THE DEVELOPMENT OF WHEAT PROGRAMS IN THE UNITED STATES: A SEVENTY YEAR PERSPECTIVE

by

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THE OLD, OLD STORY

When the corn is in the tassel and the wheat is in shock,
Then the farmer thinks of paying off the note he has in hock.
He has laboured long and faithfully hardly taking time to eat,
But alas, his hopes are shattered by the sudden drop in wheat.
He has worried all the season, he has watched with anxious eye,
For the Chinchbugs yearly visit, for the sign of Hessian Fly.
He has paid out good hard money, for insurance 'gainst the hail,
But he could not stop the gamblers, as they spread the same old tale.
Too much wheat was raised in Russia, Texas, Argentine and Rome.
And the reindeer crop in Iceland, cuts the price of wheat at home.
Liverpool is feeling gloomy, Germany has Marks to sell.
I suppose sometime they'll tell us,
"Too much wheat is raised in Hell".
So it goes the same old story,
With the farmer as the goat;
He can only pay his taxes and the interest on his note.
Oh, it's fun to be a granger and to till the dusty soil.
But the guys who farm the farmer are the ones who get the spoil.

--written by A. M. McKinney at the
turn of the century.

THIS BOOK CONTAINS NUMEROUS PAGES WITH THE ORIGINAL PRINTING BEING SKEWED DIFFERENTLY FROM THE TOP OF THE PAGE TO THE BOTTOM.

THIS IS AS RECEIVED FROM THE CUSTOMER.

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CHAPTER 1. INTRODUCTION.

"It was the best of times, it was the worst of times. ... It was the spring of hope, it was the winter of despair."

The decade of the seventies was a decade of instability for wheat producers. Producers were delighted as wheat prices moved upward--doubling once, then doubling again. But the euphoria of the mid-decade was buried under "fence-row to fence-row" production after high prices, the effective removal of government wheat programs, a relative decline in exports and Secretary of Agriculture Earl Butz's exhortions brought record production and low prices. Discussions around a coffee table in Colorado during the summer of 1977 led to the creation of the American Agriculture Movement (AAM). Its promoters were warmly received in the wheat producing areas of the Great Plains as they spread their demand of 100% of parity or "farm strike." In early 1978, angry farmers on tractors (the downpayments on which had been made in anticipation of continuing five dollar wheat) invaded Washington. They brought with them proposed legislation for a new farm program.

Probably the most regimented program ever proposed for United States agriculture, the AAM proposal vested all authority for establishing and administering agricultural production and marketing policy in a "National Board of Agricultural Producers" to which the Secretary of Agriculture was subservient. No farm products would be sold for less than 100% of parity in either the domestic or export market. Producers could produce as much of any commodity as they wished, but could only market commodities that were certificated. Market certificates were to be issued in line with expected demand with each farmer's share of the marketing quota to be based on historical production. Each farmer and each of his children over eighteen years of age and farming in the operation was eligible to receive up to one million dollars worth of certificates.[1]

This was not a new type of program. In many ways it was a return to programs of the 1950's with their parity price standard and marketing quotas. Thus, the AAM proposal, created as a reaction to low wheat prices, was also a reaction to changes in federal wheat programs which have occurred since the 1950's. Undoubtedly, few producers would today embrace the 1978 AAM proposal. Probably only a minority of wheat producers would have embraced it in 1978. Yet it was visible evidence of a desire for the government to again intervene in wheat production and markets as it had done in the past.

This report is not about the American Agriculture Movement. But the AAM helped provide the stimulus for this report. Discussion with various AAM supporters and their emphasis on wheat programs of the past, suggested the need for a better understanding of past wheat programs in their historical perspective. For while it is unlikely that many past program provisions will again be adopted, it is important to understand why.

Government wheat programs can best be viewed in relation to a "free market", one in which supply and demand are the main determinants of the levels of production and prices. Various programs have provided incentives and disincentives for producers to use their resources differently than under a "free market." These programs have developed in an incremental fashion. Although a decade was to pass between the demise of the World War I Grain Corporation and the creation of the Federal Farm Board, once started, peacetime commodity programs built on the successes or failures of preceding programs--although success or failure was definitely determined by one's perspective or position.

Using a "free market" perspective and an incremental paradigm, a historical framework for categorizing U.S. wheat programs can be developed. The following categories capture, for the most part, the essence of the administration and/or underlying authority of wheat programs during the past fifty years.

1) Reviving the market--the search for relief. 1929-1938.

2) Replacing the market--active enhancement of domestic wheat prices. 1939-1963.

3) Releasing the market--returning prices to the world level. 1964-1973.

4) Rationalizing the market--searching for stability in an uncertain world market. 1974-1980.

Current commodity programs are a legacy of the past and a trade-off in the present; an attempt to protect farmers from drastic price declines and consumers from dramatic price increases--while simultaneously trying to keep the costs to taxpayers at "reasonable levels." While there is debate as to whether commodity programs are justified economically, there is no doubt that they are created politically in response to economic forces. Whence these wheat programs came is the topic of this report.

CHAPTER 2. AN OVERVIEW OF WHEAT MARKETS AND PROGRAMS

As this report will demonstrate, commodity programs for wheat as well as other crops have been complicated and expensive. This chapter provides an overview of federal expenditures as well as various time-series data concerning wheat production and prices.

Expenditures.

According to the Commodity Credit Corporation (CCC) over 105 billion current dollars have been spent on various commodity programs since October, 1933. Thirty-four billion dollars of this have been spent on wheat programs. Table 2.1 summarizes by category various expenditures over this 47 year time period.

Farmers, of course, have not been the only beneficiaries of the expenditures. Shippers, warehousers, grain exporters, and persons (or at least, governments) in less-developed countries have gained from various aspects of different programs. As can be seen from Table 2.1, export promotion (especially P.L. 480) has consumed a larger proportion of expenditures for wheat programs than have price support operations. Yet the surplus production generated at least in part by government price support operations precipitated the need for export promotion. Hence, price support operations have had an indirect as well as direct influence on government expenditures.

Table 2.2 presents data concerning expenditures since 1950 in five year increments. These years do not necessarily represent years of high or low expenditures or inventory, and variance between years is wide. Yet they do suggest general trends of interest.

First, expenditures on commodity programs have decreased relative to total government expenditures and relative to total expenditures of the Department of Agriculture. To quite an extent this is due to expanded programs both within and without the Agriculture Department. Also, the public's conception of agricultural producers and their problems relative to the problems of others has undergone a gradual change. Second, the federal government is much

Table 2.1. Outlays for Various Commodity Credit Corporation Programs October 17, 1933 to September 30, 1980. All Commodities and Wheat. Millions of Current Dollars

I. Price Support and Related Programs	Wheat	All Commodities
A. Loss on Commodity Inventory Tranactions	2,962.0	19,092.9
B. Direct Payments to Producers	6,052.8	33,053.0
C. Grain Reserve Storage Payments and Reseal Loan Storage Expense	452.6	1,882.7
D. Export Payments	1,625.2	3,184.0
E. Other Costs and Recoveries	3.5	12,445.8
F. Net Realized Loss	11,096.1	69,658.4
II. P.L. 480		
A. Sales for Foreign Currencies	10,774.1	14,017.1
B. Credit Sales for Dollars	5,224.2	7,658.4
C. Title II	3,115.8	7,976.8
D. Total	19,114.0	29,652.3
III. Other Programs		
A. International Wheat Agreement	1,474.7	1,507.7
B. Export Credit Sales Program	2,859.3	1,949.8
C. Other	76.7	3,226.2
IV. Grand Total	34,620.9	105,994.4

Source: Commodity Credit Corporation, Report of Financial Condition and Operations as of September 30, 1980, (Washington: CCC) 1981.

Table 2.2. Selected Areas of the U.S. Budget and C.C.C. Inventory Investment. Selected Years 1950-1980.[1] Billions of Current Dollars

	Fiscal Year						
I. Actual Expenditures	1950	1955	1960	1965	1970	1975	1980
A. Total Federal Government Budget[2]	40.2	64.6	76.5	118.0	197.0	325.0	579.6
B. Department of Agriculture	2.8	4.6	5.4	6.8	8.3	9.7	24.9
C. All Commodity Programs	0.25	1.1	4.4	5.2	5.2	1.4	2.7
D. Wheat-Related Programs							
1) Price Support Related[3]	0.17	.13	0.1	0.2	0.6	.06	0.3
2) Wheat Under P.L. 480 and Other Export Programs[4]	-	0.2	0.6	1.3	0.6	0.6	0.9
3) Total Wheat Related	0.17	0.3	0.7	1.5	1.2	0.7	1.2
II. Inventory Investment, End of Fiscal Year[5]							
A. All Commodities	2.6	5.0	7.2	3.9	1.9	0.4	2.7
B. Wheat	0.7	2.5	3.0	1.3	0.4	.002	0.7

Notes:

1) These years do not necessarily represent years of high or low costs or investment. See text for program costs by year or period.
2) Includes on budget items only.
3) Includes loss on inventory transactions, direct payments to producers, grain reserve storage payments and reseal loan storage expenses, export subsidies and miscellaneous costs.
4) Includes costs under P.L. 480, International Wheat Agreements, and the Export Credit Sales program.
5) Valued at cost, fiscal year change between 1975 and 1980 distorts the inventory investment due to seasonal differences.

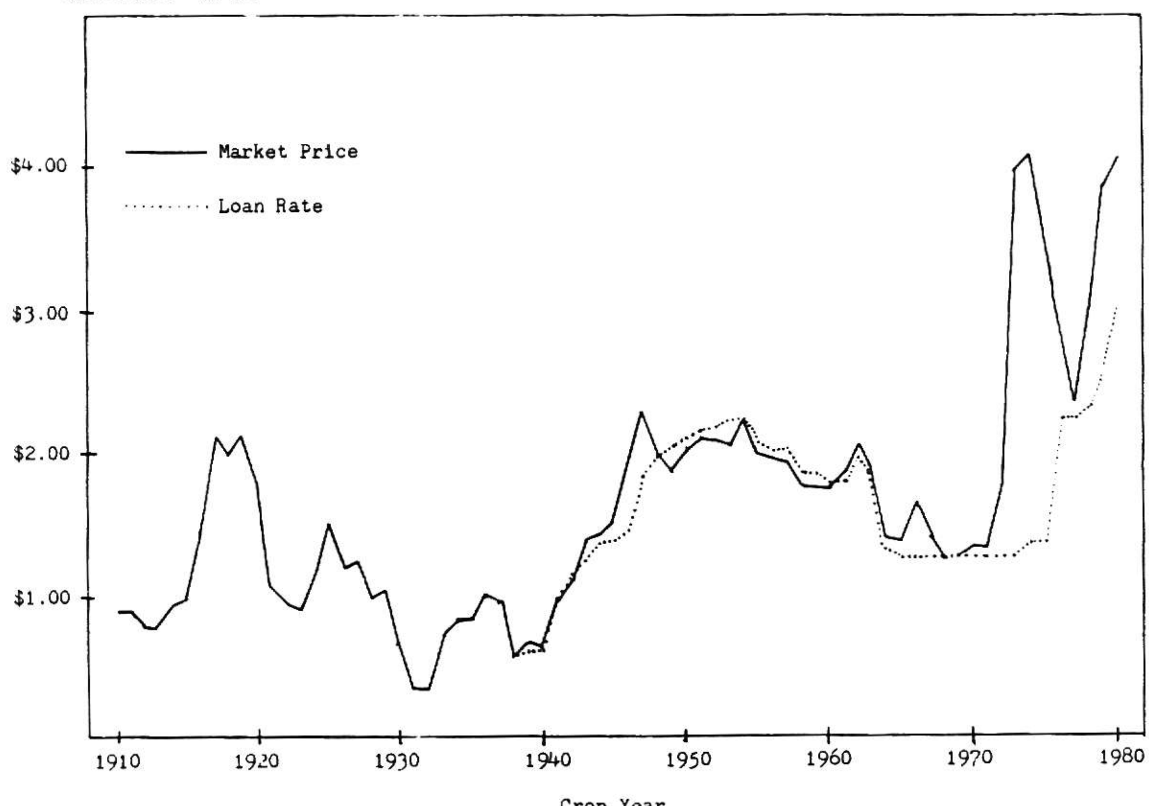
Source: Commodity Credit Corporation. Report of Financial Condition and Operations as of September 30, 1980 and earlier years. (Washington: CCC) 1981.
The Budget of the United States Gov't. FY 1982 and earlier years.

less willing to bear the responsibility, costs and political liabilities of holding large inventories as they did during the 1950's. The trend (especially for wheat) is generally downward. The expanded inventory levels shown for 1980 reflect both the political clout and contributions of the dairy producers as well as Commodity Credit Corporation acquisitions after the 1980 grain embargo.

Prices and Loan Levels.

The role of the government in setting the price of wheat is reflected in Figure 2.1. By holding prices above an equilibrium level with subsequent effects on production, non-recourse loans became effective floors under the market price. If one considers ceiling prices during World War II, (which were decidedly liberal relative to industrial price ceilings) except for a few years after World War II, wheat market prices were effectively set by Congressional mandate from 1938 to 1963--a span of 25 years. Policy changes after 1963 were to provide more freedom for market prices to fluctuate.

Figure 2.1. U.S. Season Average Wheat Prices 1910-1980. Non-Recourse Loan Rates 1938-1980. Dollars per bushel.

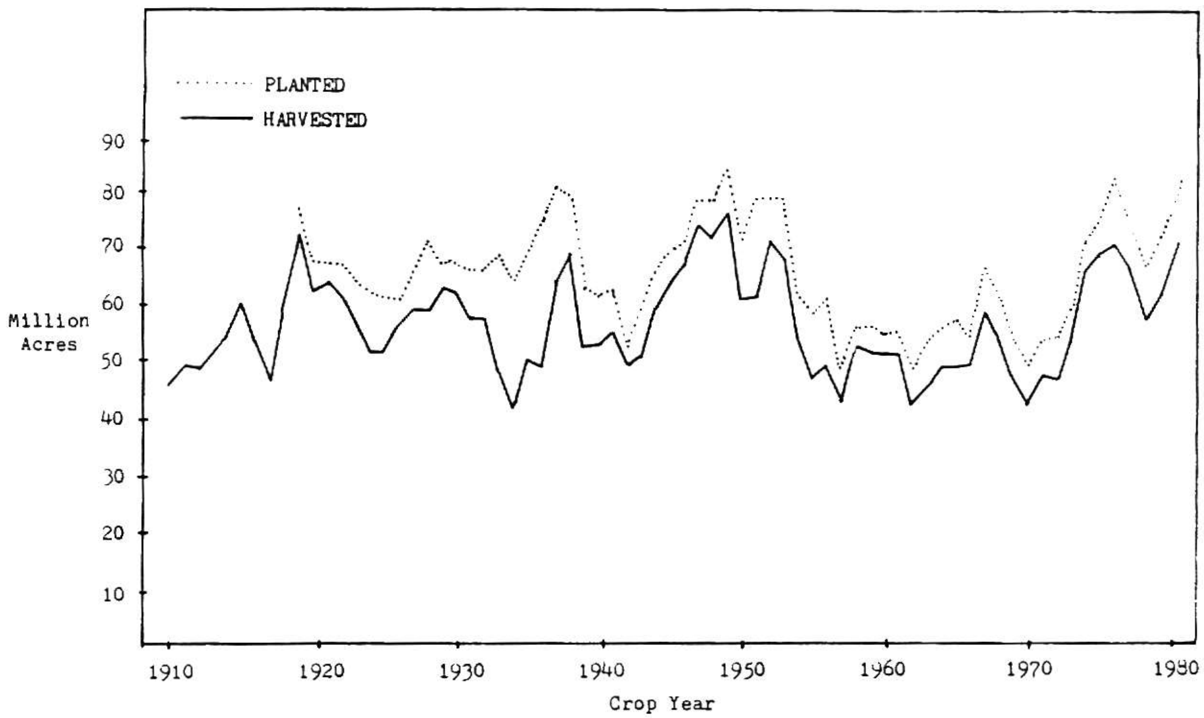


Source: See Appendix IV.

Acres Planted and Harvested.

As Figure 2-2 illustrates, acres planted and harvested varied a great deal between 1910 and 1980. Various land diversion programs have withdrawn land from production of wheat and other crops--some being wheat specific and some being general cropland programs. The relative stability of acres planted during the late fifties and early sixties reflect government marketing quotas. The greatly increased plantings after the early seventies reflect not only increased demand but changes in program provisions.

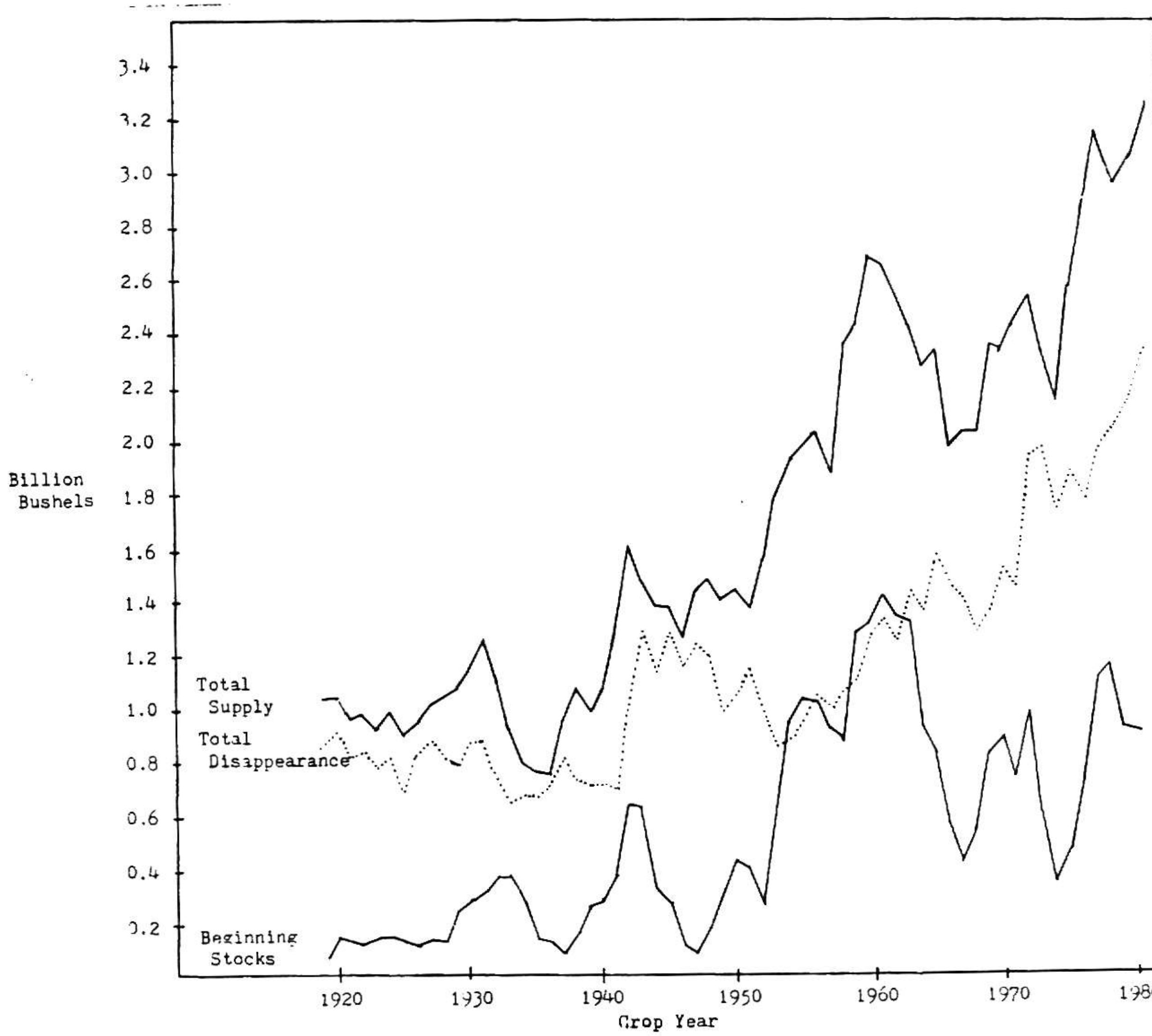
Figure 2.2. U.S. Wheat Acreage: Planted and Harvested.



Source: See Appendix 1.

While production of wheat in the United States has trended upward over time, Figure 2-3 illustrates total supply in relation to disappearance on an annual basis. The results of the high support programs of the fifties and sixties can be seen--for six years during that period, over one year's disappearance equivalent of wheat was carried over into the next year--despite expensive export programs designed to dispose of wheat on the world market. Increased export promotion and program modification were required to reduce these inventories.

Figure 2.3. U.S. Wheat Annual Supply, Disappearance, and Beginning Stocks, 1919-1980.



Source: See Appendices II and III.

World Production and Exports.

Despite the dramatic increase in U.S. wheat production during the last decade, Table 2.3 illustrates that the U.S. production share of total world production has been remarkably steady over the last twenty years. Wheat acreage has expanded worldwide, and yield increases have increased even more dramatically.

Although world demand has increased and population pressures have accelerated, the point is that wheat is a highly adaptable plant--grown widely under varying climatic conditions. While U.S. exports of wheat are a significant share of the world market, this market share does not necessarily equate with market powers. (See Table 2.4). Some analysts suggest that the world market is becoming a buyer's market as production of wheat outstrips effective demand.[1] Table 2.4 also illustrates the importance of government export promotion during periods of high price supports. The changing nature of the international wheat markets can also be seen in the significant reduction of wheat exported under government programs.

Table 2.3. Average Annual World Production, Harvested Acres and Yield 1935-1939; 1945-1979.

(1) Year of Harvest In Northern Hemisphere	(2) Harvested Acres: (millions)	(3) World Production (million bushels)	(4) World Yield (bushels per acre)	(5) U.S. Production as % of World Production
1935-1939	425	6102	14.3	12%
1945-1949	406	5910	14.6	20%
1950-1954	444	6906	15.6	16%
1955-1959	492	7938	16.1	12%
1960-1964	501	8483	16.9	14%
1965-1969	532	10,323	19.4	14%
1970-1974	524	12,356	23.6	13%
1975-1979	562	14,492	25.8	14%

Source: Calculated From USDA, Agricultural Statistics, 1980 (Washington: USDA, 1981), pp. 11, 12 and corresponding tables previous years.

Table 2.4. Average Annual Exports of Principal Exporting Countries; the United States and Specified Foreign Aid Programs of the United States, 1910-1939; 1955-1979 (million bushels).

(1) Year of Harvest In Northern Hemisphere	(2) Principal Exporting Countries	(3) Total U.S. Exports	(4) (3) As % of (2)	(5) U.S. "Foreign Aid" Exports*	(6) (5) As % of (3)
1910-1914	702	128	18%	-	-
1915-1919	613	173	28%	-	-
1920-1924	700	264	38%	-	-
1925-1929	819	201	26%	-	-
1930-1934	679	76	11%	-	-
1935-1939	567	55	10%	-	-
1955-1959	1144	449	39%	155	35%
1960-1964	1685	717	43%	496	70%
1965-1969	1909	696	36%	344	49%
1970-1974	2265	938	41%	152	16%
1975-1979	2503	1110	44%	134	12%

*Exports under P.L. 480 and Mutual Security Act of 1953.

Source: Calculated from USDA, Agricultural Statistics, 1981. (Washington: USDA, 1981) pp. 11, 12 and corresponding tables previous years.

Productivity.

Labor input into wheat production when measured on a per acre basis has steadily declined since 1935 but the decline in manhours per 100 bushels is even more dramatic as yields have concurrently improved. Although comparable data is not available for the 1970's, personal observation in the major wheat producing regions suggests that this trend in labor productivity has continued. One source suggests that more mechanized and capitalized operators with large acreages spent 23 man hours producing one bushel of wheat between 1928 and 1940. In 1973, it was estimated that only about 5/6 of one hour was needed for these operators to produce a bushel of wheat.[2]

Table 2.5. Productivity Measures Concerning U.S. Wheat Production 1935-1979.

Year	Manhours Per Acre	Manhours Per 100 Bushels	Yield (bushels per acre)
1935-39	8.8	67	13.2
1940-44	7.5	44	17.7
1945-49	5.7	34	16.9
1950-54	4.6	27	17.3
1955-59	3.8	17	22.3
1960-64	3.0	12	25.2
1965-69	2.9	11	27.5
1970-74	-	--	31.3
1975-79	-	--	31.5

Source: Ben J. Wattesburg, The Statistical History of the United States from Colonial Times to the Present. New York, Basic Books, Inc., 1976. p. 500.

Yield advances may have leveled off during the 1970's. Previous changes in yield were a result of many factors. Government programs (especially in a broad sense) have certainly contributed. Government sponsored research has fostered higher-yielding varieties, changed cultural practices, and more effective pest control techniques. Land retirement programs have, at times, removed land with lower productivity from production. But other factors have been involved. Increased usage of fertilizer and irrigation contributed to increased yields as have regional shifts in production classes of wheat. Decreased yields resulted from a reduction of the use of summer fallow as well as from later expansion onto land with lower productivity. It is clear, though, that wheat yields have become dependent on inputs provided by the industrial sector.[3]

COMMENTS

This overview chapter suggests the great amount of changes--both institutional as well as economic, which has characterized the wheat sector of the United States in the twentieth century. Although obviously wheat production and prices depend on relative prices and programs of competing crops both here and abroad, the focus in this report will be the wheat sector of the United States. As will be seen, the complexities of U.S. wheat markets and policy are by themselves an extensive story.

CHAPTER 3. PREPARING FOR INTERVENTION.

WHEAT BEFORE WORLD WAR I

World War I was a turning point in the development of U.S. agriculture. The years 1895 to 1915 had been prosperous years for American agriculture. A rapidly expanding domestic market plus strong foreign demand made the terms of exchange between agriculture and industry favorable to agriculture. After 1909, prices leveled off and remained steady up to World War I.[1] This pre-World War I period (which includes the parity base period of 1910-1914) has often been called the "golden age of American agriculture." No government commodity programs existed before 1917.

The outbreak of war in Europe in August, 1914, introduced instability into farm markets. Wheat prices rose during the 1914 marketing year and fell during the 1915 marketing year. After July, 1916, under the impetus of reduced acreage and disease problems in the United States, and the withdrawal of Russian exports from the world wheat market, prices trended upward.[2] Prices peaked in May, 1917, one month after the United States entered World War I. Winterkill had destroyed 30% of the 1917 winter wheat crop acreage. The United States entered the war with the smallest wheat crop since 1911. (See Appendix 1)

WORLD WAR I AND THE GRAIN CORPORATION

Increased production and price control for specified commodities (especially wheat) became the goals of U.S. agricultural policy. Consumers were asked to observe "wheatless" (and "meatless") days. After the passage of the Food Control Act in August, 1917, farmers were offered "price guarantees" for their 1918 wheat crop at not less than $2 per bushel. This guarantee was to be binding until May 1, 1919.[3]

The Food Control Act granted the President broad powers over the wartime economy. He was authorized to buy, store, sell, and license the distribution of commodities, to requisition food, and to regulate the Board of Trade. Hoarding (except by farmers or farm cooperatives) or the destruction of commodities was prohibited as was the distillation of grain into beverage alcohol.[4]

To administer the wheat pricing and distribution provisions of the FCA, the Grain Corporation was established. The Grain Corporation was given both authority and funds to manage the domestic wheat market. All purchasing by allies was channeled through the Grain Corporation. The Grain Corporation mandate was to accumulate a corporation-owned supply of wheat at each terminal market, to buy or sell wheat from this supply to stabilize the price at the desired level and to ensure that terminal prices were reflected in farm prices. Wartime patriotism brought the necessary cooperation from the grain trade.[5]

A twelve-man committee was appointed by Herbert Hoover, newly appointed Food Administrator, to determine a "fair price" for the 1917 crop which was not covered by the bill. A nationwide survey of county agents suggested that the nationwide average cost of production was $1.71 per bushel. Representative producers were contacted as to their opinion of a "fair" price. The consensus appeared to be that $2.00 per bushel was a "fair farm price" for the 1917 crop. The committee recommended to the President a price of $2.20 per bushel for #1 spring wheat in Chicago. This recommendation was quickly adopted by the administration.[6] The price guarantee (increased to $2.26 per bushel) was extended to cover the 1919 crop. Price floors were discontinued on May 31, 1920 at the peak of wheat prices. ($3.10 per bushel at Chicago). Prices fell through the rest of 1920 and 1921. The price of wheat at Chicago was $1.24 per bushel by July, 1921.[7]

Although wheat acreage and production greatly expanded during the Grain Corporation's tenure (see Appendix 1) it is impossible to determine how much expansion was due to the guarantee of prices and how much was due to the increase of prices due to wartime demand. After the passage of the Food Control Act, prices showed a remarkable stability which could probably be attributed to the Grain Corporation's operations. But market prices were well above the guaranteed floor price for a year and a half after the end of the war.[8] Prices fell dramatically after the Grain Corporation's removal of price guarantees but external factors (see below) were starting to be felt.

Organized to facilitate price stability during wartime, the Grain Corporation would have been an inappropriate institution to address the problems of the twenties; it had no means by which to control production. It was only a marketing corporation with extensive wartime powers. During the years 1917 to 1921, the Grain Corporation sold $2.1 billion worth of farm commodities including $952 million worth of wheat for export. Total dollar surplus from the operations of the Grain Corporation was $51 million.[9]

Six factors contributed to the success of the Grain Corporation: competent experienced administrators, absolute control of grain imports and exports, practically unlimited demand for wheat by foreign countries, easily available U.S. treasury financing for allied purchases, cooperation of the grain trade and a decision to halt price guarantees when the demand situation changed.[10] As Shepherd puts it, "The Food Administration could not have maintained the price of wheat after 1920, but it could have lost a lot of money trying."[11]

CHANGES IN AMERICAN AGRICULTURE WROUGHT BY THE WAR

High prices during the war had encouraged expansion of wheat acreage. By 1921, too much wheat was being produced for the effective demand. Many decision-makers, unaware of the fundamental shifts in supply and demand as a result of the war, viewed the adjustment problem as temporary.

Concerning demand, per capita domestic consumption of wheat was leveling off. Birth rates were lower and changes in immigration policy brought an end to the population boom. Export demand was also changing. Although Russia no longer supplied wheat to the world market, other exporting countries had increased production. After the war, the U.S. was no longer a debtor nation, and industrial imports were needed so other nations could obtain the dollars necessary to buy U.S. agricultural commodities. High tariffs prevented these imports and Europe, enjoying a quick revival of her own agriculture, turned to other exporting countries for wheat. U.S. wheat exports declined from a 1920 high of 44% of domestic production to 21% by 1923.

Concerning supply, increased mechanization, stimulated by war prices and a shortage of labor, allowed each farmer to farm more acres. Mechanization also freed land from the production of feed for draft animals and encouraged expansion of production into semi-arid regions not previously cultivated.[13]

According to Hambidge, "Farmers had three profitable years during the war but neither prices nor profits were high compared to those in industry." The increase in farm prices had been partially captured by costs. Land prices were at record levels and the prices of purchased inputs such as labor, fertilizer and taxes doubled.[14] After 1920, the prices of purchased inputs also declined but not as fast as wheat prices. The parity ratio (prices received by farmers divided by prices paid by farmers) dropped from the 1917 high of 120 (1910-1914=100) to 80 in 1921.[15] Many farmers were faced by a cost-price squeeze, especially those who had purchased land at wartime prices. The 1920 value of farmland in Kansas was not to be reached again until 1954.[16]

As wheat prices dropped, so did planted acres of wheat--from 77 million acres for the 1919 crop to 55 million acres in 1924. The season average price of wheat in 1923 was 93¢ per bushel, compared to $2.16 in 1929. Although prices recovered to an annual average of $1.44 in 1925, by 1928, prices again hovered around $1.00 per bushel. Farmers increased their planted acres for the 1925 crop and by 1928, 71 million acres were planted to wheat. Although the parity ratio was relatively stable throughout the 1920's, the decade was a time of hardship for many farmers.

ADJUSTING TO HARDSHIP

During periods of hardship, it has been observed that farmers have three methods of coping: 1) reduce or postpone expenditures, 2) join with other farmers in cooperative ventures, and 3) petition the government for help. All three methods were attempted during the 1920's.

The Cooperative Movement

A case study approach will be used to examine the cooperative movement of the twenties. In his book, The Hard Winter Wheat Pools, Joseph Knapp concentrated on wheat pooling attempts in Kansas, noting that as "the most important wheat producing state in the United States, Kansas may be looked upon as a 'bellwether' for other wheat producing states."[17] This report will likewise concentrate on the Kansas experience. Cooperative marketing of farm products was implicitly authorized under certain conditions by the Clayton Act of 1913. State legislatures of the early 1920's were to give more explicit authorization. By 1922 forty-two states had state cooperative laws.[18] Explicit federal exemption of farm cooperatives from anti-trust prosecution was provided by the Capper-Volstead Act which was signed into law in February, 1922.[19]

But attempts at cooperative wheat pooling preceded the Capper-Volstead Act. In the Southwest during 1919, growers used a card system to attempt to organize wheat markets. Growers pledged to withhold their wheat from the market because the prevailing price was not sufficient. Apparent popularity notwithstanding, it soon became apparent that to affect markets, a stronger organization was needed. The National Wheat Growers Association (NWGA) was organized in Hutchinson, Kansas in May, 1920. When prices broke in autumn of 1920, most members forsook their original pledge to hold their wheat until a "fair price" of $3.13 was reached and sold their wheat accepting lower prices as inevitable.[20]

The Kansas chapter of the NWGA was organized in 1921. Sapiro contracts were adopted by the organization. Named after Aaron Sapiro, a fiery California lawyer, the contracts were "iron-clad"--legally binding growers to the organization. All of a member's wheat which left the farm was to be marketed through the NWGA. An advance was to be paid to the grower but full financial and selling powers resided in the Association. A twenty-five cent penalty per bushel was to be charged for breach of contract.[21]

A minimum amount of wheat under contract was required by the association bylaws for the association to incorporate and for contracts to become effective. When the original 51 million bushel goal could not be reached, the minimum was lowered to five million bushels, which was secured and the association was incorporated.[22]

Competing marketing plans were also organized in Kansas about this time. The Farm Bureau sponsored the U.S. Grain Growers, Inc., which was organized in April, 1921. This plan gave growers the option of local or national pooling or of selling through a national federation of country elevators. The time and method of selling was decided by the grower. Kansas Farmers perceived this system as being too similar to the existing marketing system, and general support never materialized.[23]

The Farmers' Union had little better luck with its own cooperative pool in 1923. But the Farmers' Union's 600 cooperative elevators were strong competitors to the pools. These elevators sold wheat bought from farmers through terminal commission companies and prorated the profits back to the local cooperative elevators. These profits were then distributed to farmers as patronage dividends.[24]

In 1924, the Kansas Wheat Growers Association and the Farmers Union joined forces. Again attempts to sign up a percentage of production sufficient to obtain marketing leverage failed. Mergers within Kansas and with regional associations occurred during the rest of the 1920's and early 1930's until in 1932 the Kansas pools became an operating unit of the National Grain Corporation--a subsidiary of the Federal Farm Board.[25] (See Chapter 4.)

No more than 9000 members belonged to the Kansas wheat pools at their peak membership in 1924. The percentage of Kansas production covered by the pools was never more than eight percent.[26] Despite this relatively small membership and the grain trade's attempts to discredit the pools, Knapp concluded that the costs of handling grains through pools were roughly equivalent to the existing marketing system.[27] But as a market force, the attempts to control wheat markets without government sanctions proved a failure.

Concurrent with the development of wheat pools during the 1920's were demands for increased involvement of the federal government in the agricultural sector. Two general approaches were advocated: infrastructure legislation and direct intervention into wheat markets. Only the advocates of infrastructure legislation found early success.

Infrastructure Legislation.

Legislation concerning the grain trade and agricultural credit was passed early in the decade. The Grain Futures Act and the Futures Trading Act limited futures trading to the boards of trade and in general called for more disclosure of grain trade activities. Credit needs were addressed through the Emergency Agricultural Credits Act which authorized adjustment loans to farmers, provided interest subsidies and additional capital to the Federal Land Banks, and established the Intermediate Credit Bank system to finance or refinance loans of up to three years. Long term credit was what was needed, however. Debts acquired under the influence of wartime high prices had to be converted into long term debt for many farmers to survive.[28] This credit was not forthcoming during the 1920's.

Market Legislation.

Legislative battles for agriculture during the 1920's were concerned primarily with different plans to directly involve the federal government in the wheat markets. The perceived disruption of markets during the war by the Grain Corporation was the justification for these demands. But policy-makers were hampered by two problems. First, peacetime intervention in commodity markets had never before been initiated. Any plan had to be based on conjecture, not experience. Second, policy-makers could not agree on whether action was needed and if needed what course of the many proposed should be pursued.

Much opposition to a government move into wheat markets existed, yet many plans were proposed.[29] Four general themes could be seen in these plans: 1) Fix wheat prices at or above the cost of production, 2) eliminate middleman profits, 3) help farmers readjust their production mix to grow less wheat, and, 4) charge a higher price in the inelastic and controllable domestic market than in the export market--the so-called two price plans.

Cost of production bills. The Frazier Bill was one of several "cost of production" bills introduced in the early 1920's. It authorized a Federal Marketing Corporation to determine the cost of production for wheat, corn, and cotton. If the market price of any of the three commodities was below the national average cost of production, the marketing corporation would buy for resale 90% of domestic needs at a "fair price including profit".

No one else would be permitted to sell these commodities for home consumption while the federal corporation was selling its supply. When the marketing corporation had sold its supply, the remainder of the crop could come on the market.[30] The bill died in committee although the cost of production concept as a basis for price support would continue to have proponents.

Cost of production plans assumed that higher or guaranteed prices would satisfy individual producers--who then would operate for the good of the wheat industry as a whole by limiting production without explicit government controls. Later experience would prove otherwise.

Eliminating the middleman. Most plans to eliminate the middleman involved producer cooperatives. The Norris Bill, on the other hand, created a government corporation with powers to provide storage and processing facilities, and to deal in farm commodities. Commissions and charges for grain marketing were to be eliminated to the extent possible.

The bill provided for $100 million initial capital, with the authority to sell up to an additional $500 million in tax-free bonds. Supporters of the bill expected the corporation to fix prices on a cost-of-production basis.

Originally supported by farm leaders but not the administration, support for the solution to the farm problem gravitated to the McNary-Haugen Bills. If it had been enacted, gains would probably have been minor as the cooperatives were discovering.[31]

Adjusting production. The Norbeck-Burtness Proposal (1924) called for a special grant of government credit to farmers in the spring wheat regions to help them diversify into a mixed grain and livestock economy.

A House bill authorizing $50 million for loans to farmers in the northwest central states was supported by President Coolidge, by the American Farm Bureau Federation, and reported favorably out of committee, but it failed passage in the House by five votes.

While the Norbeck plan might have helped the targeted areas through increased credit, it is doubtful that much nationwide support for wheat prices would have occurred.[32]

Two price plans. Two price plans were the most seriously considered of any proposals during the twenties. U.S. problems in grain prices were to be shifted to the world market.

1) The export debenture plan. The export debenture plan was first introduced in early 1926 as the McKinley-Adkins bill. Debentures were to be issued by the U.S. treasury to exporters of certain farm commodities. These exporters could then sell the debentures to importers of any product. The importers could use the debentures to pay custom duties on their imports. Theoretically, the receipts earned by exporters through sale of these debentures would be passed on to farmers through the exporters' ability to bid higher prices for the farmers' commodities. The ensuing competition would raise both domestic and export prices.[33] Proponents argued if 750 million bushels of wheat were sold and 200 million of this exported, "that with a debenture rate of 21 cents per bushel, the Treasury burden would be $42 million, while the increased return to the growers (from higher domestic prices) would be $157 million."[34]

Opponents saw theoretical deficiencies in the plan. It might have started a round of ruinous competition with other exporters. There was no guarantee that the debenture receipts would have been passed on to farmers. Collusion between exporters might have prevented any benefit to farmers. The distribution of benefits was apt to be skewed because those farmers who sold more would have received a larger share of any benefits. If production were stimulated, the resulting depression of world prices would over time tend to cancel out any benefits.[35]

The appeal of the export debenture plan over other price elevating schemes was its apparent lack of bureaucracy. Although the export debenture plan was included in one bill passed by the Senate, the plan was never passed by both houses.

