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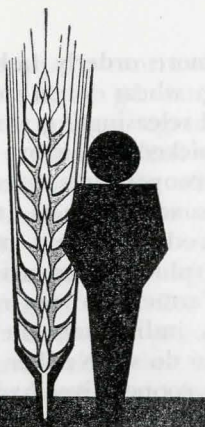
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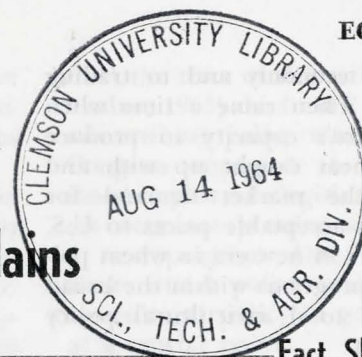
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Great Plains Agricultural Council Publication No. 21

# Wheat, People and the Plains



EC 63-823

Fact Sheet III

## Domestic Wheat Policy

Since the dawn of history, civilized man has been concerned with food—food for current use, for reserves in case of short crop years, for national security in case of war, for internal economic and political stability, and for adequate supplies for generations yet unborn.

Joseph and the Egyptians laid the ground work for modern farm policy as concerns wheat. Nearly every nation has some form of governmental program regulating the production, pricing, and trading of wheat.

It would perhaps be economically ideal if all nations, regions, and areas produced those things for which they had a comparative advantage and then freely traded their surpluses for other things they needed and wanted. But this is not the case.

Wheat policy of exporting nations is different from wheat policy of importing countries. Even in the U.S. and Canada where the history of wheat "problems" has been similar, there are differing kinds of wheat policy and programs. We need to examine our own domestic and export wheat policies—as well as those of other countries in order to plan for the future.

### WHEAT POLICY GOALS

Wheat policy goals of many countries—including the U.S.—have some things in common including: safeguarding people against food shortages in war and peace; stabilizing food prices and cost of living; conserving natural resources; fostering trade relations with other nations; contributing to the prosperity and growth of the national economy; and maximizing price and income for wheat farmers consistent with acceptable public costs.

In addition we need to ask ourselves, in evaluating wheat policy proposals, questions such as:

Will it leave an acceptable num-

ber of managerial decisions to the wheat farmer?

Will effective competition be maintained within the wheat industry in a manner which will continue to stimulate technological improvement?

Will the public welfare be safeguarded against monopolistic restrictions and special advantages granted to one segment of agriculture or society?

Will it materially contribute to "income equality for agriculture"—income (particularly that of wheat farmers in this case) consistent with the income of non-farm people having similar abilities, training, and other resources?

Within the wheat industry itself, will it create special benefits for some at the expense of others?

Does it lend itself to feasible administration?

Will the benefits accrue to farm operators or be capitalized into land values?

What will be the effects on rural towns and communities and their business and social institutions?

What effect will it have on marketing practices and institutions in domestic and foreign trade?

Will it adapt itself to economic production adjustments among farms and regions?

Different people will have different answers to these and other questions and will have varying degrees of acceptance of any policy which may be offered. Hence, we may expect wheat policy—and any other policy—to be a compromise of that which is most acceptable and least objectionable. Historical perspective and political reality suggest that progress is made slowly, painfully, and a little at a time.

### EARLY U. S. WHEAT POLICY PROGRAMS

U.S. agricultural policy had its beginning more than a century ago. From the Hamilton-Jefferson debates came our nation's declaration for a public lands distribution policy and programs fostering a system of family farming.

For more than 100 years this country has supported, through state and federal aid, the policies contributing to our present level of productive ability. Establishment of the U.S. Department of Agriculture, the Land Grant University system (with its experiment stations and extension service operations), and other institutional developments all have contributed to a progressive agriculture.

Until about 1920 our policy was beneficial to wheat farmers, to the



national economy and to trading nations. Then came a time when agriculture's capacity to produce more wheat caught up with and passed the market demand for wheat at acceptable prices to U.S. producers. A new era in wheat policy and programs within the broad scope of total agricultural policy was born.

From 1909 to 1920 wheat producers (and farmers generally) had relatively favorable incomes. World War I touched off a demand for wheat which outstripped capacity to produce. Prices rose rapidly. Neighbors competed with each other for more land, mortgaging what they owned to obtain new lands at inflated wartime prices.

The bubble burst in the early '20s. We were suddenly short on markets and long on supplies of wheat. Prices fell rapidly. Banks failed. For wheat farmers, especially, the first shock wave of the great depression to follow struck late in 1920. The great crash of 1929 brought total business depression to this country and to the Western world.

