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# W H E A T   S T U D I E S

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## THE VOLUNTARY DOMESTIC ALLOTMENT PLAN FOR WHEAT

**T**HIS ingeniously elaborated proposal has been evolved to meet the demand that farmers producing export-surplus crops and livestock be assured, on the portion consumed in this country, the equivalent of "effective tariff protection."

Briefly, it calls for distributing a bonus or "tariff benefit" among producers on the basis of their past production, and deriving the necessary funds from excise taxes levied on processors. It contemplates a decentralized procedure for making allotments to individual farmers, whose claim to the determined benefit would rest upon voluntary signature and fulfilment of contracts to restrict acreage (or production) as the federal administrative agency might prescribe.

The proposal has recently come to the fore among farm relief plans with a commodity approach, and has attracted wide interest and considerable support. In the interest of those who may have occasion to consider it, we undertake here to explain and examine the plan, particularly in the form embodied in the Norbeck-Hope bills of July 1932, with primary reference to its possible application to wheat. We seek not to pass judgment on the scheme, which is still subject to numerous modifications, but rather to see how it would probably work if applied, to appraise some of the arguments pro and con, and to consider some far-reaching aspects of current opinion and social philosophy that are involved.

STANFORD UNIVERSITY, CALIFORNIA

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**WHEAT STUDIES**  
**OF THE**  
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# THE VOLUNTARY DOMESTIC ALLOTMENT PLAN FOR WHEAT

Four major schemes for farm relief in the United States, with special reference to products of which there is an export surplus, have been discussed in earlier issues of *WHEAT STUDIES* in their application to wheat. The equalization fee and export debenture plans, though vigorously urged, have not been available for test in the crucible of experience. Stabilization operations have been tried out in the past three years, with disappointing results. Co-operative marketing with substantial government aid is on trial. In recent months, under the stress of severe agricultural depression, another broad proposal with a commodity approach has come strongly to the fore. This is the domestic allotment plan. In most of its variants, it may be regarded as supplementary to co-operative marketing, but as an alternative to the other three plans which are mentioned above.

During the period of general prosperity that culminated in 1929, it was widely believed that the country could well afford to try some major experiments in the effort to improve the absolute and relative position of farmers. This view underlay the Republican party pledge in 1928 to create a Federal Farm Board with a huge revolving fund to use in building up farmer co-operatives and in financing stabilization operations. In his speech accepting the nomination for the presidency, Mr. Hoover said on August 11, 1928: "A nation which is spending ninety billions a year can well afford an expenditure of a few hundred million for a workable program that will give to one-third of its population their fair share of the nation's prosperity." Such convictions led to the passage of the Agricultural Marketing Act.

Experience under this Act is a subject of controversy. Beyond question, however, the

experiments have failed to improve the net position of agriculture, or even to prevent disastrous injury to farmers, in a period of extreme and world-wide economic recession. Now in the midst of severe depression there is a tendency to cast aside some previous experiments and to try others. This is not irrational, though it is fallacious to assume that

any new measure might make the situation better and that none could make it worse. There is, however, growing evidence of a wholesome disposition to scrutinize new proposals with greater care before adopting them. This attitude is well justified by the economic position of the country and the financial condition of the Treasury. Some new measures might do more harm than good, and accentuate the depression or retard recovery and reconstruction in agricul-

ture, business, or both. It is insufficient to label a proposal, off-hand, "economically sound" or "unsound." It is proper that earnest efforts should be made to visualize how new proposals would work if applied; how they would actually affect farmers, business men, consumers, taxpayers, and the Treasury.

The voluntary domestic allotment proposal is highly ingenious but also very complicated. This is suggested by the length of the bills drafted to authorize it, by the difficulties that its sponsors encountered in explaining it to the House Committee on Agriculture, and by the proposal to carry on a vast educational campaign among farmers before bringing the measure into operation with any commodity. The plan has many aspects that are not apparent at first glance. To analyze it requires more intensive study than can be given by many who will have occasion to consider it.

