit payments per bushel of allotment were not far below "parity prices," and it was felt necessary for the future of the adjustment program to rely more heavily on benefit payments than on price-raising measures that would affect signers and non-signers alike.

As the wheat crop of 1934 eventually turned out, the adoption of a loan plan for wheat might have yielded borrowers a profit and have involved the government in no embarrassment or loss, for the same reasons that held for the corn loan; but both were fraught with dangers. With the wheat program well under way, wheat prices relatively much better, and much wheat already out of farmers' hands, there was not the same urgency for a special flow of funds to wheat growers.

During the autumn of 1934 Pacific Northwest wheat interests urged upon the AAA that the surplus of export-type wheat in that region be bought up and distributed for feed use east of the Rockies. Neither the AAA nor the FSRC could see its way clear to do this.

In conclusion, then, the AAA has largely resisted pressure for stabilization operations in wheat. Two very short crops in 1933 and 1934 made it easier to resist this pressure; but more might have been done if the Roosevelt Administration, and Secretary Wallace in particular, had not been vividly conscious of the recent unhappy experience of the Federal Farm Board.³¹

³¹ This did not prevent it from running somewhat similar risks under the corn-loan policy in 1933-34 and the cotton-loan policy in 1933-35; and the AAA has come to regard such loans as an integral feature of future commodity programs. See Chap. XIII.

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The existence of an official agency prepared to buy and distribute wheat for relief, which the Federal Farm Board had not had available, did not tempt the AAA to embark on this policy on a large scale. The only steps taken were to purchase a limited quantity of wheat and wheat futures to support the major wheat markets in October-January 1933-34, at the expense of FERA funds; and to subsidize a limited quantity of exports from the Pacific Northwest, with AAA funds.

CHAPTER IX
THE PACIFIC NORTHWEST EXPORT
ARRANGEMENT

The scheme discussed in this chapter represents the first and as yet the only use of a marketing agreement in connection with wheat under the AAA. It involved, for the first time in our history, open resort to an export subsidy. It was limited to a single region. It was urged by practically all the domestic wheat interests concerned, and all regard its operation with at least some measure of approval. Moreover, while the plan was approved only to meet an "emergency" and export operations have been suspended through most of the crop year 1934-35, plans were made for using the same organization for domestic disposal of another regional surplus for feed use in the spring of 1935. There is considerable pressure for building such surplus disposal machinery into the new wheat program. Hence the evolution of the emergency export plan and operations under it have more than historical significance.¹

CONDITIONS LEADING UP TO THE PLAN

The Pacific Northwest constitutes a distinct wheat region, separated from the rest of the country by eco-

¹By permission of the Food Research Institute, most of this chapter is based upon the present author's "Pacific Northwest Wheat Problems and the Export Subsidy," published in *Wheat Studies*, August 1934, Vol. X, No. 10. For use in that study, detailed data on operations of the export association through June 30, 1934 were kindly made available by Frank A. Theis, chief of the Grain Processing and Marketing Section of the AAA. Mr. Theis carried the main burden of official responsibility in connection with the emergence and operation of the agreement till his resignation late in 1934. For data after June 30, 1934, we are indebted to his successor, A. J. Weaver. Additional information was kindly furnished by a number of persons familiar with developments in the Pacific Northwest.

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conomic barriers resting on geographic facts. It comprises Washington, Oregon, and the northern counties of Idaho. In a section centering in southeastern Washington, wheat growing is more highly concentrated than in almost any other part of the country (see the map on page 12); and wheat is grown on a large scale, by low-cost methods, by high-grade efficient farmers. On the average, the region produces less than 10 per cent of the United States wheat crop, a little less than Hungary, a little more than the three French dependencies in northern Africa. Production, however, so largely exceeds the region's own wheat requirements that from one-half to two-thirds of the crop moves out.

The most natural outlets for the surplus are in California and into export—to Europe, South and Central America, and the Orient. Of the gross exports from the United States in the decade preceding the depression, 18 per cent of the wheat and 22 per cent of the flour (exclusive of that milled from Canadian wheat in bond) were exported direct from this region, and small additional quantities moved into export through California. Since the war, as a rule, Pacific Northwest wheat and flour exports have exceeded those of the four Danube Basin countries combined. Milling is an important industry, and this region's flour exports ordinarily exceed those of all the Danubian countries or Argentina.

The Pacific Northwest produces several distinct types of wheat. Of the white wheats, which usually constitute about two-thirds of the crop, there are three classes: hard white, which is highly valued for bread flours and breakfast cereals but can be grown to advantage only in limited sections; soft white, which is excellent for cake and pastry flours but can ordinarily be used in modern bread flours only when blended with harder

wheats; and white club varieties, which alone are agriculturally well adapted to important sections but which millers find difficult to use in making flour for use in this country. The soft red winter wheats are inferior to the soft white except for feed use. Of the hard red winters, only a small part constitutes good milling wheat. The same is true of hard red spring wheats, which are quantitatively unimportant. The region therefore "imports" (chiefly from western and central Montana) hard spring wheats for "strengthening" its bread flours, and its surplus consists pre-eminently of white club wheats (called "western white" by the trade), secondarily of soft white and other types, in proportions that vary from year to year.²

The demand for aid to export from the Pacific Northwest, in the summer of 1933, arose from a special combination of circumstances. Wheat prices in the region had been so extremely low through most of 1932-33 that farmers retained ownership of as much wheat as they could, and used it liberally for feed. Competition in export markets, particularly from Australia's big supplies, was so keen that commercial exports from the region fell below 10 million bushels inclusive of shipments to the Philippines, Hawaii, and Alaska. As wheat prices east of the Rockies rose sharply

² Official estimates for the region proper are not available. A trade estimate shows an average crop of 74.3 million bushels in the decade 1923-32, distributed by types as follows:

Type	In Millions of Bushels	As a Percentage of Total
Western white	17.4	23.4
Soft white	14.1	19.0
Hard white	11.3	15.2
Hard red winter.....	16.2	21.8
Hard red spring.....	2.1	2.8
Soft red winter.....	8.5	11.5
Mixed	4.7	6.3

in the spring and early summer of 1933, prices in the Pacific Northwest followed far enough to make commercial exports practically impossible, and wheat flowed out in unprecedented volume to Atlantic and Gulf ports. Despite shipments of 15 million bushels to California and 6 million to Atlantic and Gulf ports in 1932-33, the regional carry-over on July 1, 1933 was higher than ever before—at least 25 million bushels and probably over 30. The Pacific Northwest crop of 1933, while below average, was not small; and as new wheat moved from the farms (which are poorly supplied with storage facilities) even the large country warehouse and terminal facilities were congested at many points.

Under these conditions, practically all interests concerned urged the necessity of government aid to finance exporting a considerable part of the surplus from carry-over and new crop. Wheat growers in the region felt that they were entitled to prices not further than usual below prices east of the Rockies, and feared that the situation would force prices down to levels that would permit liberal exports. Bankers, with heavy financial commitments on old and new wheat, held much the same view. Exporters and other grain dealers, affected by the congestion, wanted to see the wheat move and to avoid repetition of the very unsatisfactory export season of 1932-33. Millers, largely restricted to domestic business, wanted to be able to mill for export as hitherto. Moreover, as wheat and flour shipments from this area found their way in exceptional volume into Eastern and Southeastern markets, wheat growers and millers in the East, Southeast, and Southwest sought to have this "invasion" stopped by diversion of the wheat into customary export channels. The regional wheat cooperative, North Pacific Grain Growers, Inc., and the

North Pacific Grain Dealers Association, in which export firms are prominent, took the lead in pressing for prompt, effective action; but they had much support and no opposition.

Prior to May 12, 1933, legislative authority for export subsidies had been lacking in the United States, and since the war farm organizations had sought such authority in vain. The McNary-Haugen plan had as a central feature the raising of farm prices in domestic markets by resort to the sale of surpluses for export for what they would bring. Under the export debenture plan the rise of domestic prices was sought through a virtual bounty on exports equal to one-half of the tariff duty (on wheat, 42 cents a bushel) on the same product when imported. Opposition by Presidents Coolidge and Hoover prevented the passage of such legislation. Indeed, to sell for export at prices lower than in the domestic market has long been condemned as "dumping"; and statutes in force in this country and several others authorize or require administrative officials to impose compensatory duties against "dumped" imports.³

Under the Federal Farm Board, the Grain Stabilization Corporation had absorbed some losses on export sales of wheat and flour to foreign governments or other importers, or by special arrangements with millers. The Pacific Northwest was favorably affected by several of these operations—most notably in 1931-32, when 15 million bushels of wheat were sold to China (one-half as flour) on credit for famine relief. On July 10, 1933, the Reconstruction Finance Corporation established a credit to the Chinese government of 50 million

³ See J. S. Davis, *The Farm Export Debenture Plan, 1929*, Chap. IX. During the depression, several countries have resorted with impunity to export subsidies, open or disguised, on limited amounts of wheat and other agricultural products.

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dollars, of which it was authorized to use 6 million to buy wheat and 4 million to buy flour in this country. For several months, however, this portion of the credit was not drawn upon. China had a good wheat crop and a big rice crop; Australian wheat (even Argentine to some extent) was selling freely in Chinese ports at c.i.f. prices well below market prices in Portland and Seattle; and even the Chinese government's urgent need for cash did not force it to buy in the Pacific Northwest while there was a prospect of getting a better deal by waiting.

EMERGENCE OF THE EXPORT AGREEMENT

The Agricultural Adjustment Act, as we have seen, authorized the Secretary of Agriculture to use revenues from taxes imposed under it "for expansion of markets and removal of surplus agricultural products." Administrator Peek, who had been a leading advocate of the McNary-Haugen plan, was chiefly responsible for getting this provision into the Adjustment Act and believed it had large possibilities. The initial statement of the wheat program on June 16, 1933 promised that "every effort will be made to dispose of existing surplus supplies in foreign countries" and that the AAA "will co-operate with existing agencies to facilitate export movement of wheat as authorized by the act." For the most part, however, AAA leaders were disposed to rely mainly on production restraints, to prefer disposing of surpluses within the country rather than dumping them abroad, and—particularly with negotiations for an international wheat agreement under way—to proceed most cautiously with plans for subsidizing wheat exports. On July 24, however, Secretary Wallace announced that 2 cents out of the 30-cent processing tax would be reserved for financing wheat exports if opportunity should

arise, and three days later the possibility of subsidizing wheat exports was officially recognized.⁴

At a preliminary informal hearing before representatives of the AAA in Portland on August 21-22, testimony was received from farmers, wheat co-operatives, farm organizations, agricultural economists, dealers, millers, exporters, bankers, and public officials. Stress was laid on the necessity of prompt action to relieve congestion of facilities, and practically all parties urged immediate adoption of some form of export subsidy. Divergent plans, still largely in crude form, were presented.⁵

Through their manager, A. C. Adams, North Pacific Grain Growers proposed an export pool to be managed by it under the supervision of the AAA. Membership was to be open to all who might have wheat of export types and grades in the territory normally tributary to Pacific Northwest export markets. It was to have authority to buy from its members, day by day, all export-type wheat offered from old stocks or new crop, paying the full market price on the day of purchase, grade and variety considered. This price was to be considered an advance, subject to supplementary pro rata payments out of the profits of the pool (if any). The pool was to sell from day to day, at prices acceptable to the AAA, to foreign or export buyers and to mills selling flour for export. Losses on such sales were to be covered by a "drawback" paid from funds reserved from the processing tax.

⁴ *AAA Press Release No. 137-34; USDA Press Release No. 167-34*. We infer that this was designed not only to meet demands from the Pacific Northwest, but also to strengthen the hands of American negotiators for the wheat agreement. See pp. 314-15.

⁵ Transcripts of testimony at this hearing and the later one are on file at the AAA. See also *Morning Oregonian*, Portland, Aug. 21-24, 1933.

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On behalf of the exporters, H. E. Sanford presented two possible plans. The simpler one was to pay exporters a flat bounty of, say, 30 cents a bushel on proof of export shipment. It was represented that exporters could then absorb the loss on export sales and would reflect the full advantage back to growers. Alternatively, it was proposed that such a subsidy should be paid as to keep North Pacific market prices at a fixed discount under Chicago prices—say, 10 cents a bushel under the current Chicago future, for the various export wheats, basis No. 1, sacked, on track at Coast terminals. Most of the region's wheat moves from farms to terminals in sacks, but practically all grain is exported in bulk. Members of the North Pacific Grain Exporters Association (which the Farmers National Grain Corporation would be invited to join), working in conjunction with the AAA, were to be authorized to accumulate export wheats, the AAA contracting to protect them on the basis of this 10-cent spread. Export sales were to be negotiated by the association or its individual members on behalf of the association, at prices (basis No. 2 bulk f.o.b. ship) and in quantities approved by the resident representative of the AAA. Such agreements were to be reached while the Chicago market was open, so that members could place or remove hedges if they so desired. Under this plan the AAA was to refund to members making sales the difference between the current Chicago option less 10 cents a bushel and the selling price (basis No. 2 bulk f.o.b. ship),⁶ with the addition of 1 cent per bushel commission. Members were to provide for carrying charges, deducting them

⁶ Initially, the exporters sought to have both purchase and sales prices expressed on this basis, or to have a fixed differential between No. 1 sacked on track and No. 2 bulk f.o.b. ship.

from country buying prices at the rate of one-half cent a bushel per half-month.

The millers, through their spokesman, O. D. Fisher of Seattle, offered no specific plan but pressed several requests. To compensate for special handicaps in export sales of flour as compared with wheat, such as higher rates of ocean freight and higher duties on flour in export markets, and burdens imposed by the NRA and the collection of the processing tax, they asked that the export subsidy be made the equivalent of 10 or 11 cents per bushel of wheat higher on flour than on grain. They also urged that purchasing operations be conducted, and subsidy payments made, in such a way as not to disturb market relationships and endanger domestic business of the mills.

By this time the AAA had decided to proceed under Section 8 (2) of the act,⁷ which authorized the Secretary of Agriculture—

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.⁸

⁷ This furnished additional legal basis for the action, and gave farmer representatives a place in the set-up as some simpler procedures would not have done.

⁸ The full sub-section, with the first sentence as amended by the Jones-Connally Cattle Act of Apr. 7, 1934, now reads:

"After due notice and opportunity for hearing, to enter into marketing agreements with processors, producers, associations of producers, and others engaged in the handling of any agricultural commodity or product thereof, in the current of or in competition with, or so as to burden, obstruct, or in any way affect, interstate or foreign commerce. 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 agreement shall be deemed to be lawful: Provided, that no such agreement shall remain in force after the termination of this act. For the purpose of carrying out any such agreement the parties thereto shall be eligible for

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At the close of the informal hearing, therefore, a committee of four (representing producers, exporters, millers, and bankers) drew up a draft agreement which, late on August 23, was sent to the Secretary of Agriculture. This was worked over in Washington and a revised draft was formally filed with the AAA on September 12.⁹ This was discussed at a formal public hearing in Portland on September 15-17, which left numerous points to be ironed out. The agreement was signed on October 10 to become effective October 11.¹⁰ A related agreement was also negotiated between the Secretary of Agriculture and the National Republic of China, subject to termination when the North Pacific agreement is terminated, defining the terms on which the Chinese government might use funds loaned by the RFC to buy wheat and flour under the marketing agreement.¹¹

Several factors accounted for what seemed to the Pacific Northwest an unfortunate delay. The AAA itself was young, its officials were working under great pressure, and the Secretary of Agriculture disliked the idea of subsidizing exports. This particular task was new and the procedure untried. It had delicate aspects in view of commitments made at the international wheat conference and the danger of adverse reactions abroad. Divergent viewpoints in the Pacific Northwest, on the

loans from the Reconstruction Finance Corporation under Section 5 of the Reconstruction Finance Corporation Act. Such loans shall not be in excess of such amounts as may be authorized by the agreements."

⁹ *AAA Press Release No. 596-34*, Sept. 12, 1933.

¹⁰ "Marketing Agreement for Disposal of North Pacific Wheat Surplus," *AAA Marketing Agreement No. 14*.

¹¹ The fact of some such agreement was known early, but it was first publicly announced and summarized in *Agricultural Adjustment*, AAA, pp. 63-64 (released Mar. 26, 1934).

general set-up and matters of important detail, were not readily reconciled; and the AAA deemed it essential that wheat growers should be assured the major benefits. Under the circumstances, after the first hearing in Portland little time was wasted.

TERMS AND MODE OF OPERATION

The agreement eventually adopted contained this significant provision:

(15) The plans and arrangements herein specified shall not be considered as the adoption of any definite form of policy by the Secretary, but this agreement shall be considered only as being necessary for the solution of the present critical condition in the aforesaid Pacific Northwest area.

The agreement was between the Secretary of Agriculture and a non-profit corporation newly organized under Oregon laws called North Pacific Emergency Export Association.¹² Its membership was open to any producer or association of producers of wheat in Washington, Oregon, and northern Idaho, and to any person, firm, or corporation, or association of any such in this region which was regularly engaged in exporting wheat or flour and had the necessary facilities for handling, financing, and/or manufacturing wheat or flour.

Operations of the association were intrusted to an executive committee of nine, appointed subject to the written approval of the Secretary of Agriculture. One of these was to be his resident representative. Of the other eight, two (having one vote between them) were to be chosen by each of four organizations: North Pacific Grain Growers, Inc., the wheat-growers' co-

¹²In the draft agreement the title used was "North Pacific Export Equalization Association."

operative; Farmers National Grain Corporation, the national co-operative marketing agency; North Pacific Grain Exporters Association, to which practically all the grain exporters belong; and North Pacific Millers Association, comprising practically all the exporting mills. In this executive committee, therefore, the farmer groups were given a voice equal to that of the combined groups of grain exporters and millers. The president of North Pacific Grain Growers was elected president of the association and an exporter, vice-president. For secretary-treasurer and general manager a grain man with long experience in the Orient was named with the approval of the Secretary of Agriculture.¹³ The agreement, however, provided: "Any and all action to be taken by such managing agent, executive committee, or by the association, shall be subject to the approval of the Secretary." Through his resident representative, therefore, the Secretary of Agriculture had the most effective voice in the association's decisions as well as large powers of directing its operations.

The association was to serve essentially "as a clearing house for arranging details of purchasing, shipping, handling, and selling the wheat and/or flour purchased for export or otherwise" and for maintaining an adequate and accurate system of accounts. Members of the association bought wheat for it, and this wheat was resold by it to members making sales. So far as possible,

¹³ The officers and directors selected, and approved at the signing of the agreement, were: president, Orris Dorman; vice-president, Preston W. Smith of Kerr Gifford & Co.; secretary-treasurer, George V. Hayes, Seattle; directors, Orris Dorman, Spokane, and A. R. Shumway, Milton, Oregon; A. A. Ryer and G. C. Baer, Portland; P. W. Smith and A. E. Sutton, Portland; P. J. McKenney, Portland, and O. D. Fisher, Seattle. During most of 1933-34 Douglas McIntyre was the resident representative of the Secretary of Agriculture; in July 1934 he was succeeded by W. J. Clohessy.

the exporting merchant or miller was allocated wheat that he had purchased for the association. The Secretary of Agriculture was empowered to inspect all records of the association and also of members so far as their records pertained to the agreement; and the association and its members agreed to furnish data to the Secretary on forms supplied by him. This proved to involve voluminous records which the exporters felt entailed excessive clerical effort as compared with the simpler plans they had proposed.

The agreement provided that the Secretary (in effect his resident representative, proceeding in consultation with Washington) should give written instructions to the executive committee or its managing agent directing it to contract for the purchase of specified quantities of wheat produced in the designated area of the Pacific Northwest, to be purchased on a basis set forth in Exhibit A appended to the agreement (practically reproducing the regulations already in force on the grain exchanges there), at prices and on terms specified, and indicating whether the purchases were to be made "from producers, associations of producers, local or terminal warehouses, or others." Most of the wheat was purchased in the country, but at times authorization was given to buy wheat at terminals.¹⁴ The association was not permitted to have at any time net purchases of more than a million bushels of wheat in excess of outstanding sales or sales contracts.

In practice, "bid prices" were announced almost daily, shortly after the close of the Chicago market,

¹⁴ Appended to Exhibit A was the following provision: "The Secretary, on recommendation of the executive committee, may authorize the purchase of wheat contracts pursuant to Section 4 of the agreement to relieve the immediate emergency of congested terminal tidewater elevators on an f.o.b. No. 2 bulk basis."

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good till half an hour before its opening next morning. The Secretary's representative named these prices and fixed the total quantity to be purchased. The managing agent notified the members of the price and their individual quotas; the latter were computed on a percentage basis determined for the year by the executive committee—in terms that favored the Farmers National Grain Corporation. Before six o'clock next morning the purchasing members advised the Secretary's representative of what they had bought, and in some cases purchases in excess of the assigned quotas were accepted.

The agreement also provided that the association should receive written bids from its members for purchases from the association and the sale of any such wheat (basis No. 2 bulk, f.o.b. ship) or flour (f.a.s. basis), with supplementary details. Such bids were to be subject to acceptance or rejection by the Secretary, who was to give written instructions confirming each sale. Even the chartering of tonnage to move export shipments was made subject to the approval of the Secretary of Agriculture; under the special agreement with the Chinese government, at least half its purchases were to be shipped in vessels flying the American flag. In practice, the Secretary's representative commonly named daily prices at which he would approve sales up to specified limits, and business offered at these prices was promptly accepted. Bids for filling sales to the Chinese government, which had its own buying agent in Portland (J. J. Lavin), were treated in the same way, but the special agreement with the Secretary obligated it to pay 5 cents per bushel of wheat over the approved bid price. For purchasing wheat to cover these sales, however, a different set of percentage allotments

was adopted,¹⁵ and the initial allotments were altered after the first 90 days on the basis of the proportions of other export sales that had been made by the different exporting firms.

For each sale of wheat or flour, a verified statement was required, on official forms, showing the purchase price of the wheat and the net sales price. For the difference between these two prices the Secretary was to reimburse the association, which in turn was to settle with its members. To cover administrative costs of the association, members purchasing wheat from the association were to be assessed monthly in proportion to their sales in the preceding month. Exhibit B of the agreement provided that the purchase price of wheat f.o.b. track at terminal should be calculated by adjusting the terminal price of No. 1, sacked, in accordance with schedules set forth in Exhibit A; and a deduction from the purchase price was to be made for the current value of empty sacks in an amount approved by the Secretary. Prescribed allowances for unloading and handling, wharfage, loading on vessel, inspection, and cleaning smutty wheat were to be deducted from the f.o.b. sales price to determine the net sales price. Carrying charges beginning 20 days after delivery in tide-water terminal elevators were allowed at the rate of 1/30 cent per bushel per day until loaded on the steamer; and 1 cent per bushel for "selling costs" was allowed to be included in the cost in connection with each sale.¹⁶

On flour sales (under Exhibit C) the purchase price of wheat was to be determined in the same way as on

¹⁵ *Commercial Review*, Portland, Nov. 7, 1933.

¹⁶ The draft agreement as it came from Washington had provided for a commission of 1 per cent of the selling price.

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wheat sales. Flour sales prices were to be converted to wheat prices by taking the net sale price f.a.s. per barrel of 196 pounds of straight flour; deducting (a) wharfage charge of 65 cents per ton, (b) a conversion charge of 50 cents per barrel, and (c) the per-barrel cost of flour sacks based on current purchase cost in 1,000 lots; adding a mill-feed credit (70 pounds per barrel) on the basis of current car-lot prices, less \$1.50 per ton; and dividing the resulting net price of flour "by 4.45, the quantity of wheat in bushels required to make a barrel of 196 pounds of straight flour."¹⁷ Exhibit C provided also that the association might establish, with the approval of the Secretary of Agriculture, differentials in prices for grades of flour other than the basic grade, "export straights."

In fixing bid prices for purchases, and in setting and approving sales prices, the Secretary's representative had to take several factors into account. It was desired to raise prices to growers in the region as much as possible, and to keep the spread under Chicago as narrow as possible—to 10 cents a bushel or less. The prescribed limit of one million bushels net "long" position might not be exceeded. To avoid giving occasion for foreign charges of dumping, sales prices could not be set too low. It was desired to get as much wheat as possible exported, as grain or flour, at least up to 30 or 35 million bushels. Yet the net cost of the subsidy

¹⁷ This conversion rate was a compromise between 4.355, in the draft agreement, and 4.5, which the millers asked for. The latter figure is customarily used in trade circles of the Pacific Northwest in expressing flour exports in terms of wheat; but it is generally recognized that, chiefly because of their low moisture content, the wheats of that region commonly yield considerably more export flour than this rate implies. On this point and others some concession was made to the millers, who were not granted their request for an additional subsidy of 10 or 11 cents per bushel.

had to be kept within bounds, lest the funds allocated from the processing tax be overdrawn. As it turned out, the policies pursued proved conservative, in that sales and subsidy cost both fell well below their maxima, and that both shipments to the East and the end-year carry-over were larger than had been planned for. In large part, however, these consequences were the result of unforeseeable developments including, late in the season, the port tie-up and a marked price advance in Eastern markets following extreme drought.

OPERATIONS UNDER THE AGREEMENT, 1933-34

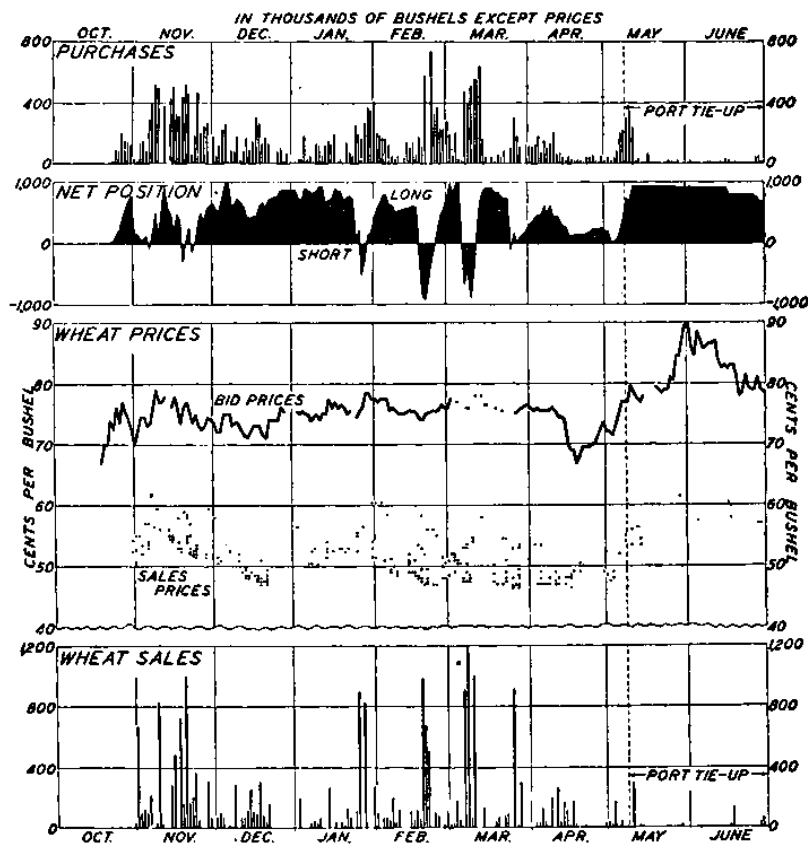
The accompanying chart of daily data illustrates several phases of the course of operations through June 1934. The first bid was put out on October 19, 1933 at 67.5 cents (basis No. 1 soft white, sacked, f.o.b. port terminals)—practically at the market. This was two days after government purchases in Chicago had started the sharp recovery of wheat prices there. Little wheat was offered to the association until, as Chicago prices rose further, the association's bid price was raised to around 75 cents. At that level, corresponding to around 60 cents at important country points, so much wheat was offered that buying quotas were resorted to and the bid price was lowered. The first sales were made on October 31, when the association held some 800,000 bushels. Through most of the period the association maintained a long position, often approaching and occasionally reaching the fixed limit of 1 million bushels. When sales resistance prevented free movement, the bid price was lowered or none was put out, and/or buying quotas were set low. On several occasions sales were so heavy that the association had a "short" net

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position, twice for a week or more; then the association raised its bid prices and put its buying quotas high.

Until the longshoremen's strike tied up the ports on

SIGNIFICANT DAILY STATISTICS OF THE EXPORT ASSOCIATION,
OCTOBER 1933-JUNE 1934^a



^a Data of AAA. This chart is practically identical with one in *Wheat Studies of the Food Research Institute*, August 1934, Vol. X, p. 402; the companion chart of flour sales and sales prices is omitted here.

May 9, 1934, the association's operations dominated the market on export-type wheats, and from late October to mid-April weekly average market prices of these wheats fluctuated mainly around 75 cents a bushel,

sacked basis. When Chicago prices fell sharply in April, the association had to follow much of the way. The price spread between Chicago and the Pacific Northwest, however, was not held constant. Computed from prices of corresponding futures in Chicago and Seattle, the spread was around 10 cents for about two weeks around the turn of the year, and again for a week around May 1, when Chicago prices were low; but for most of the period from October 19 to May 9 the spread ranged from 13 to 17 cents.¹⁸ A few days after the port tie-up occurred, inability to promise shipments practically stopped grain export sales, and the association was forced to suspend purchases except as required to fill export sales of flour. Thus the higher bid prices in May and June, when Chicago prices were sharply higher under the influence of the drought, had negligible market influence in the Pacific Northwest; and from mid-May onward Seattle futures were generally 17 cents a bushel or more under Chicago futures.

The lower sections of the chart on page 281 show the prices at which grain sales were made day by day up to June 30, 1934 and the daily volume of these sales. The higher prices and the larger daily totals reflect chiefly sales to the Chinese government at the agreed 5-cent premium. Some other differences in sales prices on individual days reflect differences in the type or grade of wheats sold. The two typical export wheats constituted 89 per cent of all grain sold; western white, including that sold with soft white, made up about 75 per cent of the total. The other 11 per cent consisted mainly of hard winters, presumably of low protein

¹⁸ Other measures of spread are considered below. Care must be taken to select comparable series. It is misleading to compare cash prices in Portland or Seattle with futures prices in Chicago.

content, and hard whites, presumably of fair milling quality. Practically all export sales were of No. 2 grade; less than 1 per cent was sold as No. 1 western, soft, or red.¹⁹

Wheat grain sales totalled 21.85 million bushels (see Table XII, page 455), of which the Orient took nearly three-fourths. The Chinese government took about half of the total,²⁰ including, we infer, 9.9 million bushels of No. 2 western white and nearly 0.9 million of No. 2 hard winter. About 860,000 bushels went to private buyers for China (including Hong Kong). Japanese buyers took nearly 5 million bushels, or about 23 per cent of the total grain sales, chiefly to mill into flour for export to China. Sales to all Europe, including the British Isles, were not quite as large as to Japan. The third best wheat customer was the Irish Free State, where the mills have long had a preference for considerable quantities of soft white and western white wheat from the Pacific Northwest. Sales to Great Britain and various other European countries totalled nearly as much as to Ireland. Small shipments to South America and Central America, in particular to Peru and Salvador, made up the balance.

Flour export sales accounted for about 6.54 million bushels of wheat. Until very late in the season, the Chinese government bought very little flour under its

¹⁹ See tabulation in *Wheat Studies of the Food Research Institute*, August 1934, p. 400. Three small sales were made after June 30 as follows: July 7, 8,333 bu. No. 1 western white at 59 cents; July 9, 1,666 bu. No. 1 western white at 58.5 cents; Aug. 6, 9,333 bu. No. 2 soft white at 79 cents.

²⁰ According to J. J. Lavin, as reported in *Northwestern Miller*, Aug. 15, 1934, p. 429, the last shipment on these sales left Portland August 8; 44 cargoes were shipped at freight rates ranging from \$3.75 per ton in American vessels down to \$2.25 on some shipments in foreign vessels.

loan. Eventually it was persuaded to make a few large purchases, and between July 11 and August 9, 1934 it ordered the equivalent of about 1.5 million bushels, the last of which was shipped late in 1934.²¹ Including this, flour sales to China and Hong Kong represented about 2.5 million bushels; most of the private sales were to Hong Kong, which is outside China proper. Even with the subsidy, Pacific Northwest millers found it hard to compete with Chinese, Japanese, and Australian millers in North China markets.

About 2.2 million bushels were sold as flour to the Philippine Islands, where American flour enters duty free while other flours (chiefly from Australia and, latterly, Japan) are subject to a tariff duty of 42 cents a barrel. Altogether, including moderate sales to Manchuria and trifling quantities to Japan, southeastern Asia, and Sumatra, over three-fourths of the flour sold was for Oriental destinations. Sales to Europe, mostly to Norway and Scotland, made up under 7 per cent of the total. The other 18 per cent was sold almost wholly to various countries of Central America, the West Indies, and South America.

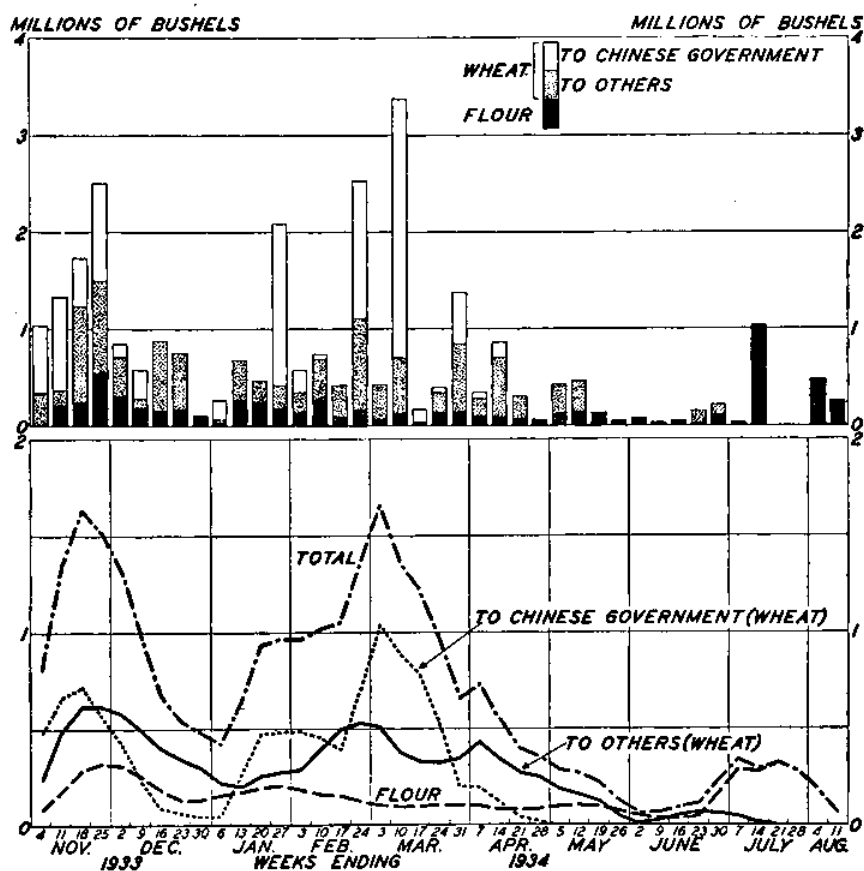
The course of sales is indicated in the accompanying chart of weekly data. The subdivision of the grain sales between the Chinese government and others is our approximation based on detailed inferences from daily prices and sales data. Flour sales, shown in black at the base of each bar, included a few large sales to the Chinese government in the last weeks of the period but very little prior to July 11. The smoothed curves

²¹ According to Newell (*Northwestern Miller*, Aug. 29, 1934, p. 539), some such purchase was necessary if the Chinese government was to fulfill its contractual obligation to move one-half of its purchases in American flag vessels.

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in the lower section of the chart show, on a more open vertical scale, the course of sales subdivided among these three groups.

WEEKLY EXPORT SALES BY THE EXPORT ASSOCIATION, 1933-34^a



^a Data of AAA, summarized in Table XIII, p. 456, except that the subdivision of wheat sales represents our approximation based on inferences from daily price and sales data. The smoothed curves in the lower section represent centered two-week averages of four-week moving averages.

The heaviest monthly sales of both wheat and flour were made in November 1933, at prices above the level that prevailed through most of the period of active selling. This mainly reflected a backed-up demand. We infer that the Chinese government bought at least 3.3

million bushels of wheat, and total wheat sales were nearly 6 million. Flour sales, representing an additional 1.2 million bushels, were far heavier than in any subsequent month. In December, despite considerably lower prices, with the association evidently refusing sales below 47 cents, wheat sales were less than one-third as large as in November. The Chinese government apparently bought only limited quantities, and sales to other buyers were light. In January and February sales were fairly good, and in March still better, with Chinese government purchases still playing a large role. Sales fell off heavily thereafter, in part because the Chinese government had bought about all the grain its loan permitted. Although prices in the second half of April were the lowest of the season, April sales totalled only 1.6 million bushels, of which 1.3 million were wheat. May wheat sales were only about half as large, but flour sales were larger than in April; and June sales were the lowest of the year—less than one-half million bushels of wheat and flour combined. July sales, largely because of Chinese flour purchases, were 1.5 million bushels; and in the first nine days of August 0.3 million more were sold.