### **McNary-Haugen Movement of the '20s**

Much that was to develop in policy for wheat during the next 40 years started in the early '20s. Farm leaders turned to the government for help in bringing about wheat production adjustments consistent with economic demands of the market, more orderly marketing of wheat, and improved returns to wheat producers.

Many of the features of the "proposed Wheat Program for 1964" were considered in the McNary-Haugen Acts of the '20s. Similar features included a plan for a two-price system for wheat in the domestic and export markets (including use of what was recently known as the "wheat certificate system"), and the encouragement of voluntary wheat supply-management. Backed by the politically potent "farm bloc," the McNary-Haugen Act was twice passed by Congress, but was vetoed by President Coolidge both times.

## **GOVERNMENT PROGRAMS**

Beginning with the Agricultural Marketing Act of 1929, U.S. agricultural policy has been expressed in a series of laws dealing with problems of resource use and conservation, marketing, credit, and related problems. The central focus of policy has been that of improving farm prices and income.

Parity (the rewards ratio for resources used by agriculture in 1909-1914 in relation to resources used elsewhere in the nation's economy) has been the symbol of economic equality. For practical purposes, 85 to 90 percent of parity has symbolized economic security for wheat farmers. Because of their price or income focus, past agricultural programs have not adequately dealt with needed adjustments in the size of the agricultural labor force, in the amount of other resources, in the size of farm units, and in land use changes.

### **The Federal Farm Board, Born to Trouble**

The first large scale price-support program developed in the U.S. was under the Agricultural Marketing Act of 1929. That Act established a Federal Farm Board "to promote effective merchandising of agricultural commodities—so that the industry of agriculture will be placed on a basis of economic equality with other industry." It was assumed that "effective and orderly" marketing would bring about price and income equality. No provisions were made for price supports.

The Federal Farm Board was instructed to promote, finance, and work with cooperative marketing associations and to investigate and advise as to prevention of overproduction, removal of submarginal land from cultivation, expansion of markets at home and abroad, and research and discovery of new uses for farm products.

The Board was given a revolving fund of \$500 million to carry out its purposes. Its work was mainly through national organizations of marketing cooperatives on the assumption that through them farmers could sell their products in a

much more orderly fashion, withholding wheat when prices were low and releasing it gradually when prices picked up again.

The cooperatives were expected to persuade farmers to control their production and prevent serious surpluses from arising. Vain hope! Farmers did not reduce output. As individuals they couldn't afford to do so. Neither the Board nor the cooperatives had sanctions they could use to effectively adjust wheat production. Wheat surpluses mounted. The Board made loans to cooperatives to keep wheat off the market and thus, hopefully, to avoid further price declines.

A bumper wheat crop in 1929 added to the already large wheat carryover. In the meantime, a worldwide economic depression had begun.

The Board plunged into buying wheat already held by cooperatives and into buying up new wheat. The Board had authority to dispose of its holdings according to its own judgment. The private wheat trade could never be quite sure what the Board might do about selling stocks—a factor serving to dampen the price supporting measures employed by the Board. By April, 1931, the Board's wheat holdings exceeded 200 million bushels. Open market wheat prices were down drastically. The Board's money was about gone. For practical purposes, the program was finished.

Hindsight indicates that the Farm Board was born to die—because it coincided with worldwide depression and colossal wheat output at home and abroad. But it taught many people something of the complexity of the economics of storage. Many had not fully realized that there were good chances for heavy losses with little to gain from trying to use storage as the principal solution to price and income distribution problems in agriculture.

On the plus side, it was observed that wheat prices could have been 30 to 40 cents per bushel lower in the Great Plains during 1930 without the Farm Board's effort. If world economic recovery had begun before the Board ran out of money



there is reason to believe that the "experiment" might have been something of a success. Instead, the Board was expected to fight off a deep and prolonged depression with emergency measures inadequate for the size of the task.

**Was the Farm Board program effort a complete failure?**

**Did its experiences contribute usefully to the development of policy which followed?**

### **Agricultural Adjustment Act of 1933**

In contrast to the Agricultural Marketing Act of 1929, the Agricultural Adjustment Act of 1933 (AAA) was specific in its objectives as well as in measures to be taken. Its objectives included the establishment of such balance between production and consumption as would restore purchasing power for wheat, and other agricultural commodities involved, to their 1909-1914 level.

In this act is found our first legislative definition of a "price support norm" (or price parity) and a declaration by Congress of its policy to reestablish parity prices as rapidly as feasible, together with a declaration of intent not to unduly disadvantage the purchasing power of consumers.

