CHANGES IN THE AGRICULTURAL ADJUSTMENT PROGRAM IN THE PAST 25 YEARS

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THE entry of the government into active efforts to raise or support farm prices in the market place came in late 1929 in connection with operations of the Federal Farm Board under the provisions of the agricultural marketing act. This legislation followed agitation for governmental participation in price making during much of the decade of the 1920's.

The development of farm programs is an evolutionary rather than a revolutionary process. A new program does not spring suddenly into full bloom. The procedure is to draw on earlier programs or proposals, dropping out some features, adding others. Thus, the agricultural marketing act included ideas drawn from the McNary-Haugen, the export-debenture, the allotment plan and others.

The Farm Board was most unfortunate in the selection of its natal day. The members had scarcely gotten their chairs warm before the sharp break in the stock market in late October served notice of a decided turn for the worse in the economic outlook. Events forced the Farm Board into attempts at price stabilization for which it was not well prepared or equipped. Its operations consisted largely of employing its revolving fund to hold commodities, particularly wheat and cotton, in sufficient amounts to keep the prices at or near existing levels. Had the Board foreseen the severity and length of the depression, it might have been more cautious in its venture in this field. However, its members and staff apparently shared the general feeling expressed in the hopeful political slogan, "Prosperity is right around the corner." Outlook statements of the U. S. Department of Agriculture in late 1929, bolstered the hope of the Board that wheat prices might be appreciably improved by spring. Besides, the Board was hardly a free agent in deciding whether or not to enter the market, in view of the fact that the agricultural marketing act was the administration's response to the farmers' "prayers for relief."

Under more favorable conditions and with a better kit of tools, the life of the Farm Board might have been prolonged but the end result would have been the same. It passed out of existence as far as price operations were concerned with the change of administration in 1933. Its demise can hardly be described as being in a blaze of glory nor as having occasioned too much mourning. In fact, the Board was not given credit for the demonstration it provided for public edification of the absurdity of endeavoring to maintain an arbitrary price without any means of curbing supplies or of disposing of accumulations. This demonstration paved the
way for the agricultural adjustment act of 1933, creating the Agricultural 
Adjustment Administration as an agency within the U. S. Department of 
Agriculture.

This act illustrates the evolutionary process. It was not, as some seem to 
have imagined, a case of leaders in session hammering out a completely 
new program. It was, instead, a case of bringing together a wide variety 
of ideas from earlier proposals. It drew on the experiences of the Farm 
Board, not only in giving emphasis to adjusting output and supplies but 
in price-support operations. It embodied vestiges of the earlier McNary-
Haugen bills, the export debenture, the allotment, the rental and other 
plans. Drain on the public treasury was to be avoided by making the 
operations “self-financing” by means of processing taxes. The idea was an 
adaptation of the equalization fee of the McNary-Haugen plan, but with 
the assumption that the tax would be passed forward to the consumer 
instead of being collected from the farmer.

While “parity” was not specifically so designated in the act of 1933, the 
concept was outlined. This was an adaptation of a proposal embodied in 
the earlier forms of the McNary-Haugen bills. The Commodity Credit 
Corporation was established early as the operating agency. While more 
extensive than the operations of the Farm Board, its functions have had 
much in common with the earlier one.

One important addition to the act of 1933 was provisions for adjusting 
production in recognition of the point clearly demonstrated by the 
Farm Board’s experience that excess supplies were depressing prices and 
that output had to be adjusted to make price supports effective. The 
emphasis has continued to be on “adjustments” rather than on “controls.” 
The idea during the past quarter century has been that of inducing 
adjustments by means of incentives rather than by compelling curtail-
ments. Criticisms are aimed at the failure to get sufficient results rather 
than at the public sharing in the costs of adjustment.

The Agricultural Adjustment Administration took over at or near the 
bottom of the depression trough when things were so bad that most any 
change had to be for the better. It consequently was in a position to share 
in the credit for improvement instead of suffering the fate of the Farm 
Board in being washed over the depression brink. It also received co-
operation from the weather because severe drouths, especially in 1934 
and 1936, helped to curtail output for the time being.

