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Farm Price Programs

Kenneth L. Robinson

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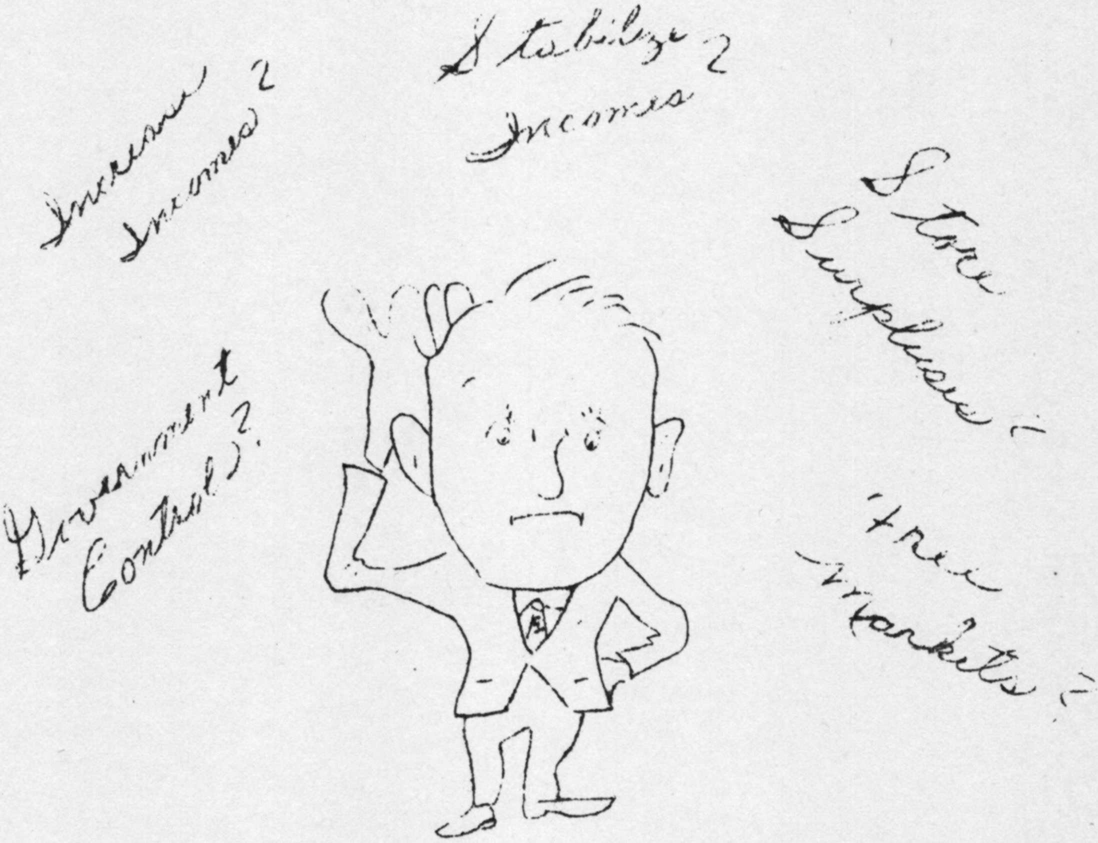

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FARM PRICE PROGRAMS, 1921-1957

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Since 1921 the United States Congress has considered legislation of various kinds aimed at stabilizing prices or raising incomes of farmers. This publication has been prepared to provide farmers and others with a brief review of some farm price and income policies proposed and the major ones enacted into federal law. It brings together information on the effect of these policies and information on the response of farmers to several programs. Experience over the years helps to point the way to the probable effect of agricultural policies and programs in the future.

This publication should be useful to farmers and others who want to review the road that agricultural price policy in the United States has traveled in the past and to appraise the effect of such policies. It will also be useful to a person planning and taking part in discussions of farm price policy and programs at meetings of farmers and others interested in American agriculture. In a democracy, farmers and agricultural leaders may expect to be called upon more and more to express their views concerning matters of agricultural policy and national farm programs.

The discussion is divided into two parts. The first half describes the major farm price programs of the past generation. The second part presents information on the results of these programs. On the final page there is a list of selected publications containing more detailed information on farm price programs .

PART I. A BRIEF HISTORY OF FARM PRICE PROGRAMS, 1921-57

The Situation Following World War I

Shortly after the end of World War I, prices fell abruptly. Between May 1920 and June 1921, the index of wholesale prices dropped 44 per cent. Farm product prices fell more than the prices of the things farmers buy (seed, fertilizer, feed, machinery and equipment, etc.). As a result, net farm incomes were more than cut in half. By 1921,

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1/ Professor of Agricultural Economics, Cornell University. The original paper was prepared and published as A.E. 825 at Cornell University in 1952 as a mimeographed pamphlet. It was brought up to date under the direction of Russell L. Berry by Mrs. Mary Allie and published in its present form with permission of Mr. Robinson.

large numbers of farm operators were in serious financial trouble, particularly those who had borrowed money to purchase land and equipment at inflated prices. Pressure from farm groups for relief legislation led to the formation of the "Farm Bloc" in Congress. This group succeeded in pushing through several bills regulating farm marketing agencies and strengthening cooperatives. No attempt was made, however, to support farm prices directly.

In 1922, President Harding called a National Agricultural Conference. The report of this conference stressed the need for reestablishing a "fair exchange value" for all farm products with that of non-farm commodities. "Equality for agriculture" became a popular slogan, but no legislative action was taken on the Conference recommendations.

The McNary-Haugen Plan

Several attempts were made during the mid-twenties to pass legislation which would help to restore the more favorable pre-World War I relationship between farm and nonfarm prices. The major battle centered around the McNary-Haugen Bill. This bill provided for subsidizing exports of commodities such as cotton and wheat. Export subsidies were to be paid out of revenue collected from a tax applied to these same commodities sold for use in this country. Proponents of the plan argued that export subsidies would increase sales abroad and that the reduced supplies available to home-market buyers would then bring higher prices. The McNary-Haugen Bill was passed twice by Congress but was vetoed both times by President Coolidge.

The Federal Farm Board

Although agitation for some kind of farm price legislation continued all during the twenties, it was not until 1929 that a bill aimed specifically at supporting farm prices became law. The Agricultural Marketing Act of 1929, passed by Congress in June of that year, had as its principal objective the promotion of "orderly" marketing of farm products. This was to be accomplished by encouraging the organization and expansion of farmer-owned cooperative marketing associations. The Act also provided for the establishment of a Federal Farm Board which was to buy and sell farm products for the purpose of stabilizing prices. The stabilization operations of the Farm Board soon overshadowed the cooperative development program. The Board sought to stabilize prices in two ways: first, it made loans to cooperatives so that they could advance money to farmers on storable commodities; and second, it created stabilization corporations which were authorized to purchase and store cotton and grains. It was expected that commodities acquired by the cooperatives and the corporation would be sold when market conditions improved. In order to finance its operations, the Board was given a 500 million dollar revolving fund. The Board began making loans and purchases in the fall of 1929, about the time commodity prices started downward. During the next eighteen months the Board acquired large stocks of commodities as demand continued to decline. By the spring of 1931, the Board had lost or tied up most of the revolving fund and consequently could no longer support prices.

The Situation in 1933

From August 1929 to February 1933, the average level of farm prices fell 64 per cent. By 1932, corn was selling for thirty cents a bushel and cotton for six cents a pound. Farm prices fell more than nonfarm prices between 1929 and 1933 just as they did following World War I. In March 1933, the purchasing power of farm products was only about half what it had been in the period 1910-14. This meant that a farmer could buy less than half as many nonfarm goods with the money obtained from selling a given quantity of farm products as he could prior to World War I.

The Agricultural Adjustment Act of 1933

The Federal Farm Board storage program obviously had not solved the farm price problem. A number of agricultural leaders were convinced that the only way to raise prices was to cut production, particularly of crops such as cotton, wheat, and corn. Legislation designed to bring about these so-called "production adjustments" was introduced in Congress by the new Administration which took office in March 1933. By the time the Agricultural Adjustment Act was passed (May 1933), cotton had already been planted and sows had farrowed. In order to reduce production immediately, payments were made to farmers in the spring of that year for ploughing under cotton and destroying pigs. This was regarded simply as an emergency program. During the next two years, cash rental payments (financed from a processing tax on farm commodities) were made to farmers who took land out of the production of cotton, wheat, corn, and tobacco.