2) The McNary-Haugen plan. The McNary-Haugen bills were the most important farm relief proposals before 1929. Five McNary-Haugen bills were introduced between the years 1924 and 1928. Two of these were passed by both houses only to be vetoed by President Coolidge. Commodities other than wheat were included in the plan but wheat was the main target. The proposals called for setting domestic prices higher than world market prices with any wheat produced beyond domestic needs to be sold on the world market. Producers would share the lower prices of the world market according to production.

A government export corporation was to be set up with the authority to buy and sell wheat in order to keep domestic prices at a pre-determined level--the ratio price. The ratio price was roughly equivalent to what is today known as the parity price--equating the current purchasing power of a bushel of wheat to the purchasing power of a bushel of wheat in the pre-World War I period.

The plan worked through the use of scrip. Under the plan, domestic processors would have been forced to pay the ratio price since the export corporation (through its willingness to buy wheat at the ratio price) established a floor at that price level. Instead of paying the full price in cash, however, the processor or first purchaser would have used both cash and scrip--cash for the portion of the ratio price which was roughly equal to the world market price, and scrip for the remainder. The scrip was to be purchased from the post office and proceeds from the sales were to go into the export corporation's treasury.

Any wheat not purchased by domestic processors would have been purchased by the export corporation under the same arrangement of payment--partially with scrip and partially with cash. This wheat would then have been exported at the world market price. At the end of the year after the wheat had been sold, the export corporation would redeem the scrip but only at a percentage of face value--the percentage to be determined by the ratio of 1) the receipts from scrip sales to domestic processors to 2) the face value of all scrip issued. (Note: Scrip had been used by the export corporation to purchase wheat not wanted by domestic processors. However, the export corporation did not pay itself for scrip used to make its purchases.

The only receipts from scrip sales came from sales to the processors. For this reason the receipts from scrip sales were less than the face value of the scrip.)

If the plan would have worked as its proponents argued, the farmer would not have received the ratio or "fair" price on all his production--only on that portion that was needed for the domestic market. Although the name changed in later bills, the operation of the plan remained basically the same as with the scrip plan here presented.[36]

Various objections were offered to the McNary-Haugen plan. President Coolidge mentioned some of them in his veto message for the 1927 bill. The plan was geographically biased, encouraged specialization, fixed prices (not a proper role of government), and the burden of the tax fell on a selected group of citizens (domestic consumers).[37]

Other objections were that negotiable scrip would stimulate speculation, input prices would increase for certain producers (e.g. dairy producers) and the plan would do little good for crops whose market was almost entirely domestic or almost entirely export.[38]

Worries that the McNary-Haugen plan would encourage producers to increase wheat production were addressed by John D. Black. He argued that producers would have no collective incentive to increase production beyond the one billion bushel mark since domestic prices would decline after that production level. He calculated that domestic producers would gain 8.6¢ per bushel at the one billion bushel mark, while the world market price would be reduced 12¢ per bushel. At a 1.2 billion bushel production level, Black estimated that the world price would decline by 24¢ per bushel and the domestic price would decline by 7.7¢ per bushel.[39] This magnitude of effect on world prices suggests that other wheat producing nations would likely have retaliated. The election of Herbert Hoover doomed any chances for the McNary-Haugen proposals. His administration would seek other solution to the preceived farm problem.

COMMENTS, 1910-1929.

During the 1920's, policy-makers could not decide if relief for agriculture was necessary and if so, what type of relief was important. A free market ideology colored many proposals--the government should intervene in the marketplace as little as possible while still accomplishing the goal of price elevation. Some proposals were modeled after the Grain Corporation of World War I, the only historical model for market intervention.

While some of the plans acknowledged possible increases in production due to higher prices, the common belief was that once shown the income impacts of overproduction, farmers would individually act to reduce aggregate production. Although analysts were mistaken on this point, many of their criticisms would be proven correct--especially concerning the effects of domestic price elevation on world prices and trade, and the skewed distribution of program benefits. Perhaps most importantly, the policy discussions of the period served to place and keep perceived inequities in agricultural marketing on the policy agenda.

CHAPTER 4. REVIVING THE MARKET: THE SEARCH FOR RELIEF.

ENTERING THE MARKETS

After his election and inauguration, Hoover (an arch foe of direct aid to farmers) made good on his campaign promise and called a special session of congress to "further agriculture relief" and for "limited changes in the tariff." The Senate included an export debenture plan which eventually was eliminated. The House bill was passed on June 15, 1929, as the Agricultural Marketing Act (AMA)--authorizing the establishment of a Federal Farm Board to promote the effective merchandising of agricultural commodities. . . and to place agriculture on a basis of economic equality with other industries.[1]

Many farmers saw the passage of the AMA as the culmination of the 1920's farm relief effort. But the emphasis was different from the McNary-Haugen bills. All of the bills had a marketing orientation but the McNary-Haugen bills were intended to raise prices while the Agricultural Marketing Act was supposed to "stabilize prices."[2]

THE FEDERAL FARM BOARD

The Farm Board was authorized to provide loans to cooperative associations from a $500 million revolving fund. The loans were to be used to assist in the merchandising of commodities, to construct marketing facilities, to aid clearing house associations, to educate producers to the advantages of cooperative marketing and to allow cooperatives to advance a share of market prices for delivered commodities. No loans were to be made if the loans would "unduly increase production in excess of market requirements."[3]

In addition, money from the revolving fund could be used to finance stabilization corporations for specific commodities--but only after a commodity advisory committee determined a need based on market conditions. The stabilization corporations were authorized to act as marketing agencies, entering the market in times of surplus to buy up the surplus and prevent the depression of prices.

Congress considered the producer cooperatives to be more important than the stabilization corporations. The general idea was that in time the farm sector would gain control over the marketing of their products. Many observers were enthusiastic. Alonzo Taylor called the Farm Board program,

> "a forward looking plan of reconstruction and rationalization of the marketing of agricultural products. . . . Wheat growers now regard themselves as an exploited class; when they have become merged into representative cooperative associations. . . a passive or negative attitude will be transformed into a positive attitude, to the immeasurable gain of the group."[4]

The grain trade was less enthusiastic. Agreeing that the intent of Congress was for farmer cooperatives to "supplant the existing grain trade", the trade called for the repeal of the AMA and the Federal Farm Board--objecting to "being displaced with the use of government money at a low rate of interest outside of a competitive determination on the basis of service and efficiency."[5] Whatever the rumblings, the Farm Board was a start toward a new policy--peacetime intervention into agricultural commodity markets.

<u>Market, Forces and the Farm Board</u>.

But the Farm Board approach was to be short lived. Market forces and the Great Depression would quickly overwhelm the Farm Board. The domestic market (absorbing 80% of wheat production between 1925 and 1928) continued to change--not only through slowing population growth and decreased per capita consumption, but also through the deteriorating quality of the crop which made the baking and milling industries more discriminating.[6]

From 1926 on, world wheat production had rapidly increased. In the United States, the total supply of wheat increased every year from 1925-1931, concurrent with a decline in exports. World visible wheat supplies on November 1, 1930, were 50% higher than the 1925-29 average and had doubled since 1926.[7] All the major wheat exporting countries (Canada, Argentina, Australia, and the United States) had expanded wheat acreage and the USSR, absent since the Russian revolution, reemerged as an exporter of wheat.

Despite this supply pressure on world wheat markets, the perceived situation was that the export market was indefinitely elastic and that wheat prices adjusted for inflation were "unjustly and uneconomically low."[8]

Operations of the Farm Board

Three specific policy objectives were announced by the Farm Board during its first year of operation (1929). These were to develop cooperative associations, to transfer distribution functions from the grain trade to cooperatives and to reduce wheat acreage in the direction of domestic requirements.[9]

While the revolving fund addressed the first two goals, the third, contraction of wheat acreage, could be addressed only indirectly--through education, exhortation, and eventually, coercion. The Farm Board hoped enough farmers could be signed into cooperatives that the Board could force acreage reductions through its powers to grant or withhold loans to the cooperatives.[10]

The first farm board loans to cooperatives were announced in August, 1929, and were actually made at the end of September, 1929.[11] One month later, the stock market crashed and the ensuing financial uncertainty spilled over into the grain markets. Non-recourse loans of approximately $1.15 per bushel were announced for qualifying cooperatives on October 26, 1929. It was expected that these loans would be passed on to producers in order to hold grain off the market.

The Farmers National Grain Corporation, a subsidiary of the Farm Board, was incorporated on October 29, 1929. It was to coordinate efforts of both farmers' elevators and wheat pools at the national level and oversee loans and stabilization policies of the Federal Farm Board.

In addition to cash advances to cooperatives, the Farmer's National also bought May, 1930 futures. Price stabilization operations were undertaken because the conventional wisdom was that wheat prices were going to rise during the fall and winter, 1929.

Prices remained stable for the rest of 1929, but as prices declined again in January, 1930, the Farm Board decided further action was needed. For two months the Farmers National directly purchased wheat from farmers at the loan basis. In order to differentiate this price-supported wheat purchased from farmers and the cooperative marketing wheat, the Grain Stabilization Corporation (GSC) was incorporated on February 10, 1930. Legally, the GSC was owned by the cooperatives but financing, operation, expenses, and risk-bearing were ultimately the responsibility of the Farm Board. The GSC immediately began to buy May, 1930 wheat futures in order to support May wheat at approximately $1.05 per bushel.

The managements of the Farmers National Grain Corporation and the Grain Stabilization Corporation were merged in April, 1930. Loans on wheat billed after April 30, 1930 were discontinued. Delivery was taken on the May, 1930 futures which had been purchased. As of June 30, 1930, Grain Stabilization commitments totaled $90 million.[12] The Grain Corporation retired from the market for the summer and autumn of 1930. Despite the Farm Board activity, the average price per bushel received by producers in the United States declined from $1.12 on September 15, 1929 to $0.87 on May 15, 1930.

Soon after, in July, 1930, the second part of Hoover's farm program, "making the tariff effective for agriculture," was passed. The effects of the Hawley Smoot Bill were contrary to the stated intent. First, tariffs on farm inputs were raised in order to obtain passage of the bill. This increased production costs. Second, other countries retaliated by raising their agricultural tariffs which reduced export markets for U.S. agricultural commodities.[13] Since little wheat was imported into the U.S., the wheat sector would have been better off without the tariffs.

In the absence of Farm Board support, wheat prices continued to decline reaching $0.60 per bushel (on the farm) on November 15, 1930. On November 25, 1930, the Farm Board announced it was going to peg prices of wheat in the United States by purchasing December, 1930 wheat futures. Later purchases of May, 1931, futures were made to support May futures at 80¢ per bushel.

This new price support level effectively cut off exports as the price was 25¢ above the Liverpool, England price. In hopes of increasing exports and clearing storage facilities, a change in export policy was made in February, 1931 whereby wheat was offered at reduced prices. The sales goal of 35 million bushels was not reached.[14]

Increased criticism of the Farm Board's inability to maintain wheat prices, combined with the already existing opposition from the grain trade, caused the Farm Board to announce on March 22, 1931, that it would not stabilize wheat from the new (1931) crop year.[15] As of June 30, 1931, $277 million were committed to grain stabilization activities. The Grain Stabilization Corporation held 257 million bushels of wheat which was 77% of the total carry-over of U.S. wheat into the new crop year.[16]

The Farm Board was now faced with disposing of their inventory of wheat. The inventory value declined rapidly along with farm prices. The

1931 crop production was the highest since 1919 and farm prices dropped from 60¢ on May 15, 1931, to 52¢ on June 15, to 36¢ on July 15.[17]

Plans for disposal were announced in July, 1931. Five million bushels of wheat per month were to be sold through commercial channels, relief donations were to be made and barters with other countries were to be negotiated. Under the latter option twenty-five million bushels were traded to Brazil for 1.05 million bags of coffee, 7.5 million bushels were sold to Germany on credit, and 15 million bushels of wheat were sold to China, also on credit.[18] Congress authorized the donation of 85 million bushels of wheat to the Red Cross by the end of the 1932 crop year. Part of the Red Cross wheat (30%) was used for livestock feed in drought areas; the low prices made it economically attractive. The rest of the Red Cross wheat was used for human consumption.[19]

The Farm Board in Retrospect.

By June 30, 1932, the Farm Board was not an active force in the marketplace. Outstanding loans from the revolving fund were $217 million. Its market power had been enhanced further through loans from commercial lending institutions. An executive order on May 27, 1933 abolished the Farm Board's authority to make loans. Its assets were transferred to the Federal Credit Administration.[20] The loss from Farm Board activities (predominantly wheat as well as some cotton) was carried at $340,940,742 in the ninth Annual Report of the Farm Credit Association in 1941.

Who gained from the Farm Board's activities? Shepherd suggests that it was not the farmers in general since their gains in earlier years were offset by losses during the liquidation phase of the Board's activities. He identifies three major beneficiaries: 1) The federal government gained by acquiring relief wheat from the Farm Board at less than prevailing prices. Shepherd's view assumes that the same amount of grain would have been distributed without the Farm Board stocks and fails to mention the benefits to recipients of the surplus grain. 2) Speculators gained from the Board's losses in the futures markets. 3) Farmers who would otherwise have held their grain gained by selling it to the Farm Board at higher than prevailing market prices.[21]

Members of the Farm Board gained insight into the difficulty of overpowering economic forces. Their experience highlighted several paradoxes of stabilization efforts. Large amounts of grain must be removed from the marketplace in order to stabilize falling prices but these stockpiles have a long-run effect of depressing prices, and also create storage problems. Farmers are dissatisfied when sales are made from the stockpiles but are also dissatisfied when storage is filled to capacity. If only cash prices are supported then futures markets are distorted but the purchase of futures distorts the relationship between different delivery months and cash prices. The most important lesson was that either supply reduction or demand expansion must accompany any marketing approach to the "farm problem."

Organized as an alternative to the existing marketing system, circumstances forced the Farm Board to react rather than to act. Its four years of activity saw inconsistency and disruption of the existing marketplace. Perhaps its most important contribution was to eliminate one more "solution to the farm problem." The way was clear for the production controls of 1933 under Roosevelt.

THE WHEAT SITUATION, 1933

When Roosevelt took office on March 4, 1933, the agricultural economy was in a desperate situation. In the past 12 months, 5.4% of all farms in the United States had changed ownership due to forced sales and related defaults. While prices of items used in production were at their approximate pre-war levels, prices received by farmers were only 55% of pre-war levels. Corn was selling for 21¢ per bushel, beef cattle for 3¢ per pound, and wheat for 35¢ per bushel.[22] The Department of Agriculture estimated that in 1932, after paying the production expenses, rent, interest, and taxes, the average farmer had $230 left--to show no return on investment and little for labor and management.[23]

U.S. wheat stocks were at their highest level in history (384 million bushels) on the strength of the previous year's harvest. The harvest had been the third largest in U.S. history (932 million bushels) and the largest since 1919. The United States had been able to export a total of 32 million bushels of wheat during 1932--a paltry 4.3% of production--down from 123 million bushels in 1931.

The possibility of revolution in the rural areas was one impetus for raising farm prices and incomes but there were other reasons as well. First, there was agreement that agricultural prices were too low in relation to non-agricultural commodities. Second, the low purchasing power of farmers

(25% of the total population) hurt markets for non-agricultural goods and services.[24] The day after Roosevelt's inauguration, he called Congress into special session. An agricultural relief bill was introduced 11 days later (on March 16, 1933) and was passed on May 12, 1933.

THE AGRICULTURAL ADJUSTMENT ACT OF 1933

The Agricultural Adjustment Act (AAA)[25] was high on Roosevelt's list of legislative priorities. During its passage, "debate was limited to four hours and prohibited the making of any points of order or the offering of any amendments whatsoever."[26] Unlike the Agricultural Marketing Act which had been viewed as a long-run solution, the AAA was commonly seen as a short-run emergency measure. Nourse, et al. maintain, however, long-run economic planning was definitely in the minds of the framers of the legislation.[27]

The AAA was Title I of the Agricultural Act of 1933. Title II dealt with a revamping of the farm credit structure involving refinancing and extending mortgages, lowering interest rates and providing extra government financing for "rescue loans." Benedict suggests, "the refinancing of farm mortgages was probably more significant in bringing quick relief to agriculture than was the adjustment program."[28] Title III dealt with monetary policy. Although Roosevelt devalued the dollar in 1933, the devaluation apparently had little effect on domestic wheat prices, at least in comparison to changing supply and demand relationships.[29]

The intent of Congress as stated in the AAA was to raise commodity price levels to a purchasing power equivalent to pre-war purchasing power (parity prices) but to do so only gradually. This then was the first legislative appearance of the parity concept. Paarlberg notes, "It was generally agreed, back in the days when the parity concept originated, that parity prices were so high as to be unobtainable."[30] As it was, the parity concept only narrowly won out over the cost of production as a basis for support. "Parity" had gained popular acceptance and the formula for calculating parity prices was based on ongoing USDA indices.[31]

The AAA provided the Secretary with a variety of powers with which to work. These included contracting for acreage and/or production reduction, entering into marketing agreements, and licensing handlers. This potpourri was authorized because the various interested parties could not agree on what method would work.[32]

One major change from the Farm Board was the administrative structure of the program. The AAA was administered through the Department of Agriculture. Not wanting a centralized bureaucracy in Washington, Secretary Wallace set up a combination centralized/decentralized administrative structure. The central agency formulated broad policies and had final responsibilities for program execution. Local committees were responsible for program execution within their given geographical area (usually one county) and supervised the distribution of reductions and benefits. In addition, they provided Washington with grassroots input. Members of local committees were elected by cooperating producers.

Wheat and the AAA.

The wheat program was the first program to be announced under the AAA. The Department was divided as to the proper type of program. Disagreement centered around production control. Opponents of production control felt increasing effective demand was the solution and could be accomplished through export disposal, domestic price bargaining, and price fixing. Proponents felt that without production controls, high carryovers of wheat were inevitable and unmanageable. Only elimination of surpluses before the fact would solve farm price and income problems.[34]

Production controls for wheat were announced from the White House on June 16, 1933. The plan called for voluntary contracts between the Secretary of Agriculture and participating farmers. Under the contract, a farmer agreed to limit his plantings for the 1934 and 1935 crop to a specified percentage of his corresponding planted acreage in the base period (typically a 1930-1932 average). The percentage to be set later by the Secretary of Agriculture could have been as low as 80% but was actually set at 85% for 1934 and 90% for 1935. The 1935 limit was later relaxed due to drought.

In return, farmers were to receive three years of allotment benefits (for the harvest years 1933, 1934, and 1935) for their share of domestic consumption based on the years 1928-32. This payment was eventually fixed at approximately 30¢ per bushel on 54% of the grower's production, or 16¢ per aggregate bushel. The payment was the same as long as the grower complied with the program (which included planting at least 54% of his base acreage). Current production did not matter. Thus, the program served partially as crop insurance.[35]

To finance the benefit payments, a processing tax on wheat was established at 30¢ per bushel. This tax was levied on the first domestic processing of wheat and was paid by the processor. Almost all the burden of the processing tax was shifted to the consumer. Estimates showed that the 30¢ processing tax represented 3/4¢ of a 5¢ pound of flour and 1/2¢ on a pound loaf of bread costing 8.9¢.[36]

Farmer Participation Under the AAA of 1933.

Of the 1,208,091 farms which were growing wheat in 1929, 579,418 signed the three-year contracts to reduce production. While this was less than a majority of producers, 78% of the total base acreage was put under contract. Under the influence of the AAA, the 67 million acres planted for 1933 were reduced to 60.3 million acres for the 1934 crop but planted acreage increased to 66.2 million acres for the 1935 crop. Considering the base acreage of 65.9 million acres (1930-32), a comparison of non-cooperators to cooperators shows that non-cooperators steadily increased planted acres while signers had already started to decrease planted acres even before the program was adopted. For the 1935 crop, signers planted only 81% of their base acreage in spite of being able to plant 90% under the terms of that year's agreement. Non-signers were planting 176% of their base acreage.

Table 4.1. Comparison of Planted Acres of Signers and Non-Signers (Million acres)

	Base Acreage 1930-1932	Crop Year 1933	1934	1935
Signers	51.4	51.0	39.6	41.6
Non-Signers	14.5	16.0	20.8	24.6
Total	65.9	67.0	60.3	66.2

Source: USDA. Report of the Administrator of the AAA, (Washington: USDA, 1936), p. 154.

Much of this expansion was due to the recovery of wheat prices under the influence of extended drought which caused 28% of the wheat planted for 1933, 1934 and 1935 to be abandoned. The season average price received by farmers went from 38¢ during 1932 to 74¢ in 1933, 84¢ in 1934, and 83¢ in 1935.[37] Because of the drought, production for all three years was less than domestic requirements and the carry-over was reduced from 378 million bushels on July 1, 1933, to 141 million bushels on July 1, 1936 in spite of paltry exports. (See appendix 3)

Signers received approximately 25% of their receipts from wheat growing through benefit payments as can be seen from Table 4.2.

Table 4.2 Direct Benefits to Signers of AAA Contracts.

	1933	1934	1935
1) Adjustment payment (cents per bushel of domestic production during base period)	29¢	29¢	33¢
2) Income			
a) From Crop	$275,360,000	$289,169,000	$370,000,000
b) From payments	98,600,000	101,600,000	115,600,000
c) Total	373,960,000	390,769,000	481,000,000

Source: A report of the Administration of the AAA, May 12, 1933-December 31, 1935, pp. 150-154.

With recovery of market prices, individual producers' incomes were probably lower than if they had not participated. Income resulting from benefit payments and the general price increase did not offset the reduction in income from marketing less wheat.[38]

In spite of this, participants were generally satisfied with the program. A referendum concerning the continuation of programs after 1935 found 89% of contract signers and 73% of non-signers (for a total of 87% of 466,722 voters) favoring another wheat program. The new program called for a four-year contract (rather than three) with the option to drop out after two years, adjustment payments based on actual average farm prices figured at the end of the year (rather than at the beginning), a maximum possible reduction of 25% of acreage (rather than 20%) and modifications of contracts for farmers who leased their land.[39]

Before the new program was fully functional, the production adjustment programs of the AAA were struck down on January 6, 1936 in "The United States vs. Butler." The Supreme Court reasoned that since production controls were not a specific right granted to Congress by the Constitution, production controls were illegal as were the taxes used to finance production controls. The changing nature of the Court would probably have meant a favorable ruling several years later, but for now production controls were stymied.[40] In April, 1936, Congress appropriated funds to pay producers who had complied with provisions of the new program in their fall planting 21.5¢ per bushel.

Other Wheat Operations of the 1933 AAA.

Production control was not the only AAA wheat program. Direct purchases were employed in the Autumn of 1933 and distributed to the needy--partly for humanitarian purposes but mainly to dispose of some of the surplus then hanging over the market. Purchases were also made in the summer of 1934 tc guarantee enough seed for planting the 1935 crop.[41]

One of the few AAA experiments in export subsidies was from the Pacific Northwest between October, 1933, and August, 1934. Losses totalled 23¢ per bushel and regional, much less national prices, were little affected despite expectations to the contrary.

The other major effort for wheat relief was the International Wheat Agreement (IWA) signed in August, 1933. An agreement among 22 countries, the IWA called for exporting countries to agree to export quotas and for importing countries to quit trying to expand their wheat acreage and to agree to work toward reducing tariffs. The U.S. quota was 8% of an estimated 560 million bushel world wheat trade. There were no pricing provisions in this first IWA. The pact failed because exporting countries did not adhere to their export quotas. It was not renewed after the initial two year agreement.[42]

The AAA of 1933 in Retrospect.

Originally promoted as an emergency measure, the AAA and production controls were well on their way to becoming institutionalized, when the Supreme Court intervened. President Roosevelt endorsed production adjustment as a permanent feature of agricultural adjustment in October, 1935.

The success of the AAA as compared to the Farm Board was partly due to luck. Drought was the major cause of production decline. If the Farm Board had been operating during these times it probably would have had greater success--and our marketing system might be much different today.

The AAA was the first demonstration of a major problem with voluntary government programs. While cooperators were reducing their planting by approximately 20%, non-cooperators increased their planted acreage by about 75%.

A positive aspect of the AAA program was its *self-financing nature*--at least until processors started withholding tax payments while awaiting the Supreme Court decision. Fiscal Year 1934 showed a surplus of $40 million from wheat operations and FY 1935 showed a surplus of $17 million. Only after receipts from processing taxes declined from $123 million in FY 1935 to $9 million in FY 1936 did the wheat adjustment program become insolvent. The estimated deficit at the end of FY 1936 was $89 million.[43]

But this same self-financing aspect shifted the burden of increasing farm prices onto consumers of wheat products. Being a staple of low income families, the calculated 15% increase in flour prices and 5% increase in bread prices were added burdens on the non-farm population.

The AAA of 1933 was an important step in the development of wheat programs. Part of the significance was attitudinal--the programs showed that democracy could still exist in spite of government assistance to farmers in planning production.

Perhaps the most significance was in the lessons learned concerning types of programs. The AAA programs demonstrated that many producers would cooperate with voluntary programs and be satisfied, that production control programs could help remedy pricing problems, and that these programs could be self-financing.

THE WHEAT SITUATION, 1936

By the time the AAA production control provisions were declared illegal,

> ". . . many of the painful readjustments necessary to a sustained recovery had been made. The economy was operating on a lower level of prices; much of the burden of debt left from the inflation years of the late 1920's had been liquidated, compromised, or refinanced; and the top heavy accumulations of storable farm products no longer hung over the markets."[44]

World wheat stocks on July 1, 1936, were 767 million bushels-- the lowest since 1928[45] and the U.S. old crop carry-over of 140 million bushels was also the smallest since 1928. However, the seedings for the crop to be harvested in 1936 were the largest since 1919 and the second largest in history. Drought caused one-third of the planted acres to be abandoned and 1936 harvested acres numbered approximately 49 million. Production at 629 million bushels was again less than domestic requirements for the fourth year in a row.[46] (see appendices)

THE SOIL CONSERVATION AND DOMESTIC ALLOTMENT ACT

Seven weeks after the Supreme Court's January 6, 1936, decision, Congress passed a new act--The Soil Conservation and Domestic Allotment Act (SCDA). The act authorized an annual expenditure of $500 million from the Treasury to promote a policy of preserving an d improving soil fertility, promoting the economic use and conservation of land, diminishing the exploitation, and wasteful, unscientific use of the national soil resources, protection of rivers and harbors from soil erosion and to "establish a ratio between the purchasing power of net income per person on farms and of those not on farms during the period August, 1909-July, 1914."[47]

The speed with which the new legislation was written and passed was mainly due to the ongoing planning by the AAA as well as to the necessity of formulating a new plan prior to the spring planting season. The 1936 report of the Administrator of the AAA noted that in the past, conservation practices had been slighted because of farmer's attempts to increase income through increased production and through widespread operation under short-term leases. Recommending that considerable acreages should be permanently shifted from arable farmland into permanent grass, the report maintained that the SCDA was simply a shift in emphasis from the AAA program. Under the AAA, conservation was secondary to production control; for the SCDA the emphasis was simply reversed.[48] The unofficial justification was somewhat different. Conservation was to be addressed by idling land growing surplus crops which were now called "soil depleting crops".[49]

In order to guarantee acceptance by the courts, the SCDA was different from the AAA in several ways. The financing of the SCDA was through the Treasury rather than from processor taxes; this avoided the creation of primary adversaries and sidestepped the Supreme Court ruling. As opposed to the individual production contracts with producers under the AAA, benefits under the SCDA were paid to any producer who could show compliance with conservation program provisions.

The SCDA allowed a flexibility for producers not possible under the AAA. Within the general program, of which wheat was a part, no particular crop had to be reduced--the SCDA applied to all crops and farms. While wide latitude for compliance may have been beneficial to the individual farmer, the general SCDA program did not address individual crop adjustments, although some specialty crops had their own programs. There was no "wheat program" *per se* under the SCDA and attempts to create a special wheat base in 1937 were scuttled by wheat producers.[50]

The goal of parity prices under the AAA was changed to a parity income objective under the SCDA. This objective might have been met by large crops at lower prices or by smaller crops at higher prices. In addition, under the SCDA definition of parity income, parity was determined not only by the status of the farm economy but also by the non-farm economy since the parity yardstick was defined in terms of a ratio between farm and non-farm incomes during the 1910 to 1914 period. Under this definition and including government payments to farmers, the objective was met or exceeded during the 1935-1937 period. The parity income ratio was 106.2 during 1935, 98.6 during 1936 and 106.5 during 1937. Benedict notes this success was not due to a prosperous agriculture but to the low level of operation of the rest of the economy.[51] The parity price ratio for these same years were 88, 92, and 93 respectively.[52]

The operation of the program called for dividing crops into soil-depleting crops and soil-building crops. Soil-depleting crops included corn, cotton, tobacco, wheat, and oats--crops which had a tendency to be in surplus. Soil-conserving crops were mainly grasses, legumes, and green manure crops. A soil-depleting base was established for each farm primarily based on the acres of soil-depleting crops planted in 1935. Specific bases were established for cotton, tobacco, peanuts, and other southern crops. Wheat was included in the general soil-depleting base.

Two types of payments were available to farmers--soil building payments and soil conserving payments. Soil building payments were made for approved soil building practices such as terracing or for seeding soil-building crops on cropland. Maximum payments for each farmer were equal to $1 for each acre on the farm in soil-conserving crops in 1936 (except in the case of small producers who could qualify for $10 without regard for payment limitations.)

Soil-conserving payments were made for shifting cropland from soil-depleting to soil-conserving crops. Payments averaging $10 per acre were made on up to 15% of the base acreage for the farm. Maximum limits on payment were established as were minimum compliance standards.[53] Congress allocated $470 million for the entire 1936 SCDA program (including diversion from specific depleting bases as well as the general base and soil building program).

General Results of the SCDA.

For the United States during 1936, 20.4 million acres were diverted from the general soil depleting base, which included wheat. Sixty-seven percent of total cropland in the U.S. was covered by the program; 73% of total cropland in the wheat regions.[54] Soil building practices were carried out on 53 million acres. Approximately four million farmers applied for payments under the 1936 program.

During 1937, 18.1 million acres were diverted from the soil depleting base, with 65% of total U.S. cropland covered by the program. Soil building practices were carried out on 63 million acres. About 3.7 million farmers participated in the 1937 program. Congress appropriated the full $500 million authorized by law.[55]

Between January 1, 1937, and June 30, 1938, $332 million was paid for the 1936 program, and $270 million for the 1937 program. Payments earned by farmers during 1937 totalled $304 million of which $129 million was earned by diversion from the general soil-depleting base and $79 million for soil-building practices. The remainder was paid to the specialty crop producers.[56]

Wheat Under the SCDA.

Despite the SCDA program, seeding for the 1937 wheat crop was at an all-time high: 80.8 million acres. This was an increase from 69.6 million acres for 1935 and 74.0 million acres for 1936. Much of this increase came from the nature of the SCDA program. Since wheat was included in the general soil-depleting base, the program allowed expansion of wheat acreage if acreage of other soil-depleting crops was contracted. Generally, good growing conditions during 1937 meant less abandonment than in the recent past and 64 million acres were harvested, the most acreage harvested since 1921. Production was 840 million bushels--the largest since 1929. The old crop carry-over was to increase from 83 million bushels on July 1, 1937, to 153 million bushels on July 1, 1938--reversing the trend of smaller carry-overs.

While export markets had recovered somewhat and the U.S. share of the world export markets was above the 1928-31 level (19% of total world exports in 1937), total world exports were down. Approximately 104 million bushels were exported by the U.S. in 1937--up from the 10 million bushels in 1936.

Although the price of wheat declined from the previous year season average price of $1.02 to 96¢, increased production raised the farm value of production from $645 million in 1936 to $841 million in 1937. This became the most prosperous year for wheat producers since 1929.

Exclusive of the Soil Conservation program, limited direct aid to wheat growers occurred through export subsidies and purchases for domestic relief and seed, but even administration estimates suggested only a one percent gain in gross income directly as a result of the program.[57]

The increase in wheat acreage during 1937 showed the shortcoming of a general conservation program--control over specific crops could not be addressed. That this problem of overproduction did not appear in 1936 was due solely to the drought--causing the fourth year of short crops due to nature's vagaries. But drought is not a long-run solution. Despite the generally prosperous year for wheat producers, unless wheat production control was specifically addressed, prices would drop under the increased supply.

The Soil Conservation and Domestic Allotment Act was only a stopgap measure, and Congress would change the emphasis of the wheat program.

COMMENTS, 1929-1938

This period of "reviving the market" was essentially a period of experimentation. Timing played a crucial role in program success or failure. The Farm Board was buried by the Great Depression, and ensuing surpluses as markets, commodity and otherwise, collapsed. Yet this approach might have met with the success of the AAA program if it had been operating in the subsequent drought years. While the AAA program worked during its three years of operation, continued expansion by farmers who did not cooperate with its voluntary programs might have found it, too, buried under the building surpluses of the non-wheat specific SCDA program which followed. Authority for greater control of wheat production would soon be legislated but bounds on administrative discretion would be added also. The goal for many policy players remained not merely reviving the market, or rationalizing it, but enhancing it to the farmer's advantage.

CHAPTER 5. REPLACING THE MARKET - PART I. THE INSTITUTIONALIZATION OF PRICE GUARANTEES.

LEGISLATION TO ADJUST PRODUCTION

"Falling farm prices, the reappearance of injuries to agriculture resulting from loss of markets abroad, the accumulation of surpluses at home and the evidence of the effects on agriculture of the practices of industrial production control--all of these factors made up the background of the 1938 farm program."[1]

The 1937 wheat crop had been the largest since 1931. Other crops had done well and prices for major farm commodities started to drop during the summer and fall of 1937. The Soils Conservation and Domestic Allotment Act had done little to restrain seeded acres of wheat. The 80 million seeded acres for 1938 were the second largest in history, second only to 1937.

Leadership for the development of the AAA of 1938 came from the Farm Bureau and the Department of Agriculture. Work on the new proposal started in early 1937 under the auspices of the Farm Bureau. The bill was introduced into Congress in late May 1937 but was met with little initial enthusiasm. It called for production controls and commodity credit loans to keep prices from declining below parity levels.

As prices fell in autumn, 1937, President Roosevelt called a special session of Congress to enact new farm legislation. The administration wanted to adjust production to demand rather than to legislate relief. It wanted comprehensive (rather than commodity-by-commodity) legislation with flexibility for the Secretary of Agriculture to adjust levels and type of support as needed, on a year to year basis. Secretary Wallace wanted inclusion of his ever-normal-granary concept--a stockpile designed to stabilize prices through buying surpluses during years with large stocks and selling from the stockpile during years with low stocks.[2]

THE AGRICULTURAL ADJUSTMENT ACT OF 1938

The Agricultural Adjustment Act of 1938 was passed on February 16, 1938. It was to be the basis for agricultural policy for more than two decades. The Act's stated objectives included conservation of natural resources, providing marketing assistance for agricultural commodities, and regulating interstate and foreign commerce of certain agricultural commodities. Through "storage of reserve supplies, loans, and marketing quotas," farmers were to be assisted in obtaining "insofar as practicable, parity prices for such commodities and parity of income," while consumers were to obtain "an adequate and steady supply of such commodities at fair prices."[3]

Acreage Allotments and Marketing Quotas.

Various benefits were available to wheat farmers who cooperated with the act. Cooperation took the form of agreeing to plant within specified acreage allotments. The national acreage allotment was to be determined by an estimate of the total number of planted acres required to produce a wheat supply equal to 130% of a normal year's needs for domestic consumption and exports (less the carryover from the previous year). Allotments were to be adjusted on a year-to-year basis and were to be announced by July 15 preceding the next year's planting. Allotments were divided among the states and counties based on the planted acres of the preceding ten years. Within counties, allotments were nominally based on tillable acres, crop rotation practices, type of soil and topography. County allocation of allotments were determined by the local farmer committees.

Marketing quotas limited the amount of wheat a farmer could market without paying a penalty to the government. They were to be announced only during years when the Secretary determined that the total supply of wheat would exceed 135% of a normal year's supply considering carryover, domestic consumption, and exports (but excluding wheat for home consumption of food and feed). The announcement was to come no later than May 15 and was to be ratified by two-thirds of producers voting in a referendum or else the quotas would not become effective.[4] Thus, marketing quotas were voluntary for producers as a group, but not for individuals once the group affirmed the quota.[5]

Once affirmed, marketing quotas would go into effect for the marketing year beginning July 1 and would continue throughout the marketing year. The quota for the nation as a whole was to be equivalent to normal production (average production over time) under the acreage allotment. An individual farmer's quota was the number of bushels he could produce on his allotment acres plus any carryover from preceding years' production. Any wheat in excess of a farmer's quota was subject to penalties of fifteen cents per bushel if marketed but not if isolated from the market. Penalties were later modified. If a farm's normal production was less than 100 bushels, the quota did not apply.

Non-Recourse Loans and Direct Payments.

Cooperators who stayed within their acreage allotments received the benefits of non-recourse loans, conservation payments, and parity payments. The purpose of the non-recourse loans was to enable farmers to hold wheat during the marketing year in hopes of better prices. Loans were mandated at levels between 52% and 75% of parity if the farm price of wheat on June 15 was below 52% of the parity price or if the July crop estimate was in excess of a normal year's domestic consumption and exports. If marketing quotas were in effect, loans to non-cooperators were available at 60% of the rate to cooperators but only on that part of their crop which was in excess over their marketing quota.

Conservation payments were a direct payment to farmers acknowledging the conservation benefits of fallowing part of a farm's cropland. Parity payments to producers of corn, wheat, cotton, rice or tobacco were authorized whenever funds were appropriated by Congress for that purpose. Appropriated funds were to be divided among the five commodities in proportion to the amount by which each failed to reach parity income. The objective was to raise prices received by farmers as the funds available would permit.[6] Under the AAA of 1938, parity payments were not specifically limited to cooperators but the Price Adjustment Act of 1938 and subsequent appropriation acts limited payment to cooperators and also limited the payment to the amount by which the average farm price of the commodity was less than 75 percent of the parity price.[7]

Federal Crop Insurance, 1938-1945.

Secretary Wallace's ever-normal granary was specifically addressed through Federal Crop Insurance for wheat. Beginning with wheat planted for harvest in 1939, farmers could purchase insurance to cover between 50% and

75% of recorded or appraised average yields of wheat. Premiums and losses were calculated in terms of bushels of wheat and reserves of the insurance corporation were to be in actual stored wheat rather than in money. The expenses of administering the plan and storing the wheat were to be borne by the government. The corporation was capitalized at $100 million. Minimum premiums were .3 and .5 bushel per acre for 50% and 75% coverage respectively. Premiums for individual farms were to be determined on the basis of loss experience for the county as well as for the individual farm.[8]

The crop insurance program for wheat continually operated at a loss--indemnities exceeding premiums by 3.5 million bushels in 1939, 9.1 million bushels in 1940 and 5 million bushels in 1941. At its height (1940) the program insured thirteen million acres of wheat. The original program was discontinued at the end of 1943.[9] Authorization for crop insurance remained, though, and with some modifications, insurance became available for the 1945 crop of spring wheat--enabling legislation being adopted too late (December, 1944) for the 1945 winter wheat crop. Modifications included a progressive valuation of the crop which made protection during the early part of the growing season less than if the crop were harvested and a minimum participation of fifty applications per county before the program would be effective in that county. Under these new provisions, premiums exceeded indemnities for the first time.[10]

Grain Alcohol.

Another provision in the act allowed the establishment of four regional laboratories to develop new uses and outlets for farm commodities and products. Much interest was shown for grain alcohol production for use as motor fuel.[11] This possibility of alcohol production as an outlet for reduction of agricultural surpluses was to crop up periodically--especially during the late fifties and late seventies. Extensive use of wheat for alcohol production was made during World War II (to be discussed) but to date little peacetime utilization has occurred.

PROGRAM OPERATION AND STATUTORY REVISIONS

Since the program provisions mandated annual adjustment and review, changing economic and political conditions brought program evolution and subsequent statutory revision.