In its early operations commodity loans were not stressed. But shortly following passage of the Act, pressure for immediate and effective price support became so great that a Commodity Credit Corporation (CCC) was created by executive order to make non-recourse loans to farmers.

Non-recourse commodity loans are, in effect, government purchase contracts in which the farmer retains title or an option to buy back within a stated period by repaying the loan. Thus the farmer may take advantage of any price rise from date of loan until it is called or give the government title to the product in return for money advanced him. The "loan rate" becomes a "price support floor" for the commodity.

In contrast to Federal Farm Board operations, commodity loans made to farmers under AAA (by CCC) depended upon farmer parti-

cipation in a production control or adjustment program.

During the first year of AAA (1933-34) wheat farmers were given "base acreages" of wheat and "a normal yield" for each farm as a guide for production adjustments asked of them later should they elect to participate in wheat production adjustment programs. In return for reducing wheat acreage or marketings below base allotments, farmers were to receive various kinds of benefit payments or price guarantees.

During 1933-35 "processing taxes" were levied against various commodities. Proceeds were to be used in making benefit payments to farmers participating in production control programs. These benefit payments represented the first use of direct payments by government for agriculture. The 1933 Act provided that the processing tax would be at a rate equaling the difference between the current average farm price for the commodity and the "fair exchange value of the commodity."

In 1936 the Supreme Court declared processing taxes for production control purposes unconstitutional.

### **Soil Conservation & Domestic Allotment Act of 1936**

Following the Supreme Court's decision against the processing tax, Congress quickly passed the Soil Conservation and Domestic Allotment Act of 1936. The Act of 1933 had concentrated upon curtailing production, reducing surpluses, and raising prices. The new Act of 1936 encouraged farmers to change production away from wheat and other surplus crops and into commodities not in surplus. Payments or benefits to wheat farmers and production adjustment were based on adequately providing for consumption needs of people at home and abroad, and soil conservation needs in the national interest. The program was financed by direct appropriations.

The idea of "soil conservation" was emphasized as a means of production control to recognize the national concern that public mon-

ies be spent to encourage improved resource use and conservation as well as contributing to better price and income positions for farmers. It has been said that conservation was employed as the "gimmick" to obtain public support for using government money to enhance the economic position of farmers.

Be that as it may, farmers did divert potential wheat lands to grass and hay in return for the benefits made available to them under the 1936 Act. They also made use of continually improving technology and over the years increased yields and total production while reducing acreage.

In 1938, dairymen became alarmed over the probable impact of more grasslands and forage. It was easy to see that land diverted to forage production might eventually mean stepped-up dairy production. Congress passed an amendment to the 1936 Act which granted benefit payments to grain farmers only on the condition that diverted acres not be used to produce dairy products for market.

**Under circumstances existing today what are the relative merits of wheat land diversion as compared to wheat land retirement?**

### **Agricultural Adjustment Act of 1938**

After two years of operation under the Soil Conservation and Domestic Allotment Act of 1936, a new pattern of farm price support was set up by the Agricultural Adjustment Act of 1938. That pattern was to be generally followed into the early 1960's (with modifications during World War II).

Under the Act of 1938, price supports were made mandatory rather than discretionary. The law required the AAA to support prices of wheat at not less than 52 percent nor more than 75 percent of parity.

To control supply and adjust it to expected market demands, use of acreage allotments was provided. Price supports and other income supplements were dependent upon complying with wheat acreage allotments. In addition, penalties were applied to all producers who over-



planted their wheat acreage allotments.

The legislation greatly expanded CCC's loan and storage program. Liquidation of CCC storage holdings at a cost-plus figure was authorized. This was not possible until World War II created a demand for our accumulated stocks.

Appraisal of AAA effectiveness from 1933 through 1940 indicates that it did contribute to better prices and incomes for wheat growers. Many of the diverted wheat acres were transferred into production of other crops which in turn began to create supply and demand imbalances for those commodities. Actual wheat output was not reduced because higher and guaranteed prices encouraged rapid adoption of new wheat production technology. Large stocks of wheat, corn and cotton were acquired by CCC from 1937 to 1941.

### Wartime Programs for Wheat

In May, 1941, Congress raised the wheat loan rate to 85 percent of parity. At that time wheat prices in the Great Plains were approximately 70 percent of parity. The Act was intended as a production incentive to wheat growers to meet wartime needs for wheat. In 1942, Congress passed the Stabilization Act providing that no price ceilings on farm products be set below 110 percent of parity. A further provision was that prices were to be supported at 90 percent of parity for 2 years following the end of the war.