Such a measure should be carefully ex-

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amined, in advance of its adoption, with respect to each of the commodities to which it would be applicable. The enactment of bills now under consideration would open the doors to gigantic experimentation. In the light of recent stabilization experience with wheat and cotton, as well as on broader grounds, it seems possible that, if the experiment is tried, it may be restricted at the outset to but two or three commodities, though such limitation runs counter to the requirement of broad political support. Of all farm products to which the plan might be applied, wheat probably involves the largest number

of farmers and of agricultural regions. It is one of three or four major products for which the scheme is urgently pressed. In several respects the application would be simpler and the outcome more nearly predictable with wheat than with cotton, hogs, or tobacco. Significance therefore attaches to a discussion limited primarily to wheat.

In this discussion we undertake not to pass judgment, but to facilitate understanding; to clarify the proposal in its various phases, to consider numerous problems that its application would involve, and to examine the arguments adduced in its behalf.

## I. THE PLAN AND ITS EVOLUTION

### ESSENTIAL FEATURES

As applied to wheat, most forms of the domestic allotment plan proper have four elements in common:

1. A yearly estimate of the total number of bushels required for *domestic* use other than feed and seed;

2. *Allotment* of this total among individual wheat growers, typically in proportion to the past production of their present farms;

3. The distribution to allotment holders of a *bonus* or "tariff benefit" on each bushel of these domestic allotments;<sup>1</sup> and

4. The collection of the required *allotment funds* from processors, largely flour millers, by means of an *excise tax* or "tariff-adjustment charge" (typically equal to the tariff duty) on the wheat they grind for domestic use.

<sup>1</sup> Each allotment would simply represent the number of bushels on which its holder, if he fulfilled stated requirements, would receive, from the allotment fund derived from the tax, a uniform per bushel payment as determined by the Farm Board. The allotment would have no reference to its holder's right to produce or sell as much or as little as he chose, whatever its eventual disposition. Even under Black's form of the plan, it appears that he spoke inaccurately (*Agricultural Reform*, p. 271) of individual allotments as "rights to sell the domestic part of the crop in the domestic market."

<sup>2</sup> Spillman's limited debenture plan (see below, p. 26) contemplated that wheat buyers would purchase corresponding debentures in advance, thus raising market prices of wheat though not farm prices; and also that allotments in the initial year would be in proportion to the farmer's actual production for sale.

<sup>3</sup> An exception is discussed below, p. 60.

As we shall see, early forms of the plan differed from recent ones on the last two of these points, and the name has been applied to two recent plans which differ more or less radically from the ones we shall mainly consider.

The immediate object of the domestic allotment plan for wheat is to insure growers a larger income than they would otherwise receive, to the extent of something like the tariff duty on the amount of wheat consumed for food in the United States. Directly, however, the plan involves income supplementing, rather than price raising. It does not imply a "double standard" of wheat price, higher for domestic use and lower for export.

Unlike the equalization fee and export debenture plans, or under stabilization operations, the domestic allotment plan does not aim at higher prices for current wheat marketings, either at country stations or in wholesale markets.<sup>2</sup> It is proposed to leave the price of wheat, whether for domestic use or for export, to be determined by ordinary market forces, in the main<sup>3</sup> without purchases by a governmental agency, as in stabilization operations or under the equalization fee plan. Wheat sellers, with the plan in operation, would get a price not enhanced by the plan. Allotment beneficiaries would get a bonus per bushel of allotment. The gross income of allotment beneficiaries in connection with wheat would be the sum of their wheat receipts and their wheat bonus.

Unlike the Canadian and Australian systems in force in 1931-32, the plan does not provide a fixed bonus from the Treasury on each bushel marketed. Unlike the British scheme effective in 1932-33, it does not provide for an end-season supplementary payment to growers to bring the average price of the marketed crop up to a guaranteed amount. The supplement would be distributed on the basis of past production. The amount of the bonus (depending chiefly on the amount collected into the allotment fund) would be independent of current marketings, individual or aggregate. Beneficiaries would receive their allotted bonus for a marketing year whether they raised no wheat or twice as much as usual, regardless of the amount they sold, and irrespective of the price of wheat. No one could add together his wheat receipts and his bonus to arrive at an enhanced price for the wheat he sold,<sup>1</sup> as millers would add the tax to the price they paid to reach the per bushel cost of the wheat they milled.