The Soil Conservation and Domestic Allotment Act of 1936

The original Agricultural Adjustment Act was declared unconstitutional in January 1936. The Supreme Court held that the effect of the AAA was to control production in the several states and that this was an unconstitutional extension of federal powers. Shortly thereafter, Congress passed the Soil Conservation and Domestic Allotment Act of 1936. The emphasis was placed on soil conservation in this Act rather than production controls partly to avoid the objections raised by the Supreme Court. Nevertheless, one of the major purposes of the Act was to limit the production of surplus crops. Under the Act of 1936, substantial cash payments were made to farmers (out of general tax revenue) for diverting land from the production of "soil depleting" crops such as cotton, wheat, and corn to the production of "soil conserving" crops such as legumes.

The Agricultural Adjustment Act of 1938

The major provisions of the Soil Conservation and Domestic Allotment Act of 1936 were rewritten into the Agricultural Adjustment Act of 1938. Under the latter Act, three types of payments were made to farmers: (1) adjustment or acreage payments were made just as under the Act of 1936 for shifting land from "soil depleting" to "soil conserving" crops; (2) agricultural conservation payments were made for carrying out specified soil-building or soil-conserving practices; and (3) parity payments were made (insofar as funds were available) to supplement the incomes of basic-crop producers. The first and second types of payments were made contingent on performance. They were designed to compensate farmers in part at least for the sacrifice in income resulting from cuts in the production of basic crops and the cost of applying lime, fertilizer, or controlling erosion. The third type (parity payments) could not be made unless specific funds were appropriated by Congress for that purpose. Whenever such funds were made available, the Secretary of Agriculture was authorized to pay the producers of cotton, corn, wheat, tobacco, and rice, an amount sufficient to bring their total income up to "parity". 1/

1/ The 1938 Act provided that the sum appropriated annually by Congress for parity payments was to be distributed among the five basic commodities in proportion to the amounts by which their producers failed to realize "parity income". "Parity income" was determined by taking into account the volume of output times the price. "Parity" as applied to income was defined in the 1938 Act as the "per

Footnote continued next page.

Storage and Loan Operations of the Commodity Credit Corporation

In 1933 the Commodity Credit Corporation was set up to take over the stabilization functions which the Federal Farm Board had attempted to perform. The CCC immediately started making conservative "nonrecourse" loans on corn and cotton. 2/ The Agricultural Adjustment Act of 1938 expanded the storage and loan program. Under the 1938 Act, all storable farm products became eligible for loans at prices established by the Secretary of Agriculture between 52 and 75 per cent of parity. 3/ Price support loans were made mandatory for the first time on cotton, corn, and wheat provided producers compiled with acreage allotments and marketing quotas.

Originally, this wholly government-owned corporation was operated as part of the Reconstruction Finance Corporation, but later it was transferred to the U. S. Department of Agriculture. Management of the CCC is vested in a board of six members appointed by the President with the advice and consent of the Senate. The CCC obtains the funds necessary to make nonrecourse price support loans to farmers by borrowing from the United States Treasury, within limits imposed by Congress. At present, CCC borrowings and obligations to purchase

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(Footnote 1 continued)
capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914". J. D. Black, Parity, Parity, Parity, Harvard Committee on Research in the Social Sciences, 1942, p. 57.

2/ A "nonrecourse" loan is a "heads I win, tails you lose" arrangement from the standpoint of the farmer. A farmer need not repay a Commodity Credit Corporation loan on commodities placed in storage unless he sells the commodities. Farmers have the privilege of selling commodities placed in storage but there is no incentive to do so unless the market price goes above the loan rate. In the event that the market price remains at or below the loan rate, the government simply takes over the commodities pledged as security and absorbs the loss.

3/ For a definition of parity see pages 12 and 13 of this pamphlet.

commodities must not exceed $14 billion. Losses on CCC operations are made up periodically by Congressional appropriations.

In most years only a relatively small proportion of the total volume of crops eligible for loans are actually placed under loan by farmers or are purchased by the CCC. For example, less than half the wheat crop and only about 10 to 20 per cent of the corn and cotton crops have been placed under loan or sold to the Commodity Credit Corporation in recent years.

Acreage Allotments and Marketing Quotas

Acreage allotments and marketing quotas were used in an effort to limit the production of cotton, wheat, corn, tobacco, rice, peanuts, and several other commodities during the 1930's. These two types of controls were used much less frequently during World War II and the Korean War primarily because of the high level of demand for farm products during this decade. Since 1952 their use has again become common.

The Department of Agriculture does not need approval from producers in order to make acreage allotments. The first step in the acreage allotment procedure is the determination of a national allotment for the commodity subject to control. The national allotment is then apportioned among states, counties, and farms. The size of the individual allotment usually is based on the average acreage planted to the controlled crop during some previous period. Farmers without a past record of production (a "base") generally do not receive an allotment. A farmer need not comply with acreage restrictions; however, certain benefits are withheld from farmers who plant more than their allotment. Under the 1938 Act, for example, farmers who failed to comply with acreage restrictions could not obtain supplementary income (parity) payments or price support loans.

Marketing quotas, unlike acreage allotments, must be approved by producers in order to become effective. The 1938 Act provided that marketing quotas could be applied only if two-thirds of the producers (of the commodity subject to control) voting in a special referendum approved such a program. This procedure still must be followed before a marketing quota can be put into effect. Under marketing quotas, each producer is assigned an allotment, computed on either a total yield or an acreage basis. Marketing quotas, once approved, become binding on all producers. Farmers who market in excess of their quota, regardless of whether they voted for or against the program, are penalized. Under the 1938 Act, a farmer who failed to comply with quotas did not receive price supports or income payments and, in addition, was forced to pay a penalty tax of so much per unit on the quantity marketed in excess of his quota. More effective control over supplies generally can be obtained with marketing quotas than with acreage allotments because producers are penalized more severely for failing to comply with marketing quotas than for planting in excess of acreage allotments.

Section 32 Funds

In 1935 Congress authorized the Secretary of Agriculture to use an amount equal to 30 per cent of the annual United States customs receipts to encourage the domestic consumption, diversion from the normal channels of trade, or export of surplus agricultural commodities. Since that time, funds from this source (commonly known as Section 32 Funds) have been used to purchase surplus farm products for free distribution to schools, institutions, and welfare agencies. Subsidies also have been paid on such commodities as fruit, pork, and lard, potatoes, nuts, and wheat products exported or diverted to by-product uses.

Marketing Agreements and Orders

The Agricultural Adjustment Act of 1933 authorized the Secretary of Agriculture to enter into agreements with processors, associations of producers, and producers, to issue licenses concerning the handling of agricultural commodities in interstate or foreign commerce. This provision was included so that producers might employ price raising devices which otherwise would have been illegal under the anti-trust laws. An amendment to the Act of 1933, passed in 1935, and the Agricultural Marketing Agreement Act of 1937 specified more in detail the commodities subject to marketing agreements and orders, the procedure for issuing orders, and the terms or conditions which might be written into such agreements and orders. The Agricultural Marketing Agreement Act of 1937 is still in effect.

Both marketing agreements and orders apply to dealers or handlers of agricultural products (including cooperative marketing associations) rather than producers. However, marketing agreements and orders differ in a number of important respects. Marketing agreements are purely voluntary contracts and can be applied to any agricultural commodity. An agreement affects only the handlers who sign it. A marketing order, on the other hand, cannot be issued unless approved by a certain proportion of producers, but, if approved, becomes binding on all handlers. Marketing orders can be applied only to milk, fresh fruits and vegetables (with certain exceptions), and a few specialty crops. 1/ Proposals for marketing orders usually are made by producers. Before the Secretary of Agriculture can issue a marketing order he must first call a public hearing on the proposed order and then submit it to handlers and producers for approval. If 50 per cent of the handlers and two-thirds of the producers voting in a special referendum favor the proposal, the Secretary issues an order making the terms of the proposal binding on all handlers of the commodity in the area specified in the order. A marketing order also may be issued even though disapproved by a majority of the handlers if the required proportion of producers vote in favor of such an order and provided the Secretary finds that an order is necessary to accomplish the declared policy of Congress. At least 53 cities, including New York, Philadelphia, and Boston, are now operating under federal milk marketing orders. In recent years, marketing agreements and orders on commodities other than milk have been in effect in about 30 areas, mostly in the Far West and in Florida.