The AAA was passed too late to have much impact on the quantity of wheat harvested in 1938. A 62.5 million acre allotment was set but this was to be used only for the calculation of benefit payments--not as a requirement for receiving the payment. The large crop harvested in 1938 (919 million bushels) combined with the old crop carry-over of 150 million bushels would have mandated an acreage allotment for 1939 of approximately 46 million acres--a reduction of approximately 40 percent from the large acreages of 1936-37.[12] Hense, Congress passed an amendment on June 20, 1938, that the wheat acreage allotment for 1939 would not be less than 55 million acres.[13] A further amendment on July 26, 1939, made the minimum acreage allotment of 55 million acres mandatory for any year.[14] This was the first chink in the Administration's flexible farm plan and the first step toward "replacing the market".

Since production in 1938 was substantially above a normal year's domestic consumption and exports, loans were offered to cooperators at 52% of the parity price of $1.14 (the minimum allowed) or approximately 59¢ or 60¢ at the farm. Approximately 85 million bushels (about 9% of production) were put under loan. Farmers redeemed loans for 66.1 million bushels, turned 15.7 million bushels over to the Commodity Credit Corporation and extended loans (known as resealing) on 3.9 million bushels for 10 months. Losses for the 1938 loan program totalled $5.6 million or 6.6¢ per bushel.[15]

Although market quotas for the 1938 crop would have been appropriate as the total supply was well above trigger levels, the AAA specified that if Congress had not allocated funds for parity payments by May 15, 1938, no quotas would be in effect for wheat during 1938. Funds were not allocated by the deadline so market quotas were not announced.[16] No parity payments were paid during 1938 but conservation payments averaged 12¢ per bushel of normal production. Thus a cooperating farmer was guaranteed a return on his normal production of 71¢ per bushel (the sum of the non-recourse loan, the conservation payment and the parity payment.) Table 5.1 summarizes guaranteed returns for the years 1938 to 1943.

Table 5.1. Guaranteed Returns to Cooperators, 1938-1943

Year	(a) Conservation Payment	(b) Parity Payment	(c) Non-recourse Loan	(d) Total (Guaranteed Return)	(e) Season Average Price	(f) Parity Price	(g) (d) as % of (f)
1938	12¢	-	59¢	71¢	56¢	$1.11	65%
1939	17¢	11¢	63¢	91¢	69¢	$1.08	85%
1940	18¢	10¢	63¢	81¢	68¢	$1.10	74%
1941	8¢	10¢	98¢	$1.16	95¢	$1.15	99%
1942	23¢	13.7¢	$1.14	$1.37	$1.10	$1.33	103%
1943	8.5¢		$1.23	$1.42	$1.36	$1.42	100%

Export Subsidies were announced during August, 1938. Secretary Wallace was reluctant to use export subsidies although a customs revenue fund had been allocating 30% of customs receipts for this purpose. (Section 32 of the AAA of 1933) He was afraid that the loan program, by putting a floor under domestic prices above world prices, would eliminate normal exports and create a large domestic carryover. He also hoped to put pressure on other exporting nations to agree to a new International Wheat Agreement. Although some disagreement exists concerning who first subsidized exports, it is clear that other countries were either already subsidizing exports or soon started to do so. Exports from the United States totalled 108 million bushels of wheat and flour during 1938, of which 90 million bushels were subsidized at the rate of 29¢ per bushel of wheat and 22¢ per bushel equivalent of flour. The total cost to the government was $25.9 million.[17] Domestic purchases for relief totalled $5.9 million.[18]

For 1939, the allotment was set at 55 million acres, the lowest level now permitted. Seeded acres were reduced to 64 million, a 20% reduction from the previous year but above the 55 million acre target. Fifty-four million acres were harvested. Production in 1939 was 741 million bushels, which combined with the 250 million bushels carry-over, made a total supply of 991 million bushels--below the 1,023 million bushel trigger for marketing quotas. The 1939 wheat loans were announced on May 21, 1939 at a slightly higher level--63¢ per bushel. Cooperators took out 237,000 loans on 168 million bushels of wheat so approximately 23% of production was covered by commodity credit loans. Farm prices for wheat climbed during the marketing year from 56¢ on July 15, 1939 to 89¢ on April 15, 1940. Except for approximately 10 million bushels which were resealed, only 2 million bushels were not redeemed by farmers and were turned over to the CCC. The 1939 loan program was successful in two ways: First, it allowed farmers to sell wheat at prices higher than what prevailed at harvest time. Second, the Administration speculated that "by the time the entire loan was liquidated, the loss on the small amount delivered to the CCC could be less than the interest collected."[19] During 1939, loans worked in the way they were designed to work.

Export subsidies were continued through December, 1939 at which point they were restricted to Pacific Coast exports. Eighteen million bushels were exported under a subsidy of 18¢ per bushel and three million barrels of flour (4.6 bushels of wheat in a barrel of flour) were exported at a subsidy of $1.23 per barrel (27¢ per bushel equivalent). Total government costs for subsidies were $22 million.[20] In addition, the government spent $19.4 million purchasing wheat and flour for distribution to the needy. During 1939, the first food stamp program was developed. Under the program, low-income people in designated areas were allowed to buy $2 worth of certain surplus foods (including wheat flour) with stamps purchased for one dollar.[21] This food stamp program was discontinued in 1943. War broke out in Europe in 1939 but prices for agricultural commodities were not stimulated by this development until 1941.

The 1940 wheat allotment was set at 62 million acres and 75% of the wheat growers complied with the program. Above average yields caused production of 812 million bushels on 52.9 million harvested acres. Combined with the largest old crop carry-over since 1933 of 279 million bushels, the total supply of 1,097 million bushels was the largest since 1932. Marketing quotas were not initiated because the U.S.D.A. had underestimated the total supply. Exports continued to be low as import quotas and the war blockades were major obstacles to trade.[22] On the strength of Germany's success in Europe's war, prices started to drop in May declining from 81¢ on May 15 to 67¢ on June 15 to 60¢ on August 15.[23]

Loans were set at 57% of parity or about 66¢ per bushel at the farm. Because of the large supply and lower prices, 43% of the eligible wheat or 278 million bushels were put under loan. This was approximately one-third of that year's total production. Although prices recovered somewhat in the spring of 1941, 174 million bushels were signed over to the CCC. At the end of the marketing year, the CCC owned 169 million bushels of wheat.

Conservation payments for 1940 were reduced to 8¢ per bushel and parity payments to 10¢ per bushel so the guaranteed price for the product fell to 81¢ per bushel. Exports continued to be subsidized but at a lower level: 3.8 million bushels of wheat and 3.9 million barrels of flour at the rate of 14.7¢ per bushel and 97.6¢ per barrel. Costs to the government totalled $4.4 million.[24]

Acreage allotments for 1941 were set at 62 million acres mainly because of the poor condition of the 1940 crop at the time of the announcement. Before harvest, the 1941 total supply was estimated at 1,250 million bushels--200 million bushels over the quota trigger level. Marketing quotas were announced for the 1941 crop--the first for wheat. Over 500,000 producers voted in the referendum and 81% approved of the quotas. Failure to approve the quotas would have meant no loans for wheat for 1941.

Under the quotas, a farmer could only market the amount of wheat produced on his acreage allotment. Any wheat produced above this level was to be handled in one of three ways: 1) Store it on the farm or a public warehouse and deposit a bond or cash with the AAA committee. This stored wheat could then be converted to free wheat by seeding next year's crop an equivalent amount under the acreage allotment or by suffering a crop failure. The excess wheat was eligible for a loan at 60% of the rate for cooperators; 2) Turn it over to the government for relief purposes, or 3) Pay a penalty of 50% of the loan rate (49¢ per bushel in 1941).[25] By 1941, farms growing less than 15 acres were exempted from marketing quotas but wheat for home consumption was now included under the quota calculations.

The second chink in a flexible wheat policy passed Congress in May, 1941. This amendment mandated loan levels of 85% of parity for the basic commodities for the 1941 crop as long as marketing quotas were ratified by producers.[26] Now the Secretary of Agriculture had little flexibility to deal with the growing stockpiles of wheat. Acreage allotments could not be reduced below 55 million acres and loan rates which put a floor under the market price at 85% of parity (approximately 98¢ per bushel in 1941) were above costs of production (which averaged 86¢ per bushel nationwide, including land rent but excluding a charge for management).[27] In December, 1941, mandatory loans at 85% parity were extended by Congress through 1946.[28] With these amendments the market was effectively replaced as downward adjustment in production was forestalled by Congress.

Actual production in 1941 was 942 million bushels on 55.8 million acres. Combined with old crop carry-over of 385 million bushels, the total supply was 1,330 million bushels. The 1941 loan rate at 98¢ was 9¢ above the prevailing market price (reduced by the huge supply) on July 15. Loans were made on 366 million bushels. Of these 366 million bushels, 270 million bushels were transferred to the CCC.

Exports dropped to their lowest level since 1936--27.8 million bushels and 69% of these were subsidized by the government at a cost of $4.2 million. United States prices were so far above the world prices that the 42¢ tariff was not high enough to protect producers from imports. Import quotas of 800 thousand bushels of wheat and 4 million bushels of flour were imposed in May, 1941.

With the attack on Pearl Harbor on December 7, 1941, the United States actively entered the war. The new wheat program under the AAA of 1938 was, by now, an institution. Although loans provided a floor for the market, Table 5.2 shows that the largest direct government expenditures to date were for Conservation Payments and Parity Payments to farmers. Inventory carrying costs are not included here. But loan levels above market prices resulted in the re-accumulation of government wheat stocks. By the end of the 1941 marketing year, the CCC owned 319 million bushels--62 million bushels more than the Farm Board's peak holdings. As the drought saved the wheat program during the mid-thirties, the war was to save the wheat program of the early 1940's. What was now a cause for concern was to become a strategic stockpile.

TABLE 5.2. Direct Government expenditures on wheat and wheat products, 1938-1941, Million dollars. 1)

(a) Year	(b) Conservation Payments	(c) Parity Payments	(d) CCC Loss	(e) Export Subsidies	(f) Food & Stamps	(g) Relief	(h) Total
1938	50.1	53.6	-	25.9	-	5.9	135.5
1939	83.9	55.9	3.5	7.8	2.3	19.4	170.5
1940	47.8	58.2	2.0	4.4	10.1	n.a.	112.4 2)
1941	49.1	39.7	0.8	4.2	17.4	n.a.	133.8 2)

1) Marketing or fiscal year starting July 1. Relief and subsidy expenditures include purchases of flour. n.a.: not available.

2) Excludes relief purchases.

COMMENTS, 1938-1941

In the short-run, there is no question that the new wheat program boosted prices. Domestic prices were substantially above other exporters and markets during this period--contrary to the traditional free market relationship.[29] The necessity of import quotas in spite of a tariff of 42¢ demonstrates the retreat of domestic prices from the export standard. This was possible because of the relatively small percentage of supply being exported (approximately 6%) and the willingness of the government to store the excess.

The United States was not the only country whose government was intervening in wheat markets. According to one account, by 1940 thirty-eight countries had price support programs: 27 provided marketing control through producer organizations, 23 had created government monopolies, 25 had set minimum prices for domestic consumption, 15 had implemented production control measures, 18 had import quotas, and 12 regulated imported wheat for millers.[30]

The AAA of 1938 laid the groundwork and provided authority for programs for more than 25 years. While the original act gave the Secretary of Agriculture considerable discretion to adjust production and loan rates, by 1941 Congress had mandated minimum production at 55 million acres and minimum loan rates at 85% of parity. Congress had, in effect, replaced the market. In combination with conservation and parity payments, the cooperator was now guaranteed approximately 100% of parity on his normal production--and parity prices were well above average production costs. It is small wonder that the program was popular with producers. Although these limitations on adjustment were not to be important under the needs of the approaching war, they were to assume extreme importance during the fifties.

ADJUSTING TO WAR

Government control of the economy closely followed the U.S. entrance into war. With economy-wide control of price relationships came a recognition by farm leaders and farm state congressmen that they now had the opportunity to legislate agriculture's "proper" share of the U.S. economy. They hoped that once institutionalized, this share would not diminish.

In certain ways, farm policy initiatives during the war were independent of the actual supply and demand situation. Large supplies of almost all commodities were needed yet memories of the post-World War I depression created a fear of overproduction. Agriculture had showed throughout the thirties that increased production could be obtained by merely removing restrictions--in the short-run, high price guarantees were not needed. Largely because of the surplus psychology, policy adjustments were slow in coming. Acreage allotments for wheat and corn were not removed until 1944 and a "bare shelves" policy was followed throughout the war--carryovers were intended to be small.

WARTIME LEGISLATION

Inflation during World War I had demonstrated the need for price controls during wartime. As the purchasing power of consumers increased so did demand for most commodities.[31] The Emergency Price Control Act was passed on January 30, 1942. It authorized ceilings on prices except for two major areas--wages and agricultural commodities. Concerning agricultural commodities, the act forbade establishing maximum prices for agricultural commodities below the highest of the following prices:

1) 110% of parity with relevant differentials for grade, location, etc.

2) the market price prevailing on October 1, 1941.

3) the market price prevailing on December 15, 1941.

4) the average price between July 1, 1919 and June 30, 1929.[32]

Congressional leaders felt that 110% of parity was needed in order for farmers to receive an average of parity for the year (because of seasonal fluctuations of prices.) But a ceiling of 110% of parity allowed large increases for many commodities. For wheat, Wilcox notes, "While wheat prices rose 83% between August, 1939 and April, 1942, they could rise another 74% before reaching the ceiling."[33]

Under the authority of the Emergency Price Control Act, the Office of the Price Administration announced it's General Maximum Regulation in April, 1942. Under the order, price ceilings for retail prices, manufacturer prices, wholesale prices, service charges and rents in specified areas were established at their March, 1942 price levels. Wages and prices of agricultural commodities were not placed under control at this time, however.[34]

On April 27, 1942, President Roosevelt, in a message to Congress, called for increased taxes, price ceilings at all stages of production, income stabilization, a war savings program, rationing of scarce commodities and further discouragement of credit and installment buying. For agriculture, he proposed a ceiling on farm prices at parity and asked for authority to sell CCC commodities at prevailing market prices.[35]

He did not call for ceilings on wages as he felt the cost of living should first be stabilized. Farm congressmen were not about to allow lowering the ceiling on agricultural products without the _quid pro quo_ of placing ceilings on wages.

In September, 1942, Roosevelt announced that if Congress did not act to lower price ceilings for agricultural commodities by October 1, he would do so unilaterally using his war powers. But he also promised to stabilize wages and suggested that price support guarantees be extended for a period of time after the war period to allow farmers to adjust to postwar conditions.[36]

The Stabilization Act of 1942 resulted. It was signed on October 2, 1942. Section 1 dealt with wages and salaries and directed that they be stabilized as far as practicable at the September 15, 1942 level. Section 3 set price ceilings for agricultural commodities at the higher of (1) the parity price with appropriate adjustments for grade, location, etc. or (2) the highest price received by producers between January 1, 1942 and September 15, 1942. However, the President could adjust the ceiling under (2) if necessary to correct "gross inequities."

Section 8 directed the CCC to set loan levels at 90% of parity for cooperators as long as marketing quotas had not been disapproved and at 54% of parity for non-cooperators on that part of production which would have been subject to penalty if marketed. It further mandated the continuation of loans at these levels for two years beginning with January 1 after the declaration of the end of hostilities. However, the President was allowed to fix the loan rate at the otherwise prevailing level (85% of parity) if deemed advisable to keep the cost of feed for livestock from increasing unduly.[37] Under this clause, the loan rate for 1942 and 1943 wheat and corn was held at 85% of parity.

Two other general issues remained to be settled. First was the issue of including parity and conservation payments in the determination of prices received by farmers for computation of price ceilings. Inclusion would have lowered ceiling prices. The President maintained payments should be included--Congress felt otherwise. In March, 1943, Congress passed the Bankhead Bill which prohibited including the payments in the determination. It was vetoed by the President, the veto was not overridden, and parity payments and conservation payments remained in the computation of returns to farmers.[38]

Subsidies and ceiling prices versus higher market prices formed the other general pricing issue. The Administration was anxious to maintain its price ceilings. Thus, it favored controlling cost of living items (stabilizing retail prices) while subsidizing processors, importers, and/or farmers for the difference. Farm leaders and congressmen, on the other hand, favored higher market prices partly because they felt consumers with their now higher incomes could afford higher prices, partly because they viewed increased government expenditures (for non-agricultural purposes) as inflationary but mainly because they wanted to accustom consumers to paying higher market prices so higher price bases would be available for post-war programs.

Secretary Wickard announced the first incentive payment plan in January, 1943. It covered producers of non-basic commodities (e.g. soybeans). As expected this met with fierce opposition from the Farm Bureau (for the previously mentioned reasons) and farm congressmen denied the necessary appropriations. Only after the President's "Hold the Line Order" of April, 1943, was the problem resolved. He called for immediate steps to place ceiling prices on all commodities affecting the cost of living. Taking effect on May 7, 1943, a nationwide price ceiling was placed on meats and community price ceilings were placed on dry groceries. Margins were brought under control and the prices of beef, veal, lamb, mutton, butter and coffee were rolled back ten percent.[39]

Only after this action were "agricultural leaders convinced that further substantial adjustments in prices were unattainable . . . [at this point] large agricultural incentive payments or subsidies became politically possible."[40] However, in both 1943 and 1944, attempts were made to include in the CCC Bill a prohibition of the use of subsidies or rollbacks instead of raising prices. Both times they were passed by Congress, vetoed by the President and the vetoes sustained. The subsidy issue receded into the background in 1945 as the war drew to a close and Congressmen became accustomed to the program.

WHEAT DURING THE WAR

On January 1, 1942, three weeks after the attack on Pearl Harbor, wheat stocks totalled 1 billion bushels. Although some of this was normally used during the market year, wheat stocks at the end of the 1941 crop year were 630 million bushels, the largest carryover in U.S. history. An acreage allotment of 55 million acres, the minimum allowed by law, was in effect for the 1942 crop as were marketing quotas. Fifty-three million acres had been or soon were to be planted. The average price of wheat to farmers was around $1.06 per bushel and for the current marketing year the guaranteed price to cooperators was $1.16.

Although the war brought increased demand for all commodities, possible oversupplies of wheat continued to worry policy-makers, and they intended to return the wheat sector to a current basis with only small carryovers from year to year.

The Wartime Wheat Supply.

Acreage allotments and marketing quotas at 55 million acres remained in effect for the 1943 crop. Quotas for both 1942 and 1943 were supported by over 80% of producers voting in the referendums. Fifty-six million acres were planted to wheat for harvest in 1943. Acreage allotments were eliminated in 1944 for all crops except tobacco. Under this new freedom, sown acres of wheat gradually increased: 66 million in 1944, 69 million in 1945 and by 1949, a new high was reached--83 million sown acres of wheat.

Yields were consistently high throughout the war averaging 16.3 bushels to the acre for the 1942-1945 crops; the 1942 yield of 19.5 bushels was a record yield. Part of this yield increase was due to favorable weather, part to more fertilization, better seed and more mechanization. Production between 1942 and 1945 averaged 995 million bushels. The 1944 production of 1.06 billion bushels was the first billion bushel crop since 1915 and was the first of seven consecutive years of billion bushel wheat crops.

Imports increased dramatically in 1943 to cover war needs and 143 million bushels were imported--mainly for livestock feed. While imports were three times as large as exports during 1943 they were approximately equivalent for 1944. This low level of exports throughout the war changed in 1945 when a return of a measure of sanity to international relations made exporting food to the war-ravaged nations of the world feasible. The 320 million bushels exported in 1945 were roughly equivalent to exports during the previous seven years.

Wheat for feed.

The need to increase meat production for the war effort provided one of the few wheat-specific policy debates of the war period. Supplies of corn and other feed grains were not sufficient to support increased livestock numbers. Thus, in order to promote livestock feeding (through lower feed prices brought on by increased feed availability) and to reduce the stocks of wheat being carried by the CCC, Secretary of Agriculture Wickard announced plans in January, 1942 to sell 100 million bushels of wheat from CCC stocks at feed grain prices. The announcement angered many Congressmen. Amendments to the Agricultural Appropriations Act of July, 1942, provided that no government-owned stocks of wheat or corn could be sold at less than 100% of parity--except for relief purposes, feed, or alcohol production, and that the CCC could sell from stocks only 125 million bushels of wheat for feed at a minimum price of 85% of the parity price for corn. Further authorization to sell another 150 million bushels for feed were passed during 1943 but the minimum price for these sales was raised to 100% of parity for corn. The 1944 authorization did not limit sales of wheat for feed but retained the parity price for corn as the minimum price.[41]

Wheat for Alcohol.

A program for the sale of CCC wheat and corn to alcohol distillers was also initiated in January, 1942. Although originally the distillation process involved using the whole grain, a process was developed whereby granular flour was used, allowing recovery of by-product feed for livestock. Sales of CCC corn to distillers were discontinued in March, 1943 but wheat sales continued until June 30. About 57 million bushels of CCC wheat were sold to distillers during the year and a half of the program.[42] Over 600 million bushels of wheat were used in 1943 for either feed (507 million bushels) or alcohol production (107 million bushels).

Although 1943 was the high year in terms of alternative usages of wheat, continued use of wheat for feed and alcohol (as well as normal usage) reduced the 630 million bushel carry-over of June 30, 1942 to 279 million bushels by June 30, 1945. CCC stocks declined from 320 million bushels to 104 million bushels over the same period. The CCC would own no inventory on June 30 for the years 1946, 1947 and 1948.

CCC OPERATIONS DURING THE WAR

For the 1942 and 1943 crop years, loan rates at 85% of parity were in effect for wheat and corn due to the need for cheap livestock feed. For 1944 and 1945, rates were raised to 90% of parity. Under the provisions of the Stabilization Extension Act, though, the CCC offered to purchase unredeemed 1944 crop wheat at parity prices less carrying charges.[43]

Farmers availed themselves of loans and forfeited collateral whenever it seemed profitable. Acquisitions of wheat by the CCC were relatively constant at approximately 20% of total production throughout the war years. However, in 1943 and 1945, all acquisition were through purchases--to be resold at a loss for livestock feed or alcohol production. Only during 1942 were acquisitions through forfeited loans above 10% of total production.

Although estimates of losses from loan transactions for the war period vary,* it is clear that direct payments and subsidies were the larger government costs. Table 5.3. summarizes some of these expenditures.

TABLE 5.3. FEDERAL GOVERNMENT EXPENDITURES ON WHEAT RELATED SUBSIDIES, 1942-1945. (Million dollars)

A)	Conservation Payments	$117.1
B)	Parity Payments	160.5
C)	CCC Loss	79.9
D)	Feed Subsidy	238.0
E)	Alcohol Subsidy	23.0
F)	Flour Milled	348.0
G)	Total	$666.5

Sources: Hadwiger, 1970, p. 162; Benedict and Stine, 1956, pp. 136-137.

THE FARM SITUATION, 1945

At the end of the war, farmers were in their strongest financial position in a long time.

*Benedict maintains that CCC losses during the late 1930's and war years were nominal--the war provided an outlet and wheat acquired at pre-war low prices could be sold either at a little loss or at a profit. He estimates the CCC losses on wheat during the early years of the program (through 1945) as being $12 million. During this time period, $1.6 billion worth of loans were made. Hadwiger, however, presents a higher CCC loss figure for only the war years 1942 through 1945 of $80 million. We can assume that Hadwiger's presentation, based on a 1964 determination by the USDA is the more accurate, and is used here.

Wheat prices under the impetus of increased demand, loan guarantees and feed subsidies, had consistently risen. These higher prices, combined with increased production brought the farm value of wheat by July, 1945 to it's third highest level in history ($1.6 billion)--exceeded only by the World War I influenced years of 1918 and 1919.

Wilcox notes that the increases in incomes of wheat farmers were the most dramatic of all producers. Along with 50% to 75% yield increase on family-operated farms between 1938-39 and 1944-45 came an increase in net farm income from an average of $746 for the Southern Plains wheat and wheat-sorghum farms in 1938 and 1939 to an average of $6,700 by 1944-45.[44]

On the strength of higher incomes, land values increased but the rise during the war (approximately 50%) was neither as far or as dramatic as during World War I. This restraint in bidding up land values was partly external and partly internal. Extension agents cautioned against land speculation citing the disastrous post-World War I experience. But many farmers (as well as their lending agencies) really did not need the reminder. Both groups had been hurt in the aforementioned deflation of land values. The federal bank agencies were especially conservative in their lending practices.[45]

Mortgage debt declined as farmers used increased incomes to reduce their debt load. The total mortgage debt of $6.6 billion in 1940 had been reduced to $4.9 billion by 145--the lowest since 1930. Mortgage debt per acre in 1945 was $13.24 as compared to $14.40 in 1940.[46]

In spite of the restrictions on the manufacturing and distribution of farm machinery, the number of tractors on farms increased by 45% between 1941 and 1945 from 1.7 million to 2.4 million and the number of trucks increased 36% from 1.1 million to 1.5 million. During the war, the number of combines on farms increased from 225,000 to 375,000--an increase of 67%.[47]

Wartime incentives and labor shortages thus allowed the adoption of technological advances developed during the previous twenty years but not adopted due to depression and drought.[48] Man-hours to produce 100 bushels of wheat fell from 67 during the 1935-39 period to 34 during the 1945-49 period. The use of mechanized power and machinery doubled between 1940 and 1950 while farm labor usage decreased by 26%.[49]

Total farm employment declined by 700,000 workers during the war from 10.7 million workers in 1941 to 10 million in 1945. Although the immediate post-war years were to see an increase of employment back up to 10.3 million workers in 1947, by 1949, the figure was below 10 million and the trend continued downward.[50]

COMMENTS, 1942-1945

The war period provided the farm organizations and leaders the means to achieve their goal of obtaining for agriculture a "proper" share of the national economy. Policy was directed more toward attaining philosophical goals rather than responding to demonstrated needs as agriculture's financial position became strong. Few economists foresaw anything but a sharp decline in demand for agricultural commodities after the war. Hence, a "bare-shelves" policy, designed so that the United States would enter the post-war period with small carry-overs of agricultural commodities, prevailed.

Following the industrial build-up of the war, agricultural leaders were less influential in national policy, because agriculture was a smaller proportion of the economy. However, Wilcox notes, "a great deal of agricultural fundamentalism remained in the minds of Congressmen and other public leaders."[51] Although agricultural commodities were guaranteed support for the next two years at 90% parity, the goal of farm congressmen became to use the remaining sentiment of agricultural fundamentalism to extend the guarantee of high price supports and to continue this statutory replacing of the market.

CHAPTER 6. REPLACING THE MARKET, PART II. DEFENDING HIGH PRICE SUPPORTS: THE TRUMAN AND EISENHOWER ERAS

POLICY PERSPECTIVES, 1945

"As long as there was war, Roosevelt was able to successfully champion the public interest, but peace inaugurated a rancorous and destructive struggle among the competing groups for consolidation of their uncertain wartime gains."[1] Roosevelt's death shortly before the end of the war brought Truman to the Presidency.

Agricultural surpluses were expected by most observers as the productive capacity developed during the war continued to pump out commodities. How should these surpluses be viewed? Liberals viewed them as abundance to be used to fight poverty. A full employment economy would provide outlets since underconsumption had been one of the problems. Conservatives expected the surpluses to cause a farm depression which would spill over into the industrial sector.[2] Neither faction was to be exactly right. Heavy postwar export demand delayed the acquisition of surpluses until the 1950's. The low income elasticity of demand for food prevented significant increases in food consumption. Technological advances continued after the war, and the real cost of producing agricultural commodities continued to decline.

Since support prices at 90% of parity were mandated for two years after the end of the war, there was no rush in developing a new farm program. Famine relief would dominate the first two years of the postwar period--but this was little anticipated by agricultural policy-makers. Their thinking was dominated by the post-World War I experience with resulting fears of wheat gluts and low prices. Wheat continued to be directed into livestock and alcohol production as the war wound down in spite of warnings by relief experts that Europe's needs would probably be extensive once hostilities ceased. Based on exhaustive use of wheat for feed, pork rationing had been discontinued in late 1944. Although a proposed subsidy plan for feeding wheat was not carried through, the departmental announcement noted that farmers were still free to feed as much wheat to animals as needed.[3]

POST-WAR FAMINE RELIEF

Lend lease, the concessional trade program with Europe, was discontinued soon after the end of the war. This severely curtailed Europe's ability to acquire U.S. agricultural commodities. Although the U. S. had a 6 million ton grain commitment to Europe for the 1945 crop year, rationing was removed from most agricultural commodities in November, 1945. Price ceilings remained. The January, 1946 report of wheat inventories showed that only 16.9 million tons of wheat were left for all needs, including the European commitment. Much wheat disappearance had occurred because short supplies of corn (caused by price ceiling spreads between grain prices and equivalent meat prices) encouraged feeding wheat.

Various approaches were tried to meet the European commitment. A Famine Relief Committee was organized in February, 1946 but their pleas to reduce consumption went unheeded. Their March proposal to reimpose rationing was ignored because of the long implementation period.

The U.S.D.A. ordered the flour extraction rate raised from 70% to 80% in March, 1946, despite the gray color of bread made from this flour. But this conservation effort was not enough. More wheat was needed, farmers were storing it and they needed extra incentives before they would sell it--either higher prices or the removal of price ceilings.

The first incentive was an April 2, 1946 U.S.D.A. offer to take delivery of wheat before July 1 and pay the market price on any day designated by the farmer up to March 31, 1947. The second incentive offer was a 30¢ per bushel bonus for wheat delivered by May 25, with the payment date to be before June 15. Price ceilings were raised by 3¢ per bushel on May 4 under routine adjustments. But it took a 15¢ per bushel increase in the price ceiling on May 13 combined with the 30¢ per bushel bonus (which was in effect for another two weeks) to free the grain from its farm storage. Relief shipments during the 1945 crop year (ending June 30, 1946) totalled 10.3 million tons.[4]

Due to disagreement between Congress and the Administration, price controls were temporarily discontinued on June 30, 1946. Price controls were permanently removed from grains and dairy products on August 20. Meat producers implemented one of the few successful farm withholding actions during the autumn of 1946 and forced the President to terminate price controls on meat in October. But production goals were continued during the planting of the 1947 crop. It was a good thing, too, as Europe again had a harsh winter and poor crops. Fifteen million tons of wheat were shipped to Europe during the 1946 crop year but this was still below needs. At the start of the 1947 crop year, world wheat stocks were the lowest since 1938.

Relief shipments continued during the 1947 crop year despite rapid inflation of corn and wheat prices. A special session of Congress was called in the autumn to consider an interim aid bill. It passed but with a minimum four million ton (150 million bushel) U.S. carryover requirement. High prices discouraged feed use of wheat and 13 million tons of relief wheat were shipped during the 1947 crop year. A large 1948 U.S. crop and almost normal European crop lowered the need for relief shipments. The 1949 crop found European agriculture recovered and U.S. surpluses mounting.[5]

POLICY PROPOSALS AND LEGISLATION

No significant postwar price support legislation was passed until 1948 since the two year price guarantee postponed the need for action. Crop insurance was revived for the spring wheat crop of 1945. Despite the successes of the 1945 through 1947 programs (premiums exceeded indemnities contrary to the prewar experience) congressional objections that the program "had never been actuarilly sound" sparked a complete revision of the program. As more experience was deemed necessary, the program for 1948 was called "experimental" and was limited to 200 counties for wheat and to 75% of average yield. By 1953, the program had been expanded to one thousand counties and authorization was granted to further expand the program by 100 counties per year.[6]

A 1946 amendment to include the cost of farm labor in the parity formula was defeated. During 1947, congressional committeemen held farm policy hearings throughout the nation gathering opinions from economists, bureaucrats, lobbyists and farmers.[7] By 1948, the impending termination of the current price support programs necessitated action. Policy-makers were divided as to the proper type of program. The Truman administration supported a flexible support plan whereby support levels as a percentage of parity would vary inversely with production. It was felt that flexible supports would allow more of a market orientation while still maintaining partial support for farm prices. Overproduction would not be stimulated and the wastes of current programs (especially potatoes and eggs) would not be duplicated. The Farm Bureau and non-farm republican Congressmen favored the flexible support plan.

The Farmers' Union, republican Congressmen from farm states and southern Democrats favored a continuation of high, fixed support prices expressed as a percentage of the parity price. They felt that only fixed supports would save the small farmer, and prevent farm depression from spilling over into the industrial sector. Besides, others were being aided by the government through tariffs, import restrictions, and other government action.

The Hope Bill passed by the House froze support for most commodities at 90% of Parity. The Aiken Bill passed by the Senate mandated support only for the basic commodities on a scale ranging from 60% to 90% of parity. The conference committee, rushed by the start of the Republican National Convention, compromised by combining the bills into the Agriculture Act of 1948.[8]

THE AGRICULTURAL ACT OF 1948

Title I of the Agricultural Act of 1948 dealt with the 1949 crop year.[9] It mandated support prices at 90% of parity on the basic commodities (including wheat) marketed before June 30, 1950 if producers had not disapproved marketing quotas. Steagall commodities (those commodities supported due to wartime needs) were to be supported at no less than 60% of parity until January 1, 1950 and some (milk, hogs, eggs and chicken) were to be supported at 90% of parity until then. Title II as applied to wheat amended the permanent legislation (the AAA of 1938) by modifying the parity formula, introducing a flexible support formula to take effect for the 1950 marketing year, and changing the conditions under which the Secretary would proclaim marketing quotas.

Parity prices for commodities are calculated by multiplying a base price times the parity index. Whereas the old formula used the actual price of a commodity during the 1910-1914 base period (88.4¢ in the case of wheat), the new formula used an adjusted base price which factored in average commodity prices for the preceding ten years. A transition period for the change from old parity to new parity was legislated whereby parity prices could only be reduced five percent per year compared to what they would have been under the old formula. This transition period was later postponed until 1958 by various acts of Congress.

For wheat, the parity price was lowered under the new formula. The old parity formula favored the production of crops such as wheat whose relative costs of production had been reduced through mechanization. This modification in the formula thus discouraged wheat production in favor of other crops.

Flexible supports to take effect with the 1950 marketing year ranged from 60% to 90% of parity depending on the supply percentage. The supply percentage was the total supply (carryover, new crop production and imports) divided by the normal supply (estimated domestic consumption, estimated exports, plus 15% of the two as a carryover allowance). If acreage allotments and marketing quotas were not in effect, a supply percentage of 70% or less would have mandated a support level of 90% of parity; a supply percentage of 98% to 102%, a support level of 75% of parity; and a supply percentage of more than 103%, a support levelof 60% of parity. If acreage allotments and marketing quotas were in effect, a support level of 120% of the schedule percentages would have been in effect with the limitation that support levels could not be more than 90% of parity.

Marketing quotas for wheat were to be declared 1) if the total supply of wheat was 102% of the normal supply or 2) if the total supply of wheat was not less than the normal supply, and the average farm price for three successive months of the previous marketing years did not exceed 60% of parity. Except for specified uses, prices for CCC stock disposal were to be no lower than the lowest of: 1) a price to reimburse CCC for costs; 2) a price halfway between the support price and the parity price; and 3) a price equivalent to 90% of parity.

The flexible support provisions of the 1948 Agriculture Act were not to become effective. Although Matusow maintained that the price supports were not an issue in the 1948 campaign because of Truman's support of the flexible support provisions,[10] Truman's attack on the Republican-controlled "do-nothing" Congress, his labelling of the Republicans as anti-farmer, and his subsequent surprise victory caused many Democratic congressmen to perceive a mandate to "aid the farmer, particularly the small farmer."[11] Since the Democrats regained control of Congress in 1948, they were to initiate alternatives to Title II of the 1948 Agriculture Act. The Brannan Plan, while not a congressional initiate was one of the alternatives.

THE BRANNAN PLAN

Named after its principal advocate, Secretary of Agriculture Brannan, the Brannan Plan was viewed by many to be a radical departure from the existing programs. First presented to the House Agriculture Committee in April, 1949, Brannan's plan called for 1) an income support standard of support based on a ten year moving average of farm income, 2) support for most farm commodities including perishables, 3) direct payments to farmers to support income from perishable commodities, 4) the continuation of non-recourse loans and purchase agreements for storable commodities, 5) limitations on income support corresponding to "1800 units of commodities" or roughly $25,000. It would have covered about 70% of the value of products marketed compared to 25% under existing programs.

Brannan maintained that the only real differences between his plan and Title II of the Agricultural Act of 1948 were the income support standard and the support limitations. The limitations would have had little effect on wheat, as support through non-recourse loans tended to prop up the market price. It was estimated that only two percent of all farms would have been affected by the support limitations. But the support price for wheat would have dropped approximately 7¢ per bushel in 1950.

The plan was quite controversial and probably was doomed from the start. Congressmen resented its development outside the traditional channels and saw it as a challenge to congressional prerogatives. They felt that the Department of Agriculture was supposed to administer--not write farm programs. Opponents of the plan criticized its abandonment of the parity standard arguing that parity was accepted as a fair standard by both producers and consumers. Others argued that direct payments to farmers would insult those who might perceive this as welfare--although farmer acceptance of parity and conservation payments between 1938 and 1943 had seemed to cause no problems. Still others were concerned that program costs under the Brannan plan would foreclose any possibility of addressing the problem of poverty in agriculture. Possible program costs were perhaps the most important criticism (estimates ranged from three to eight billion dollars annually) and was a proper concern--though little expressed concerning previous farm bills.[12]

The 1949 Agriculture Act was to be the Democrat's answer to the "Republican" 1948 act. The Brannan Plan was to be buried under the war needs of the Korean War. Certain parts of the plan would surface in later farm bills, though--direct payments to farmers (target prices) and payment limitations.

THE AGRICULTURAL ACT OF 1949

The Agricultural Act of 1949 (passed on October 31, 1949) was mainly a victory for high mandatory price supports.[13] Although the act incorporated a sliding support schedule, levels at 75% to 90% of parity were higher than in the 1948 act. In addition, full implementation of the sliding schedule was postponed until the 1952 crop year. The schedule called for a support level of 90% of parity if the supply percentage was not more than 102% and a support level of 75% of parity if the supply percentage was more than 130% of parity.

The act changed the determination of normal supply by redefining the carryover allowance. Previously defined as 15% of estimated domestic and export requirements the new definition defined the carryover allowance as the average carryover for the previous five years adjusted for abnormal conditions. This clause had the effect of raising support prices under the schedule as with a larger normal supply the supply percentage would be reduced, thus calling for a higher level of support.

For the 1950 crop year, support for basic commodities was mandated at 90% of parity if acreage allotments and marketing quotas were in effect and marketing quotas had not been disapproved. For the 1951 crop year, the minimum allowable support level was at 80% of parity with the same qualifications. The Secretary was authorized to make support available to non-cooperators at a rate not higher than the rate to cooperators.

The parity formula was changed by the inclusion in the adjusted base price of wages paid to hired labor and also of subsidy payments paid to producers during World War II. Both were designed to raise the parity price and hence, support levels. Transitional parity was postponed until January 1, 1954.

POLICY REVISION, 1949-1952

By June 30, 1949 (the end of the 1948 crop year) wheat inventories had rebuilt to 307 million bushels and 74% of this was owned by the CCC. Yet new prohibitions were to forbid the sale of CCC stocks for less than 105% of the current support price plus carrying charges. The developing Cold War led to regulation of trade with the Soviet Bloc--de facto regulations becoming explicit with the Export Control Act of 1949.

By June 30, 1950, inventories had built to 425 million bushels (77% of which was owned by the CCC) and acreage allotments were in effect for the new (1950) crop. However, the fortuitous outbreak of the Korean War in June, 1950, averted the need for further restrictive policy modification and Congress responded by mandating no price ceilings below the higher of parity or prices received by producers during June, 1950, in order to stimulate production.[14] Most favored nation status and other trade concessions were withdrawn from the Soviet Bloc under the Trade Agreements Extension Act of 1951. Exports to the Soviet Bloc soon declined dramatically.[15] Amendments to the Defense Production Act (DPA) in June, 1952 mandated the USDA 90% of parity support level then prevailing until the expiration of the DPA in April, 1953.[16] Although surpluses quickly mounted after the Korean Conflict de-escalated, it was to be a new Republican Administration which was to battle Congress over the political dilemma of farm policy under technological change.