Total sales of wheat and flour were about 28.4 million bushels as compared with early estimates of from 30 to 35 million. The protracted strike not only stopped practically all shipments from May 9 until the end of July,²² but hampered export sales. Up to the time of

²² Export sales shipped up to June 30 totalled 22,582,795 bushels, out of sales reported as 26,486,526 bushels. In the first few days of the tie-up the association continued to make purchases, building up its long position from 434,784 bushels on May 8 to 934,802 on May 11. In subsequent days and weeks it covered part of its new sales by additional purchases, but reduced its net long position to 678,802 bushels on June 30. (See chart on p. 281.)

the strike these had *averaged* 921,000 bushels a week. In the next nine weeks, before heavy sales of flour to the Chinese government began, they *totalled* only 612,000 bushels of wheat grain (over half of which was sold when the strike was very young) and 541,000 bushels in the form of flour. Had there been no strike, however, export sales would have fallen off materially. The Chinese loan quota available for wheat purchases was practically exhausted by the middle of April. Under pressure from domestic millers, the Chinese government was reluctant to buy flour. Chinese mills were well stocked with imported wheat, and over 800,000 bushels on previous sales to China remained to be shipped when the tie-up occurred. The 1934 wheat prospects in China were excellent and the crop later turned out well. Furthermore, under the stimulus of drought and severe crop curtailment in the Great Plains states, wheat prices in the United States advanced sharply in May and remained in June well above earlier levels. By action of the Secretary of Agriculture, subsidized sales were not readily approved even before operations were suspended. Under such conditions, it is doubtful whether sales would have exceeded 28 million bushels by June 30, or 30 million bushels by August 9, if ocean traffic had been unimpeded.

The upper portion of the chart on page 289 shows, for the period through June 30, 1934, the approximate volume purchased at each of the various bid prices, including our estimates of purchase prices on days when no bid price was put out. For this period the average of bid prices weighted according to purchases was approximately 75.82 cents, and the largest purchases were made at 76 cents. On ten business days in the second half of April, bid prices were 70 cents or below, and on April

19 and 20 respectively, 67 and 68 cents. With Chicago prices depressed and export sales very light, the association evidently felt constrained to hold down its long position. In these ten days purchases totalled only 304,421 bushels, less than was often bought in a single day at higher prices; and sales of wheat and flour totalled only 340,286 bushels, less than was often sold in a single day, though selling prices on wheat and flour were close to the lowest for the year. Except in this period and during the first three days of operations, the bid price was below 72 cents a bushel on only six days—November 1, December 13-14 and 20-21, and May 3. Up to May 9, 1934 the bid price had never exceeded 79 cents and had reached this only once (on November 9); and there were only 14 days out of 151 when the bid price was over 77 cents.

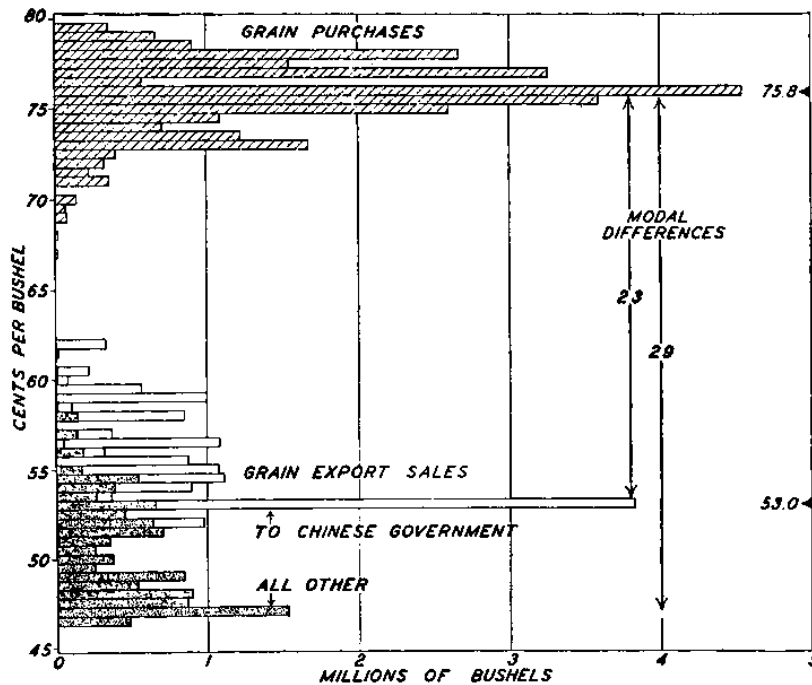
The lower portion of the same chart shows the approximate volume of wheat grain sold at each sale price, the differentiation of sales again resting on detailed inferences. Spreads are shown between the bid and sales prices at which the largest volume was purchased and sold. For reasons shortly to be mentioned, these do not precisely correspond to the differential cost borne by the AAA, which on wheat grain sales was presumably less. At the right-hand margin of the chart are shown computed weighted average prices. On all wheat sales up to June 30, 1934 the weighted average price was 53 cents a bushel. The Chinese government apparently bought more at this price than at any other, but paid more than this for much of its wheat. The weighted average price for all it bought was about 55.71 cents;²³

²³ This results from dividing 6 million dollars, the full amount used for wheat purchases under the loan, by 10,769,340.3, the number of bushels purchased, according to data kindly furnished by the Reconstruction Finance Corporation.

apparently the corresponding average for other wheat sales was roughly 5 cents lower.

With the exception of the trifling final sale on August 6, the highest price on any wheat sale was 62 cents for

WHEAT PURCHASES AND GRAIN EXPORT SALES BY THE EXPORT ASSOCIATION, 1933-34^a
Classified According to Price



^a Based on Food Research Institute computations from daily data of AAA from October 1933 through June 1934. The subdivision between sales to the Chinese government and to other buyers is our approximation, based on inferences from price and sales data. See *Wheat Studies of the Food Research Institute*, August 1934, p. 426.

No. 2 western white on November 9, apparently to the Chinese government; on sales other than to the Chinese government, at least until late in May, prices over 56 cents were chiefly for better types or No. 1

grades.²⁴ The few wheat sales made between May 15 and July 9, during the tie-up of the ports, brought from 57 to 61.5 cents a bushel; but this was after prices in all United States markets had advanced considerably. If we ignore a very small sale of sample grade western white at 38.5 cents (on February 21), the lowest price at which wheat sales were effected was 46.5 cents a bushel. This was touched on March 26, 28, and April 17. On several occasions—late in December, in March, and in April—numerous sales were made at 47 and 47.5 cents, and to buyers other than the Chinese government more wheat was sold at 47 cents than at any other price.

Expressed on the basis of export straights, a representative type, flour export prices went only once as high as \$3.28 per barrel (November 21)—and few sales were made above \$3.00 even after May 15—until the last three sales of the season about August 1. The lowest price, on the same basis, was \$2.375 on April 3, 7, and 9; but prices as low as \$2.40 were registered on December 21 and on several days between March 27 and April 27. Up to June 30, nearly 96 per cent of the flour sales were made at prices between \$2.40 and \$2.80, export straights basis, with \$2.60 as the median price and the one at which the largest sales were made. The weighted average price up to June 30, 1934 was \$2.63.²⁵ For its purchases of 338,000 barrels, however, the Chinese government paid an average price of \$3.27.

²⁴ As compared with western white, soft white usually sold at a slight premium or none, western red at from 1 to 2 cents premium, hard white at from 1 to 3 cents premium, and hard winter at from 1 to 4 cents premium. No. 1 grades usually commanded a premium of 1.5 to 3 cents over No. 2's. Averages for the period fail to reflect these differences, because of the varying levels of prices at which different types of wheat were taken.

²⁵ See chart in *Wheat Studies of the Food Research Institute*, August 1934, p. 403.

Our computations show that the weighted average purchase price exceeded the weighted average price of all wheat grain sold for export (including sales to the Chinese government) by 22.82 cents. On March 31, 1934—when the spread was fairly wide—the association's bid price was 76.5 cents a bushel for No. 1 soft white, sacked, on track at Portland; and wheat was offered for export at 48 cents a bushel, basis No. 2 soft white, bulk, f.o.b. vessel, Portland or Seattle.²⁶ The simple difference between these two figures is 28.5 cents a bushel, and it was in such terms that the "differential" was customarily discussed. On sales to the Chinese government the sales price would have been 5 cents higher and the difference 5 cents less.

The actual "differential," "subsidy," or "drawback" on export worked out less simply. Sacked wheat at terminals commanded a premium of 3 cents a bushel over bulk wheat, on the broad ground that the second-hand sack was worth that much above the cost of de-sacking. The exporter's commission and costs between track and steamer intervened. Nearly all of the wheat sold, moreover, was of No. 2 grades, which are worth less than corresponding No. 1 grades. For these reasons and others, the difference stated above does not correctly indicate the actual subsidy cost. This averaged less on wheat sales than on flour sales; on the latter it was often well above 25 cents a bushel.

The total cost of the export subsidy is estimated at around 6.5 million dollars,²⁷ though only about 6.1 mil-

²⁶ *AAA Press Release No. 2302-34*, Apr. 5, 1934.

²⁷ "The Facts about Wheat," *Wheat Circular No. 1*, AAA, January 1935, p. 13. This is considerably less than was anticipated when the agreement was in process of formulation, before the supplementary agreement with the Chinese government was made; for export sales were expected to be from 30 to 35 million bushels at an average differential of about 25 cents a bushel.

lion of this had been paid by the end of March 1935.²⁸ Exclusive of items still in dispute on December 13, 1934, the net purchase price averaged 72.65 cents a bushel and the net sale price 50.64 cents, leaving a differential of 22.01 cents. When the accounts are finally adjusted, the subsidy cost per bushel may prove to have been 23 cents or a little more.

RESULTS AND REACTIONS

In consequence of the export subsidy operations, Pacific Northwest exports of wheat and flour were larger, and shipments to the eastern part of the United States were smaller; the regional carry-over was reduced more substantially, and feed use was somewhat smaller; farm and market prices of wheat in the Pacific Northwest were higher during the period of active purchasing by the export association and for some time before; prices of wheat east of the Rockies were slightly higher; and benefit payments to contract signers all over the country were a little lower. While the nature and direction of these effects is clear, it is difficult to appraise their several magnitudes.

Some have assumed that, in the absence of any such scheme, wheat prices in the Pacific Northwest would have fallen to levels permitting liberal exports, and that wheat prices throughout the country would have fallen correspondingly.²⁹ This is most improbable. Had the

²⁸ Items still in dispute, largely on legal grounds, include the selling commission of 1 cent per bushel and railroad demurrage and carrying charges resulting chiefly from the strike.

²⁹ Editorial in *Commercial Review*, Portland, Feb. 27, 1934: "Anyone familiar with the situation will tell you that by subsidizing the farmers to an extent of 20-22 cents a bushel, on 25 to 30 million bushels, or a net loss to the government of around 7 million dollars, the entire crop of the United States has been enhanced in value by those figures [that is, 20-22 cents a bushel]. We may safely say that by the expenditure

export subsidy plan not been seriously considered or adopted, prices would have been several cents a bushel lower on export-type wheat in the Pacific Northwest. Particularly at certain times, commercial exports would have been made, probably to the extent of from 5 to 10 million bushels. With Pacific Northwest prices several cents further below Chicago prices than they were, considerably more wheat and flour would have moved eastward. This movement by water actually reached 14.6 million bushels, including 9.5 million as flour;³⁰ and more would have gone if the port tie-up had not occurred. Without the export subsidy, shipments east might have been from 10 to 15 million bushels larger than they were—not more, since much of the North Pacific surplus consisted of club wheats that are not in demand for domestic food use.

Such additional shipments would have had some adverse influence on prices of wheat and flour in competing sections of the East and Southwest, and would probably have lowered representative prices of soft red winter

of 7 million dollars in the Pacific Northwest farmers of the entire country have benefited to the extent of over 100 million dollars. How?

"If the subsidy had not been adopted, wheat prices in the Pacific Northwest would have sagged to the world level, around 50 cents a bushel. How could Eastern prices have held up to present levels of around 90 cents for the May option? Pacific Northwest would have flooded the Gulf and the Atlantic with wheat and we in the Northwest could have moved the entire crop in that direction. As it is, a large amount has already been moved and is still moving. Your Chicago option would have been worth 25-30 cents a bushel less today. This wheat out here had to move some place and Eastern prices could not have held above shipping level from here."

³⁰When Chicago prices advanced spectacularly in July 1933, Pacific Northwest prices advanced less rapidly and the spread between comparable futures rose temporarily above 20 cents a bushel. Then some Pacific Northwest merchants and millers bought cash wheat and hedged it in Chicago. Much of the wheat and part of the flour that moved east in subsequent months was shipped under protection of such hedges.

wheats in comparison with others; but the addition of so limited a volume, much of it of discount types, could hardly have lowered the general level of prices east of the Rockies, or in Chicago, by more than 1 or 2 cents a bushel *net*,³¹ if as much. In view of other influences at work, the maximum possible influence of enlarged domestic shipments from the Pacific Northwest on wheat price levels in the country as a whole was not much larger than the influence actually exerted even with the export subsidy in operation.

Outside of the Pacific Northwest, the price advantages were consequential chiefly to growers of soft red winter wheat, whether or not they were contract signers, and most of all to those in the Eastern and Southwestern states where the sign-up was relatively small and comparatively little wheat is sold. The price advantage to contracting growers of hard red winter wheat probably did not exceed what they lost in benefit payments (which were less because of the reserve to finance the subsidy), and in the interior Northwest the loss probably exceeded the gain.

Per farmer or per bushel of wheat, the gains were much larger in the Pacific Northwest, but even these cannot be calculated with precision. To the slight extent that Chicago prices were raised by the operation, and to whatever additional extent the spread between Chicago prices and the Pacific Northwest prices was narrowed, wheat growers there gained on the amounts they sold at improved prices. We have examined three series of spreads between fairly comparable prices—between Chicago futures and corresponding Seattle futures, be-

³¹The addition of some 15 to 20 million bushels to the international market presumably tended to depress the world price, and indirectly the Chicago price, by something like 1 cent a bushel.

tween Chicago prices of the cheapest wheats deliverable without discount on Chicago futures and Seattle market prices of export wheats, and between average farm prices for the United States and for Washington.³² None of these spreads would have averaged over 20 cents in the absence of the export subsidy, for at that discount wheat would readily have moved to the East; and the farm price spread could not have averaged nearly so great. None of these spreads was as low as 10 cents except for very brief periods. In the months from November 1933 through April 1934, when most of the influence was exerted, market price spreads may have averaged from 6 to 8 cents a bushel narrower because of the association's purchases for export; but even allowing for a slight strengthening of the Chicago price, the price advantage yielded by the operations on export type wheats averaged not more than 7 or 8 cents a bushel.

This, however, tends to exaggerate the gains attributable to the operations. They had no influence in the early weeks of the season 1933-34, when prices were highest and a good deal of wheat was sold. From early August until late in October, before operations became substantial, less wheat was sold but at somewhat better prices because of expectations that the plan would be adopted. Throughout, the influence on premium wheats was very slight; premiums on hard white wheats had been fairly large in mid-summer, but they narrowed, and for a time disappeared, when the association's purchases were supporting prices of export wheats. We con-

³² See the charts and fuller discussion in *Wheat Studies of the Food Research Institute*, August 1934, pp. 407-10. In Table X, p. 454, we show spreads between farm prices for the United States and Washington, which is most representative of the Pacific Northwest.

sider that Pacific Northwest growers realized from the scheme a net price advantage that, averaged over all the wheat they sold during 1933-34, was not over 5 or 6 cents a bushel. They probably sold somewhat more wheat during the year; but if so, they had less to sell in 1934-35 when wheat prices in the region have been higher than when exports were actively subsidized. Their net income from wheat sales and benefit payments (which were lower because of deductions to finance the subsidy) in 1933-34 was probably increased by not over 3 million dollars, if as much.³³

On the whole, we conclude that Pacific Northwest wheat growers gained less than half as much as the subsidy cost. Other Pacific Northwest interests gained additional amounts, though poultry feeders there presumably paid more for their feed and used less wheat than if prices had not been held up. Certain groups of wheat growers east of the Rockies may have gained more than growers in the Pacific Northwest. But the gross gain to all wheat growers on sales of wheat was probably not over 10 million dollars. Their net gain was less to the extent that benefit payments were reduced. Such gains were achieved at the expense of wheat consumers in the Pacific Northwest and elsewhere, and to some extent at the expense of foreign sellers of wheat and flour, especially Australian growers, millers, and

³³ Much higher estimates of gains from the scheme have been common in the Pacific Northwest, particularly when it was sought to continue its operation, and also in some official circles. In the main, these rest on general impressions, assumptions that will not bear analysis, comparisons that are invalid, or consideration of only part of the problem. Developments in 1934-35, when prices have remained well above "export parity" in spite of inactivity of the export association, seem to us broadly to confirm essential parts of our reasoning; and we have sought in vain to get it seriously challenged by those who questioned our conclusion as published in August 1934. The problem warrants further study.

consumers. Other gains accrued to the Chinese government, and lesser ones to consumers in countries importing the subsidized wheat and flour.

Whatever the extent of the actual effects, those most directly affected felt that the export arrangements had yielded substantial advantages to the Pacific Northwest. Indeed, few acts of "government interference" have won so nearly unanimous approval and excited so little attack. *The Southwestern Miller (Kansas City)* editorially commended the operations, and presented a news item in its issue of June 19, 1934, stating: "Observers of the AAA work hold that the subsidy plan has been the most constructive measure provided for wheat." When the question of continuing the agreement in 1934-35 was up, support was general and open opposition conspicuous by its absence.

This approval was tempered by varying degrees of dissatisfaction that the scheme had not done more. Pacific Northwest wheat growers had hoped for larger price benefits, and that the discount of Pacific Coast terminal prices under Chicago could be held to 9 cents a bushel or less. In spite of the export subsidy, the average farm price of wheat in Washington in 1933-34 was 13 cents under the average for the United States—a larger discount than in any year since 1916-17; in 1934-35 the discount may average about 16 cents. Exporters felt that the system employed involved excessive clerical work, was needlessly complicated, and at times prevented export sales that one of their simpler plans would have permitted. They still feel injured because several hundred thousand dollars, which they claim under the agreement, has not yet been paid. On the whole they consider that the business was handled without profit and probably at some loss to them. Pacific

Northwest millers were greatly disappointed in the volume of flour moved, and particularly that the Chinese government bought almost no flour till July and then used under 28 per cent of the loan quota earmarked for flour. They also fear permanent injury to their export markets, with a third year of price relations unfavorable to flour exports and a stimulus to milling in China afforded by government wheat imports in 1933-34 and the substantial protective duty made effective December 16, 1933.³⁴ Milling interests in the Southwest and Southeast, moreover, were dissatisfied with the achievements of the export association. The Southeastern Millers Association, meeting at Louisville on March 10, 1934, adopted a long resolution of protest, stating in part:

Efforts of the government to control the price at Pacific Coast ports have been counteracted to the extent that very little relief from this "dumping" of cheap wheat has up to the present been accomplished. As a result operations of flour mills in Central and Southern states have decreased 30 to 20 per cent, while Pacific Coast mills show a substantial increase in their operations as compared with a year ago. Many flour mills in Central and Southern states are now grinding wheat produced in the states of Washington and Oregon, thus curtailing to a large extent a demand for wheat grown in the large producing sections of the Central West, Southwest and Northwest.³⁵

Foreign reactions to the export subsidy plan proved

³⁴ The increase of the flour duty to this level, and the government's restraint of purchases of American flour, may have been demanded by Chinese millers in return for an undertaking to pay the Chinese government an acceptable price for the American wheat that it purchased. A low duty on wheat, previously duty free, was imposed at the same time, probably to assist the government to sell its wheat to advantage and help it finance payments on the loan. Once imposed, these duties may persist. See *Wheat Studies of the Food Research Institute, August 1934*, p. 411, and Martin E. Newell, "Sabotage in the Oriental Flour Trade," *Northwestern Miller*, Aug. 29, 1934, p. 539.

³⁵ *Northwestern Miller*, Apr. 4, 1934, p. 40.

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of minor importance. Speaking at Topeka, Kansas, on January 11, 1934, Mr. Theis said:

We have already encountered some difficulty from other exporting nations, claiming that this operation constituted dumping and one importing country threatened invoking an anti-dumping clause, until it was explained that this was strictly an emergency program.³⁶

No nation invoked anti-dumping measures or even made protests that were not easily met. Several factors account for this mild reception. Care was taken not to approve sales at prices much, if any, below prevailing prices on other wheats in foreign markets. Even with the subsidy, our net exports fell well within the small quota fixed under the international wheat agreement. Apart from sales to China under the loan and to the Philippines, the subsidized exports were less than 14 million bushels. The experiment afforded no test of the subsidy procedure for selling in foreign markets really substantial quantities for whatever they would bring.

SURPLUS DISPOSAL FOR FEED USE

For months after the virtual suspension of sales by the export association early in August 1934, various wheat interests of the Pacific Northwest urged a renewal of export operations;³⁷ but Secretary Wallace has been adamant against further subsidies to exports from that region in a year when the country east of the Rockies is importing foreign wheat for food and feed. Failing this, government aid has been sought to facilitate disposal of surplus wheat of the region in other sections for feed use. Neither the AAA nor the Federal

³⁶ *AAA Press Release No. 1562-34*; see also *Southwestern Miller*, Oct. 17, 1933, p. 22.

³⁷ Millers in particular insisted on the importance of enabling them to hold their foreign markets, especially for trade-mark brands.

Surplus Relief Corporation, however, has yet seen its way clear to purchase such wheat and distribute it as "surplus relief." Shipments to the East and Southwest, chiefly by water, have continued on a scale somewhat larger than in 1933-34; but high rail freight rates to drought areas east of the Rockies, coupled with fairly well-sustained wheat prices in the Pacific Northwest, have prevented much outward movement of feed.

Late in the winter, plans were formulated for using the machinery of the export association to subsidize domestic disposition of North Pacific wheat for feed use.³⁸ Effective February 20, 1935, railroads in the Western territory reduced their rates 25 per cent on car-load shipments "of cracked soft white wheat in sacks, or on whole soft white wheat to be cracked and sacked in transit, moving from Idaho, Oregon, and Washington, to officially designated drought counties" in Montana, Wyoming, and the Dakotas, if consigned by the export association or a similar non-profit corporation acting under an agreement with the Department of Agriculture. This emergency reduction was to apply only on shipments leaving point of origin by April 30, and, if stopped in transit for cracking and sacking, forwarded from the transit point not later than May 10; but later dates were subsequently substituted for these. Only livestock feeders were entitled to such reduction; and these only on presentation of certificates issued by county agents, certifying that such wheat was for feed use only and would not be sold or traded for profit, and surrendered to the railroads by a specified date. Dealers

³⁸ See *AAA Press Release No. 1606-35*, Feb. 20, 1935, and *No. 1671-35*, Mar. 2, 1935; also *Notice of Hearing with Respect to a Proposed Marketing Agreement*, AAA, Mar. 2, 1935.

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distributing the cracked wheat were to handle it on a service charge basis.

On March 12-13, 1935 a hearing was held in Portland, Oregon to consider an amended or substitute agreement authorizing members of the export association to "sell wheat or cracked wheat for feed purposes only within continental United States at such times, at such prices, and to such purchasers as the Secretary of Agriculture may direct." The objects were to facilitate disposal of surplus wheat of the Pacific Northwest, particularly of types such as western white that are little in demand for domestic food use; "to prevent prices of wheat in the Pacific Northwest from falling to the lower levels which, under present world market conditions, would be necessary if the surplus were to be exported through normal channels"; and to relieve the feed shortage in drought-stricken areas in the interior Northwest. It was planned to draw upon wheat processing tax funds to reimburse members of the association for losses sustained on approved sales, within limits to be fixed by contracts between members and the Secretary of Agriculture. In view of the emergency reductions in freight rates (up to about 10 cents a bushel) already put into effect, it was contemplated that a differential payment of around 17 cents a bushel would permit livestock feeders in drought areas of the interior Northwest to get this wheat on terms in line with costs of competing feeds. It was also planned, under similar but slightly different arrangements, to subsidize shipments of a million bushels of Pacific Northwest wheat to New England for feed use.

While these plans were being perfected, however, crop prospects for 1935 had become so unfavorable that acreage restraints for the next harvest were radically

relaxed. Under these conditions, the expediency of subsidizing diversion into feed use became doubtful, and the legal basis for such diversion was rendered more insecure. On these grounds or others, the plans were not approved.

CHAPTER X
THE INTERNATIONAL WHEAT
AGREEMENT

Secretary Wallace and the planners of the wheat program have recognized throughout that the wheat problem of the United States is part and parcel of a world wheat problem, the evolution of which we have traced in Chapter I. Efforts to secure and make effective an international agreement to help solve this larger problem were therefore regarded by the AAA as a vital element in its wheat program. While the elements discussed in Chapters VII to IX were forced into the wheat program by the course of events, the international agreement was viewed as an essential complement to the domestic wheat adjustment plan. Technically, of course, this matter lay beyond the authority of the AAA. Negotiations were carried on mainly through regular diplomatic representatives of the United States or by special emissaries appointed by the Department of State. Yet the Secretary of Agriculture (with his economic adviser) was the responsible official directing these efforts from Washington, and these moves and their outcome intimately affected the plans, decisions, and course of action of the AAA in respect to domestic wheat adjustment and the export subsidy. At this point, therefore, we must digress a little to consider how the international wheat agreement evolved and what happened under it.¹

¹The full story of the evolution of the agreement and operations related to it lies beyond the scope of this book, and, indeed, cannot yet be written. Part of the relevant material is not available even to competent students for use freely in writing for publication; much of it is scattered in various countries; and important parts are not in recorded

BACKGROUND OF THE AGREEMENT

The 1933 wheat agreement was the culmination of efforts expressed in a series of international conferences extending over several preceding years.² At the International Economic Conference held at Geneva in 1927 under the auspices of the League of Nations, the financial position of agriculture and methods of improving it received serious consideration, and the conference recommended lowering international trade barriers as a partial solution of price disparities between agricultural and industrial products. In subsequent conferences wheat figured with increasing prominence as restrictive wheat measures multiplied after the middle of 1929 and as the world wheat crisis deepened in 1930 and 1931.

Some of these conferences were called by the Economic and Financial Committee of the League, to assist it in developing its program of investigation and in crystallizing its plans. Some were meetings of "The Conference with a View to Concerted Economic Action," a subsidiary of the League set up under a resolution of the tenth assembly dated September 23, 1929; its general objective, in Taylor's words, was "to establish programs and negotiations aiming at collective agreements for facilitating economic relations, and more specifically to labor for a 'customs truce' and the building down of

form. The present discussion is based in part on materials not yet generally available, and it has been read in draft by several persons who were in close touch with the negotiations at various stages.

²The more important of these were considered, with special emphasis on that of May 1931, in "The International Wheat Conferences during 1930-31," *Wheat Studies of the Food Research Institute*, August 1931, Vol. VIII, pp. 439-75. This was the work of Alonzo E. Taylor, who was one of the American delegates to the *International Economic Conference of 1927* and technical adviser to the American delegation at the *London Conference of May 1931*. Our brief summary is based largely on Dr. Taylor's study.

trade barriers between European countries." Several were conferences of two or more of the five principal grain-exporting countries of Europe—Hungary, Yugoslavia, Rumania, Bulgaria, and Poland—which early came to act as a central European agricultural bloc, pressing for preferential arrangements in the sale of their grain surpluses. Two were imperial conferences of the British Commonwealth of Nations, at London in the fall of 1930 and at Ottawa in the summer of 1932. Of special importance and well attended were the Geneva conference under League auspices in January 1931, the first of two conferences under the auspices of the Commission of Enquiry for European Union of the League of Nations held in Paris in February, and the "IId World Wheat Conference" (called by the International Institute of Agriculture) that met in Rome late in March 1931.

The second Paris conference, called to consider the disposal of future cereal surpluses of Central Europe, reached the conclusion that this was "not merely a European but a world problem, and that a wholly satisfactory solution could be reached only by an understanding between all parts of the world concerned." It concluded "that it is in the interest of producers in every continent to act together with a view to checking a spread of the [grain] crisis." At the ensuing conference in Rome, discussions were even more overshadowed by fears of what might happen when the United States started liquidating its accumulating stabilization stocks, and some approach to a consensus was reached. In the absence of representatives from this country, however, definite action seemed impossible, and the conference pinned its hopes of action on an early conference of wheat-exporting countries.

Such a conference was duly held in London on May 18-23, 1931, by invitation of the Canadian government. The four chief overseas exporters, the four Danube Basin exporters, Poland, the U.S.S.R., and India,³ sent delegates. Representatives of the central European agricultural bloc urged "international collaboration between exporting states" in an export quota system as "the only solution of the export problem." Representatives of Argentina, Canada, Australia, and India, who had actively opposed or declined to favor that plan at Rome, now supported it in principle. The Australian delegation presented resolutions cabled by its government proposing to set up an international marketing organization representing wheat-exporting countries "to control all wheat offered for export sale," the adhering countries to guarantee (by bonds lodged with the Bank of International Settlements) due observance of quota limitations agreed upon. The U.S.S.R. delegation accepted the quota plan "in principle" but with three huge reservations—that her quota must equal her five-year pre-war average exports; that credits be extended to cover costs of administration of her export quota and impounding any excess over it; and that all exporting countries must enter without other and separate understandings. Further, the Soviet's intention to expand her wheat acreage was stated.

Under the circumstances it is very doubtful whether, even if the American delegates had accepted the export

³ Turkey, which was in process of becoming a net exporter, was denied admission. Spain, an occasional net exporter, did not apply, nor did Chile and Uruguay, which usually are net exporters to a small extent. Algeria, Morocco, and Tunis, though net exporters, were ineligible as French dependencies. The United States delegation consisted of S. R. McKelvie, wheat member of the Federal Farm Board; N. A. Olsen, chief of the Bureau of Agricultural Economics; and M. W. Thatcher of the Farmers National Grain Corporation.

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quota principle, this conference could have reached agreement on a definite scheme; and it is highly improbable that, if this had been achieved, all the respective governments would have ratified it and undertaken to carry it out. Proponents of the quota plan did not accede to the American delegation's formal request for a "statistical exposition" of a concrete plan; and, at least in the absence of such specific formulation, that delegation was unwilling to accept the proposal in principle. Constitutional provisions limiting the power of the United States government to administer an export quota system were pointed out, and the delegation considered it improbable that Congress would authorize and finance the Farm Board to become sole exporter of wheat from this country. Furthermore, Mr. McKelvie enunciated the board's matured view that marketing restraints could not solve the world wheat problem in the face of unrestricted or expanding acreage and production, and urged the necessity of accepting the principles of restriction of wheat production and expansion of wheat consumption. While delegates of other nations saw little or no hope in these directions, the "final act," unanimously adopted, included these two paragraphs:

The conference considers that, where possible, a reduction in the areas devoted to wheat should be undertaken in whatever way each country considers to be most effective and practical.

It was also felt to be especially desirable that there should be a careful exploration of all avenues for the greater utilization of wheat, both for food and also for other purposes.

Finally, the conference proposed to set up a standing committee, consisting of one representative from each participating state, to draw up a definite proposal for establishing under its supervision a clearing house of information, to explore possibilities of increased utiliza-

tion of wheat, and perhaps to draft agenda for a further meeting of the conference.

Nothing came of this last suggestion. In terms of tangible results, therefore, all these conferences were almost completely barren. Yet they promoted a common understanding of the wheat situation, facilitated exchange of views on the problems involved, gave rise to numerous suggestions for international measures, and fostered a notable growth of sentiment in favor of certain lines of action.

For over a year after this checkmate, as the wheat situation grew worse instead of better, no obvious progress toward an agreement was made. Import restrictions multiplied apace. As the Grain Stabilization Corporation began liquidating its stock of wheat in the United States, the Canadian government quietly embarked on stabilization operations which have been continued ever since. The Danubian countries made some bilateral arrangements for disposal of their grain surpluses. Great Britain in 1932 finally applied Empire preference to wheat and put a "levy" on flour to finance a guaranteed price to British wheat growers.

Fresh progress toward a wheat agreement accompanied the preparation of plans for the world economic conference. On July 9, 1932 the Lausanne Conference, which arrived at far-reaching decisions on inter-governmental debts, invited the League of Nations to call an international conference "to decide upon the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis." Tariff policy, other barriers to trade, and "producers' agreements" were mentioned as leading economic questions for consideration. The League promptly acceded, and appointed a "prepara-

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tory commission of experts" to draw up agenda for the conference.⁴

On October 25, a few days before this commission first met, the Argentine Minister of Agriculture (Antonio de Tomaso) wrote to the Argentine member (Raoul Prebisch) suggesting that he persuade the commission to include in the agenda "the abnormal over-production of wheat" as "one of the greatest importance for the Argentine." Adverting to the existing situation, the accumulation of stocks in North America, and the lack of hope of relief from "the logical remedy" of increasing consumption, he wrote:

It has been proposed to reduce the area sown. In my opinion it is evident that the United States, Canada, the Argentine and Australia must in any case examine this problem without delay. . . . Would it not be possible for these four countries to agree to apply a policy of rationalisation in respect of wheat for a few years, account being taken of their average production, their present surplus and their exports in recent years with a view to reducing the area under wheat [not] increasing it without good cause, in order to bring about a better equilibrium between production and consumption than exists at present.

.

It is not easy to find remedies while the countries seem to be bent on ruining themselves by disregarding what we believe to be the most elementary economic laws. But, on the other hand, the growing evils cannot be effectively remedied by complete inaction.

The gist of this proposal was soon published.⁵ M. Prebisch did not reach Geneva for the preliminary meeting of the commission of experts (October 31 to November 13), but he communicated this letter to them in mid-December accompanying a memorandum of suggestions

⁴On the work of this commission, its report and other relevant documents, see James W. Angell, *The Program for the World Economic Conference . . .*, published Apr. 14, 1933.

⁵*Broomhall's Corn Trade News* (weekly issue), Nov. 2, 1932.

on the international wheat problem, in the course of which he said:

It will be obvious . . . that an artificial restriction of production, however simple it may sound, will encounter considerable difficulties in practice. In the first place an undertaking by the main importing countries of Europe not to extend their production so long as the plan is in operation would be absolutely indispensable. Otherwise the entire action would fail. As far as the producing and exporting countries are concerned, the restriction of the area under wheat should, at any rate to some extent, be combined with a restriction of exports. This would immediately raise the question as to what should be done with the surplus production in countries which, as a result of very good harvests, have an export surplus in excess of the fixed maximum, in spite of a decrease in the area under wheat.

Moreover, there are considerable difficulties as regards internal organization. Without entering into the legal aspects of the problem, it will be necessary to enquire whether it is more advantageous or less difficult to impose a proportional restriction on the area of all farms, or rather to apply the restriction to certain land; whether the state should pay an indemnity of any kind to the producers; whether the restrictions should be applied under the supervision of the producers themselves, who would, for instance, fix a maximum for each zone, etc., etc.

Although some of these questions would have to be decided separately by each state, they are nevertheless of importance for other countries, since the procedure to be laid down in the first place for applying the plan in each country constitutes an essential guarantee for other countries.

In view of later developments, Argentina's official attitude at this stage has special significance.

Meanwhile, the domestic allotment plan with its acreage control features had won influential support in the United States, notably including that of the Democratic presidential candidate. With his sweeping victory at the polls in November 1932, it seemed reasonable to expect the adoption of some such measure and a change in offi-

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cial attitude toward international action on wheat. Shortly after the election, M. L. Wilson went to Canada, by request, to confer with leaders in the prairie provinces on the allotment plan and a fresh proposal for setting up an export quota system in which Canada, Australia, and Argentina would participate with the United States. A further informal conference between American and Canadian students of the problem took place at the American Farm Economic Association meeting late in December.

At the January session of the preparatory commission at Geneva, M. Prebisch brought up the matter, saying that while Argentina was "in principle opposed to artificial attempts to control prices" and believed that world "prices would recover of themselves if the obstacles to the circulation of goods and capital could once be removed," she "admitted that there was a case for the limitation of the production of wheat, if only to get rid of the vast accumulation of stocks—itsself the result of artificial action in the past."

In its draft annotated agenda, completed on January 19, 1933, the preparatory commission touched on wheat under each of three heads: *Restrictions on international trade, tariff and treaty policy, and organization of production and trade*. While the discussion suggests a lack of unanimity in the commission on the last point, the dominant view appears to have been that "a greater freedom of international trade is not the sole remedy for the present crisis"; that, in view of "profound disorganization of production and distribution, . . . joint action by the governments is necessary for the recovery of an economic system threatened by bankruptcy"; that "concerted action . . . in selected fields of production and trade may be effective . . ."; that the governments might

usefully take the opportunity of the coming conference to discuss the attitude they should adopt in regard to economic agreements; and that "such discussions might facilitate the conclusion of agreements, particularly in cases where the intervention of governments is necessary to insure the organization of the production of, and trade in, certain staple products, especially in cases where the producers are not at present in a position themselves to regulate the production and distribution of their products." Wheat was mentioned as a case in point. After referring to previous international discussions, the London scheme for a system of limitation of wheat exports, and the recent Argentine suggestions, the commission concluded:

Whatever practical difficulties may stand in the way of this proposal, the conference might note it for careful examination, in view of the seriousness of the present situation, taking account of the lessons of past conferences and inviting the qualified technical organizations to collaborate with the governments.