Administrative regulations prevented the imposition of price ceilings on farm products without the approval of the Secretary of Agriculture. This was tantamount to "no ceilings for wheat" inasmuch as the Secretary ruled that ceilings could not apply to prices of farm products at the farm or local market, but could be applied to processed farm products. Farm prices were generally held in line with consumer purchasing power by the Office of Price Administration.

All limits on wheat acreages and production were lifted in 1943. With high support prices, new technology, favorable production

weather and insurance against price and income cutback for a 2-year period following war's end, the Great Plains wheat farmer planted and harvested all-time record crops.

### Post-War Dilemmas

Farmers had done a tremendous war-time job of producing wheat despite problems in obtaining needed equipment, labor, etc. Per capita farm incomes were rising rapidly. Farmers looked upon this as a justifiable catching up from their past economic position.

At the end of World War II, government faced the dilemma of trying to keep its policy of stimulating agricultural production in line with its policy of checking inflation. In May, 1943, Congress provided for payment of subsidies to processors and distributors of certain important cost-of-living items including wheat. In this latter category, subsidies of one cent per loaf of bread were started to reconcile the policy of food a-plenty at fair prices with the policy of providing the wheat producer with price and income parity.

Farm spokesmen generally disliked and fought against subsidies of this kind, arguing that employment and wage levels were already high enough to offset high prices of food. They generally ignored the possibility that further rises in farm prices might have caused labor to press for higher wages — which would have been followed by rising industrial prices and still higher costs of production inputs for agriculture.

Farm prices for wheat held high until 1949. CCC stocks of wheat began to accumulate again as exports declined with postwar recovery abroad.

### Agricultural Acts of 1948 and 1949

Before high level wartime price supports ended, Congress concerned itself with peacetime legislation. The 1948 Act returned to the principle of flexible price support. It provided that support levels be lowered whenever supplies were above normal consumption require-

ments (60 percent of parity if the crop were 130 percent of normal, or supports at 90 percent of parity in event supplies or crop output went to 70 percent of normal).

The 1948 Act also took a step in the direction of modernizing the parity formula by adjusting price relationships between different farm products on the basis of the most recent 10-year period. The 60-90 percent of parity support provisions referred to in the Act were postponed until 1950. This left the principles of flexibility recognized but high, rigid price supports still in effect.

The 1948 Act was not well received. Farmers liked the prices they had received for several years and were fearful of their economic future if support levels were lowered. Their spokesmen pressed hard for a change.

The Agricultural Act of 1949 retained the principle of flexible price supports but with many qualifications. A price support range of 75 to 90 percent of parity was adopted.

### Policy Since 1949

Several legislative acts passed between 1949 and 1962 provided a formula for computing the price support level between 75 and 90 percent of parity, depending on the relationship of total supplies to normal requirements. In view of the large surplus, support rates would have been at the minimum of 75 percent of parity—except that the Korean conflict and war-related legislation kept the formula from becoming effective during several years in the early 1950's.

Acreage allotments were again established for wheat in 1950, but during the Korean conflict acreage restrictions were dropped. For crops of 1955 and 1956, support was above 75 percent of parity under special legislation. The minimum support level was determined and announced prior to producer referendums. It was recomputed at the beginning of the marketing year (July 1) and increased if required by a change in the total supply or in the parity price. In no case was it lowered.



Price support continued to be extended through non-recourse loans and purchase agreements to producers who complied with their acreage allotment. In 1953, 1954, and 1958, more than 40 percent of the total wheat crop was placed under price support, with much of it reverting to CCC. For the 1963 crop, a diversion payment was offered producers who voluntarily retired a portion of their wheat allotment to conservation uses.

Acreage allotments for wheat have been in effect each year since 1954. Although a national acreage allotment has been computed each year under a formula in the law, the allotment—by law—could not be less than 55 million acres. Whenever the estimated total supply exceeded estimated requirements by over 20 percent, a referendum was called to determine whether marketing quotas would be imposed.

If favored by at least two-thirds of the producers voting, marketing quotas were in effect with a sizable cash penalty for overplanting (growers with under 15 acres exempted). If rejected by producers, the quota provisions are suspended, but price support is provided for producers who comply with their acreage allotment.

The minimum national allotment of 55 million acres may have been appropriate in the late 1930's when wheat yields averaged 15 to 16 bushels per acre. But now—with national average yields of about 25 bushels per acre—a crop from 55 million acres almost surely results in surplus production. The 15-acre exemptions also added to the wheat surplus.