The allotment fund from which the bonuses would be paid is to be derived from excise taxes levied on processors. The scheme does not involve (a) payments into a fund by growers, as provided by the equalization fee plan; (b) the reduction of customs revenues, as

under the debenture plan; or (c) more direct bearing of losses by a Treasury fund, as with stabilization operations. The amount of the individual bonus would be determined by the height of the excise tax, the processed quantity on which it was collected, the amount of administrative expenses deducted, and the aggregate allotment of growers who were entitled to receive the "tariff benefit."

In its latest development, the domestic allotment plan includes several additional features. It is called *voluntary*, because the claim to tariff benefit would be acquired by voluntary signature to and fulfilment of a contract, whereby the grower agreed to limit or reduce his wheat acreage if and as directed by a central administrative agency.<sup>2</sup> Those who chose to retain complete freedom of action would be free to do so, but would get no bonus. The acreage feature is designed to prevent the plan from defeating its own ends by stimulating increased production; to furnish a workable method of bringing about contraction in the output of export-surplus crops; and, by reducing supplies, to promote price enhancement. Only in this indirect sense would raising the farm price of wheat be an ultimate object of the plan. The machinery is intended to bring about a better adjustment of farm output to market requirements than economic forces, reinforced by official advices, have effected. The way is tentatively opened for extensive direction of farming enterprise.

Provision is also made for a referendum among wheat growers to ascertain their willingness to co-operate in putting the plan into effect, and their opinion on the extent of acreage reduction to be prescribed. Exchange of acreage rights is permitted, hence a uniform percentage reduction would not be required. Provision is made for determination of individual allotments, certification of fulfillment of contracts, and distribution of payments, by county and local committees. Protection of consumer interests is sought by limiting the height of the tax in such a way that millers would pay, on the quantity entering into domestic food use, an amount per bushel (price plus tax) calculated as equivalent to the pre-war average price of wheat in relation to the general level of prices.

<sup>1</sup> Strangely enough, spokesmen for the domestic allotment plan, while they stress this distinctive feature, often slip into expressions that are at variance with it and obscure the distinction. Thus Black (see below, p. 26) spoke of the plan as a *price-raising* measure, and said at the head of his chapter that its essential principle "*is paying producers a free-trade price plus the tariff duty for the part of their crop which is consumed within the United States and this price without the tariff duty for the part of it that is exported. . . .*" Yet he recognized that the farmer, on selling his wheat, would get only a market price not affected by the scheme, and that the market for the "allotment rights" that he proposed would be independent of the market for wheat. Most proponents of the plan speak of it as "making the tariff effective," which to most people appears to mean raising the domestic farm or market price above what it would otherwise be by the amount of the tariff duty; this the plan does not attempt to do. Leading supporters of the plan have frequently spoken of it as raising or elevating farm or wholesale prices of the raw products to which it would be applied; yet it would have this effect, if at all, only through success in the restrictions on production that it contemplates.

<sup>2</sup> Presumably such provisions would bar individual farmers from objecting that the measure infringed their constitutional rights.

Illuminating as a conclusion to this brief summary are the ambitious specifications to which the "voluntary domestic allotment plan" has been drawn:<sup>1</sup>

1. It must lay the foundation for a system of planning and control of agricultural production if necessary and of better balancing production and domestic consumption and such exports as can be sold at a satisfactory price.

2. It must give the tariff benefit to the domestically consumed portion of those surplus crops in which the world price determines the domestic price.

3. It must prevent the increased income from stimulating increased production of these commodities.

4. It must give a definite method whereby farmers can control production and reduce it where necessary just as big corporations have always done.

5. It must not result in a higher domestic price for the product than the world price. There must be no dumping, and consequently no danger of reprisals, retaliation, or embargoes by foreign countries.

6. There must be no price-fixing and no interference with the present commercial channels in handling and marketing.

7. There must be no compulsion on individual farmers. Those who do not elect to share in the benefits must be left free to produce as much as they please.

8. The plan must be self-financing and not require appropriations from the federal Treasury.

9. There must be no dictation from Washington. Its administration must be decentralized and carried on by state, county, and local agencies, free from politics and bureaucracy.