Minimum prices to producers can be established under marketing orders on milk, but not on commodities other than milk. All milk handlers operating under a federal marketing order are required to pay producers the same minimum price (established by the Secretary of Agriculture after public hearings) for milk sold in the fresh fluid form. 2/

1/ The Secretary of Agriculture is authorized to issue marketing orders on the following commodities: milk, fruits (including pecans, walnuts, filberts, and almonds, but not including apples other than those produced in the States of Washington, Oregon, and Idaho, and not including fruits, other than olives and grapefruit, for canning or freezing), tobacco, vegetables (not including vegetables other than asparagus, for canning or freezing), soybeans, hops, honeybees, and naval stores.

2/ For a discussion of milk pricing methods under federal milk marketing orders, see the Report of the New York Milkshed Price Committee, Market Administrators, New York Metropolitan Milk Marketing Area, February, 1949.

Generally, minimum prices also are established under milk marketing orders for milk going into ice cream, butter, cheese, and other diary products. Several types of regulations may be used to influence the prices of commodities other than milk. These include controls over the quality, quantity, and rate of shipment from producing areas to market; the establishment of reserve pools; the control and disposition of surpluses; prohibition of unfair trade practices; and posting of prices.

The School Lunch Program and the Food Stamp Plan

During the middle and late 1930's, the federal government began experimenting with subsidy programs designed to increase the demand for farm products and at the same time improve the diets of children and low-income families. The School Lunch Program and the Food Stamp Plan were the two most important of these subsidy programs. The School Lunch Program has been considerably expanded during the past two decades. In 1937 an average of less than 300,000 children were served school lunches; today, an average of between nine and ten million children participate in the program. Under the National School Lunch Act of 1946, appropriations are now made annually by Congress for subsidizing local purchases of food by schools and for direct purchases of surplus commodities by the Department of Agriculture for free distribution to schools. In recent years the bulk of the School Lunch funds have been used to make grants-in-aid to states on the basis of the quality and number of meals served. States must provide three dollars for each dollar contributed by the federal government at the present time. Schools are eligible to receive surplus farm products acquired by the Department of Agriculture as a result of price-support operations as well as those purchased with school lunch funds.

The Food Stamp Plan was tried out on a relatively small scale between 1939 and 1943. Under this plan, surplus farm products were distributed without charge to low-income families through stores rather than through welfare agencies. Persons participating in the plan (usually those on relief) were required, in most cases, to buy at least four dollars worth of orange colored stamps per month for each member of the family. With each purchase of orange stamps participants were given free blue stamps equal to one-half the value of the orange stamps. The orange stamps could be used in place of cash to buy food of any type in local stores while the blue stamps could be used to purchase only those commodities on the surplus list. Commodities given in exchange for blue stamps were paid for by the federal government. During the peak year of operation (1941), about four million persons participated in the program.

Price Supports During and Immediately After World War II

The basic provisions of the Agricultural Adjustment Act of 1938 remained in effect until December 31, 1948. In 1941 and 1942, however, support levels were raised and new commodities were added to the list for which support was mandatory. Early in 1941, support prices on cotton, wheat, corn, rice, tobacco, and peanuts (defined by law as "basic" commodities) were raised to 85 per cent of parity. Later that year the Steagall Amendment was passed making it necessary for the Secretary of Agriculture to support the price of any commodity for which an increase in production was requested at not less than 85 per cent of parity. In 1942, the mandatory level of support on basic crops and the so-called "Steagall commodities" (soybeans, flaxseed, chickens, eggs, milk, potatoes, etc.) was raised to 90 per cent of parity. 1/ The Steagall Amendment required that support at this level be maintained for two years following the end of the war.

The Agricultural Act of 1948

The price support program was revised by Congress in 1948. The Agricultural Act of 1948 extended the wartime level of supports for the year 1949, but provided for adjusting support prices downward beginning in 1950 whenever supplies were in excess of "normal" requirements. The formula for computing parity prices also was modified so that parity prices would reflect changing conditions of supply and demand for different commodities. There was considerable dissatisfaction with the Agricultural Act of 1948. Some feared that the relatively low flexible price support provisions of the 1948 Act would result in a serious drop in farm income. Therefore, in 1949, a new Act was passed which again postponed the date when flexible price supports on basic crops would go into effect.

The Agricultural Act of 1949 2/

Under the Agricultural Act of 1949, relatively high price supports

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1/ With the exception of cotton. The level of support on that commodity was raised to 92.5 per cent of parity.

2/ Public Law 439, 81st Congress, first session.

were maintained during 1950. But beginning in 1951, the flexible price support provisions of the 1949 Act (similar to, but much higher than, those contained in the 1948 Act) went into effect. The Agricultural Act of 1949 specified the commodities eligible for support, conditions of eligibility, support levels, and methods to be used in supporting prices.

Commodities Eligible for Support and Conditions of Eligibility

The commodities eligible for support were divided into three groups: basic commodities, designated nonbasic commodities, and other commodities. The commodities included under each group are as follows:

Basic commodities - corn, cotton, wheat, rice, tobacco, and peanuts. Price support was mandatory for commodities in this group provided producers had not disapproved marketing quotas. The Secretary of Agriculture was required to make price supports available to producers of basic crops who complied with acreage allotments and marketing quotas on such crops whenever they were in effect.

Designated nonbasic commodities - wool, mohair, honey, tung nuts, Irish potatoes, milk, and butterfat. Price support also was mandatory for commodities in this group provided producers complied with acreage allotments, production goals, and marketing practices, including marketing quotas when authorized by law. An Act passed in 1950 prohibits price supports on potatoes harvested after 1950 unless marketing quotas are in effect. 1/ Congress has not authorized marketing quotas on potatoes; therefore, potato prices cannot be supported at the present time.

Other commodities - all farm products not included in either the basic or designated nonbasic groups. Price support was made permissive rather than mandatory for any commodity in this group. The Secretary of Agriculture was authorized to condition eligibility for support on compliance with acreage allotments and marketing quotas; however, there is no legal authority for establishing marketing quotas

1/ Public Law 471, 81st Congress, second session. This Act provides that "for the crop year 1951 and thereafter no price support shall be made available for any Irish potatoes unless marketing quotas are in effect with respect to such potatoes."

on commodities in this group at the present time.

Price Support Levels

Price support levels were stated in relation to parity prices (for example, 90 per cent of parity). Therefore, it was necessary to calculate the parity price before the support price of any commodity could be determined. The parity price of a farm product is a standard for measuring the purchasing power of that product in relation to the prices of goods and services during some previous period. The procedures used in calculating parity prices are defined by law. Prior to 1950, the parity price for any commodity was computed simply by multiplying the average price received by farmers for that commodity during a specified base period by the current index of prices paid by farmers. 1/ The base period used in determining the parity prices for wheat, corn, cotton, peanuts and a number of other products was the five-year period, August 1909 to July 1914; the base period for tobacco was the ten-year period August 1919 to July 1929. In the case of non-basic commodities, the base period was usually 1919-29 or some portion thereof, 1934-39, or 1935-41.

The parity price formula has been changed several times since 1933, but the principle remains the same. The index of prices paid by farmers now includes farm wage rates, farm mortgage interest rates, and taxes on farm real estate as well as the prices of goods and services used in farm production and farm family living. The Agricultural Acts of 1948 and 1949 provided for modernizing the parity formula so that parity prices would take account of changing price relationships resulting from the introduction of new production techniques and shifts in consumer preferences for different farm products. However, the new or modernized formula preserves the overall relationship between prices received and paid by farmers which existed in 1910-1914. The base period used in computing parity prices under the new formula is the most recent ten-year period prior to the year in which the parity price is computed. For example, the ten-year period 1942-51 was used in computing 1952 "new parity" prices.

1/ For example, the parity price for wheat in any month was calculated by multiplying the average price received by farmers for wheat during the period 1910-1914 (88.4 cents per bushel) by the index number of prices paid by farmers for commodities, interest, and taxes during that month (1910-14 = 100). In September 1946, the index of prices paid by farmers was 200; thus, the parity price for wheat in September 1946 was \$1.77 per bushel $\left(\frac{88.4 \times 200}{100}\right)$.