THE NEW INTERNATIONAL WHEAT AGREEMENT (AND SUBSEQUENT AGREEMENTS)

While domestic policy after the war focused on price guarantees for farm products, foreign agricultural policy was more concerned with liberalizing trade to institutionalize access to foreign markets and to retain U.S. market share of export markets. One route to trade liberalization was the adoption of the General Agreement on Trade and Tariffs (GATT) signed in 1947. Designed to reduce trade barriers through multilateral negotiation, the GATT continues as a forum for periodic negotiating conferences. It was under GATT auspices that U.S. import tariffs for wheat were lowered from 42¢ per bushel to 21¢ per bushel.[17]

Another route, specifically addressing the wheat sector, was the second International Wheat Agreement (IWA), ratified in 1949. Previous discussions concerning a new agreement to revive the 1933 agreement had been held in 1941, 1942, 1945, 1946, 1947, and 1948. A memorandum of agreement had been signed in 1942 between the four major exporting nations which called for export quotas to be ratified after the war. This agreement was not ratified, however, and discussions continued along the line of export quotas until 1947, when consideration was first given to multilateral sales and purchase agreements rather than export quotas.[18]

In March, 1948, thirty-three importing countries and three exporting countries signed an agreement whereby importing countries agreed to buy and exporting countries agreed to sell 500 million bushels of wheat per year at prices between $2.00 and $1.50 with the minimum price dropping in 10¢ increments to $1.10 by the end of the four year agreement. Selling obligations of exporters were effective only at the maximum price; buying obligations of importers only at the minimum price. No restrictions were placed on total exports nor on prices of wheat sold outside the agreement. The idea of the IWA was to stabilize markets by ensuring that a certain amount of wheat was available at the previously agreed upon prices.

Opposition of the grain trade prevented Senate ratification of the IWA during 1948. A new version with a maximum price of $1.80 per bushel was renegotiated under a resurgence of surplus market conditions and was ratified in 1949. Although the maximum price was below the market price of $2.20 per bushel, exporters (including the United States) signed under the fear of predatory competition.[19]

The results of this first agreement were not encouraging--it fixed world prices below free market prices, necessitating the payment of export subsidies from the treasury as price supports put floors under domestic prices. These subsidies set a precedent which continued through the Russian Grain Deal of 1972. Escape clauses (provided because of the power imbalance between exporting and importing countries) prevented the IWA from guaranteeing markets. No significant reduction of bilateral trading occurred and national price and trade controls remained in effect. Export subsidies under the IWA did not antagonize other exporters, however.[20]

A new International Wheat Agreement was signed in April, 1953. The price range was raised to $2.05 to $1.55 because the earlier range had been too low considering the supply and demand situation. Unfortunately, the supply and demand situation was changing and the new price range would be too high. Many importers refused to join because of the high price guarantees and only 25% of world wheat trade was covered compared to 60% of world trade under the previous agreement.[21]

The raising of the maximum price encouraged larger plantings in both importing countries and non-IWA exporting countries. In addition, stocks in importing countries were built up under the old IWA maximum before the new prices took effect. Increasing world stocks were to render contract obligations ineffective. Price maintenance by Canada which was contrary to IWA guidelines was tacitly approved by importing countries who in turn were not forced to purchase their contracted minimum quantities. Excess supplies in all exporting countries meant agreement on market share was difficult. U.S. exports under P.L. 480 and the Mutual Security Acts added competititon to the IWA.[22] The agreement became more a reflection of world prices rather than a determinant.

The 1956 agreement was an extension of the 1953 act although the price range was lowered to $2.00 to $1.50. Many importers continued to stay outside the agreement until the 1959 agreement when the price ceiling was lowered and quota obligations of importing countries were changed from an absolute quantity to a percentage of total imports. This 1959 agreement was renewed in 1962 but with higher price ranges: $1.625 to $2.025. The agreement was renegotiated in 1967 as the International Grains Agreement. Several changes occurred: fourteen reference wheats were introduced (rather than just one as under previous agreements), and a Food Aid convention was introduced where signatories agreed to donate a specified amount of grain to needy countries. The U.S. obligation of 69 million bushels per year had been met under P.O. 480 shipments. Price ranges under the new agreement varied according to the standard. Manitoba No. 1 wheat had a range of $1.995 to $2.355 while European Economic Community standard wheat ranged from $1.50 to $1.90. U.S. No. 2 Hard red winter wheat was pegged between $1.73 and $2.13.

World prices soon fell below the price floors and Canada and the U.S., who had salvaged earlier agreements through a willingness to hold large inventories, were no longer amenable to this idea. Both importers and exporters were willing to conduct trade below the minimum price level. The United States subsidized exports below the price floors and the 1967 agreement's pricing provisions were defunct by mid-1968. While a new grains agreement was signed in 1971, no pricing provisions were included although the Food Aid provisions were continued.[23] Subsequent agreements were signed periodically during the 1970's but had little real impact on wheat prices and markets.

WHEAT DURING THE TRUMAN ERA

As the United States entered the postwar period, wheat stocks were approaching one of the lowest levels since the first part of the century: 100 million bushels. The low stocks, (a result of government efforts to avoid another postwar depression) an unexpectedly large postwar demand from Europe and decontrol of prices in June, 1946 caused a rapid increase in wheat prices. The season average price for 1947 was $2.29--not to be surpassed until 1973. The farm value of production ($3.1 billion) during 1947 was also a record high, again not to be matched until 1973.

Producers, freed from acreage allotments or marketing quotas, rapidly expanded sown acreage, from 69 million acres in 1945 to 84 million acres in 1949. Due to falling prices and increased carryovers, acreage allotments were in effect for the 1950 crop and were announced for the 1951 crop but were then relaxed due to Korean War needs. Sown acreage was approximately 79 million acres for the years 1951-53.

Non-recourse loans were available to farmers during the entire 1945-52 period at 90% of parity. Although sliding scale provisions were available for 1951 and 1952, Secretary Brannan left loan levels at 90% of parity due to the Korean War. General postwar inflation also affected farmers and the parity index showed a 50% increase in costs between 1945 and 1952. Thus the support level jumped from $1.38 per bushel in 1945 to $2.20 per bushel in 1952. This was well above average costs of producing wheat. USDA calculations for 1946 (including rent but excluding a charge for management) showed a weighted average cost of production of $1.24 per bushel in the United States. Regional averages ranged from $1.12 per bushel in the winter wheat region of the Midwest to $1.18 in the Western wheat growing regions to $1.26 in the spring wheat regions of the Midwest. For this same year (1946) the season average farm price was $1.90 per bushel, the parity price was $1.65 per bushel, and the average loan rate was $1.49.[24]

Little use of loans were made during 1945 to 1947 as farm prices were well above the loan rate. During this period, the CCC was making large purchases for foreign relief, acquiring an average of 20% of total production. Except for these purchases, and after the demise of price controls, the wheat market was essentially a free market. As prices dropped in 1948, loan operations of the CCC became more important and purchases became secondary (forfeitures were giving CCC the wheat needed). After 1948, loan rates and season average prices were either at practically the same level or else loan rates were higher. This trend would continue through the fifties.

After the production peak of 1.36 million bushels in 1947, production trended downward to 988 million bushels in 1951. Production in 1952 was 1.31 bushels. Although exports had been high immediately after the war (approximately 330 million bushels annually during 1946-48), European recovery and large crops in 1947 and 1948 caused U.S. wheat stocks to accumulate again.

Storage became a problem in 1948. One of the provisions of the new CCC charter was that CCC could not acquire storage facilities beyond the 50 million bushel capacity currently owned. Insufficient storage during 1948 caused some farmers to be ineligible for commodity loans. A campaign issue in 1948, authorization for expanded CCC storage facilities was granted in 1949. Construction loans at 85% of cost were also authorized for on-farm storage. Distress loan provisions providing for on-the-ground storage were allowed in 1949.[25]

By the end of the 1949 crop year, stocks were at 425 million bushels. While acreage allotments and reduced production in 1950 contributed to a temporary reversal of the carryover trend, the timely outbreak of the Korean War in June, 1950, was more important. As the Report of the Secretary of Agriculture for 1950 noted, "The highlight of 1950 for agriculture was undoubtedly the greatly improved demand for farm products and the firing up of farm prices following the Korean outbreak."[26] While stopping short of a full endorsement of the war, it was plain that carryover problems had again been averted and the need for policy modification postponed.

Exports increased in 1950 and 1951 partly due to export subsidies under the International Wheat Agreement. With the easing of war demand surpluses began to accumulate again. By the end of the 1952 crop year, the carryover was 606 million bushels and growing.

Cochrane and Ryan, drawing on financial statements of the CCC, have determined farm program costs concerning wheat for the years ending June 30, 1948 to 1973 (corresponding to crop years 1947-1972). As some programs (such as foreign aid) have more than one beneficiary, they have arbitrarily credited one-half of foreign aid expenditures to other than farm program costs.[27] Using their accounting costs and definitions, total government costs attributed to wheat during the crop years 1947-1952 were $2.85 billion. Although the loan program was a net earner during 1950 and 1951, losses during other years of the period contributed to a net loss of $1.27 billion on loans alone. Loans made during this period totalled $2.08 billion although this figure is not directly compatible with the cost figures.

Table 6.1. Federal Government Expenditures on Wheat-Related Programs, Crop Years 1947-1952. (Million dollars)

	Crop Year					
	1947	1948	1949	1950	1951	1952
1) Loss on Stock Transactions	7.03	559.4	276.4	(303.4)	(92.1)	824.6
2) Interest Expense	-		5.8	4.8	4.6	11.1
3) Foreign Aid	421.90	617.0	321.6	305.6	247.6	105.4
4) IWA Subsidies			75.5	178.8	166.9	125.9
5) Total Expenditures	428.93	1176.4	679.4	185.2	327.1	1,065.0
6) Credit for Non-Farm Benefits	211.00	308.5	160.8	152.8	117.1	51.7
7) Total Cost	217.93	867.9	518.6	32.4	203.3	1,013.6

Source: Cochrane & Ryan, 1976, pp. 214-316

COMMENTS, 1945-1952

In general the Truman Era was one of prosperity for farmers. The early years, 1945-48 were especially good. Farmers could sell almost anything they produced (except potatoes and eggs) at good prices in the market, during the Steagall period (1945-1948). Although falling prices and beginnings of surplus caused acreage allotment to be announced for the 1950 and 1951 crops, the return of the war in Korea helped alleviate these problems. Agriculture during this period enjoyed an immense amount of public support and programs reflected this. Many people (including Secretary of Agriculture Brannan) believed that depressions were "farm-led and farm-bred". Program costs could thus be viewed as the lesser of the two evils. This continuing good will was to be sorely tested during Eisenhower Era.

POLICY PERSPECTIVES, THE EISENHOWER YEARS

Two insistent themes were to mark the Eisenhower years--the accumulation of large stocks of wheat, most of it in government storage, and pressure from the Republican administration (especially Secretary of Agriculture Benson) to move agriculture toward a "free market." Beginning stocks of wheat were more than a normal year's disappearance for five out of the eight years of the Eisenhower administration. From 1955 to 1960, over 90% of U.S. beginning stocks of wheat were more than a two year supply for all domestic needs and almost a three year supply for food needs.

High price supports exacerbated continuing trends for supply and demand. On the supply side, improved techniques of production were consistently reducing the time and labor required to produce wheat. Yields went over 20 bushels to the acre in 1956 for the first time and were never again to drop below the 20 bushel figure. Various factors were involved. Substitution of capital for labor was most important. Montgomery notes that on winter wheat farms in the southern Great Plains, investment per worker in 1956 was twice the investment (in constant dollars) per worker in 1940.[28] But as noted in chapter 2, high yielding varieties, improved tillage practices, increased summer fallow and improved insect and disease control also contributed.

While population increases offset declining per capita domestic consumption of wheat for food, utilization of wheat for feed reached its lowest level since before 1930 as the CCC absorbed wheat surpluses normally directed to livestock production. Non-governmental exports declined from a period peak of 316 million bushels in 1951 to 116 million bushels in 1953 and continued at low levels. Only massive export programs and subsidies kept the surpluses from being larger.

Indeed, these factors called out for some type of adjustment in support levels, acreage allotments, and/or types of support. The poor relationship between the Republican administration, led by Secretary of Agriculture Benson, hell-bent on implementing his free-market ideology by reducing government involvement in agriculture and the wheat sector, and the Democratic Congress who, supported by farm state Republicans, vehemently defended high price supports, would prevent this.

EISENHOWER'S PRELIMINARY POLICY PROPOSALS

Eisenhower had been elected on a pledge of continuing price supports at 90% of parity through 1954 and a plank calling for "full parity through the market place" (whatever that means). Election year uncertainty as to the underlying agricultural philosophy of an Eisenhower administration was quickly dispelled by Secretary of Agriculture Benson. In his first speech as Secretary of Agriculture, Benson "apparently set the tone for a major shift in the Government's over-all farm policies from what he called dependence on 'Government bounty' to a 'free market' economy."[29]

But this proposed shift in agricultural policy could be implemented only with the support of Congress, support it was unwilling to give. Existing lesiglation (as well as Eisenhower's campaign pledge) mandated support at 90% of parity through 1954. Benson could reorganize the Department of Agriculture, however, and did so in 1953 to reduce the influence of administrators who supported production controls and high price supports.[30]

As surpluses mounted in 1953, it became obvious that marketing quotas would be imposed for the 1954 crop which would mandate the statutory minimum acreage allotment of 55 million acres (a 23 million acre reduction in planted acres). Congress eased the adjustment through limiting the cut-back to 62 million acres. The marketing penalty for excess wheat was also changed from 50% of the loan rate to 45% of the parity price. This would eventually increase the penalty.[31] Since supply reduction was effectively foreclosed, efforts were now directed to increasing demand through export disposal.

EXPORT DISPOSAL PROGRAMS, 1953-1970's

Government sponsored agricultural export programs after World War II were a response to European famine, were at times conducted under conditions of agricultural shortage, and were designed to be temporary. The programs which were to develop during the fifties were a response to domestic agricultural surpluses and were to become institutionalized--although apparent goals and levels of aid were to vary considerably over the years.

These surplus disposal/aid programs were developed in an incremental fashion. Under separate acts, the United States sent food aid in India in 1951 and 100 million tons of wheat to Pakistan in 1953, but comprehensive legislation incorporating the various foreign assistance programs eluded advocates until 1953. The Mutual Security Act of 1953 was the first act to specifically earmark foreign aid funds for the purchase of surplus agricultural commodities. (Previous acts had only given preference to U.S. commodities if feasible). Designed to strengthen the cold war position of the U.S. as well as to contribute to the economies of developing countries, the act provided for concessional sales and payment in local currencies. The local currency would then be used to finance other aid projects in the recipient countries.[32]

As surpluses continued to mount (reaching 934 million bushels of wheat by June 30, 1954), it was apparent that additional measures needed to be taken. The plan which eventually became P.L. 480 was initially developed by the Farm Bureau and proposed in 1952. By accepting soft foreign currencies for exports of CCC commodities, effective demand would be increased which would allow the lowering of price supports. (The ideological stance of the Farm Bureau had changed to a "free market" stance when the old leadership was overthrown in 1948).

Reaction to the proposal was mixed--the State Department opposed it because of its possible impacts on relations with other exporting countries. The Department of Agriculture wanted a small export operation while Congress wanted a massive disposal program. Although P.L. 480 originally approximated the Agriculture position, it quickly grew both in terms of physical volume and costs.[33]

P.L. 480 was passed on July 10, 1954. Title I of the Act authorized sales to friendly nations of surplus goods in "soft" foreign currencies in the amount of $700 million over the next three years. Receipts from these sales were to be used to pay U.S. obligations overseas including financing of development projects. Title II authorized donations for famine relief overseas. An extension of a 1953 relief appropriation of $100 million, Title II authorized an additional $300 million of relief aid. Title III broadened Section 416 of the Agricultural Act of 1949 and provided for donations to needy persons both at home and abroad. In addition, authorization was provided to barter surplus agricultural commodities for strategic materials needed by the U.S.[34]

Although the general view throughout the fifties was that P.L. 480 was "a simple disposal of surpluses that the U.S. really should not have had anyway", P.L. 480 was then and continued to be inextricably linked with foreign policy. Although the original legislation limited Title I sales to friendly (i.e. non-communist) countries, by 1957, the administration was given authority to use P.L. 480 aid to help friendly nations (such as Poland) gain independence from the Soviets--although the ban on Trade with the Soviet Union was continued.

Title IV was passed in 1959. It allowed for long term contracts and longer term credits. (Provisions for long term credit sales were transferred to Title I in 1967.) The Kennedy emphasis on "Food for Peace" brought a three year renewal of the program (rather than one year), food grants for economic development, and finally, State Department blessing. The State Department had originally been so cool to the program, that Congress initiated an investigation in 1955 of its purported interference. Although all other aid to Communist countries was stopped in 1962 by Congress, P.L. 480 was exempted. In 1963, P.L. 480 shipments to Algeria and Egypt were used in an attempt to deradicalize their governments.

After Lyndon Johnson became President, foreign policy utilization of "Food for Peace" took a new twist--financing war in South Vietnam. Massive shipments of P.L. 480 aid were made and 90% of the local currency generated were used to finance the war effort. Several changes in the program occurred in 1966: The Secretary of Agriculture lost his power to determine which nations would receive aid and program restrictions were initiated concerning countries trading with North Vietnam or Cuba. As CCC inventories were finally being reduced, power was granted to purchase commodities for the program and administrators were directed to gear sales away from foreign currencies and towards dollars. Large U.S. accumulations of foreign currencies with subsequent disposal problems prompted the latter modification.

By 1967, the Department of Agriculture had lost virtually all its power over P.L. 480 to the State Department. A gradual wind-down of the program was occurring, too, as changes in support programs and continued export promotion expanded the commercial share of exports and reduced government inventories. Although 529 million bushels of wheat had been shipped during 1965, only 139 million bushels were shipped under P.L. 480 in 1972. Almost half of the aid in 1972 went to Vietnam, Korea and Indochina.

Amendments in 1973 prohibited the use of P.L. 480 generated foreign currency for internal security and defense needs. Under conditions of tight world grain conditions, only 45 million bushels of wheat were shipped that year. Aid was directed to countries most severely affected by food shortages in 1974. Nineteen Seventy-five brought the institutionalization of relief and peace. P.L. 480 aid was targeted to the poorest 75% of the world's countries, aid within those countries was directed to the needy. Priority consideration was given to food need abroad and use of soft currency funds for military equipment procurement was prohibited.[35]

In its various manifestations, then, P.L. 480 has been used for both surplus disposal and foreign policy objectives of either war or peace. In dollar terms, more wheat has been shipped under P.L. 480 than any other commodity. For wheat, foreign currency sales predominated until 1968 when more bushels were shipped under long term credit sales. Sales of one kind or another have always dominated relief donations, although much of the sales for foreign currency were written off after large quantities of foreign currency accumulated in U.S. accounts. Foreign government pressure to not spend this money because of inflation or fear of losing control of their economies caused Congress to loan these funds back to foreign governments--in essence, becoming gifts.

Although hunger and malnutrition were undoubtedly eased through P.L. 480 exports, the incidence of relief varied by country as some governments resold wheat through commercial markets- effectively subsidizing urban workers and civil servants to a larger extent than the desperately needy. P.L. 480 has also been criticized on grounds that it provides too little help in terms of long term economic development. To the extent that exports reduced prices to farmers in importing countries, P.L. 480 has reduced incentives for indigenous production. It has, however, helped foreign governments reduce inflation, increase revenues, and helped with balance of payment problems. That P.L. 480 is still being used for foreign policy objectives is illustrated by the share (almost half) of P.L. 480 value of commodities going to Israel and Egypt in 1978 and 1979.

Although P.L. 480 was important in reducing agricultural surpluses during the sixties, its role today is modest. Farmers may have benefitted through a small degree of price enhancement as well as through development of commercial markets, but other domestic factions benefitted also. Half of all commodities were shipped on U.S. vessels at higher than world rates. Handlers, shippers as well as the maritime unions have had a large stake in the program. For program cost estimates, one-half of P.L. 480 expenditures have arbitrarily been credited to non-farm benefits.[36]

Thus, P.L. 480 has proven to not just be a disposal program for the benefit of farmers. But it has not been a magnanimous relief effort either. Throughout its history calculations have been made in pursuit of various foreign and domestic policy objectives. While the objectives have not always been mutually exclusive, in terms of relieveing human suffering, they have at times been the wrong ones.

OTHER EXPORT ACTIVITY OF THE EISENHOWER ADMINISTRATION

Wheat exports trended upward from 1953. Concessional government programs were largely responsible as non-concessional exports were reasonably stable. However, due to the high support prices during the fifties, export subsidies were used to move commercial wheat into the world market. Export subsidies averaged 40¢ to 60¢ per bushel between 1951 and 1963[37] and total export subsidies (other than differential payments under the International Wheat Agreement) during the Eisenhower Administration totaled $530 million.

In response to the surpluses, additional aids to disposal were initiated. The Export Credit sales program was started in 1956. It offered foreign purchasers financing for six to thirty months for purchase of certain commodities. Although interest rates were generally lower than commercial rates they were pegged above costs to the CCC for borrowing from the Treasury. A relatively small program until the seventies, the Export Credit Sales Program gained notoriety with the Russian Grain Deal of 1972.[38]

Despite the substantial programs costs of export promotion, sales to the Soviet Union, which was in the market for agricultural commodities, were effectively foreclosed by the continuing Cold War. Reconsideration of the trade ban (all trade, not just agricultural commodities) was debated in the Cabinet as early as 1954. Although the Agriculture Department and Farm Bureau supported the sales proposal, the State Department opposed it on the grounds that it would undermine the U.S. efforts to discourage other countries from trading with the Soviets and would violate P.L. 480 Title I prohibitions on shipments to the Soviet Union. Although the law was interpreted as not prohibiting dollar sales, the Administration was reluctant to use its authority to proceed without explicit approval by Congress--approval denied as the 1956 bill failed to pass.

CCC sales to Poland began in 1957 in an attempt to draw it from the Soviet Bloc, but despite increasing surpluses and balance of trade problems the USDA did not try to expand Soviet trade and Soviet overtures continued until the end of the administration. Peterson analyzes the Administration response by dividing it into Eisenhower's two terms: During the first term, the Administration's desire to trade with the Soviets was overpowered by Congressional and public hostility. The second term brought increased non-military competition with the Soviets--in trade, foreign aid and space. Public insecurity in the face of this competition caused administration interest in Soviet trade to diminish.[39]

POLICY INITIATIVES, 1954

Fixed price supports at 90% of parity were due to expire after 1954. Both acreage allotments and marketing quotas were in effect for the 1954 crop year. Without new legislations, the sliding scale provisions of support at 75 to 90 percent would become effective and Secretary Benson's public pronouncements left little doubt as to the level at which he wanted to set them. In the face of mounting surpluses, the CCC acquired 41% of the total 1953 production and would acquire 40% of the 1954 production. The CCC lost almost $900 million during 1953 on stock transactions and interest expense, alone.

In spite of the losses and surpluses, President Eisenhower realized the necessity for a gradual shift in program emphasis. His proposals reflected this: sliding scales for basics at 75-90% of parity, transitional parity with only a 5% drop in the parity price for individual commodities per year until the transition to new parity was made, and the setting aside of $2.5 billion worth of CCC holdings of surplus commodities--excluding them from the sliding scale calculations and using them for charity purposes. He also proposed exporting an additional $1 billion worth of surplus commodities. Although farm congressmen provided fierce opposition to Eisenhower's plan and proponents of continued support at 90% of parity appeared to have sufficient power to enact another postponement of sliding support, Eisenhower was able to get much of his program enacted as the Agricultural Act of 1954.[40]

THE AGRICULTURAL ACT OF 1954

The Agricultural Act of 1954 was passed on August 28, 1954. Title I of the Agricultural Act of 1954 dealt with the commodity set-aside--quantities of various commodities to be excluded from carry-over calculations used in the determination of price supports. Inclusion of between 400 million and 500 million bushels of wheat was mandated. Stocks of wheat and other commodities were to be used for P.L. 480, school lunch programs and other relief and research purposes. Sales could also be made from the commodity set-aside but at not less than 105 percent of the parity price. (Sales from other stocks were prohibited at less than 105 percent of the support price).

Title II dealt with amendments to the AA of 1949. For the 1955 crop, the support range was to be between 82.5% and 90% of parity for cooperators. For 1956 and beyond, the range would be the previously legislated 75% to 90% of parity with levels of support fixed by the total supply of a commodity relative to the normal supply (except when the Secretary of Agriculture used his discretionary powers to raise the support levels).

Title III presented amendments to the AAA of 1938. Transition to modern parity was to resume on January 1, 1955. It also provided that for any year in which acreage allotments were in effect, the Secretary of Agriculture could designate states growing less than 25,000 acres of wheat as non-commercial wheat growing acres to which quotas and allotments did not apply. Loans to producers in the non-wheat growing areas were to be at the rate of 75% of the normal rate. Non-cooperators were made ineligible for payments under the Agricultural Conservation Program but this exclusion was revoked in 1956.[41]

THE TRIAL PERIOD, 1955-1956

The acreage allotment for 1955 was 55 million harvested acres and marketing quotas were again in effect. (Compliance with quotas was changed from a planted-acre basis to a harvested-acre basis in 1954). Based on his theory that slightly lower price supports would reduce production through production shifts to other crops, and non-planting of marginal acres, Benson expected a drop in the 1955 production. In spite of continuing drought (drought prevailed in the wheat producing areas from 1953 to 1957) production at 937 million bushels resulted and stocks increased another 100 million bushels to 1036 million bushels. Though disappointed, Benson saw the need for additional methods of adjustment and lent half-hearted support to the Soil Bank approach then being promoted in Congress.[42]

Democrats had gained control of Congress in 1954 and had been pushing a Soil Bank Act for several years. The Eisenhower administration was not averse to borrowing the idea. Essentially, the Soil Bank plan involved the paid retirement of acreage used to grow crops in surplus. Contracts could either be for one year under the Acreage Reserve Program or for 3-15 (in practice 3 to 10) years under the Conservation Reserve Program.

The first bill incorporating the Soil Bank proposal also included a return to price supports at 90% of parity and a two-price plan for wheat. Despite administration maneuvering in Congress, the bill was passed in April, 1956 and sent to the President. He vetoed it, stressing that the 90% support provision would only increase overproduction and that the two-price plan (whereby domestic wheat prices were set higher than prices for export wheat) would raise prices to domestic consumers and the hackles of other exporting countries who would view the plan as dumping. To soften the blow of the veto, he raised support levels on a number of crops. Wheat support levels were raised from 76% of parity to 82.5% and a new bill was passed and signed.[43]

THE AGRICULTURAL ACT OF 1956

The Agricultural Act of 1956 was signed into law in May of 1956.[44] Employing the Soil Bank philosophy, the preface noted, "It is in the interest of the general welfare that the soil and water resources of the nation be not wasted and depleted in the production of such burdensome surpluses and that interstate and foreign commerce in agricultural commodities be protected from excessive supplies."

The Acreage Reserve was authorized for the 1956-1959 crops. Upon voluntarily entering into a one year contract with the Secretary of Agriculture, a producer was to be compensated for reducing his acreage below his acreage allotment. Compensation was to be either in the form of grain or cash. The total program compensation was not to be in excess of $750 million annually and a $375 million limit was placed on wheat acreage participation. Acres retired under the Acreage Reserve provisions were to be included in the acreage allotment determination.

The Secretary was authorized to write contracts under the Conservation Reserve provisions during 1956 to 1960. Contract length was from three years to ten years. Producers agreed to establish cover crops or graze the contracted acres. Normally idle land on farms was to remain idle. The Secretary agreed to share part of the costs of soil conservation improvements and to pay producers a fair return on contracted acres based on opportunity cost. An annual limit of $450 million per year on payments, materials and services was imposed. Compliance with acreage allotments was necessary in order for producers to receive payments.

Other provisions of the AA of 1956 dealt with surplus disposal. The CCC was directed to dispose of all stocks as quickly as possible in a manner consistent with price support programs and orderly liquidation. The Secretary of Agriculture was directed to submit to Congress detailed plans for disposing of surpluses within 90 days of the enactment of the act. In addition, he was to submit annual reports to Congress concerning the surplus and plans to eliminate it. A bipartisan Commission on Increased Use of Agricultural Products was established. Transitional Parity for basic commodities was frozen for one year to be revived on January 1, 1958.

WHEAT UNDER THE SOIL BANK

The Acreage Reserve.

Although the Acreage Reserve had been authorized for the four crop years 1956 to 1959, it was to operate for only three years. Appropriations for all commodities for the original four years were budgeted at 500 million dollars--one-third less than the $750 million limit in the Agricultural Act.

Congress forced Secretary Benson to immediately implement the program in 1956, despite passage of the act in May. (Winter wheat had been planted the previous autumn). The 1956 program objective was effectively drought relief and its 5 million acre goal was obtained only with an extended sign-up period. The acreage goal for 1957 was 12-15 million acres for wheat. Almost 13 million acres were put under contract, largely because of drought conditions at planting time. Objectives for 1957 differed by political player: Congress was interested in drought relief, the Farm Bureau sought production control and the administration half-heartedly supported the Farm Bureau position. The high level of participation in the 1957 program was to subside in 1958 as good subsoil moisture at planting time combined with a late sign-up deadline (October) reduced acres under the Acreage Reserve to 5 million. In his 1958 budget message, Eisenhower asked Congress to end the Acreage Reserve after 1958--arguing that one year contracts had not proven effective. While Congress agreed to end the Acreage Reserve Program early, Eisenhower's request for an extended contract initiation period for the Conservation Reserve was denied.[45]

A General Accounting Office audit of the Soil Bank highlighted several problems. The GAO maintained that buying production reduction through the Acreage Reserve was more expensive than CCC losses under various disposal programs--although the costs were relatively similar at approximately $1.25-$1.30 per bushel. Another problem during the first two years was substitute crops; until the 1958 program there were no restrictions on raising non-basic crops on land not specifically in the acreage Reserve. In 1957 acreage of sorghum and barley increased 5.4 million acres and 1.7 million acres respectively, especially in the wheat areas. The 1958 program provided a Soil Bank base which helped alleviate this problem.[46] But the most important problem was that the Acreage Reserve had not been effective in reducing wheat surpluses. Wheat production in 1958 was a record 1.4 billion bushels as were ending stocks of 1.3 billion bushels. As a mechanism for drought relief, however, the Acreage Reserve had been relatively effective. Table 6.2 summarizes wheat operations under the Acreage Reserve.

Table 6.2. Wheat under the Acreage Reserve.

Crop Year	Acreage Reduction (million acres)	Reduction as % of National Allotments	Payments (Million Dollars)
1956	5.67	10.0%	$43.4
1957	12.78	23.2%	229.9
1958	5.29	9.6%	105.1

Source: Hadwiger, 1970, p. 224

The Conservation Reserve.

The Conservation Reserve was put into operation for the 1957 crop year. Rather than being commodity specific as with the Acreage Reserve, the Conservation Reserve was a general cropland retirement program, with budgetary limits of $450 million per calendar year.

The program established a soil bank base for each farm (the average cropland acres farmed during the last two years) and national average annual rent of $10 per acre was paid for land from this base taken out of production and put into the reserve. Additional land not in crops was eligible for the reserve but at a reduced rate--at first 30% of the regular rate, later, 50%. Cost-sharing was also available for certain conservation practices.

Various program modifications were used until contract authorization expired in 1960. An experimental program whereby farmers submitted bids was tried in 1958 in four states but only a few were accepted in Maine. After the demise of the Acreage Reserve in 1959, incentives were offered to encourage whole farm participation and the signing up of more productive land. Rates were raised to $13.50 per acre and a ten percent bonus was offered for whole farm participation. Program innovations in 1960 included provisions whereby tenants shared in program payments, a payment limitation of $5,000 and other restrictions limiting entry. No contracts were signed after 1960.

At its peak (1960), 28.6 million acres were in the Conservation Reserve. The USDA estimated that 11% of this land (about 3 million acres) was on land which formerly was growing wheat. Production adjustment in 1960 was approximately 60 million bushels of wheat--about 4% of actual wheat production that year. Seventy percent of land signed into the Conservation Reserve was in whole farm units--partly a result of special incentives provided because whole farm units left no land for more intensive farming. Peak payments in 1962 were $332 million. Total payments in current dollars were $2.6 billion. Peak release years from contracts were 1963 (6.8 million acres), 1964 (3.5 million acres) and 1968 (5.8 million acres). Over eleven million acres were released during the years 1966 to 1969.

Several problems with the Conservation Reserve contributed to the refusal of Congress to extend contract initiation beyond 1960. These problems included fraud by substituting marginal land already out of production for more productive land, contracting beyond the $5,000 limit on payments to one farmer, and negative impacts on rural communities. Much of the marginal land was concentrated by area; removing this land from production affected merchants and other suppliers of farm inputs. Hadwiger concluded that while the program was well-designed for the objective of conservation and efficient land use, it had too little effect on production control and income maintenance to be popular in Congress. It served too few farmers while concentrating infrastructure impacts into areas small enough to be united and vocal in their opposition.[47]

THE LAST THREE YEARS OF THE EISENHOWER ADMINISTRATION

The Democrats remained in control of Congress after the 1956 elections. The last three years of the Eisenhower Administration saw a widening of the breach between the administration and Congress. In spite of the various programs, stocks of wheat sought and found new levels. A 30 acre feed exemption from allotments was passed in 1957 but the program was also modified so allotments of non-cooperators were not increased through overplanting. Previously non-cooperators had been able to increase their future allotments through overplanting.[48] Eisenhower's request to widen the range of support for basics to 60% to 90% of parity did not pass. The Agricultural Act of 1958 mainly addressed cotton and corn--not wheat.

Thirty-four Republican farm congressmen tried to convince Secretary Benson to resign before the 1958 Congressional election. Their request was denied and Democrats gained large margins in both the House and the Senate. Considering the difference in philosophy between the Democratic Congress and the Republican administration, effective public action was effectively stalemated.[49] Democrats tried to embarass the administration by limiting funds for the Soil Bank;[50] Secretary Benson let the surpluses mount so as to bury the price support programs.[51]

Attempts to solve the stalemate were tried, though. President Eisenhower proposed in 1959 that the parity concept be abandoned. He proposed the substitution of a three year moving price average which would allow prices to move to their true market levels. Eisenhower's alternative to this suggestion was to give the Secretary of Agriculture discretion to set supports anywhere between 0% and 90% parity.[52]

Both suggestions of Eisenhower were met with the same enthusiasm by Congress he showed the wheat bill they sent him. (He vetoed it). The bill would have given farmers a referendum choice of either reducing acreage by 25% in return for supports at 90% of parity or ending all acreage allotments for support at 50% of parity. Little doubt existed as to which alternative farmers would choose. The bill would also have suspended the 30 acre feed exemption, cut the 15 acre exemption back to 12 acres and allowed farmers who agreed to cut back acreage and grow no other crops on the land to receive payment in wheat from the CCC equal to 1/3 of their average production on the cut-back land. Agreement was reached, however, on Eisenhower's request for a payment limitation on price supports of $50,000 to one farmer. Opposed by Southern Democrats with large-scale cotton and tobacco constituents but favored by the urban Democrats of the north and west and Republicans, the limitation had little effect. Price supports at current levels served to peg market prices and limitations were by single commodity not for total production of a farm or producer.

Eisenhower renewed his request in 1960 for a moving average basis of support. The Senate countered with a bill which retained supports at 75% parity but reduced acreage allotments to 44 million acres. While this bill was acceptable to the Administration, it was not acceptable to the House. Even the House Agriculture Committee's own bill of support at 85% of parity with a minimum acreage allotment of 42 million acres was unacceptable to the whole House. Urban resentment of high food prices combined with high program costs killed the bill.[53] It would remain the task of the next administration to work for meaningful adjustment.

WHEAT DURING THE EISENHOWER ERA

Lacking war and overcoming drought, the traditional saviors from surplus, farmers produced at well above market clearing levels. New records were set for both production and carry-overs. Acreage allotments and marketing quotas were in effect from 1954 on and were supported by most producers, at least compared to the alternative of no acreage restrictions and support at 50% parity.

Exports became the approved outlets for surplus wheat. From 1954 to 1960, exports under P.L. 480 and the Mutual Security Acts averaged 66% of total exports. Under this stimulus, exports also reached record levels.

Loans were heavily used by farmers during the 1950's. The record for one year occurred during 1953, when in the face of falling demand due to the winding down of the Korean War, 41% of production was acquired by the CCC. Although the percentage of each year's production acquired by the CCC declined toward the end of the decade, CCC stocks as a percentage of total stocks remained around 90% through 1960.

Farmers in general complied with the wheat programs of the 1950's. The major incentive for compliance was the penalty payable to the government of 45% of parity on the normal production of excess acres (but only on wheat that was marketed). Some farmers stored excess wheat under seal as crop insurance, while others took advantage of increasing yields to overplant and pay the penalty (since the penalty was on normal rather than actual production). Non-compliers also lost non-recourse loan privileges although with market prices effectively pegged, the loss was in subsidized interest, rather than in price.

The other major disincentive to compliance was allotment provisions. Until 1957, farmers who planted beyond their allotment increased their history of planted acres (a moving three year average) and thus their allotment. Beginning with the 1959 crop year, overplanting was penalized by allotment reduction. This explains much of the drop in the number of farms with excess production for the 1959 crop year. (See Table 6.3.) Despite these incentives for non-compliance, excess wheat was never over 2% of total production and was rarely that high.[54]

Table 6.3. Compliance with Allotments and Quotas, 1954-60. Based on harvested acres after 1954.

	Allotment (Million Acres)	Seeded Acres (Millions)	Number of Farms With Market Quota Excess	Excess Bushels (Millions)	Total Production (Million Bushels)
1954	62.8	62.5	13,499	4.5	983.9
1955	55.8	58.2	13,187	10.2	937.1
1956	55.0	60.7	13,743	9.7	1005.4
1957	55.0	49.9	18,706	18.3	955.7
1958	55.0	56.3	30,889	28.9	1457.4
1959	55.0	57.7	7,625	7.7	1117.7
1960	55.0	55.6	8,093	N/A	1354.7

Source: USDA, Wheat Situation, June, 1961, pp. 21, 30

However, wheat programs were not as popular with taxpayers (or at least would not have been, if taxpayers had realized the full extent of program costs). The CCC lost heavily on storage and stock transactions during the 1950's. Only during 1956 did it show a net gain from transactions. But for only three of the eight years, 1953-1960, did expenditures on CCC interest and stock transactions exceed export and other relief expenditures--both types of program having non-farm as well as farm beneficiaries. By the end of the Eisenhower Administration, the general conclusion was that the cost of the farm programs was too high and voting by urban Congressmen reflected this. Table 6.4 summarizes various program costs.

Table 6.4. Federal Government Expenditures on Wheat Related Programs, Crop Years 1952-1961 (Million Dollars)

	Crop Year									
	1952	1953	1954	1955	1956	1957	1958	1959	1960	Total
1) Loss on stock transactions	824.6	857.4	441.0	34.2	(113.7)	168.5	789.8	217.1	258.2	3487.1
2) CCC interest	11.1	27.2	17.4	53.8	86.7	104.8	51.1	151.5	134.6	638.2
3) Commodity export program	--	26.1	49.6	69.6	133.2	85.0	63.9	27.5	74.3	529.2
4) Int'l. wheat agreement	125.9	55.9	98.5	89.7	86.4	79.8	46.7	65.3	74.4	722.6
5) P.L. 480	--	--	141.6	356.7	599.8	637.5	687.5	885.9	1082.6	5491.6
6) Foreign Aid (Mutual Security Act)	103.4	130.6	129.4	113.0	122.8	65.9	43.1	22.6	59.0	789.8
7) Total	1005.1	1107.1	877.4	716.9	915.1	1141.6	1682.1	1370.0	1685.2	10,558.5
8) Less credits Non Fm Benefits	51.7	65.3	135.5	240.4	383.3	394.7	396.0	493.0	614.2	2,774.1
9) Total Program Cost	1013.4	1041.8	741.9	476.5	531.8	746.8	1286.1	877.0	1069.0	7,784.4

Source: Cochrane & Ryan, 1976, pp. 316-333.