EMERGENCE OF THE AGREEMENT

After the governments of the United States, Canada, Argentina, and Australia had been sounded out on the subject, the Secretary-General of the League of Nations invited the four chief exporting nations to send experts to a preliminary conference looking toward the framing of an agreement. Led by former Ambassador Henry Morgenthau representing the United States, these met at Geneva May 10-17, 1933.⁶ The passage of the Agri-

⁶ Informal discussions with U.S.S.R. representatives at Geneva took place also. Mr. Morgenthau was accompanied by Frederick E. Murphy of Minneapolis, as technical adviser, and G. C. Haas of the Federal Farm Board staff; Canada was represented by W. A. Riddell, the Dominion's advisory officer at Geneva; Australia by F. L. McDougall, economic adviser to the Commonwealth government in London; Argentina by C. Brebbia, commercial attaché at Rome and member of the

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cultural Adjustment Act on May 12 gave assurance that legal possibilities for co-operation by the United States now existed. The League of Nations press release of May 17, which summarized these deliberations,⁷ observed that "the difficulties in the way of readjusting production and consumption should not be insurmountable; the actual over-production is comparatively small." Noting the huge accumulation of wheat stocks in North America, and rising yields per acre and recent expansion of wheat acreage in continental Europe, it continued:

There is no doubt that, if progress is to be made in the economic sphere, a rise of prices on the world market is indispensable. The effects of the fall in prices which has taken place in recent years are truly disastrous.

Among natural products, wheat has suffered particularly. It dominates perhaps all other raw materials, both in respect of the quantity and value of production and of its share in world trade. The rise in grain prices would soon make its effect felt on the prices of other products, whether vegetable or animal.

IV. The problem can be solved only by international action as the outcome of exceptional circumstances.

The three main measures for this international action, which should be conceived as something provisional, would be

- (a) The limitation of production and possibly of exports;
- (b) The liquidation of stocks; and
- (c) The maintenance of a reasonable import margin in European importing countries.

The experts resumed their discussions in London on May 29 before the Monetary and Economic Conference

International Institute of Agriculture. (Previously, on April 7-10, a conference representing international agricultural organizations had considered the matter at Rome.) Andrew Cairns, a Canadian attached to the Empire Marketing Board, London, and L. V. Steere, American agricultural attaché in Berlin, took active part in these and subsequent conferences as technical advisers.

⁷ Published in report of the Economic Committee to the Council of the League, May 22, 1933 (C.317. M.158. 1933. II. B).

assembled. Beginning June 16, alongside that conference,⁸ the four chief exporting countries conferred in the persons of Mr. Morgenthau and the chiefs of the Canadian, Australian, and Argentine delegations.⁹ All the negotiators had to keep in close touch with their respective home bases. In Canada there were sharp differences of opinion, and particular opposition developed toward legislative restraints on wheat acreage or production. The Australian government also was reluctant to commit itself to any such policy. During the discussions in London sentiment in Argentina crystallized to the point that the Senate, on June 13, passed a practically unanimous vote against any commitment tending to restrict the area in cultivation in Argentina.¹⁰

The United States representatives took the lead in pressing for "an early agreement on the principle of reduction," and promptly communicated the news of the wheat program announced on June 16, which contained this paragraph:

By adopting this plan the government of the United States will possess the power to bring about acreage adjustments in 1934 and 1935 to conform to whatever agreement may be reached between wheat exporting nations at the London Conference.

This country was willing to agree to an export quota system and to accept a low quota for 1933-34; but eventually warning was given that, if no agreement were reached, the United States would sell its surplus freely

⁸ The two conferences were not integrally related, but the August wheat conference, "at the request of its initiators, was held within the framework of the Monetary and Economic Conference."

⁹ Premier R. B. Bennett; Rt. Hon. S. M. Bruce, Australian resident minister in London; Tomas LeBreton, Argentine ambassador to Great Britain.

¹⁰ See *Review of the River Plate*, June 23, 1933, p. 5. The only negative vote was cast by a senator who wished the resolution stronger.

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and call for a smaller reduction in domestic wheat acreage for 1934 than it would agree to in concert with others.¹¹

As early as June 16, Premier Bennett indicated that the prairie provinces of Canada strongly favored Canadian participation in an international agreement to reduce production and control the marketing of surplus stocks.¹² The Argentine delegate appears to have worked with the others toward an agreement, though naturally under some restraint due to public opinion at home. The Australian representative was acutely conscious of the difficulties that his government would face in applying any measure to restrict the acreage sown to wheat. He felt that acceptance of export quotas would entail maximum efforts to keep supplies for export within bounds, since Australia (like Argentina) was in no position to store or finance accumulated stocks. He considered it essential that European importing and exporting countries be approached to see what they would do if the overseas countries agreed to reduce production and/or exports.

To this end, after the four exporting countries had reached tentative agreement at the end of June 1933, numerous discussions were held with representatives of these other countries, culminating in a general meeting of importing and exporting countries on July 27. A close approach to general agreement had been reached when, on that day, the Monetary and Economic Conference

¹¹ *USDA Press Release No. 337-34*, Aug. 15, 1933, quoted in note 13, p. 316. We infer that such arguments were brought to bear in conferences before the end of June.

¹² Reference was made to "Thursday's statement at the World Economic Conference by Premier R. B. Bennett of Canada favoring international agreement for provisional control of wheat production," in *A.A.A. Press Release No. 1346-33*, June 16, 1933 (Friday).

adjourned and the wheat conference recessed. While at least one country that is ordinarily important as a wheat importer held out, two principal reasons accounted for temporary failure to reach a general agreement: most of the delegates were anxious to get home; and the drought in North America and extreme speculative advance in wheat prices had temporarily cooled the eagerness for agreement on the part of representatives of some exporting countries.¹³

¹³ Other trustworthy evidence does not bear out the latter part of a statement by Mr. Morgenthau, on his return to the United States, that "satisfactory agreements were worked out with the Danubian exporters and that the Russians indicated a co-operative spirit, but that of all the importing countries, only Great Britain and Austria showed any genuine willingness really to help in solving the problem." (France in particular was eager for an agreement, and Italy made substantial concessions in domestic policy to agree.) *AAA Press Release No. 337-34, Aug. 15, 1933*. Other pertinent passages were:

"Mr. Morgenthau reported that the United States' position had been made quite clear from the beginning of the negotiations. This country offered to make a substantial reduction in its wheat acreage for the next two years if the three other large exporting countries (Canada, Australia, and Argentina) also would reduce their wheat production.

"The United States was ready to agree that each country should be at liberty to choose its own method of reduction and agreed to accept control of wheat exports and diversion of excess wheat to other uses in lieu of acreage reduction.

"Furthermore, the United States recognized the difficulties in the way of obtaining European co-operation, and stood willing to engage in a joint reduction program with the other great exporters for one year at least, even if European co-operation could not be obtained for this first year.

"The other exporting countries insisted that before they would enter into a joint program with the United States, European importing countries must agree to reduce restrictions against wheat imports, and to cease further efforts to expand wheat production; and European exporting countries must agree to control production or exports.

"Throughout the negotiations, Mr. Morgenthau emphasized, the United States stood willing to waive all minor points, but despite the efforts to reach a satisfactory basis for action, the other three exporting countries were not satisfied, when the conference recessed to meet again August 21, with the concessions offered by the importing countries.

"We will stand ready to participate in any reasonable plan which the

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F. E. Murphy, who had worked with Mr. Morgenthau at Geneva and London, was selected to represent the United States at the subsequent conference. During the interim, he visited several European countries in an effort to enlist their support for an agreement, and his efforts are credited with influencing their subsequent action. Meanwhile, the maturing of excellent crops in France, Germany, Italy, and other European countries created fresh embarrassments for governments that were trying to hold up domestic wheat prices. This furnished additional incentives for their adherence to a wheat agreement, contributed heavily to the serious drop in wheat prices, and thereby intensified the eagerness of exporting countries for an agreement. Thus European crop developments constituted a vital factor in making it possible finally to reach agreement.

On behalf of the governments of the four principal exporting countries, the Secretary-General of the

other three great exporting countries will accept,' Secretary Wallace said.

"We do not insist on European co-operation at this time, but if the other exporters insist on it, we will accept any reasonable plan for European co-operation which is satisfactory to Canada, Australia, and Argentina. We shall wait until August 24 to see if they can reach an agreement for definite action, before we announce our wheat reduction for next year.

"If the other exporters will not co-operate,' Secretary Wallace added, 'we fortunately do have the Agricultural Adjustment Act, and shall use its full powers to protect American wheat producers. In such a case we will make less reduction in acreage than if other countries were working with us; we will maintain our wheat producers' incomes through benefit payments; and we will move out of the country burdening surpluses of wheat, such as that now existing on the Pacific Coast.

"We recognize that our European market for wheat has greatly diminished; but if no agreement is reached we will find a place for our wheat in Oriental markets. In the past, those markets have been divided between American, Canadian, and Australian sources, with the distribution of the supply varying from year to year with crops and market conditions."

League (and of the Monetary and Economic Conference) invited the governments of 27 other wheat-exporting and wheat-importing countries to be represented at an inclusive wheat conference to be held in London on August 21.¹⁴ Most of these accepted and sent delegates.¹⁵ On August 25 an agreement acceptable to the representatives of 22 countries was reached; and while Argentina's signature was delayed until August 30 and the representatives of three other countries signed *ad referendum*, only the Irish Free State failed to ratify.¹⁶ This agreement with its two appendixes constituted a well-drawn document.¹⁷

By August 28 representatives of Canada, the United States, Argentina, and Australia had reached what they considered substantial agreement on their export quotas for 1933-34 and 1934-35 and related matters, and on August 30 they initialed a rough memorandum evidencing such agreement. The unauthenticated copy of the "Note of Agreement between the Overseas Wheat Ex-

¹⁴ *U. S. Department of State Treaty Information Bulletin No. 47*, Aug. 31, 1933, p. 10.

¹⁵ Of those invited, nine countries did not participate in the agreement reached. These were The Netherlands, Denmark, Norway, Estonia, Finland, Latvia, Lithuania, Portugal, and Turkey. Turkey and Lithuania are usually *small net exporters*. The other seven had net imports averaging about 65 million bushels a year in the five years preceding the conference.

¹⁶ Parties to the agreement were the four overseas and the four Danubian exporting countries, Poland, the U.S.S.R., Austria, Belgium, Czechoslovakia, France, Germany, Italy, Greece, Spain, Sweden, Switzerland, and the United Kingdom. Several signed with reservations that have not been made public.

¹⁷ Published in the *U. S. Department of State Treaty Information Bulletin No. 48*, Sept. 30, 1933, pp. 18-24. Appendix A contains definitions and interpretations of points in the main text. Appendix B comprises a sub-committee report on the constitution of the wheat advisory committee. Here the agreement was treated as an executive agreement not requiring ratification by the Senate.

porting Countries"¹⁸ consists of two portions. The first, which is initialed below the statement, "This is the Agreement of 30th June, 1933," was a memorandum prepared before representatives of other countries were consulted in July. The second part represents the understandings reached late in August modifying and supplementing the earlier memorandum, particularly in respect to export quotas for 1933-34. Yet lack of complete agreement on two or three minor points is clearly revealed, and later indications suggest that at least one further modification was agreed to but not incorporated in the supplementary note. Subsequent efforts to reduce these understandings to more definite form were in vain, hence no "finished document" could be published.¹⁹

The completion of the agreement, after months of strenuous negotiations which were on the point of breaking down several times, was a truly remarkable achievement and was widely hailed as a momentous one. The economic adviser to the Secretary of Agriculture said in the *New York Times* of September 3, 1933, in an arti-

¹⁸ The same, pp. 24-28. So far as we are aware, this has not been published elsewhere.

¹⁹ The Argentine Minister of Agriculture who had made the proposal in October 1932 died late in August 1933. His successor, Ing. Luis Duhau, had been unfriendly to the agreement, and in this was strongly supported by political and business sentiment in Argentina.

In a press release of the Department of Agriculture (*No. 445-34*, Aug. 28, 1933), Dr. Ezekiel summarized the provisions of the agreement and promised: "The full text of the exporters' supplementary agreement will be made public by the department as soon as the various modifications have been incorporated into a finished document and have been approved by the representatives of the four exporting countries." Two days later, when the department announced the formal completion of the agreement by the signature of Argentina's representative, its press release (*No. 480-34*) stated that, since delegations of exporting countries had left London, "preparation and signing of a formal statement incorporating the exporting countries' supplement agreed to in the draft proposals will not be completed until later, probably at the meeting on September 18."

cle headlined "Wheat Pact a Step Forward in International Planning":

From the point of view of the United States, the international wheat agreement is significant as indicating that the lead which we have taken, in passing the Agricultural Adjustment Act, is being followed by all the rest of the civilized world . . . our principal representatives at the protracted negotiations which produced the agreement, have scored a remarkable achievement in convincing other countries, both importers and exporters, that it was to their advantage to work with us instead of against us. Faithfully carried out by all parties, the agreement will mean to the American wheat farmer that the job of working out of the farm depression will go much more swiftly and much more effectively than if we had to tackle it alone.

Prior to this agreement, the United States had been almost completely shut out of the world wheat markets. If we reduced production by ourselves, and other countries meanwhile had increased, we might eventually have lost entirely our share in the world trade for wheat. Instead, by this agreement, we retain some share in the international market. Other countries share with us the sacrifices necessary for readjustment; other countries, we may hope, will also share with us in the higher prices and better conditions that those sacrifices will produce.

Even more important, perhaps, than its meaning to farmers, is the international significance of the wheat agreement. In one commodity, at least, the nations of the world have come together, faced the fundamental facts, and decided on joint and rational action to correct the situation. Instead of attempting to help themselves by measures which may hurt other countries, they will attempt to adjust their actions to accord with the steps that other countries are taking. While this agreement covers only one commodity, it may prove a kernel of sanity around which may grow similar reasoned efforts to correct international chaos in other fields.

The Department of Agriculture gave a considerable share of the credit to M. L. Wilson, chief of the Wheat Section, since he had "sponsored for more than a year the idea of international curbs on wheat surpluses here

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and in other parts of the world."²⁰ Writing in the *New York Times* of October 22, Mr. Wilson referred to the agreement as—

... a step which may prove as far-reaching in the history of the world's economic progress as was the formation of the League of Nations ... in the fields of politics and government.

No one knows whether the present two-year agreement may be temporary or whether it is the beginning of a permanent world program of control. And yet one needs little imagination to foresee a time when similar controls will be set up for world trade in many other commodities.

ELEMENTS OF THE AGREEMENT

The broad objectives in view are suggested by the introduction to the main agreement, which recited that the conference was called "to consider the measures which might be taken in concert to adjust the supply of wheat to effective world demand and eliminate the abnormal surpluses which have been depressing the wheat market and to bring about a rise and stabilization of prices at a level remunerative to the farmers and fair to the consumers of breadstuffs. . . ."

The agreements contained three elements binding the signatory *exporting countries*, embodying the purpose to "bring about an adjustment of production so as to allow of the liquidation of existing surplus stocks within a period of two years."

1. *Export quotas for 1933-34.* The basic assumption was made that "world import demand for wheat" in the year ending July 1934 would amount to 560 million bushels. The four chief exporting countries agreed to accept export quotas fixed on this basis, and the four Danubian exporting countries an aggregate quota of 50 to 54 million bushels; the U.S.S.R. agreed to limit its

²⁰ *AAA Press Release No. 480-34, Aug. 30, 1933.*

exports in 1933-34 to a quota reached on completion of negotiations with overseas wheat-exporting countries (which eventually proved fruitless). The quotas reached are shown on page 332.

2. *Export quotas for 1934-35.* For the second year of the pact the four chief exporting countries agreed to accept maximum export quotas "15 per cent less in the case of each country than the average out-turn²¹ on the average acreage sown during the period 1931-33 inclusive after deducting normal domestic requirements"; and further—

The difference between the effective world demand for wheat in the crop year 1934-35 and the quantity of new wheat from the 1934 crop available for export will be shared between Canada and the United States of America as a supplementary export allocation with a view to the proportionate reduction of their respective carry-overs.

The Danubian exporters agreed to accept 50 million bushels as their total export quota for 1934-35, and the U.S.S.R. agreed "that the question of their export of wheat during the crop year 1934-35 shall be the subject of further negotiations with the wheat-exporting countries represented upon the advisory committee."

3. *Acreage reduction for 1934.* The four overseas exporting countries apparently agreed each "to bring into effect a reduction in the production of wheat to the extent of 15 per cent," obviously for the 1934 crop. Various interpretations of this agreement we shall discuss below. The Danubian states acknowledged that acceptance of their quota for 1934-35 "will not allow for any extension of the acreage sown to wheat." The U.S.S.R. professed itself "unable to give any undertaking in regard to production of wheat."

²¹ A 10-year average was used.

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The signatory *importing countries* accepted four obligations "to be interpreted in the light of the following declaration":²²

It is recognized that measures affecting the area of wheat grown and the degree of protection adopted are primarily dependent upon domestic conditions within each country, and that any change in these measures must often require the sanction of the legislature.

The intention of this agreement is nevertheless that the importing countries will not take advantage of a voluntary reduction of exports on the part of the exporting countries, by developing their *domestic policies in such a way as to frustrate* the efforts which the exporting countries are making, in the common interest, to restore the price of wheat to a remunerative level.

1. *Production.* They agreed "henceforth not to encourage any extension of the area sown to wheat and not to take any governmental measures, the effect of which would be to increase the domestic production of wheat." Their undertaking with respect to modifications of quota restrictions was interpreted as "consistent with maintaining the home market for wheat grown on an area no greater than at present."

2. *Consumption.* They undertook—

... to adopt every possible measure to increase the consumption of wheat and are prepared to bring about the progressive removal of measures which tend to lower the quality of breadstuffs and thereby decrease the human consumption of wheat.

3. *Tariffs.* They agreed that wheat price improvement should lead to reduction of tariff duties and that they were "prepared to begin such adjustment of customs tariffs" when the duty-free gold price c.i.f. on

²² The importing countries substantially adopted a draft submitted at the opening of the conference, the text of which appeared in the *New York Times*, Aug. 22, 1933. This was only slightly changed from one under discussion when the conference recessed on July 27.

the world market (as measured by a specified index of prices of wheat imported into Great Britain) should be maintained for 16 weeks at or above 12 gold francs per quintal (63.02 gold cents per bushel).²⁸ The intent was that "every considerable and lasting change in wheat prices shall be followed by an adjustment of tariffs proportionate to such change."

4. *Other import barriers.* They further accepted in principle the desirability of relaxing various forms of quantitative restrictions on imports and agreed that they would be "prepared to make effective alterations in 1934-35 if world prices have taken a definitely upward turn from the average price of the first six months of the calendar year 1933."

Finally, both exporting and importing countries agreed "to set up a wheat advisory committee to watch over the working and application of this agreement." This was to be "primarily advisory in character" and "would only take decisions on cases defined in the agreements." It was to be set up in London, but was to "work in close co-operation with the economic organization of the League and the International Institute of Agriculture." It was to include one representative each for Argentina, Australia, Canada, the United States, and the U.S.S.R., two for the four Danubian countries, and seven others representing the importing countries selected as they might decide. This committee was also to have power, if it saw fit, "to convene a general meeting of the states parties to the agreements." The principal staff member was to be "a highly competent secre-

²⁸ See chart on p. 327. This figure, about one-half the official minimum price in Paris in August and September 1933, represented a compromise reached with great difficulty. Exporting countries tried hard to get it set at 58 cents and importing countries (especially France) held out for 68.

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tary." For this position Andrew Cairns, formerly statistician of the Canadian wheat pools, was chosen. The chairman throughout has been the American Ambassador to the United Kingdom (Hon. R. B. Bingham) or the American Minister to Latvia (Hon. J. V. A. MacMurray).

THE EXPORT QUOTA SCHEME TESTED

The theory underlying the export quota system was apparently this: Exporting countries combined have more wheat to sell than importing countries want at any price, and competition of exporters for the limited export market depresses international prices to extremely low levels. This has not only caused extreme distress among farmers in exporting countries, with repercussions on their national economies and world trade, but has led to raising fresh barriers in importing countries to protect their farmers even at heavy cost to their national treasuries. If total exports can be restricted to a quantity that importing countries in the aggregate really need, and if the several exporting countries will each export no more than its allotted quota of the "world import demand," wheat prices will rise on world markets. This will not only raise domestic wheat prices in exporting countries, help restore domestic and international equilibrium there, and effectually force appropriate measures of production control, but it will also relieve importing countries of embarrassment and permit them to lower their trade barriers without injuring their farmers.

It is not surprising that the leading exporting countries, seeking to improve a desperate situation, should have come to accept this theory to the point of trying the experiment. It is more significant that so many im-

porting countries should have virtually subscribed to it also, and, by signing the international agreement, have evinced willingness to co-operate rather than resentment toward efforts to raise the price of import wheats.

It is too much to say that events proved the theory wrong. It could not safely be assumed that import purchasing would proceed, and amount to as much in total, with a restrictive export quota system in force as with it absent or ineffective. In the absence of obligations on the part of importing countries to take specified quotas of an import total, wheat importers can be expected to regulate their orders according to their appraisal of the situation and outlook. National or international measures to hold back wheat, and plans for production restraint in which traders place little or no faith, do not increase the eagerness of importers to buy at higher prices than they think the whole supply-demand situation warrants. Under conditions such as obtained in 1933-34, with no scarcity in sight, only very low prices—or fear that prices would go higher—would lead importers to buy freely.²⁴ The aggregate export quota reached seemed very low; but it proved impossible to get exporting countries to agree to shares in a lower total, such as importing countries urgently *needed* and would actually import under the conditions.

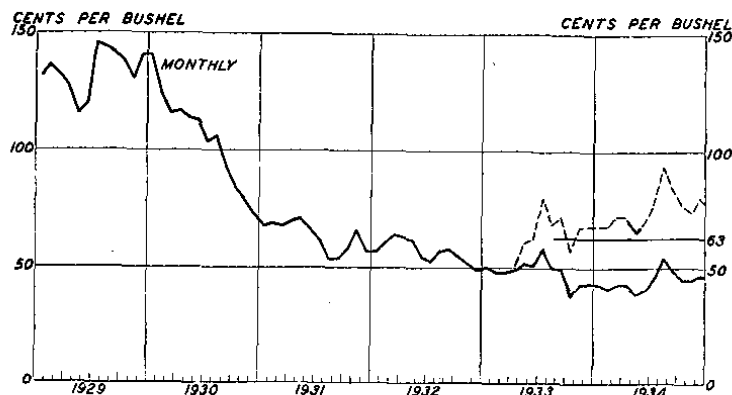
In any case, the scheme itself was put to a severe test. The actual course of the world price index selected is shown in the accompanying chart, with monthly averages over a period of six years from 1929 to the end of 1934. Compared with earlier levels, 63 cents

²⁴ Toward the end of the crop year import purchases increased, instead of declining as they usually do, because higher prices seemed in prospect for 1934-35. *Wheat Studies of the Food Research Institute*, December 1934, Vol. XI, p. 165.

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seemed a conservative mark to aim at. When the agreement was signed this index stood at about 50 cents gold. During the second half of August, Liverpool prices of wheat remained firm. In Winnipeg prices were pegged; pressure of shipments from continental European

BRITISH PARCELS PRICES OF WHEAT, IN GOLD, 1929-34^a



^a Data of Food Research Institute, computed from data in *London Grain, Seed, and Oil Reporter*, for all "parcels" (less than full cargoes) imported into Great Britain. The light-weight broken line represents monthly average parcels prices converted to United States currency at \$4.8665 to the £.

countries temporarily diminished; and for the time the prospects for reaching an international agreement, and its eventual consummation, constituted favorable market factors. This firmness was short lived. Early in September, Liverpool prices began a recession that continued for six weeks, primarily under the influence of subsidized exports from European countries, and of revised appraisals of the international wheat position—the major elements in which we mention below. The world price index accordingly slumped below 40 cents; through most of the crop year it fluctuated between 40 and 45 cents; and for the entire year it averaged only

43 cents gold—reflecting the lowest world wheat prices on record.

The agreement thus failed to make appreciable progress toward what was deemed its major objective; and this rendered inoperative the commitments of importing countries in so far as they were contingent on the maintenance of a 63-cent level for 16 successive weeks. How much lower wheat prices might have gone had there been no wheat agreement, no one can safely say. Some of those who were most intimately in touch with operations under the agreement are convinced that, in the absence of export quotas, more Canadian, Argentine, and French wheat would have been pressed on the world market and that a chaotic situation would have prevailed. Experience in other years, however, indicates clearly that restraint of exports occurs in the absence of export quotas when prices are very low; and it is possible that some importers would have bought somewhat more freely, at times, if uncertainties introduced by the scheme had been absent. The course of trade and the course of prices were certainly modified by the existence of the agreement, but the extent of its influence on the aggregate volume of trade and the level of prices can easily be overstated.²⁵

Three principal reasons for the disappointment of hopes raised by the export quota scheme merit a little

²⁵ The Food Research Institute may have been slightly too conservative in concluding its analysis with these words: "Consequently, although it is reasonable to concede that the agreement may have exerted some influence upon prices (mostly against further decline), upon trade, and upon consumption in 1933-34, the extent of influence must be characterized as slight or even negligible. Much less was accomplished than was hoped and (by some) expected. Instead of proving a dominant influence on world wheat prices, the agreement was at most a subsidiary and relatively unimportant influence." *Wheat Studies*, December 1934, Vol. XI, p. 143.

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elaboration. First, a gold base was naturally chosen for expressing the 63-cent level incorporated in the agreement, but this was already artificial. By August 1933 most of the world had forsaken the gold standard, and the countries which still adhered to it were small factors in the international wheat trade. Late in October, moreover, the United States embarked on a policy of actively depreciating the dollar in terms of gold (see page 249); this led to provisional revaluation of the dollar, early in 1934, at about 59 per cent of the previous standard. These steps (and in part similar ones taken earlier in other countries) were taken with a view to raising the level of prices in terms of national currencies. The success achieved was disappointing; price levels did not advance in proportion to the depreciation of currencies in terms of gold. In effect, prices expressed in terms of gold were depressed by these various steps, to an extent that cannot be ascertained but was probably substantial. Hence, partly because of United States monetary policy, the 63-cent level of wheat prices in *gold* proved a more difficult mark to reach. It is quite possible that if the United States had taken no further steps to depreciate the dollar after August 1933, British parcels prices would have followed a course nearer to that indicated by the higher line on the chart.

Second, the bumper European harvests of 1933, which smoothed the way for adoption of the agreement, proved even larger than was realized late in August. Official estimates for continental Europe were raised by about 150 million bushels in the next few months. Those harvests, coupled with good crops in the Orient, cut down needs for imported wheat. Late in June, before estimates of import requirements for 1933-34 could be made, representatives of the export-

ing countries had tentatively considered quotas on the basis of a hypothetical import demand of 750 million bushels.²⁶ Two months later, 560 million was agreed upon. In retrospect it seems clear that this agreed figure for "world import demand" was set too high. Though net exports of net exporting countries actually reached 550 million bushels, importing Europe could easily have afforded to take less than she did.²⁷

Third, the Argentine crop turned out much better than anticipated late in August, when the Argentine delegate had agreed to an export quota of 110 million bushels. Owing to light abandonment and a very good yield per harvested acre, the crop proved second only to the record crop of 1928. Since Argentina has very limited storage facilities and no significant outlet for wheat in feed uses, her commitment placed her in a very tight position—the more difficult because domestic political, business, and popular sentiment was hostile to the agreement. Presumably because of this, Argentina took no effective steps to insure conformity to her commitments, and early in April formally urged enlargement of her export quota. Though the other exporting countries were willing to make concessions and Canada, at least, may have restrained her exports pending the

²⁶ See table on p. 332. The tentative agreement considered in June included this paragraph: "Since an essential part of any scheme must be effective co-operation of the European importing countries, it is felt that even if higher prices cause some diminution in demand in the Far East, yet total import demand should be taken as 800 million bushels instead of 750 million bushels." It was contemplated, however, that pro rata cuts in quotas should be accepted if total import demand should be estimated at a lower figure.

²⁷ Estimates of Food Research Institute indicate that total European stocks rose during the year, from a level by no means low, by something like 100 million bushels. *Wheat Studies*, December 1934, Vol. XI, p. 181. Most of this increase occurred, however, in countries that were net exporters or net importers on a small scale.

revision, protracted negotiations eventually failed to bring agreement. Before these were abandoned, the time for influencing Argentine sowings had passed, and in June Argentina's shipments began to exceed her quota.²⁸ By the end of July they had exceeded it by some 37 million bushels.

None of the other exporting countries faced similar conditions, pressure, and temptation; and, as the table on page 332 shows, Canada alone approached her quota. John I. McFarland, general manager of the central selling agency of the wheat pools, was in a position to restrict wheat exports by market operations conducted with financial backing from the Dominion government. How far he may have done so by reason of Canada's commitment, we are not in a position to state. In the fall of 1933, Australia had adopted legislation authorizing control of wheat exports, but holding by her farmers was such as to render it unnecessary to set up this machinery. In the United States, price relationships were such that ordinary commercial exports were very small, and most of the wheat and part of the flour exports moved under subsidy. Even the U.S.S.R. did not export as much as the quota the other exporting countries would have been willing to grant her.

The experience revealed certain difficulties in the way of reaching and executing such an international agreement. Forecasts are involved and these, even if honestly prepared on the best evidence available, are fallible. Unforeseen agricultural developments may either help or hinder. Even in circumstances which seem urgently

²⁸ For several weeks from mid-March to early May, wheat shipments from Argentina declined considerably, but, following her refusal to accept the proposed minimum price plan, her shipments expanded sharply. See the same, pp. 157, 165.

EXPORT QUOTAS FOR 1933-34, AND ACTUAL NET EXPORTS
(In millions of bushels)

Country	Figures Considered (June)	Quota Adopted (August)	Actual Net Exports
Canada.....	318	200 ^a	194
United States.....	65	47 ^b	26
Argentina.....	150	110	147
Australia.....	142	105	86
Four Overseas Countries.....	675	462	453
Danubian states.....		50 ^c	35
U.S.S.R.....	75	}48{	34 ^d
Others.....			28 ^e
Total.....	750	560	550

^a The "Agreement of 30th June 1933" suggested pro rata reductions in case "world import demand were below 750 million bushels"; and that if Argentina or Australia were unable to export up to its quota in 1933-34, the part surrendered should be added to that country's quota for 1934-35 and used in 1933-34 "upon the advice of the advisory committee, firstly, to enable the whole of the new wheat of the 1933-34 crop to be marketed by an increase in the allocation to any country with a larger exportable surplus than provided for in the quota and, secondly, in so far as such difference is not needed to care for new wheat, to be equally divided between U.S.A. and Canada for the disposal of surplus stocks."

^b Premier Bennett changed this to 45 before initialling the agreement, but the United States accepted with the reservation that 47 be accepted. See also note *a*.

^c Subject to increase to 54, "if the Danubian countries find that such a supplementary quota is required for the movement of the exportable surplus of the 1933 crop." The Danubian states agreed among themselves on individual quotas, and later on certain revisions which increased Hungary's quota.

^d The U.S.S.R. had asked in August for a quota of 75 million bushels and later refused to accept one of 37 million.

^e Of this, 8 million represented net exports by Germany, Poland, and other countries that are not usually net exporters. The rest represented chiefly exports from Algeria and Morocco to France, whose net imports were reduced by some exports of French wheat.

to call for international planning and control, it is hard for exporting countries to accept a sufficiently conservative appraisal of the real needs of importing countries to agree to shares in such a total, and to fulfill such ob-

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ligations if fulfillment entails serious embarrassment. On some such grounds, the grain trade had generally believed that no such international export control could be accomplished in the absence of a favorable combination of circumstances; but the grain trade had very little voice in the councils.²⁹

The wheat advisory committee was designed to provide facilities for achieving the flexibility essential to successful operation of the agreement. It held sessions in September and late November 1933 and in January and March 1934, and sessions enlarged into more comprehensive conferences in April and May. At an early meeting, negotiations with the U.S.S.R. failed to result in an agreed quota. Tentative plans were subsequently devised for fixed minimum export prices, price differentials, quarterly quotas, and quota reserves; and eventually revised quotas for 1934-35 were discussed. Since Argentina faced the dilemma of exceeding her quota unless other countries conceded her a larger one, her refusal to accede to various proposals seemed to put on her the onus of failure to reach agreement. But Canada, with huge stocks to dispose of, was reluctant to make the full concessions that Argentine representatives demanded, especially in view of Argentina's unwillingness to give assurances of "realistic" co-operation. Effectual adoption of each fresh proposal required substantial unanimity among representatives of several countries, each of whom was compelled to consider not

²⁹ In March 1934 Sir Herbert Robson, a leading British grain merchant, and Sir Norman Vernon, a leading miller, attended a sub-committee meeting in London March 22-27 as technical experts; and Robson and W. Love of the Liverpool Corn Exchange attended the advisory committee meetings at Rome in April and at London May 7-11. Robson was critical of the minimum price proposal and later urged cessation of operations under the agreement, but he was not in position to determine the British government's policy.

only its special interests but public sentiment at home. While a close approach to unanimity was reached repeatedly, the obstacles proved too great to be surmounted.

REDUCTION OF ACREAGE OR PRODUCTION

The main agreement contained only three references to limitations of acreage or production. The U.S.S.R. professed herself "unable to give any undertaking in regard to production of wheat." The four Danubian states, in accepting their aggregate export quota for 1934-35, agreed that this would not permit "any extension of the acreage sown to wheat."³⁰ The four overseas exporting countries agreed to accept for 1934-35 maximum quotas "15 per cent less in the case of each country than the average out-turn on the average acreage sown during the period of 1931-33 inclusive . . ." Two lines in the accompanying table show how such base period figures for sown acreage and production then looked. In the supplementary note of agreement, in which these figures appear among others, there is a more specific commitment: "Each of the four countries agree to bring into effect a reduction of production of wheat to the extent of 15 per cent."

According to approximate figures shown in the table, sown acreage was materially reduced in the United States and Canada, but by less than 10 per cent from the 1931-33 average; in Australia it was reduced by almost 15 per cent; in Argentina it was brought only 5 per cent below the 1930-32 average though well below that of any recent year except 1931.

With respect to production, to which the letter of the agreement might appear to apply (though we infer that

³⁰ Essential compliance on their part is indicated by latest available data on wheat acreage *harvested* in 1934.

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DATA BEARING ON ACREAGE OR PRODUCTION COMMITMENTS AND THEIR FULFILLMENT

1. Base Sown Acreage, with Comparisons (In millions of acres)

Period	United States	Canada	Argentina	Australia	Total
1931-33 average ^a	62.4	26.3	20.0	15.0	123.7
1931-33 revised ^b	65.8	26.5	19.5	15.2	125.8
1934.....	60.4	24.0	18.5	13.0	115.9
Percentage change...	-8.2	-9.4	-5.0	-14.5	-8.0

2. Base Production, with Comparisons (In millions of bushels)

1931-33 average ^c	816	453	240	192	1,701
1934 crop.....	496	276	238 ^d	137	1,147
Percentage change...	-39	-39	-1	-29	-33

^a According to figures in "the Agreement of 30th June 1933," used in calculating base production given in second section of this table.

^b According to latest available data. Argentina's average (for 1930-32, not 1931-33) was held down by abnormally low seedings in 1931.

^c Not actual production, but base acreage as first given above times average yield per sown acre given as 13.1, 17.24, 12.0, and 12.8 bushels respectively.

^d Second official estimate, subject to more or less revision, and still (Mar. 31, 1935) considered by the trade too high by 15 or 20 million bushels.

it did not), the contrast was even sharper. Argentina happened to have a good yield per sown acre;³¹ her crop was first estimated at above her calculated base production, and further downward revisions are expected by trade observers. The other three countries chanced to have yields far below average, and largely for this reason their crops were more than 15 per cent below the base production suggested by the letter of the agreement. No one can say with assurance what means,

³¹ Had Argentina reduced her sown acreage by as much as the United States or Canada, such yields per sown acre would have given her a crop less than 15 per cent below the base production.

if any, the other countries might have taken to hold down their production if natural conditions had been such as to promise crops above their indicated limits.

There were, however, certain interpretations which went beyond the letter of the published agreements. The AAA's report of operations entitled *Agricultural Adjustment*, released March 26, 1934, stated:

Canada and the United States pledged a reduction equal to 15 per cent of the acreage in the base period 1930-31, 1931-32, and 1932-33, while Argentina and Australia pledged themselves to reduce exports to an equivalent amount, without increasing stocks in storage.

The agreements as published evidence no such commitments; but that the concession to the two Southern Hemisphere countries was made, at least informally, is indicated by a paragraph in the press release (*No. 480-34*) of the Department of Agriculture on August 30, 1933, announcing completion of the agreement:

Argentina and Australia agree that in lieu of a cut in acreage, they will export only as much wheat next season as if they had cut their acreage 15 per cent and that they will not add any surplus above this amount to their carry-over in storage. This may be accomplished by diverting any excess production to feeding livestock or to other non-food uses.

On the basis of such evidence as we have been able to consult, we infer that these statements correctly express what the United States, Argentine, and Australian representatives thought had been agreed to; but it never proved possible to incorporate this in a published document, and Canadians deny that Canada was committed to reduce sown acreage by 15 per cent.

The United States first interpreted its own commitment in terms of sown acreage. *Agricultural Adjustment* gave 55,859,000 acres as "maximum seeded acreage for the United States under world wheat agree-

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ment." On February 6, 1934, however, our representative informed the others that we should interpret our commitment in terms of harvested acreage, and that steps would be taken to keep acreage harvested in 1934 to "85 per cent of the base planted acreage minus normal abandonment"³²—which was interpreted to imply 49.9 million harvested acres. No objection was raised to this interpretation, which was much more susceptible of checking. In the absence of unfavorable weather, to fulfill this commitment would have required an extensive campaign to get farmers to plow up excess wheat or to cut it for hay. Actually, winter wheat abandonment (21 per cent) was well above average, spring wheat sowings were considerably reduced by drought, and abandonment of spring wheat (50 per cent) was extraordinarily severe. Hence without further official measures our harvested acreage was well below the figure suggested—the latest official estimate is only 42.2 million acres.