The 1949 Act provided that the "effective" parity price (that is, the parity price used in calculating the support price) on basic commodities be either the old or new parity price whichever was higher. This provision was to remain in effect until 1954 but later legislation extended the period until 1956. After that date, support prices on basic crops would be adjusted gradually from the old parity basis to the new parity basis. Under the 1949 Act "transitional" parity prices were used to prevent the effective parity price from dropping abruptly to the new parity price in the case of nonbasic and other commodities. Transitional parity prices cannot decline more than five per cent each year.

The Agricultural Act of 1949 specified the percentages of parity at which prices of the various commodities were to be supported. The support level for any farm product depends on a complex set of conditions; (1) the commodity classification (basic, designated non-basic, or other); (2) the size of the crop at the beginning of each marketing year; (3) whether or not producers have complied with acreage allotments and marketing quotas; and (4) in the case of "other" commodities, the availability of funds. In general, the maximum level of support was 90 per cent of parity. However, the Secretary of Agriculture was authorized to support the price of any farm product at more than 90 per cent of parity if necessary to prevent or alleviate a shortage of a commodity essential to the national welfare or to increase or maintain the production of a commodity in the interest of national security. The minimum level of support for basic and designated non-basic commodities could vary from 60 to 90 per cent of parity depending on supply and other conditions.

Under the provisions of the Act of 1949 and as continued by the 1954 Act support prices for basic agricultural commodities cannot be higher than 90 per cent of parity, except under the conditions just noted. The lower limit of support is determined by a sliding scale. Table 1 shows how the sliding scale provision operates in the case of wheat, corn, and other commodities. If, for example, the supply of wheat is not over 102 per cent of normal at the beginning of the marketing year, the support level cannot be less than 90 per cent of parity; if, however, the supply is in excess of 130 per cent of normal, the minimum support level falls to 75 percent of parity. The Secretary of Agriculture has discretionary power to set the exact level of support for basic commodities between 90 per cent of parity and the lower level indicated by the sliding scale. Support is mandatory only if producers have not disapproved marketing quotas. In the event

Table 1. Schedule of Minimum Support Prices for Basic Commodities, Agricultural Acts of 1949 and 1954

The level of support shall be not less than the following percentage of the parity price:	If the supply percentage[a/] as of the beginning of the marketing year is -- For tobacco, corn, wheat, and rice --		For cotton and peanuts --	
	Over	Not Over	Over	Not Over
90	---	102	---	108
89	102	104	108	110
88	104	106	110	112
87	106	108	112	114
86	108	110	114	116
85	110	112	116	118
84	112	114	118	120
83	114	116	120	122
82	116	118	122	124
81	118	120	124	125
80	120	122	125	126
79	122	124	126	127
78	124	126	127	128
77	126	128	128	129
76	128	130	129	130
75	130	---	130	---

Source: Price Programs, USDA, Agricultural Information Bulletin, 135, 1955.

a/ The "supply percentage" for any commodity is the percentage which the estimated total supply is of the normal supply as of the beginning of the marketing year. The "total supply" is, generally speaking, the carry-over at the beginning of the marketing year, plus the estimated production of the commodity in the United States during the calendar year in which the marketing year begins, and the estimated imports into the United States during the marketing year. The "normal supply" in the case of basic commodities is, generally speaking, the estimated domestic consumption, plus estimated exports, plus an allowance for carryover.

Table 2. Old, Transitional, New and Effective Parity Prices for Selected Commodities, United States, January 15, 1952

Commodity and Unit	Old parity	Transitional parity a/	New parity	Effective parity
	Dol.	Dol.	Dol.	Dol.
Basic commodities				
Cotton, per lb.	.3435		.3358	.3435
Wheat, per bu.	2.45		2.12	2.45
Rice, per cwt.	5.01		5.60	5.60
Corn, per bu.	1.78		1.62	1.78
Peanuts, per lb.	.133		.109	.133
Designated non-basic commodities				
Butterfat, per lb.	.729		.766	.766
Milk, whlse., per cwt.	4.43		4.82	4.82
Milk, mfg., per cwt. b/	3.92		4.27	4.27
Wool, per lb.	.507		.603	.603
Potatoes, per bu.	2.04	1.73	1.64	1.73
Other commodities				
Beans, dried, per cwt.	9.33		9.18	9.18
Oats, per bu.	1.11	.944	.913	.944
Apples, per bu.	2.66		2.84	2.84
Beef cattle, per cwt.	15.00		21.10	21.10
Chickens, live, per lb.	.316		.307	.307
Eggs, per doz.	.596	.507	.497	.507
Hogs, per cwt.	20.10		21.50	21.50
Veal calves, per cwt.	18.70		23.70	23.70

Source: Parity Handbook, U. S. Department of Agriculture, Washington, D. C., March 1952, p. 6.

a/ Transitional parity not shown where new parity was effective parity.

b/ Parity equivalents.

that producers of basic crops disapprove marketing quotas, those who comply with acreage allotments still may obtain price support at 50 per cent of parity 1/. Price support for the producers of basic crops who do not limit their acreage (whenever acreage allotments have been announced) is discretionary with the Secretary of Agriculture at a level not in excess of the level for those who comply with acreage restrictions.

The Secretary of Agriculture also is required to support the prices of nonbasic commodities, tung nuts, and honey at between 60 and 90 per cent of parity and the prices of milk and butterfat at between 75 and 90 per cent of parity, provided producers have not disapproved marketing quotas. Wool and mohair according to provisions of the 1954 Act are supported at an incentive level not to exceed 110 per cent of parity. With designated nonbasic commodities as with basic crops, the exact level of support between the upper and lower limits is discretionary with the Secretary of Agriculture.

Price support for farm products other than those classified as basic or designated nonbasic commodities is permissive rather than mandatory. The Secretary of Agriculture must take into consideration the following factors in fixing the level of support for "other" commodities: (1) The supply of the commodity in relation to the demand, (2) The price levels at which other commodities are being supported and, in the case of feed grains, the feed values of such grains in relation to corn, (3) The availability of funds, (4) The perishability of the commodity, (5) The importance of the commodity to agriculture and to the national economy, (6) The ability to dispose of stocks acquired as a result of a price-support program, (7) The need for off-setting temporary losses of export markets, (8) The ability and willingness of producers to keep supplies in line with demand.

The Agricultural Act of 1954

The Agricultural Act of 1954 did not change the main features of the legislation passed in 1948 and 1949 but did make several revisions. It permitted the fixing of price supports for the basic commodities within a range of 82 1/2 to 90 per cent of parity for the 1955 crop and thereafter to vary between 75 and 90 per cent as indicated by the Agricultural Act of 1949 (provided producers have not disapproved marketing quotas). This meant that beginning in 1956 the modernized parity formula for all farm commodities would be resumed.

1/ Except in the case of tobacco. No support is available if tobacco producers disapprove marketing quotas.

To prevent a sharp drop in the parity prices for basic commodities when computations are shifted from the "old" to the "new" formula, the legislation provides that through 1955 the parity prices for basic commodities shall not be less than the parity price computed by the procedure used prior to January 1, 1950. In order to cushion any reductions thereafter, the law provides that the parity price for basic commodities shall not be less than 95 per cent of the "old formula" parity during 1956, 90 per cent during 1957, 85 per cent during 1958, and so on until all these basic commodities have shifted to the new formula.

A similar cushioning effect for nonbasic commodities prevents the "new" parity price from being less than the "transitional" parity price. The transitional parity price in 1955 is 70 percent of prices as computed by the "old" formula and will decrease at 5 per cent per year until prices of all commodities have completed their transition to the "new" formula.

Examples of old, transitional, and new parity prices are shown in Table 2. The new parity prices of most livestock products, rice, and apples are higher while the new parity prices of cotton, peanuts, potatoes, wheat, corn, and most other grains are lower than the old parity prices.

The effective parity price (that is, the old, transitional, or new parity price, whichever is applicable) for each major farm product is computed and published monthly together with current market prices in "Agricultural Prices", a report prepared by the Agricultural Marketing Service of the United States Department of Agriculture. The actual price which a farmer receives for any commodity, of course, may be higher or lower than the parity price. In March 1952, for example, the effective parity price for wheat was $2.46 per bushel; the average price received by farmers was $2.20. The actual price at that time was 89 per cent of the parity price.

This act also barred from sale on the open market large quantities of the stocks held by the Commodity Credit Corporation. Up to $2.5 billion of these commodities was to be segregated for disposal through noncommercial channels.