The agricultural adjustment act and its companion legislation, the 
national industrial recovery act, both were felled by decisions of the 
Supreme Court in 1936, that they were unconstitutional. The bitter 
criticism of the Court by the administration might have been tempered 
by an admission that the result was to require some drastic changes in 
operations which were falling short of fulfilling promises. In fact, the
administration indicated that the decision speeded changes which had been planned. A rather popular view is that the Court found the processing taxes to be unconstitutional. Had this been the case, it would have been relatively simple for Congress to appropriate replacement funds. The Court, however, cut off the program at its roots by holding that the constitution had conferred no power on the federal government to control agricultural production, hence this was a matter belonging with the individual states. The processing taxes then were invalid because they were being collected for a use which was unconstitutional.

This forced the administration and Congress to seek major replacement. The idea of inviting the states to undertake adjustment, using federal funds, was considered but found impracticable. One answer was the soil conservation and domestic allotment act of 1936 to broaden the objective of the conservation program to include improvements in farm prices and incomes, with major reliance on incentive payments to get farmers to shift acres in surplus crops to "conservation" crops. Provision also was made for payments to farmers for engaging in certain approved practices and the resulting agricultural conservation practice (ACP) payments have continued since.

The agricultural adjustment act of 1938 represented a return to a more formal price support program. It specifically named and defined "parity" and instituted price supports on "basics" on a flexible scale, from 52 to 75 per cent of parity. Hope for effecting curbs on volume for these crops was lodged in acreage allotments and marketing quotas. Most of the subsequent legislation relating to price supports have been amendments to the act of 1938; so it continues to occupy a major role. One significant change in basic thinking between 1933 and 1938 is worth noting. The act of 1933 had a section which indicated that it was intended to remain in force only during the depression. The earlier emphasis had been on recovery from depression. The act of 1938 provided price programs of a more permanent nature.

The severe drouths of 1934 and 1936, while they did not result in any general shortages, created some apprehension lest real shortages might develop. This provided a favorable climate for the unveiling by Secretary of Agriculture Henry A. Wallace of his "ever-normal granary." The problem, however, was not one resulting from "weather" surpluses occasioned by unusually favorable seasons, but one of recurring surpluses for which the ever-normal granary was not the answer. Its appeal to the public probably helped make acceptable the continuing piling up of stocks in the hands of the CCC.

By the late 1930's, accumulations of wheat and cotton were reaching levels where the term "ever-abnormal granary" was being suggested as more appropriate. An earlier observation of the late George F. Warren, in
one of his typical epigrams, was being fulfilled. He epitomized the ever-normal granary by saying "easy to fill; hard to empty." Had not World War II intervened, corrective steps would have been needed, either by reducing support levels or by imposing more effective controls. One can only speculate on what action might have been taken. Price supports then were still viewed as experimental and modification might have been more palatable politically than has been true in recent years.

War stepped up demand for many farm products so that their prices soon rose above support levels. Concern shifted from surpluses to threat of shortages and from price boosting to price and wage ceilings to contain inflation. The world was relatively well-supplied with wheat during the early years of the war. The CCC stocks, however, were consumed by using considerable quantities for livestock feed to help meet the demand for animal products and in the manufacture of industrial alcohol for synthetic rubber to offset the loss of natural rubber.

Congress changed the objective of the program from that of raising prices to farmers to that of providing incentives to farmers to produce for war needs. This involved specifying supports for a wide range of farm commodities at 90 per cent of parity. These were to remain in force until two years after the end of hostilities, presumably to give farmers a breathing spell during which to adjust to the anticipated smaller peacetime market.

Had this wartime provision been permitted to expire on December 31, 1948, supports at 52 to 75 per cent would have been restored on basics and those on some other commodities would have been dropped. Congress, however, in the act of 1948, extended the 90 per cent supports to 1950 and provided a range from 60 to 90 per cent after that. The act of 1949 extended the 90 per cent level to 1952 and narrowed the range thereafter to 75 to 90 per cent of parity. A further extension in 1952 kept the flexible provisions of 1949 from going into effect before 1954 at which time Congress authorized as an interim step a range of 821/2 to 90 per cent for 1955.

Demand for farm products abetted by our aid program remained strong for several years after the war. In fact, a major share of the expansion in wheat acreage came in this period, reaching a peak of 84 million acres in 1949. Price supports continued largely as stand-bys during this period. Apparently more than a few concluded that the high level of supports accounted for the relatively favorable income position of agriculture during these years and this may have increased resistance against subsequent lowering of supports.