In the autumn of 1933 Premier Bennett and the Canadian wheat pools appeared to be interpreting Canada's commitment in terms of acreage—which meant sown acreage.³³ But even the pools, which were strong for the international agreement, looked askance at definite acreage reduction measures; and vigorous opposition to any form of production curtailment developed in Western Canada. The official bulletin on *The World Wheat Problem and the London Agreement*, published on January 5, 1934 by authority of the governments of the Dominion and prairie provinces, contained no

³² See also *AAA Press Release No. 1924-34*, Feb. 26, 1934.

³³ See *Northwestern Miller*, Oct. 18, 1933, p. 175, and a memorandum of the central board of directors endorsed by delegates of the three provincial pools. Official Canadian data for spring wheat, which comprises almost the whole crop, are in terms of sown acreage.

specific commitment on acreage. The concluding paragraph read:

The wheat producers of Western Canada must adjust their production to the quantity for which a remunerative market can be secured. In the adjustment of wheat acreage to an area producing the quantity which Canada can export under the agreement, the obligations on the shoulders of the individual farmer will be relatively small. It is confidently anticipated—when the world wheat situation briefly summarized in this pamphlet is clearly understood by the wheat producers—that they will cheerfully co-operate with their provincial and federal governments in carrying out whatever measures are put into force, after thorough study of problems involved, in implementing Canada's obligations under the agreement.

In preparing to carry out Canada's obligations "to the letter," two steps were taken. First, an educational campaign was conducted among Canadian farmers, by the governments and the pools, to bring about reductions in spring wheat sowings. Second, the Dominion and provincial governments adopted legislation which, while making no provision for reduction of acreage or restraint of production, authorized setting up machinery by which marketing and exporting of any commodity could be kept under strict control.³⁴ Canada's obligations under the wheat agreement were largely responsible for the introduction of bills for these measures, in mid-March 1934, but as passed only the provincial measures applied specifically to wheat. As it turned out, drought helped in reducing Canada's acreage and cut down her yield as well, so that without any action under this legislation Canada's crop was well within her formal commitment in terms of production.

³⁴ The Dominion Act, 24-25 Geo. V, c. 57, approved July 3, 1934, was called *The Natural Products Marketing Act, 1934*. The legislation is summarized in *Foreign Crops and Markets*, U. S. Department of Agriculture, Aug. 27, 1934.

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Australia interpreted her commitment in the sense indicated in the quotation from *Agricultural Adjustment*. In the fall of 1933 legislation providing for control of exports was enacted, but none to restrict acreage or production. There was some quiet propaganda or mild pressure toward reducing acreage, and conditions for seeding wheat proved somewhat unfavorable; but reliance was placed chiefly on the economic pressure which led to contraction of wheat acreage and simultaneous expansion of sheep production. Wheat and sheep enterprises are more or less competitive in parts of Australia, and wool prices were attractive, as wheat prices were not. This largely accounted for Australia's substantial reduction in wheat acreage, and her low yields were due to adverse weather.

Argentina took no active steps to reduce her wheat acreage or production, though at a late stage in the negotiations her representatives offered, on conditions that were unacceptable to the others, to influence wheat sowings by "intense propaganda," restriction of loans for wheat planting, and "ample credit facilities" for purchase of seed of other cereals. Eventually she justified her failure to do even this, and her shipping beyond the quota limits, on the ground that Canada and the United States had previously broken their alleged commitments to reduce their sown acreage by 15 per cent.⁸⁵ Negotiations dragged on until Argentine sowing was

⁸⁵ Details of these protracted negotiations, from April into July, are not available to us. Failure to reach agreement was publicly admitted on July 17, 1934, through the publication of a diplomatically worded letter (dated July 13) from the chairman of the wheat advisory committee (Ambassador Bingham) to its secretary. *The Review of the River Plate* on July 20 published the translation of a public statement by the Argentine Minister of Agriculture in which his viewpoint was set forth for the Argentine public. Representatives of other countries regarded this as highly partisan.

largely completed, but competition of linseed with wheat served to some extent to hold wheat acreage in check.

We consider it probable that, in the four overseas exporting countries as a group, wheat acreage and production in 1934 were a little smaller than they would have been in the absence of the international agreement. Most of these reductions, however, were due to adverse weather in North America and Australia, and to competition of other crops in Australia, Canada, and Argentina.

Of the importing countries signatory to the agreement, France alone made considerable modifications in her wheat policy in 1933-34, under the joint influence of internal considerations and her international commitments. The rate of milling extraction was fixed so as to induce liberal use of domestic wheat for given quantities of flour. The government paid premiums for denaturing wheat and thus diverted sizable amounts to feed use. The export bounty was withdrawn late in 1933 and government financing of wheat storage enlarged. These steps substantially enlarged domestic use and probably held down exports of French wheat; but they did not open her market to foreign wheats or prevent the French carry-over from rising to a very high peak.

France also passed legislation restricting wheat acreage, but too late to have consequential effects; and both France and Italy conducted propaganda to discourage increased sowings to wheat. These actions probably contributed very little to the reported reduction of acreage (about 3 per cent) between 1933 and 1934. Variations of some such amount, from one year to the next, frequently occur. The reported reduction in Germany's acreage, about 5 per cent, may be credited largely to unfavorable weather. In most of the other signatory im-

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porting countries, and in Poland (a net exporter) as well, slight increases in wheat acreage appear to have occurred. In practically all the European importing countries that were not parties to the agreement, wheat acreage increased, in no case by large absolute amounts but in two, Norway and the Irish Free State, by large percentages. The net effect on European acreage or production for 1934 was so slight as to be entirely obscured by yields per acre.

As we have seen, the commitments of signatory importing countries regarding reduction of import tariffs and moderation of other barriers to wheat imports did not become effective. On the whole, such changes as were made in 1933-34 tended to raise such barriers in Europe higher than ever before. Exclusive of French imports from her North African colonies, net imports of continental Europe, ex-Russia, in 1933-34 fell below 100 million bushels—an extraordinarily low figure.

THE SECOND YEAR OF THE AGREEMENT

Experience under the agreement during the first year disappointed the hopes of its supporters at almost every point—current enhancement of wheat prices, compliance with export quotas under strain, adjustability of the agreement in operation, reduction of trade barriers, and influence on wheat acreage and production for 1934. Means of strengthening the agreement were devised and won support from most participating countries, but failed of adoption when one essential participant would not accept them. Some regarded these setbacks merely as inevitable in a first attempt—the sort of experience on which ultimate success will be built. Others regarded them as confirming earlier views that the task could not be done.

When the new crop year opened, no agreement had been reached on modification of the tentative export quotas for 1934-35, and there were no commitments regarding continuation of acreage or production restraints by exporting countries. While prices were rising under the influence of very bad crop news from North America, some urged that nature had corrected the situation in even less time than had been figured on, and that the export control contemplated for 1934-35 was no longer needed.³⁶ Recent estimates of the crops of the four chief exporting countries differ little from those held during the summer, when the optimists thought that by August 1935 the surplus world stocks would be used up. These views had such influence that, when the advisory committee met in August 1934, it was agreed to postpone revision of export quotas for 1934-35; but proposals for making the agreement effective were agreed upon, subject to ratification by the signatory governments.

When the advisory committee assembled in Budapest late in November, however, world wheat prices had slumped instead of continuing to advance (see chart on page 327. Crops of importing countries were estimated higher than during the summer; and with large carry-overs in continental Europe, the prospects were that her imports in 1934-35 would not much exceed the very low imports of 1933-34. All recognized that a material reduction in world surplus carry-over, not its elimination, was the most that could reasonably be hoped for, as the committee's secretariat had fore-

³⁶ Sir Herbert Robson took this position in a letter to the *London Times*, July 19, 1934, following an article in the *Times* of July 18 in which the need of continuing and perfecting the agreement was stressed. Secretary Cairns joined issue with Sir Herbert in a letter published in the *Times* of July 23.

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cast in August. Hence earnest efforts were made to reach not only export quotas for 1934-35, but also agreement on restricting acreage for 1935 to the level of 1934, perfecting the export arrangement in important details so as to make it more flexible and workable, and extending the agreement for two more years. Substantial progress toward general agreement was reached, but again Argentina held back. Her representative refused to accept the draft proposal for 1935 acreage limitation, on the ground that the basis suggested was unfair to his country, and rejected the proposed export quotas on the ground that acreage reduction had failed in 1934. Consequently, decisions on other points had to be deferred. Compromises had not been worked out when the session ended on December 1.

When representatives of the four overseas exporting countries next met, in London on March 6, 1935, Argentina's position was unchanged. Thus the agreement remains virtually inoperative in 1934-35 and prospects for extending the present agreement are negligible. The wheat advisory committee and its secretariat are, however, being continued. Attempts to reach another "world wheat agreement" may be made on the basis of experience gained in the past two years, if and when exporting and importing countries again face such a *combination of circumstances as they did in 1932 and 1933*. The real potentialities of the device in operation, for either good or ill, largely remain to be demonstrated.

CHAPTER XI
EARLY RESULTS OF AAA WHEAT
OPERATIONS

We can now summarize certain results of the wheat program in most of the first two years of the AAA. For some of these a brief résumé will suffice, either because they have been presented more at length in earlier chapters or because little comment is needed. These we shall pass in review before turning to the more difficult task of analyzing others, of which the outcome itself is not clear-cut or for which the responsibility of the AAA must be segregated from other factors in the same result.

SUMMARY OBSERVATIONS

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

The *international wheat agreement* gravely disappointed high hopes. Whatever may have been its influence on the course of wheat developments, it made no appreciable contribution toward solving the world wheat problem. Efforts to strengthen the agreement in 1933-34 were in vain; and in 1934-35, with world crops and sur-

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plus stocks reduced by natural forces, attempts to make it effective and to extend it were unsuccessful.

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

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

Regulation of futures trading in grain was instituted after the severe collapse of speculative markets in July 1933, continued for several months thereafter, and later embodied in the grain exchange code. Its effects, and those of other codes bearing on wheat, cannot yet be clearly seen; but they have comparatively little bearing on the wheat situation as a whole.

The *domestic wheat adjustment program*, by all odds the dominant part of the AAA's wheat plan, was successfully launched and safely guided through its trou-

blous early stages. Complications, difficulties, and delays proved far greater than most sponsors of the scheme had anticipated; but in spite of these, the administrative achievement surprised many who had expected the task to prove almost or quite impossible.

The sign-up did not reach the maximum officially desired, yet wheat growers representing roughly three-fourths of the wheat acreage and production in the base periods chosen signed two-year contracts to reduce their sown acreage for 1934 and 1935 by not more than 20 per cent of their approved base acreage. For the most part this sign-up was obtained through the offer of adjustment payments, and "educational" efforts in which explanations and mild propaganda were combined; but in various sections farmers themselves brought a good deal of pressure to bear in order to secure a larger sign-up.

A considerable "bureaucracy" was built up, yet a considerable degree of decentralization of administration was achieved. Heavy drafts were made upon the time and energy of the extension service—federal, state, and county—which was enlarged for the purpose. This work seriously interfered with regular extension programs, yet it had incidental value apart from the wheat program and often put county agents in a stronger position for their regular duties. Local administration through associations and committees of growers proved a cardinal feature of the wheat plan, as its framers had hoped, though some of the larger hopes remain to be fulfilled. Checking of compliance with contracts, despite unexpected complications and delays, was carried out with substantial effectiveness, though under conditions that did not put it to a severe test in 1934.

Adjustment payments to wheat growers, not quite 100 million dollars in the first year, fell far below early

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optimistic estimates by proponents of the plan and were distributed far more slowly than had been planned or than growers had been led to expect. They sufficed as intended, however, to induce a large sign-up, improve the financial position of the recipients, contribute to business recovery and social stability in major wheat sections, and attach co-operating growers to the program. The constitutionality of the processing tax was sustained by a decision in a federal district court in Massachusetts in October 1934, in a cotton case, but has not yet been passed upon in the higher courts. The wheat taxes proved collectible, with apparently no extensive evasion; and collections have thus far been ample to finance commitments under the program, including costs of administration running to several million dollars a year.

More fundamental questions remain: What adjustment of wheat acreage and production has the AAA achieved through its adjustment plan? What have been its effects on wheat consumption, exports, the "surplus," and carry-overs? What influence has the plan in operation had on prices of wheat, flour, and bread? What financial gain has it brought to wheat growers and at what cost to wheat consumers and others? To these we now turn.

REDUCTION OF ACREAGE AND OUTPUT

Standing official estimates of acreage and production in 1934, with significant comparisons, are shown below, in millions of acres and bushels:

Period	Sown Acreage	Harvested Acreage	Pro- duction
1928-32 average	67.1	59.9	860
1930-32 average	65.9	59.0	855
1933	67.0	47.9	529
1934	60.4	42.2	496

The reduction in sown acreage for the crop of 1934 was only about 8.4 per cent of the 1930-32 average as compared with the AAA goal of 15 per cent reduction, despite the fact that adverse weather materially reduced seeding of spring wheat. Reduction in harvested acreage and production, however, substantially exceeded the goal set. The important question is: How much of these reductions were due to the AAA? To answer this question requires estimation of what acreage and production would have been in the absence of any adjustment program.¹

Higher prices before seeding for the 1934 crop, attributable mainly to dollar depreciation and the short crop of 1933, would have tended to increase plantings for the 1934 crop. Conditions for seeding wheat, which often significantly affect acreage sown, were more favorable than in the preceding year in several important hard winter wheat states, but much less favorable in leading spring wheat states. In the principal soft winter wheat states, poor crops of feed grains in 1933 made for increased wheat acreage in 1934, while in Southern states release of land from cotton and tobacco may have made for some increase in wheat acreage. Taking account of these and other factors including acreage trends, we have made estimates, state by state, of the acreage that would have been sown to wheat if there had been no wheat program. Summarized by groups of states,² these estimates are shown in the third column in the next tabulation, in thousands of acres, with comparative figures for the 1930-32 average and for 1933 and 1934.

¹ Our estimates were made by Alan MacLeod in consultation with the author.

² For states in each group, see Table III, p. 448.

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The first column in the tabulation on page 350 shows the difference between these estimates and the reported acreage sown for 1934.

Group	1930-32 Average	1933 Actual	1934 If no AAA	1934 Actual
A	26,028	27,197	28,705	26,028
B	20,077	21,670	17,850	17,187
C	5,664	6,612	5,366	4,905
D-1	8,093	7,943	8,310	8,452
D-2	3,460	3,547	3,656	3,799
All groups	65,958	66,969	63,887	60,371

We infer that in the states producing chiefly hard red winter wheat (Group A) sown acreage was reduced some 9 or 10 per cent by the AAA program. In the spring wheat states (Group B) we attribute most of the reduction from the base acreage to unfavorable seeding conditions. In the Pacific and tributary states (Group C), where high figures for 1933 reflect chiefly heavy replanting of abandoned winter wheat, part of the reduction from the base period was due to unfavorable seeding conditions in some important states, but we attribute about 8 per cent to the AAA program. In these three groups of states the sign-up under the program was high. It was much lower in the Mid-Western soft winter wheat states (Group D-1) and comparatively small in other Eastern and Southern states (Group D-2). In these two groups of states we estimate that sown acreage would have been larger in 1934 than in the base period in the absence of the AAA, but that the program itself led to some further increase by non-signers as a group.

Our detailed estimates point to a net reduction in sown acreage attributable to the AAA program amount-

ing to 3,516,000 acres—between 5 and 6 per cent of the acreage in 1930-32 or 1933. Using these figures state by state and corresponding official estimates of percentage abandonment, we have derived estimates of the net change in harvested acreage due to the AAA; and using these and corresponding official estimates of state average yields per harvested acre, we have derived estimates of the net change in 1934 wheat production due to the AAA. These estimates of net changes are summarized below, in thousands of acres and bushels:

Group	Acreage Seeded	Acreage Harvested	Pro- duction
A	-2,677	-1,892	-17,504
B	- 663	- 282	- 2,264
C	- 461	- 422	- 7,812
D-1	+ 142	+ 120	+ 1,827
D-2	+ 143	+ 138	+ 1,504
All groups...	-3,516	-2,338	-24,249

These estimates are admittedly subject to error. They make no allowance for the slight amount of elimination due to enforcement of contract terms. Those for the soft winter wheat states we deem less trustworthy than the others. The net increases shown for Groups D-1 and D-2 may be too high, and conceivably there too a net decrease may have occurred because of the program. Though the estimates were made without conscious bias, we are disposed to conclude that the net reduction in the 1934 crop due to the AAA program was at least 25 million bushels but not so much as 35 million; and for a round figure we venture to use 30 million rather than 25.³

³ *AAA Press Release No. 1836-35*, Mar. 27, 1935, says: "... drought damage to the wheat crop last year is estimated to have reduced the production by about 300 million bushels, in addition to the reduction of

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Of the net reduction in the 1934 crop compared with averages for 1930-32 or 1928-32 (about 360 million bushels), less than 10 per cent and perhaps as little as 7 per cent can properly be ascribed to the AAA program. The reduction was primarily due to adverse weather, which reduced sowings of spring wheat, caused heavy abandonment of winter and spring wheat, and resulted in low yields per harvested acre in most of the states where a large sign-up was secured. Had average weather prevailed, the AAA program might have resulted in crop reductions double or treble the figures we have reached. Had very favorable weather prevailed in areas of high sign-up, the crop of the contract signers might have been reduced by as much as 100 million bushels, but this would have been partly offset by larger production by non-signers than in the base period.

We have not succeeded in making satisfactory estimates of 1934 acreage and production subdivided between contract signers and non-signers, for which no data are available. Because of imperfect adjustments of data submitted on applications for contracts, the base period acreage and production of signers as a group are probably somewhat above the truth, and the differences between these and the total base acreage and production are somewhat below the true figures for non-signers. One cannot safely assume that signers as a group reduced their sown acreage by precisely 15 per cent from their base acreage; in most regions their reduction probably exceeded this, but it was probably less than 15 per

about 60 million bushels brought about by the AAA wheat program." We were not able to get such an estimate in time to check the method used against our own; but we infer that it rests in part on attributing to the program some reductions which the drought would in any case have brought about.

cent in the hard winter wheat states, where seeding was largely done before adjustments were made.

If we disregard these difficulties and assume that in the aggregate contract signers reduced their sown acreage by 15 per cent, we derive the estimates shown in the accompanying table. While we attach no great credence

TENTATIVE ESTIMATES OF NET CHANGE FROM BASE PERIOD
ACREAGE AND PRODUCTION, 1934

Group	Acres Seeded (In thousands)		Production (In thousands of bushels)	
	Signers	Others	Signers	Others
A.....	-3,686	+1,050	-173,650	-20,981
B.....	-3,271	+ 381	-114,940	- 3,416
C.....	- 871	+ 112	- 20,384	- 676
D-1.....	- 520	+ 879	- 20,300	- 1,210
D-2.....	- 137	+ 476	- 4,060	+ 183
All groups.....	-8,485	+2,898	-333,334	-26,100

to the subdivision of figures thus reached, there is no question that reductions in sown acreage and production by contract signers were partially offset by increases made by those who did not sign up.

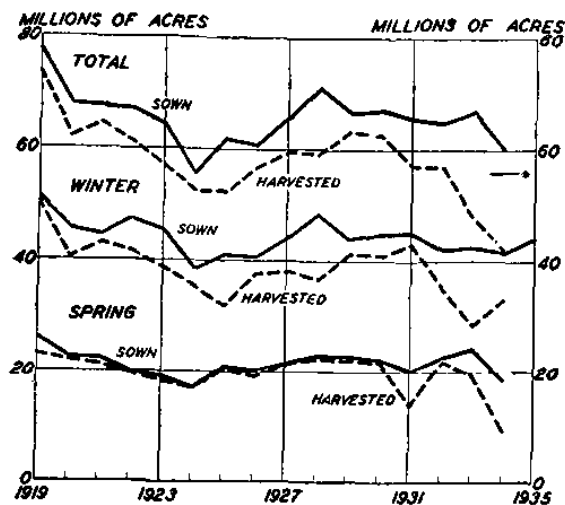
Most of these increases, however, we cannot attribute to the stimulus afforded by the program. The program tended to attract those who were in any case intending to plant no more than 85 per cent of their base acreage, and for these the adjustment payments were virtually a windfall; the program tended to repel those who planned to maintain or expand their acreage, and many of these stayed out and merely did as they had planned. West of the Mississippi, the program seems to have had little influence on increasing the acreage planted for 1934 by non-signers. East of the Missis-

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sippi, however, possibly as much as half of the increase in acreage and production of non-signers represented response to prospects for reduction by contract signers.

The estimates from which the last tabulation was derived lead to the further rough conclusion that, of the 1934 crop of nearly 500 million bushels, about 300

WHEAT ACREAGE SOWN AND HARVESTED, 1919-34*



* Latest available estimates of Bureau of Agricultural Economics, given in Table I, p. 445. The horizontal line marked with an asterisk indicates 85 per cent of the average sown acreage for the crops of 1930-32. The estimate of winter wheat acreage sown for 1935 is preliminary.

million bushels were produced by contract signers and nearly 200 million by non-signers. Whereas in terms of base period production contract signers represented some 75 per cent of the total, in terms of the 1934 crop they represented only about 60 per cent. Low yields in important areas of large sign-up—an accident of nature—contributed heavily to this result.

The effect of the AAA program on acreage and production for 1935 cannot yet be stated, and only a few elements in the outlook are known. Winter wheat sow-

ings are officially estimated at 44.3 million acres or slightly *above* the 1930-32 average (see chart on page 353). Since contract signers were called upon to hold their sown acreage down to 90 per cent of this base acreage (typically the average for 1930-32), one may account for this large sown area mainly on two grounds: first, those under contract have sown more acres than their contracts authorize, in many cases with permission granted in drought areas to plant wheat for winter pasture or hay not to be harvested for grain; second, those not under contract have increased their acreage further under the stimulus of higher prices. Under the relaxations authorized in the early spring of 1935, acreage sown is likely to be harvested so far as its condition permits. In total, the 1935 crop now (April 15, 1935) bids fair to differ little from what it would have been in the absence of the AAA.⁴

WHEAT DISPOSITION AND CARRY-OVERS

AAA operations have had some effects on several items of wheat disposition. Here, too, precise estimation is impossible, but some approximations can be offered.

Seed use was reduced below what otherwise would have been used, to the extent of 4.5 to 5 million bushels in 1933-34;⁵ for 1934-35 the reduction will be slight.

Feed use was enlarged by AAA operations in 1933-34, probably to the extent of 7 million bushels. Most of the 18.2 million bushels distributed by the Federal Sur-

⁴The 1935 corn-hog contract does not restrict signers in their *wheat* plantings, as the 1934 contract did, and this fact may have slightly increased spring wheat plantings in 1935.

⁵Roughly, 1.25 bushels per acre on 3,516,000 acres gives 4.4 million bushels. Official estimates show a total reduction of about 6 million bushels from the average for 1930-32 crops, but part of this was due to reductions in spring wheat sowings caused by drought.

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plus Relief Corporation for use as feed was a net addition to what would otherwise have been used by those to whom it was given; but higher prices maintained by export operations in the Pacific Northwest somewhat reduced wheat feeding there. In 1934-35 such crop reduction as the program brought in 1934 has tended to restrict feed use of wheat, but such reduction can hardly exceed 6 or 8 million bushels. The AAA plan for diverting Pacific Northwest surplus wheat to feed will at most do little toward offsetting this reduction.

Net exports in 1933-34 were probably 10 to 15 million bushels larger than they would have been in the absence of the program, chiefly because shipments under subsidy from the Pacific Northwest (22.6 million bushels to June 30) exceeded by some such amount what would otherwise have been moved into export from that region. Shipments of subsidized exports in the summer and autumn of 1934, nearly 6 million bushels, largely represent a net addition to our exports for 1934-35. In the absence of the AAA program, United States exports from other sections would have been only slightly larger than they actually were, from the spring of 1933 onward. Imports in 1934-35, however, may be somewhat larger than they would have been in the absence of AAA crop curtailment in 1934. Present indications (March 31, 1935) are that we shall be net importers in 1934-35 to the extent of a few million bushels; in the absence of the two-year wheat program we should probably have been net importers to a slightly smaller extent. In all, from January 1933 to June 1935, we suspect that AAA operations will have increased our net exports by 5 to 10 million bushels.

On *mill consumption* and *food use* of wheat the effects are even more difficult to estimate. Millings were

increased materially in the spring of 1933, and reduced in the summer and autumn following, because of trade response to the new Administration's utterances and activities and to prospects for higher wheat prices due to these and bad crop prospects. Such anticipatory grinding may have amounted to some 12 to 18 million bushels of wheat; and to some such extent the wheat grain carry-over in 1933 may have been reduced and, for this reason alone, mill grindings in 1933-34 as well.⁶ Only part of this, however, was attributable to anticipation and application of the AAA program as such.

The more important question is: How much was flour *consumption* reduced in 1933-34 by the AAA program in operation? Even the extent of the change in flour consumption cannot be precisely stated. Statistics of flour production are incomplete, and estimates to complete them cannot be accurately made. Data on flour exports and on shipments to Alaska, Hawaii, and Puerto Rico are satisfactory, but data on flour stocks are very inadequate. Hence competent students differ in their estimates of flour production, disappearance (production less shipments out of the country), and consumption.

Three estimates of "domestic disappearance" or "net retention" are shown in the accompanying table. These estimates agree in reflecting declines in flour disappearance during the years 1929-34, and all three authorities agree that flour *consumption* has declined in the aggregate and even more per capita during the depression years. Taking as reasonable approximations Newell's estimates, which generally fall between the

⁶ Newell, in the article cited third in note *a* on p. 357, estimates that flour stocks in all positions increased by 3 million barrels in 1932-33. Our figures imply a range from under 3 up toward 4 million barrels.

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ESTIMATES OF DOMESTIC DISAPPEARANCE OF FLOUR, 1929-34*
(In millions of barrels)

Year	Domestic Disappearance			Changes in Stocks (Newell)	Calculated Consumption (Newell)
	Bureau of Agricultural Economics	Food Research Institute	Martin E. Newell		
1928-29.....	110.4	110.0	109.7	+0.8	108.9
1929-30.....	109.3	108.8	108.7	-0.2	108.9
1930-31.....	107.2	105.3	106.5	-2.2	108.7
1931-32.....	107.8	104.5	106.1	+0.5	105.6
1932-33.....	110.7	106.0	107.6	+3.0	104.6
1933-34.....	102.7	96.6	99.3	-3.0	102.3

* From *World Wheat Prospects*, U. S. Bureau of Agricultural Economics, September 1934, p. 15; *Wheat Studies of the Food Research Institute*, December 1934, Vol. XI, p. 190; *Northwestern Miller*, Oct. 31, 1934, pp. 277, 296. For better comparison, we have adjusted the Bureau of Agricultural Economics figures to eliminate such changes in stocks as its table covers.

others, we also show his estimates of changes in flour stocks in all positions and of consumption calculated therefrom. These figures point to a reduction in consumption of 2.3 million barrels, or 2.2 per cent, between 1932-33 and 1933-34.⁷

With some approach to assurance, we may say that flour consumption (not mere "disappearance") was probably reduced in 1933-34 by 2 to 3 per cent per capita below that of 1932-33, in the aggregate equivalent to some 10 to 15 million bushels of wheat. The factors that accounted for decline in per capita consumption during the three preceding years—chiefly "less waste, less work, less money"—had largely spent their force, though Red Cross distribution of flour in 1932-33

⁷ The Food Research Institute's calculations lead it to figures varying from 1.8 to 2.8 per cent, but they express the opinion that "the true measure lies between 2 and 3 per cent rather than between 1 and 2 per cent," and "can hardly have been as large as 4 per cent." Newell estimated the decline in per capita terms at 2.8 per cent.

may have slightly held up total consumption then. Larger employment and higher payrolls in 1933-34 should have helped to increase flour consumption. Against this, however, was a substantial increase in prices of flour and bread, of which something like one-third to one-half may be attributed to the processing tax (see chart on page 363). Altogether we are inclined to infer that domestic food consumption of wheat was reduced by the AAA program in 1933-34, notably through the processing tax, by at least 5 million bushels but not more than 10 million.⁸ The reduction in 1934-35, as compared with what would have been consumed in the absence of any AAA program, will probably fall within the same range. But we do not pretend that these inferences are closely accurate.

As one works through such estimates, what emerges is the comparative insignificance of even the gross changes in wheat disposition that can reasonably be attributed to the AAA program; and, as one sums them up, some neutralize others. They lead to the striking conclusion that the aggregate disposition of United States wheat in the first two years of the AAA will not appreciably differ from the total that would have been disposed of in these years had it not been created.

On our wheat *carry-overs* also, AAA operations have had slight influence. Probably the wheat grain carry-over of 1933 was slightly less because of heavy milling in the spring induced partly by anticipation of the processing tax, but total stocks of wheat and flour combined were not appreciably altered.

The carry-over on July 1, 1934, now estimated at

⁸ Newell, considering that other factors offset one another, attributes the whole reduction, which he puts at nearly 3 million barrels of flour, to the processing tax.

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290 million bushels, would not have exceeded 300 million in the absence of any AAA program. The 1935 carry-over is likely to fall somewhere between 130 and 160 million bushels. In the absence of AAA operations it might have been 20 to 25 million bushels larger than it will be; for against a slight reduction in 1934 carry-over and a crop reduction of perhaps 30 million bushels we must count small reductions in food and seed use, and some increase in imports for feed and food. The notable reduction in carry-over during the past two years, for which the AAA adjustment program is often given great credit (or blame), is properly attributable almost wholly to accidents of nature which resulted in two very short wheat crops in succession.

PRICES OF WHEAT, FLOUR, AND BREAD

The foregoing discussion of the effects of the AAA program on wheat production and disposition partly depends upon but mainly leads up to consideration of its effects on prices of wheat, flour, and bread.⁹

The course of wheat prices has several times been affected by the AAA but, outside the Pacific Northwest, to only a limited extent and for limited periods. Anticipation of the passage of the act and the launching of measures under it contributed something to the striking advance in wheat prices in April-July 1933. The major factors in that extraordinary bull market, however, were maturing prospects for very short crops in the United States and Canada, and emphatic assertions of gov-

⁹ This subject is discussed in *Agricultural Adjustment, AAA, 1934*, pp. 219-34. Our independent analysis is broadly in harmony with that preliminary analysis (early in 1934) except on one point. We do not believe, as they tentatively concluded, "that because of the wheat program . . . the farm price of wheat . . . has been about 10 or 15 cents per bushel higher than it would otherwise have been."

ernment policy—backed by some specific moves—to raise the general level of prices. Among the minor factors in stimulating speculative enthusiasm were the indications of business improvement, temporarily enlarged milling demand, and possibilities that the government might do something specifically to raise wheat prices. Just how much the AAA potentialities and initial moves actually counted in this, no one can safely assert; but their influence on the advance, and, in turn, their responsibility for the market collapse, appear to us distinctly small. Of the various announcements relating to the wheat program in this period, only Secretary Wallace's statement of July 18 seems clearly to have had appreciable market influence.

The grain exchange regulations adopted after the market break, partly under pressure from the AAA, somewhat modified the course of wheat prices in various ways; and limits on daily fluctuations and fixed minimum prices were reached several times in the weeks beginning July 24 (see chart on page 207). In the September-November price movements in this country a modified appraisal of world wheat conditions played a considerable part, but the dominating factors in price fluctuations were changing appraisals of prospects for currency inflation and other Administration moves. Initiation of surplus-relief purchases brought price recovery here a little earlier and made it sharper, and for a time market prices were somewhat higher than they would have been in the absence of such purchases and expectations of more. But even these had, for the most part, only transitory influence; net purchases of 12 million bushels for relief disposition could not have exerted a powerful influence in raising the level of wheat prices.

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Anticipation of the Pacific Northwest export arrangement doubtless helped support market prices in that area for some weeks before the export association began purchasing. From late October till early May its purchases supported prices of *export* wheats in that region by something like 6 to 8 cents a bushel, and moderated their fluctuations as well; and the net effect on the seasonal average farm price of wheat in that region may have been to raise it 5 or 6 cents a bushel above what it would otherwise have been. (See Chapter IX.)

The effects of the AAA on *wheat price levels*, generally, were much slighter than on the course of wheat prices. Outstanding was the fact that Chicago wheat prices ruled far above Liverpool prices throughout 1933-34. For this the prime explanation was that American holders of wheat, for reasons in which the AAA figured very slightly, were not willing to sell at prices as low as Argentine and other exporters would accept. This amply explains why our exports during the year consisted almost wholly of flour milled in bond and subsidized exports from the Pacific Northwest. Even if, in the absence of that subsidy, 10 or 15 million bushels more had moved from that area into Eastern markets, these could hardly have lowered the average market price of wheat more than 1 or 2 cents a bushel. In view of our analysis of the effects of AAA operations on wheat disposition, we believe that the maximum price effect rightly to be ascribed to all AAA operations combined was to hold the average price of wheat in 1933-34 some 2 or 3 cents a bushel above what it would otherwise have been; and even this cannot be demonstrated.

Thus far in 1934-35 neither the course nor the level of wheat prices has been significantly affected by AAA operations. Slight reductions in the 1934 carry-over and

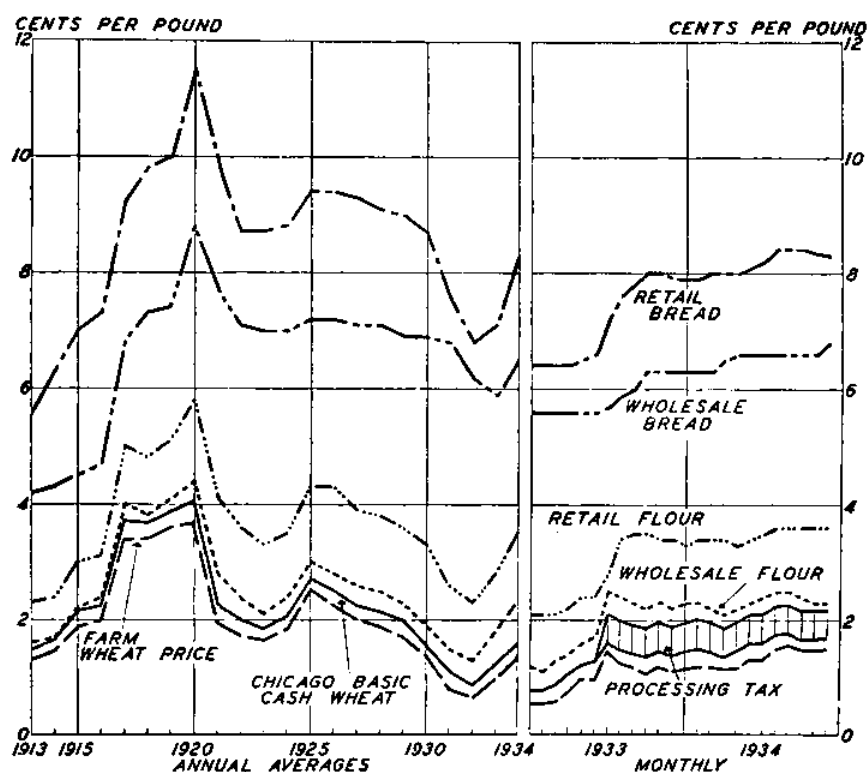
crop, partially offset by reductions chiefly in food use, must have had slight influence on wheat prices in the face of two successive years of short crops, a tariff rate substantially effective, and the persistent tendency of American wheat interests to hold wheat firmly.¹⁰ In the absence of drought, the AAA program would have led to greater reduction in the 1934 crop and might well have exerted more influence on the level of wheat prices; but these potentialities were not tested.

If this reasoning is correct, the only significant influence of the AAA program on prices of flour and bread was exerted through the processing tax (except in the Pacific Northwest, where surplus removal policies played a secondary role). The extent of this influence is roughly indicated in the right-hand portion of the accompanying chart, with annual averages for 1933-34 shown at the left for comparison. Here we have expressed all prices in terms of cents per pound of *bread*. The two lowest curves show the average farm price and the most representative single market price series—the lowest priced wheat deliverable on futures contracts in Chicago without discount or premium. These are here expressed in cents per pound of wheat, since the flour from about a pound of wheat is used in making a pound of bread. The shaded area shows the addition of the processing tax to the Chicago price—at 30 cents a bushel, equivalent to half a cent per pound of bread. Since about 0.71

¹⁰ Possibly some price supporting influence should be credited to the existence of an acreage restriction policy and the restrictions imposed on acreage for the 1935 crop. We know of no basis for appraising this influence. We venture to consider it negligible for 1934-35, since acreage sown to winter wheat was not significantly curtailed, and acreage restrictions were relaxed before crop prospects were materially affecting market prices. Hope of surplus-removal operations in the Pacific Northwest may have temporarily supported prices of export-type wheats there; but since no such operations were undertaken, it is doubtful whether the level of prices for the year will have been materially affected.

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AVERAGE PRICES OF BREAD, FLOUR, AND WHEAT, 1913-34^a
With Monthly Prices, 1933-34^a



^a Based on data in Tables XIV and XV, pp. 457-58. One may roughly assume that one pound of wheat (60 pounds per bushel) or 0.71 pounds of flour (implying 4.6 bushels of wheat per barrel of flour) are required to yield one pound of bread. For better comparison with bread prices in this chart, wheat prices given in Tables XIV and XV were divided by 60 and flour prices were multiplied by 0.71. The adjusted flour prices here shown therefore represent the prices of approximately the amount of flour required to yield a pound of bread.

of a pound of flour is used in making a pound of bread, the flour price series plotted represents 71 per cent of reported monthly prices of flour.