Important changes were made in the program for the support of wool prices by this act. It provided that the Secretary of Agriculture was authorized to support the prices of wool and mohair by means of loans, purchases or "compensatory payments", or in other ways. The compensatory payment plan is designed to permit domestic wools to move freely in competition with foreign wools. By this plan the difference between the support price and the price received in the market is made up by direct payments to growers from the government. Payments are limited to 70 per cent of the amounts collected as tariffs, and the level of support may not exceed 110 per cent of parity. This is an experimental program limited to the years 1955 to 1959.

Public Law 480

In 1954, Congress also enacted the Agricultural Trade Development and Assistance Act, commonly known as Public Law 480. This act provides for the sale of surplus agricultural commodities to foreign countries in exchange for foreign currencies and the donation of commodities to friendly nations to meet relief requirements or to barter for stategic materials. Foreign currencies obtained from the sale of surplus commodities are used for sales promotion within the country, to pay for goods and services obtained by the United States in those countries, and to finance economic development projects under long-term low-interest-rate loans. The Act requires that reasonable precaustions to be taken to safeguard the usual marketings of the United States and to assure that the sales will not unduly disrupt world prices of farm products.

The Agricultural Act of 1956 -- The Soil Bank Program

The Soil Bank is the key part of the Agricultural Act of 1956. Much of this act concerns amendments to former acts. The legislation as finally enacted did not greatly change the level of price supports although it modified slightly the minimum supports permitted in 1956.

The Soil Bank is a large-scale government land rental program designed to aid farmers in adjusting production to demand. Its dominant feature is the use of direct payments to encourage farmers to reduce plantings of certain crops below their present acreage allotments.

There are two parts to the Soil Bank -- an acreage reserve and a conservation reserve. Participation by farmers in either program is entirely voluntary. The acreage reserve program applies only to farmers who grow crops on which there are acreage allotments. It is designed to reduce current production of basic crops -- wheat, corn, cotton, rice, tobacco, and peanuts -- so that existing storage stocks of these commodities can be sold. Land placed in the acreage reserve cannot be harvested or grazed.

Any farmer with land planted to crops or hay can participate in the conservation reserve. This is a longer range program designed to take additional cropland out of production and, at the same time, to establish conservation practices on such land. Where necessary, farmers will be paid up to 80 per cent of the cost of establishing approved conservation practices or cover crops on land placed in the conservation reserve. In addition, farmers participating in the program will be given an annual rental payment which will vary by counties. Under certain conditions, annual payment also will be made for taking hay or rotation pasture land out of production. Crops may not be harvested from land placed in the conservation reserve and noxious weeds must be controlled.

A farm "soil bank base" will be established for each farm on which land is placed in the conservation reserve. This base is equal to the farm's average acreage of land planted to crops such as corn, wheat, small grains, grain and forage sorghum, soybeans, flax, potatoes, sugar beets, and annual seed grasses during the past two years. Land in hay or pasture is not included in the soil bank base. The regular rate of payment will apply only to land diverted from the production of soil bank base crops.

Hay or rotation pasture land may be placed in the conservation reserve at the nondiversion rate (30 per cent of the regular rate) only if the total area in crops (the soil bank base) is not more than 30 acres or if the entire eligible land in the farm is placed in the conservation reserve.

Table 3 outlines the general provisions of the Soil Bank program.

Current Support Levels and Methods of Support

Under existing legislation, the Secretary of Agriculture is required to support the prices of some but not all farm products. He may support the price of any commodity provided funds are available and outlets for the disposal of surpluses acquired can be found. In practice, however, farm products which account for more than half the total cash receipts of farmers are not supported except occasionally in emergency situations by relatively small government purchases.

The minimum and maximum levels of support on the six "basic" crops (wheat, corn, cotton, rice, peanuts, and tobacco) and milk used for manufacturing and butterfat plus a few other minor commodities are specified by law. Supports on dairy products were reduced to between 75 and 80 per cent of parity in 1954, while those on the "basic" commodities were maintained at 90 per cent of parity until 1955. In that year, for the first time in more than a decade, supports on wheat, cotton, corn, and rice, the chief surplus crops, were dropped slightly below 90 per cent of parity.

According to the flexible price support provisions written into the Agricultural Act of 1949 and endorsed by Congress again in 1954, supports on the "basic" crops are to be maintained in the future between 75 and 90 per cent of parity, the exact level to be determined by the relationship between total supplies, including carryover from the preceding year, and expected sales.

Under the 1949 Act, the Department of Agriculture supports prices by making nonrecourse loans on storable commodities and by purchasing products eligible for support. The Commodity Credit Corporation makes nonrecourse loans on storable farm crops (principally corn, wheat, and cotton) placed in storage either on the farm or in government approved warehouses. Prices of commodities such as eggs, dairy products, fruits, and vegetables are supported almost entirely by government purchase programs. Commodities eligible for support may be purchased directly from producers or from processors. Milk and butterfat prices are supported when necessary by purchasing dairy products such as butter, dried skim milk powder, and cheese from dairy manufacturers. Section 32 funds are now used primarily to support the prices of perishable farm products for which support is not mandatory ("other" commodities"). Table 4 shows the level and method of support used for some commodities in 1957.

Table 3. Some general provisions of the soil bank program.

Provision	Acreage Reserve	Conservation Reserve
Land eligible	Wheat, corn, cotton, rice, peanut or tobacco acreage allotments.	Any land in crops, hay, or rotation pasture but not permanent pasture
Duration of contracts	1 year; acreage in reserve can be changed each year	3 or 5 years for land already in grass or legumes 5 or 10 years for land requiring establishment of cover 10 or 15 years for land to be planted to trees
Minimum acreage	Wheat - 3 acres	5 acres
Maximum acreage*	Wheat - 50 acres or 50% of allotment, whichever is larger	All cropland, hay and rotation pasture land.
Restrictions on use	No crops for harvest or grazing; noxious weeds must be controlled	No crops for harvest; no grazing for at least 3 years; noxious weeds must be controlled.
Payment per acre	Varies by county--base unit rate multiplied by the normal yield for the farm. Normal yields to be determined by county committees; average of normal yields for all farms in the county must not exceed the county average	Initial payment of up to 80% of cost of establishing conservation practice; annual payment varies by county.
Goals (1957)	U. S. - wheat, 15,000,000 acres (27% of total wheat allotment)	U. S. - 25,000,000 acres (7% of total cropland)
Authorized Expenditure (1957)	Up To $750 million per year	Up to $450 million per year.

* Where the funds were available, the original upper limits were relaxed.

Table 4. Level and method of farm price supports, 1957

Major Commodities Supported	Level of Support	Method of Support
Tobacco Wheat, corn, cotton, rice and peanuts	90 percent of parity 75-80 percent of parity	Acreage restrictions and storage; subsidized exports or gifts for relief
Milk and dairy products	81-84 percent of parity	Purchase of butter, cheese and dried skim milk; sold at reduced prices abroad or given away for relief.
Wool	96 percent of parity	Incentive payments to producers
Sugar	Not specified	Incentive payments to producers
Feed grains	70 per cent of parity	Storage
Soybeans	70 percent of parity	

Disposition of Commodities Acquired As a Result of Price Support Operations

Commodities acquired as a result of loan or purchase programs may be disposed of by re-selling them through normal trade channels or to foreign buyers (often at reduced prices) and by distributing them free of charge to schools and welfare agencies. The Commodity Credit Corporation is prohibited from selling any basic agricultural commodity or storable nonbasic commodity at less than five per cent above the current support price plus reasonable carrying charges except under the following conditions: (1) sales for by-product uses; (2) sales of commodities in danger of spoiling; and (3) sales for export. The Department of Agriculture is required to make available to federal agencies any food product which is in danger of spoiling before it can be disposed of through normal domestic channels of trade without impairing the price support program. Any commodities not disposed of in this way may be donated to schools for use in school lunches or to state and private welfare organizations.

PART II. RESULTS AND COSTS OF FARM PRICE PROGRAMS

It is almost impossible to measure precisely the effects which our agricultural policies have had on average farm prices and incomes during the past two decades because such policies have been only one of many factors affecting the supply and demand for farm products. Since 1933, this country has experienced the most serious droughts in its history, one major and one minor war, rapid changes in agricultural technology, and generally rising and nonfarm incomes. 1/ These factors undoubtedly have influenced farm prices and incomes much more than production controls or price supports. Even in cases where information on the direct cost to the taxpayer of farm programs is available, one cannot tell just how the costs and benefits have been shared by farmers and other groups. Nevertheless, it is possible to indicate some of the more general economic effects of farm price programs. Several excellent studies of such programs have been made during recent years. The results of these studies are summarized in the discussion which follows.