10. Consumers must be protected against exploitation.

11. The plan must supply new credit so that further seed loans will not be necessary and also give some basis for controlled inflation.

12. It must be legal and meet the close examination and approval of able lawyers before it is introduced in Congress.

Without detailed consideration of these points here, it is appropriate to register reservations in respect to the implications of "balancing production and domestic consumption," "satisfactory price," ready adjustment by "big corporations," "dictation from Washington," and "controlled inflation."

#### EVOLUTION AND VARIANTS OF THE PLAN

The earliest significant forerunner of the present proposal was presented by Dr. W. J. Spillman of the United States Department of Agriculture (speaking as a private citizen), first in an article in *Farm, Stock, and Home*, February 1, 1926, and more at length in his *Balancing the Farm Output*, published in January 1927. Spillman's term "limited debenture plan" directed attention to the *debentures* that were to be allotted to farmers for sale to dealers buying their wheat, on the *limited* fraction of their crop corresponding to total sales less exports of wheat and flour.

The name "domestic allotment plan" was first applied (with the alternative or supplementary phrase "transferable-rights plan") to a more fully elaborated scheme outlined by Professor J. D. Black of Harvard, who, in the spring of 1929, gave it prominence in hearings before Congressional committees and in his book on *Agricultural Reform in the United States*.<sup>2</sup> Black ostensibly sought chiefly to present the plan for consideration "along with other price-raising plans"; but he virtually indorsed it, "if the country is to remain on as highly protective a basis as since 1896," as one component of a comprehensive price-raising plan for agriculture which also included the tariff for some commodities and the export debenture plan for others.<sup>3</sup> Black's proposal lacked the contract, acreage-restriction, local allotment,<sup>4</sup> and other features of recent forms; and in place of the tax-bonus provisions it called for issuance to growers of allotment certificates which millers would have to buy to evidence their right to mill do-

<sup>1</sup> As given in M. L. Wilson's address, "A Program of Agricultural Reconstruction," before the Mortgage Bankers Association of America, Niagara Falls, October 12, 1932.

<sup>2</sup> This book was financed by the Laura Spelman Rockefeller Memorial Foundation, whose director, Dr. Beardsley Ruml, was deeply interested in the domestic allotment plan.

<sup>3</sup> *Agricultural Reform in the United States* (New York, 1929), p. 317. Black rejected the equalization fee plan as inferior to the others on various grounds. While he viewed stabilization operations as worthy of trial as a means of coping with seasonal surpluses, he gave reasons for doubting their value even for this purpose (*ibid.*, chaps. viii, xii, and p. 360).

<sup>4</sup> Black proposed that state, county, and township quotas should be fixed by the federal Division of Crop and Livestock Estimates, and that State Allotment Commissions should make individual allotments (*ibid.*, pp. 272-77, 283-84).

mestic wheat. He proposed that these certificates be issued in an amount slightly less than millers would require, and expected their unit value to be kept close to the tariff rate by a spilling of imports over the tariff wall, in that Canadian wheat, duty paid, would compete at mills with United States wheat plus the cost of allotment certificates.<sup>1</sup>

Numerous reprints of Black's chapter on the plan were circulated in the Northwest in the spring of 1930. Variants of the plan discussed in the same region in 1930 and 1931, such as those of W. H. Grobe of Minneapolis and I. M. Brandjord, Commissioner of State Lands and Investments in Montana, called for a tax on flour production to raise funds for distribution among wheat growers.

The leader in the recent development of the plan, and in securing support for it, has been Professor M. L. Wilson of the Montana State Agricultural College, whose activity is in part in response to a request from the State Farm Bureau. He has discussed it, along with other leading proposals, at numerous farmers' meetings in Montana in the past two or three years. Late in April 1932 a conference was called in Chicago by W. L. Stockton of the Montana State Farm Bureau. This group indorsed the plan and appointed Dr. Wilson chairman of a committee to perfect a bill embodying it. Other members appointed to this committee were H. I. Harriman, then president of the Boston Chamber of Commerce; R. R. Rogers, assistant secretary of the Prudential Life Insurance Company; Henry A. Wallace, editor of *Wallaces' Farmer*; Louis S. Clarke of Omaha, president of the Mortgage Bankers