Though AAA operations have had at times some influence on the course of wheat prices, both the course and the level of these prices were largely the result of other influences already discussed. Prices of flour and

bread rose in 1933 and again in 1934, under the joint influence of these forces, the processing tax, and other factors. It will be observed that the wholesale price of flour follows fairly closely the course of Chicago basic cash prices of wheat with the processing tax added. The wholesale price of bread is less sensitive, partly because wholesale bakers stock up with flour well in advance. Retail prices of both bread and flour rose during 1933 and 1934 by more than the advance in wholesale flour prices. Spreads between the retail and wholesale prices, however, had been exceptionally low in 1932 and early 1933, and not much of the widening of these spreads can be attributed to the indirect influence of the processing tax.

Of the net increase in retail bread prices, which from early 1933 to the end of 1934 appear to have risen about 2 cents a pound, the processing tax was responsible for at least one-fourth and possibly a third; the advance in wheat prices, for one-third or more; and other factors, including costs of other ingredients, for about another third. Of the smaller increase in retail flour prices, higher wheat prices account for at least one-half, the processing tax for at least one-third, and other factors for a smaller amount. For the still smaller increase in wholesale prices of flour, higher wheat prices account for somewhat more than half and the processing tax for somewhat less than half.

The available data, including those here plotted, are not sufficiently reliable or comparable to warrant refined calculations or precise inferences. We think it safe to infer that, in consequence of the wheat tax, consumers of flour and bread have paid somewhat more than the total taxes collected (net), chiefly because of some tendency to raise retailers' margins as wholesale prices ad-

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vance. The burden of the processing tax on consumers, at the rate thus far in effect, may be roughly 130 to 150 million dollars a year; with so many families on relief rolls, however, part of this is doubtless borne by public treasuries through higher relief costs. A small additional but invisible burden of the processing tax may be attributed to the small reduction in consumption of wheat products to which it leads, for this may entail additional expense for purchase of alternative foodstuffs to make up the deficiency, or else less adequate nourishment.

Retail prices of bread and flour late in 1934 were considerably higher than in 1931, 1932, and the early months of 1933; yet in the longer perspective of the first post-war decade they do not look high. It is striking to note, however, that whereas farm prices of wheat late in 1934 averaged about the same as in 1913, retail bread prices were higher than in 1913 by between 2 and 3 cents a pound. Not over one-fourth of this can be attributed to the processing tax. The bread of 1934, as the consumer got it, was different from the bread of 1913. Most of the higher price reflects higher bakery costs, including costs of other ingredients and higher distribution costs in part for wrapping, delivery, and other services.

INCOME OF WHEAT GROWERS

Wheat growers enjoyed a striking increase in income in 1933-34, as compared with either of the two preceding years. Among the factors responsible for this outcome three deserve special attention: the 1933 drought, the new Administration's monetary policy, and the AAA.

In terms of "farm value" (production times average farm price), the short wheat crop of 1933 was worth

more than the big crop of 1931 and much more than the moderate crop of 1932.¹¹ The same was true of estimated *cash* income from wheat production. Had the crop shortage been the only factor at work, reduction in output and farm sales volume in 1933-34 might, in view of the huge carry-over, have fully offset the effect of the higher wheat prices attributable to the 1933 drought. The new monetary policy, however, was directly and indirectly responsible for something like half of the 35-cent increase in the weighted average farm price from 37.9 cents a bushel in 1932-33 to 73.3 cents in 1933-34. On this account, even in the absence of the AAA, farm sales returns from wheat would have materially exceeded those from the larger crop of 1932.¹²

Some part of the enhancement of wheat prices and farm sales returns was due to surplus removal operations in the Pacific Northwest, and a little to market stabilization operations in the fall of 1933 and speculative strength based on the acreage reduction program for 1934. The extent of these contributions, however, is easily exaggerated. The export subsidy cost somewhat reduced benefit payments; stabilization relief operations were of slight importance except for a brief period; and the trade expected the reduction in 1934 output attributable to the AAA program to be very moderate, as the event proved. We venture the guess that these three factors combined added not over 20 or 25 million dollars net to wheat growers' total cash income for the year.

¹¹ As shown by the chart on p. 8, the farm value of the wheat crop was lower in 1932 than in any previous year since 1895.

¹² To some extent, of course, the wheat farmers' real gains from dollar depreciation were reduced by increased prices of goods he had to buy, in which dollar depreciation was no small factor. The money gains were larger because speculation, influenced by the monetary policy, supported wheat prices most when farmers were marketing heavily. See also Chap. X, p. 329.

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More than half of the increase in the wheat income of farmers in 1933-34 was due to AAA benefit payments, if one ignores the fact that only about two-thirds of the amount due had been paid before the end of the crop year. The cash income from wheat production is now estimated at 275.4 million dollars; to this, gross benefit payments of 98.6 million dollars¹³ added a supplement of about one-third. With these included, the cash income of wheat growers as such was over 90 per cent larger than at its lowest point in 1932-33. An increase from 195 million dollars in 1932-33 to 374 million in 1933-34 was most gratifying to wheat farmers, even though the latter figure was lower than in almost every year of the present century prior to 1931-32.

In 1934-35 some further increase is in prospect. Farm sales proceeds will exceed those of 1933-34, primarily because slight reductions in production and marketings will be more than counterbalanced by a 20 per cent increase in average farm prices (due mainly to a second short crop in succession, coupled with the fact that world wheat production was small). Also, benefit payments are expected to be slightly larger than in 1933-34. Taking the latter as an accrual basis, total cash income of wheat growers from wheat in 1934-35 may run close to 400 million dollars. This is more than double the corresponding figure for 1932-33; but it is only about one-half of what farmers averaged in the crop years 1924-25 to 1929-30 (805 million dollars), when they considered themselves underpaid.

The AAA can justly claim that it enhanced wheat growers' incomes by something like 120 million dollars

¹³ Here we may well use the gross figure, since the amounts deducted went mainly to wheat growers serving the production control associations. See Table VI, p. 451.

in 1933-34 and perhaps 100 million in 1934-35. As we have seen (page 163), the great bulk of these contributions went to growers in the major wheat states west of the Mississippi, and mainly through benefit payments except in the Pacific Northwest, where price raising through subsidized exports was also important. East of the Mississippi the substantial increase in cash income was due only in small part to benefit payments or to AAA operations in the Pacific Northwest, and predominantly to wheat price enhancement resulting chiefly from two years of severe drought in the West and from the effect of dollar depreciation.¹⁴ The gain to wheat growers as such overstates the net gain to farmers as a group, for the farm population as a whole must be paying some 30 to 40 million dollars a year on account of the processing tax on wheat.

¹⁴ We recognize that at numerous points in this chapter, the discussion necessarily falls short of being exhaustive or convincing to those who hold divergent views. On many of these points, difficulties inherent in the problem render it impossible to make the analysis conclusive. On some others, fuller treatment would carry us into technical matters that cannot well be treated here. It is important to bear in mind that the wheat program has thus far been carried into effect under conditions that were peculiar in many respects apart from the AAA itself, but also under the influence of deep-seated and persisting characteristics of the wheat market. Prominent among these were a complex and changing structure of wheat prices; the tendency of wheat farmers, dealers, and speculators to hold wheat firmly in the face of low export prices; and the consequent prevalence of prices above a liberal export basis even when supplies are more than ample for prospective domestic uses.

CHAPTER XII

ATTITUDES TOWARD THE WHEAT PROGRAM

Before considering the wheat adjustment plans that are now in the making, or attempting any appraisal of our own, it is pertinent to pass in review some indications of attitudes toward the wheat program as it has evolved, either as such or as part of the new agricultural policy.

IN GENERAL

It is too early to present any confident summary of general public opinion on the subject. It is probably safe to say that early in 1933 there was almost general agreement that something must be done for the farmers, and that farm prices and farm income must be raised; and the plight of wheat growers had been so well advertised that this opinion was most nearly crystallized as it pertained to them. There was widespread acceptance of the view that prompt and substantial improvement in farm income would speed national recovery. The country was evidently willing to have bold new experiments tried in this field, and has sympathetically awaited their proving. General repugnance to the idea of official measures to reduce or restrain agricultural output is often expressed, but the wheat program has involved no destruction such as aroused some public clamor when cotton was plowed under and young pigs were slaughtered by millions. The collection of processing taxes on wheat has thus far evoked no noteworthy protests from consumers. In the major wheat-growing sections, where benefit payments have flowed in liberally, public opinion has been very cordial toward the program. Generally,

however, its results to date have been more or less obscured by other influences, and it has won neither vigorous condemnation nor enthusiastic indorsement.

Nor has a body of opinion crystallized among thoughtful disinterested observers. Economists generally (other than agricultural economists¹) have been prone to condemn destruction of crops or livestock and restraints on acreage or production as shortsighted and uneconomic, and to urge that as a nation we can get richer only by producing more, not less. Many of them, who recognize that there may be "over-production" of individual commodities, have no faith in the ability of the government to improve upon the adjustments which economic forces tend to bring. Some, like Professor Sprague, have found the agricultural program broadly justified as an emergency move.² Some, like Colonel Ayres, have condemned it as "blockading the road to recovery, and distracting the efforts of the government and the energies of the people from the real and essential task that confronts them."³ The Swarthmore economists who early in 1934 wrote the introduction to a series of lectures on *America's Recovery Program* reached this adverse conclusion:

The dangers of this [agricultural] program are manifold. Reduction of acreage is difficult, if not impossible, to enforce. Graft, even under the most vigilant administration, is hardly to be avoided. The subsidy will establish vested interests which will not readily be dislodged. The plan moves in the direction of limiting agricultural production to domestic demand, thus sacrificing the foreign markets upon which a prosperous American agriculture

¹In the main, agricultural economists are identified with the state agricultural colleges, the U. S. Department of Agriculture, or other agencies that tend to have an agricultural viewpoint. Many of them are supporters of the wheat program, and most of those who are disposed to criticize are reluctant to say so in public.

²O. M. W. Sprague, *Recovery and Common Sense*, 1933, p. 5.

³Leonard P. Ayres, *The Economics of Recovery*, 1934, p. 90.

must necessarily depend. It is to be doubted whether it will raise the farmer's standard of living. His unit prices will be higher but his volume will be lower. Even though his money income may be increased, industrial tariffs and the NRA codes may so increase the prices of the goods which he must buy that his real income may decline.

. . . The stability which may be purchased through sabotage will be bought at too high a price. We cannot achieve a genuine prosperity through mutual frustration.⁴

Former President Hoover finds in the AAA programs a "challenge to liberty," and condemns restrictions on farm output as against the interests of farmers as well as the nation.⁵ But Norman Thomas, who has attacked the new agricultural policy on several grounds, finds it significant chiefly as reflecting upon the social order:

. . . No satirist ever penned such an indictment of a cruel and lunatic order of society as was written by the author of the Agricultural Adjustment Act in America who saw no way to restore a partial prosperity to farmers except to produce an artificial scarcity by paying agricultural producers from the proceeds of a tax on consumers to destroy the abundance of foodstuffs which men had struggled thousands upon thousands of years to be able to create. And this, be it remembered, in the midst of a cold and hungry world. The more sincerely one believes that such legislation was an emergency necessity the more terrible is the indictment of the civilization which brought it about.⁶

These, however, are scattered voices. Probably more representative is the position taken by the Commission of Inquiry into National Policy on International Economic Relations, in its report released late in November 1934. In the words prefacing its brief recommendations on agricultural policy, it stated:

The Commission recognizes the present necessity for funda-

⁴ Clair Wilcox, Herbert F. Fraser, and Patrick M. Malin (editors), *America's Recovery Program*, 1934, pp. 14-15.

⁵ Herbert Hoover, *The Challenge to Liberty*, 1934, pp. 85-88. See also his letter printed in *New York Times*, Mar. 24, 1935.

⁶ *The Choice Before Us*, 1934, pp. 5-7, 98-101.

mental readjustments in American agriculture, and feels that the policies now being applied by the Department of Agriculture should be continued long enough to determine their practical value.

The Commission's specific recommendations on agricultural policy seem not wholly consistent with this position, or with one another, and might command less general assent. Except for one that pertains primarily to cotton, these run:

a. We recommend the continuation of subsidies such as those provided under the present domestic allotment program as supplements to agricultural tariffs, which are likely to be ineffective. The Commission suggests subsidies only in this restricted sense and only to compensate agriculture for the effects of existing industrial tariffs.

b. Since any attempt to raise American agricultural prices, without differentiation between domestic and world prices, will stimulate foreign production to the detriment of the farmer's export market, all price-raising measures of this character should be discontinued at the earliest possible moment.

In effect, this seems to imply approval of benefit payments to wheat growers but disapproval of wheat acreage or production restrictions. In general, we think that not only the public at large, but disinterested and serious observers as well, have not reached any clear-cut convictions on the wheat program in operation.

In so far as Congress may be regarded as representing public opinion, it is clear that thus far its disposition has been to reinforce the Agricultural Adjustment Act, and moderately to expand rather than to curtail the powers and activities of the AAA; but the wheat program as such has given rise to no demand for important congressional action.

TRADE OPINION

The grain trade and milling industry have not fundamentally changed their attitude for two years, but have

modified it in some important respects. Broadly speaking, their position has been that they hope strongly for improvement in the wheat-growers' financial position and will co-operate in measures adopted with that end in view; but that they disbelieve generally in almost all plans proposed, have little or no faith in the efficacy of the adjustment measures, and fear adverse effects on their business operations.

While the voluntary domestic allotment plan was gaining headway, and when the bill embodying it was under consideration in December 1932, opinion in grain trade and milling circles was on the whole outspokenly against it, in the grain trade vehemently so. On December 1, the executive committee of the Millers National Federation adopted a resolution setting forth its general position in the following words:

The milling industry recognizes that there is an important and far-reaching agricultural problem which involves many difficult phases owing to the widespread diversity in types of farming, commodities produced, and regional advantages and disadvantages, and which affects adversely not only agriculture, but industry, finance, and commerce as well.

The present agricultural crisis is fundamentally a commodity crisis resulting from the accumulation of a surplus of agricultural products from previous crops, and impending additions to this surplus produced from excess acreage, which prevents the farmer from obtaining a remunerative price on either the domestic or export fractions of the crops. The immediate problem, therefore, reduces itself to the disposing of existing surpluses, and of providing means by which burdensome surpluses may be prevented in the future.

The milling industry conceives it to be its duty to call attention to defects or unsoundness in any plan which may be proposed, and to the adverse effects which certain proposals may have, not only upon the miller, but on the farmer and consumer. The milling industry, however, conceives it to be its duty to contribute to the fullest extent in its efforts to the finding of sound

means of solving both the immediate and the permanent agricultural problem.

The milling industry pledges its support to any sound measures which will promote the consumption and disposition of surplus agricultural products and which will prevent the accumulation of burdensome and unsalable surpluses in the future. For this purpose the industry offers its good offices to farm organizations and others directly interested in the solution of this problem to the end that a sound workable solution may be found.

Two weeks later, at hearings before the House Committee on Agriculture, Fred J. Lingham presented a report of the federation's committee on legislation in which, after quoting this resolution, the committee attacked the domestic allotment plan on ten stated grounds.⁷ In this brief against the proposal almost all the arguments that any one had yet thought of were marshalled. Among other things the plan was called impracticable, probably unconstitutional, and "fundamentally wrong from a national viewpoint." The statement was made that it would result "in a large increase in bureaucracy" and in "later legislation detrimental to the interests of farmers."⁸

More specifically, the committee argued that the plan in operation would fail to achieve the intended result of eliminating the wheat surplus because it would *increase* production and *curtail* consumption. Increase of production would occur because wheat growers would qualify for as large a "bonus" as possible and then raise as much additional wheat as possible at the non-bonus price, while other growers would turn to wheat. It would

⁷ 72 Cong. 2 sess., *Agricultural Adjustment Program*, Hearings before House Committee on Agriculture, Ser. M, pp. 78-121.

⁸ The final paragraph (No. 147) of the lengthy report quoted the vigorous sentence from President Hoover's address accepting the nomination for the presidency on Aug. 11, 1932 which we have quoted on p. 33.

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reduce consumption because such "an unprecedented sales tax on a basic food and clothing necessity of life" would be resented by consumers, lead to resort to substitutes, and lead to permanent reduction (in view of war experience) in per capita consumption. It was argued that per pound, at wholesale, bread flour was even then expensive as compared with rye flour, corn meal, corn flour, oatmeal, and potatoes, and that with the tax added it would be "not less than 4 cents per pound" or "more than double that of the above competitive foods." Figuring the tax rate at around 60 cents a bushel, or \$3.00 or more per barrel, the committee prophesied that "bootlegging" of flour would develop on a large scale, despite the closest possible supervision.

During the rest of the short session of Congress some millers were active in trying to formulate an acreage leasing measure on which there seemed some prospect of getting the old Administration's support. After the change of Administration, however, the millers' spokesmen practically gave up any attempt to stop the enactment of the adjustment bill, and directed their efforts mainly toward certain modifications which would make it less onerous to them.⁹ After the passage of the Adjustment Act, moreover, grain and milling interests accepted the early adoption of a wheat program as inevitable.

When the Adjustment Act was passed, the executive committee of the Millers National Federation prepared a statement that its president presented at the informal

⁹In his radio address on the farm bill, Mar. 18, 1933 (*AAA Press Release No. 938-33*) Secretary Wallace said in connection with the drafting of the measure: "In the meantime representatives of the packers, the millers, the cotton spinners, and the grain exchange men came to Washington in large numbers. Many of them told me they intended to co-operate in every way possible in case the bill became law. I told them that for my part, I wanted to draw to the limit on their technical knowledge and long years of experience."

public conference on the wheat program on May 26, 1933. On behalf of its membership, representing over 70 per cent of the nation's milling capacity and about 85 per cent of the commercial milling capacity, Mr. Hutchinson tendered the co-operation of the industry "in every possible way" to "contribute to the successful operation of the law." The federation committee urged the necessity for definite decision as to whether the United States farm policy would be to keep wheat and flour on an export or a domestic basis, and indicated their strong preference for the former. They spoke of the passage of the Adjustment Act as "the first important step taken by this country that will permit international co-operation for the solution of the problem of world over-production of wheat," and plainly hoped for success in efforts toward an international wheat agreement. They regarded "production control through acreage leasing" as the best "nearby remedy for constantly increasing surpluses" here, but felt that care should be taken to guard against applying it in such a way as to limit or eliminate exports. They argued for a low processing tax, not over 10 cents a bushel, on the ground that a high rate would have the disastrous consequence of reducing consumption; and for a tax rate fixed for a full year, to be made effective July 1. They concluded by saying that, in view of daily changes in the situation, "no plan formulated now has any definite assurance of producing those benefits to agriculture desired under the bill"; and that it would be advisable to await the outcome of the Geneva and London conferences "before deciding or embarking on any definite plan of action." On behalf of Southwestern millers, Thad L. Hoffman said that while earlier they had favored the leasing plan, they now urged prompt application of the

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allotment plan to wheat "because it is . . . imperative that the farmers of the Southwest receive benefits on the 1933 crop."

Representatives of the grain trade, at this same conference, agreed in urging that markets for grain be kept free and open and that wheat farmers were entitled to export outlets; but otherwise their expressed positions ranged from mild criticism to substantial acceptance of the allotment plan. The *National Grain Journal* (Minneapolis) put the matter succinctly in its issue of May 1933:

There is a wide difference of opinion among the members of the trade as to the operation of the bill, but all realizing that the Administration is conscientiously trying to do something actually constructive for agriculture, they have decided it will be best to let the measure be given a trial and put no stones in the Administration's way, hoping against hope that the new-fangled idea will work out successfully.

On behalf of the American baking industry, Henry Stude expressed a willingness to accept whatever the farmer representatives would agree upon, in confidence that the baking industry would gain from the resulting general recovery of purchasing power; and he pledged that bakers would pass on to consumers no more than the tax they had to pay.

From the time the wheat processing tax went into effect the *Northwestern Miller* has carried in nearly every issue, usually on its editorial page, an item headed "Remove the Wheat Tax." One version of this runs:

Whether it is paid by the producer or the consumer, whether it is a tax on productive labor or on hunger, the excise on bread now being collected is inequitable, unfair, and a gross abuse of the taxing power granted to the federal government by the states. It is a heavy addition to the burden of millions who are struggling for means of existence and of doubtful or negative value

to the chosen few whom it is proposed to benefit. It should be repealed.¹⁰

In the issue of April 25, 1934 (page 331), the editor admitted very limited support for this demand, saying:

Months ago we took our stand on the proposition that the bread tax would have to surrender to common sense and the people's need. We failed much to interest millers, anxious not to antagonize the Administration while code regulation of industry impended. We failed wholly to interest bakers, whose business was threatened but who saw in the tax and a higher price level advantage for their industry. Wheat growers, with high hopes in the new deal and expectant of doles for fallow fields, were and are largely inarticulate. Consumers appeared not much to care, but, as will sometime appear, have been eating, and will continue to eat, less bread.

Events have not borne out certain fears held in milling circles before the act was passed and for months thereafter. Sales of higher grade flours were not peculiarly affected by the tax. Some estimates of the reduction in flour consumption attributable to the processing tax had run as high as 10 per cent. As late as June 1934 one prominent miller stated that the tax had given "a tremendous recent impetus toward lower consumption" of wheat products, "the probable reduction from this cause being in the neighborhood of 10 million barrels annually."¹¹ Students close to milling interests soon came out with much lower estimates for 1933-34: Gilbert Gusler in August put the figure at 3 to 4 per cent, and Martin Newell in October at about 3 per cent.¹² In the same article Newell concluded that the loss of business by merchant mills on account of custom milling or grind-

¹⁰ *Northwestern Miller*, Nov. 1, 1933, p. 283.

¹¹ Willis C. Helm of the Russell-Miller Milling Co., Minneapolis, at the convention of the Millers National Federation, *Northwestern Miller*, June 20, 1934, p. 729.

¹² The same, Aug. 15, 1934, p. 427; Oct. 31, 1934, p. 296.

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ing in farms or homes had been slight instead of extensive, and that "bootlegging" of flour through illegitimate evasion of the tax had been on the whole of slight proportions.¹³ While the United States Chamber of Commerce went on record (May 4, 1934) in favor of eliminating farmer exemptions from the tax, experience to date has quieted millers' interest in such an amendment.

At the annual meeting of the Millers National Federation in June 1934, following announcement that the 30-cent tax would be continued, the federation unanimously resolved:

The one year's experience with the wheat processing tax clearly demonstrates that the program which it supports is ineffective and we therefore reaffirm our previous declaration that this form of taxation is unsound and should be abandoned.¹⁴

This resolution represented an outbreak of a smoldering feeling of opposition, rather than any essential change of attitude in regard to co-operation while the program is in force, even though millers find the collection and

¹³ The Division of Crop and Livestock Estimates finds that quantities of wheat ground for home use or exchanged for wheat flour, by wheat farmers, have been on a level notably higher since 1931-32 than in the preceding decade or so; but that the level has not risen in the past two years. The official estimates for crops harvested in the years 1920-34, in thousands of bushels, are:

1920.....11,725	1925.....10,487	1930.....10,538
1921.....11,358	1926.....10,344	1931.....14,917
1922.....11,140	1927..... 9,286	1932.....15,724
1923.....10,840	1928..... 8,196	1933..... 15,442
1924.....10,553	1929..... 6,973	1934.....14,876

We regard the figures for the past two years as inconclusive. If the processing tax persists, some further increase may occur in years of normal wheat crops, and increase of the tax rate would tend in the same direction; but radical further expansion of this item seems unlikely provided tax-exempt grinding can be kept largely within the limits permitted by the present act.

¹⁴ *Southwestern Miller*, June 19, 1934, pp. 23, 26. The federation had not previously dealt with the processing tax by formal resolution.

accounting for the tax a burden. In its issue of March 6, 1935 the *Northwestern Miller* stated editorially that its "protest will continue until the tax is removed"; and pointed with satisfaction to indications that bakers were taking up the cry and that the smaller flour millers were expressing growing restiveness and resentment over the tax. Bakers have been disappointed in the failure of increased purchasing power of consumers to be reflected in increased purchases of their products, and some have complained that they could not pass the tax on to consumers. Generally, however, bakers have held other factors (including NRA commitments) more responsible for the low sales and increased costs that have harassed them in the past two years.

Millers have protested vigorously against two bulletins of the Bureau of Home Economics published late in 1933,¹⁵ alleging that in certain particulars they constitute and support propaganda tending to reduce food consumption of wheat. Since AAA spokesmen have several times referred to this bureau's calculations in connection with discussions of agricultural planning,¹⁶ millers have also attacked all such use of the bureau's figures. After careful inquiry, we have concluded that this controversy rests mainly on misunderstandings of the materials presented in the bulletins in question, and on misinterpretations of their actual or intended use by

¹⁵ Hazel K. Stiebeling and Medora M. Ward, "Diets at Four Levels of Nutritive Content and Cost," *U. S. Department of Agricultural Circular 296*, November 1933; and a condensed adaptation of this, *Miscellaneous Publication 183*, December 1933. The *Northwestern Miller* and other trade journals give the miller's side of the controversy.

¹⁶ For example, H. R. Tolley, in *AAA Press Release No. 1762-34*, Jan. 31, 1934; F. F. Elliott, *AAA Press Release No. 1401-35*, Jan. 17, 1935; and L. H. Bean, "Planning Our 1935 Farm Program," *The Annals*, November 1934, Vol. 176, p. 112. The millers' attack is based more on inferences drawn from such utterances than on the statements themselves.

the AAA. Since the attack, moreover, has been primarily on the Bureau of Home Economics, this interesting controversy lies rather beyond the scope of this book.

On various occasions Secretary Wallace, Administrator Davis, and other AAA spokesmen, addressing gatherings of grain dealers or millers, have won a sympathetic hearing and a friendly response; but they have not succeeded in eliminating underlying opposition and distrust. Millers and grain dealers vigorously joined in the attack on proposed amendments to the Adjustment Act in the spring of 1934 and 1935, under which licensing of processors and dealers would have been authorized. Proposals for government financed stocks of grain, as under the "ever-normal granary" plan, draw the fire of the grain trade. The chairman of the national code authority for grain exchanges said in addressing the annual convention of the Grain and Feed Dealers National Association in October 1934:

From the time of Pharaoh and Joseph, I challenge any one in this audience to cite a scheme to control production, marketing, processing, or fixed values on grain which has not resulted in discredit and disaster.¹⁷

FARMERS AND FARM ORGANIZATIONS

The initial response of wheat growers to the adjustment program varied widely under different conditions. By and large, great interest was evinced and eagerness or enthusiasm was general in the major wheat-growing sections. This was naturally keenest where farmers had been hardest hit by low wheat prices, recent crop disasters, or both. Where wheat was a minor crop, interest was limited and enthusiasm lacking.

Downward revisions of figures submitted on applications, changes in rulings on the use of contracted acres,

¹⁷ *Northwestern Miller*, Oct. 17, 1934, p. 165.

together with delays in completing the sign-up, approval of contracts, and receipt of benefit payments and expense money, aroused much criticism, some bitterness, and even skepticism as to whether the money would ever come. When the checks arrived, however, most of the dissatisfaction was allayed and gratification with the program increased. Relaxations in contract provisions in the spring of 1934 helped further to improve farmer sentiment. Except for delays in completion of the check-up and distribution of the second instalment of benefit payments, and some criticism of excessive cost in making measurements in drought areas, the compliance machinery seems to have worked acceptably from the farmer's standpoint. In general, growers have been pleased to have responsibility for local administration, though many would like more local authority. The "income insurance" provided by adjustment payments has naturally come in for special commendation.

Higher wheat prices in 1934-35, regardless of the causes, and earlier distribution of the first instalment of benefit payments for 1934, have helped solidify support for the program among contract signers. Scattered indications in recent months leave small room for doubt that they, as a group, favor its continuance. There are of course some who signed under pressure of community sentiment or because they urgently needed the money, but who oppose the scheme on principle or because they find its restrictions irksome.¹⁸ Desire for simplification,

¹⁸ Sentiment among wheat growers has been more favorable than among corn-hog growers, partly because of differences in the incidence of the processing tax. Yet there are doubtless many individual growers whose attitude is similar to that expressed by an Illinois farmer in a letter of Mar. 12, 1934, published by J. D. Black in J. B. Hubbard and others, *Current Economic Problems: Selected Discussions*, 1934, pp. 207-09: ". . . Our best farmers, 75 to 90 per cent of them, are opposed to the AAA and CWA. Those heavily in debt who have made a failure

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increased decentralization of authority, and speeding up are general. Considerable support for export promotion and the "ever-normal granary" appears to exist. On other specific changes little sentiment appears to have crystallized, though some voices are raised in favor of penalizing non-signers or making participation compulsory, of requiring large producers to reduce acreage more than small ones, of requiring heavier cuts in acreage in regions other than their own, of controlling sales rather than production, or of something else.

The attitude of wheat growers who did not sign contracts is less clearly indicated. Since wheat prices have risen, those who sell wheat have had small reason to feel hurt by the program and may even feel that they have gained by it, while the larger number who feed their wheat and buy flour presumably feel hurt. As a group their sentiment presumably ranges mainly from indifference to mild hostility. If they are *left free to stay* out of a new program without special discrimination, for the present at least they are not likely to raise much objection. On the other hand, they would presumably be hostile to compulsory control or discriminatory measures such as are embodied in the Bankhead and Kerr-Smith acts, unless small growers were assured of exemptions such as to leave them substantial freedom.

All this does not mean that wheat growers are convinced believers in the "philosophy" or "economics" of the program, which many do not understand. It simply

of their own affairs grasp at the pig straw, but even they make up only a small fraction of the community—surprisingly small. Yet the general ideas in the farm paper world, the Farm Bureau world, and the office of Secretary Wallace are that because 75 to 100 farmers in a township 'sign up' and many letters come in supporting the new plans, the majority of farmers and small village people approve of all their ideas. *Most of these farmers are coerced into signing. . . .*"

means that, in general, wheat growers find themselves better off since the program came into effect; and participating growers see their income increased by benefit payments, in most areas with little or no visible offset resulting from their wheat acreage contraction, and with their freedom as farmers only moderately curtailed. With such conditions following the application of the program, few participating growers see good reason to want it discarded. Most of them probably credit it with greater responsibility for improvement than it has actually had, and look forward to its doing still more in future. Had wheat yields in 1934 been generally above average instead of below, and had wheat prices declined instead of advancing, the present reaction might have been different; but larger benefit payments might have partially offset dissatisfaction with lower wheat prices.

No cross-section of opinion of all farmers toward the wheat program is available. Since a minority of farmers raise wheat and a much smaller minority are participating in the wheat program, while most farm families have been paying higher prices for flour and bread, and since dairymen have been paying more for feed, it is not surprising that *Hoard's Dairyman* (March 25, 1934) could report the following returns from 4,909 dairy farmers to a nation-wide questionnaire:

Has the wheat		Yes	No	Maybe
allotment plan	Helped you?	619	2,439	233
	Cost you money?	2,659	461	281

Such a small and biased vote cannot be taken to mean that farmers generally would vote against continuation of the wheat program if given a chance. Presumably farmer beneficiaries under other programs would hesitate to vote in the negative.

Of the three principal farm organizations the American Farm Bureau Federation has been most outspoken in support of the AAA. The *Bureau Farmer* stated editorially in February 1934: "The prestige and influence of the Farm Bureau in shaping national policies for agriculture has never been greater than now. The Farm Bureau's program for agriculture is now being carried out. . . ." The extended statement of that program, adopted at the federation's convention late in 1934, was broadly in harmony with the AAA's official position. It urged strengthening the Adjustment Act by various amendments, laid emphasis on the "parity price" goal, and recommended redefinition of parity in terms expected to be more favorable to farmers. But at some points it reflected concern over the complications of the voluntary contract production control features, and a predisposition to work toward subsidized disposal of surpluses in exports and industrial channels. The National Grange, while somewhat more reserved in its official utterances regarding the AAA, is broadly aligned in support of most current policies while seeking to improve upon and supplement them.

A National Agricultural Conference was set up in January 1934 with five charter members: the American Farm Bureau Federation, the National Grange, the National Co-operative Council, the Farmers National Grain Corporation, and the National Agricultural Editors Association.¹⁹ It was designed as a forum in which national farm organizations could meet to discuss issues, reach conclusions, and help co-ordinate their activities. At its second annual meeting early in 1935

¹⁹ Representatives of this association have no authority to speak for it. Farm journals show a wide range of attitudes toward the AAA, but the wheat program has been less under attack and has won more favor than some other programs.

this body unanimously adopted a comprehensive statement largely based on the Farm Bureau's national program for agriculture. This was presented to the President, other officials, and Congress on January 15.²⁰ Among other things, the conference urged intensification of efforts to increase farm income and commended the continuance of a simplified program of curtailed production until other factors had demonstrated their ability to raise and sustain farm prices. However, it indicated its strong preference for other devices such as developing foreign trade and industrial outlets and reducing distribution costs. It also approved various amendments designed to strengthen the Adjustment Act, including most of those proposed by the AAA.

The Farmers Union, which has not been willing to join the National Agricultural Conference on terms acceptable to the charter members, officially continues highly critical of the AAA and its programs. Its national spokesmen arraign the current agricultural policy chiefly on the ground that it does not go far enough to give the farmers their due. They condemn acreage and production restraints and the processing tax in principle, and favor instead marketing quotas reinforced by price fixing, such as to insure growers "cost of production" on quantities sold. In many sections and in most important wheat states, however, Farmers Union leaders and members have co-operated in the wheat program, and many disapprove of the hostility to the Adjustment Act expressed by its national leaders. Three of the four regional wheat advisers, as the National Wheat Advisory Committee is now called, are Farmers Union men.

²⁰ See *Bureau Farmer*, February 1935, and *Farmers Union Herald*, February 1934.

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In all three of the major farm organizations there is some uneasiness lest the production control associations should evolve into a "bureaucratized" national farm organization supported from processing tax revenues; but this has not become a serious cause for alarm, and some leaders feel that existing farm organizations and wheat co-operatives have indirectly gained strength from the "co-operative" experience of farmers in the wheat program.

CHAPTER XIII

ELEMENTS IN THE OUTLOOK

The domestic allotment plan, in its various forms, was designed for continuous application. While the Adjustment Act which authorized its use was ostensibly an emergency measure, its limiting features were flexible. The initial wheat adjustment program, however, was frankly an experiment for a specific period. Existing contracts with wheat growers virtually insure continuance of processing taxes and benefit payments in 1935-36, but involve no commitments regarding acreage or production for 1936. Early in the second year of the program, therefore, the question arose: What next? If continued restraint on acreage is to be undertaken, the new scheme should be launched in the spring of 1935, or at least before growers prepare their land for fall sowing.

BACKGROUND OF NEW PLANS

The Foreword to the *Handbook* of August 1933 (W-15) mentioned the possibility that it might not be necessary to continue the plan:

During the time that this wheat adjustment plan is in operation, international wheat markets possibly may be restored; normal balance may be developed between world supplies and demand; and the world situation may be improved so that unlimited exports may move freely at prices approaching parity. . . .

Actually, the wheat situation has radically changed since the plan was formulated. Largely because of two short crops in succession, the United States carry-over on June 30, 1935 will not be radically in excess of what used to be considered a reasonable level—120 to 130 million bushels; farm prices of wheat have risen to

around the pre-war average; and the 1935 crop bids fair to be moderate to small. Largely because of adverse weather abroad as well as here, the world wheat crop of 1934 was so small that world stocks next summer are expected to be substantially below the high levels of recent years, and the lowest since 1928, though still above the previous "normal." Nature has effected a far greater readjustment of supplies than was or could have been expected in the summer of 1933. It now (April 15, 1935) seems distinctly possible that the 1935 world crop may be such as to carry the readjustment further.

Nevertheless, few yet consider the wheat crisis safely over. Barriers to imports were never higher. Outlets for exports are gravely restricted; and even at prices still extremely low, "world" wheat exports are at the lowest level since the war and below pre-war averages (see chart on page 3). With continued depression and restrictive measures of many kinds, world wheat consumption for food generally remains at levels no higher than seven years ago, if as high. Not only does European acreage remain at or near its peak (though not far above the pre-war level), but with ordinary weather and average yields any world crop is likely to yield more wheat than will readily be absorbed. A normal adjustment of the world wheat situation, in anything but a provisional sense, waits on the reduction of extreme protection, the re-expansion of wheat consumption, and/or a more lasting contraction of wheat acreage.

Consequently, in spite of great reductions in surplus wheat stocks, world wheat prices remain surprisingly low even in currencies depreciated in terms of gold. United States prices, temporarily far above Liverpool prices, are liable to decline materially if and when we

harvest a crop of average yields or better. Moreover, the index of prices farmers pay has risen so much (from 100 in March 1933 to 128 two years later) that average farm prices are still only about 80 per cent of "parity" computed on the pre-war base. From the standpoint of the wheat farmer the questions appear: Can the price gains be maintained in a year of better crops? What further can be done to ensure us the promised "parity"? What shall be done if the 1935 harvest brings a considerable surplus over what the domestic market will absorb?

From the outset, the possibility of a second program has been envisaged. M. L. Wilson closed an early statement thus:

If the world is still in economic turmoil after this three-year experimental period is over, the plan can be adapted, in the light of this experience, for a longer period. In the meantime, farmers will be keeping the essential records so that putting the plan to work in the future will be a fairly simple matter.¹

In announcing the wheat program, moreover, AAA executives spoke of it as—

. . . the first major step on "the new untrod path" of adjusting American agriculture to changed world conditions, and the first large-scale attempt at economic planning for agriculture.²

The statement quoted above (page 388) concluded with the assertions that "the economics of the wheat situation," as there presented,

. . . will convince any one that we are facing no ordinary problem. Its permanent solution requires the building of a new agricultural structure to meet the requirements of a new era. The principles embodied in the wheat adjustment plan usher in the new era of planning for production in agriculture.