Acreage Controls

Acreage restrictions were introduced in the 1930's in an effort to reduce economic surpluses of wheat, corn, cotton, rice, tobacco and peanuts. They have been maintained almost continuously on tobacco since 1933 but were eliminated on all other commodities during World War II. Due to the build-up of surplus stocks in storage, marketing quotas (which are simply compulsory acreage allotments that have been approved by a two-thirds vote of producers) were reimposed on peanuts in 1949, on wheat and cotton in 1954, and on rice in 1955. The years in which acreage allotments and marketing quotas have been in effect on wheat, corn, rice, peanuts, cotton, tobacco and potatoes since 1938 are indicated in Table 5. Whenever marketing quotas are in effect, any producer who harvests more than his allotment must pay a penalty tax (based on the average yield grown on the excess acreage) regardless of whether or not he voted in favor of quotas.

Acreage allotments on corn, which also have been reintroduced in recent years, apply only in the Midwest. Producers who exceed their corn allotments are not eligible to receive price support loans

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1/ Total nonfarm personal income in the United States increased from approximately 44 billion dollars in 1933 to 303 billion dollars in 1957. Federal Reserve Bulletin, February 1957, p. 209.

from the Commodity Credit Corporation but they do not have to pay a penalty tax as producers of the commodities subject to marketing quotas must do if they plant more than their allotments.

While acreage restrictions undoubtedly have aided in raising or maintaining the prices of a few crops in the United States at least temporarily above the levels that would have prevailed in the absence of such a program, farmers generally have gained little if anything from such restrictions. The chief reasons for the limited effectiveness of acreage controls in adding permanently to farm incomes have been: (1) a tendency for higher yields per acre to offset to a considerable extent the effects of cuts in acreage; (2) the diversion of acreage previously in crops subject to control to other crops with the result that total farm production has been maintained or increased rather than reduced; (3) higher unit costs of production because of the inefficient use of equipment on restricted acreages and the inability to spread overhead costs over a sufficiently large volume of production; (4) the loss of markets particularly in the case of cotton due to the expansion of production in areas not subject to control and competition from synthetic fibres; and (5) the capitalization of any added returns into higher land values.

During the 1930's and again in recent years the production of crops subject to acreage controls has been reduced, but by a smaller percentage than the cut in acreage. Between 1953 and 1955, for example, the acreage planted to wheat was reduced 30 per cent, but production fell only 20 per cent; in the case of cotton, the acreage was cut 31 per cent and production fell only 11 per cent (Table 6). By selecting the best land for crops subject to control, applying more fertilizer, and controlling insects and diseases, farmers have been able to offset at least a part of the reduction in acreage by increasing yields per acre. This has been particularly true with cotton and tobacco.

Most of the land taken out of wheat, cotton, and rice in recent years has not remained idle but has been planted to other crops. Much of the wheat land was planted to feed grains such as barley and sorghum with the result that the production of these crops increased substantially. The total acreage of land taken out of crops between 1953 and 1955 was relatively small. During this period, overall crop production rose rather than fell.

Table 5. Years in which acreage allotments and marketing quotas were in effect for selected commodities, 1938-57 a/

Year	Wheat	Corn b/	Rice	Peanuts	Cotton	Tobacco c/	Potatoes
1938	A	A	A	A	AM	AM	A
1939	A	A	A	A	AM	A	A
1940	A	A	A	A	AM	AM	A
1941	AM	A	A	AM	AM	AM	A
1942	-	A	A	AM	AM	AM	-
1943	-	-	A	-	AM	AM	-
1944	-	-	-	-	-	AM	-
1945	-	-	-	-	-	AM	-
1946	-	-	-	-	-	AM	-
1947	-	-	-	-	-	AM	A
1948	-	-	-	-	-	AM	A
1949	-	-	-	AM	-	AM	A
1950	A	A	A	AM	AM	AM	A d/
1951	-	-	-	AM	-	AM	-
1952	-	-	-	AM	-	AM	-
1953	-	-	-	AM	-	AM	-
1954	AM	A	-	AM	AM	AM	-
1955	AM	A	AM	AM	AM	AM	-
1956	AM	A	AM	AM	AM	AM	-
1957	AM	A	AM	AM	AM	AM	-
Total	9	10	10	14	11	20	8

Source: CCC Price Support Statistical Handbook, Production and Marketing Administration, U. S. Department of Agriculture, April 1952, unpublished PMA data, and Benedict and Stine, Agricultural Commodity Programs, Twentieth Century Fund, 1956, pass. im.

a/ A = acreage allotments announced and not terminated before planting; M = marketing quotas in effect.

b/ Only in the Corn Belt States.

c/ Applicable to Burley type 31 and flue-cured types 11-14 only.

d/ Except in states such as New York where marketing agreements were not approved.

Table 6. Changes in acreage and production of selected crops, 1953-55

Crop	Change in acreage 1953-55	Percent change, 1953-55, in: Acreage	Production
	(mil. acres)		
Wheat	-20.5	-30	-20
Cotton	- 7.8	-31	-11
Oats, barley and sorghum	+19	+28	+44
Soybeans	+ 3.9	+26	+38
All crops	- 4.8	- 1	+ 3

Source: Effects of Acreage-Allotment Programs, 1954 and 1955; Production Research Report No. 3, U. S. Department of Agriculture, 1956.

Production controls have been widely criticized chiefly because they restrict individual freedom and retard production adjustments desirable from the standpoint of efficient farmers and consumers. Farmers do not like to be told how much of any crop they can plant. Often they have been dissatisfied with the distribution of acreage allotments. From an administrative point of view it is almost impossible to work out an objective method of making individual allotments without using past records of production as a guide. This, of course, gives those farmers who happen to have grown the restricted crop in previous years an advantage. Others cannot expand production unless they buy a farm with an allotment or pay the penalty tax. Allotments usually are applied in such a way that acreages are restricted as much in low-cost as in high-cost producing areas. This prevents production from shifting to areas where costs are lowest. Furthermore, individual acreage allotments in some cases have been so small that production could not be carried on efficiently.

Adjustment, Parity, and Conservation Payments to Farmers

Three types of cash payments (adjustment, parity, and conservation payments) have been made to farmers under agricultural acts passed since 1933. 1/ The total amount of such payments is indicated in Table 7. The first column includes rental payments made under the original Agricultural Adjustment Act of 1933 for land taken out of the production of certain crops as well as payments made under the Acts of 1936 and 1938 for planting "soil conserving" crops in place of "soil depleting" crops. The second column shows the total amount of parity (income) payments made under the Act of 1938 to producers of basic crops (cotton, corn, wheat, tobacco, and rice) who complied with acreage allotments and marketing quotas. These payments were discontinued on crops harvested after 1942. The third column shows the total amount of agricultural conservation payments made to farmers between 1936 and 1954 for carrying out soil-building and erosion control practices. Payments of this type are still being made.

Table 7. Adjustment, Parity, and Agricultural Conservation Payments Made to Farmers, 1933 - 54.

Program Years	Rental and Adjustment Payments a/	Parity Payments b/	Conservation Payments c/	Total Payments
	millions	millions	millions	millions
1933-35	$1,380	---	---	$1,380
1936-40	1,674	$531	$ 479	2,684
1941-45	797	559	1,032	2,388
1946-50	---	---	1,112	1,112
1951-54	---	---	786	786
Total 1933-54	$3,851	$1,090	$3,409	$8,350

Source: Agricultural Statistics, U. S. Department of Agriculture, 1946 1951 and 1955.

Footnotes continued next page.

Between 1933 and 1954 government payments to farmers cost the taxpayer a total of over 8 billion dollars. Farmers undoubtedly benefited from the various payment programs during the 1930's. Adjustment and parity payments added substantially to the cash incomes of farmers in a number of areas at a time when they were extremely low. In 1939, for example, the year of highest government payments, over one-fifth of the total cash farm income in Alabama, North Dakota and Mississippi came from government payments. Since World War II, however, government payments have been insignificant in relation to total farm income. From 1946 through 1950 such payments amounted to less than one per cent of the total value of crops and livestock sold by American farmers. Consumers also have received at least some benefits from the conservation program although it is impossible to measure the amount of such benefits. Government payments have given farmers an added incentive to apply soil-improving and soil-conserving practices. Consumers have benefited to the extent that total farm production has actually increased as a result of these subsidies.