Recognition that the wheat program was not effective led to a temporary effort to reduce wheat production in the mid-1950's by retiring acres under the Soil Bank program (Acreage Reserve and Conservation Reserve). Government owned stocks of wheat were reduced in 1957 and 1958, and wheat production—though excessive—was less than it might have been if it were not for the Soil Bank. The acreage reserve phase ended with the 1958 crop year. In 1958-59 wheat stocks rose 414 million bushels; by 1961,

stocks had reached 1,411 million bushels. Congress authorized temporary wheat stabilization programs for 1962 and 1963.

In 1962, acreage allotments on individual farms were reduced by 10 percent from their allotments based on 55 million acres. By devoting the diverted acres to approved soil conserving uses, growers earned land diversion payments. They could also earn additional payments by voluntarily diverting more wheat acres to conserving uses. The penalty rate for exceeding the farm acreage allotment was also increased.

For the 1963 crop, legislation provided a voluntary land diversion program similar to 1962, but the 10 percent mandatory diversion was dropped.

## WHAT NOW?

The Agricultural Act of 1962 revised the wheat program for 1964 and later years. The 55 million acre minimum acreage allotment was repealed. Wheat farmers were, in effect, told by Congress that they could no longer expect price supports at near parity level without effective production controls.

As before, growers could decide by referendum whether they wanted this type of program or lower support prices and less restrictions on production. A "yes" vote would have meant stricter controls over production and marketing. Opponents of this program warned against increasing control over farm production and marketing. Less than half of those voting in the May, 1963 referendum voted "yes."

The defeat of the two-price, diversion program left the wheat situation "up in the air." The 1964 wheat crop will not be produced and sold in a completely free market. Existing legislation remains in effect until changed by Congress. Growers who comply with acreage allotments will be eligible for price support at 50 percent of parity. Those who over-plant allotments will lose acreage history for future programs but will not be subject to marketing quota penalties.

At the time of this writing (September, 1963) the future of government wheat policy was uncertain. Congress appeared to be in no mood to pass new legislation. Farmers were not pressing actively for a new program. One thing was clear: wheat policy—and probably agricultural policy in general—was at a crucial point.

## The Wheat Growers Dilemma

Farmers and other policy makers recognize that the wheat problem has not been solved with past wheat programs. With public costs high and the "third market" (CCC) saturated with wheat, it is obvious that less wheat production is needed. But cutting output of wheat in the Great Plains is difficult for farmers because (1) equally profitable alternative crops may not be available, and (2) support prices for wheat have been capitalized into land values, meaning that someone stands to lose, from reduced wheat acreages, output, and possibly lower prices.

Farmers are aware of the inequities that have arisen under administered wheat programs. These include differences in rights to plant or sell wheat as they have arisen between farms, between areas of a state and between regions. The historical wheat base seems unfair to many farmers and contributes to mounting resistance to governmental programs. In addition, many producers in the major wheat areas are discontented with the producing and voting rights of the "15-acre producers."

Less publicized, but of increasing concern to the Great Plains wheat farmer, is a growing awareness of diminishing political influence. He recognizes that the increasing number of urban congressmen are likely to be less concerned than their colleagues from farm states over developing policy acceptable to wheat producers.

Policy makers for wheat are faced with these facts:

(1) Wheat production capacity is still expanding with yields now a third higher than 10 years ago, and trending higher.



(2) Barring war or crop failure in other countries, probability of short run expansion in the demand for wheat at home or abroad is remote.

(3) Program choices for wheat require compromise of conflicting interests, goals, and values within the economy.

Wishing these weren't so will not make them go away.

Why did farmers reject the proposed program in the 1963 referendum?

Did they reject the degree of government control over supply management and demand expansion rather than the basic principles involved?

What lessons can be applied to future farm legislation and program administration?

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This publication is one of five in a series, "Wheat, People, and the Plains" prepared by the following Agricultural Economists from the Land Grant Colleges or Universities of the Great Plains States: Raymond C. Stack, Colorado; Robert J. Bevins, Kansas; William Ewasiuk, Montana; Everett E. Peterson, Nebraska; Norbert A. Dorow, and H. W. Herbison, North Dakota; James R. Enix, Oklahoma; Thomas D. Aaron, Texas; Earl Moncur, Wyoming. E. Dean Vaughan served as chairman of the group while an economist at Montana State College and continued as a consultant after joining the staff of the Federal Extension Service, USDA. S. Avery Bice, associate director, Colorado, served as administrative advisor. Donald W. Dickson, information specialist, FES, was editorial consultant to the committee.