¹ "The Domestic Allotment Plan," [late June] 1933. Much the same view was expressed in another paragraph of the Foreword quoted above.

² *AAA Press Release No. 1346-33*, June 16, 1933.

- Secretary Wallace, addressing the Association of Land Grant Colleges and Universities on November 13, 1933, said:

We have had to act with the pressure of a desperate situation behind, quite conscious that every move might call forth a chain of consequences extremely difficult to deal with. We are aware that our present machinery for production adjustment, in view of the need for long-time land planning, may not be at all like the machinery we shall have to design and operate for the longer future.

When the AAA was reorganized early in 1934, a Program Planning Division was set up—

. . . to correlate the programs for all commodities and to shape the entire program into a coherent whole which will constitute an advance through emergency measures to an established and lasting agricultural industry to the ultimate benefit of the whole nation. . . . The temporary adjustment measures are to be planned so as to develop elements on which may be built a permanent agricultural program. . . .³

This task has been engaging the efforts of an able staff.⁴

For the title page of *A Balanced Harvest* (W-5, August 1933) Administrator Peek wrote: "The Farm Act is our charter of economic equality." Statements in this and accompanying publicity held out hopes of reaching, with the co-operation of individual farmers, such goals as "planned" or "balanced production," "adjustment of supply to demand," "a raised and stable price of wheat." Reviewing the first year's experience of the AAA,⁵ Administrator Davis spoke of "this experiment in agricultural planning," "the greatest co-operative effort ever undertaken by farmers," "the greatest crop-income insurance measure ever undertaken for

³ *Agricultural Adjustment*, AAA, pp. 15-16.

⁴ See H. R. Tolley's résumé of its organization and work, *Journal of Farm Economics*, October 1934, Vol. XVI, pp. 582-90.

⁵ *New York Times*, June 3, 1934; AAA, G-14, June 1934.

farmers by a nation anywhere in the world." "Though incomplete," he said, "the experiment marks the beginning of a big-scale transition away from a purely individualistic agriculture." In October 1934, he said:

Unless I mistake the temper of the majority of farmers, they do not want to go back to the days of uncontrolled production and unmanageable surpluses which ruin their markets and wreck their prices. They want to continue the co-operative management they have attained through their own production control associations. I think they will apply this co-operative management sanely to maintain a healthy *balance* which avoids piling up surpluses for export markets that have disappeared and have not yet been regained.⁶

Altogether, the AAA has not seriously considered letting the contracts expire without replacement. Hence elements in a continuation program have been under discussion for several months, with a view to getting a plan accepted and new contracts signed in time to affect wheat sowings in the fall of 1935.

OBJECTIVES OF THE NEW WHEAT PROGRAM

The goal of continued adjustment effort is variously expressed. In its more ambitious formulation it is that of "maintaining balanced production," now that the accumulated wheat surplus in the United States has been worked down. One expression runs:

. . . There is a level of farm production which is best for the nation and best for the farmers, at which consumers will take and use the maximum quantity at prices fair to the producers. The country as a whole, as well as the farmers, will be strengthened when the farmers approximate the productive effort that yields the desired production.⁷

⁶ Address to Institute of American Meat Packers, *AAA Press Release No. 762-35*, Oct. 16, 1934.

⁷ This and other ideas of "balance" are discussed in *Achieving a Balanced Agriculture (G-36)*, AAA, August 1934. See also George E. Farrell, "Let's Keep Wheat Balanced," *Kansas Farmer*, October 1934.

Sometimes AAA spokesmen talk as if such a goal were readily attainable by methods already tested. In a broadcast on October 5, 1934, dealing primarily with the corn-hog program, Secretary Wallace said in part:

It has not been by chance . . . that hog prices are twice what they were a year ago this summer. It is by design, by the conscious effort of more than a million farmers working in unison on a self-imposed program. They have found in co-operative effort a way to make the law of supply and demand work for them without doing injustice to the rest of the country.

I believe that is a great and a thrilling achievement . . . something much more than a price increase or a boost in income . . . a million corn-belt farmers agreed on a course of action, and stuck to it; and . . . in so doing they developed a method of economic self-government which may stand the whole nation in good stead.

. . . Supplies have shrunk, prices have climbed a good ways toward parity. The problem is no longer one of getting rid of a surplus; the problem now is the prevention of new surpluses. The choice, therefore, is between controlled and uncontrolled expansion. . . . With a controlled expansion the chances are strongly in favor of a continuing march toward parity prices for corn and hogs. We know now, from personal experience, that by controlling supply we can affect price. What to most of us had been no more than a theory has suddenly become as real and practical as an everyday farm chore.⁸

These excerpts exaggerate the responsibility of AAA measures for the changed situation, and correspondingly understate the effects of the drought which in other connections Secretary Wallace has clearly recognized. Discussing wheat in his 1934 annual report, he remarked:

Unfortunately weather conditions in both hemispheres upset all calculations last year, and to a still greater extent this year. Seasonal conditions do not affect the logic of acreage adjustment for the long pull, but they may seriously interfere with

⁸ AAA Press Release No. 726-35. Much the same views have been expressed in respect to the wheat program.

immediate action. . . . This tremendous change in the supply position naturally lessens the immediate need for acreage adjustments, and makes world co-operation toward that end more difficult to achieve.

Implied here is recognition that such control of wheat acreage as the AAA has exercised falls far short of conferring power to control production or adjust it to a "desired" level.

Moreover, there has been uncertainty as to what level of production should be aimed at. In his report just quoted, Secretary Wallace said further:

. . . Continued restriction of the American wheat acreage will be justified if competing countries likewise recognize the need for acreage adjustments, but not otherwise.

Only by putting our wheat industry completely on a domestic basis could farmers get permanent price gains through acreage restrictions alone. Putting it on a domestic basis would be very difficult; for temporary price gains would tempt farmers back into large production for export. Lacking world co-operation, the United States will have to reconsider its whole wheat program, and possibly to contemplate renewed production for export at highly competitive world prices. Within the United States returns to wheat farmers could be maintained above the world level, through making adjustment payments under the Agricultural Adjustment Act. Now that the wheat surplus of the depression period has disappeared, we must adjust the production with an eye to the whole situation, both foreign and domestic, and should not commit ourselves to a program of indefinite restriction, regardless of conditions abroad.

In February 1935 it was officially stated that "with farm prices still substantially below parity, although much improved during the past ten years, the AAA is not considering abandonment of any adjustment program now in effect."⁹ Raising farm prices of wheat to

⁹ January farm prices of 14 commodities named "basic" in the act averaged 106 per cent of the pre-war average, or 84 per cent of computed "parity." On the seven for which adjustment payments were in

"parity," however, is not taken as the controlling objective of AAA policy. The only means that hold out any hope of attaining this goal would be rigorous restriction of acreage to a level that, with average yields, would keep us on an import basis and make the present tariff (or a higher one) continuously effective so long as world wheat prices remain anywhere near recent levels. This would mean, on the average, less than 50 million sown acres, or at least 25 per cent below the average for several years prior to 1934. To secure so large a reduction by voluntary contract would be very difficult. It might easily reduce the wheat-growers' income from wheat, which is more vital even than wheat prices. It would expose the AAA to serious protests from the trade and the consuming public, particularly in years of yields below average when wheat imports would be required. Moreover, the very attainment of "parity prices" would otherwise endanger the continuance of control, for if no processing taxes could be collected and no adjustment payments made, enforcement of continued restraint on acreage would require resort to other methods.¹⁰

The desire to ensure farmers generally, and the wheat growers as a group, their "fair share" of the national income remains an underlying objective, and in occasional statements concrete figures are suggested that are far above levels now obtained or in prospect.

force, it was calculated that adding in these payments brought the adjusted farm price to 135 per cent of the pre-war average, or 107 per cent of "parity." See *AAA Press Release No. 1591-35*, Feb. 16, 1935.

¹⁰ Within the AAA, there was some fear lest a very short crop in 1934 should raise wheat prices above "parity," force elimination of benefit payments, and so put co-operators at a disadvantage as compared with those who had not signed up. The advance in world wheat prices was so limited, and the rise in the index of prices farmers pay was so considerable, that this result did not materialize.

However, no practical scheme has been found for attaining this high goal. In recent months AAA officials have repeatedly asserted that reduction of production has probably contributed its maximum to increase of farm income, and that further enhancement of that income will depend primarily on increased industrial output and higher general purchasing power. This is almost the reverse of the doctrine preached during the formulation of the Adjustment Act and the wheat program, when agricultural recovery through adjustment measures and others was put as a necessary and major condition of business recovery.

The more limited objectives actually in view for the new wheat program are indicated in two addresses by Administrator Davis. On November 14, 1934 he told the Millers National Federation:

I believe that the principle of securing for farmers approximately the parity income on the domestic consumption of wheat is here to stay, and that processing taxes to supplement the market price on domestic consumption will be continued to finance such a program unless and until a better method is found.¹¹

To the Kansas Agricultural Convention on January 11, 1935 he suggested:

A wheat program for 1936 should be designed to hold our seedings of wheat to a level which with average yields will supply our present domestic and limited export requirements.¹²

No more specific production goal has yet been fixed. One which would leave a surplus for export averaging from 75 to 100 million bushels, or perhaps from 10 to 20 per cent of the volume of international trade in wheat and flour, has been suggested. This implies an average crop of not over 750 million bushels and per-

¹¹ AAA Press Release No. 959-35.

¹² AAA Press Release No. 1346-35, "What Is Ahead for Wheat?"

haps below 700 million. In August 1934, when wheat contract signers were informed that their sown acreage for 1935 should be held down to 90 per cent of their base acreage, it was calculated that with average yields per acre a crop of 775 million bushels could be anticipated; but it was assumed that the 1935 carry-over would stand some increase to the higher "normal" that is officially considered appropriate in a régime of regulated acreage. Late in March 1935, when restrictions on spring wheat sowings were relaxed, yields well below average were in prospect.

PRINCIPLES OF THE NEW PROGRAM

In the two addresses quoted above Administrator Davis indicated that, while much remained for decision, and suggestions and reactions were desired, the new wheat adjustment program would be broadly like the old. To the millers he said, on behalf of himself and his associates in the AAA, that "the present wheat program sets the general limits of what we have in mind as a government effort to benefit wheat producers." He remarked, however, that in this changing world "no human commitment can be given which guarantees as to what lies before us in years to come," and that "this or any other plan must possess sufficient flexibility to meet changing world and domestic conditions." In this connection Davis sought to assure millers that, under proposed amendments to the act,¹³ the AAA was not contemplating application of quotas and related licensing provisions to "nationally grown commodities like the grain and meat crops."

¹³ See his statement before the House Committee on Agriculture concerning H. R. 5885 and S. 1807, Feb. 26, 1935, *AAA Press Release No. 1631-35*.

Other principles suggested in his Kansas address were:

The wheat grower who co-operates in such a program should receive a sufficiently larger cash return than the non-co-operating grower, on an acre or a bushel basis, to compensate for the return received by the non-co-operator who expands production.

Acreage and farm allotments should be determined by means of the historical base with some modification to permit flexibility in adjusting acreage where such adjustments appear desirable in the light of proven farming systems or crop rotation practices.

Payments to co-operating producers should be made out of funds derived from a continuation of the processing tax. The processing tax appears to be the best method yet proposed for financing the wheat program. Unless payments are made to growers who comply with an adjustment program, it is doubtful whether control of acreage can be maintained. While several measures such as providing a budget from the federal treasury, or a general sales tax, might be substituted for the present wheat processing tax, the tax as now instituted seems likely to find less consumer and public resistance than any other method which might be used. Since bread is universally consumed the burden is distributed over the entire population under the present plan exactly as an increase price of wheat is distributed.

As far as possible the new wheat program should be administered through the production control associations already organized. Farmers and extension workers are now familiar with the mechanics of the operation of these associations, and the administrative problems would be simpler under such an arrangement. There must be sufficient uniformity in the thoroughness and procedure of offering and administering the program among the several states by the various state agencies so that the farmers in one state are not handicapped or given advantages not common to all.

In general, the path of least resistance is to continue the present form of program, utilizing existing production control associations, and taking advantage of the contracts now in force and data already accumulated. Plans are being made to meet insistent demands from growers and associations for simplification of the con-

tract and related forms, and for increasing decentralization through giving greater authority to county allotment committees and state or regional representatives of the AAA. By this means it is hoped that delays can be reduced and some measure of flexibility added, without serious risk of departure from sound common principles. But the inertia just mentioned stands in the way of remedying certain defects in the original program.¹⁴

It is recognized, for example, that continued use of the base periods first chosen, and horizontal cuts in acreage from a previous level, tend to "freeze" wheat production into the *general pattern of the base period*, modified by changes in the degree of acreage reduction called for. They tend to retard or to prevent normal and desirable readjustments such as have hitherto occurred under the influence of economic forces—some individuals and regions expanding and others reducing as conditions change. Yet attempts to discriminate among regions and individuals threaten to give rise to complaints of unfairness that would be hard to meet; and no simple way has been found to determine bases for discrimination that would clearly be economically justified.¹⁵

Much study has been given to the possibility of devising a practical form of "single," "unified," or "consolidated" contract per farm, under which two or more commodities might be comprehended. Some of the advantages, as seen by leaders in the Program Planning Division, are summarized as follows by Elliott:

¹⁴ See F. F. Elliott, "Some Problems Relating to a Continuing Agricultural Adjustment Program," *AAA Press Release No. 1401-35*, Jan. 17, 1935.

¹⁵ With these problems in view, four regional conferences were held in March 1935 to explore the possibilities of formulating regional programs of research integrated with the needs of the AAA.

By considering the whole farm as a unit and the various enterprises as fitting into an integrated whole the complementary, supplementary, and competing nature of enterprises can be utilized in developing a program which will permit more relaxation in restrictions and more flexibility in operation by the farmer than is possible when separate commodity programs are followed. Because of less restriction and more flexibility in its operation, the co-ordinated approach would tend to promote rather than disrupt established cropping systems and rotation practice, which on many farms were thrown out of alignment in the operation of the commodity programs, in order to qualify for participation.

Where more than one basic commodity is grown on an individual farm, furthermore, there necessarily is a great deal of overlapping in effort when commodity programs are used. . . . A great deal of co-ordination and unification of administrative effort could be brought about through the adoption of one contract per farm.

Such a co-ordinated procedure likewise would offer a means of minimizing chiseling, which results from shifting acreage totals for the same crop on different contracts.¹⁶

The advantages lie mainly in the field of farm management; the difficulties lie in administration, financing, and securing the degree of adjustment sought. Thus far, the problems involved have not been solved to the point of asking wheat growers their reaction to it.¹⁷

For another recognized defect in the existing program no practical remedy has been found. With around 25 per cent of wheat acreage and production in 1930-32 not signed up,¹⁸ the possibility of expansion of production by non-signers is ever present. Prices in 1935 are such as to encourage such outside production. There is no good prospect that the sign-up under a new voluntary program

¹⁶ Address cited in note 14, p. 399.

¹⁷ Somewhat prematurely a question on this was included in the corn-hog referendum in October 1934; but the presentation to growers had been too inadequate to justify the AAA in taking the results as conclusive. Sentiment among wheat contract signers appears unfavorable.

¹⁸ See pp. 96-99.

will be materially increased.¹⁹ Growers who have been under contract are inclined to oppose shifts in the base period and other modifications that might attract new signers but lessen the advantages of the new contract to those who signed the old. The alternative of compelling participation on much the old terms finds some favor among existing signers, who look upon non-signers much as trade unions look on non-unionists; but the AAA is reluctant to attempt such extensive regimentation of wheat growers. The alternative of assigning marketing quotas to signers and levying a tax on non-quota sales has not been seriously urged for wheat, though it has something in common with the Farmers Union plan; and unless liberal exemptions were granted, it would presumably encounter hostility from small growers.

Early in 1935, wheat growers were officially assured that before a new program was put into effect they would "be given an opportunity to express their wishes concerning it."²⁰ On April 11 it was announced that in a nationwide referendum on May 25, wheat growers "will vote on whether they favor continuing wheat production adjustment measures . . . after 1935."²¹

¹⁹ Particularly if crop and price developments here and abroad are such as to lead to reduction, rather than increase, in rates of processing tax and benefit payment.

²⁰ Administrator Davis in Kansas address on Jan. 11, 1935 cited above. The first referendum of a similar kind, and the only one as yet voluntarily taken by the AAA, was among corn-hog growers in October 1934, mainly to ascertain their sentiment toward a second one-year program. On this point a substantial majority voted "yes." Since then, referenda have been taken among cotton growers and tobacco growers, as required by the Bankhead and Kerr-Smith acts, to ascertain whether growers favored continuing the application of those measures in 1935. On these two, the vote was overwhelmingly in the affirmative.

²¹ *AAA Press Release 1931-35*. The preliminary proposals outlined provide for a four-year contract (1936-39) very similar to the 1933-35 contract (even in respect to the base periods), except that the maximum acreage curtailment that may be called for is 25 per cent, instead of 20. Regional conferences to discuss the referendum technique are to be fol-

POSSIBLE SUPPLEMENTS TO THE PROGRAM

Two of the possible adjuncts of the wheat adjustment program merit brief discussion here—subsidized surplus disposal and storage financed by government loans.

As we have seen, the AAA subsidized a limited amount of wheat exports from the Pacific Northwest in 1933-34 and may subsidize a smaller amount of shipments from the same area for domestic feed use in the spring of 1935; and the Federal Surplus Relief Corporation bore the cost of purchasing and distributing limited quantities of wheat for feed and food in 1933-34. Various farm leaders, in wheat surplus areas especially, are urging that a larger and more definite place in the wheat program be given to some such measures, particularly for exportation. Many wish less, little, or no restraint of wheat production and more export subsidization. For over a decade, all three of the leading farm organizations have pressed these views, and they are backing certain amendments to the Adjustment Act that would give them greater opportunity to urge the AAA to apply such policies.

In the grain trade and milling industry, moreover, there are some indications of a growing disposition to favor such a move. Grain dealers, hurt by reductions in volume handled, and grain exporters and exporting millers, hurt by loss of export markets, generally attribute to AAA programs more influence in this direction than they have exerted. They are disposed to urge that, if production restraints are continued, these should be supplemented by export promotion on a broader front

lowed by community conferences and "educational" meetings before it is held. With benefit payments looming larger than production adjustment in growers' minds, and efforts likely to be concentrated in the major wheat sections, a strong affirmative vote may be expected if this referendum is held.

and larger scale, in the light of the experience in the Pacific Northwest.

Thus far, however, AAA leaders have given little or no encouragement to those who press these demands, and Secretary Wallace, on various occasions, has stressed the disadvantages of removing production restraints and falling back on export promotion.²² It is reasonable to infer that, if the 1935 wheat crop should be around 600 million bushels or less, the door to export subsidy on any considerable scale will remain closed for the present.

On broader grounds, but perhaps partly to meet one argument for removal of production restraints, Secretary Wallace has taken the initiative in advocating the general policy of government loans to supplement production control efforts, and the AAA stands committed to this in principle. The corn and cotton loans of 1933-34 were adopted under great political and social pressure. Thanks to the drought in 1934 in the corn belt, the first of these turned out well; and the first year of the cotton loan gave rise to no serious embarrassment. This experience, coupled with two years of drastic reduction of wheat production by drought, helped to determine the commitment; and threatening embarrassment from the cotton-loan policy in 1934-35 has not led to a reversal.

Secretary Wallace broached the idea thus in an address at Bismarck, South Dakota, on June 6, 1934:

Opponents of the Adjustment Administration point to the drought as a demonstration of the futility of agricultural planning. Farmers who have co-operated with the adjustment programs, and whose crops are stricken, can point to this drought as the final convincing argument for the necessity of such planning as the Agricultural Adjustment Act makes possible.

²² See his address before the National Grange, Nov. 20, 1934, *USDA Press Release No. 1013-35*, and Under-Secretary Tugwell's address at Brookings, S. Dak., June 29, 1934, *AAA Press Release No. 2055-34*, p. 6.

. . . I have never believed that our present program in the Agricultural Adjustment Administration could or should continue permanently in precisely its present form. And our experience thus far, plus the impact of this drought, suggest the direction in which we may have to move.

We launched the adjustment programs . . . in an effort to raise prices which had been abnormally depressed by the largest carry-overs and the smallest dribble of exports in our history. We have been attempting, therefore, in the case of wheat to get production more nearly in line with domestic requirements. But any program for reducing production nearer to domestic requirements we knew would need to be coupled with adequate protection against crop failure. Because of our enormous carry-over, we have not had to worry about that thus far. Even the present drought does not give rise to fear of food shortage. It does, however, suggest the necessity of future protection against crop failures in a continuous program of production control. It suggests also the need for systematic methods of absorbing the shock to the markets should severe drought be followed in the next year or two with bumper crops. Nature has often gone from niggardliness to abundance in the span of one season.

We shall have to think, therefore, about a program of adequate farm reserves to be maintained from season to season. Such reserves will need to be in larger volume than the so-called normal carry-overs of pre-depression days. In years when we produced heavily for export, normal carry-overs did not need to be excessive because exportable surpluses could be diverted to domestic use; but with adjustment programs geared to domestic requirements, reserves in excess of previous normal carry-overs may need to be provided for. Ordinarily we think of 120 million bushels of wheat as the normal carry-over; but if our foreign market [for] wheat does not come back, and production control continues to be necessary, the carry-over will have to be sufficient to insure us against crop failure.

Perhaps it would be possible to set up a mechanism whereby growers could maintain these necessary reserves by means of loans, similar to the present corn and cotton loans. Stored commodities owned by producers and held in the country might be part of the system of benefit payments in an adjustment program, the commodities stored in years of surplus to become available to

farmers in lieu of benefit payments in subsequent years of production curtailment. But whatever the mechanism, it would of course have to be so designed and operated as to fit smoothly, without disturbing effect, on market price, into the commercial marketing system.²³

In the same vein Under-Secretary Tugwell said at Brookings, South Dakota, on June 29:

There is no contradiction between the AAA's program and unforeseen calamity. As a matter of fact, the present one is emphasizing to us that even a greater need exists for agricultural planning. The adjustment program, it is being discovered, has the nucleus for a balancing of feed and food supplies between good and bad seasons. More than 270 million bushels of corn are sealed on the farms. It was accumulated during a period of surplus and is now being used in a season of short feed supplies. The profit which accrues from price increases will go to the farmer this time and not the grain gamblers who ordinarily would profit from a short crop. That method of storage has interesting possibilities that can be extended to other crops. It may be that the next logical development of adjustment efforts will be some plan whereby a constant supply of our basic agricultural commodities may be assured from year to year, with ample reserves to be used in case of some unexpected natural calamity, but sure to be kept off the market unless needed and therefore not affecting prices. Certainly such a plan would have as its fundamental purpose the assurance of stability not only for supply, but also stability in prices and security for the farmer and his family on the farm.²⁴

In his *New Frontiers*, published in the autumn of 1934, Secretary Wallace discussed the subject in his chapter entitled "Untrod Paths" (pages 231-38). He envisaged serious world-wide food shortage beginning within 10 or 15 years and continuing for a number of years. Against this danger, and that of protraction of the cycle of dry years 1930-34, he thought national meas-

²³ AAA Press Release No. 2751-34.

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ures should be taken. After recalling the warning of Farm Board experience, he referred to the Confucians in ancient China, Joseph in ancient Egypt, and the Federal Farm Board, the AAA, and the Commodity Credit Corporation in recent years in support of a plan for "an ever-normal granary," on a basis that could command general support and be carried on without influence from "regional or occupational politics."

In subsequent utterances, Secretary Wallace and other AAA spokesmen discussed the idea with increasing confidence. Director Tolley of the Program Planning Division of the AAA included it in suggestions for "The Adjustment Program to Follow 1935," to the Association of Land Grant Colleges on November 19, 1934. In part he said:

. . . The plan must of course go hand in hand with an adjustment program to make it economically sound. And only those farmers who agreed to participate in next year's adjustment would be eligible for the loans. In case the government for some unforeseen reason came into possession of a large quantity of a given commodity through these loans without recourse, the quantity could be used in lieu of cash for benefit payments to co-operating farmers.

The ever-normal granary plan would thus prevent commodity supplies from accumulating to a burdensome degree, by using the surplus in years of large crops to reduce the acreage the following year. It would protect farmers from deep price breaks, and give to them, instead of to speculators, the advantage of a possible rise in price. It would also protect consumers by insuring an adequate supply from year to year at more even prices. I hope you will think and talk about this plan, because I believe it holds the possibility of stabilizing certain important commodity supplies and thus increasing the sense of security for everyone.²⁵

The Consumers' Guide of December 3, 1934 contained an article on "Can Consumers Count on Adequate

²⁵ *AAA Press Release No. 1003-34.*

Food Supplies at a Fair Price to the Farmer?" One paragraph ran:

Supporters of the principle of the "ever-normal granary" point out several advantages. First, they hold it would protect consumers against possible shortages. Second, it would help to stabilize production and therefore prices. Third, it would help to give farmers a fairer share of the national income. Fourth, it would make it possible to adjust food supplies to improving national standards in food and health and to increasing consumer purchasing power.

Secretary Wallace devoted several pages of his annual report, dated December 12, 1934, to "An Ever-Normal Granary." Noting that pioneer farmers "stored feed and hay against lean years as a matter of course" and that the practice declined in years of moderately heavy rainfall and fairly good prices, he said:

. . . The situation now is different. Against the combination of weather hazards and low prices, farmers need the protection of an adequate reserve with safeguards against any possible depressing influence on prices. Here, in conjunction with the crop adjustment program, is an obvious responsibility of the Agricultural Adjustment Administration. Means should be developed to conjoin the adjustment of plantings with protection equally against crop failure and against the tendency of large stocks to depress prices.

Observing that foreign outlet for farm products, except fruits, remain sharply curtailed, and that adjustment programs "must be shaped toward reduced production for export," he said:

But reduced production for export raises certain new questions. Adjustments nearer to domestic requirements need to be coupled with protection against crop failure. Farm reserves must be larger than the so-called normal "carry-overs" of pre-depression days. Formerly, when we produced heavily for export, carry-overs did not have to be large. It was simply necessary, in seasons of small production, to reduce the exports. In proportion as this

automatic safeguard disappears, it becomes more important to maintain reserves from season to season. Such reserves tend to stabilize both production and prices. Our emergency experiments have revealed more clearly the requirements of controlled production. One requirement is a method of absorbing the shock to markets which occurs when seasonal conditions violently disrupt the intended adjustment.

When production varies greatly, either through weather conditions or the action of farmers, prices fluctuate correspondingly, but not usually in a manner permitting farmers to break even. They lose more on the declines than they get back on the advances. This is largely because speculators intervene between the producers and the consumers. Speculation depresses prices excessively to farmers in seasons of surplus production, and keeps from them the full benefit of rising prices in seasons of low production. Too much of the consumers' dollar goes to non-producers. Hence producers and consumers have a common interest in the control of both production and marketing.

In general, the idea has taken well with the farmers addressed. The corn and cotton loans were naturally popular with the beneficiaries, for the AAA took the risk of loss and the borrowers not only stood to gain but did gain, at least in corn in 1933-34. The farm organizations evidently favor the scheme. The opposition of the grain trade is suggested by three of the resolutions adopted by the Grain and Feed Dealers National Association in convention at Memphis, October 15-17, 1934:

The suggestions of a permanent program for the storage of grains upon the farm, financed by the federal government, does not commend itself to practical students of markets and prices. In effect, it is a renewal of the Farm Board program of surplus control, a program which not only cost taxpayers hundreds of millions by direct loss, but indirectly cost wheat growers a billion or more and was a potent factor in the industrial and financial collapse that plunged America into an yet unended depression.

Experience with the Farm Board effort, and parallel experience with the corn loan program, demonstrate that the theory of surplus control as a means of price lifting is thoroughly unsound.

In a period of large production, the Farm Board experiment was a continued price depressant during its whole existence. The corn loan program, carried on during a period of acute scarcity, was effective in preventing a full market response to the pressure of consumptive demand. The two experiences demonstrate clearly that a surplus held over the market, however accumulated and however financed, is a price depressant, severe in times of plenty, but also similarly effective in periods of scarcity.

Finally, we sincerely urge a moratorium upon new plans, programs and legislation at this time in the belief that producer, consumer and distributor alike will be better served by reliance upon the tried and tested experience of the past than they will be by additional novel experimentation.²⁶

On January 30, 1935 Administrator Davis definitely announced, as foreshadowed several months earlier, "that provision for corn loans will be an essential part of our corn-hog program for 1935."²⁷ The Secretary and Administrator support the amendment to the act giving authority to tender commodities thus stored on farms back to farmers for benefit payments.²⁸ Some efforts are being made to study the problems involved in storing wheat on farms²⁹ and in providing adequate farm storage facilities where they do not exist. It is reasonable to expect that the new wheat program, when it appears, will contain some reference to loans on wheat; but no specific commitment on this point has yet appeared (April 15, 1935). If the wheat harvest of 1935 should be small, the question may not become urgent until later, except possibly in particular regions.

²⁶ *Northwestern Miller*, Oct. 31, 1934, p. 293; *Who is Who in Grain and Feed*, Nov. 5, 1934, pp. 26-27. Other resolutions were distinctly friendly to Secretary Wallace and his ideas.

²⁷ *AAA Press Release No. 1464-35*.

²⁸ 74 Cong. 1 sess., *Amendments to Agricultural Adjustment Act*, Hearings before House Committee on Agriculture, Feb. 28-Mar. 6, 1935.

²⁹ See F. C. Fenton, "Engineering Problems in the Storage of Grain Crops on the Farm under Seal," *Contribution No. 69*, Department of Agricultural Engineering, Kansas State College.

CHAPTER XIV

CONTRIBUTIONS TOWARD AN APPRAISAL

In the foregoing chapters I have tried to set forth clearly, objectively, and in perspective the more significant facts regarding wheat and wheat policies under the AAA. In that presentation there are gaps—the result of a necessary selective process, limitations of available information, misjudgment, or oversight. There must also be errors of fact, inference, or emphasis, in spite of my painstaking efforts to be essentially accurate in statements made and impressions given. These gaps and errors I regret, and for them I apologize. As a whole, however, I consider the exposition a faithful one, free from bias for or against the AAA.

The book would be incomplete without some attempt to answer such fundamental questions as these: What of the AAA wheat program as a whole? Is it sound in its philosophy and its economics? Is it on the right track or the wrong one? Those who read the foregoing chapters will, of course, form their own opinions, if they have not already done so; but they have a right to expect me to give mine, as I have thus far refrained from doing.

I should like to answer these questions with the same objectivity that I have sought to employ in the first thirteen chapters. To this end I have deliberately waited to write this chapter until the others were done, and tried even to postpone crystallizing my views until I had organized the materials already presented. Yet I realize that anyone's reactions to such evidence are inevitably colored by his temperament, knowledge, convictions, and prejudices. I cannot expect that others, who differ

with me in these respects, will accept my opinions as truly objective.

Nevertheless, since few have had an equal opportunity to view the subject as a whole, and few who know certain phases more intimately are equally disinterested, I feel impelled to speak my mind for what it may be worth. What I shall say has reference to the wheat program, not to the AAA as a whole. When I advert to some phases of other programs, or to the AAA at large, I shall do so without implying other convictions than are essential to the discussion of the wheat aspects.¹ In order to avoid conveying the impression that any intelligent person must come to the conclusions that I express, I shall speak mainly in the first person. In seeking to be brief, I must sometimes appear dogmatic; but I do not claim that my position is wholly correct, and stand ready to change it in the light of criticism, other evidence, and future developments.

SUMMARY OBSERVATIONS

Political and social pressures in 1932-33 were such that a fresh major experiment in governmental aid to wheat farmers was probably inevitable. Among the various proposals that might conceivably have been adopted, the ingenious and flexible Adjustment Act had various points of superiority for application to wheat. Given the act and the philosophy underlying it,² I consider that the wheat program as it was worked out was on the whole a reasonable one for testing the author-

¹ Various other programs will be dealt with in other volumes of this series that will shortly be published, and our more comprehensive appraisal we reserve for a later volume.

² Later in this chapter I shall give my reservations on some of these points, but I cannot here go into other aspects on which my views are somewhat at variance with the prevailing interpretations, philosophy, and trend of policy.

ized procedures in the situation that was faced in the middle of 1933.

The skillful and herculean efforts by which the wheat program was carried through its first two years, with a high degree of administrative success in spite of irritating delays, command my admiration. Mistakes were made; hopes were held out that could not be fulfilled; and, perhaps inevitably, the AAA sometimes claims credit for more than it has accomplished or glosses over its shortcomings and failures.³ Yet considering the magnitude and complexity of the task involved in the wheat program, I think the job has been done better than could reasonably have been expected. I marvel that so many mistakes that could easily have been made, in both policy and procedure, were not made. I think it reflects high credit on the Administration that it resisted the temptation to plunge into large-scale stabilization operations, even though fortune might have made them work out well; that various surplus-removal measures were restricted to a small scale and handled so as to have no serious repercussions; and that, in the main, the AAA has succeeded in gaining the co-operation of the trades as well as of wheat farmers in important wheat sections.

(Control of wheat production through voluntary contracts, the future possibilities of which I shall shortly discuss, has not yet been a demonstrated success.) One goal of the wheat program—the elimination of our carry-

³ The principles set forth by the assistant administrator in charge of the Division of Information seem to me excellent. See A. D. Stedman's paper, "Informing the Public About the AAA," Dec. 27, 1934. If the practice sometimes falls short, this is hardly surprising in a large new organization operating under great pressure, where continuation of the wheat program depends on cultivating favorable attitudes on the part of farmers and the public. *Agricultural Adjustment, 1934*, the AAA's first report on operations to February 1934, was commendably ample. Its second report was not in print when this book went to press.

over surplus—has virtually been attained; but to this result the expensive and extremely laborious procedure has contributed very little. Had nature chosen to smile instead of to frown in 1933 and 1934, I do not believe that the wheat adjustment efforts would have led to important reductions in the 1935 carry-over from what it was on July 1, 1933. More probably, shrinkage of exports would have largely or wholly offset crop curtailment by the AAA, and the carry-over might even have increased.⁴

Nor has the program demonstrated its ability to raise farm prices of wheat materially. Nearly all of the striking net advance, in cents per bushel, I cannot help attributing to the droughts in combination with the tariff, with some influence from dollar depreciation especially in 1933-34.⁵ In the absence of the droughts, the program would have had more influence on wheat prices than it did, but could not possibly have raised them nearly so far. I consider it significant that, under conditions that might have been expected to raise farm prices of wheat well above a "normal" level, those prices have not yet risen above about 80 per cent of the computed "parity."⁶ I see no prospect that, by measures yet applied or proposed (as contrasted with accidents of nature), the program can attain what first appeared its "parity price" objective.⁷ Indeed, I believe that goal is virtually unat-

⁴ Some bases for this conclusion are suggested in the discussion on pp. 62-63, 329-30, 368n.

⁵ See pp. 51-53, 326-29, 359-62.

⁶ Between June 1934 and March 1935 the range has been from 73 to 83 per cent, and the average 78. The peak figure for Sept. 15, 1934 was the only one over 81 per cent. See further below, pp. 433-37.

⁷ In his initial statement on the farm bill (*AAA Press Release No. 938-33*, Mar. 18, 1933), Secretary Wallace said: "The goal of the bill, in terms of price, is pre-war parity between the things the farmer sells and the things the farmer buys." C. C. Conser (*Yearbook of Agriculture*, 1934, p. 371) listed among the fundamental principles of the wheat program: "The pur-

tainable, save by accident in an exceptional year; and that the AAA has rightly chosen not to make this its controlling aim.)

(Substantial success in reaching a less ambitious goal was almost a foregone conclusion: for contract signers, the artificial sum of national average farm price per bushel sold plus gross benefit payments accrued per bushel of allotment has practically equalled the computed "parity." In 1933-34, and 1934-35, as it happens, this yielded wheat growers as a group more income than if they had received "parity prices" on all wheat they sold but no benefit payments in addition.⁸

(The major achievement of the wheat program in its first two years, as I see it, lies in having increased the income of wheat growers as a group (chiefly by adjustment payments to those who signed wheat contracts) by probably over 200 million dollars above what they otherwise would have received. This involved little burden on the public treasury and apparently no large net burden on the milling and baking industries. It was done mainly at the expense of consumers of wheat, including farmers other than those who had their own wheat milled tax free for home use. In this redistribution of the national income, consumers as a class paid more money than wheat growers gained.⁹ Congress deliberately authorized the procedure that led to this result, on the ground that it was in the national interest. How far it proved so, I know of no certain means of judging. It may be that, on the whole, this redistribution of money

chasing power of the United States wheat growers' wheat must be restored to where it was in a pre-war period." As compared with the principal alternative "yardsticks" offered, I consider that "parity price" was preferable to "tariff effectiveness" or "cost of production."

⁸ See pp. 157-58.