Farm value of wheat production varied considerably during the Eisenhower administration, but production costs as measured by the parity index remained relatively constant during the period rising 8.6% from 1953 to 1960 and real costs of producing wheat declined. Season average farm prices were usually below the loan rate and fluctuation throughout the season was minimal--the loan rate set the floor, and the CCC release price of 105% of the support price effectively set the ceiling. Thus farmers received relatively stable if declining market prices during this period, as the loan level guarantee was gradually reduced.

Table 6.5. Support range and actual support as a percentage of parity.

Crop Year	Possible Support Range	Actual Support Level	Support Level
1952	90%	90% (O)	$2.20
1953	90%	90% (O)	2.21
1954	90%	90% (O)	2.24
1955	82.5-90%	82.6% (O)	2.00
1956	75 - 90%	82.6% (O)	2.00
1957	75 - 90%	80% (T 95)	2.00
1958	75 - 90%	75% (T 95)	1.82
1959	75 - 90%	76.7% (T 90)	1.81
1960	75 - 90%	75% (M)	1.78
1961	75 - 90%	75.5% (M)	1.91

(O) = old parity, (T) = transitional parity, (M) - modernized parity

Source: Rich, 1964, pp. 31-49, Hadwiger, 1970, p. 193

COMMENTS, 1953-1960

Eleven years of price supports at 90% of parity ended with the start of the 1955 crop year. Except when adjusted for political expediency, support levels at the end of the fifties were close to the statutory minimum. Since levels were expressed as a percentage of parity they were to a certain extent indexed to inflation--but inflation as we know it today was not a problem.

Much political capital was expended by farm congressmen in attempts to revive the old high fixed levels of support but these attempts were to be frustrated. Frustration is probably an apt word with which to describe this decade. The broad consensus which existed during the thirties had pretty much been buried under the surpluses. And these surpluses reached higher levels than necessary as Secretary Benson, frustrated in his attempts to change the program decided to let the surpluses force action.

Paalberg maintains that the problem was not a matter of being able to control the surpluses. "For wheat, the control problem has been lack of will. The control devices and mechanisms were worked out. They simply were not used to a degree that would permit a balance of supply with demand at the price specified in the law."[55] Thwarting the control attempts were the 15 acre exemption, diverted acres, the change from a planted basis to a harvested basis for allotments (in 1954), easy disposal for CCC stocks through P.L. 480 and the minimum allotment of 55 million acres.

The 15 acre exemption from quotas and allotments was originally devised to reduce administration problems, but by the late 1950's 600,000 farmers mainly in the corn belt were growing 100 million bushels of wheat annually. The exemption was tolerated because of the broad political support it supplied--extending support for the wheat program into the corn producing areas.[56]

The non-comprehensive nature of the farm program caused the problem of production gains due to diverted acres. Although farmers were forbidden to grow any of the basic crops on acres diverted from wheat, they were allowed to grow non-basic crops. Thus, aggregate farm production was not necessarily reduced by allotments and quotas on basic crops. Attempts by Secretary Benson to rectify the situation in 1954 were squelched by Congress.[57]

But it was not simply stubbornness on the part of Congress and farmers which continually produced surpluses during the fifties. Institutional and technical factors were involved. Continued research and extension contributed the techniques of production to increase yields and expand farmer's productivity. The market structure of farming which dictated that the individual farmer could not set prices received for his product but could reduce his costs spurred adoption of the new technology.[58] The inelasticity of demand for food produced by these productivity increases was a factor as was the inability or unwillingness of farmers to shift into other occupations. Still the Farm population dropped 28% between 1952 and 1960 and the number of farms declined by 23%.[59]

What would have been the effects of Benson's free market ideal? Nelson and Cochrane have simulated the effects of eliminating major farm commodity programs in 1953. Their model suggested that farm prices would have dropped until they were 33% below actual levels in 1957 and net farm income would have been 55% below the actual 1957 level. Although prices and incomes would have rebounded above actual levels by the early seventies, until 1964, "farmers would have suffered their worst financial crisis since the depression."[60]

During this period of technological change and adjustment, then, there were really no good answers and a lack of consensus among policy makers as to the necessary modifications in programs allowed the status quo to continue. The policy situation in the fifties was in some ways similar to that which existed during the Farm Board period. Mounting surpluses signalled the failure of existing programs but it was necessary for that failure to become exceedingly apparent and costly before the policy stalemate could be broken. In the end, it took a new administration to shift the program in new directions.

CHAPTER 7. RELEASING THE MARKET.

INTRODUCTION

John Kennedy took office in January, 1961. His administration inherited staggering quantities of government owned farm commodities. The beginning stocks of wheat for the new crop year beginning in June, 1961, amounted to 1.4 billion bushels, 80% of which were owned by the Commodity Credit Corporation (CCC). (See Table 2.2). If the 1962 wheat acreage allotment (announced in May, 1961) had been determined solely on the basis of the supply formula (in the absence of the 55 million acre statutory minimum) "the 1962 allotment would have been zero."[1] The estimated supply of wheat was 92% above the normal supply. The problem was not confined to wheat. The corn carry-over on October 1, 1961 was over two billion bushels and the Commodity Credit Corporation owned 30% of this accumulation. Kennedy wanted to raise farm income but one of his major goals was to reduce the cost of farm programs.

Although political maneuvering would lead to programs and policies which would "release the market" and provide more "freedom to farm", the early direction of the Kennedy administration was for tighter government control of wheat production and stronger penalties. Ideological battles were intensely fought during the few years of the Kennedy administration.

THE KENNEDY PROGRAM

Kennedy's advisers felt that objectives of raising farm income while simultaneously reducing the cost of farm programs could best be addressed through the use of "supply management." By combining strict production and marketing controls, commodity loans at market clearing levels and direct payments to farmers to maintain or raise farm income, the expenditures on direct payments would be less than the acquisition, transportation, storage costs and export subsidies necessary for the surpluses produced under the current program. The supply management concept met a lot of opposition--especially from the Farm Bureau, Republicans and Southern Democrats. Kennedy's farm advisers also wanted to modify the program formulation process, vesting more power in the Department of Agriculture. One proposal, originally Freeman's choice, would have had the Department frame commodity programs and send them to Congress to be handled in the traditional manner.

Kennedy favored granting authority to draft commodity income support programs to producer committees in cooperation with the Secretary of Agriculture. The programs were then to be approved by 2/3 of the producers in a nationwide referendum and sent to Congress. Congress would then have authority to veto but not alter the program within 60 days. A veto would result in no program for that commodity for that year. Congressional opposition to this proposal was stiff, based not only on the shift of power away from Congress but also fears that the producer committees would be dominated by the Secretary of Agriculture.

An emergency Feed Grains Act incorporating supply management measures was passed early in 1961. The long range Kennedy proposal of a gradual adoption of supply management programs for all commodities and program formulation by producer committees was blocked by the agricultural committees in both houses.[2]

THE AGRICULTURAL ACT OF 1961

Congress's alternative was the omnibus Agricultural Act of 1961.[3] It authorized the continuation of the 1961 Emergency Feed Grains Program for 1962, authorized a temporary program for the 1962 wheat crop and extended various other programs--wool, P.L. 480, and the school milk program among others.

The wheat program for crop year 1962 required producers to cut back their acreage by 10% in order to receive price supports and avoid marketing penalties. This temporary reduction of the nationwide allotment to 49.5 million acres was the first time since the introduction of allotments in 1938 that the national allotment was set below the existing statutory minimum of 55 million acres. The diverted acres were to be devoted to conservation practices or planted to specified crops not affecting grain surpluses. Compensatory payments in cash or kind were to be paid directly to producers and were to equal in value 45% of the support rate for the normal production of the diverted acres. Additional payments at 60% of the support rate were available to producers who further reduced plantings by up to an additional 30% of their allotment and these producers were not to lose their allotment history. However, the number of acres already in conservation uses during 1959 and 1960 could not be used as diversion in the program.

Penalties for exceeding quotas were much stricter than previously--a penalty rate of 65% of parity or parity applied to twice the normal yield of excess acres. Producers who did not participate in the mandatory 10% cutback but stayed within their allotments were not eligible for price supports or diversion payments but were not assessed marketing penalties. The 15-acre exemption was reduced to the lower of 13.5 acres (a 10% reduction) or the highest number of acres planted in 1959, 1960, and 1961. Thus, farmers without allotments who had no history of planting wheat during the last three years were subject to the marketing penalties.

The support rate (loan rate) was set at $2.00 per bushel for the 1962 crop. Growers approved the provisions in the mandatory referendum but by the smallest margin since 1956: 79.4% of the 278,500 voters. In other legislation passed during 1961, a trial food stamp program was started and funds earmarked specifically for rural development were appropriated.[4]

TOWARD NEW PERMANENT PROVISIONS

Kennedy's proposals during 1962 were a modification of his 1961 proposals. Deciding to leave the formulation process alone, he nonetheless proposed stringent production and marketing controls for feed grains, wheat, and dairy products, expanding P.L. 480, and widespread government assistance in finding other uses for cropland.

Government storage costs remained a major incentive for new programs. Ending stocks for 1961 were down from the 1960 level by 89 million bushels but at 1322 million bushels were only 5 million bushels less than total disappearance during 1961, the highest total disappearance in U.S. history. Support for the administration's proposals divided along the traditional lines with Republicans, southern Democrats and the Farm

Bureau opposing the proposals and most Democrats, the Grange and the Farmer's Union favoring it. Alternatives were suggested to Kennedy's extensive controls--ranging from continuing the existing program to ending all programs after 1963. Both these alternatives were rejected.

The first omnibus bill of 1962 was rejected by the House mainly because of its mandatory feed grain control provisions. (Feed grain problems were more complicated because of the more direct relationship with livestock production). Relaxed controls on feed grains similar to those under the Emergency Feed Grain Act of 1961 (which had been popular with producers) allowed passage of the second omnibus bill.[5]

THE FOOD AND AGRICULTURE ACT OF 1962

The Food and Agriculture Act of 1962 was passed in September, 1962. The first title of the act covered various land retirement programs incorporating conservation and recreation goals. The second title broadened terms of trade for P.L. 480 encouraging private trade channels for dollar sales. The third title dealt with commodity programs.

Because the act was passed in September, too late for winter wheat producers to change planting intentions, the act was divided into two sections--a temporary voluntary diversion program for 1963 and permanent mandatory provisions for 1964 and beyond. The 1963 program provided non-recourse loans at $1.82 per bushel for producers in the commercial wheat producing areas who did not exceed their allotments. Producers who agreed to reduce their wheat acreage by at least 20% of their acreage allotment received a direct payment of 18¢ per bushel of normal production on all acres planted to wheat and 50% of the support rate on the normal production of diverted acres. Producers could also divert an additional 30% of their allotment under the same provisions. In addition, the small farm exemption was modified so that only the smaller of 15 acres or the highest number of acres planted during the years 1959-1961 were exempt from quotas.

The proposed wheat program for the 1964 crop year was more complicated. Harking back to the two-price plans of the twenties and the processing fees of the 1933 AAA, perhaps the most notable program aspect was the enormous amount of discretion given to the Secretary of Agriculture in formulating program details. With the new program, the secretary was to determine national requirements for the next crop year (including any reduction in wheat stocks he deemed necessary) and declare this to be the national marketing quota. It could not be less than 1 billion bushels which was the new statutory minimum replacing the 55 million acre requirement. Acreage allotments would be the number of acres which would, after specified adjustments, make the supply of wheat equal to the national marketing quota. At prevailing yields the new minimum allotment would have been approximately 40 million acres.

Other allotment changes included a special acreage allotment for farms which had been growing less than 15 acres of wheat. These operators could choose to be covered by marketing quotas, with consequent reduction in planting and eligibility to receive marketing certificates and price support. Those who chose not to sign into the program were restricted to historical planting in order to avoid marketing penalties. The thirty acre feed exemption was eliminated. Thus, while farmers in the corn belt and other areas could continue to grow small quantities of wheat, they could not expand beyond previous plantings and farmers who had no recent record of growing wheat could not now start. However, beginning with the 1964 crop, if a feed grain diversion program was in effect, farmers growing both feed grain and wheat could interchange planting for compliance purposes as allowed by the Secretary.

Prices were supported by a combination of non-recourse loans and marketing certificates. The basic idea was that loan levels would be reduced to world market prices, (thereby reducing CCC acquisitions) while farm income would be supported by transferring income from domestic consumers and exporters to farmers. This transfer was to be accomplished through the use of marketing certificates which domestic processors and exporters were required to purchase from the Commodity Credit Corporation. Certificated wheat was to be supported at a level between 65% and 90% of parity, the level being at the discretion of the Secretary. Non-certificated wheat was to be supported at the level determined by the Secretary considering competitive world prices of wheat, the feed value of wheat and price support levels of feed grains.

The Secretary was authorized to formulate an acreage diversion program for crop years 1964 and 1965. Payments of up to 50% of the loan rate on the normal production of diverted acres were allowed as was an additional diversion for payment of 20% of a farmer's acreage allotment. The diverted acres were to be devoted to soil conserving uses or specified oil seed or fiber crops. Land previously in soil conserving uses was required to be maintained; diversion was to be from existing cropland. Producers were prohibited from knowingly exceeding the farm acreage allotment for any commodity on the farm or any other farm where producers had a share of productions. Additional terms and conditions including control of erosion could be imposed by the Secretary of Agriculture.

When marketing quotas were in effect penalties for overplanting were strong: a fine of 65% of parity on twice the normal yield on the excess acres (or proven actual yields on the excess acres), and loss of certificate payments and non-recourse loan privileges. However, the excess could be stored to avoid penalties.

When marketing quotas were not in effect, producers who planted within their acreage allotment were eligible for loans at 50% of parity. However, without the certificate program, substantial CCC stocks would be allowed to flood the market,effectively placing a ceiling of 52.5% of parity on market prices (105% of the support price).

As had been the case since the 1938 AAA, producers were required to approve marketing quotas by referendum. However, for the 1964 referendum two major changes in referendum procedures were legislated. First, market quotas could be announced for one, two or three crop years and one referendum would cause market quotas to be in effect for the full duration of the announcement upon approval of 2/3 or more of voting producers. Disapproval of the referendum would have canceled marketing quotas for only the next crop year. Second, for the first time, producers producing wheat under the 15 acre exemption were eligible to vote in the 1964 referendum if they had signed up for the 1963 program.[6]

THE 1964 WHEAT REFERENDUM

Battlelines were drawn for the 1964 wheat referendum and the weapons were ideological appeals. The Farm Bureau, the major opponent of the plan, presented the issue as the bureaucracy vs. "freedom to farm"; others saw the issue as the power of the Farm Bureau vs. the power of the Administration and other farm groups.

The USDA presented the issue as $1 wheat vs. $2 wheat. Their studies showed that under the new program, producers would receive about $2 per bushel of wheat; without the program, the price of wheat would drop to around $1 per bushel. Rejection of the program would have meant loans at approximately $1.25 per bushel for producers who stayed within their allotment. But rejection of the program would also eliminate penalties for overplanting and the lower price support would allow CCC stocks to come on the market at approximately $1.35 per bushel plus carrying charges. If the program were approved, the support price was considered the certificated price and CCC stocks would continue to be relatively isolated from the market.

Despite the extensive Farm Bureau effort to defeat the program and the narrow approval of the 1963 referendum conducted just before the passage of the 1962 act, the administration was confident its new approach would be vindicated. Officials considered the alternative of drastically lower prices would be sufficient for passage. Attempts to offer farmers a choice between the current program and the Kennedy program had been defeated during congressional debate of the 1962 act.

Over a million farmers voted in the referendum. Less than half voted in favor of the Kennedy program--far below the two-thirds majority necessary for passage. Kentucky, Maine, South Carolina and Tennessee were the only states in which two-thirds of the voters approved and none of these were wheat states. Hadwiger and Talbot analyzed the no vote as consisting of two parts: 1) voters who were not primarily wheat producers protesting efforts for control on meat, milk, and feed grains; and 2) wheat producers who were gambling that Congress would pass a better program.[7]

After defeat of the referendum, President Kennedy announced that he would "listen to any new proposal for new wheat legislation that offered us hope of reducing the surpluses, of maintaining the farmer's income and that was not excessive in cost."[8] No new legislation was proposed during the remainder of 1963. When Lyndon Johnson became President after the assassination of John Kennedy, he privately asked farm legislators to draft a new wheat program.[9]

PROGRAM PROPOSALS AFTER THE DEFEAT

High exports, stocks reduction, and the fact that producers had planted as if allotments were still in effect, helped mend the administration's wounds. It appeared the rejection was more a resistance to compulsory controls than a rejection to the programs in general.

Congressional committees began hearings early in 1964 for the 1964 wheat program, 80% of which was already planted. Different suggestions were offered. Some proposed to make the rejected program voluntary as a voluntary program would not be subject to referendum. Others suggested a compensatory diversion plan similar to the 1963 program. The Farm Bureau suggested a large scale acreage diversion program similar to the Soil Bank combined with support at 90% of a three-year moving average of market prices. Secretary Freeman and the administration favored making the rejected plan voluntary. As finally attached to the cotton bill, the administration's wishes were respected.

Proponents of the bill maintained that without a wheat program, farmers would lose $600 million in gross income during 1964. Opponents argued that the program was voluntary only in name--that by allowing loan levels (and market prices) to fall to $1.30, the proposed program would in fact be compulsory. Supporting the bill were the Farmer's Union, the NFO, the Farm Bureau, the wheat industry (who, however, objected to the processor taxes) and the House leadership. The subsequent passage of the Cotton-Wheat Act was attributed to four factors: 1) Combining programs for cotton and wheat created a natural coalition of southern and midwestern Democrats; 2) Passage of the act was tied to the Permanent Food Stamp Bill also passed in 1964; 3) Lobbying by a farm group alliance (excluding the Farm Bureau); and 4) Pressure from President Johnson.[10]

THE AGRICULTURAL ACT OF 1964

The Agricultural Act of 1964 (also known as the Cotton-Wheat Act) was passed in April, 1964. Its main innovation was that it was a voluntary program but essentially it was modification of the rejected mandatory program. While the Secretary of Agriculture still enjoyed a large amount of discretion compared to previous programs, his power in program formulation was curtailed somewhat over the broad powers granted by the 1962 Agriculture Act. Since the program was voluntary, no referendum was necessary. Crop year 1964 would be the first year since 1953 that marketing quotas and penalties would not be applicable.

The act covered crop years 1964 and 1965. As with rejected program, the act used price support loans and marketing certificates (both domestic and export) to support prices. Domestic certificates, representing wheat used for food products for consumption in the U.S. had to be purchased by processors at the rate specified by the Secretary of Agriculture (but between 65% and 90% of parity). Export certificates to be purchased by exporters were valued at the Secretary's discretion at between 0% and 90% of parity. However, exporters were entitled to refunds of certificate fees as deemed necessary by the Secretary to help make U.S. wheat competitive in the world market.

Loan levels were to be set by the Secretary taking into account world prices for wheat, the feed value of wheat in relation to feed grains, and price support levels of feed grains at not more than 90% of parity. There was no specified minimum level for wheat loans. The release price for CCC stocks was declared to be the loan level, not the certificated price.

Farmers were eligible for price support but not certificate payments for the 1964 crop year if they had planted within their farm acreage allotment. In order to receive certificate benefits, farmers were required to divert from production to conserving uses, an acreage of cropland equal to a percentage of their allotment as specified by the Secretary. Payments as specified by the Secretary of up to 50% of the loan rate multiplied by normal production on the diverted acres were allowed. Thus, with the new voluntary program, penalties for overplanting were eliminated. However, non-recourse loans serve as a floor under market prices. With the reduction in loan rates market prices would fall and non-cooperators had to sell their wheat on the open market.

For the 1965 crop year, the acreage allotment could not be less than 49.5 million acres but the Secretary still had discretion in setting diverted acres. Thus, while he could not mandate a reduction below this level in wheat acreage, he could reduce the amount of total cropland in production on cooperator's farms.

Also for 1965, a special allotment reserve of not more than one million acres was to be used to adjust allotments on wheat farms growing wheat in one or more of the last three crop years where the wheat acreage/cropland ratio was well below the county average. In addition, producers were to be allowed to overplant their allotment by as much as 50% with the resulting production to be stored as insurance against underplanting or reduced yields in subsequent years. Under this provision, producers would not lose their program benefits due to overplanting but penalties would be assessed if this stored wheat otherwise came on the market. Hence, relatively rigid allotments as had evolved were starting to loosen up a bit.[11]

PREPARING A NEW BILL

Since the 1964 act covered only the 1964 and 1965 crop years, work on a new bill began within the year. President Johnson's message in February, 1965 called for among other things a new cropland retirement program, establishing an emergency stockpile of commodities, and creating a commission to study U.S. agricultural policy. He stressed the importance of farm support programs and asked for increased rural credit for rural areas. He also stressed the need to separate the social problems of rural America from the economic problems of commercial agriculture conceding "the answers to each may be different."

For wheat, Johnson suggested a two-year extension of the current act with changes in the value and financing of the domestic certificates and elimination of the export certificates. A higher value domestic certificate would support farm prices and still reduce government costs as the financing would then be borne by consumers rather than by the taxpayers. The domestic certificate value would be raised to 100% parity (for the supported share). The administration also proposed that voluntary conversion of up to 50% of wheat cropland be allowed. Millers and bakers, the Farm Bureau, and urban congressmen opposed his plan to raise the certificate value.

Other refinements were suggested. The Farm Bureau supported raising the CCC price for releasing stocks to 115% of the support price rather than the 105% level prevailing. They felt the Secretary was using the release of stocks at the lower level to hold prices down and thus guarantee compliance with the voluntary programs. Three attempts were made to limit government support to individuals and corporations. Both proposals failed--even the last support limitation bill allowing supports up to $100,000 per farm.

Passage of the bill was tied to the repeal of the Taft-Harley Act (the "right to work" law) in the House. Urban Democrats voted for the agricultural bill in return for the votes of midwestern farm Democrats on the labor bill. Much of the debate on the bill concerned cotton rather than wheat.[12]

THE FOOD AND AGRICULTURE ACT OF 1965

The Food and Agriculture Act of 1965 was passed on November 3, 1965. For the most part, it extended with some modification the Cotton-Wheat Act of the previous year. As before, market quotas were repealed for crop years 1966 through 1969. The Secretary was to announce a national acreage allotment equivalent to the unproclaimed national marketing quotas (which could not be less than the acreage equivalent of one billion bushels). Beginning with the 1967 crop year, the special small farm exemption was repealed and needs of farmers growing small acreages of wheat would be included in the regular allotment. Two acreage reserves of less than one percent each were to be established to facilitate adjusting allotments at the Secretary's discretion.

Paid diversion authority at up to 50% of the loan rate was continued through 1969 and additional diversion authority (acres diverted beyond those required to gain program benefits) was raised from 20% of the allotment to 50% of the allotment.

While cooperation with allotments and diversion continued to be a requirement for program benefits, a new provision required compliance with allotments in the absence of either a certificate or diversion program to avoid a mandatory 7% reduction in allotment. The excess wheat exemption from allotment reduction was continued through 1969.

Much of the wheat section of the 1965 act was devoted to refining the relatively new certificate program. An earlier short act in August allowed producers who had been prevented from planting wheat due to natural disaster to still collect certificate payments as long as the affected acres were not planted to other price support crops.[13] This provision was continued through 1969 .

A 500 million bushel minimum for wheat covered by domestic certificates was established. If processors did not acquire this minimum amount, any additional cost was to be borne by the Commodity Credit Corporation. Certain specified types of processing were exempt from certificate acquisition and costs to processors could not exceed the equivalent of $2 per bushel face value for the certificates bought (approximately 75¢ per bushel). For the 1966 crop year wheat accompanied by domestic certificates was to be supported at 100% of parity; for 1967 through 1969, as close to 100% of parity as determined practical by the Secretary. However, for the 1967 through 1969 crop years, if required diversion was not less than 10% of allotments, the total average return per bushel on all payments and loans was not to be less than for 1966.

Modifications were also made in export certificates. Although the Secretary was to use the same criteria in setting the certificate cost to exporters (keeping U.S. wheat competitive in world markets, avoiding disruption in world market prices, and fulfilling the United States' international obligations), the determination was to be made daily with any payments to producers on a pro rata basis at the end of the marketing year. The value to producers was to be the average of total net proceeds minus any export subsidies paid to exporters. However, the Secretary was not required to offer export certificates.

In order to receive 100% of the allowed certificates, producers were to be required to plant 90% of their acreage allotment. Certificates could be denied to producers of wheat varieties having undesirable milling or baking qualities. Although nominally producers defaulting on their contract with the Secretary were to be denied certificates, the Secretary was allowed to issue certificates in relation to the seriousness of the default.

The loan program continued pretty much as before with the Secretary determining the level based on world prices, the feed value of wheat relative to feed grains and the level of price supports for feed grains. The loan level was not to be above the parity price and for 1966 was not to be less than $1.25 per bushel. The release price for CCC owned wheat continued at 105% of the loan level.

Other sections of the Act provided President Johnson with his cropland adjustment program and his national advisory commission on agricultural policy. The cropland adjustment program was authorized for the years 1965 through 1969 and provided contractural agreements with farmers to withdraw cropland from production for periods of time ranging between five and ten years. Bid procedures were to be used if possible to set adjustment payments and an annual limit of $225 million was set on payments to producers.

The administration desire to shift more of the burden of program costs to consumers and away from taxpayers had, however, failed. Although the value of domestic certificates was raised, the additional cost was borne by the government--not the processors. Perhaps the most significant aspect of the 1965 act was that it provided a four year act with which the administration and involved parties could live. Although President Johnson had originally requested a two-year act, Congress expanded it to four years. Congress needed a breathing spell--four major agricultural acts had been debated, fought and finally passed in five years. With the new bill the almost annual clashes over farm policy would, barring unforeseen circumstances, be muted--at least for the next several years.

ENDING THE SIXTIES: A ONE YEAR EXTENSION

Agricultural policy did take a backseat in Congress for the rest of the sixties and relative peace reigned. Congress did, however, cut the Department of Agriculture's budget for fiscal year 1967 thereby refusing to reimburse the Commodity Credit Corporation for losses from support operations in previous year. Although the money was eventually allocated, the action was one more sign of Congress's disapproval of agricultural policy as it had been practiced.[15]

Congress started to consider new farm legislation during 1968 as the 1965 act was due to expire at the end of the 1969 crop year. All farm organizations except the Farm Bureau wanted the current act extended. President Johnson recommended permanent extension; the Senate wanted a four year extension while the House wanted to extend the act for only one year.

Still some modifications were suggested. Secretary Freeman wanted higher processor fees in order to reduce program costs. This was denied.

The House tried to write in a provision limiting payments to individual farmers to $20,000. This provision was reluctantly dropped in the conference committee in return for Senate agreement to a one year extension of the program. The one year extension compromise was based on uncertainty--uncertainty over economic conditions, involvement in the Vietnam War, the U.S. balance of trade and, the presidential election to be conducted in November. Again, passage in the House was delayed until the Food Stamp Bill was passed. Work on a new farm bill was thus postponed for another year and another administration.[16]

THE NIXON PROPOSALS

Work began on a new farm bill soon after Richard Nixon took office in 1969. Sixteen months were to pass before agreement on the new bill was reached. Three basic approaches for wheat were advocated in 1969.

The Farm Coalition, composed of 24 farm organizations advocated a permanent extension of the 1965 bill. Export certificates (which had been discontinued by the Johnson administration after the 1965 crop year) would be issued for wheat and valued between 65% and 90% of parity. A consumer protection reserve would be established and market orders were authorized for any commodity upon majority approval of producers.

The Farm Bureau advocated a massive land retirement program directing the Secretary to retire ten million acres of cropland per year for five years. Direct payments and certificate payments by processors would be phased out during the same time period. Loan rates would be set at not more than 85% of a three year moving average of market prices and small farmers would be encouraged to participate in a special transition program helping them to move to non-farm employment.

The Administration suggested two alternative approaches. Both involved expressing allotments in terms of numbers of acres needed for domestic consumption. One approach provided producers with direct payments on their domestic allotment without requiring a set-aside. The other approach retained the conserving base--the number of acres usually in pasture and woodland. Producers would then be required to set-aside a certain percentage of their domestic allotment (while not planting their conserving base) in order to receive direct payments as well as to qualify for non-recourse loans.

In addition, the administration proposed lowering the loan rates to around $1.05 per bushel and an easement plan whereby the government would obtain easements from farmers concerning crop production (thereby retiring the land from farming) but still allowing the farmers to use the land for other purposes. The administration also supported a re-training program for low-income farmers.

As work began again in 1970, the administration worked closely with the House Agriculture Committee to develop a suitable bill. The resulting House bill included a domestic allotment plan with set-aside provisions. Domestic certificates would be continued and processors would pay 75¢ per bushel for certificates. The certificate value to farmers was to be the difference between the parity price for wheat and the average price received during the first five months of the marketing year. Loans were to be set at between 0% to 100% of parity. Direct payments were to be limited to $55,000 per producer per crop.

The Senate bill modified the existing program for 1971, then offered growers the option of approving through referendum majority a domestic certificate plan for 1972 and 1973. Under both plans, processors would continue to buy certificates at 75¢ per bushel and loan levels would be set between $1.25 and 100% of parity. The plan for 1971 included a national acreage allotment, domestic certificates valued at the difference between the loan rate and the parity price for wheat and advance payment of a portion of the domestic certificate after sign-up and cropland diversion for eligibility.

The alternative plan for 1972 and 1973 incorporated a domestic allotment plan with set-aside provisions. Domestic certificates were to be valued at the difference between parity prices and prices received during the first five months of the marketing year. Advance partial certificate payments were authorized and the planting of 90% of the allotment was necessary in order not to lose it. The bill also included a payment limitation of $55,000 per crop.

The most heated debate of the bill concerned payment limitations. Attempts were made in both Houses to lower payment limitations to $20,000 per producer. The administration had originally proposed a $100,000 limitation but agreed to compromise on $55,000. Urban legislators were mostly in favor of lowering limits. Farm legislators argued that it was necessary to keep the limits high in order to encourage participation in a voluntary program.[17] When the bill was finally passed on November 30, 1970, after a 16 month gestation period it was "a bill nobody wanted, nobody claimed parentage of and nobody was proud of."[18]

THE AGRICULTURAL ACT OF 1970

The Agricultural Act of 1970 covered crop years 1971 through 1973. The act provided for a domestic allotment which was to equal the number of acres estimated by the Secretary to be used for food products for consumption but could not be less than 19.7 million acres or the equivalent of 535 million bushels.

Domestic marketing certificates were to be issued to producers based on projected yield of the domestic allotment. These certificates were to be valued at the difference between 100% of parity and the average market price of wheat for the first five months of the marketing year. Farmers were to be paid 75% of the certificate payment as soon as possible after July 1 of the new marketing year based on the Secretary's estimate of the certificate value. Additional payments were to be made as warranted after the final determination. If the final determination showed total payments should be less than the original payment, the excess did not have to be repaid by farmers. Processors were required to buy certificates from the Commodity Credit Corporation at a face value of 75¢ per bushel. Non-recourse loans were to be offered at levels not greater than the parity price nor less than $1.25 per bushel.

Set-asides were to be provided if the Secretary determined that the total supply for the coming year would be excessive considering the need for an adequate carryover to provide "reasonable and stable" supplies and prices and to meet a national emergency. When set-asides were declared, producers were required to set-aside and devote to conserving uses an acreage of cropland equal to a percentage of his domestic wheat allotment. The Secretary was also authorized to limit wheat acreage on farms to a percentage of the domestic allotment. The set-aside was not to exceed 13.3 million acres in 1971 and 15 million acres for crop years 1972 and 1973.

Set-aside acres were to be protected from erosion, wind, weeds and rodents. Producers were to be allowed to plant and graze sweet sorghum on set-aside acres and to grow specified oil seed and fiber plants as allowed by the Secretary. If producers provided public access to set-aside acres for hunting, recreation, etc., the Secretary was authorized to make additional payments. In addition to the required set-aside, the Secretary could make payments to producers for diverting additional acres from production. Rates were to be set according to the amount of diversion and the productivity of the land. The amount of diverted acres in a geographical area was to be limited so as to not affect the local economy.

Adjustments in allotments were authorized and a reserve of not more than one percent of the national allotment was to be used to provide allotments for farms having no allotment history. These allotments were to be provided based on specified measures of probable success. Planting wheat without an allotment was to neither provide or preclude an allotment in the future. To retain his allotment, a producer had to plant at least 90% of the domestic allotment; otherwise the allotment was adjusted downward unless the producer did not collect certificate payments. As before, acres not planted because of a natural disaster were considered planted for allotment history purposes. If a set-aside was in effect for either soybeans or feed grains, then acres planted to these crops could be considered as planted to wheat for allotment purposes.

Export market certificates were officially suspended through June 30, 1974 although they had become effectively defunct after 1965 through the Secretary's discretionary power to set certificate levels. The release level for Commodity Credit Corporation wheat stocks was raised from 105% of the loan rate to 115% as the Farm Bureau had been advocating for years.[19]

OFF THE FRONT BURNER, 1971

With the passage of the three-year bill, agricultural policy again receded into the background. Little happened in Congress in 1971 concerning agriculture. Hearings were held on a Farm Bargaining Act which would have legitimized and regulated bargaining between farmers and processors. The International Wheat Agreement was ratified but it had no price provisions because of disagreement among signatory countries.

A record crop of wheat was harvested in 1971 and market prices hovered slightly above the loan level of $1.25 throughout the year. In June, President Nixon ended the licensing of grain exports to Russia and China and terminated the 50-50 shipping provision whereby half of U.S. grain exports to Russia had to be shipped on the U.S. merchant fleet--but this had little effect on wheat. The Russians were in the market for feed grains during 1971 and purchased 3 million tons. Wage and price controls were declared on August 15, 1971 but agricultural commodities were exempted.[20]

THE RUSSIAN GRAIN DEAL

The relatively peaceful policy climate was shattered in mid-1972 by massive Russian purchases of U.S. grain. Although the Soviets had been able to buy U.S. grain since 1963, never before had purchases been so large. The traditional Soviet response to poor harvests had been belt tightening and despite USDA awareness of the Soviets poor 1972 crop, officials expected the Soviets to reduce consumption and cut back livestock numbers in order to cope.

Coming into the 1972 crop year, wheat stocks at almost one billion bushels were tied with 1970 for the highest level since 1963. Twenty million acres had been set-aside at a cost of 859 million dollars yet production was at its third highest level in history. Trade talks were conducted in Moscow in April and May of 1972 in hopes of signing a grain trade agreement. The agreement was consumated on July 8, 1972. In return for American credit through the Export Credit Sales Program, the Russians agreed to buy a minimum of $750 million worth of American grain over the next three years.

Before the ink was dry on the agreement, the monosoponic Russian trading state trading agency negotiated with private exporters to purchase 440 million bushels of U.S. wheat. Apparently, USDA officials did not know about the large purchases although some critics doubted this. Before the crop year was over, the Russians who had been out of the American grain market had bought one-third of all U.S. wheat exported that year.

The sales and accompanying price increases caused quite a stir throughout the country. The USDA was in the unenviable position of having everyone angry with them. Farmers who had sold at harvest time were angry because they missed out on subsequent price rises. Consumers attributed rising food costs to the sale. Taxpayers were angry over export subsidies paid to the grain companies as well as the credit provisions and low prices paid by the Russians. Allegations of government misconduct prompted Congressional hearings.[21]

EXPORT SUBSIDIES

Although export subsidies had been paid before World War II, post-war subsidies started in order to meet export obligations under the International Wheat Agreement of 1949. The program worked through payments to exporters allowing them to buy wheat in the United States priced higher than the price for which it could be sold in the world market. As surpluses mounted during the 1950's under the impetus of high price supports, subsidies were continued in order to make U.S. wheat competitive in world markets. Between 1951 and 1963, export subsidies averaged in the 40¢ to 60¢ range. When loan rates were reduced for the 1964 crop, subsidies continued in order to reduce the surplus legacy. However, rates were lower, averaging 9¢ per bushel from 1964 to 1971.[22]

Over time, program provisions had been relaxed or streamlined. Designed to make operating procedures under usual marketing conditions easier and more flexible, beginning in 1967, export companies were allowed to register for subsidies at any time whether shipments had been made or not. Reporting requirements were also relaxed and by 1971, the USDA did not collect data from the grain export trade on sales; the data was collected only when the sales were registered for subsidies.

The USDA set its "established world price" (the export target price) at approximately $1.65 per bushel in October, 1971. This "established" price was used to determine the amount of subsidy; the difference between the "established world price" and the cost of buying wheat in the United States (assumed higher than "real world prices") was reimbursed to export companies. Poor crops worldwide and commitments by other exporting countries caused a worldwide short supply--the rising U.S. domestic price was now the "real" world price but the USDA "established" world price was not raised to reflect the new reality. Export companies were assured during the summer of 1972, that the established price would be maintained and export subsidies would be continued for the difference. Thus, when the government decided on August 24, 1972 to eliminate the export subsidy effective August 25, they first notified the grain traders giving them half a day to consumate sales. Exporters were given a week to register for export subsidies at approximately 47¢ per bushel. During this one week, 282 million bushels were registered at a subsidy value of $128 million. The budget estimate of $67 million in export subsidies for FY1973 had grown to almost $300 million.[23]

The export subsidy program was discontinued in September, 1972 although program authority remained. Except to highlight deficiencies in reporting requirements on export sales, little really came out of the congressional hearings. A House Bill to compensate farmers who had sold their grain at harvest died a natural death at the end of the session.[24]

A later General Accounting Office report faulted the USDA for not using supply and demand information effectively and for letting program provisions become lax enough that effectively the export companies were policing themselves. Although the GaO estimated that half of the $300 million in subsidies during FY 1973 were needed by exporters to cover their sales to the Russians, the subsidy registration system "provided the opportunity for unusual profit margins in other sales subsidized during FY1972 and FY 1973."[25]

The Russians, acting like capitalists (while the Americans socialized price stability in an ironic twist), appeared the major winners. Although farmers who still owned their wheat enjoyed watching prices rise from $1.32 in July to $2.38 per bushel in December, 1972, the Russian Grain Deal signified the end of an era. Wheat policy had come under intense public scrutiny and been found lacking. Gone (momentarily) were the price depressing surpluses, set-asides were suspended for the 1973 crop on January 11, 1973 and would be suspended in July for the 1974 crop. Twenty-five years of relative price stability was rapidly disappearing yet program modifications would bring programs less able to cope with this instability. Within five years, farmers would discover that price instability on the up side was much more enjoyable than on the down side. In the long run, it might prove to be more damaging.

THE WHEAT SITUATION, 1961-1972

Program changes in conjunction with aggressive export policies gradually reduced the wheat inventories until by the end of the 1966 crop year, stocks were less than half of the 1960 high. The Commodity Credit Corporation's share of the inventory which reached 90% on June 30, 1963, had by June 30, 1966 been reduced to about 50%. Some people worried that the 513 million bushel carryover into the 1966 crop year was insufficient.

Encouraging Exports.

Every year from 1960 to 1967, exports were greater than domestic consumption, despite gradually increasing feed use of wheat. Five major approaches were used to encourage exports. The only new approach was the removal of trade sanctions against the Soviets. Political considerations had forestalled most trade with the Soviet Bloc while other grain exporters (most notably Canada) ignored ideology and developed a considerable wheat trade. Eisenhower's move toward trade with the Soviets had been blocked by Congress but after Kennedy's "victory" in the Cuban Missile Crisis, and his signing of the test ban treaty, normal trade became politically feasible. Although the Russians bought 62 million bushels of wheat in 1963, their purchasing from the United States would be sporadic the rest of the decade. According to Peterson, the Kennedy decision to trade with the Soviets, signalled "the removal of most foreign policy and domestic political constraints over sales of agricultural surpluses."[26]

Government sponsored concessionary programs were far more important, though, in moving wheat. In crop years 1962 and 1964 over 3/4 of all U.S. wheat exported moved under the P.L. 480 and similar concessionary programs. Until 1965, exports through P.L. 480 averaged 60% of total exports and through the 1971 crop year P.L. 480 was responsible for more than a third of U.S. exports.