Loan and Purchase Programs

The Federal Farm Board

In 1929 the Federal Farm Board began making loans to cooperatives and purchases of farm commodities in an effort to stabilize prices. The Board did not succeed in preventing a very serious drop in farm prices although it perhaps kept prices from falling quite as much during the period when it was acquiring commodities (1929-31) as might have occurred otherwise. Eventually the stocks accumulated by the Board were either

Footnotes from previous page.

a/ Includes rental payments made under the Agricultural Adjustment Act of 1933 and payments made under the Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1938 for shifting from "soil depleting" to "soil conserving" crops.

b/ Supplementary income payments made under the Act of 1938 to producers of cotton, corn, wheat, rice, and tobacco.

c/ Payments made under the Agricultural Conservation Program for soil building and erosion control practices on farm and range land; includes payments made under the naval stores program.

1/ In addition, subsidies have been paid to sugar cane and sugar beet producers, but under a separate program.

sold or given away. Net losses on the Board's operations amounted to about two-thirds of the original revolving fund of 500 million dollars.

Price Support Operations of the Commodity Credit Corporation

The Commodity Credit Corporation began operations at the bottom of the depression. As long as the drought limited agricultural production and prices increased the Corporation had relatively little difficulty in disposing of surplus commodities.

The value of inventories and loans outstanding held by the CCC increased during the early 1930's, fell in the middle 1930's and then increased again between 1939 and 1941. Most of the commodities acquired by the CCC in the latter period were either sold or given away during World War II and the period of reconstruction following the war. (Figure 1).

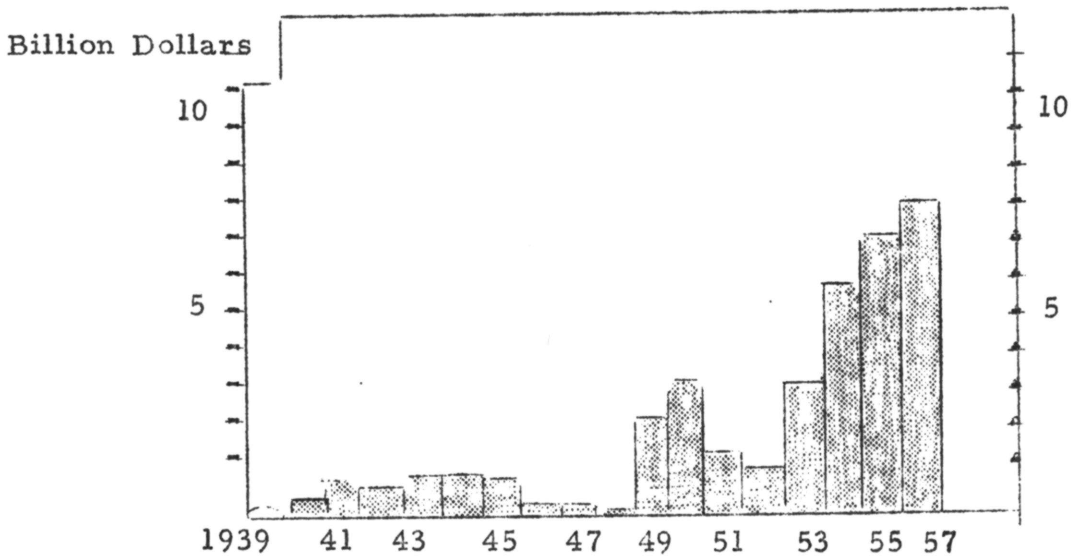

Figure 1. Value of Commodity Credit Corporation Inventories and Loans Outstanding, June 30, 1939-56.

Due to unusually large crops and falling export demands, CCC inventories built up rapidly in 1949 and 1950; however, stocks were reduced substantially during the Korean emergency. Between 1952 and 1956, the Commodity Credit once more acquired large quantities of storable commodities. Total CCC holdings as of June 30, 1956, reached a record high of more than $8 billion. Wheat, cotton, corn, rice, tobacco, and dairy products accounted for more than 90 per cent of the value of all CCC holdings as of that date.

During the first fifteen years of operation, the Commodity Credit Corporation lost relatively little money because of drought conditions during the mid-thirties and emergency demands created by

World War II in the forties. In fact, CCC gains on basic crops during the forties were more than enough to offset the relatively small losses sustained by the Corporation during the 1930's. In the past few years, however, CCC losses have been substantial (see Table 8).

During the immediate post-war period, price-support operations on perishable commodities (potatoes, eggs and dairy products) accounted for most of the losses sustained by the Commodity Credit Corporation. Partly as a result of the large CCC losses experienced during that period, supports on eggs and potatoes were dropped in 1950. Between 1953 and 1956, CCC losses on grains and cotton totalled nearly $900 million while losses on dairy products during the same period exceeded $1 billion. Potential losses on commodities now in the hands of the CCC cannot be estimated. The ability of the CCC to dispose of current stocks will depend on world market developments, weather conditions in those areas producing wheat, corn, and cotton, and the success of the Soil Bank program.

Table 8. Net losses of Commodity Credit Corporation, 1933 - 56

Commodity	1933-41	1941-46	1946-53	1953-56	1933-56
	millions	millions	millions	millions	millions
Basic crops	$56	$(183)*	$148	$678	$699
Feed grains	--	----	47	212	259
Potatoes, beans, and other vegetables	--	- 25	489	21	535
Fruits	--	----	17	--	17
Dairy products	--	----	136	1,020	1,156
Eggs	--	----	189	---	189
Other commodities	4	32	149	262	447
Gain or loss	$60	$(126)*	$1,175	$2,193	$3,302

( ) * = gain

Direct Distribution and Subsidy Programs

The cost of the major food subsidy programs for the years 1936-54 is indicated in Table 9. A total of over 1.1 billion dollars (from federal funds) was spent on school lunch subsidies. During the same period, farm products valued at 569 million dollars were purchased with federal funds and distributed without charge to relief agencies and welfare institutions. In addition, a total of nearly 423 million dollars was spent on export and diversion subsidies. Expenditures on the Food Stamp Plan and the Relief Milk Program during the four years these programs were in effect amounted to 266 million dollars. School lunch, export, and diversion subsidies, direct purchase and distribution programs, and the Food Stamp Plan have cost the taxpayer nearly 2.4 billion dollars since 1935.

The prices of some farm products undoubtedly have been increased during the past two decades as a result of government purchases and subsidies. The Food Stamp Plan, for example, probably succeeded in bringing about a small net increase in the demand for food. 1/ But the entire cost of the Food Stamp Plan, the School Lunch Program, and the direct distribution program should not be charged to agriculture, for the benefits of these programs have gone to nonfarm groups as much as to farmers. In many cases, government purchases have not added significantly to the demand for farm products. Such purchases have simply replaced a part of those that would have been made by individual families.

Federal Marketing Agreements and Orders

Marketing agreements and orders have not been applied widely enough to raise farm incomes or food prices generally. However, milk marketing orders undoubtedly have influenced fluid milk prices, particularly in the Northeast. Average milk prices probably have been somewhat higher and production slightly greater in areas operating under Federal milk marketing orders than they would have been in the absence of such orders. One of the most important effects of milk marketing orders has been to force all dealers selling milk in a given area to pay the same minimum price to producers for milk going into each major use. 2/

1/ It has been estimated that about 75 per cent of the total blue-stamp subsidy (260 million dollars) represented a net increase in the food expenditure of persons participating in the plan. N. L. Gold, A. C. Hoffman, and F. V. Waugh, Economic Analysis of the Food Stamp Plan, U.S.D.A., 1940, p. 4.

2/ For a much more complete discussion of Federal milk marketing orders, see Cornell Agricultural Experiment Station Bulletin 908, Milk Control Programs of the Northeastern States, by Leland Spencer and S. Kent Christensen.