⁹ See pp. 364-68.

income somewhat increased the real income of the nation in terms of satisfactions, but I cannot be sure of this. Some consider that this and closely related measures averted a social revolution, but I strongly doubt if the wheat program was essential for such a purpose. It certainly modified the course of recovery from the depths of depression, and still more the regional and industrial distribution of recovery; but I do not think that it contributed appreciably, if at all, to promoting *general* business recovery or to increasing the total national money income, as Congress and the public had been led to expect.¹⁰

(Thus far the wheat program in operation has not justified fears that it would seriously depress flour consumption, lead to extensive "bootlegging" of flour, radically alter the flow of wheat to market, and stimulate expansion of wheat production. Instead, its influence in these directions has been slight. In 1934 at least it caused some net contraction of wheat production, and in the absence of droughts in 1933, 1934, and 1935 it presumably would have caused more contraction than it did, though much less than nature brought. Nor has the program been responsible to date for the drastic reductions in our wheat and flour exports that have occurred, and I think it has helped only slightly in making ordinary commercial exports well-nigh impossible in 1933-34 and 1934-35.

Certain tendencies that seem to me inherent in the AAA wheat program have thus far been submerged by other influences, which include two successive years of severe drought followed by a third in which drought

¹⁰ For a preliminary analysis of a broader issue, see J. S. Davis, "AAA as a Force in Recovery," *Journal of Farm Economics*, February 1935, Vol. XVII, pp. 1-19 (with discussion by Mordecai Ezekiel and T. W. Schultz).

again bids fair to be important. Here I will mention briefly five such tendencies: (1) to keep poorer lands and less efficient farmers in wheat production, and in these and other ways to raise our average production costs per bushel; (2) to give millers a somewhat poorer selection of wheats—a result which in Europe in recent years has tended to reduce wheat consumption; (3) to interfere, on occasions and in various ways, with the ordinary course of marketing, and to keep the wheat market more or less continuously in fear of such intervention—though to a lesser extent than various alternative programs would have entailed; (4) to restrict commercial exports of wheat and flour; (5) to accentuate the current drift toward economic nationalism, which in turn seems to me to be having manifold adverse results. Most of these tendencies are contrary to the aims and principles of AAA leaders, but they seem to me almost inevitable concomitants of its policies, as these must be framed and carried out under the influence of group pressures.

Harmonious correction of world wheat maladjustments, through international understandings bearing on national actions, seems to me a worthy objective. With production restriction a central feature of the domestic wheat program, it was logical to seek corresponding action by other countries. I consider far-sighted the securing of even conditional commitments from importing countries in the direction of removing influences that tend to reduce or restrict their wheat consumption, lowering their barriers to wheat imports, and ending efforts to expand their wheat acreage and production. Such commitments can do little or no harm, and in time they may bear good fruit. On the other hand, the experience of the past two years has not diminished my skepticism

regarding the practical possibilities of wise regulation of wheat exports and restriction of wheat acreage or production under international agreement. I believe that efforts to achieve tighter controls than were achieved in 1933-34, whether they fail or seem to succeed, will be disappointing in their net outcome. International planning merely in a literal sense has much to commend it; but international controls in the sphere of wheat, however necessary to meet war-time scarcity, seem to me ill advised under the very different conditions of peace. For solving a world problem of "surplus" wheat, I feel certain that freer play of economic forces would accomplish more than the best controls that can be devised; and I believe that efforts to impose international controls are more likely to hinder than to strengthen efforts toward increased freedom.

Experience with the Pacific Northwest export subsidy suggests to me several significant facts. Handled cautiously on a limited scale as it was, such a subsidy leads to no serious adverse consequences but has very limited favorable results. Its influence is chiefly to raise prices and thereby to benefit producers of those kinds of wheat which are most accessible to export, least in demand domestically, or both. Even on these wheats, the price advantage realized tends to be much less than the subsidy cost per bushel, particularly when for other reasons our wheat prices are above a liberal export basis. Under such conditions, contrary to some theories of the export debenture plan, such operations do not tend to raise the entire wheat price structure of the country, or even of the region most directly affected, by anything approaching the amount of the subsidy per bushel.¹¹

¹¹ See J. S. Davis, *The Farm Export Debenture Plan*, 1929, Chap. V. If an export debenture system, as earlier proposed, had been in effect in

I believe the AAA has done well, and will continue to do well, to resist the growing pressure for large-scale subsidizing of wheat exports. I regard as wholly illusory the notion that, under prospective conditions in world wheat markets, prices for American wheat growers could be significantly improved by subsidizing the export of 100 million bushels of wheat. Though some plausible arguments for it can be formulated, it seems to me that in practice such an attempt would work badly.

It would prove in fact, I believe, a form of unfair international competition.¹² Increasing resort to this practice with wheat in recent years, by a few nations, has contributed to the erection of extraordinary barriers to international trade which have intensified and protracted the wheat crisis, and indeed the world economic depression. I should expect resort to it on a considerable scale to evoke extensive resistance by importing and other exporting countries. If it did, the result would be humiliating failure, inordinate expense, or both. If such resistance were absent, the reaction on competing countries such as Canada, Argentina, and Australia would be economically serious, presumably with adverse political and economic consequences to this country. Competition in

1933-34 with a virtual bounty of 21 cents a bushel on exports, I believe that our exports of wheat and flour would have been smaller than they actually were under the measures employed, not larger; and that wheat prices outside the Pacific Northwest would have been affected to only a negligible extent. Had this system been in effect in 1934-35 I think that very little wheat would have moved out, with negligible effects on our wheat prices. With domestic wheat prices far above export parity for other reasons, such an export bounty would have proved inadequate.

¹² Until 1933 the United States had not only refrained from openly indulging in the practice, but had condemned it in other nations. We still have on the statute books legislation designed to prevent subsidized imports. If export dumping by private concerns is objectionable, export dumping by public policy seems to me worse.

subsidized exports by the great exporters would be exceedingly costly to all of them, and to their wheat growers as well. I think that we, as a nation, can ill afford to experiment with using our great economic power so stupidly and so ruthlessly. We cannot wisely seek to solve our national wheat problem by methods that would make the world wheat situation worse, or that if generally adopted would make it chaotic.

THE EVER-NORMAL GRANARY SCHEME

This leads to the AAA proposal which, though officially linked with production control, is viewed by some farm spokesmen as a supplement to liberal export facilitation. In the preceding chapter I have set forth the case for the "ever-normal granary" as its sponsors have presented it. If they have formulated a more concrete plan for applying it to wheat, or set forth an adequate economic analysis of such a plan and its net advantages, I have been unable to learn of it. The scheme might take any one of several widely different forms. I will therefore not undertake to predict how, under pressure from farmers and the trades, and the influence of politics and the press, some such wheat-loan scheme would actually work. Nevertheless, since AAA spokesmen have urged public discussion of the idea and have virtually committed themselves to the principle, I venture to consider a few of the points urged in its behalf, merely in their relation to wheat.

As an insurance against national food scarcity such "planned wheat reserves" seem to me superfluous. Unless years of study of food problems in the large have misled me, the prospect of world food shortage is only a spectre to conjure with, not a doom to prepare for. Those who see nightmares of universal warfare or a

general breakdown of civilization can conceive of it; but any national food reserves yet thought of would be pitifully inadequate to cope with such imagined catastrophes. We do not live in the China of Confucius' day, or the Egypt of Joseph's eminence; of their actual experiments we know little, but that little has less current significance for us. Famines—as distinct from regional shortages that are readily mitigated—recur even today, but only where transportation is lacking, purchasing power low, private trade limited, and government weak or ruthless; they are obsolete in really modern nations. Of all countries the United States runs perhaps the least risk of anything approaching famine. Great Britain, most heavily dependent on food imports, has repeatedly rejected proposals for national wheat stores, and the strain of a great war did not lead her to adopt this policy for a period of peace.

In peace (as to a lesser degree in war) the world today is fed on foodstuffs of many kinds, produced in widely scattered regions under varied conditions, maturing at different seasons, and shipped more cheaply than ever before. Under these circumstances, persistent shortage of any one kind, such as bread grains, is rare; occasional shortage of one kind is seldom widespread or prolonged; and such is the balancing and flow of food production in the aggregate that general food scarcity is almost unknown. We are accustomed to changing diets, and agricultural output of cereals and pork soon responds to high prices. There are invisible margins of safety in world food supplies. Foodstuffs commonly fed to livestock can be eaten, products ordinarily wasted can be used, more attention can be given to choosing what the body needs instead of what fancy dictates, and efforts can be diverted to produce more food. Both the

great war and the recent droughts have revealed greater possibilities of adaptations than could readily have been forecast.

War brings scarcity and dearth of food to many, regardless of nature or national food reserves. Even in time of peace many individuals, sometimes large groups, go undernourished. They did so when the world had the largest surplus of stocks of wheat in history, and they presumably would if we had wheat reserves equal to two years' supply. No cure for this evil is to be found in an ever-normal granary.

Apart from national or world food shortage, planned reserves of wheat seem to me unnecessary as a mode of protecting American consumers. Only twice in our history has our wheat crop failed to cover the next year's domestic utilization—in 1933 and 1934; and for these crop deficits the AAA bore almost no responsibility. Even with AAA restriction programs in effect, we are not likely soon again to raise less wheat than we really need to use before the next harvest. Even if we should, carry-overs would probably be ample, under the influence of ordinary commercial motives, to supplement the short crop until another could be harvested. If, perchance, commercial reserves should be inadequate to make up a deficit, we should not face wheat scarcity. Although spokesmen for the ever-normal granary are strangely silent on this point—doubtless for tactical reasons—there is no prospect that wheat will be unavailable for import into the United States. Three great surplus producers are at our doors, in an economic sense, and eager to sell wheat to us. Were it not for an almost prohibitive tariff duty, Americans could this year buy flour milled from Canadian, Argentine, or Australian

wheat for much less than they are paying for flour milled from American wheat.

So far as wheat is concerned, I can see no element in the ever-normal granary that would improve the national diet or enhance consumer purchasing power, as was suggested in the *Consumers' Guide*. The scheme is designed to be grafted on to an adjustment plan, one successful object of which is to force consumers to pay "parity prices" for domestic wheat, regardless of its abundance or scarcity. If the AAA sticks to this policy and actually adjusts the rate of processing tax from year to year, prices of flour and bread may indeed be more stable than before the AAA existed, but at a higher level than they would be in the absence of production restraints, processing taxes, and benefit payments. If real protection to consumers in the event of domestic scarcity is desired, other obvious means are at hand—lowering of the processing tax and/or the tariff duty on wheat.

What the cost of the scheme might be, or how its burden would be distributed, we have no clear basis for estimating in the absence of a concrete proposal. Including carrying charges and loss in storage, the direct cost might easily be heavy, and indirect costs possibly larger still. Under present leadership, every effort would be made to keep that cost from falling on wheat producers. If recent policy should be followed, the tendency would be to load it on to consumers; but the general taxpayer might have to carry the burden of any severe loss and also the public debt incurred to supply farm storage facilities on a grand scale, if that suggestion should be accepted.

Under the circumstances, I can understand the appeal to consumers' sensibilities only on an unstated ground: that the proponents fear that materially higher prices of

flour and bread behind the tariff wall, or wheat imports on any considerable scale, might ring the death knell of the processing tax, benefit payments, and even the AAA. The primary objectives, I think it fair to infer, are to protect and strengthen the wheat program and to meet desires of wheat producers.

I can see no public justification for offering farmers wheat loans on which the government takes all the risk while the growers appear to take all the chance of gain.¹³ I can, of course, see the appeal of such loans to prospective borrowers in a year of big wheat crop, when these would presumably increase their cash income. I believe that this advantage would be short lived, as it was in the Farm Board's experience. Few realize what an extraordinary coincidence it was to have the shortest corn crop in four decades in the year following the initial corn-loan experiment. What in reality involved grave risks turned out a lucky gamble—such as tempts to further tests of fortune. Had this experiment been inaugurated after a big corn crop and followed by big yields in 1934, the AAA might have had as troublesome a problem of liquidation as the Farm Board had. Had the short yields of wheat in 1933 and 1934 come two or three years earlier, the Farm Board stabilization experiment might have been hailed as a great success. The board learned that all were eager to have the Stabilization Corporation buy, but almost all opposed its selling. It won little applause for arresting price declines, was roundly condemned for being unable to keep them from falling when it ceased buying, and was blamed for low prices

¹³ In some quarters, it is believed that farmers and consumers bear the cost of maintaining the speculative system under which risks of wheat price changes are now borne. I believe it reasonably clear that the cost of maintaining that system, regardless of imperfections in its operation, is borne by speculators as a class.

attributed to "the weight of its holdings overhanging the market." After years of less publicized stabilization operations, the Canadian government finds itself with large stocks of wheat to liquidate, even after two short crops. The AAA, I believe, will face similar dangers if it embarks on the plan with wheat.¹⁴

For reasons mentioned in the next section, I believe that the supposed safeguard of coupling national wheat reserves with "production control" is grossly exaggerated. The experiment of enforcing a really radical cut in production has not yet been tried on wheat. I doubt if public opinion would stand for plowing up wheat as the cotton growers plowed up cotton. Moreover, large changes in wheat acreage requirements of contract signers, conceivably rising at times to cuts of 30 per cent or more, would drastically affect farming practices. If such proved too severe to be carried out by voluntary methods, compulsion would be the alternative to breakdowns. Even with rigorous restrictions on cotton production, the AAA finds itself embarrassed by the consequences of its 12-cent cotton loan in 1934-35.

I see no prospect that the scheme would do much toward stabilizing wheat prices to growers, except to the extent that it might hold them up somewhat in the initial year and perhaps keep them later on a lower level than they otherwise would be. I cannot believe that Secretary Wallace relies upon competent wheat experts on his own staff when he says: "Speculation depresses prices excessively to farmers in seasons of surplus production, and keeps from them the full benefit of rising prices in seasons of low production." In any event, it is not clear that

¹⁴ When the grain trade handles his grain, the wheat grower can blame his troubles on the trade; when the government takes a powerful hand, the growers and the grain trade together can and do blame their troubles on it.

substitution of government speculation for private speculation would work better. At least after the initial year, the scheme in operation might even de-stabilize wheat-growers' income from sale of wheat, by interfering with a broad tendency for prices to be higher when growers have less to sell and lower when they have more to sell.

At best the scheme would involve continued disturbance of the operations of the grain trade, contrary to the broad policy of the AAA and also, I believe, to the interests of wheat growers. However much Secretary Wallace and Administrator Davis command the respect of the trade, men have learned from long experience that a government agency is subject to peculiar pressures, and that individual officials and policies change. To the ordinary risks of trade, under such circumstances, large unpredictable influences would be added.

The ever-normal granary plan has many complex economic, commercial, financial, and engineering aspects. I believe that these should have been expertly examined before any commitment to the principle was made. If this has not yet been done, I believe that all further intimations that it may be used for wheat should be deferred until such analysis yields convincing indications that some workable form of the plan will yield net advantages sufficient to offset its dangers. Otherwise the AAA may drift into an operation that could easily jeopardize its own existence.

PRODUCTION CONTROL OR ADJUSTMENT

We have seen that "reduction," "adjustment," or "control" of production has been a cardinal feature of AAA wheat plans. Conser put first among the "principles accepted as fundamental and therefore essential" in the formulation of the program: "The total volume

of wheat production in the United States must be reduced to and kept within effective demand."¹⁵ Passing over the baffling phrase "effective demand,"¹⁶ let us consider some major issues raised by the principle. First, was reduction of wheat production a rational objective in 1933, and is it still desirable for wheat production in the United States to be kept down well below the level of 1928-32? Second, can the wheat program, as thus far tested or envisaged, furnish a desired production control? Third, can a government agency bring about better readjustments of wheat production than economic forces will?

The wheat program has been attacked on the grounds that we cannot get richer by producing less; that contraction of food production is wrong, anti-social; that it is obviously idiotic to curtail wheat production when millions are hungry; that so long as there are unsatisfied wants there can be no over-production. I agree that over-production has been too commonly blamed for our economic difficulties; there is no prospect of our producing "too much" of things in general, provided we produce different things in suitable proportions and keep our machinery of distribution of products and reward for service in good working order. The persistence of the world wheat "surplus" problem is heavily traceable to measures in many countries that are uneconomic from a larger viewpoint, in that they restrict wheat consumption, interfere with the flow of wheat, and stimulate wheat production in these countries in the face of abundant world supplies. I believe facilitating consumption

¹⁵ *Yearbook of Agriculture*, 1934, p. 371.

¹⁶ It is not yet easy for the AAA staff to agree on the sense in which such a phrase is used, or in fixing a specific production goal within an agreed meaning. See Chap. XIII, p. 396.

a more basic principle than protecting producers, and that it is short-sighted to concentrate on the latter objective in respect to wheat.

(Nevertheless, on these main issues, so far as they concern wheat, I believe the AAA is more nearly right than its critics. Of any one product there may be excessive supplies—relatively if not absolutely. It is clearly possible to produce more in total by producing less of some things. There is important truth behind the idea of “balanced production,” however elusive the definition of balance may be. Individual want is now, as often, a problem distinct from that of national scarcity. In recent years at least, no one has lacked bread in this country because national wheat supplies have been short; and merely maintaining or increasing our wheat production would not relieve destitution. I believe that the AAA was right in its conviction that reduction in our wheat acreage and production was warranted in 1933, and that the situation and outlook continue such as to make economically desirable a smaller wheat acreage here than was sown in 1930-32. If wheat growers had voluntarily cut down their acreage and output in response to low prices, it would have been rightly regarded as an appropriate economic readjustment. Merely from this standpoint, therefore, I see no rational basis for attacking the wheat program because it sought reduction of our wheat production.)

Experience to date throws some light on the practical possibilities of exercising wheat production control. Early in the 1933 wheat campaign, growers were told:

The Farm Act offers the American wheat farmer a chance to fit his individual wheat production into a sound production schedule for the country as a whole. It offers him a chance to adjust his

output to demand, as other businessmen do, and to obtain a fair share of the national income.

. . . If enough farmers will join with their neighbors and take hold of the new economic machinery which the Farm Act offers, they can make that machinery their own, and make it work.¹⁷

And also :

The wheat adjustment plan seeks organized production control. With production uncontrolled, no government can assure farmers a permanently higher and more stable wheat price. . . . The Farm Act offers American farmers a chance to get together to plan their harvests, and to adjust production year by year to accord with actual profitable demand.

. . . Far greater cash gains [than from adjustment payments] will come, in the long run, from a raised and stable price of wheat.¹⁸

Such exuberant statements, in my opinion, grossly exaggerate the possibilities of "agricultural planning" toward "achieving a balanced agriculture," and of the wheat program in particular. Contrary to their implications, nothing approaching the control exercised by a manufacturer over his volume of output is possible by methods thus far applied or seriously considered for wheat.

(Within wide limits the AAA cannot determine the volume of the wheat crop in a single year, and even over a period of years its powers of controlling the out-turn are limited. Weather exerts important influence on the acreage sown, and remains the dominant factor determining abandonment, harvested acreage, and yields per harvested acre. By methods applied thus far, the AAA can at most merely influence the acreage sown or the acreage kept for harvest as grain. It can exert this limited influence only on the farms under contract, except in so far as it may prevent contraction on these from

¹⁷ *A Balanced Harvest* (W-5), AAA, August 1933--the "wheat primer."

¹⁸ *Planned Production Means More for Your Wheat* (W-6), AAA.

being offset by increases on other farms owned by the same landlord or operated by the same tenant. Much acreage in wheat, and much more that is suitable for wheat growing, is not under contract and is not likely to be.

The extent of even this influence on acreage depends on how effectually the contract terms can be enforced. The compliance machinery was given no severe test in 1934 and probably will be less severely tested in 1935. In 1934, much land which nature took out of wheat was allowed to count as "contracted acreage." Under the relaxations already announced for 1935, contract signers who planted winter wheat considerably beyond the regularly authorized 90 per cent of their base acreage will be allowed to harvest this wheat. With the 1935 crop outlook as it was in the early spring, these relaxations were doubtless well advised, but they will tempt contract signers next year to plant all they hope to harvest. A major test of the limited degree of acreage control will come only when, in 1936 or later, sown acreage substantially exceeds the approved limits, winter abandonment is light, and the crop promises to be large. Then only can we learn whether wheat growers, on demand for contract performance, will plow up a fine growing crop or cut it for hay; and whether public opinion, rightly or wrongly, will commend or condemn this. Unless the requirements are rigidly enforced, under such conditions, enforcement will break down generally; yet public prejudice against crop destruction will probably run higher the more rigid the enforcement efforts. If the Secretary of Agriculture should call for a reduction of 30 per cent or more, this in itself would present a severe test of enforceability.

Over any considerable period, moreover, there are

possibilities that acreage restraints may be offset. The requirement that *average* acreage be taken out is difficult to enforce; in line with good farm management, individual farmers tend to take out their lower yielding or higher cost acres. In some areas, higher yields will in time result from increased fallowing or planting of soil-building crops as a result of the program. Some farmers, restricted to smaller wheat acreage per farm, can and will handle that acreage better, and put in effect other known practices to give better yields per acre. Expansion of acreage by non-signers may go further toward offsetting contraction by contract signers. I do not know how to appraise the importance of these possibilities, but they suggest major limitations on the power of the AAA to control or regulate wheat production by specified restrictions on acreage of those who voluntarily sign wheat contracts.)

A closer approach to real "control" of wheat production, in the downward direction, is conceivable if resort were had to such measures as are being applied to cotton and tobacco under the Bankhead and Kerr-Smith acts. The AAA never proposed these for wheat. Secretary Wallace has indicated his fundamental dislike of such compulsory measures, while sometimes asserting that we may be driven to even more thoroughgoing regimentation than they imply.¹⁹ Conditions may arise in which Congress might force such a plan upon the AAA, as it did with cotton; and in a year or two of big wheat yields and low wheat prices might lead wheat growers (in terms of acreage if not by number) to

¹⁹ Administrator Davis stated last fall that the present leadership of the AAA did not contemplate applying to wheat the license and quota provisions provided for in Administration proposals for amending the Adjustment Act. See Chap. XIII, p. 397. As this is written, (Apr. 15, 1935), it is uncertain what action Congress will take on these proposals.

approve this experiment. For the near future, however, there is no prospect that rigorous production control measures will be applied to wheat. Lacking these, the power of the AAA to regulate wheat production remains limited.

A deeper question is whether the AAA can, under any such conditions as we face in the United States, bring about a better "adjustment" of wheat production than economic forces will bring. The choice, of course, is not between complete *laissez-faire* and complete regimentation. No one will question that economic forces often operate slowly and cruelly. I see logical justification for attempts to make them serve human ends better, just as I do for using natural forces to human advantage. The bridge builder does not break or defy the laws of physics; having learned to understand them, he uses them. The skillful physician works in harmony with, not against, the best-known principles of physiology and chemistry. I endorse the basic view that there is an important field for what may be called social therapy, social sanitation, social engineering. We can wisely devote energy to perfecting our technique of social and economic planning, and there is warrant for social and economic experimentation. Yet we must, I think, reckon with the facts that available techniques of social planning, experimentation, and control are ill developed, and that crude economic experimentation on a wide front and a large scale increases the risks of failure with consequent disillusionment and reaction.

The AAA has been taking pains to develop its planning technique. It recognizes that appropriate economic readjustments will vary among regions and among farmers in each region, under the influence of many factors; and that essentially uniform regulations, such as

were embodied in the 1933-35 wheat program, may not only fail to bring about advantageous internal readjustment but to some extent interfere with it. The Program Planning Division has been seeking to develop rational bases for wise adjustments in wheat production, not only in total but by regions, types of wheat, and individual farmers.²⁰ It is enlisting the aid of state agricultural colleges in developing needed regional information. It is hoping to introduce into the 1936-39 wheat program several features under which effect can be given to the results of such investigations, even though departures from a uniform plan are admittedly difficult to formulate and to justify to farmers and to regional groups.

Such research efforts command my hearty approval, even if I cannot fully share the faith that inspires them. At the stage which they have reached, I consider it premature to pass judgment on their ultimate potentialities for practical application in a control program. From what I have been able to learn, however, I see no early prospect that the AAA will see its way clear to make major modifications in its wheat program in the direction of discriminating regulation of regional and individual production of wheat. Various minor experiments may be made; but for far-sighted "agricultural planning" and successfully controlled readjustments in wheat, the required technique seems to me not at hand.

I believe it appropriate to raise the question whether the AAA should now launch its proposed second wheat program. Even without it, the present contracts extend through the crop year 1935-36 in respect to benefit payments and control associations.²¹ Even if acreage restric-

²⁰ See *Regional Problems in Agricultural Planning* (G-31), AAA, March 1935, which was not available till this book was in page proof.

²¹ There may be legal questions involved, but the AAA has successfully met several such issues.

tions should be announced for 1936, we can reasonably expect them to have little influence on wheat sowings in the fall of 1935. The wheat situation here and in the world at large is radically different from what it was when the first program was announced two years ago; and within the next ten months it may have changed still more—possibly distinctly for the better. Even if acreage for the 1936 harvest should be left free of restrictions, the crop is not likely to present problems much more difficult than if restraints should be announced in the summer of 1935. If signal improvements in the program can be made, the lapse of a year might give opportunity to perfect them and incorporate them in a new contract. It seems to me questionable policy to adopt now, for four years ahead, a program very much like that experimentally adopted two years ago to cope with a quite different situation. There is time to pause, and the insidious temptation to keep going for the sake of keeping going might well be resisted.

THE "PARITY PRICE" PHILOSOPHY

A fundamental element in the philosophy underlying the Adjustment Act and the AAA wheat program is that growers are "entitled" to "parity prices" for the wheat they sell; and that if market conditions yield less than this, it is just and expedient to tax wheat consumers to pay wheat growers who co-operate in acreage adjustments a cash supplement that will make up the difference, in the aggregate, on roughly the amount of wheat consumed for food in the United States. Congress has laid down a formula for determining what it has called "fair exchange value"; but this is a statutory phrase, not necessarily an economic fact.

Two distinct ideas are involved, and often confused, in considering these alternative terms "parity prices"

and "fair exchange value." One is that the computed "parity" represents a sort of economic "normal" price of wheat—a level around which price fluctuations occur from year to year, but from which any departures tend to be corrected by economic forces; and it is commonly assumed that this "normal" remains constant over long periods in relation to commodity prices in general. The other idea is that, regardless of actual wheat prices or any economic "normal" level, "parity price" represents what is socially just—what American wheat consumers can reasonably be asked to ensure that farmers get for the wheat that consumers eat.

It is no easy task for economic experts to ascertain what the economic "normal" price of wheat has been, is, or will be. My own study leads me to think that it is well below the "parity price" computed by the formula embodied in the original Adjustment Act; and that the calculated difference between "parity price" and current average farm price materially overstates the extent to which current prices are below current economic "normal" prices.

There are several steps in my reasoning.²² First, I believe that the pre-war average price, 88.4 cents a bushel, was above the economic "normal" for that period. The base period 1909-14 yielded not only a higher average farm price than any five-year average since the late seventies, except perhaps 1907-12; but also a price that was high enough to stimulate expansion of sown and harvested acreage between 1909 and 1914, in contrast to the downward trend of harvested acreage when prices ruled much lower from 1898 to 1907. Second, because of important shifts in wheat acreage

²² I hope at a later time to present a fuller discussion of this subject, but do not feel justified in doing so here.

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and production since the pre-war period, the method of weighting state average prices by production tends to give a lower national average farm price in post-war years than if constant weights were used; for this reason, the pre-war national average farm price is higher than is properly comparable with corresponding current figures. Third, the index of prices farmers pay for commodities bought is biased upward over a period of years, chiefly because it ignores considerable improvement in quality, economy, and serviceability of important items in it (especially farm machinery, tractors, and automobiles); if adjustment for such things could be made, the current index of prices farmers pay would be materially lower for comparison with wheat prices.

All this implies no criticism of the base period or the indexes as such. They were not devised for the purpose for which they are now used. So used, however, I think that they must yield a larger current deficit from the "parity price" of wheat than would be shown by investigations designed for the purpose of showing deviations from an economic "normal" price. Merely for illustration, let us contrast the results of the actual and a hypothetical calculation for March 15, 1935:

	Actual	Hypothetical
a. Base price	88.4c	80.0c ^{2a}
b. Index of prices farmers pay....	128	115
c. Parity price (a × b).....	113.2c	92.0c
d. Current price	85.5c	85.5c
e. Difference (c—d).....	27.7c	6.5c

The assumptions implied in these merely illustrative figures are inexact but on the whole, I think, not unreasonable; and the net results are in striking contrast.

^{2a} Allowing for two factors mentioned in the preceding paragraph.

Furthermore, it is a mistake to assume that the present day "normal" price of wheat, relative to prices of anything else or the price index for "all" commodities, is the same as it was before the war.²⁴ Changes in such "normals" are small in comparison with price fluctuations within a season or over a few years, but they are not negligible. Conditions under which the bulk of our wheat crop is produced have radically changed, chiefly because of improvements in equipment and methods. The world demand situation, to say nothing of other factors in the world wheat situation, has also changed radically. Both kinds of changes, I believe, make for a current "normal" economic price of wheat lower than before the war in relation to prices of things in general.²⁵ If these factors also could properly be taken into account, it might appear that United States farm prices of wheat in 1934-35 are above, not below, the current "normal" economic level, as might be expected after two years of short crops in succession.

There are indications that seem to me to lend some support to this reasoning. During most of the post-war years, the farm price of wheat in the United States has been more or less substantially below "parity" levels as now computed.²⁶ This at least raises the presumption

²⁴ For tobacco, the act specified a post-war base period, August 1919 to July 1929. In *Agricultural Adjustment*, AAA, p. 4, this explanation is given: "This variation from the base period established for other commodities is due to the fact that tobacco-consuming habits of the entire world have changed since the war, and the pre-war conditions of production and demand no longer accurately represent the present condition of the tobacco industry." The difference between wheat and tobacco in these respects is one of degree only.

²⁵ This is partly because, for many manufactured products not in the index of prices farmers pay, as with farm machinery in it, technological improvements often result in better quality or higher appeal rather than in lower prices per unit.

²⁶ See the chart in "The Facts about Wheat", *Wheat Circular No. 1*, AAA, p. 2.

that this "parity" was above the economic "normal." At times the wheat price has been so far below "parity" as to stimulate acreage contraction; but at other times, even in years when the price was below "parity," expansion of wheat acreage has occurred; and acreage was maintained at high levels even when carry-overs were piling up. Few would question that if restrictions on wheat sowings were now removed and farmers could be assured of a national average farm price of \$1.13 a bushel ("parity price" as of March 15, 1935) on all the wheat they chose to raise for sale, a notable expansion of wheat acreage would shortly occur. I believe that with similar assurances even a price of 85.5 cents a bushel (the average price for March 15) would lead to appreciable acreage expansion.

If one frankly admits that, whatever the present economic "normal" level of wheat prices is, the computed "parity price" does not measure it but is probably considerably higher, one may yet argue that "parity prices" are more just. My own difficulty at this point is that I can find no criteria for determining what price is "just" or "fair," within wide limits. This is a matter of opinion, and opinions differ. One Congress may decide what it thinks, but another may decide differently. Even if one could determine what income a *wheat grower* is "fairly entitled to," this would furnish no rational basis for saying that his *wheat* is worth more or less than he could get for it if he sold it under competitive conditions.

The formula embodied in the act seemed satisfactory to its wheat advocates when farm prices of wheat were far below the "parities" so computed. Since farm prices have gone up, demands have arisen for a change in the formula. In the spring of 1934 a bill to redefine "par-

ity," designed to raise the calculated "parity price," failed of approval on technical grounds. In the spring of 1935 other bills are before Congress providing for similar redefinition of "parity," authorizing processing taxes to be set higher in order to compensate for credits on processing for charitable distribution and use, and calling for drafts upon customs revenues for export promotion. The obvious intention is to increase benefit payments and farm prices also, at further expense to consumers and to the federal Treasury. Some of the food trades, in their eagerness to get rid of processing taxes,²⁷ are tending to support shifting the burden onto the federal Treasury or the public credit, and are willing to see benefit payments and export subsidies increased. The outcome will presumably be determined by the political strength of various groups, in which current persuasiveness is likely to have more influence than far-sighted statesmanship.

In practice, the statutory definition of "parity prices" is significant chiefly in determining at what heights processing tax rates and benefit payments can be set. This brings us to a delicate matter. The AAA has striven, in the main with considerable success, to prevent political influence from determining its wheat program or interfering with its effective execution. Nevertheless, the distribution of payments to wheat growers powerfully influences votes in the regions most concerned. Once this policy is established, and the flow of funds well started, attitudes of voters tend to be determined not by the inherent wisdom of the policy as a whole, but by the desire to keep these funds flowing in. As in the

²⁷ In the present situation, I am disposed to agree with the AAA that processing taxes on wheat should be retained so long as benefit payments are, in spite of the "regressive" character of these taxes.

notorious cases of the protective tariff and "pork barrel" appropriations for river and harbor improvements, those who get such favors from the government seek to retain and enlarge them; and their opposition to similar favors to other regions and other groups is weakened. Thus there is a tendency for the spread of a sinister form of political corruption which even its beneficiaries do not commonly recognize as such, so plausible are the grounds on which it is advocated and its results are accepted.²⁸

These tendencies are not surprising, but they seem to me evil. The government can well afford to say and back up its statement: "No one shall starve in this country if we can prevent it." I deem it right and wise to mitigate destitution so long as we cannot prevent it. *But for wheat growers and others, I believe that individual and family incomes, above a certain low minimum, should depend primarily on their earnings—not on public "benefits" or doles, by whatever name they may be called. It seems to me economically disadvantageous and politically harmful to have any considerable supplement to these occupational incomes derived from public funds determined by political action. If we have done it to meet a general emergency, I think we should avoid accepting it as a continuing policy.*

On such grounds as these, my own opinion is that wheat growers have been mis-educated into believing

²⁸ In the fall of 1934, Republicans freely charged that the Administration was in effect buying votes with AAA benefit payments and drought purchases of cattle, as well as with distribution of relief funds and public works expenditures; and attention was called to heavy distribution of benefit payments in the weeks preceding election day. While in some cases pressure was exerted to hurry wheat checks to certain districts, the main outflow of wheat payments at these times was in accord with plans made and justified on other grounds.

that they are fairly entitled to "parity prices" of wheat as Congress may be persuaded to define them—merely as prices or as price plus "adjustment payments," on all or part of the crop. I do not believe that a truly "fair price" on wheat can be set, even as an average over a period of years. If it could be done for wheat, there is hardly a product or service for which similar efforts would not be equally justified and logically demanded. Actual changes in prices of wheat and other products constitute economic forces operating to bring about readjustments in and between agriculture, industry, trade, and services. Mitigation of the harshness of these forces and acceleration of their speed may well be sought. But with all that the AAA has done, or shows early promise of doing, no substitute for these forces of readjustment is in prospect, short of complete socialization. Of its potentially achievable advantages, if they exist, we have no evidence; and wheat growers, in particular, are among the last of our citizens to seek so fundamental a change.

In conclusion, then, I regard the first two years under the wheat program as representing a valiant experiment which yielded certain results that were earnestly desired in the face of an emergency, while nature was effecting a radical readjustment in wheat supplies. The experiment has been too short, and the conditions under which it was tried have as yet been too unrepresentative, to permit final appraisal of its potentialities for good or ill. If the experiment could be continued under expert guidance, it might bear valuable fruit in time, though its practical promise of advantageous wheat readjustment seems to me limited. If effectual resistance cannot be offered to continued pressure to extend the experiment with considerable disregard of the results

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of experience and expert analysis, it is liable to break down under an adverse combination of circumstances. Certain tendencies within it, and accompanying it, seem to me contrary to the national interest. Some basic elements of the philosophy underlying it seem to me ill founded. I am disposed to give the AAA high credit for its conduct of the experiment to date; yet I believe that neither the results nor the promise justify indefinite continuation of the experiment in the form that now seems in contemplation.

APPENDIX



STATISTICAL TABLES

STATISTICAL TABLES

I. OFFICIAL ESTIMATES OF WINTER AND SPRING WHEAT ACREAGE,
PRE-WAR AND POST-WAR*
(In thousands of acres)

Crop	All Wheat		Winter Wheat		Spring Wheat	
	Sown	Harvested	Sown	Harvested	Sown	Harvested
1909-13 av...	...	48,075	32,978	29,064	...	19,011
1914.....	...	55,613	37,372	36,203	...	19,410
1919.....	77,440	73,700	51,391	50,404	26,049	23,296
1920.....	67,977	62,358	45,505	40,409	22,472	21,949
1921.....	67,681	64,566	45,479	43,160	22,202	21,406
1922.....	67,163	61,397	47,415	41,649	19,748	19,748
1923.....	64,510	56,920	45,408	38,712	19,102	18,208
1924.....	55,703	52,460	38,635	35,415	17,068	17,045
1925.....	61,736	52,441	40,920	31,962	20,816	20,479
1926.....	60,968	56,815	40,603	37,596	20,365	19,219
1927.....	65,649	59,628	44,134	38,195	21,515	21,433
1928.....	71,137	59,226	48,431	36,853	22,706	22,373
1929.....	66,787	63,320	43,918	41,188	22,869	22,132
1930.....	67,234	62,661	44,971	40,933	22,263	21,728
1931.....	65,618	57,103	45,240	43,080	20,378	14,023
1932.....	64,927	57,114	42,283	35,216	22,644	21,898
1933.....	66,969	47,910	42,669	28,485	24,300	19,425
1934.....	60,371	42,235	41,850	32,945	18,521	9,290
1935.....	...	...	44,306	...	...	...
1930-32 av...	65,926	58,959	44,165	39,743	21,762	19,216

* Summarized from data of Bureau of Agricultural Economics, chiefly as given in *Revised Estimates of Wheat Acreage, Yield, and Production, 1861-1929* (mimeographed September 1934), with revisions and additions to December 1934. Estimates of acreage sown to spring wheat are available only from 1919. See chart on p. 353 and text, pp. 6-7, 353-54. Data on production and yield per acre are readily accessible in the official *Yearbook of Agriculture*.