Even commercial exports not directly through government auspices were subsidized. Export subsidies from 1964 through 1971 averaged 9¢ per bushel and over one billion dollars were spent subsidizing commercial wheat exports from 1961 through 1972.[27] After 1966, commercial sales became eligible for the Export Credit Sales Program--originally developed in 1957 to finance purchases through P.L. 480. The program authorized short term 6 to 36 month financing at commercial interest rates generally higher than the CCC cost of borrowing from the Treasury. The program was relatively small until the early seventies when the Russian Wheat Deal put lending over one billion dollars. The GAO noted in a 1979 program audit that the program was self-supporting with a good repayment record, although there were other problems with the program.[28]

Other subsidies were paid to meet obligations within price ranges set by the International Wheat Agreements. These subsidies of $333 million from 1961 to 1965 were discontinued with the 1966 crop as world prices climbed to within the price ranges. The 1971 International Wheat Agreement did not include price ranges.

The fifth major attempt to encourage exports was through tariff reductions through the General Agreement of Tariffs and Trade. Kennedy round negotiations were conducted during 1963 to 1967. Tariff reductions and subsequent access to foreign markets for agriculture were important to the U.S. as some countries continued to believe that their domestic agricultural prices should be enhanced. U.S. wheat exports to the European Economic Community declined 65% from 1962 to 1963 as their variable wheat levies went into effect. Achievements with the GATT were small. A new International Grain Agreement was signed which contained food aid provisions (met by the U.S. through P.L. 480) and a trade convention for wheat which failed.[29]

The reduced support price for 1964 and thereafter contributed to inventory reductions in several ways. As the support price was reduced to $1.30 in 1964 and then to $1.25 in 1965, the legislatively mandated minimum release price for CCC stocks of 105% of the support price (plus carrying charges) was also reduced from around $2.00 to approximately $1.35, allowing grain to come on the market at a cheaper price. In addition, the CCC acquired less wheat as farmers used excess wheat as a feed grain rather than forfeiting it to the CCC. Between 1954 and 1961 feed utilization of wheat averaged 47 million bushels; between 1964 and 1971 average feed utilization was almost three times as large: 142 million bushels.

Acreage reductions of some type were in effect every year except 1967 and 1968. Production stayed above the billion bushel mark (as it was supposed to) and during 1967 and 1968 production records were set to again be overshadowed by the 1971 crop. Production was more than 1.5 billion bushels for 1967, 1968, 1971, and 1972, despite the 13 million acres of set-aside for 1971 and the 20 million acres set-aside in 1972. Much of the increase in production was due to increased yields. Yields went over the 30 bushel to the acre mark in 1969 and hit 33.9 bushels to the acre in 1971--a record yield until 1979.

The farm value of production declined during the first part of the decade to the lowest level since 1944 on the basis of essentially unsupported market prices. However, direct payments compensated cooperators somewhat keeping gross returns from wheat production above the two billion dollar mark. Reduction of the surpluses strengthened market prices until by 1966, the season average farm price was 38¢ above the loan level, the second widest margin in program history. Gross returns to producers in both 1966 and 1967 were above $2.8 billion and adjustment payments of around $800 million kept gross returns above the $2.6 billion mark for the rest of the decade.[30] The return of surpluses in the latter part of this period kept the season average price close to the loan level until 1972 and the Russian Grain deal. This period was characterized by relative price stability.

Programs and Participation.

One of the criticisms of the new programs was that they were complicated--some said too complicated for farmers to understand. The programs were complicated but farmers somehow managed to comprehend and then comply with the programs. Participation was high--at least as a percentage of acres if not at first as a percentage of farms. By 1970, participation as a percentage of acreage allotments was 88% and the new program after the 1970 Agriculture Act brought participation by over 3/4 of the eligible farms and over 90% of eligible acres. Whether this participation was truly voluntary or whether it was compulsory through "economic coercion" was much debated. Table 7.1 presents participation in programs during the period while Table 7.2 describes program details for the various years.

Table 7.1. Participation in Wheat Programs Crop Years 1962-1973.

Crop Year	Number of Farms (Thousands) Eligible	Participating	%	Acreage Allotments (Millions of Acres) Eligible	Participating	%
1962	1804	777	43	55.0	41.2	75
1963	1728	410[1)]	24[1)]	55.0	25.0[1)]	45[1)]
1964	1729	585	34	53.3	40.8	77
1965	1715	820	48	53.3	44.8	84
1966	1703	809	48	51.5	42.1	82
1967	1692	769	45	68.2	56.9	83
1968	1692	803	47	59.3	50.1	84
1969	1692	953	56	51.6	45.2	86
1970	1651	923	56	45.5	39.9	88
1971	1306	1012	77	19.7[2)]	18.1	92
1972	1295	976	75	19.7[2)]	18.3	93
1973	1300	1053	81	19.7[2)]	17.8	90

SOURCES: Agricultural Stabilization and Conservation Service. 1973 Set-Aside Program Annual Report. (Washington: USDA) April, 1974. pp. 184-185

Agricultural Stabilization and Conservation Service. ASCS Commodity Fast Sheet: Wheat Summary of 1981 Support Program and Related Information. (Washington: USDA) May, 1981. p. 4.

1) Farms complying with voluntary diversion. Other farms maintained acreage allotments.

2) Change in program base: national domestic allotment.

Table 7.2. Selected Program Provisions. 1961-1973

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
1) Acreage Diversion for Price Support													
A) Minimum													
1) From wheat acreage	None	10% of allotment or 10% of high 1959, '60 or '61 wheat acres	Larger of 20% of allotment or 1959-61 average wheat acres	Comply with allotment	Same as 1964	Same as 1964	None	None	Same as 1964	Same as 1964	Comply with domestic allotment	Same as 1971	Same as 1971
2) For conserving uses	None	11.11% of allotment or 10% of high 1959, '60 or '61 wheat acres	Same as above	11.11% of allotment	11.11% of allotment	15% of allotment	None	None	15% of allotment	30.3% of allotment	75% of domestic allotment	83% of domestic allotment	86% of domestic allotment
B) Additional Voluntary for payment	None	Up to 33.33% of allotment or enough with minimum to total 10 acres	Up to 30% of allotment or enough with minimum to total 10 acres	Up to 20% of allotment or enough with minimum to total 15 acres	Same as 1964	Up to 50% of allotment or enough with minimum to total 25 acres	None	None	Same as 1966	Same as 1966	None	Up to 75% of domestic allotment	Up to 150% of domestic allotment
2) Payment for diversion: 1961-1970: county loan rate x acres x % of normal production:													
Minimum Diversion	--	45% of N.P.	50% of N.P.	20% of N.P.	No payment	No	--	--	No payment	No payment	No payment	No payment	No payment
Voluntary Diversion	--	60% of N.P.	50% of N.P.	20% of N.P.	50% of N.P.	40% of N.P.	--	--	50% of N.P.	50% of N.P.	--	94¢ per bushel x established yield x acres	88¢ per bushel x established yield x acres
3) Cross-Compliance Necessary for Price Support?	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4) Constitution with Feed Grain Allotments	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5) Excess Wheat	Penalty (unless stored in bond) and loss of loan	Penalty and loss of loan	Penalty, loss of loan and loss of payment	No penalty but loss of loan and certificates	Producer may overplant allotment up to 50%, store wheat secured by bond on warehouse receipt and be eligible for certificate and loan; loss of loan and certificates otherwise	Same as 1965	Same as 1965	Same as 1965	Same as 1965	Same as 1964	Same as 1965	Same as 1965	Same as 1965

N.P.: Normal Production

Source: ASCS, Commodity Fact Sheet, 1973 Wheat (Washington: USDA/ASCS, January 1973) and earlier years.

Program Expenditures.

When Secretary of Agriculture Orville Freeman signed on with the Kennedy administration, his announced goals were to reduce program costs and commodity stocks. During his eight years in office, he only managed to reduce stocks. Program costs remained high under the Freeman reign. In constant dollars, Freeman's and Benson's program costs were approximately equal; direct payments under Freeman's administration tended to match storage costs under Benson. However, government outlays were somewhat less as processor's fees offset a portion of the direct payments. Table 7.3 summarizes program costs between 1961 and 1972.

CCC Operations.

As policy changes occurred during this period the importance of the Commodity Credit Corporation in wheat marketing declined. The record high CCC inventory of 1195 million bushels (90% of total wheat inventories) on June 30, 1960 was reduced to 102 million bushels on June 30, 1968 (16% of total wheat inventories). As long as market prices were consistently above the loan rate, farmers had little incentive to forfeit wheat under loan to the CCC. While the CCC acquired 22% of total production during the 1962 crop year, only one percent of total production was acquired by the CCC during 1964 and 1965. The 12% of total production acquired by the CCC during 1968 would be the last year of double digit acquisitions and were much lower most years after 1964. Farmers did continue to use loans for short term financing but at a reduced rate. This use of loans had been one of the original justifications for the loan program as initiated under the AAA of 1938.

Commercial storage interests opposed the drawdown in stocks. Rapid depreciation and high CCC storage rates had encouraged expansion of storage facilities and allowed a very quick payback period on investments. In addition, the CCC owned a substantial amount of storage itself. A cluster of CCC owned grain bins was a familiar sight in farm towns in the wheat belt during the early sixties. Congress authorized the sale of CCC grain bins in legislation passed during 1966 and many farmers bought these surplus bins at auction.[31] Commercial storage firms "presumably managed to shift to other income sources without major hardship although they did so reluctantly."[32]

Table 7.3 Federal Government Expenditures on Wheat-Related Programs, Crop Years 1961-1972. Million Dollars.

	Crop Year												
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	Total
Loss on Stock Transactions	(295.6)	90.3	(540.6)	)102.6)	(474.1)	(366.9)	221.5	448.2	282.2	(161.2)	304.6	(685.7)	(1253.9)
Direct Payments*	-	285.2	242.3	442.3	979.6	679.0	726.4	746.5	857.6	870.9	878.1	855.5	7562.4
CCC Interest	106.1	125.4	166.2	120.1	52.9	34.2	27.2	60.0	103.9	93.6	65.6	43.6	998.8
Commodity Export Program	56.8	26.3	96.6	11.1	159.8	107.0	40.8	(0.1)	55.9	127.8	64.7	295.1	1041.8
International Wheat Agreement	90.0	73.8	124.9	34.1	10.2	-	-	-	-	-	-		333.0
P.L. 480	1218.6	1372.2	1276.3	1258.4	1306.2	723.7	776.1	528.6	537.3	500.4	509.6	429.5	10,437.5
Foreign Aid (Mutual Security Acts)	4.7	3.1	1.5	0.3	0.3	3.5	1.2	2.4	-	1.7	1.3	6.6	26.6
Total	1180.5	1976.3	1367.3	1762.5	2034.9	1180.4	1793.2	1776.5	1837.3	1443.0	1823.9	944.6	19,120.3
Less Credits Non-Farm Benefits	(667.6)	(745.3)	(701.0)	(685.2)	(706.8)	(390.4)	(401.7)	(279.3)	(284.0)	(269.3)	(272.4)	(237.6)	(5640.6)
Total Program Cost	512.9	1230.9	666.3	1077.3	1328.0	790.0	1391.5	1497.3	1553.3	1163.7	1551.6	707.1	13,469.9

*Does not include a credit for processor fees

Source: Cochrane and Ryan, pp. 332-355.

After 1968, CCC stocks increased but not to previous high levels. Their inventory showed approximately 370 million bushels on June 30, 1971 and 1972 but with the increasing total carryover the CCC inventory share of 45% in 1971 declined to 37% in 1972. With the Russian Wheat deal, CCC stocks began to decline and would in a short time become non-existent.

COMMENTS. 1960-1972

The failure of wheat programs during the fifties brought policy changes during the sixties which worked toward "releasing the market". The wheat program changed from a mostly inflexible program of price-enhancing loans and restrictions on government production control to a more discretionary program of loans primarily for short-term financing with flexible production controls and direct payments to increase farm income. As with any policy change, there were winners and losers.

Commercial storage interests lost revenue as aggressive exports by the administration reduced the stockpiles but shippers gained. Domestic wheat processors lost as they were forced to pay more for wheat. The necessary certificates increased their costs by 75¢ per bushel--but a strong lobbying effort kept them from paying the full difference between the loan rate and the parity price so the treasury made up the difference.

Consumers in general lost as they were forced to pay more for wheat products. Processors passed costs on to consumers but taxpayers benefited as the tax burden for a given amount of income support was reduced by receipts from processors. Although increased prices hit low income consumers harder as they were apt to eat more bread and use a larger share of their income for food purchases, food stamp programs helped offset this burden.

Wheat farmers were in an ambivalent position. They gained more "freedom to farm" through allotment modifications and the voluntary nature of the program yet the voluntary programs were viewed by many as being compulsory through "economic coercion." Government costs were brought into the open as was the farmer's dependence on government programs in maintaining farm income. Farmers also found the statutory protection from discetion by the Secretary of Agriculture had been reduced--and many farmers in the lower wheat belt--traditionally conservative and Republican didn't trust Orville Freeman--a liberal Democrat.

Yet continuation of existing programs was becoming politically impossible in the face of the mounting surpluses. However distasteful the programs were to farmers, gross income was still higher than it would have been without the program and in fact was quite a bit higher in constant dollars during Freeman's eight years than Benson's eight years. To those farmers and farm organizations concerned with "freedom to farm", the defeat of the 1964 wheat referendum forestalled any future attempts at compulsory wheat programs.

Congress was one of the big beneficiaries. With the passage of the 1965 act, the almost annual farm battles ended. The previous five years had seen four major farm bills debated and grudgingly passed. For the next five years the need to utilize political capital over farm matters was dramatically reduced. Budget matters were simplified with the new program. Added costs to consumers are not line items in the budget. Income payments based on normal production (rather than actual production) allowed better estimates of expenditures.

Finally, not only were the economic costs of the huge surpluses reduced but so were the political costs. Congress, in its fight with Secretary of Agriculture Benson during the fifties, was made to shoulder the blame for the surpluses. This highly visible symbol of policy failure was reduced to a manageable size. By granting the Agriculture Department wider discretion, blame for surpluses at the end of the period could be passed from Congress to the administration. And blame for shortages after the Russian Wheat deal was placed directly on the Agriculture Department--not only by Congress but by the General Accounting Office (and the general public).

Yet program responsibility must be placed somewhere and with responsibility came administrative discretion. The ability of the

Secretary of Agriculture to manage programs was greatly enhanced, although the voluntary nature of the program as well as some statutory minimums kept "absolute power" in check, but only after producers rejected the administration's program in the 1963 wheat referendum.

Along with the increase in "freedom to farm" came greater allocational efficiency both in production as substitution provisions between wheat and feed-grain allotments were legislated and in budgetary policy as program expenditures became more visible.[33]

Ironies existed in the programs during the period. The post-wheat referendum programs signalled to a great extent a return to the AAA of 1938 as originally formulated. Non-recourse loans were to be used to allow farmers to hold their wheat in hopes of higher prices during the marketing year and direct payments (in 1938, parity and conservation payments) were to be used to adjust income.

Differences were seen in the two programs, however. In the 1965 act, the Secretary was given discretion as to when to impose acreage restrictions; in 1938 a formula was used as to when marketing quotas were to be imposed. Secondly, the new program was voluntary while the old program allowed producer approved marketing quotas.

A second irony concerned export marketing certificates. When used during 1964 and 1965, the state of the export market was that the U.S. needed to subsidize exports. Export fees were equivalent to robbing Peter to pay Paul, while simultaneously paying Peter. Because of this, the use of export certificates was discontinued after the 1965 crop year. Yet if export marketing certificates had been in use during the 1972 marketing year, returns to farmers who had sold their wheat before the sales became public would have been somewhat compensated.

Cochrane cites three lessons from the policy struggles of the early 1960's:

1) There are fewer resource adjustment problems if farm income is supported by direct payments rather than through high non-recourse loans.

2) Price supports at high levels are not consistent with commodities which must be sold on world markets.

3) Voluntary programs combined with income payments can be effective in controlling production.[34]

But perhaps the most important change was the change in perception (which some still are resisting today). The programs of the late sixties did not really reduce program costs much. But they did eliminate from practical politics the idea that "one branch of the government could set the level of price and income support at whatever level seemed desirable by some equity consideration and that another branch of the government would pick up and stow away any loose ends that the former action created."[35]

The program changes signalled what some observers called the beginning of the end of the "privileged position" enjoyed by farmers in national policy. There is no doubt that the later Russian Wheat Deal brought responses from many non-farm groups who had never before been so stridently vocal concerning farm policy.

Just as policy failure in the fifties signalled policy changes in the sixties, policy failure to maintain stable prices for consumers in 1972 signalled policy changes in administrative conduct and subsequent farm bills. The ideology espoused by Republican administrations in the fifties and the early seventies was the same: "Get the government out of agriculture." Economic conditions would prevent Ezra Taft Benson from achieving this goal. Changed economic conditions would allow Earl Butz this honor--but only for a short time.

CHAPTER 8. RATIONALIZING THE MARKET.

INTRODUCTION

As far back as the AAA of 1933, lip service was paid to consumer protection against "excessive" price increases. The 1965 agricultural act talked of stabilizing prices and assuring adequate supplies of agricultural commodities. The 1970 act reaffirmed this commitment. Yet the last months of 1972 and the beginning of 1973 showed substantial increases in farm prices from the previous year and greatly reduced inventories. The causes were several: world-wide poor crop production, heavy sales from inventory at the end of the 1972 crop year, the dollar devaluation in February, 1973, and speculative fever.[1]

The rapid advances in farm prices were matched by food price inflation as the food portion of the Consumer Price Index increased 14% between 1972 and 1973. There would be another 14% increase in the CPI by 1974. Heavy export demand for agricultural commodities and the subsequent price increases caused per capita personal income of the farm population to be higher than that of the non-farm population--for the first and only time in modern history.

At the start of the 1973 crop year, wheat stocks were below 600 million bushels, the lowest since 1967 and moving lower. The price of wheat jumped two dollars between July 15 and August 15; the jump was higher than the actual level before November, 1972.[2] Farmers were ecstatic--as was the Secretary of Agriculture who had long wanted the government out of agriculture. Consumers were not quite so enthusiastic. All in all, it was an extraordinary year in which to be writing a farm bill.

THE NEW BILL, 1973

Again, as in 1970, the Administration did not draft a bill but advised both Houses as to its wishes. It proposed phasing out direct payments over three years but retaining price support loan provisions and the authority to make payments for land retirement if oversupplies recurred. All the major farm organizations advised extending the current program with certain modifications. Both the NFO and the Farmers' Union advocated raising loan levels and organizing a strategic reserve. The Farm Bureau recommended extension but wanted to change the allotment basis to one based on a producer's total cropland rather than historical allotments.

The Senate bill proposed a five-year extension of the program and the use of a "target price" concept for direct payments. The target price was a guaranteed return to producers on the normal yield of their farm allotment. Set at 70% of parity in the Senate bill ($2.28), the government would pay the difference between the target price and the average market price for the first five months of the marketing year. It was estimated that each cent of the market price below the target price would cost the federal budget $16 million. Disaster provisions enabled farmers to receive one-third of the target price for preventing planting. An escalator clause raised the target price as production costs rose.

Domestic certificates and processor tax would be eliminated. The on-going inflation in food prices suggested that the time was ripe to drop the tax. It was estimated that the tax added 2¢ to the cost of a loaf of bread. The loan level of $1.25 for wheat was retained in the Senate bill and acreage allotments would again be calculated on a national marketing quota basis. Payment limitations of $55,000 per producer per crop were not changed in the committee but was changed to a total for all crops of $20,000 on the floor.

The House bill was modeled after the Senate bill. The main differences were in the levels of support: $1.49 loan levels and a $2.05 target price. The administration favored target prices at $1.84 for wheat. The House bill's escalator clause allowed the target price to increase with production costs but deflated it by any productivity (yield) gains. The House also adopted a $20,000 payment limitation. For the first time, food stamp provisions were included in the farm bill rather than in a separate bill. Major debates in the House were over target price levels and whether strikers should be eligible for food stamps. (The House decided they should not be eligible).[3]

THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973

The bill was signed into law on August 10, 1973. It covered crop year 1974 through crop year 1977. Domestic certificates and domestic allotments were eliminated as was the processor tax. Allotments were to again be based on the number of acres needed to produce wheat for domestic use and exports with adjustments by the Secretary to increase or decrease carryover stocks. Other allotment provisions were retained: reduction of allotments for planting below 90% of the allotment, loss of allotment if no wheat was planted for three consecutive years (although refusal of direct payments allowed allotment retention), and the consideration that prevented planting due to natural disaster was planted for allotment purposes. Producers were allowed to substitute soybeans or feed grains for wheat for allotment purposes.

Direct payments were to be through target prices set at $2.05 for the 1974 and 1975 crop years and adjusted by a yield deflated parity index for 1976 and again for 1977. The payment was to be based on the allotment multiplied by the projected yield. Two other direct payments were possible if disaster struck. A prevented planting payment was to be based on the normal yield of the affected acres and was to be the larger of the normal rate or 1/3 of the target price. A disaster payment (new with this bill) was to be paid if the total farm production was less than 2/3 of the projected yield multiplied by the farm acreage allotment. Payment was to be based on the yield deficiency below 100% of the projected yield at the larger of the regular rate or 1/3 of the target price. Loans were to be set between $1.37 and 100% of parity as determined by the Secretary of Agriculture. Set-aside authority was continued as before except with this law, set aside could be from cropland previously in soil-conserving uses as determined by the Secretary.

Other statutory adjustments were made to reflect the changed supply and demand situation. Excess wheat, produced on acres over a farmer's allotment and stored in order to receive program benefits, could now be released at the Secretary's discretion if it would not affect market prices. The Secretary could require repayment of certificates but this was not necessary. Previously, the excess wheat could be released without penalty only in cases of reduced yield or planting. Payment limitations were lowered for the four years of the bill to $20,000 for one or more programs. As before, when limitations were imposed on an individual producer, the number of set-aside acres necessary for program compliance was to be reduced as compensation.

To address possible future shortfalls, Congress told the Secretary to establish an emergency reserve of not more than 75 million bushels of wheat, feed grain, and soybeans to alleviate "distress of natural disaster." This reserve was to be acquired only through price support programs and was to be disposed of only by a Presidential proclamation or act of Congress.

Finally, the Department of Agriculture was to prepare a cost of production study for all major crops and report these to Congress annually. The act specified what costs were to be included: all typical variable costs, a return on fixed cost equal to existing interest rates charged by the Federal Land Bank, and a return to management comparable to the normal management fee charged by comparable industries. The study was to be based on the size unit requiring one man to farm on a full time basis and the cost was to be condensed to a per unit National average weighted cost of production. Although the Department had published cost of production calculations in previous times, this practice was discontinued with the 1948 Agricultural Statistics.

Other provisions of the bill extended the food stamp program for another four years and P.L. 480 for two years. The president was directed to make commercial supplies of wheat available for P.L. 480. The House failed to win its battle to exclude workers on strike from the food stamp program.[4]

Perhaps the most notable aspect of the bill was the exclusion of the parity concept except as an upper limit on the loan level. This was the first time since 1938 that the parity concept was not included as at least a partial basis of support. At current market prices, the act would cost the government little money for wheat. In August, 1973, the month the bill was passed, the market price was twice the target price and three and one-half times the loan rate. High market prices would free the government from conducting price support activities for the next three years. It was not until 1977 that the increasing target price and decreasing farm price would meet.

EMBARGOES AND BILATERAL TRADE AGREEMENTS

With the loan floor and target price levels so far below the market price and in the absence of a set-aside, 1974 was to have been the closest semblance to a "free market" in 45 years, since 1929 when the Federal Farm Board originated peacetime government intervention into wheat markets. Beginning wheat stocks for the 1974 crop year were at their lowest level since 1952. The global food crisis had created impressive export demand. In response to high prices and government exhortions, farmers increased their planted acres by 20% over 1973 and at 71 million acres, wheat acreage was at its highest level since 1953. Prices had peaked at $5.29 per bushel in January, 1974, but by harvest time, had declined to $3.57. However, a post-harvest recovery in prices saw prices again at $4.85 per bushel in October, 1974.[5]

It was then that President Ford requested that grain companies not ship 105 million bushels of wheat and 120 million bushels of corn that the Soviet Union had ordered. The "voluntary controls" were the culmination of administration efforts throughout the summer and fall to rationalize export demand for grain. Faced with declining stocks, the administration had tried to determine purchasing intentions of importing countries. During the summer of 1974, although western governments indicated their intentions, the Soviet Union would not disclose their supply and demand situation. September projections of Soviet demand were conflicting so the administration had again appealed to the Soviets to discuss their buying intentions. The Soviet response was vague but indicated that some purchases were expected and that they would inform the U.S. as soon as their crop data was in. Five days later, on September 30, 1974, Continental Grain informed the Department of Agriculture that the Soviets were negotiating to buy grain within the week.

Partly as a result of the 1972 grain deal, the export reporting system had been modified early in September and sales of over 100,000 metric tons to a destination in a single day were to be reported to the Department of Agriculture. On September 19, the Administration decided prior approval by the government was needed for sales to the Soviet Union, China, and the Persian Gulf oil exporters. Notification of any sales over one million tons was requested on September 25.

Sales were consummated to the Soviet Union on October 3 and 4. The administration's economic policy board, consisting of representatives from the Departments of State, Treasury, and Agriculture, recommended to President Ford that the sales be stopped. The President concurred and on October 7, the grain companies were asked to not ship the grain.

This voluntary restriction set the stage for the first Soviet-United States grain agreement, signed on October 19 and covering only the 1974 crop year. Under the agreement, the Soviets were allowed to purchase one million tons of corn and 1.2 million tons of wheat. In February, 1975, approval was granted to substitute 200,000 tons of old crop wheat for the new crop corn. In addition, the Soviets agreed to exchange information concerning grain.[6]

This was not the first embargo of American grain--soybeans had also been embargoed between June and September of 1973. Nor was it to be the last. A second embargo of wheat sales to Russia was scheduled for August, 1975.

Wheat prices steadily declined after the first wheat embargo, from $4.87 in November, 1974 to $2.92 in June, 1975. Despite 4 million more acres of wheat and record production of more than 2 billion bushels, prices recovered after the new harvest on the basis of increased export demand. Carryover into the new crop year at 435 million bushels was larger than the previous year but still was the second smallest carryover since 1952.

Short crops in the Soviet Union again sent the Soviets into American grain markets in July, 1975 and wheat prices started to recover. By July 22, the Soviets had secretly accumulated close to 10 million metric tons of wheat and half again that amount in corn and barley. Two days later, the USDA, who had only earlier learned of pending sales through a trade magazine, asked grain companies to notify them before making further sales to the Soviets.

A furor exploded with public knowledge of the sales. Arthur Burns, chairman of the Federal Reserve Board in Congressional testimony, predicted soaring food prices, the International Longshoremen citing "the public interest" announced they would not load grain bound for Russia; the AFL-CIO supported the longshoremen. In reprisal, farm organizations threatened a boycott of union goods. Flour companies seized the opportunity to raise their wholesale price of flour.

On September 4, Secretary of Agriculture Butz announced that there would be no additional sales until the dispute with the maritime unions was resolved. After a September 9 meeting with George Meany, head of the AFL-CIO, President Ford announced a moratorium on sales to the Soviets until October, proposed a long-term grain agreement with the Soviets and that the unions had agreed to load grain already sold to Russia. On September 10, the State Department secretly asked Poland not to buy any more U.S. grain; news of the suspension of sales to Poland would not be made public until September 22.

Negotiations with the Russians continued throughout September. The talks were conducted by the State department--not the Agriculture department, and concerns of farmers were not paramount. Although the State Department was concerned by the periodic disruptions of grain markets by the Russians, other issues were important. State department negotiators were instructed to attempt to trade American grain for Russian oil; despite strong market demand for the Russian oil, American negotiators tried to negotiate a discounted price.[7] Some felt that the lengthy negotiations stemmed from Henry Kissinger's desire to keep the Russians occupied and off-balance while he was negotiating a peace agreement in the Middle East.[8]

A tentative agreement was reached by the end of September, was signed on October 20 and sales to the Soviets resumed on October 24. The grain agreement covered five years beginning October 1, 1976. It provided for a minimum of six million tons of wheat and corn to be purchased by the Soviets each year. Sales were to be at prevailing market prices and through traditional channels. An additional two million tons of grain could be purchased each year without consultation. Further government negotiations were necessary for further purchases. If the estimated U.S. grain supply was less than 225 million tons in a year, the U.S. could reduce the minimum purchase amount. In a separate agreement, the "public interest" so vehemently defended by the longshoremen turned out to be worth $16 per ton in terms of an enhanced shipping rate.

Sales to Poland resumed on October 10. In November, Poland signed a five year grain agreement involving 2.55 million tons of wheat and corn annually with a possible annual fluctuation in sales of 20%.[9]

Of the U.S. Soviet Grain Agreement, Morgan concluded, "It was the first step toward stabilizing the disruptive grain trade between the two countries; and it did achieve a positive result. But it was a limited result, with high political costs."[10] Farmers who had been promised free trade for high production (and who had delivered their part of the deal) were furious.

But the Department of Agriculture may have been the biggest loser. It was shut out of the Russian trade negotiations and was informed only at the last minute of the embargo on Poland. Matusow's writing of 1947 noted, "For years the State Department had been trying to undermine the basis of the Department of Agriculture's programs, rarely showing sympathy for the problems of the farmers, and making necessary compromises with ill-concealed regret."[11] The agreement was only one of several indications that the conduct of agricultural trade had moved beyond the Department of Agriculture.

THE EMERGENCY FARM BILL OF 1975

Farmers had been nervous before the embargo. The price of wheat had dropped from a monthly high of $4.87 in November, 1974 to $3.95 in February, 1975 and continued to drop. But it was not just falling commodity prices that concerned farmers. Their costs were quickly rising. An index of purchased farm inputs showed a 26% rise from February, 1974 to February, 1975.[12] In order to help alleviate the situation, hearings were begun in the House in February to raise 1975 target prices and loan rates for wheat, cotton, and corn, and to modify loan provisions. Under the bill, wheat target prices for 1975 were to be set at $3.10 and the loan rate at $2.50. Wheat loans for 1975 were to be extended from 12 months to 18 months and the interest rate on loans was to be set at the lowest current rate for Treasury notes.

Opposed by the administration and consumer lobbies, the bill nonetheless passed both Houses to be vetoed by the President in May. For wheat it made little immediate difference. While prices were lower than the previous year's prices, they were still above the new target price and loan levels. After the embargo, wheat prices fluctuated around the $3.50 per bushel mark. They would drop below $3 per bushel soon after the 1976 harvest.

Congress also investigated fraud and corruption in the grain trade during 1975. Two major grain companies were indicted on charges of misgrading and short-weighing export grain. Discussions were also held before the International Wheat Council concerning a world grain reserve. Little action was taken on U.S. proposals which included a 30 million ton reserve with each participating country deciding how to maintain the stocks. Release of stocks would be contingent on a physical shortage rather than price rises. Many farm organizations were critical of this international reserve although they had supported a U.S. strategic reserve in 1973.[13]

PRESIDENTIAL POLITICS

As the Presidential compaigns got underway in 1976, wheat prices fell dramatically. Prices fell below $3 per bushel soon after harvest and continued to drop. The 80 million acres which had been planted for the 1976 crop had produced the second two billion bushel crop in a row. Production was up world-wide and exports (U.S. and worldwide) were down. As per the formula under the 1973 act, the 1976 target price was increased 24¢ to $2.29. Trailing Jimmy Carter badly in the polls, President Ford used discretionary authority to raise the loan rate to $2.25 in October.

The only major Congressional action which concerned wheat during 1976 was the passage of the Grain Inspection Act. Strengthening the 1916 act, it established weighing penalties and increased criminal and civil penalties for violators. Federal inspection was mandated at all ports except where established state inspection agencies could meet federal standards.[14]

TOWARD A NEW BILL

The economic position of the agricultural sector had deteriorated greatly since its record income levels after the passage of the 1973 act. The new bill was to be debated during a time of depressed prices, tight credit, bumper crops, and large surpluses. By June, 1977, the price of wheat had fallen to $2.03 per bushel, the lowest level since February, 1973. However, an index of purchased farm inputs showed a 70% increase in costs since February, 1973, creating a classical cost-price squeeze.[15]

It was generally agreed that the 1973 act should be extended. Even the Farm Bureau was again willing to subdue its "free market" ideology as it had during 1973, and work for stronger farm supports.[16] Controversy centered on the levels of target prices and loan rates. President Carter during his campaign had pledged to support farm prices at "the cost of production." But he had also pledged to balance the budget and the current low market prices indicated that substantial income payments would be made to farmers at higher support levels.

Administration Proposals.

Calculating all wheat production costs except land and then adding 1.5% of the current land value, the administration proposed to raise target prices for 1978 to $2.60 per bushel and to leave loan rates at $2.25 per bushel.[17] Farmers were outraged at this cost estimate--at not only the level but the procedure used to arrive there. Under pressure, the administration agreed to raise the proposed target price level to $2.90. Later USDA estimates of 1978 wheat production costs showed nationwide average costs for all wheat ranging from $3.29 to $4.05 per bushel depending on the land cost calculation. Renter costs were estimated at $3.69 per bushel.[18]

The administration favored changing the index used for target prices. Instead of using the parity index it proposed an index for 1979-1981 based on variable costs, machinery ownership costs and overhead costs--but not for land costs or a charge for management. By excluding land costs the administration hoped to avoid encouraging the ongoing inflation in land values.

The administration also favored a change to a "current plantings" basis for program eligibility. Under this proposal, any set-aside was from current plantings rather than based on historical acreage allotments. For example, if a farmer planted 1,000 acres of wheat with a 20% set-aside, 200 acres of normally planted cropland would have to be devoted to conserving uses. The absence of set-asides since 1973 had shifted production patterns as some farmers without allotments produced wheat and some farmers with allotments (who had produced wheat mainly to preserve their allotments) had shifted to other crops. Bipartisan support was given to a switch away from historical allotments and to current planting proposal.[19]

The Senate Proposal.

The original Senate bill called for target prices to be based on estimated individual crop cost of production and for loan rates to be 75% of the target price. Target prices were set at $2.91 per bushel for 1978 and were to be indexed to all direct costs, a return to management, and a return to land composed of a composite of cash rent, share rent and average acquisition value of owner-operated land. Loan levels could be adjusted downward if authorized by the Secretary of Agriculture but not below 90% of the world price. Production control, disaster payments and allotments were simply extended for 5 years.

The final version of the Senate bill raised the current 1977 target price from $2.47 to $2.90 per bushel and set the 1978 target price at $3.10 per bushel. Loan rates were left at $2.25 for 1977 but raised to $2.47 for 1978. For 1978 through 1982, the original Senate bill's indexing formula would be used and loans would be set at 85 percent of the target price. It also included the administration's current plantings proposal but mandated that producers be paid on no less than 90% of their current year's plantings. Federal Crop Insurance was to be extended for two years as a new comprehensive program was studied.

The House Proposal.

The House bill was drafted internally by the House Agricultural Committee. As reported by the Livestock and Grain subcommittee, target prices and loan rates for 1977 were $2.90 and $2.25 respectively for

1978, $3.20 and $2.50. For 1979 to 1981, target prices would have been adjusted by the Parity Index. Allotments were to be updated by a phased adjustment for plantings over the last three years.

After much discussion and various amendments, the full committee agreed on target prices of $2.65 and $3.00 for 1977 and 1978 and loan levels of $2.25 and $2.35. The proposals were adopted by a one vote margin with the Chairman of the House Agriculture Committee casting 13 proxies in favor of these levels.[20] Adjustments for target prices were to be based on a two-year moving average of production cost increases with land and management charges excluded. The administration's current planting basis for support was also adopted. On the House floor, the 1977 target price was raised back to $2.90 after intensive lobbying by wheat state legislators.

THE FOOD AND AGRICULTURE ACT OF 1977

The Food and Agriculture Act of 1977 essentially extended the 1973 act for four more years but with certain modifications. Signed into law on September 20, 1977, it was, as usual, passed after winter wheat planting for the 1978 crop year had started. Several of the provisions applied to the 1977 crop year which was originally covered by the 1973 act.

Perhaps the most important change was away from historical allotments as a basis for production adjustment and program payments. Under the new program the Secretary was to announce a National program acreage (expected utilization plus desired carryover) by August 15. Program payments were to be based on the program allocation factor--the ratio of the national program acreage to the number of acres of harvested wheat. In other words, the program allocation factor was the percentage of harvested wheat acres that the Secretary expected to be utilized during the coming year and provided a sufficient carryover. The percentage could not be less than 80%. Payments to individual producers were based on farm wheat acreage multiplied by the program allotment factor. If a producer had fully or partially reduced his planting by a percentage indicated by the Secretary, no reduction or partial reduction in payments was made.

Set-asides were also to be announced by the Secretary by August 15. Compliance, while voluntary, was necessary for program benefits. The amount as well as the existence of a set-aside was at the Secretary's discretion. A Senate proposal to require set-asides at 175% of domestic requirements was defeated in the conference committee. Set-asides were not from allotments but were to be a percentage of planted wheat acres. Producers were required to remain within an established cropland base. Other set-aside statutory authority remained the same, as did authority for an additional land diversion program. The Secretary was also authorized to limit wheat acreage on a uniform basis for all wheat farms.

Target prices were set at $2.90 per bushel for 1977 and $3.00 for 1978. If the total crop were less than 1.8 billion bushels in 1978 the target price was to be $3.05 per bushel. The target price for 1977 wheat allotment acres not planted to wheat was $2.47. For 1978, the target price was to be set at $3.00 per bushel indexed by a lagged two year moving average partial cost of production. The cost index was as the administration asked, reflecting variable costs, machinery ownership costs and general farm overhead costs allocated to each crop on the basis of the proportion of value. The indexing procedure was the same for 1980 and 1981.

Deficiency payments were to be paid as in the 1973 act--the difference between the market price for the first five months of the marketing year (or the loan rate whichever is higher) and the target price. Disaster payments were authorized for only two years--1978 and 1979. For prevented planting, payments were to be 75% of the program yield multiplied by 1/3 of the target price on the affected acres. Low yield disaster payments were to be paid if total farm production was below 60% of the farm program payment yield. Payments were to be 50% of the target price for the deficiency below 60% of the crop. Any price deficiency payments were to be reduced by disaster payments.

Loans were set at $2.25 per bushel for the 1977 crop and $2.35 to 100% of parity at the discretion of the Secretary for crop years 1978 through 1981. The Secretary was authorized to reduce the loan rate if the average price in a year was not more than 105% of the loan and purchase rate. This reduction authority was designed to maintain domestic and export markets for grain and to avoid CCC acquisition of large inventories. The reduction was limited to not more than 10% per year and not below $2.00 per bushel. Deficiency payments were to be adjusted upward in the event of a loan rate reduction and this portion of deficiency payments was not subject to payment limitations.

A special haying and grazing program was authorized for the four years of the act. If the secretary offered such a program, a producer could designate up to 40% of his planted wheat acreage (or 50 acres whichever was larger) to be used for hay or commercial grazing rather than grain production. Payment rates were to be determined by the Secretary.

The embargoes were also addressed in the new legislation. If agricultural trade was suspended based on a short supply of the commodity, loan rates were to be raised to 90% of parity. The distinction "based on short supply" would become important. It was added in the conference committee.

Rationalizing markets was mainly addressed through the Farmer Held Grain Reserve. The Secretary was required to establish a producer-held grain reserve for wheat; a feed grain reserve was optional. Original or extended price support loans were to be provided to producers for a period of three to five years. Producers could commit grain to the reserve and receive storage payments at levels deemed appropriate by the Secretary. They would be charged interest on the loans based on the cost of CCC loans from the Treasury. However, the Secretary was allowed to waive or adjust interest payments. Wheat could be removed from the reserve without penalty only when market prices reached the release price, a specified percentage of the loan rate--between 140% and 160% of the loan rate. The call price was set at 175% of the loan rate. At this price, the Secretary could force producers to repay loans, forcing wheat out of the reserve. Thus, a "price corridor" was formed with the level of non-recourse loans as the floor and the call price as the ceiling. Prices were expected to fluctuate within this corridor.