By 1948 and 1949 some indications of surpluses were returning and the process of rebuilding stocks was resumed. The Korean outbreak gave demand another temporary boost and this helped give the incentive levels
of support a longer life span. We showed unwillingness to face the fact that incentive supports were unsuited to a situation which called for downward adjustments, not expansion.

The Soil Bank Act of 1956 gave evidence of an awakening realization that the farm income problem could not be solved by price manipulation but that some real adjustments in capacity to produce were needed. The Administration at first viewed the proposal with considerable doubt but later seemed to find a version more to its liking. This is not the place for a detailed review of the soil bank. In brief, it has two major features, the acreage reserve and the conservation reserve. The former is intended to hold out of production for market some good land used for basic crops temporarily to bring current production below current dispositions in order to move excess storage accumulations. The conservation reserve aims at longer-run removal from crop production of enough land to bring capacity to produce more nearly into balance with available markets. The incentives for farmers to put land into the soil bank are payments from public funds appropriated for that use. These are intended to replace the income which the farmer could expect to receive if he used that land for crop purposes and to cover a considerable share of the costs of converting crop land to other uses.

Some corollary programs should be noted in passing in order to round out the picture. It was realized quite early that prices supported above market levels would draw products from other countries to our markets. To head this off, Congress in 1935 added section 22 to the farm legislation, authorizing and directing the administration to restrict imports which threaten to interfere with price support operations. Import quotas or fees may be imposed on specific imports to this end. On the other hand, exports have been and are being viewed as outlets for our surpluses. Disposal of surpluses abroad at prices below those maintained at home was the core of the McNary-Haugen and export debenture plans. Authority for doing this was included in the act of 1933 and has been continued in more recent legislation. In addition, Public Law 480 and several other acts have made even more specific provision for such exports, including sales for foreign currencies, barter and donations. The initial domestic allotment and other earlier proposals were in essence two-price systems in that they contemplated sales of the domestic allotments of producers at higher prices than any production not so covered. Formal two-price proposals have been advanced. The International Wheat Agreement is, in effect, such an arrangement. The Secretary has discretion to use such a program for rice, and the cotton export program dictated by act of Congress in 1956 is a two-price operation.

Section 32 of Public Law 320, seventy-fourth Congress, set aside an amount equal to 30 per cent of import duty collections for use in en-
couraging exports and for expanding domestic consumption of farm products by diverting them from normal channels of trade. The school lunch and other programs for distribution of food, while they have their nutritional aspects, owe a good deal of their origin and support to farm surpluses. A food stamp plan was in operation for a time before the war and interest in its revival is expressed from time to time.

Space and time do not permit a detailed review of all types of activities coming under the head of or related to the matter of agricultural adjustment. However, the above somewhat sketchy review is believed adequate to trace the major changes and to draw some conclusions with respect to the lessons we may have learned, or failed to learn, from these operations.

One point which stands out clearly is that prices and price relationships have held the spotlight throughout the entire period. This is not too surprising because the farmer assigns much weight to prices as a factor in his income. He views price as something almost entirely beyond his influence, and this feeling is intensified by his tendency to assume that others have greater power to fix their prices than often is the case. Attention to price hence appeals to the politician as a way to gain favor with farm voters.

The fact that farm prices tend to fall faster than prices in general when depression strikes, lends weight to the idea of "restoring" prices. What shall you restore them to? What shall be the benchmark? The idea of using a relationship between the wholesale price index and farm prices was advanced by the developers of what took shape as the McNary-Haugen bill. The Bureau of Agricultural Economics during the 1920's developed indexes of prices received and paid by farmers and employed the ratio between the two as an indicator of price relationship. Congress accepted this as a suitable basis for price supports and the idea of "parity price" was born. The identity of the person who hit on the designation of "parity" has not been established, but it is difficult to see how he could have found a term more suggestive of right and justice. The parity concept has almost attained the rank of a shrine in some agricultural circles with the result that it is difficult to get acceptance of any real objective analysis of its limitations as a price guide. The record of the past quarter of a century is that it has not been too difficult to alter the parity formula when the result was favorable to the farmer or to a given farm commodity. There has been much greater "dragging of feet" when the proposed change would have the opposite effect. Thus, "modernization" of the parity formula was highly acceptable to producers who would benefit. Others have delayed acceptance because it would operate to their disadvantage. It is easier to accept the concept of "parity" for the individual than to apply it among individuals and lines. This misses the point that
parity to be meaningful cannot be personalized but must be generalized.