Table 9. Cost of school lunch, direct distribution, food stamp, and diversion and export subsidy programs, 1936-54. a/

	Total Expenditures during fiscal years ending June 30				
Type of Program	1936-1940	1941-1945	1946-1950	1951-1954	1936-1954
	mil.	mil.	mil.	mil.	mil.
School Lunch					
Direct Distribution b/	$6	$ 73	$138	$287	$504
Indemnity Payments c/	-	69	289	270	628
Total-School Lunch	6	142	427	557	1,132
Direct Distribution d/	212	127	47	183	569
Diversion and Export Subsidies	102	82	169	70	423
Food Stamp Plan e/	17	249	--	--	266
Total - All Programs	$337	$600	$643	$810	$2,390

Source: Agricultural Statistics, U.S.D.A., G. S. Shepherd, Agricultural Price Policy, Second Edition, 1947, p. 160, and Murray R. Benedict, Can We Solve The Farm Problem? The Twentieth Century Fund, 1955, p. 31.

a/ For fiscal years ending June 30. Administrative costs excluded.

b/ Includes the value of commodities purchased with Section 32 and donated to schools as well as the value of commodities purchased with funds appropriated under Section 6 of the National School Lunch Act, Public Law 396, 79th Congress.

c/ Reimbursement by the federal government for local purchases of food.

d/ Food distributed without charge to institutions and welfare agencies. Includes food purchased with Section 32 Funds and commodities acquired by the Commodity Credit Corporation and donated to institutions and welfare agencies.

e/ Includes an expenditure of approximately 6 million dollars on the Relief Milk Program.

Table 10. Expenditures, Section 32, by type of program, fiscal years, 1936-54.

Domestic direct distribution (purchase) programs	$ 854.2
Food Stamp Plan	262.0
Export programs	284.6
Diversion programs	106.3
Cotton stamp plan	24.0
Total for commodities	$1,531.1

Source: Price Programs, USDA, Agricultural Information Bulletin 135, 1955.

Marketing agreements and orders on fruits and vegetables have seldom been used in areas close to large cities. Where orders have been applied to fresh fruits and vegetables, producers of such commodities have been able to regulate the quantity shipped to various markets. By controlling shipments, producers have reduced price fluctuations and perhaps have succeeded in raising prices, temporarily at least, above the level that would have prevailed without a marketing order program.

SUMMARY AND CONCLUSION

Efforts have been made by the federal government to support farm prices since 1929. The Federal Farm Board was created in that year to make loans and purchases of farm products for the purpose of "stabilizing" prices. Between the fall of 1929 and the spring of 1931, the Farm Board invested nearly 500 million dollars in agricultural commodities (mostly grains and cotton) and placed them in storage, but prices continued to fall. Most of the commodities acquired by the Board eventually were sold at a loss or given away. The Board's operations cost the taxpayer between 300 and 400 million dollars.

In 1933, acreage control programs were introduced in an attempt to limit production and thereby bring about a more favorable relationship between farm and nonfarm prices. Later payments were made to farmers for shifting from "soil-depleting" crops (cotton, corn, wheat, etc.) to "soil-conserving" crops (grasses) and for applying specified soil-improving and erosion-control practices. Total agricultural output was not reduced as a result of these programs although the production of a few crops, notably cotton, was curtailed.

Since 1933 the Commodity Credit Corporation has been making price-support loans to farmers at varying percentages of parity prices. During the late thirties and again in 1948-49, large storage stocks of commodities were built up as a result of these operations; but on both occasions the Corporation was able to unload the accumulated stocks during periods of peak demand brought on by war. In addition to making nonrecourse loans on storable farm products, the CCC has purchased considerable quantities of perishable farm products during recent years in order to support prices.

The commodities eligible for price support and the levels of support have changed a number of times since price support legislation was first introduced. In general, relatively high support prices were maintained during and immediately after World War II. At the present time, the Secretary of Agriculture is required to support the prices of cotton, wheat, corn, rice, tobacco, peanuts, and milk at between 75 and 90 per cent of parity and the prices of tung nuts, and honey at between 60 and 90 per cent of parity provided producers have not disapproved marketing quotas. The exact level of support which the Secretary of Agriculture is required to maintain depends on supply and other conditions. Wool and mohair are currently supported by loans, purchases, or compensatory payments. Price support on commodities not specified by law as "basic" or "designated nonbasic" commodities (those listed above) is permissive rather than mandatory.

Over 14 billion dollars (excluding administrative costs) have been spent on farm income, storage, and subsidy programs since 1933. Estimated federal government expenditures and losses between 1933 and June 30, 1954 on the major types of farm price and income programs are summarized in Table 11. During this period, a total of nearly 8.4 billion dollars was spent on adjustment, parity, and conservation payments and over 2 billion dollars on school lunch, export subsidy, diversion, and surplus distribution programs. Losses on Commodity Credit Corporation loan and purchase operations totaled over 3 billion dollars. During the past few years cost of government programs have increased substantially due to the adoption of large-scale export subsidy programs and the Soil Bank. The costs as well as the benefits of these programs have been shared by farmers and nonfarmers.

Table 11. Estimated expenditures of federal funds on farm price-support and subsidy programs, 1933 - June 30, 1954 a/

Type of Program	Estimated Expenditure 1933 - June 30, 1954
	(billions)
Adjustment, Parity, and Conservation Payments	$ 8.4
Losses on CCC Loans and Purchases	3.3
Direct Distribution and Subsidy Programs b/	2.4
Total	$14.1

Source: See Tables 7, 8, and 9.
a/ Excluding administrative costs.
b/ Includes purchases of surplus farm commodities and subsidies paid on products exported or diverted since 1936 only. Does not include special wartime or sugar subsidies.

It is impossible to determine just how much our farm price programs have affected the net incomes of farmers since 1929. Many producers, undoubtedly, have benefited at least temporarily from the various programs, but others have suffered moderate losses as a result of the programs adopted in an effort to raise or maintain the prices of wheat, cotton, and tobacco. The net result of such programs probably has been to raise the average level of farm incomes only slightly during the past 25 years.

The experience which this country has had with farm price programs suggests a number of conclusions: first, any attempt to maintain the purchasing power of farm prices and incomes (say, at 90 per cent of parity or higher) during a period of declining prices by a storage and loan program combined with export or diversion subsidies, an income payment program, or a land rental program such as the soil bank is likely to be very costly; second, if the production of any crop is to be limited, the acreage planted to that crop must be drastically reduced; and third, total farm output cannot be curtailed unless controls are applied to a great many crops.

SUGGESTED REFERENCES ON FARM PRICE PROGRAMS

Benedict, Murray R., Can We Solve the Farm Problem? The Twentieth Century Fund, New York, 1955. 601 p. $5.00. This book by a former South Dakotan gives a wealth of detail on farm programs up to 1955. Perhaps the best single book on the subject.

Effects of Acreage-Allotment Programs, 1954 and 1955; U. S. Department of Agriculture, Production Research Report No. 3, 1956. "The acreage allotment, marketing quota and associated price support programs that have been in effect during the last two years have had little influence on total farm production although the production of specific commodities have been modified considerably."

Korpela, Allan E., Federal Farm Law Manual, Equity Publishing Corporation, Oxford, N. H., 1956, 698 p. $7.50. This book gives a digest of laws and court decisions in brief readable style on not only price programs through 1956, but also marketing agreements and orders, storage, pure foods, soil conservation, water programs, credit agencies, health, education, research, and special services and many other topics.

Price Programs, U. S. Department of Agriculture, Agricultural Information Bulletin No. 135, 1957. This is an excellent review of present price programs. It has a special section on parity and a useful index. It lists additional sources on p. 114.

Bender, Lyle and A. W. Anderson, The South Dakota Farmer and the Soil Bank, Agricultural Extension Circular 542, South Dakota State College, 1956, Written to help farmers decide whether and to what extent they can afford to join the Soil Bank program.

Shepherd C. and Allen Richards, Effects of USDA Corn Storage Program on Corn Carryover Stocks and Corn Utilization, (North Central Regional Publication 77), Iowa Research Bulletin 446, 1957. This is also available from the Agricultural Experiment Station at Brookings. This bulletin notes that variations in corn production are due largely to weather and indicates that a carryover of about 1.1 billion bushels of corn would be necessary to give a reasonably stable supply. If available corn supply can be stabilized, farmers would have more stable prices.

Stocker, Frederick D., *Governmental Cost in Agriculture, The Concept and Its Measurement*, United States Department of Agriculture, ARS 43-28, May 1956.

For current information on support prices and commodities eligible for support contact the county representatives of the Agricultural Stabilization and Conservation Service (ASC), formerly Production and Marketing Administration (PMA) of the U. S. Department of Agriculture. This is the agency which has charge of administering farm price programs.