The Reserve quantity for wheat was to be set by the Secretary between 300 million and 700 million bushels of wheat, although Congress specified that the maximum could be raised to meet obligations under an international food reserve agreement which the President was urged to negotiate. When the reserve program was in effect the Commodity Credit Corporation could not sell its stocks of wheat at less than 150% of the support price.

To help facilitate farmer storage of grain, the CCC was directed to make secured storage facility loans for new or remodeled storage. The loans were not to exceed $50,000 and were to be for facilities the size of which was based on the borrowers production for two years. Loans were to be available between October 1, 1977 and September 30, 1981. The loan amount was to be deducted from price support loans and interest was to be at the CCC cost of borrowing from the Treasury.

Finally, payment limitations were raised under the new bill: $40,000 for 1978; $45,000 for 1979; and $50,000 for 1980 and 1981. As before, when payment limitation affected an individual, any required set-aside was to be reduced.[21]

THE AMERICAN AGRICULTURE MOVEMENT

Continuing low prices and dissatisfaction with the new farm bill led to a widespread, vocal grassroots movement called the American Agriculture Movement. Threatening farm strike and demanding 100% of parity "through the marketplace", AAM members drove their tractors to Washington to lobby Congress and to demand relief. Although Congress declined to embrace AAM legislative proposals, the AAM actions put farm relief back on the agenda. (see Chapter 1)

THE EMERGENCY FARM BILL OF 1978

Emergency relief as proposed by Congress took various guises. Three types of bills emerged from the agricultural committees during three days in March, 1978. Perhaps the most original was the flexible parity bill. Under this bill, the level of target price support each farm received was determined by the percentage of cropland he chose to divert to conserving uses. If he chose to divert half of his land, he would receive a target price equivalent to 100% of parity. A second bill proposed a one year land diversion scheme whereby producers would receive an average of $75 per acre to retire up to 31 million acres of wheat, feed grains, cotton and sorghum. The third approach was a $4 billion emergency loan program for producers who could not obtain loans from their usual sources.

The Senate combined the first two approaches (flexible parity and land retirement) with large increases in target prices ($3.55 per bushel for wheat) and called it a Farm Bill. In the House, the land diversion scheme was attached to an already passed bill "authorizing the establishment of a federal marketing order for raisins" in order to expedite consideration.

Emerging from the conference committee was a bill authorizing the flexible parity concept for 1978 only. A wheat producer diverting 20% of his wheat acreage would receive a target price of $3.50. For a 35% reduction he would receive $4.25; for a 50% reduction, he would receive $5.04 (which was 100% of parity at the time of passage). Loan levels for wheat would be raised to $2.55. Along with other provisions, the establishment of the Federal Marketing order for raisins was authorized.

The Senate passed the bill but it was defeated overwhelmingly in the House as a majority of both Republicans and Democrats voted against it.[22] Contributing to the defeat of the bill were Administration actions on March 29 designed to raise farm income. The administration's motions affected wheat mainly through its modification of the reserve program. The 35 million ton limit on the farmer-owned grain reserve was lifted and wheat was to be purchased at market prices to fill the 220 million bushel international emergency food reserve. Producers also became eligible to graze out up to 40% of their planted wheat acreage and receive a minimum payment of 50¢ per bushel.[23] The Administration offered to support legislation to raise the target price for wheat to around $3.50 per bushel. While this offer was unacceptable to farm Congressmen before the defeat of the first emergency farm bill, it looked more enticing afterwards.

A scaled down version of the Emergency Farm Bill was passed by Congress and signed by the President on May 15. Under the act, the Secretary was authorized to raise target prices if a set-aside was in effect for one or more crops. The increase was to be the amount considered appropriate to compensate producers for participation in the set aside. Title II of the act authorized the Secretary to allow producers to grow crops for conversion into fuel alcohol on set-aside or diverted acres. He could also formulate a program in the absence of set-aside or diversions to encourage production of fuel-alcohol crops. Under this new authority the administration immediately raised the target price for 1978 wheat to $3.40 per bushel.[24]

In other legislation during 1978, a $4 billion loan bill was passed to help farmers with credit problems and various farm loan programs were overhauled. The Agricultural Trade Bill was passed in October provided intermediate term credit of three to ten years to foreign countries to encourage export of the now existing surpluses. The act also exempted intermediate credit sales from cargo preference laws and made the People's Republic of China eligible for short term U.S. credit.[25]

OFF THE FRONT BURNER, 1979

On the basis of strong export demand, wheat prices increased most of calendar year 1979 rising from $3 per bushel in January to almost $4 in November. But production costs also rose rapidly, spurred by high interest rates and rising fuel costs. Legislative action addressing agriculture was limited during 1979.

With authority for disaster payments due to expire with the 1979 crop year, proposals for a revised crop insurance program were put forth. The existing Federal Crop Insurance provided limited coverage and was excluded from high risk areas. Appropriations ceilings had limited expansion of the program and only certain crops (one of which was wheat) were covered. Progress on the bill was slow as farmers were reluctant to give up non-premium disaster payments and the private crop insurance companies including the Farm Bureau and the National Farmers Union feared government sponsored and subsidized competition. While the Senate passed the bill in 1979, the House version was not passed and reconciliation was pushed into 1980.

Target price levels also were an issue in 1979. Despite farm pressure, the administration declined to provide a set-aside program for the 1980 crop year. Without a set-aside program, target prices for 1980 would be at levels specified by the 1977 act. This was expected to be $3.07 per bushel as the legislated index failed to reflect rapidly increasing cost. The House in November passed a bill raising the 1979 target price by 7% to $3.63 per bushel but this bill failed in the Senate. The Senate Bill for a similar increase for the 1980 and 1981 crop years was not reconciled with the House until March of 1980.[26]

EXPORTS AND EMBARGOES

The dawn of 1980 brought a new embargo and this one was not designed to "rationalize the market." In response to the Soviet invasion of Afghanistan, President Carter on January 4, 1980 reneged on his campaign promise not to use food as a weapon and embargoed shipments of grain to the Soviet Union for quantities above long-term contractual commitments. Due to a poor harvest, the Soviets had requested late in 1979, shipment of 25 million tons of U.S. grain. Feed grains were most affected but 150 million bushels of wheat were also included. This request had been granted.

This was not the first political blockage. Trade with China, Cuba, North Korea, North Vietnam and the Soviet Union had all been blocked at one time or another. But there were differences: this embargo was a selective embargo--not a general trade embargo as previous embargoes had been. While high technology, fishing privileges, grain and athletes were curtailed,business as usual continued for most industries. In addition, this was a secondary embargo, directed at the Soviet Union for actions in Afghanistan. President Ford declined a similar embargo opportunity in 1976 concerning Soviet activities in Angola.[27]

President Carter in his announcement of the embargo stated that he was "determined to minimize any adverse impact on the American farmer from this action."[28] The next day Secretary Bergland said that "he could guarantee that American farmers would not suffer any loss of income from the curtailment of grain shipments to the Soviet Union."[29]

In subsequent testimony to Congress, the Secretary outlined administrative intentions for the affected wheat. Contractual obligations of exporters (approximately 136 million bushels) would be assumed and this wheat, plus the additional purchases of 15 million bushels would be isolated in a special international food aid reserve. In addition, the loan rate had been raised for wheat from $2.35 to $2.50. Several modifications were made in the Farmer-Held Grain Reserve. Storage payments were increased from 25¢ to 26.5¢, and a two-tier release and call price system was developed: pre-embargo grain in the reserve could have release and call prices of $3.50 and $4.38 respectively; post embargo prices would be $3.75 and $4.63.

Bergland requested that Congress fund the international reserve. It had refused to do so in previous years because of the fear that the reserve would serve to depress market prices. To this extent, the embargo proved helpful in implementing administration policy. Bergland also requested an increase to two billion dollars in funds available to guarantee non-commercial agricultural exports and announced plans to stimulate the production of fuel alcohol. The last action was particularly ironic as the administration had, for the most part, ignored the American Agricultural Movement when it attempted to drum up interest in fuel alcohol as a surplus control mechanism.[30]

Wheat prices declined with the announcement of the embargo. Although the average farm price of wheat had started to decline before the embargo, the price for hard red winter wheat (HRW) had held steady, mainly on the basis of Russian purchases. With the embargo, cash prices for HRW dropped from $3.89 in December, 1979 to $3.36 by April, 1980. After April, prices recovered slowly until by September, they had recovered to previous levels.[31] Part of the decline in prices could be attributed to logjams at the ports, as striking longshoremen refused to load the remaining three million tons of the eight million ton long term agreement. Part of it could be attributed to slow action by the Administration in honoring its commitment to minimize effects on farm income.

The administration simply did not want to spend the money. Secretary Bergland suggested in January that an acreage diversion for the new crop was unlikely as the cost would be more than one billion dollars.[32] As for the acquisition of farmer owned wheat, the government first proposed a bid system whereby farmers submitted bids to the Commodity Credit Corporation. This did not bring in sufficient quantities.

One farmer decided to test the situation by submitting a bid that was five cents per bushel below the local January 4 price plus freight to the terminal markets. (Bids were to be based on delivery to the terminals). His bid was rejected.[33]

The administration then set a price based on the local January 4 price minus transportation to the terminals and agreed to accept farmer offers on a first come-first serve basis. After the price was posted on the door of the ASCS office, in one Central Kansas county, farmers started lining up before 7 a.m. By the eight o'clock opening time, fifteen farmers were lined up. The $3.71 offer from the government was 21¢ per bushel below the January 4 price. The local market price at that time was around $3.25 per bushel. By mid-April the CCC had purchased 60 million bushels of wheat from country elevators and 90 million bushels of wheat from farmers.[34] Only eighty-five percent of the wheat offered nationwide was accepted.[35] If farmers felt betrayed by campaign promises and abused by acquisition procedures, it was not surprising.

What were the effects of the embargo? Robinson suggests that the Soviets were able to purchase grain from other sources in quantities very near to that they would have purchased from the United States. But it was more expensive for them to do so. While Canada and Australia reluctantly agreed to honor the U.S. embargo, Argentina, angered by U.S. accusations of human rights violations, not only sold the Soviets grain at premium prices but also signed a five year feed grain agreement. While leakages and transshipments contributed to the Soviet success, additional expenses were incurred here also. Impact on Russian consumers appeared to be minimal--while meat supplies were not increased as planned neither were the Soviets forced to slaughter their breeding stock.[36]

In the U.S. it is clear that there was a temporary depressing effect on U.S. grain prices. What grain prices would have been in the absence of an embargo is impossible to determine, although the November 1979 Wheat Situation was optimistic that then current price levels would continue. While other importers increased their purchases after the embargo, it is possible that they would have been in the market anyhow. Mexico's purchases were due to poor harvests and their oil wealth would conceivably have found them in the market anyway. The volume of U.S. exports, in any case, was higher than first anticipated, not only because of needs of other importing countries but leakage of U.S. grain to the Soviets. Shipments to Eastern Bloc countries were not halted.

Perhaps the most important effect of the embargo was its implications for future trade. The U.S.'s reputation as an unreliable supplier of grain was reinforced--thereby encouraging importing countries to increase production to reduce their dependence on U.S. supplies. Other exporters might also be encouraged to increase production in anticipation of further U.S. political embargoes.[37] The embargo also subverted world trade adding to the persistent difficulties for agricultural trade of tariff and non-tariff trade barriers. To the extent that bilateral trade agreements are desirable, the embargo had a positive effect as it showed that the United States would continue to honor these agreements.[38] But as Cotterill points out, the only positive impact of the embargo may have been its communication value in January, 1980. Many would argue that the disruption was not worth it. In the eyes of many farmers, the government's policy of "rationalizing the market" was seriously devalued.[39]

LEGISLATIVE ACTION, 1980

Congress's response to the embargowas delayed until November but on March 4, they passed the Senate bill raising target prices to $3.63 per bushel for the 1980 crop. In addition, the bill authorized the Secretary of Agriculture to raise targets for the 1981 crop to accommodate increased production costs.

The Secretary was also given power to require the maintenance of normal crop acres (NCA) in order to receive program benefits. Farmers exceeding their NCA (in other words, planting land normally in conserving uses) would receive target price protection at the lower level of the existing law ($3.40 per bushel). Target prices for farmers complying with the NCA could be raised above the new level in order to compensate for income lost due to the planting limits. Finally, the disaster payment program, due to expire, was continued through 1980. Payment limits for 1980 were raised to $100,000.[40]

In September, 1980, Congress finally passed the Crop insurance bill, which President Carter had first proposed in 1978. Although the Senate had passed one version of the bill in September 1979 and the House had passed its version in February, 1980, the June compromise was delayed from final passage while the USDA investigated charges of misconduct by officials of the Federal Crop Insurance Corporation--the agency charged with implementing the new program. The bill was passed after the USDA declared the basic program to be sound.[41]

The crop insurance act required the FCIC to offer insurance to farmers in all areas of the country and for an increased number of crops. Policies were to be based on a percentage of annual yield (ranging from 50% to 75%) and not less than 90% of the projected market price for the insured crop. The federal government was to subsidize up to 30% of the premium cost up to 65% of yield. In order to placate the private insurance companies, farmers were permitted to drop fire and hail coverage from their federal policies and receive premium reductions of 15% to 30%. This allowed farmers to continue fire and hail coverage through the private insurers. The private companies along with producer associations and licensed brokers were to issue the federal policies. Growers were given three options for the 1981 crop year: to buy the FCIC insurance with the subsidy, to choose to be eligible for disaster payments, or to be eligible for disaster payments and to purchase the FCIC insurance without the subsidy. The program was authorized through Fiscal Year, 1983.[42]

In October, the President signed a four year grain agreement with China to take effect on January 1, 1980. Similar to the Soviet agreement, it called for purchases between six million and eight million tons of wheat and corn, with approximately 80% to 85% of purchases to be wheat. Sales above 9 million tons were to require prior notice as were purchases less than six million tons. The pact did not require Congressional approval.[43]

Congress finally passed legislation authorizing the Food Security Reserve in November, 1980--but only by attaching it to a bill authorizing market orders for walnuts and olives. The Reserve portion of the bill authorized a reserve of up to 4 million metric tons (145 million bushels) for foreign aid assistance when domestic supplies were in such short supply that sufficient quantities could not be purchased in the market. Up to 300,000 metric tons could be donated abroad in any one year but only if exceptional need were shown and P.L. 480 procedures were too time consuming. Initial stocking of the reserve was to be by the CCC acquired wheat from the grain embargo. The reserve could be replenished until September 30, 1985.

Congress also adopted a two tier loan rate structure: for 1980 and 1981 crops: that wheat which was in the farmers-held grain reserve was to have a rate of $3.30 per bushel and interest charges were waived; loan rates for non-reserve wheat was at a $3.00 per bushel minimum. Call and release levels for reserve grain were also adjusted. The Commodity Credit Corporation was barred from selling wheat at less than 105% of the call level (rather than 150% of the loan rate) except in the case of corn destined for alcohol production. This corn could be sold at a price which would make gasahol competitive with unleaded gas.

Congress further expanded the Secretary's authority in the event of future embargoes. He was authorized to establish a cropland set-aside as well as another food security reserve and a gasahol feedstock reserve. To stock these reserves, the Secretary was empowered to buy embargoed commodities. He could also provide loans for alcohol producers to buy from the reserves.[44]

THE WHEAT SITUATION, 1973-1980

Production.

Total U.S. production climbed steadily after the Russian Grain Deal. The two billion bushel mark was reached in 1975 and became the standard (although low prices, set-asides and relatively large program participation showed production at 1.8 billion bushels in 1978). The increase in production was largely due to expansion of acreage as farmers were encouraged to plant "fencerow to fencerow"; yields appeared to reach a plateau mid-decade although by the end of the decade yields had increased to around 33 bushels to the acre. Dramatic price jumps soon after the 1973 harvest allowed acreage reduction programs to be abandoned for the 1974 through 1977 crop years. After 1976, acres planted chased prices downward until low prices forced the reintroduction of voluntary set-aside programs for 1978 and 1979.

Prices and the farm value of production showed dramatic instability after 1972 both within and between years.[45] But costs had a well-defined trend--upward. As mandated by the Agricultural Act of 1973, the USDA prepared cost estimates for a number of crops beginning with 1974 crops. For the first time since the Forties, these estimates imputed a land value in published cost calculations. USDA income series during the 1960's had defined "net farm income" as gross farm income minus variable costs and machinery expenses. No value had been included in "net farm income" for rent, mortgage repayment, or the family's unpaid labor.[46] Table 8.1 summarizes the production cost estimates.

These USDA cost estimates are national averages--production costs vary dramatically by producer, area, type of wheat, and yield. Table 8.1 also illustrates that tenure position and the timing of land acquisition are important variables. As interest rates have become a significant production cost, the debt-position of a producer has become a more important factor in cost variation, also. Hence, the use of these cost estimates as a basis for price support would tend to further distort the relative positions of various groups of wheat producers: beginning vs. established farmers, renters versus landowners, etc.

But this data also highlights two small areas of policy debate. First, on an average basis, parity prices are substantially above cost of production estimates no matter how land values are calculated. Second, the target price adjustment index has failed to reflect the rapid inflation in input prices--even for those specified items (variable costs and machinery costs) which were supposed to be indexed. While the USDA estimate of actual variable and machinery costs increased 62% from 1977 to 1980, the escalator clause increased the target price for 1980 by only 6%--the 25% increase indicated was legislated in a separate act.

Perhaps the point which emerges most clearly from this data is that farmers had a basis for protesting in 1977 and 1978. The relative stability of farm programs and farm prices during the 1950's and 1960's had given way to instability in the 1970's. But this instability did not necessary signal a need to return to the programs of the 1950's as the American Agriculture Movement advocated. The underlying market factors were different in the 1970's.

Table 8.1. National Average Cost of Production, All Wheat

	Crop Year						
	1974	1975	1976	1977	1978	1979	1980
1) Cost Per Acre (Dollars)							
A) Variable Costs	42.72	39.50	36.20	37.24	37.14	44.57	55.70
B) *Machinery Ownership*		16.33	17.50	13.69	23.26	28.15	34.76
C) General Farm Overhead	5.52	5.18	5.58	6.16	7.15	7.95	9.02
D) Management	7.11	6.98	5.21	6.21	6.75	8.11	9.95
E) Subtotal	55.35	68.49	64.49	68.30	74.30	89.18	109.43
F) Land							
1) Current Value	39.64	33.13	33.02	34.12	46.97	68.30	73.25
2) Average Acquisition Value	16.24	22.99	22.75	22.97	24.16	31.31	36.22
2) Yield Per Acre (Bushels)	29.5	28.5	26.2	27.7	29.9	32.5	28.9-33.1
3) Cost Per Bushel With Credit for Byproduct (Dollars)							
A) Current Value of Land	3.50	3.50	3.66	3.78	4.05	4.46	5.52-6.00
B) Average Acquisition Value	2.63	3.15	3.27	3.16	3.29	3.56	4.43-4.81
C) Renter Cost	-	-	-	3.64	3.69	3.93	5.00
4) Price and Support Data (Per Bushel)							
A) Loan Rate	1.37	1.37	2.25	2.25	2.35	2.50	2.50
B) Target Price	2.05	2.05	2.29	2.90	3.40	3.40	3.63
C) Average Price Received by Farmers	4.09	3.56	2.73	2.33	2.98	3.70-3.80	-
D) Parity Price, June	3.89	4.58	4.90	5.07	5.29	5.98	6.51

Source: U.S. Congress, Senate, Committee on Agriculture and Forestry Costs of Producing Selected Crops: In the United States-1974 94th Congress, Second Session. Committee Project. Washington: GPO January 8, 1976 and corresponding publications succeeding years.

<u>Export Barriers</u>.

It was during the 1970's that the U.S. wheat market completed the transition to a commercial export basis. Until 1972, domestic disappearance was just as apt to be larger than exports as vice-versa. After 1972, export disappearance was consistently larger than domestic disappearance and by quite a large margin. (see Appendix 2) This increased reliance on commercial exports made producers more vulnerable to world wide conditions--political and economic as well as climatic.

These world markets were not the "free market" celebrated in economic ideology and farmer rhetoric. World trade recovered slowly from the trade barriers erected during the 1930's. World wheat trade doubled between 1930 and 1960; it doubled again from 1960 to 1980. (See Table 2.4). But this trade expansion was not a signal that trade barriers were eliminated; it was an indication that countries either could not grow enough wheat or enough of the right kind of wheat (as in Europe). Many trade barriers remained without which U.S. export disappearance would have been greater.

Jones and Thompson note that about one-half of world grain and livestock is consumed in countries that stabilize internal prices and consumption. When internal prices are stabilized, it tends to destabilize prices in the rest of the world. It is not just the centrally planned economies and developing market economies (the major importers of grain) whose policy restricts access to markets--the European Common Market and Japan both retain agricultural policies which enhance domestic prices and insulate domestic producers. In the EEC variable import levies and export taxes are used in times of low world prices and high world prices, respectively, to make internal demand "perfectly" inelastic. Higher prices received by European farmers encourages production and export subsidies are used to get rid of resulting surpluses.[47] It has been estimated that in order to penetrate European markets, foreign producers must operate with direct costs almost half of European costs.[48] Japan uses import taxes on wheat to support its rice subsidies. Japanese producers (producing only 5% of Japanese consumption) received prices five times higher than world prices in 1977.[49]

The policies of centrally planned economies also contribute to price destabilization. To the trade barriers of the Japanese and Europeans, though, the Soviets add a substantial layer of secrecy. Trade for the Soviets is handled by one central agency with its own operating capital and authorization to enter into contracts with exporters. The inability of the USDA to determine needs of the Soviet Union was a major problem cited by the GAO in its studies of the three major Russian grain deals of the mid-decade.[50]

Other exporters pursued domestic policies which helped destabilize U.S. prices in 1973 and 1974. Canada, Australia, and Argentina all discouraged foreign sales in order to insulate their domestic markets.[51] Exports for all three are controlled by government or quasi-government agencies.[52] Konandreas found that in 1978, the 50% of U.S. wheat that is exported causes 2/3 of the total instability in the domestic price of wheat. Since, in 1977, the U.S. was the only nation in the grain trade which was "not exercising considerable control over agricultural production of marketing"[54], it is not surprising that steps were taken to "rationalize the market."

Two approaches were emphasized. Bilateral long term grain agreements were signed with various foreign nations: the Soviet Union, Poland, China, and Mexico. Secretary Bergland was ambivalent (at best, dishonest at worst) in his view of the desirability of long term grain agreements. Although he argued in September, 1980 that long term agreements limited the President's power and if used too often would commit too much of U.S. production for export, by December, three months later, as he was leaving office, he encouraged the incoming administration to expand the number of bilateral trade agreements.[55]

The Farmer Owned Reserve.

The farmer held grain reserve was the other main approach to rationalizing the market. The Farmer Owned Reserve (FOR) was originally established on April 4, 1977 under existing discretionary authority. Congress formalized the program in the Agricultural Act of 1977 and established statutory parameters. As originally formulated, wheat could not be placed directly in the reserve; only after regular CCC loans had matured (nine to eleven months) was wheat allowed in.

Farmers retained ownership of the grain and received storage payments of 25¢ in advance. Only farmers participating in the wheat program were eligible to participate in the FOR; when no set-asides were in effect, however, all producers were eligible. Wheat could remain in the reserve for three years at which time the producer could repay the loan plus any accumulated interest or forfeit the grain to the CCC. Although the Secretary was authorized to waive interest on the loans, Secretary Bergland announced that interest would be charged for the first year grain was in the reserve.

Wheat could be removed from the reserve only when market prices reached the release price (140% of the current CCC loan rate); otherwise substantial penalties were charged. Thus, this wheat was isolated from the market at price levels below the release price. At the release price the government stopped paying storage. At the call level (175% of the current CCC loan rate), farmers were required to repay their loans within 30 days or default their grain to the CCC. The objective was to influence supply and demand so that market prices would fluctuate around the middle of the price corridor (created by the CCC loan rate which served as a market price floor and the release price which served as a flexible price ceiling). The Carter administration also hoped the reserve would serve as an international reserve--helping provide a total U.S. grain carryover of 6% to 7% of world grain consumption.[56]

Soon after the program started, farmers were allowed to enter wheat directly into the reserve. Baumes and Womack maintain the "the most important factor contributing to support of market prices over the 1977-79 crop years was early entry into the reserve program."[57] Except during the 1977 crop year when the government constrained placement, farmers responded to the reserve even when prices were well above the loan rate.

The wheat reserve went into release status for the first time on May 16, 1979 and remained in release status until May, 1980 at which time it went out, then back into release status again. In the five months after May, 1979, forty percent of the wheat in the reserve was removed by farmers as prices remained strong and even gained despite this large supply of wheat being effectively increased by 413 million bushels just before harvest.[58] However, many farmers held onto their wheat after release status was reached and storage payments were suspended.

What has been the economic impact of the Farmer Owned Reserve? Meyers and Ryan estimated what would have happened if the Farmer Owned Reserve had not been created and the Commodity Credit Corporation had acquired wheat through forfeiture and then releasedit when market prices moved 15% above the loan rate. For the 1977 through 1981 period, they estimated price variance would have been 28% greater, total stocks would have been 28% to 38% lower, with 25% to 40% higher free stocks (not isolated from the market) and 80% to 84% lower government stocks.

Concerning wheat prices, Meyers and Ryan estimated that in 1979, without the wheat reserve, wheat prices would have been 28¢ lower, 48¢ to 79¢ lower in 1980 and would have been equal in 1981 (with lower levels of stocks). While the farm value of production would have been ten to twelve percent lower for the years 1977 to 1980, this would have been offset by 400 to 700 million dollars in deficiency payments.[59] Thus it appears that the FOR served to provide price stability with the effect in the early years of enhancing prices. Table 8.2 provides data concerning operation on the Farmer Owned Reserve.

Table 8.2. Operation of the Farmer Owned Reserve

(1) Marketing Year	1977/78	1978/79	1979/80	1980/81
		Million Bushels		
(2) A) Total Placement	342	51	67	n.a.
B) Total Redemption	0	0	210	n.a.
C) Net F.O.R. Change	342	51	-143	20
D) Net C.C.C. Change	48	0	150	-10
		Dollars Per Bushel		
(3) A) Farm Price	$2.33	$2.98	$3.82	$4.08
B) Loan Rate	2.25	2.35	2.50	3.00
C) Release Price	3.15	3.24	3.50-3.75	4.20-4.50
D) Call Price	3.95	4.11	4.38-4.63	5.25-5.55

Source: William H. Meyers and Mary E. Ryan, "The Farmer Owned Reserve: How Is the Experiment Working? AJAE 63:2. May, 1981. p. 318.

The transition to government stocks from CCC auspices to the Farmer Owned Reserve was not difficult-- for the Commodity Credit Corporation quickly emptied its bins as world demand for wheat expanded during 1972. The 367 million bushels of CCC inventory on June 30, 1972 was reduced to 114 million bushels one year later. By June 30, 1974, CCC stocks were down to 19 million bushels and for the next three years were virtually non-existent. It was not until the 1978 crop year that prices fell to levels where some farmers felt it was economically advantageous to forfeit wheat under loan to the CCC. Even then, CCC inventories stayed at levels very small when viewed in a historical perspective--approximately 50 million bushels. (See Appendix)

Lower loan levels and the grain reserve were the key factors. Almost 600 million bushels were put under loan in 1977 but only 1 million bushels were forfeited to the CCC. Some of the wheat loans were extended as grain was put into the farmer reserve. But loans were mostly used as short term financing or for access into the reserve. The 150 million bushels acquired by the CCC in 1980 were a result of the Russian Grain embargo and were used as leverage by the Carter Administration in gaining congressional approval for its international emergency reserve.[60] Authorization was finally given in November with strict guidelines isolating this wheat from the marketplace.

Programs and Participation, 1973-1980.

All programs conducted during this period were voluntary. In general, programs were simplified and more lean. Record budget deficits and unprecedented publicity put pressure on Congressional largesse. No price supports were needed mid-decade and the set aside program for 1973 was curtailed. No set-aside program was offered for the 1974 through 1977 crop years. Twenty percent set-asides were in effect for the 1978 and 1979 crop years as was a special Grazing and Haying program, but no set-aside was announced for the 1980 crop.

Participation in government programs was at its lowest level in fifteen years. Only about 3/4 of the planted acres were covered for 1978 and roughly 3/5 were covered by the 1979 program. Several reasons existed for this lower participation. Program benefits were lower in relative terms than in previous programs. Some farmers became accustomed to doing without program benefits during the four years they were not available. The change to a current planted basis in the 1977 act, meant that producers did not have to plant to maintain acreage allotments. Producers in new producing areas who had not been eligible for program benefits in the past because they lacked allotments may have resisted complying with set-asides to now gain benefits. Table 8.3 summarizes program participation during the period.

Table 8.3. Acreage Allotments and Participation, 1973-1980.

Year	National Acreage Allotment (Million Acres)	Participating Farms (Million Acres)	
		Acreage Allotment	Set-Aside
1973	18.7 1)	17.8	7.4
1974	55.0	n/a	n/a
1975	53.5	n/a	n/a
1976	61.6	n/a	n/a
1977	62.2	n/a	n/a
1978	58.8 2)	42.0	9.6 3)
1979	76.1 2)	36.1	8.2 3)
1980	75.0 2)	58.2	n/a

1) Domestic Allotment
2) National Program Acreage
3) Includes set-aside and special grazing and hay program acreage
n/a - not applicable

Source: Agricultural Stabilization and Conservation Service. Commodity Fact Sheet: Wheat Summary of 1981 Support Program and Related Information. Washington: USDA/ASCS, May, 1981. p. 4.

Program Costs.

In general, program costs were lower during this period than during the sixties.

High wheat prices kept program costs low during the first part of this period--although the payment formula of the 1970 act, based as it was on parity resulted in relatively high direct payments during 1973. Foreign aid expenditures were the largest share of expenditures until the 1977 crop year when substantial deficiency payments were made to producers. Record budget deficits and continuing program scrutiny (a lingering effect of the Russian Grain deal) constrained Congressional largesse as programs resumed. Table 8.4 summarizes program costs for the 1973-1980 crop years. It should be noted that these figures are closely but not directly compatible with previous program cost estimates.

COMMENTS 1973-1980

Agricultural policy for wheat changed in the mid-1970's. Emphasis shifted from limiting production to "free markets" to stabilizing prices within a specified price corridor. Income support continued but at a lower level as fewer legislators with farm constituencies and record budget deficits brought closer scrutiny of farm programs. However, emergency legislation passed during 1978 demonstrated that if the need is obvious and well-publicized, Congress will respond, if not in the way and at the level desired, at least to a partial degree.

Export demand volatility was the underlying factor causing the policy shift. The problem was not just climatic conditions; political and economic factors were also involved. Most countries involved in the grain trade pursue price insulating policies. When domestic markets and prices are stabilized internally the effect is to shift the burden of price instability to countries who do not stabilize prices. In the mid decade, the United States was one of the few countries not actively stabilizing internal prices. What were the effects of price instability?

Table 8.4. Expenditures on Federal Wheat Related Programs. Fiscal Year 1973-1980. (Million Dollars)

	July 1, 1973 to June 30, 1974	July 1, 1974 to June 30, 1975	Transition Quarter	Oct., 1975- Sept., 1976	Oct., 1976- Sept., 1977	Oct., 1977 Sept., 1978	Oct., 1978- Sept., 1979	Oct., 1979- Sept., 1980	Total
A) Price-Support Related									
1) Loss on Stock Transaction	(43.4)	(44.8)	6.6	1.4	3.1	16.8	21.8	63.3	24.8
2) Direct Payments	490.9	101.5	71.3	52.8	136.9	1,118.4	723.1	96.8	2791.7
3) Reseal Loan Storage or Grain Reserve Expense	4.3	.007	-	-	-	59.8	74.8	32.1	171.0
4) Export Subsidies	43.3	(.001)	-	-	-	-	-	-	43.3
5) Loan or Other Chargeoffs	.018	-	.002	-	.01	.006	.2	.3	0.5
6) Other Costs and Recoveries	(1.1)	(0.3)	(1.8)	(0.4)	0.1	(308.5)	0.4	90.7*	(221.7)
7) Net Realized Loss	494.0	56.4	76.1	53.8	140.1	886.5	819.5	283.2	2809.6
B) P.L. 480									
1) Title I	111.7	422.7	171.6	418.2	447.1	434.8	570.5	588.6	3165.2
2) Title II	162.5	159.8	37.6	101.4	151.4	160.2	200.1	146.9	1119.9
3) Total	274.2	582.5	209.2	519.6	598.5	595.0	770.6	735.5	4285.1
C) Total	768.2	638.9	285.3	573.4	738.6	1481.5	1590.1	1018.7	7094.7
D) Less Credit 1/2 of P.L. 480	137.1	291.3	104.6	259.8	299.3	297.5	385.3	367.8	2142.6
E) Total FM. Related Expenditures	631.1	347.6	180.7	313.6	439.3	1184.0	1204.8	650.9	4952.1

*includes proportion of $335.9 M net expenses from Soviet Grain Embargo

Source: Commodity Credit Corporation, Report of Financial Condition and Operations as of September 30, 1980. (Washington: CCC) 1981 and previous years.

Probably the most visible effect was short term prosperity for agriculture. But this prosperity had unsettling long term aspects. Many farmers made substantial capital investments for tax avoidance purposes.[61] With the return of low prices, many farmers found their cash flow position had seriously eroded, while ironically their equity position had improved. This was definitely a contributing factor to the American Agricultural Movement. When high interest rates developed, borrowing on this improved equity position created further difficulties.

Land values doubled between the 1969 and 1974 census and kept moving upward.[62] Machinery prices doubled between 1973 and 1977 and in terms of purchasing power, farmers who anticipated five dollar wheat forever found that a combine that could be bought with 4600 bushels of wheat in 1973 cost 20,000 bushels of wheat in 1977.[63] Inflation in both the land and input markets locked in higher production costs.

This new found price instability also called for new management skills by farmers-- for not only were prices volatile between years but within years as well. The timing of market transactions became absolutely crucial.[65] Twenty years of relative price stability and accompanying marketing habits had to be changed.

The new price stabilization policy required a trade-off, though--lower prices than would have otherwise been the case in shortage years for higher prices in surplus years. Thus in surplus years, part of the burden of carrying stocks was shifted from taxpayers to consumers. In shortage years, consumers benefitted through prices lower than they would otherwise have been.[66] But grain coming out of the reserve could be sold for prices higher than during the surplus years when it was produced--and farmers, not the CCC, were the beneficiaries of these higher prices.[67]

Since variation in export demand was the major factor in determining whether expanded production produced surpluses, long term grain agreements also helped to stabilize prices--in effect contracting with other countries to help stabilize U.S. export demand.

Price stabilization also simplified Congress's job somewhat. By isolating wheat from the market, prices were somewhat supported in surplus years, and deficiency payments could be minimized. Despite President Carter's pledge to support prices at the "cost of production" during the campaign, target prices soon became an "economic safety net" rather than a desired means to transfer income to the farm sector as direct payments during the late 1960's and early 1970's had been. Expenditures for the Farmer Owned Reserve were small in a historical context, and the FOR in conjunction with low loan rates kept politically volatile government inventories at low levels. The change to a commercial export basis ended the need for export subsidies and government export promotion shifted from subsidy to credit terms. Annual export credit for wheat sales from 1975 to 1980 averaged 275 million dollars. Foreign aid under P.L. 480 after 1974 was constant, indicating that surplus disposal was no longer the driving force behind the program.

The basis for set-aside programs changed after 1977, but the major impact was to allow producers in new wheat regions (such as California) to qualify for program benefits. Planting histories had become somewhat meaningless in the 4 year absence of government programs between 1974 and 1977. To the extent that producers in new regions were encouraged to plant wheat by the programs, producers in the traditional wheat producing areas who had fewer crop options were placed at a disadvantage.

Perhaps this period can be described as a period of uncertainty and instability. Government policy changed to one of reducing some of the instability--but not eliminating it. The motive behind the Russian Grain embargo of 1980 ran counter to this policy but the earlier embargoes did not as institutional momentum in the USDA had created no alternative policies to deal with changing economic conditions. Although popular rhetoric demands "getting the government off the backs of the people", the American Agriculture Movement again demonstrated that in times of economic hardship, the only organization with sufficient power to address perceived "market inequities" is the federal government. For the most important lesson from this period is that the "free market" is not free--especially when prices and incomes depend on international markets.

CHAPTER 9. SUMMARY AND CONCLUSIONS.

SUMMARY

In the course of this report, seventy years of the wheat sector and fifty years of wheat programs have been examined in the context of the development and evolution of market modifications by the federal government. This report has been organized around the relationship between government programs and the "free market." Four general policy periods have been identified:

1) Reviving the market, the search for relief, 1929-1938.

2) Replacing the market, active enhancement of domestic wheat prices, 1939-1963.

3) Releasing the market--returning prices to the world level, 1964-1973.

4) Rationalizing the market--searching for stability in an uncertain world market, 1974-1980.

These periods were preceded by the Grain Corporation of World War I, a federal agency chartered to fix prices and control all aspects of wheat markets in order to facilitate the war effort. Although operations were suspended in 1920, the corporation's price guarantees and disruption of the market would continue to be cited throughout the 1920's as a justification for government involvement in wheat markets.

After prices collapsed in 1920, farmers tried to organize themselves without explicit government involvement; both state and federal legislation was passed during the early 1920's authorizing the formation of marketing cooperatives. Despite the ideological appeal, it soon became apparent that the cooperatives could not develop the market power to effectively enhance farm prices.

Thus, farmers and their national organizations petitioned the federal government to positively enter the wheat markets to correct the existing "inequities". But the proper way to implement relief was elusive and extensively debated; there was no peacetime precedent of government intervention in farm markets.

Many farm advocates based their plans on the World War I Grain Corporation. One bill required all domestic grain to be sold by its government corporation at a price to cover all costs of production. Another provided for government purchasing of storage facilities and direct dealing in the grain.

Some of the more popular bills fixed the price of wheat in the controllable domestic market at a level higher than the price of wheat for export. The McNary-Haugen bills involved an export corporation which was willing to buy grain for export at a pre-determined "fair price." Through the issuing and redemption of scrip, farmers would receive the full price for their domestic production and the world market price for their share of production which was exported. The export debenture plan worked through the principle that debentures issued free to exporters would be sold to importers to pay import tariffs and the proceeds would be used to bid up prices received by farmers--thus raising the domestic price of wheat.

Common threads ran through these plans. Most involved marketing control but not production control as the conventional wisdom was that farmers would be satisfied with higher prices and not increase production. Conventional wisdom also placed the proper role of government out of the marketplace--which was the reason that few of the bills were passed by Congress and those that were passed (two of the McNary-Haugen bills) were vetoed by the President. Although farm prices had stabilized during the 1920's (at levels much lower than wartime highs) the notions persisted that farm prices were unjustly low and markets inexcusably depressed and manipulated by the grain trade.

Reviving the Market.

The Federal Farm Board was a response to these notions and the culmination of the decade of debate. Created in 1929, the board was implicitly designed to gain monopoly control of wheat marketing. Although many thought the Board would work to enhance prices, the governors aimed to stabilize prices through the use of loans to cooperatives and transactions on the futures markets. Lacking the means of production controls, the Farm Board was buried under surpluses as it tried to support the price of wheat during the first stages of the depression. In effect, it was destroyed by farmers who tried to maintain income by expanding production in the face of falling prices. The demise of the Farm Board crossed one governmental solution to the farm problem off the list.

The failure of the Federal Farm Board and the disastrous condition of farm markets brought the passage of the AAA of 1933. Wide discretionary authority was granted to the administration by Congress as congressmen didn't know what means were necessary for relief. With wheat, the Roosevelt administration used the mechanisms of voluntary production controls, export subsidies and purchases for domestic relief. Although the voluntary AAA program was popular with farm participants, increased planting by non-participants marred its effectiveness. Success at reducing production and enhancing wheat prices was attributed to extended drought rather than to the program. Still the program appeared to work. Farmers in general were pleased with it and the program would have been continued except that the Supreme Court ruled that Congress had no right to authorize production controls. That portion of the AAA and its accompanying processor fees were declared illegal. Another approach was needed to prop up wheat markets.