There was a good deal to be said for raising prices from their depression lows in 1933. However, efforts have continued to center on price ever since. The program started in 1933 at least paid lip service to the idea of "adjustment." This was the highly advertised additive which was to overcome the lack in the Farm Board endeavor. But the downward adjustment of output did not have the appeal of better prices. Folks liked the cure but not the remedy. One unforgettable lesson learned from the "slaughter of the little pigs" and the plowing under of cotton was that any program to solve surplus situations by destroying farm products is unacceptable to the public generally. Evidence also has accumulated over the years that in spite of what they may say, farmers do not view with enthusiasm production restrictions with real teeth in them. Growers of basic crops have voted for marketing quotas when they have been proclaimed, and this has been heralded as indicating acceptance of curbs. There is strong suspicion, however, that what they really have voted for is continuance of price supports and have accepted the restrictions to get the supports. One wonders whether the vote for quotas might have displayed less enthusiasm had there been a requirement that diverted acres must be kept out of use.

Past production records provide a convenient base for acreage allotments; so historical bases have been and continue to be employed. They attach rights to produce to specific farms and land. Politically and administratively the effects of this on making production adjustments among farms and regions have been largely ignored. Applied generally and rigorously, such a program would tend to freeze agricultural production in a pattern of the past. It interferes with the speed of changing to fit new technology. For example, indications are that in the case of cotton, allotments may have placed a drag on shifts to areas better suited to mechanization. The placing of a lower limit on acreage allotments appears to have been a factor in spreading the production of tobacco among more growers and shrinking the average size of this enterprise. Is it any wonder that one hears criticisms of the program as one penalizing the more efficient for the benefit of others? Capitalization of "rights" to produce into farm and land values is a natural result. The gain of this goes to the owner when he sells rather than to benefit future operators on that land. Was this the objective of Congress? Again, the conclusion seems to be that we find some of the lessons of experience difficult to absorb.

The situation since the war has not been one comparable to the depression 1930's. The picture is clear. The capacity to produce in some lines is in excess of the readiness of the market to absorb. This is due in part to a carry over of war-induced expansion, but the primary cause is advancing technology and mechanization which have stepped up agricultural pro-
ductivity remarkably since 1940. Continuation of incentive supports also has played a part. They have made it profitable to produce goods for which there is no real market home. They have priced some products out of part of their market. Replacement of United States cotton by expansion of cotton in other countries is an illustration. Another is the stimulus to synthetic fibers provided by supported cotton and wool. Wheat has been priced out of the feed market to a considerable extent. The appreciable replacement of butter by margarine certainly has not been unrelated to comparative prices affected by price supports.

We have bestirred ourselves to try to recapture the foreign market by cut-price and other sales. After we had invited other nations to take up the slack when we priced ourselves out of some of the world’s cotton markets, we expressed surprise that they should take umbrage at our bargain selling. We brag about the record agricultural exports of last year while assuring other exporters that we are only being “competitive.” We rush to inform the public about our record exports but speak in whispers regarding the cost to the public of achieving this record. We urge other countries to earn the needed dollars by trading and then we impose quotas on imports and engage in export dumping operations.

One lesson we apparently have been hoping we would not need to learn from our experience of the last 25 years is that there is no easy, painless or costless solution to the farm problem. We can hardly escape the inconsistency of asking the public to provide supports for continuing wheat and cotton production at such volume that even with foreign dumping at considerable cost to the public, large accumulations remain. We do our best to look the other way when someone points to the obvious line of attack—fitting capacity to produce to the available market. We may call attention to the decided cut in acres in both wheat and cotton but have a hard time ignoring the fact that acre cuts show up only modestly in output cut. We soft-pedal the fact that by not restricting other uses of acres diverted from basic crops we have expanded feed grain production with threats of burdensome meat supplies to follow. We have been spreading, rather than remedying the surplus problem.