II. WHEAT ACREAGE AND PRODUCTION, 1919-34^a
By Groups of States^b

A. Acreage Sown for Wheat Grain^c
(In thousands of acres)

Harvest Year	Total	Group A	Group B	Group C	Group D-1	Group D-2
1919.....	77,440	25,069	21,706	6,314	17,536	6,815
1920.....	67,977	22,498	19,905	5,992	13,986	5,596
1921.....	67,681	24,276	20,426	5,388	12,399	5,192
1922.....	67,163	25,907	18,065	5,357	12,730	5,104
1923.....	64,510	24,215	17,533	5,074	12,974	4,714
1924.....	55,703	20,561	16,006	5,037	9,924	4,175
1925.....	61,736	23,373	18,295	6,507	9,661	3,900
1926.....	60,968	24,428	18,313	5,233	8,962	4,032
1927.....	65,649	27,096	19,487	5,691	9,317	4,058
1928.....	71,137	27,930	21,130	5,797	12,040	4,240
1929.....	66,787	28,017	20,652	6,021	8,412	3,685
1930.....	67,234	29,254	20,038	6,067	8,485	3,390
1931.....	65,618	29,197	19,251	5,398	8,299	3,473
1932.....	64,927	27,541	20,941	5,434	7,495	3,516
1933.....	66,969	27,197	21,670	6,612	7,943	3,547
1934.....	60,371	26,028	17,187	4,905	8,452	3,799
1928-32 av.....	67,141	28,388	20,402	5,743	8,946	3,661

^a See Table I, note a, p. 445 for sources. Estimates of total sown acreage are available only from 1919; and those given here involve some double counting of acres sown to wheat in the fall and resown to wheat in the following spring. See Table III.

^b State data are grouped as follows: (A) States producing chiefly hard red winter wheat; (B) states producing chiefly hard red spring and durum wheats; (C) Pacific and tributary states; (D-1) Mid-Western states producing chiefly soft red winter wheat; (D-2) other Eastern and Southern states.

See map on p. 12, charts on pp. 13 and 100, and Tables III-IV, pp. 448-49.

On the basis of Department of Agriculture estimates, Iowa belongs in Group A and Wisconsin, Maine, and Vermont in Group B. We have chosen to put Iowa and Wisconsin in Group D-1 and Maine and Vermont in Group D-2 because they fit better in these groups in respect to type of farming and trends of wheat acreage. Wyoming, which we have put in Group A, might be placed either in Group A or Group B.

^c Standing estimates of average sown acreage in 1930-32, provisionally classified by types on the basis of the 1929 census, show the following totals for our groups and five of the states mentioned in note b, in thousands of acres:

Group	Total	Hard Red Winter	Hard Red Spring	Durum	White	Soft Red Winter
A.....	28,664	25,916	796	232	73	1,648
B.....	20,077	954	13,013	5,943	152	15
C.....	5,633	1,238	203	3	3,838	351
D-1.....	8,092	1,561	162	5	355	6,009
D-2.....	3,460	5	5	1	199	3,246
Total.....	65,926	29,674	14,182	6,184	4,617	11,269
Iowa.....	369	329	29	1	1	9
Wyoming.....	360	145	164	48	3	-
Wisconsin.....	101	23	66	3	-	9
Michigan.....	719	2	3	1	337	376
New York.....	220	-	5	-	181	34

II. WHEAT ACREAGE AND PRODUCTION, 1919-34 (Continued)
By Groups of States

B. Acreage Harvested (In thousands of acres)

Harvest Year	Total	Group A	Group B	Group C	Group D-1	Group D-2
1919.....	73,700	24,832	18,570	6,126	17,425	6,747
1920.....	62,358	19,987	18,969	5,509	12,575	5,318
1921.....	64,566	22,860	19,387	5,109	12,121	5,089
1922.....	61,397	21,131	17,895	5,136	12,267	4,968
1923.....	56,920	18,787	16,439	4,897	12,216	4,581
1924.....	52,460	19,608	15,919	4,094	9,002	3,837
1925.....	52,441	17,783	17,386	4,741	8,763	3,768
1926.....	56,815	22,166	17,051	5,086	8,572	3,940
1927.....	59,628	21,940	19,331	5,554	8,858	3,945
1928.....	59,226	23,464	20,419	5,574	6,145	3,624
1929.....	63,320	26,096	19,863	5,675	8,071	3,615
1930.....	62,661	26,764	19,308	5,524	7,768	3,297
1931.....	57,103	27,935	12,497	5,087	8,216	3,368
1932.....	57,114	21,171	20,129	5,205	7,194	3,415
1933.....	47,910	15,304	16,526	4,970	7,666	3,441
1934.....	42,235	18,302	7,747	4,430	8,112	3,644
1928-32 av.....	59,885	25,086	18,445	5,413	7,479	3,464
1909-13 av.....	48,075	11,838	16,672	4,202	9,959	5,404

C. Production
(In thousands of bushels)

Harvest Year	Total	Group A	Group B	Group C	Group D-1	Group D-2
1919.....	952,097	337,323	138,012	102,123	287,386	87,253
1920.....	843,277	309,839	184,200	100,346	174,515	74,377
1921.....	818,964	299,239	179,186	111,556	162,178	66,805
1922.....	846,649	250,330	251,532	85,671	188,970	70,146
1923.....	759,482	195,789	168,955	118,852	206,501	69,385
1924.....	840,091	312,694	255,747	62,842	154,142	54,666
1925.....	669,142	169,448	210,245	94,243	132,930	62,276
1926.....	833,544	335,821	161,089	98,468	167,145	71,021
1927.....	874,733	270,071	283,867	128,986	135,484	56,325
1928.....	912,961	359,022	294,157	123,060	86,583	50,139
1929.....	822,180	334,640	196,510	111,679	126,183	53,168
1930.....	889,702	365,823	212,839	111,574	139,531	59,935
1931.....	932,221	480,274	89,423	90,681	201,472	70,371
1932.....	745,788	236,285	240,313	106,485	119,899	42,806
1933.....	528,975	141,802	120,380	95,750	121,500	49,543
1934.....	496,469	166,163	62,502	81,853	132,124	53,827
1928-32 av.....	860,570	355,209	206,648	108,696	134,734	55,284
1909-13 av.....	681,736	159,473	209,315	81,624	156,711	74,614

III. WHEAT ACREAGE SOWN, 1930-34, AND
BASE ACREAGE OF CONTRACT SIGNERS^a

By States and Groups of States
(In thousands of acres)

Group or State	Acreage Sown			Base Acreage Signed up	Percentage Sign-up ^b
	1930-32 Average	1933	1934		
United States.....	65,958	66,969	60,371	51,401	78
Group A.....	28,664	27,197	26,028	23,999	84
Group B.....	20,077	21,670	17,187	18,595	91 ^b
Group C.....	5,664	6,612	4,905	4,441	78
Group D-1.....	8,093	7,943	8,452	3,454	43
Group D-2.....	3,460	3,547	3,799	912	26
Kansas.....	13,516	12,868	12,092	12,088	89
Nebraska.....	3,674	3,304	3,331	2,646	72
Oklahoma.....	4,533	4,419	4,338	3,524	78
Texas.....	4,346	4,491	4,087	3,658	84
Colorado.....	1,755	1,292	1,555	1,452	83
New Mexico.....	480	425	365	388	81
Wyoming.....	360	398	260	243	67
North Dakota.....	10,368	11,372	8,757	9,904	94 ^b
Montana.....	4,446	4,164	3,523	4,336	94 ^b
South Dakota.....	3,895	4,418	3,263	3,516	90
Minnesota.....	1,368	1,716	1,644	839	61
Washington.....	2,471	2,971	1,987	1,943	79
Idaho.....	1,174	1,080	964	981	84
Oregon.....	1,027	1,498	966	853	83
California.....	677	736	681	444	66
Utah.....	272	263	240	206	75
Arizona.....	28	47	51	6	22
Nevada.....	15	17	16	8	57
Illinois.....	1,971	1,772	1,961	999	51
Ohio.....	1,745	1,870	1,785	613	35
Indiana.....	1,652	1,663	1,845	746	45
Missouri.....	1,536	1,415	1,553	695	45
Michigan.....	719	843	834	245	34
Iowa.....	369	272	349	143	39
Wisconsin.....	101	108	125	13	13
Pennsylvania.....	955	900	910	90	9
Virginia.....	601	561	590	210	35
Maryland.....	439	401	395	289	66
New York.....	220	241	282	12	6
North Carolina.....	334	399	445	22	6
Kentucky.....	259	296	338	139	54
Tennessee.....	249	296	336	71	28
Delaware.....	94	86	84	37	39
West Virginia.....	113	130	146	32	28
New Jersey.....	50	49	50	4	7
South Carolina.....	57	77	87	-	-
Georgia.....	52	71	87	4	7
Arkansas.....	30	31	36	2	6
Maine.....	2	5	5	-	-
Alabama.....	4	4	8	-	-
Vermont.....	1	-	-	-	-
Mississippi.....	-	-	-	-	-

^a The 1930-32 averages are the estimates as revised in December 1933, which with preliminary estimates are given in *Agricultural Adjustment*, AAA, p. 59. These are adjusted to eliminate double counting of acres sown to wheat in the fall and resown to wheat in the following spring. The 1933 and 1934 figures are unadjusted totals of acres sown to winter and spring wheat, according to the crop report of December 1934. Data for the last two columns are from "The Facts about Wheat," *Wheat Circular No. 1*, AAA, January 1935, pp. 6-7. See chart on p. 100 and accompanying discussion.

^b In general, as a percentage of official estimate of 1930-32 average sown acreage. For North Dakota and Montana, and Group B in which they fall, this percentage is based on a higher figure for acreage "allowed" by the Wheat Section.

IV. PRODUCTION OF WHEAT, 1928-34, AND
ALLOTMENTS TO CONTRACT SIGNERS*

By States and Groups of States
(In thousands of bushels)

Group or State	Production			Allotments		Percentage Sign-up
	1928-32 Average	1933	1934	Totals	Assigned	
United States.....	860,228	528,975	496,469	464,523	350,345 ^b	75 ^c
Group A.....	354,416	141,802	166,163	191,385	160,759	84
Group B.....	206,649	120,380	62,502	111,590	99,256	89
Group C.....	109,155	95,750	81,853	58,944	48,793	83
Group D-1.....	134,734	121,500	132,124	72,756	32,993	45
Group D-2.....	55,274	49,543	53,827	29,848	8,227	28
Kansas.....	177,431	57,504	79,700	95,813	85,376	89
Nebraska.....	56,538	29,206	15,838	30,531	21,395	70
Oklahoma.....	54,352	31,549	37,348	29,350	23,987	82
Texas.....	41,083	14,008	25,749	22,185	18,965	85
Colorado.....	17,111	5,912	5,776	9,240	7,680	83
New Mexico.....	4,148	1,485	711	2,240	1,793	80
Wyoming.....	3,753	2,138	1,041	2,027	1,563	77
North Dakota.....	102,903	72,115	21,196	55,568	51,634	93
Montana.....	45,168	26,480	28,174	24,391	22,747	93
South Dakota.....	37,632	5,120	598	20,321	18,160	89
Minnesota.....	20,946	16,665	12,534	11,311	6,715	59
Washington.....	42,882	43,044	37,346	23,156	20,219	87
Idaho.....	27,488	17,235	18,696	14,844	12,176	82
Oregon.....	21,205	17,608	12,944	11,451	9,427	82
California.....	11,046	12,118	8,384	5,965	4,414	74
Utah.....	5,554	4,079	3,147	2,999	2,369	79
Arizona.....	602	1,288	1,000	325	76	23
Nevada.....	378	378	336	204	112	55
Illinois.....	32,533	27,418	29,495	17,568	9,302	53
Ohio.....	30,480	34,812	33,401	16,459	6,048	37
Indiana.....	26,522	22,905	32,152	14,322	6,892	48
Missouri.....	20,362	16,989	21,281	10,995	5,829	53
Michigan.....	15,523	13,457	11,120	8,382	3,042	36
Iowa.....	7,445	4,303	3,028	4,020	1,739	43
Wisconsin.....	1,869	1,616	1,647	1,009	141	14
Pennsylvania.....	17,387	15,783	14,759	9,389	902	10
Virginia.....	9,220	7,425	8,092	4,979	1,964	39
Maryland.....	8,648	6,320	7,934	4,670	2,866	61
New York.....	4,411	4,512	4,416	2,382	159	7
North Carolina.....	3,653	3,714	4,340	1,973	189	10
Kentucky.....	3,002	3,300	4,250	1,621	933	58
Tennessee.....	2,918	2,917	3,392	1,576	473	30
Delaware.....	1,800	1,162	1,539	972	384	40
West Virginia.....	1,643	1,856	1,974	887	274	31
New Jersey.....	1,157	1,056	1,127	625	43	7
South Carolina.....	575	592	765	311	-	-
Georgia.....	510	536	756	275	30	11
Arkansas.....	247	216	297	133	10	8
Maine.....	51	120	120	28	-	-
Alabama.....	34	34	66	18	-	-
Vermont.....	15	-	-	8	-	-
Mississippi.....	3	-	-	2	-	-

* Production data of Division of Crop and Livestock Estimates, the 1928-32 acreage from "The Facts about Wheat," *Wheat Circular No. 1*, AAA, pp. 6, 7. Total allotments computed at 54 per cent of 1928-32 average production. Allotments assigned to contract signers up to Oct. 16, 1934 as given in the same, pp. 6, 7.

^b Includes 317,000 bushels not allocated.

^c This percentage is lower than that based on acreage sign-up (78 per cent) because, by and large, the sign-up was smaller in states having the higher yields per acre. Within counties and communities, and in most states as a whole, contract signers generally showed a percentage sign-up higher in terms of allotments than in terms of acreage, implying higher average yields for signers than for non-signers.

V. CENSUS DATA ON FARMS WHERE WHEAT WAS HARVESTED
 IN 1929, AND AAA DATA ON CONTRACTS
 APPROVED UP TO OCTOBER 16, 1934^a
 By States and Groups of States

Group or State	Number of Farms	Number of Contracts	Group or State	Number of Farms	Number of Contracts
United States	1,208,091 ^b	577,254	Illinois.....	66,836	23,937
Group A.....	236,758	186,833	Ohio.....	97,387	23,811
Group B.....	194,884	213,587	Indiana.....	65,187	24,027
Group C.....	73,619	41,483	Missouri.....	50,166	16,110
Group D-1...	386,227	106,759	Michigan.....	63,581	13,978
Group D-2...	316,495	28,592	Iowa.....	18,998	3,699
			Wisconsin....	24,072	1,197
Kansas.....	88,320	93,900	Pennsylvania..	84,496	3,417
Nebraska....	54,949	33,873	Virginia.....	59,390	7,636
Oklahoma...	38,688	28,919	Maryland....	19,378	7,739
Texas.....	23,058	14,383	New York.....	24,931	589
Colorado....	18,856	11,794	North Carolina	49,070	1,057
New Mexico..	6,922	1,682	Kentucky....	12,553	3,964
Wyoming....	5,965	2,282	Tennessee....	21,804	2,268
			Delaware....	4,127	687
North Dakota	68,689	103,587	West Virginia.	9,999	971
Montana....	29,143	38,898	New Jersey...	4,836	192
South Dakota	41,300	49,467	South Carolina	14,063	-
Minnesota...	55,752	21,635	Georgia.....	10,064	31
			Arkansas....	1,048	41
Washington..	14,690	11,472	Maine.....	554	-
Idaho.....	23,318	14,688	Alabama.....	-	-
Oregon.....	15,657	7,055	Vermont.....	170	-
California...	5,098	2,229	Mississippi...	12	-
Utah.....	13,038	5,623			
Arizona.....	960	114			
Nevada.....	858	302			

^a Data from "The Facts about Wheat," *Wheat Circular No. 1*, AAA, pp. 6, 7, arranged as in preceding tables, within each group as the states ranked in importance in wheat production in 1928-32. See discussion on pp. 96-98.

^b Includes 108 in states growing under 500 acres in the base period.

VI. ESTIMATED FARM CASH INCOME FROM WHEAT PRODUCTION,
1931-35, AND ESTIMATED BENEFIT PAYMENTS 1933-35*

By States and Groups of States
(In thousands of dollars)

Group or State	Cash Income from Production		Cash Income plus Benefits		Benefit Payments	
	1931-32	1932-33	1933-34	1934-35	1933-34	1934-35
United States.....	254,129	194,846	373,960	390,677	98,600	101,600 ^b
Group A.....	131,149	56,184	119,308	145,709	45,650	46,620
Group B.....	20,807	65,171	87,146	65,256	27,985	28,784
Group C.....	26,462	31,751	61,900	61,673	13,770	14,150
Group D-1.....	53,228	31,016	79,692	87,201	8,924	9,568
Group D-2.....	22,483	10,724	25,914	30,838	2,271	2,386
Kansas.....	69,410	29,159	53,750	73,925	24,398	24,759
Nebraska.....	14,208	7,174	22,476	14,313	5,944	6,205
Oklahoma.....	19,114	10,750	23,422	30,333	6,840	6,956
Texas.....	21,803	6,928	13,037	20,752	5,422	5,500
Colorado.....	3,253	1,242	4,213	4,692	2,142	2,227
New Mexico.....	2,999	474	1,241	798	497	520
Wyoming.....	362	457	1,169	896	407	453
North Dakota.....	10,080	31,385	52,746	23,306	14,677	14,974
Montana.....	3,175	14,831	19,000	26,836	6,331	6,597
South Dakota.....	2,058	13,325	5,563	5,355	5,127	5,266
Minnesota.....	5,494	5,630	9,837	9,759	1,850	1,947
Washington.....	12,888	12,462	28,312	29,472	5,802	5,864
Idaho.....	3,142	6,476	9,634	13,048	3,399	3,531
Oregon.....	5,100	6,059	11,769	10,224	2,662	2,734
California.....	3,681	5,068	9,505	6,709	1,196	1,280
Utah.....	1,218	1,235	1,654	1,381	660	687
Arizona.....	365	333	888	721	21	22
Nevada.....	68	118	138	118	30	32
Illinois.....	14,445	7,642	20,889	23,351	2,492	2,698
Ohio.....	14,099	8,470	22,090	20,643	1,718	1,754
Indiana.....	11,673	6,396	16,071	23,192	1,882	1,999
Missouri.....	7,235	3,206	11,145	12,541	1,534	1,690
Michigan.....	3,988	4,055	6,577	5,508	828	882
Iowa.....	1,720	925	2,657	1,631	431	504
Wisconsin.....	68	332	263	335	39	41
Pennsylvania.....	6,116	3,175	7,381	6,595	254	262
Virginia.....	4,437	1,380	3,807	4,668	539	570
Maryland.....	3,592	1,365	4,905	6,397	796	831
New York.....	1,676	1,133	2,047	2,348	44	46
North Carolina.....	1,223	822	1,421	1,998	53	55
Kentucky.....	1,843	851	2,367	3,174	249	271
Tennessee.....	1,379	704	1,575	2,055	128	137
Delaware.....	774	290	626	1,022	110	111
West Virginia.....	605	311	912	989	76	79
New Jersey.....	347	227	350	529	11	12
South Carolina.....	64	107	63	228	-	-
Georgia.....	244	247	256	503	8	9
Arkansas.....	136	58	94	159	3	3
Maine.....	17	26	96	122	-	-
Alabama.....	22	28	14	51	-	-
Vermont.....	8	-	-	-	-	-
Mississippi.....	-	-	-	-	-	-

^t Income estimates from *Crops and Markets*, July 1934, Vol. 11, No. 7, p. 365, and Division of Crop and Livestock estimates, March 1935. Benefit payments data, gross estimated totals payable under contracts, are from "The Facts about Wheat," *Wheat Circular No. 1*, AAA, pp. 6-7. Arrangement as in preceding tables. See discussion on pp. 162-64.

VII. EXPENDITURES OF AAA THROUGH JANUARY 1935*
(In thousands of dollars)

Group	Total	Rental and Benefit Payments	Surplus Removal, etc.	Administrative Costs		
				Total	Washington	Field
Total.....	822,128	585,922	196,882	39,324	17,531	21,793
Wheat.....	163,991	153,229	6,097	4,665	2,372	2,293
Cotton.....	232,606	215,630	-	16,976	4,539	12,437
Tobacco.....	23,443	21,366	-	2,077	953	1,124
Corn-hogs.....	247,816	195,641	46,079	6,096	2,694	3,402
Cattle.....	108,186	-	105,151	3,035	1,492	1,543
Sheep and goats.....	7,124	-	7,124	-	-	-
Butter and cheese.....	16,007	-	16,007	-	-	-
Seeds.....	15,737	-	15,737	-	-	-
Sugar.....	814	56	356	402	150	252
Peanuts.....	346	-	332	14	14	-
General.....	6,059	-	-	6,059	5,317	742

* Comptroller's data, AAA. Rental and benefit payments here given are gross, before deduction of local administrative costs chargeable to production control associations. The latter are not included in administrative costs here shown.

VIII. COLLECTIONS OF WHEAT PROCESSING AND IMPORT COMPENSATORY TAXES, AND BENEFIT PAYMENTS PAID*
Cumulated Monthly from July 1933
(In thousands of dollars)

To End of	Tax Collections		Benefit Payments Paid			
	Gross	Net	Total	First, 1933	Second, 1933	First, 1934
1933:						
July.....	1	-	-	-	-	-
August.....	1,238	-	-	-	-	-
September.....	7,786	-	-	-	-	-
October.....	17,435	-	52	52	-	-
November.....	25,967	-	3,201	3,201	-	-
December.....	35,639	-	18,397	18,397	-	-
1934:						
January.....	48,774	-	44,918	44,918	-	-
February.....	58,789	-	59,076	59,076	-	-
March.....	72,261	-	64,623	64,623	-	-
April.....	81,534	81,032	66,289	66,289	-	-
May.....	93,086	92,506	66,760	66,760	-	-
June.....	104,060	103,409	67,074	67,074	-	-
July.....	113,987	113,106	67,341	67,340	1	-
August.....	123,786	122,510	67,907	67,609	298	-
September.....	132,812	130,769	69,665	67,770	1,895	-
October.....	144,648	141,792	105,205	67,829	10,366	27,009
November.....	156,176	152,980	130,508	67,875	16,901	45,732
December.....	167,603	164,071	142,445	67,895	20,494	54,056
1935:						
January.....	178,521	174,836	148,640	67,895	22,403	58,342
February.....	188,477	...	153,851	67,904	23,428	62,519

* Tax collections data of Bureau of Internal Revenue; the net figure is after deducting all refunds. Benefit payments data from AAA. See chart on p. 161 and Table LX, p. 453.

**IX. COLLECTIONS OF WHEAT PROCESSING AND RELATED TAXES,
AND REFUNDS, JULY 1933-JANUARY 1935***
(In thousands of dollars)

A. Monthly

Month	Gross Total	Pro- cessing	Import Compen- satory	Floor Stocks		
				Total	Retail Dealers	Others
1933:						
July.....	383	-	1.0	382	1	381
August.....	9,955	1,234	2.6	8,718	732	7,986
September.....	9,185	6,546	1.9	2,637	1,633	1,004
October.....	10,222	9,467	2.2	752	132	621
November.....	9,160	8,710	1.9	448	40	408
December.....	9,823	9,670	2.0	151	28	123
1934:						
January.....	13,272	13,133	1.3	137	18	119
February.....	10,098	10,013	1.6	83	9	74
March.....	13,547	13,471	1.5	75	7	68
April.....	9,346	9,273	1.3	72	8	65
May.....	11,613	11,549	1.9	62	8	53
June.....	11,019	10,972	1.6	45	6	40
July.....	9,971	9,925	1.7	45	4	40
August.....	9,823	9,797	2.3	23	2	21
September.....	9,055	9,024	1.7	29	5	24
October.....	11,858	11,834	2.1	22	2	20
November.....	11,556	11,526	2.8	27	1	26
December.....	11,444	11,424	2.4	18	1	17
1935:						
January.....	10,934	10,917	1.5	16	...	...
February.....	9,968	9,955	1.6	12	...	...

B. Cumulative

1933:						
July.....	383	...	1.0	382	1	381
August.....	10,338	1,234	4.0	9,100	732	8,368
September.....	19,522	7,780	5.0	11,737	2,365	9,372
October.....	29,744	17,247	8.0	12,489	2,496	9,993
November.....	38,904	25,957	10.0	12,937	2,536	10,401
December.....	48,726	35,627	11.0	13,088	2,564	10,524
1934:						
January.....	61,998	48,761	13.0	13,224	2,582	10,642
February.....	72,096	58,774	14.0	13,308	2,592	10,716
March.....	85,643	72,244	16.0	13,383	2,599	10,784
April.....	94,990	81,517	17.0	13,456	2,607	10,849
May.....	106,602	93,066	19.0	13,517	2,615	10,902
June.....	117,621	104,039	21.0	13,561	2,620	10,941
July.....	127,592	113,964	22.0	13,606	2,624	10,982
August.....	137,415	123,761	25.0	13,629	2,626	11,003
September.....	146,470	132,785	26.0	13,659	2,632	11,027
October.....	158,328	144,619	29.0	13,680	2,633	11,047
November.....	169,884	156,145	31.0	13,708	2,635	11,073
December.....	181,329	167,569	34.0	13,726	2,635	11,091
1935:						
January.....	192,263	178,486	35.0	13,742	...	...

C. Refunds to January 31, 1935

Total.....	3,685	3,404	32.0	249	...	...
Overpayments.....	71	10	2.0	59	...	...
Interest.....	2	-	-	2	...	...
Charitable.....	1,824	1,726	-	98	...	...
Exports.....	1,788	1,668	30.0	90	...	...

* Data of Bureau of Internal Revenue. Cumulative totals of refunds, as far as available, may be computed from data in Table VIII, p. 452.

**X. DIFFERENCES BETWEEN FARM PRICES OF WHEAT IN WASHINGTON
AND AVERAGE FARM PRICE FOR THE UNITED STATES***

For Selected Pre-War and Post-War Years

(In cents per bushel)

Month	1909-14 Average	1925-26	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
July.....	-10.0	+ 5	+ 3	+ 5	+ 1	- 1	-21	-16
August.....	- 7.2	- 8	+ 7	+ 4	+ 1	+ 2	-14	-14
September....	-10.6	- 7	+ 3	+ 1	- 1	+ 1	-13	-13
October.....	-10.9	-18	+ 2	- 3	+ 3	+ 1	-10	-15
November....	-10.6	-19	+ 2	- 3	+ 9	- 2	-12	-15
December....	-10.2	- 7	+ 2	- 9	+ 7	- 1	-11	-18
January.....	-10.0	-17	+ 1	-11	+ 6	- 3	-11	-17
February....	- 9.2	-10	+ 1	-10	+ 4	- 2	-14	-16
March.....	- 7.9	-12	+ 2	-10	+ 3	- 3	-12	-17
April.....	- 5.9	-18	+ 3	-10	+ 3	- 5	-12	...
May.....	- 7.9	-22	0	-12	+ 4	-10	-12	...
June.....	- 8.6	-14	0	- 9	+ 4	-13	-16	...
Average.....	- 9.0	- 9	+ 2	- 5	+ 4	- 3	-13	...

* Derived from data in "Wheat and Rye Statistics," *USDA Statistical Bulletin No. 12*, January 1926, and *Crops and Markets*. Washington farm prices for crop years 1925-26 to 1933-34 are assembled in *Wheat Studies of the Food Research Institute*, August 1934, p. 425. The pre-war average is for the five-year period beginning August 1909, the base chosen for computation of "parity prices"; thus July 1909 is excluded and July 1914 is included.

Opening of the Panama Canal and development of Oriental markets have resulted in post-war years in generally narrower spreads between United States average farm prices and Washington farm prices, but there is no persisting normal relationship. In 1925-26, after a short crop east of the Rockies and a fair crop in the Pacific Northwest (conditions approaching those of 1933-34 and 1934-35), Washington prices were much further than usual below the national average.

XI. WHEAT "PARITY PRICE" AND EXCESS OVER AVERAGE

FARM PRICE, JULY 1932—MARCH 1935*

(In cents per bushel)

Month	Computed "Parity Price"			Excess over Average Farm Price		
	1932-33	1933-34	1934-35	1932-33	1933-34	1934-35
July.....	94.6 ^b	94.6	107.8	59.0	7.7	29.0
August.....	94.6 ^b	99.0	110.5	56.1	24.3	20.9
September....	93.7	102.5	111.4	56.3	31.4	19.2
October.....	92.8	102.5	111.4	58.2	38.9	22.9
November....	91.9	102.5	111.4	59.1	31.4	23.3
December....	91.1	102.5	111.4	59.5	35.2	20.8
January.....	90.2	103.4	111.4	57.3	34.0	22.1
February....	89.3	105.2	112.3	57.0	33.2	24.4
March.....	88.4	106.1	113.2	53.9	35.2	27.7
April.....	89.3	106.1	...	44.5	37.4	...
May.....	90.2	107.0	...	31.2	37.5	...
June.....	91.1	107.0	...	32.4	28.1	...
Average.....	91.4	103.2	...	52.0 ^c	31.2 ^c	...

* "Parity prices" as given by Crop Reporting Board, Bureau of Agricultural Economics. Excess computed from average farm prices reported in *Crops and Markets*. See chart on p. 196.

^b Our computations, assuming 107 for index of prices farmers paid; for June 15 the index was 108; for September 15 it was 106.

^c Excess over weighted average farm price: 1932-33, 52.6; 1933-34, 29.9.

**XII. EXPORT SALES THROUGH NORTH PACIFIC EMERGENCY
EXPORT ASSOCIATION, 1933-34^a**

By Area of Destination^b

Area of Destination	Wheat		Flour as Wheat	
	In thousands of Bushels	Percentage Distribution	In thousands of Bushels	Percentage Distribution
Total	21,846	100.0	6,544	100.0
China and Hongkong	11,627	53.2	2,518	38.5
Japan	4,971	22.8	4	-
Manchuria	-	-	224	3.4
Philippine Islands	-	-	2,176	33.2
Irish Free State	2,414	11.1	-	-
Great Britain and Continental Europe	2,147 ^b	9.8 ^b	435	6.8
South and Central America, and West Indies	357	1.6	1,158	17.7
Other	330 ^b	1.5 ^b	29	.4

^a Classified from more detailed provisional data of AAA, covering the entire period of export sales from Oct. 31, 1933 through Aug. 9, 1934. For sales to the Chinese government, see pp. 283-84, 288n, 290.

^b The wheat item here listed as "Other" represents shipments, chiefly to Colon for orders, the final distribution of which is not stated. We infer that much of this went to Europe.

**XIII. PURCHASES AND EXPORT SALES THROUGH NORTH PACIFIC
EMERGENCY EXPORT ASSOCIATION, 1933-34***
(In thousands of bushels)

Week Ending	Wheat Purchases	Wheat and Flour Sales		
		Total	Wheat	Flour
1933:				
October 21.....	2	-	-	-
28.....	541	-	-	-
November 4.....	600	1,030	1,024	6
11.....	1,786	1,334	1,122	212
18.....	1,961	1,732	1,490	242
25.....	2,144	2,499	1,962	537
December 2.....	957	848	539	309
9.....	769	580	388	192
16.....	678	877	716	161
23.....	1,014	756	588	168
30.....	272	107	2	105
1934:				
January 6.....	277	272	237	35
13.....	482	694	421	273
20.....	516	470	222	248
27.....	868	2,089	1,912	177
February 3.....	1,791	582	443	139
10.....	578	740	473	267
17.....	474	421	332	89
24.....	1,927	2,524	2,361	163
March 3.....	1,347	430	363	67
10.....	1,634	3,369	3,241	128
17.....	1,965	169	133	36
24.....	232	399	272	127
31.....	805	1,374	1,233	141
April 7.....	745	343	249	94
14.....	522	863	781	82
21.....	166	305	237	68
28.....	163	59	-	59
May 5.....	251	422	301	121
12.....	1,337	459	327	132
19.....	121	128	10	118
26.....	54	54	-	54
June 2.....	52	72	20	52
9.....	22	30	3	27
16.....	49	49	19	30
23.....	34	147	129	18
30.....	115	219	104	115
July 7.....	21	29	8	21
14.....	65	1,041	2	1,039
21.....	411	-	-	-
28.....	-	-	-	-
August 4.....	501	479	-	479
11.....	141	254	9	245

* Summarized from daily data of AAA. Because of various adjustments, totals do not precisely agree with totals in Table XII, p. 455. An approximately reliable classification of wheat sales between the Chinese government and others is given in *Wheat Studies of the Food Research Institute*, August 1934, Vol. X, p. 426.

XIV. AVERAGE PRICES OF WHEAT, FLOUR, AND BREAD, 1913-34^a

Year	Wheat (In cents per bushel)		Flour (In cents per pound)		Wheat Bread (In cents per pound)	
	Farm Price	Chicago Basic	Whole- sale	Retail	Whole- sale	Retail
1913.....	79.3	88.4	2.2	3.3	4.2	5.6
1914.....	87.3	98.8	2.4	3.4	4.3	6.3
1915.....	112.7	128.8	3.1	4.2	4.5	7.0
1916.....	119.2	133.7	3.4	4.4	4.7	7.3
1917.....	203.3	221.7	5.6	7.0	6.8	9.2
1918.....	203.8	220.2	5.3	6.7	7.3	9.8
1919.....	215.8	232.0	5.8	7.2	7.4	10.0
1920.....	220.2	243.8	6.2	8.1	8.8	11.5
1921.....	116.7	136.2	3.9	5.8	7.7	9.9
1922.....	103.7	120.2	3.4	5.1	7.1	8.7
1923.....	98.5	111.1	3.0	4.7	7.0	8.7
1924.....	110.5	123.8	3.4	4.9	7.0	8.8
1925.....	151.0	163.0	4.2	6.1	7.2	9.4
1926.....	135.1	150.9	4.0	6.0	7.2	9.4
1927.....	120.4	135.0	3.6	5.5	7.1	9.3
1928.....	113.3	129.1	3.5	5.4	7.1	9.1
1929.....	102.7	121.2	3.2	5.1	6.9	9.0
1930.....	80.9	94.0	2.7	4.7	6.9	8.7
1931.....	48.8	66.5	2.1	3.6	6.8	7.6
1932.....	38.8	52.4	1.9	3.2	6.2	6.8
1933.....	58.1	73.6	2.6	3.9	5.9	7.1
1934.....	79.8	94.9	3.3	4.9	6.5	8.2

^a Averages of monthly data such as those shown in Table XV, p. 458. Farm price data of Bureau of Agricultural Economics. Chicago basic wheat price data of Food Research Institute, representing monthly average price of lowest price wheat deliverable on Chicago futures without premium or discount; see *Wheat Studies of the Food Research Institute*, November 1934, Vol. XI, No. 3. Flour and bread price data of Bureau of Labor Statistics. The wholesale flour price series is an average of two series, Minneapolis Standard Patents and Kansas City Straights (for 1918, U. S. Food Administration standard for Kansas City Straights), converted from prices per barrel of 196 pounds. Bread prices are for weights before baking.

With some adjustments, these data are plotted in the chart on p. 363. Close comparisons of the pairs of figures are not warranted.

XV. MONTHLY PRICES OF WHEAT, FLOUR, AND BREAD, 1933-1934*

Month	Wheat (In cents per bushel)		Flour (In cents per pound)		Wheat Bread (In cents per pound)	
	Farm Price	Chicago Basic	Wholesale	Retail	Wholesale	Retail
1933:						
January.....	32.9	47.0	1.7	2.9	5.6	6.4
February.....	32.3	47.0	1.6	2.9	5.6	6.4
March.....	34.5	52.0	1.8	3.0	5.6	6.4
April.....	44.8	62.8	2.0	3.1	5.6	6.4
May.....	59.0	73.2	2.3	3.4	5.6	6.5
June.....	58.7	77.7	2.4	3.4	5.6	6.6
July.....	86.9	97.1	3.5	4.0	5.7	7.2
August.....	74.7	89.6	3.4	4.8	5.9	7.6
September....	71.1	85.1	3.3	4.9	6.0	7.8
October.....	63.6	81.7	3.1	4.9	6.3	8.0
November....	71.1	86.8	3.2	4.8	6.3	8.0
December....	67.3	83.0	3.1	4.8	6.3	7.9
1934:						
January.....	69.4	87.6	3.2	4.7	6.3	7.9
February.....	72.0	90.1	3.2	4.8	6.3	7.9
March.....	70.9	87.1	3.1	4.8	6.3	8.0
April.....	68.7	81.0	3.0	4.8	6.5	8.0
May.....	69.5	87.4	3.1	4.7	6.6	8.0
June.....	78.9	96.1	3.3	4.8	6.6	8.1
July.....	78.8	96.6	3.4	4.9	6.6	8.2
August.....	89.6	104.4	3.5	5.0	6.6	8.4
September....	92.2	105.4	3.5	5.1	6.6	8.4
October.....	88.5	99.8	3.4	5.1	6.6	8.4
November....	88.1	100.8	3.3	5.1	6.6	8.35
December....	90.6	102.0	3.3	5.1	6.8	8.30

* See note to Table XIV, p. 457. Monthly retail prices of flour and bread, expressed in terms roughly comparable with monthly average farm prices of wheat, are given in F. V. Waugh, *The Margin between Farm Prices and Retail Prices of Ten Foods*, Bureau of Agricultural Economics, March 1935.

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