The Soil Conservation and Domestic Allotment Act of 1936 provided a conservation justification for production reduction. Payments were made to producers based on the conservation benefits of fallowing cropland. Although some crops had specific reduction programs, wheat was included in the general program which required fallowing a percentage of cropland but not a specific reduction of wheat acreage. A wheat specific reduction program was proposed by the administration for 1937 but was not implemented at the request of wheat producers. Again export subsidies and purchases for domestic relief were implemented but had little impact on farm income. In the absence of specific production controls, farmers increased wheat acreage dramatically. The increasing production put downward pressure on prices and another program was found to be ineffective in propping up the market.

Replacing the Market.

With the AAA of 1938, means were provided to control wheat production. Mechanisms included acreage allotments and marketing quotas to control production, non-recourse loans to encourage orderly marketing, export subsidies, income support through parity payments and risk reduction from crop insurance. All of these programs were financed from the Treasury. Sufficient discretion was provided to the Secretary to adjust programs to prevent overproduction of wheat: these included compliance with acreage allotments in order to receive program payments, and marketing quotas which bound producers as a whole to acreage reduction if approved by referendum.

Despite the initial provisions for discretionary adjustment, Congress soon reduced this discretion in order to delay adjustment and to enhance prices. The large supply of wheat on hand in 1938 would have necessitated a reduction of acreage below 50 million acres for 1939. A minimum acreage allotment of 55 million acres was legislated. This minimum would remain in effect until 1961 in spite of the production of huge surpluses during the 1950's. The Secretary's discretion was again reduced in 1941. Loans were mandated at 85% of parity for 1941 rather than 52% to 75% range mandated in the original bill. In 1942, as a trade-off for lower price ceilings on agricultural commodities, loan guarantees were raised to 90% of parity to be continued for two years after the war. Acreage allotments remained in effect until the 1944 crop year despite declining stocks. In short, Congress worked to gain and maintain a privileged position for agriculture during and after the war.

As the termination of the post-war guarantee approached, attempts were made to reduce government influence in wheat markets through the use of flexible supports. A 1948 compromise called for a one-year extension of 90% support to be followed by flexible support at 60% to 90% of parity. Congress also legislated a new formula for calculating parity prices which deflated parity prices for some commodities including wheat. But a newly Democratic Congress in 1949 raised the sliding scale range to 75% to 90% of parity and postponed transition to new parity. In addition, the parity formula was modified to include wage rates, and the carry-over definition was changed to a moving average basis rather than a percent of need.

Both had the effect of raising loan rates. The New International Wheat Agreement, because of its low price levels necessitated export subsidies, which would continue through 1972. Although the new bill required support at 90% of parity for 1950 but let the loan level recede to 80% of parity in 1951, the Korean War demand plus a campaign pledge by President Eisenhower kept support levels at 90% of parity through the 1954 crop year. At the 90% loan level, surpluses began to accumulate again. Marketing quotas were declared for the 1954 crop. They would continue through the 1963 crop year.

In 1953 and 1954, acts were passed which would be the basis for massive government-financed wheat exports in hopes of reducing stocks. P.L. 480 and the Mutual Security Act of 1953, while moving large amounts of grains could not keep ahead of the productive capacity of agriculture after the war when combined with the institutionalized factors which limited efforts to control the surplus. Long-term and short-term acreage reduction were attempted with the 1956 bill. The acreage reserve involved one-year contracts and the conservation reserve involved three to ten year contracts. Useful for drought relief but failing to reduce the surplus, the Acreage Reserve was discontinued after three years of operation and Congress refused to fund extensions of the Conservation Reserve. The surpluses continued to mount but stalemate between the administration and Congress maintained the status quo. However, flexible parity provisions did allow a gradual reduction in loan rates.

Releasing the Market.

The original Kennedy program called for more extensive government control of agriculture through "supply management." Extensive government owned inventories and high program costs were the catalyst for change. Yet the Kennedy move toward tighter controls progressed slowly due to legislative branch opposition. The national acreage allotment was reduced below 55 million acres in 1962--for the first time since 1939 and penalties for overplanting were raised. Although Kennedy raised the loan rate for the 1962 crop, it was lowered for 1963 and direct income supplements were available for producers voluntarily reducing wheat acres.

The proposed program for 1964 was the first real supply management program--but first it had to be approved by producer referendum. The program combined multi-year marketing quotas, the abolishment of the minimum national acreage allotment, substantial penalties for overproduction, lower loan rates set at the feed value of wheat and direct income payments financed by a processor tax. Producers soundly defeated the program in the referendum. The administration response was a similar program based on voluntary participation. This, in effect, became a move to "release the market." This voluntary program was effective for the rest of the decade and wheat programs would not again be compulsory.

Lower loan rates (allowing CCC inventories to more readily enter the market) combined with aggressive export policies and subsidies gradually reduced government inventories during the 1960's. The Secretary of Agriculture was granted wider discretion to "fine-tune" programs to prevailing economic conditions. Producers gained more flexibility in production--not only as to whether or not to participate but also through substitution provisions with feed grain programs.

Payment limitations were imposed for the first time with the 1970 bill. Although limitations at $55,000 per producer per crop were quite high, their inclusion was still indicative of shift in attitude toward letting the market having a larger share in determining farm income. Direct payments on certificated production became based on the difference between the market price over time and parity rather than the loan rate and parity.

The Russian Grain deal of 1972 signalled another program failure--that of not maintaining stable prices for consumers. Subsequent market price increases for food and feed grains aggravated the public outrage over export credit and subsidies. With the enthusiastic support of Secretary of Agriculture Butz and the concurrence of many farmers who sensed a permanent change in agricultural markets, the market was effectively released. Export subsidies were suspended and P.L. 480 shipments were dramatically curtailed despite a world wide grain shortage. Set-asides were eliminated for the 1973 crop, and the farm bill passed that year removed the government from the market at existing price levels. In relation to costs, the legislated loan levels and target prices of the 1973 act provided lower relative price and income support than previous acts.

Rationalizing the Market.

However, government absence from grain markets was to be shortlived. When the Soviets in 1974 again contracted for large quantities of American grain, President Ford "voluntarily restricted" grain sales until a one year trade agreement was signed limiting the amount of grain the Soviets could purchase from the United States. Another attempt to corner a large share of the American grain supply during 1975 resulted (after much political furor) in a five year bilateral grain agreement with the Soviets designed to stabilize Soviet Purchases with minimum and maximum guaranteed purchases and government to government negotiation privileges for additional quantities. This type of agreement was one step in rationalizing the market. Similar contracts were later signed with other countries including Poland, China and Mexico.

The other major attempt to rationalize wheat markets was the Farmer Held Grain Reserve organized in 1977 as a partial response to surpluses and falling prices. Through the use of storage and interest subsidies, farmers were encouraged to retain ownership of their wheat which was isolated from the market until prices reached a certain specified price (the release level). At a higher price (the call level) farmers would be required to redeem their loans. Thus, a price corridor was theoretically established with the loan rate as a floor and the call price as a ceiling.

Despite this intervention into markets there is no doubt that the orientation was a market orientation. Target prices were increased slightly in 1977, but the rationale had changed--from an income supplement to an economic "safety net." Historical allotments were abandoned in favor of a current planting basis, allowing farmers without previous allotments to qualify for program benefits. Yet $1.6 billion dollars of deficiency and disaster payments during crop years 1977 and 1978 demonstrated that the government was still willing to respond to demonstrated need even if it was no longer willing to significantly enhance market prices.

The 1980 grain embargo devalued an export marketing orientation--failing to accomplish its objective of punishing the Soviet Union as well as bringing into doubt the reliability of the United States as a reliable trading partner. Whether this embargo proves to be an anomoly based on an ineffectual Carter foreign policy or signals one further step toward continued politicization of international agricultural trade remains to be seen.

The point remains, however, that agriculture and the wheat sector have moved irretrievably to an export basis--but our policy institutions and rhetoric have not completely adjusted.

CONCLUSIONS

Farmer rhetoric in the wheat belt tends to denigrate government involvement in wheat markets: "Get the government out of agriculture" is a popular sentiment as is "let supply and demand determine prices". The rhetoric of farm organizations also revolves around the desirability or undesirability of government involvement in markets. The American Farm Bureau Federation stresses minimal government involvement while the National Farmers Union wants price supports at 100% of parity. The National Farmers Organization emphasizes independent bargaining power while the goals of the National Association of Wheat Growers are parity prices and production control.

It is obvious that too few people know their agricultural history. This report has methodically examined the evolution of wheat commodity programs over a fifty year period. There have been various reasons for policy evolution. Economic conditions have changed as has relative political power and awareness of farm and non-farm organizations. But the major force behind program evolution has been highly visible policy failure.

Producers in the 1920's realized the problems of adapting to technological change and sudden shifts in demand. They fought for ten years to get the government involved in peacetime agricultural markets. Building surpluses in the mid-thirties signalled another policy failure. But the control programs of the AAA of 1938 were soon coopted for price enhancement which, given continuing technological change, produced the massive inventories of the 1950's and the myriad programs developed to dispose of this surplus. The massive surpluses again signalled policy failure.

Kennedy's supply management proposals were one answer to the problem. However, the wheat referendum of 1963 signalled that the government had tilted the balance between coersion and persuasion too far to the left. A new equilibrium was established around income enhancement, export promotion, and voluntary programs.

Production shortfalls and changes in the domestic policies of other countries brought another policy failure in the early seventies--that of failing to maintain price stability for domestic consumers. Again, the failure was highly visible in the outrage over the Russian Grain deal of 1972 and the food price component of the Consumer Price Index. Although consumers realized the problem of price instability in 1973, farmers were not to discover the depth of the problem until 1977 when prices reached a five year low.

Before the 1970's, the underlying economic problem was adjusting to technological change and productivity increases due to mechanization, biological improvements and improved cropping techniques. The problem in the 1970's and 1980's is how to adjust to fluctuations in world markets.

Fluctuations in world markets are a complex mix of weather, exchange rates, domestic policies of various nations and worldwide economic conditions. Before the U.S. wheat sector made the transition to commercial export markets in the 1970's, the major focus of domestic policy could be internal; with this transition the focus had to be broadened. From a policy viewpoint, the problem with an export basis is that a national government has less influence beyond its borders than within its borders--especially in convincing foreign nations to modify policies which hurt world markets but were adopted for internal reasons.

Which brings us to the subject of "food power." Food-power is an unfortunate analogy suggesting as it does the ability of the United States to accomplish foreign policy objectives through the withholding of food exports. The ability of a target nation to respond to food power is categorically different than response to military power. Military aggression must be met directly with force; aggression through food power is countered indirectly through alternative suppliers, transshipment of grain through other countries, or belt-tightening. The ability of a target nation to outflank food power also depends on the world supply and demand situation prevailing in a given year. "Food power" in years of surplus is substantially less than food power during shortage years. Demands for the use of food "power" are more demands to demonstrate determination than demands which will actually punish the target country. There are usually too many alternatives and too much leakage in world markets to actually punish.

If this leakage occurs, then why the outrage of farmers over embargoes? Don't sales and prices balance out through sales to other countries? Timing is one problem--uncertainty in markets has an immediate short term price depressing effect. But there are long term effects as well. Markets involve more than prices. Credit terms and service terms (shipping, reliability of supply, etc.) are important, too. For the economic well being of domestic farmers, the question of what nation holds the annual carryover becomes important. If the U.S. wants to compete in world markets on a basis other than residual supplier, it cannot unilaterally set the grounds for competition; it must respond to the initiatives of other exporters.

An export basis, therefore, requires the positive participation of the federal government in markets if for no other reason than to provide countervailing power to policies of other countries. But the federal government has other reasons to participate in markets. First, farmers want price floors but cannot set them by themselves. The experience of the wheat pools in the twenties and later experiences of the NFO, the AAM and alternative marketing plans demonstrate that without some umbrella entity such as the federal government, sufficient coordination to affect prices cannot be accomplished. Second, consumers want price ceilings. Pressures to hold down farm prices would again force the government to enter markets to protect the national supply of wheat and to curtail domestic prices if similar shortages occurred as in 1974 and 1975. I would suggest that long range programs designed to rationalize supply and prices are less disruptive than ad hoc embargoes.

This report has illustrated those who argue for free markets are just as antiquated as those who argue for 100% of parity. Neither is attainable; neither is desirable. George F. Will once commented that "the world has suffered much from those who are so ignorant of the past that they do not know that they are addressing old wrong questions in old wrong ways." I feel it is time to expand farmer thinking about policies which affect their livelihood beyond questions of whether the federal government should involve itself in farm markets or not. It is in, it will be in, and it needs to be in. But if the government is to pursue programs designed to stabilize export markets, it must not undercut farmer support through the use of political embargoes. There is room for policy clarity on all sides.

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APPENDIX I. United States Wheat Acreage, Yield and Production, 1910-1980.

(1) Crop Year	(2) Planted Acres (Millions)	(3) Harvested Acres (Millions)	(4) Yield (Bushels per acre)	(5) Production (Million bushels)
1910		45.8	13.7	625.5
1911		49.9	12.4	618.2
1912		48.4	15.1	730.0
1913		52.0	14.4	751.1
1914		55.6	16.1	897.5
1915		60.3	16.7	1008.6
1916		53.5	11.9	634.6
1917		46.8	13.2	619.8
1918		61.1	14.8	904.1
1919	77.4	73.7	12.9	952.1
1920	68.1	62.4	13.5	843.3
1921	67.7	64.6	12.7	819.0
1922	67.2	61.4	13.8	846.7
1923	64.6	56.9	13.8	759.8
1924	55.7	52.5	16.0	840.1
1925	61.7	52.4	12.8	669.1
1926	60.7	56.8	14.7	883.5
1927	65.7	59.6	14.7	874.7
1928	71.2	59.2	15.4	913.0
1929	67.2	63.3	13.0	822.2
1930	67.6	62.7	14.2	889.7
1931	66.5	57.1	16.3	932.2
1932	66.3	57.1	13.1	745.8
1933	69.0	47.9	11.0	529.0
1934	64.1	42.2	11.8	496.9
1935	69.6	51.3	12.2	628.2
1936	74.0	49.1	12.8	629.9
1937	80.8	64.2	13.6	873.9
1938	80.0	69.2	13.3	919.9
1939	62.8	52.7	14.1	741.2
1940	61.8	53.0	15.3	813.3
1941	62.7	55.6	16.9	943.1
1942	53.0	49.8	19.5	969.4
1943	56.0	51.4	16.4	843.8
1944	66.2	59.7	17.7	1060.1
1945	69.2	65.2	17.0	1107.6

(1) Crop Year	(2) Planted Acres (Millions)	(3) Harvested Acres (Millions)	(4) Yield (Bushels per acre)	(5) Production (Million bushels)
1946	71.8	67.1	17.2	1152.1
1947	78.3	74.5	18.2	1358.9
1948	78.3	72.4	17.9	1294.9
1949	83.9	75.9	14.5	1098.4
1950	71.3	61.6	16.5	1019.3
1951	78.5	61.9	16.0	988.2
1952	78.6	71.1	18.4	1306.4
1953	78.9	67.8	17.3	1173.1
1954	62.5	54.4	18.1	983.9
1955	58.2	47.3	19.8	937.1
1956	60.7	49.8	20.2	1005.4
1957	49.8	43.8	21.8	955.7
1958	56.0	53.0	27.5	1457.4
1959	56.7	51.7	21.6	1117.7
1960	54.9	51.9	26.1	1354.7
1961	55.7	51.6	23.9	1232.4
1962	49.3	43.7	25.0	1092.0
1963	53.4	45.5	25.2	1146.8
1964	55.7	49.8	25.8	1283.4
1965	57.4	49.6	26.5	1315.6
1966	54.1	49.6	263.	1304.9
1967	67.3	58.4	25.8	1507.6
1968	61.9	54.8	28.4	1556.6
1969	53.5	47.1	30.6	1442.7
1970	48.7	43.6	31.0	1351.6
1971	53.8	47.7	33.9	1617.8
1972	54.9	47.3	32.7	1544.9
1973	59.0	53.9	31.7	1705.2
1974	71.4	65.6	27.4	1796.2
1975	75.1	69.6	30.7	2134.8
1976	80.2	70.8	30.3	2147.4
1977	75.1	66.5	30.6	2036.3
1978	66.1	56.8	31.6	1798.7
1979	71.4	62.5	34.2	2134.1
1980	80.4	70.9	33.4	2369.7

Source: USDA. Agricultural Statistics, 1979 (Washington: GPO) 1980, p. 1, and corresponding table other years.

APPENDIX II. United States Annual Supply Statistics for Wheat 1919-1980 (million bushels)

(1) Crop Year	(2) Beginning Inventory July 1	(3) Production	(4) Imports	(5) Total
1919	77	952	6	1034
1920	145	843	58	1046
1921	127	819	17	963
1922	137	759	28	925
1923	137	759	28	925
1924	144	840	6	991
1925	115	669	16	800
1926	105	834	13	952
1927	122	875	16	1013
1928	124	913	21	1058
1929	247	822	13	1082
1930	291	887		1178
1931	313	942		1254
1932	375	756		1132
1933	378	552		930
1934	273	526	14	813
1935	146	628	35	809
1936	140	630	34	805
1937	83	874	1	958
1938	153	920		1073
1939	250	741		991
1940	280	815	4	1098
1941	385	942	4	1330
1942	631	969	1	1601
1943	619	844	136	1599
1944	317	1060	42	1919
1945	279	1108	2	1389
1946	100	1152		1252
1947	84	1359		1443
1948	196	1295	2	1492
1949	307	1098	2	1408
1950	425	1019	12	1456
1951	400	988	32	1420
1952	256	1306	22	1584
1953	606	1173	6	1784

(1) Crop Year	(2) Beginning Inventory July 1	(3) Production	(4) Imports	(5) Total
1954	934	984	4	1922
1955	1036	937	10	1983
1956	1034	1005	8	2047
1958	881	1457	8	2347
1959	1295	1118	7	2420
1960	1313	1355	8	2676
1961	1411	1232	6	2649
1962	1322	1092	5	2419
1963	1195	1147	4	2346
1964	993	1283	2	2279
1965	921	1316	1	2238
1966	660	1305	2	1967
1967	513	1508	1	2021
1968	630	1557	1	2188
1969	904	1443	3	2350
1970	983	1352	1	2336
1971	823	1618	1	2442
1972	983	1546	1	2530
1973	597	1711	3	2311
1974	340	1782	3	2125
1975	435	2122	2	2559
1976	665	2142	3	2810
1977	1113	2045	2	3161
1978	1177	1776	2	2955
1979	925	2134	2	3060
1980	902	2370	2	3274

Source For Crop Years 1930-1980:
USDA, Agricultural Statistics, 1979. (Washington: USDA), p. 4 and corresponding table other years.

Source For Crop Years 1919-1929:
USDA, Agricultural Statistics, 1936. (Washington: USDA), p. 18.

APPENDIX III. United States Annual Disappearance Statistics for Wheat, 1919-1980 (million bushels)

(1) Crop Year	(2) Domestic Disappearance (a) Seed	(b) Food	(c) Feed and Residual	(d) Industrial	(e) Total	(3) Exports	(4) Total Disap-pearance	(5) Ending Inventories June 30
1919	91	.....	573	....	664	225	889	145
1920	89	.....	457	....	546	373	919	127
1921	88	.....	475	....	563	286	849	114
1922	85	.....	531	....	616	228	844	137
1923	74	.....	544	....	618	163	781	144
1924	81	.....	531	....	612	264	876	115
1925	80	.....	504	....	584	111	695	105
1926	85	.....	522	....	607	222	829	122
1927	91	.....	589	....	680	209	884	124
1928	85	.....	560	....	645	167	812	247
1929	83	.....	551	....	634	156	790	291
1930	81	500	178		759	103	865	313
1931	80	498	180		758	118	879	375
1932	84	508	130		723	28	754	378
1933	78	465	90		633	21	657	273
1934	83	475	101		659	6	667	146
1935	87	484	90		661	4	668	140
1936	96	489	104		689	10	702	83
1937	93	485	119		697	104	805	153
1938	74	496	142		712	108	823	250
1939	73	490	100		663	45	712	280
1940	74	492	109		675	34	713	385
1941	62	473	114	2	652	28	700	631
1942	65	500	301	54	921	31	982	619
1943	77	482	507	108	1174	43	1283	317
1944	80	472	302	82	937	49	1140	279
1945	82	474	297	21	874	320	1289	100
1946	86	483	174		744	328	1168	84
1947	91	489	174	1	754	340	1247	196
1948	95	480	97		672	328	1185	307
1949	81	492	107		680	303	983	425

(1) Crop Year	(2) Domestic Disappearance					(3) Exports	(4) Total Disap-pearance	(5) Ending Inventories June 30
	(a) Seed	(b) Food	(c) Feed and Residual	(d) Industrial	(e) Total			
1950	88	493	109		690	366	1056	400
1951	88	497	104	1	689	475	1164	256
1952	89	488	84		661	318	979	606
1953	69	488	77		634	217	851	934
1954	65	486	60		611	274	885	1036
1955	68	481	54	1	604	346	950	1034
1956	58	481	50		589	549	1138	909
1957	63	487	42		592	402	994	881
1958	64	498	47		609	443	1051	1295
1959	63	497	37		597	510	1107	1313
1960	64	497	42		603	662	1265	1411
1961	56	502	50		608	719	1327	1322
1962	61	500	19		580	644	1224	1195
1963	65	503	20		589	856	1445	993
1964	66	514	-55		635	723	1358	921
1965	61	518	146		725	852	1577	660
1966	77	505	101		683	771	1454	513
1967	71	518	37		626	765	1391	630
1968	61	522	157		740	544	1284	904
1969	56	520	188		764	603	1367	983
1970	62	517	193		772	741	1513	823
1971	63	524	262		849	610	1459	983
1972	67	532	200		799	1135	1934	597
1973	84	544	126		754	1217	1971	340
1974	92	545	35		672	1018	1690	435
1975	99	589	33		721	1173	1894	665
1976	92	588	68		748	950	1698	1112
1977	80	586	192		859	1124	1982	1177
1978	87	591	157		337	1194	2031	925
1979	101	596	86		783	1375	215	902
1980	110	610	75		795	1525	2320	954

Source for Crop Years 1930-1980:
USDA, Agricultural Statistics, 1979 (Washington: USDA, p. 4 and corresponding table other years
Source for Crop Years 1919-1929:
USDA, Agricultural Statistics, 1981 (Washington: USDA, p. 18.

APPENDIX IV. United States Wheat Production, Average Farm Price, National Average Support Price, Farm Value and Government Payments, 1910-1980.

(1) Crop Year	(2) Production	(3) Average Price to Farmers	(4) National Average Support Price (a) Loan Rate	(b) Parity Payment	(c) Conservation Payment	(5) Farm Value	(6) Government Payments	(7) (5) + (6)
1910	625.5	.90				567.8		
1911	618.2	.87				537.1		
1912	730.0	.81				563.1		
1913	751.1	.79				563.1		
1914	897.5	.97				874.0		
1915	1008.6	.96				968.8		
1916	634.6	1.43				910.1		
1917	619.8	2.05				1268.9		
1918	904.1	2.05	1)			1853.1		
1919	952.1	2.16	1)			2059.4		
1920	843.3	1.83				1539.6		
1921	819.0	1.03				843.5		
1922	846.7	.97				817.9		
1923	759.8	.93				703.3		
1924	840.1	1.25				1047.7		
1925	669.1	1.44				961.8		
1926	883.5	1.22				1014.6		
1927	874.7	1.19				1041.2		
1928	913.0	1.00				911.1		
1929	822.2	1.04	2)			851.8		

(Appendix IV, con't.)

(1) Crop Year	(2) Production	(3) Average Price to Farmers	(4) National Average Support Price (a) Loan Rate	(b) Parity Payment	(c) Conservation Payment	(5) Farm Value	(6) Government Payments	(7) (5) + (6)
1930	889.7	.67	2)			596.7		
1931	932.2	.39				363.1		
1932	745.8	.38				283.8		
1933	552.2	.74				410.8	93.8[3]	504.6
1934	526.1	.85				446.1	105.5[3]	551.6
1935	628.2	.83				521.9	115.0[3]	636.9
1936	629.9	1.02				645.5	43.4[3]	688.9
1937	873.9	.96				840.7		
1938	919.9	.56	.59	.12		516.6	50.1[4]	566.7
1939	741.2	.69	.63	.17	11	512.4	137.6[4]	650.0
1940	814.6	.68	.64	.18	.10	555.5	103.6[4]	659.1
1941	942.0	.94	.98	.08	.10	889.6	107.3[4]	996.9
1942	969.4	1.10	1.14	.23		1064.8	137.3[4]	1202.0
1943	843.8	1.36	1.23	.085	.137	1148.8	140.4[4]	1289.2
1944	1060.1	1.41	1.35			1498.1		
1945	1107.6	1.49	1.38			1660.9		
1946	1152.1	1.90	1.49			2201.0		
1947	1358.9	2.29	1.84			3109.4		
1948	1294.9	1.98	2.00			2577.2		

(Appendix IV, con't.)

(1) Crop Year	(2) Production	(3) Average Price to Farmers	(4) National Average Support Price (a) Loan Rate	(b) Parity Payment	(c) Conservation Payment	(5) Farm Value	(6) Government Payment	(7) (5) + (6)
1949	1098.4	1.88	1.95			2061.9		
1950	1019.3	2.00	1.99			2042.3		
1951	988.2	2.11	2.18			2088.7		
1952	1306.4	2.09	2.20			2729.4		
1953	1173.1	2.04	2.21			2390.9		
1954	983.9	2.12	2.24			2082.5		
1955	937.1	1.98	2.08			1858.5		
1956	1005.4	1.97	2.00			1976.2	43.4 [5)]	2019.6
1957	955.7	1.93	2.00			1848.4	229.5 [5)]	1713.9
1958	1457.4	1.75	1.82			2543.7	104.1 [5)]	2647.8
1959	1117.7	1.76	1.81			1969.5		
1960	1354.7	1.74	1.78			2361.2		
1961	1232.4	1.83	1.79			2254.7		
1962	1092.0	2.04	2.00			2225.7	285.5 [6)]	2511.2

(Appendix IV, con't.)

(1) Crop Year	(2) Production	(3) Average Price To Farmers		(4) National Support Price				(5) Farm Value	(6) Goverment Payments	(7) (5) + (6)
		(a) Market Price	(b) Imputed Price for Program Participants[7)]	(a) Loan Rate	(b) Domestic Marketing Certificate Value	(c) Export Marketing Certificate Value	(d) Target Price			
1963	1146.8	1.85	2.03	1.82	.18			2125.3	242.6[8)]	2367.9
1964	1283.4	1.37	1.80	1.30	.70	1.30		1757.0	442.9[9)]	2199.9
1965	1315.6	1.35	1.79	1.25	.75	1.25		1774.5	509.2[9)]	2283.7
1966	1304.9	1.63	2.22	1.25	1.32			2129.9	681.3[9)]	2811.2
1967	1507.6	1.39	1.87	1.25	1.36			2090.1	727.1[10)]	2817.2
1968	1556.6	1.24	1.79	1.25	1.38			1929.1	746.0[10)]	2675.1
1969	1442.7	1.25	1.89	1.25	1.52			1795.7	855.9[9)]	2651.6
1970	1351.6	1.33	2.08	1.25	1.57			1803.2	871.0[9)]	2674.2
1971	1617.8	1.34	1.88	1.25	1.63			2166.7	885.0[9)]	3051.7
1972	1544.9	1.76	2.23	1.25	1.34			2704.1	858.7[9)]	3562.8
1973	1705.2	3.95	4.17	1.25	0.68			6719.2	478.2[9)]	7197.4

(Appendix IV, con't.)

(1) Crop Year	(2) Production	(3) Average Price To Producers	(4) National Support Price (a) Loan Rate	(4) (b) Domestic Marketing Certificate Value	(4) (c) Export Marketing Certificate Value	(4) (d) Target Price	(5) Farm Value	(6) Government Payments	(7) (5) + (6)
1974	1781.9	4.09	1.37			2.05	7287.0		
1975	2126.9	3.56	1.37			2.05	7553.0		
1976	2148.8	2.73	2.25			2.29	5870.0		
1977	2045.5	2.33	2.25			2.90	4766.0	996.4[11)]	5762.4
1978	1775.5	2.97	2.35			3.40	5280.6	632.5[12)]	5913.1
1979	2134.1	3.78	2.50			3.40	8070.4		
1980	2369.7	3.95-4.15	3.00/3.30[13)]			3.08/3.63[14)]	9437.0		

NOTES:

1) Guaranteed price of $2.20 and @2.26 per bushel for the 1918 and 1919 crops respectively announced by the WWI Grain Corporation. No underlying support mechanism existed except cooperation of the grain trade. Based on #1 spring wheat delivered to Chicago.
2) Support operations were conducted by the Federal Farm Board during these years. See text.
3) adjustment or conservation payments.
4) adjustment or conservation or parity payments
5) acreage reserve under the Soil Bank.
6) diversion payment
7) based on the national average price received by farmers and value of marketing certificates averaged for participants total production.
8) diversion and price support payments.
9) diversion and certificate payments.
10) certificate payments.
11) deficiency payments.
12) deficiency and buying and grazing payments.

13) loan rate for regular loans/loan rate for wheat in farmer-held reserve.
14) target price was 3.63 for producers planting within their normal crop acreage (NCA); 3.08 for farmers exceeding their NCA.

SOURCES. Agricultural Stabilization and Conservation Service, Wheat: Summary of 1981 Support Program and Related Information. (Washington: USDA/ASCS) May, 1981. p. 7, and similar bulletins, 1979, p. 12.

USDA. Agricultural Statistics, 1936, (Washington: USDA), pp. 5,6.

APPENDIX V. Acreage Allotments, Marketing Quotas, and Producer Referendums in the United States 1933-1980. "Q" Indicates Marketing Quota for Crop Year.

(1) Crop Year	(2) National Acreage Allotment (million acres)	(3) Number of Producers Voting in Marketing Quota Referendums	(4) % of (3) Affirming Referendum
1933			
1934	56.0 1)		
1935	59.3 1) 2)		
1936			
1973			
1938			
1939	55.0		
1940	62.0		
1941	62.0 Q	559.6	81.0
1942	55.0 Q	392.1	82.4
1943	55.0 Q	No Vote	
1944	-		
1945	-		
1946	-		
1947	-		
1948	-		
1949	-		
1950	72.8		
1951	72.8 2)		
1952			
1953			
1954	62.8 Q	447.8	87.2
1955	55.8 Q	284.6	73.3
1956	56.2 Q	347.7	77.3
1957	55.0 Q	280.5	87.4
1958	55.0 Q	235.0	86.2
1959	55.0 Q	230.3	84.1
1960	55.0 Q	210.2	80.8
1961	55.0 Q	178.7	87.4
1962	49.6 Q	278.5	79.4
1963	55.0 Q	247.5	68.4
1964	53.2 3)	1,222.9	47.8
1965	53.3		

(1) Crop Year	(2) National Acreage Allotment (million acres)	(3) Number of Producers Voting in Marketing Quota Referendums	(4) % of (3) Affirming Referendum
1966	51.6		
1967	68.2		
1968	59.3		
1969	51.6		
1970	45.5		
1971	19.7 4)		
1972	19.7 4)		
1973	18.7 4)		
1974	55.0		
1975	53.5		
1976	61.6		
1977	62.2		
1978	58.8 5)		
1979	70.1 5)		
1980	75.0 5)		

1) 85% and 90% of average wheat acreage, 1930-32. (65.9 million acres)
2) Allotments relaxed during year.
3) Includes increase in small farm allotments authorized by law for 1964 and later years.
4) National domestic allotment.
5) National Program Acreage.

SOURCES: Spencer A. Rich, U.S. Agricultural Policy in the Postwar Years: 1945-63. (Washington: Congressional Quarterly Service, 1963), p. 15.

Agricultural Stabilization and Conservation Service. "Results of Marketing Quota Referendums" Background Information B.I. No. 10. (Washington: USDA/ASCS, May, 1976) p. 5.

Agricultural Stabilization and Conservation Service. Wheat: Summary of 1981 Support Program and Related Information. (Washington: USDA/ASCS, May, 1981), p. 4.

APPENDIX VI. Loan Transactions, Collateral Acquisitions and Purchases of the Commodity Credit Corporation, 1938-1979 (Million Bushels)

(1) Crop Year	(2) Pledged for Loans	(3) Forfeited to CCC	(4) Purchases	(5) Total CCC Acquisitions (3) + (4)	(6) % of Total U.S. Production Acquired by CCC	(7) % of Total U.S. Production Under Loan or Purchase
1938	85.7	15.7	-	15.7	2%	9%
1939	167.7	7.7	-	7.7	1%	23%
1940	278.4	178.7	-	173.7	21%	34%
1941	366.3	269.8	-	269.8	29%	39%
1942	408.1	184.0	27.1	211.1	22%	45%
1943	130.2	0.3	143.0	143.8	17%	32%
1944	180.4	79.9	103.9	176.8	17%	27%
1945	59.7	-	221.9	221.9	20%	25%
1946	22.0	-	199.8	199.8	17%	19%
1947	31.2	-	321.8	321.8	24%	26%
1948	252.6	222.4	68.5	290.9	22%	25%
1949	334.4	240.5	7.0	247.5	23%	31%
1950	188.4	41.3	0.6	41.9	4%	19%
1951	199.5	85.9	5.4	91.3	9%	15%
1952	397.8	354.8	42.9	397.7	30%	34%
1953	489.6	454.3	31.8	486.1	41%	44%
1954	400.5	373.6	18.0	391.6	40%	43%
1955	274.9	255.6	21.1	276.7	30%	32%
1956	233.3	140.9	7.5	148.4	15%	24%
1957	221.4	178.8	14.7	193.5	20%	25%
1958	560.4	487.4	23.6	511.0	35%	40%
1959	297.5	178.7	3.2	181.9	16%	27%
1960	403.7	252.0	8.8	260.8	19%	30%
1961	261.6	119.5	0.3	119.8	10%	21%
1962	278.3	234.4	10.6	245.0	22%	26%
1963	161.6	79.3	5.8	85.1	7%	15%
1964	197.9	78.4	8.5	86.9	7%	16%
1965	170.1	14.9	2.5	17.4	1%	13%
1966	132.7	12.2	0.2	12.4	1%	10%
1967	281.1	89.4	0.6	90.0	6%	18%

(1) Crop Year	(2) Pledged for Loans	(3) Forfeited to CCC	(4) Purchases	(5) Total CCC Acquisitions (3) + (4)	(6) % of Total U.S. Production Acquired by CCC	(7) % of Total U.S. Production Under Loan or Purchase
1968	445.0	175.6	7.3	182.9	12%	29%
1969	406.9	97.0	0.7	97.7	7%	28%
1970	254.2	9.3	-	9.4	1%	19%
1971	438.6	12.6	22.4	31.8	2%	29%
1972	143.0	-	42.1	42.1	3%	12%
1973	59.9	-	-	-	-	4%
1974	36.4	-	0.8	0.8	-	2%
1975	47.8	-	3.5	3.5	-	2%
1976	472.7	9.9	17.7	27.6	1%	23%
1977	590.9	39.7	13.1	52.8	1%	30%
1978	255.4	0.5	9.9	10.4	-	15%
1979	181.5	-	156.6	156.6	9%	16%

Sources: Commodity Credit Corporation, "Report of Financial Condition and Operations as of Sept. 30, 1980" (Washington: USDA/ASCS, 1981), p. 26.

Commodity Credit Corporation, "CCC Charts through Sept. 30, 1978" (Washington: USDA/ASCS, 1979), pp. 105-107.

APPENDIX VII. Comparison of Wheat Inventories of the Commodity Credit Corporation and Total U.S. Inventories, 1939-1980 (Million bushels).

(1) Year	(2) CCC Inventory June 30	(3) U.S. Inventory June 30	(4) (2) as % of (3)
1939	6.0	250.0	2.4%
1940	1.6	279.7	0.5%
1941	169.2	384.7	44.0%
1942	319.7	630.8	50.7%
1943	259.8	618.9	42.0%
1944	99.1	316.6	31.3%
1945	103.7	279.2	37.1%
1946	-	100.1	-
1947	-	83.8	-
1948	0.1	195.9	-
1949	227.2	307.3	73.9%
1950	327.7	424.7	77.2%
1951	196.4	396.2	49.6%
1952	143.3	256.0	56.0%
1953	470.0	605.5	77.6%
1954	774.6	933.5	83.0%
1955	875.9	1036.2	94.2%
1956	950.7	1033.5	92.0%
1957	823.9	908.8	90.7%
1958	834.9	881.4	94.7%
1959	1146.6	1295.1	88.5%
1960	1195.4	1313.4	91.0%
1961	1133.0	1411.3	80.3%
1962	1096.6	1322.0	83.0%
1963	1082.5	1195.2	90.6%
1964	828.9	993	83.5%
1965	646.3	921	70.2%
1966	340.3	660	51.6%
1967	123.6	513	24.1%
1968	102.3	630	16.2%
1969	162.7	904	18.0%
1970	301.2	983	30.6%

(1) Year	(2) CCC Inventory June 30	(3) U.S. Inventory June 30	(4) (2) as % of (3)
1971	369.9	823	44.9%
1972	367.4	983	37.4%
1973	144.1	597	24.1%
1974	18.9	340	5.6%
1975	1.3	435	0.3%
1976	0.2	665	-
1977	0.3	1112	-
1978	45.7	1177	4.1%
1979	50.2	925	5.4%
1980	141.7	902	15.7%

Sources: USDA, "Wheat Outlook and Statistics" (Washington: USDA: ESS, May, 1981), p. 1 and corresponding tables previous years.

APPENDIX VIII. Dollar Amounts of Commodity Credit Corporation Loans, 1939-1980 (Million Dollars)

(1) Crop Year	(2) CCC Loans	(1) Crop Year	(2) CCC Loans
1939	$ 49.2	1960	536.7
1940	117.4	1961	736.5
1941	200.6	1962	446.5
1942	361.6	1963	571.1
1943	468.2	1964	291.0
1944	164.3	1965	261.2
1945	249.8	1966	192.6
1946	80.3	1967	157.5
1947	31.8	1968	354.6
1948	63.8	1969	546.7
1949	520.3	1970	519.0
1950	662.8	1971	280.4
1951	373.6	1972	593.9
1952	434.6	1973	160.1
1953	892.7	1974	74.7
1954	1063.8	1975	42.7
1955	858.1	Transition Quarter*	64.8
1956	597.7	1976	1128
1957	439.2	1977	1357
1958	468.9	1978	591
1959	1040.7	1979	431
		1980	281

*Fiscal Year Change from July 1-June 30 to Oct. 1-Sept. 30.

Source: Commodity Credit Corporation, "Report of Financial Condition and Operations as of Sept. 30, 1980" (Washington: USDA/ASCS), p. 26.

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THE DEVELOPMENT OF WHEAT PROGRAMS IN THE UNITED STATES: A SEVENTY YEAR PERSPECTIVE

by

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AN ABSTRACT OF
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ABSTRACT

This report examines seventy years of the wheat sector and fifty years of federal wheat programs in the United States. It is organized around the relationship between government programs and the "free market." Through the use of an incremental paradigm, program evolution is traced. Four general policy periods have been identified:

1) Reviving the Market - the search for relief, 1929-1938.

2) Replacing the Market - active enhancement of domestic wheat prices, 1939-1963.

3) Releasing the Market - returning prices to the world level, 1964-1973.

4) Rationalizing the Market - searching for stability in an uncertain world market, 1974-1980.

Within each policy period, policy initiatives, resulting legislation, program details, and successes and failures of programs are discussed. Conclusions include: 1) Programs changed only when certain negative results became highly visible. 2) Policies before the 1970's were attempts to temper price and income effects of technological change and increases in productivity; policies developed during the 1970's were designed to rationalize fluctuating export demand as U.S. wheat prices became based on commercial exports. 3) Government involvement in wheat markets is important to provide countervailing power to policies of importers and other exporters. 4) The policy climate would be improved if farmers and farm organizations would adjust their rhetoric to realities of world markets. However, the government should not devalue an export-based farm policy through the use of political embargoes.