Acre allotments and marketing quotas are suitable for temporary curtailment if effectively operated. They do not fit a situation calling for more permanent adjustment in given lines. They spread the cut over producers of the affected commodity generally and over the area generally rather than being selective. They take out minor portions of farms rather than the entire unit. The soil bank could be a more realistic adjustment device were it not so often viewed as crop insurance, a conservation program or as a means of distributing money rather than a way to buy adjustments. We have not yet accepted the need for highly selective
operation of the soil bank with the amount of adjustment bought with public money serving as the sole guide.

There is widespread unwillingness to face up to the fact that over-capacity calls for adjustment in human as well as other productive resources.\(^1\) Disparity between farm and nonfarm incomes is cited as justification for a farm program, but without willingness to accept the idea that to the extent there is persistent disparity an important remedy is that of aiding and encouraging those who have better earning opportunities elsewhere to take advantage of them. Many rally around the flag of the “family farm” often with only the haziest notion of what they are fighting for or against.

In developing the picture of disparity, little compunction is shown over using averages of all farm people even though less than half produce nearly all of the market supply. The 60 per cent producing little or nothing for sale and consequently benefiting little, if any, from government price programs become the basis for getting such programs for the commercial producers; and then some of the people who have argued for these programs on income grounds protest that the “big fellow” is getting the lion’s share.

Anyone who shows lack of enthusiasm for the price programs which have been in vogue may expect to be accused of being a devotee of the “free market.” It apparently is overlooked that the market is functioning for the larger share of farm products.\(^2\) The market is man-made and man-operated. It is not perfect. The real issue is over whether the long run gain will be greater from relying more on the market and from seeking to improve its operations than from increasing the role of government in marketing and pricing.

Some are finding it expedient to shift emphasis to the idea of providing the farmer with effective “bargaining power” to offset the power assumed to be general in other lines. It is indisputable that the individual farmer plays such a small role in the market that by himself he has no measurable bargaining strength. It does not follow, as even some economists argue, that an easy solution is for government to provide the farmer with bargaining power. It is conceivable, but rather improbable, that government could enforce such restrictions on rights to produce and sell that a considerable measure of monopoly gains in farm prices might result. However, income involves quantity as well as price. For the individual

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\(^1\) Migration from farms has been taking place during much of our history, but even with the accelerated movement of recent years it has not attained the rate needed to achieve a balance in resource use within a reasonable period.

\(^2\) The six basics provided only 24 per cent of farmers’ cash receipts from all commodities in 1956. Even when other products receiving direct supports are included, they total less than one-half.
farmer to gain appreciably from such operations, the number participating
must be restricted. In other words the right to farm and entry into farm-
ing would need to be subject to drastic government restrictions if the
individual farmer were to secure any important gains from monopoly.
No one is heard advocating such a program. Whether such rights were
tied to the land or assigned to individuals, they would soon acquire a
capital value which would benefit largely the first possessor. Moreover,
such a scheme would almost inevitably lead to rigidities in agriculture
which would tend to make it more static instead of remaining highly
dynamic.

Worship of price supports takes emphasis away from other activities
which will help improve upon the agricultural situation. Farmers are the
victims of various kinds of instability. Some result largely, as is true
of cattle and hog cycles, from decisions of farmers themselves. Some are
due to uncertainties of weather. Others result from ups and downs in the
rest of the economy. Farmers have such a stake in high level stability
in the economy generally that policies and programs which help promote
this desirable end have an important place in the picture. These include
measures to avoid inflation as well as depression.

As observed earlier, farm programs are an outgrowth of evolutionary
changes rather than being the offspring of startling, revolutionary
changes. But if that evolutionary process is to function in the direction
of attaining improvement at a high rate, there must be greater willingness
to profit from experience than has been demonstrated during the past
quarter of a century. There also is call for more statesmanship and less
playing of politics in dealing with the "farm problem."

Farmers have not been sharing fully in the "boom" experienced by
much of the rest of the economy for the past several years. The cost-
price squeeze is real, not imaginary as far as farmers are concerned.
However, sympathy for the farmer does not require that one subscribe
blindly to any or every farm program which may be proffered. If con-
cern for the farmers' plight is to ripen into real improvement, more atten-
tion needs to be given to the causes and less to treating consequences.
We need programs which will achieve and retain a balance between
capacity to produce in different lines and the available markets.