Association of Nebraska; and W. R. Ronald, editor of the *Evening Republican*, Mitchell, South Dakota.<sup>2</sup>

The name "domestic allotment plan" was attached by President J. A. Simpson of the National Farmers' Union to a very different scheme that, along with the equalization fee and debenture plans supported respectively by the American Farm Bureau Federation and the National Grange, was incorporated in farm relief bills<sup>3</sup> that were indorsed jointly by the three major farm organizations in the spring of 1932. The Simpson plan provided, indeed, for allotments to individual producers of a *pro rata* share of the total requirement for domestic consumption, without specifying the procedure by which individual allotments should be made; but in no other respect does it resemble the plans here treated.

The first bill embodying the voluntary domestic allotment plan proper was drafted by a subcommittee of the House Committee on Agriculture and introduced by Congressman Fulmer of South Carolina (H.R. 12461, June 4, 1932). Senator Walsh of Montana introduced an identical bill (S. 4859, June 8). These bills reflect the influence of the farm organization bill, chiefly in requiring prior investigation into costs of production and making it a prime objective "to secure to farmers a price for their commodities equal, as nearly as possible, to the cost of production . . . ." In a revised Fulmer bill (H.R. 12644, June 15) these cost-of-production features were eliminated, and the application of the provisions was left to the discretion of the Federal Farm Board.

As adjournment of Congress approached with no prospect of action on these bills, Congressman Rainey of Illinois introduced H.R. 12649, June 15, 1932, calling for the emergency application of a domestic allotment plan to wheat, cotton, and hogs. A revised form of this bill was introduced by Congressman Kleberg of Texas, on June 20 (H.R. 12730). These bills provided for "adjustment certificates," payable at 42 cents a bushel on wheat, 5 cents a pound on cotton, and 2 cents a pound on hogs, to be issued to growers marketing these products to the extent of domestic consumption forecasts made by the Secretary of Agri-

<sup>1</sup> *Ibid.*, pp. 277-82. Since this feature does not appear in recent proposals, we shall not discuss various objections to it.

<sup>2</sup> See Mr. Ronald's luncheon talk published in the *Congressional Record*, May 25, 1932, pp. 11144-45, and editorials in his paper, printed in a booklet entitled *A Sound Solution of the Farm Problem: The Voluntary Domestic Allotment Plan*. See also Dr. Wilson's testimony before the Senate Committee on Agriculture and Forestry, *Hearings on Bills Relative to Farm Relief*, April 26-29, 1932, pp. 55-61, and before the House Committee on Agriculture, *Hearings on Farm Marketing Program (Voluntary Domestic Allotment Plan)*, May 11, 25, 1932, Serial E, Part 4, pp. 1-22; and his explanatory statement in the *Congressional Record*, July 16, 1932, pp. 15641-43.

<sup>3</sup> S. 4536, April 29, 1932; H.R. 11866, May 4, 1932.



culture; and for raising the requisite funds by taxes on processing these products. The House Committee on Agriculture greatly extended the scope of the Kleberg bill and then reported it favorably on July 1.<sup>1</sup> This bill did not come to a vote. A little earlier, Senator Norbeck of South Dakota had introduced S. 4940, much like the Rainey bill. This was favorably reported by the Senate Committee on Agriculture and Forestry on June 30.<sup>2</sup> On July 11 (calendar day July 13) it passed the Senate without a record vote;<sup>3</sup> but on July 14 the Senate voted (30 to 25) to recall the bill from the House for reconsideration.

Meanwhile, identical bills representing most fully the views of advocates of the plan were introduced by Congressman Hope of Kansas (H.R. 12918, July 7, 1932) and Senator Norbeck (S. 4985, July 11, 1932). The principal new features were those specifying conditions, including farmer referenda, to be fulfilled before the plan was applied to any commodity, and fixing limits beyond which the tariff-adjustment charge might not be raised. The same authors simultaneously introduced bills presenting highly abbreviated forms of the plan (H.R. 12919 and S. 4984). We shall discuss the "voluntary domestic allotment plan" chiefly as it is embodied in the longer Norbeck-Hope bills, which should not be confused with the very different Rainey-Norbeck emergency bills and the Farmers' Union "domestic allotment plan."

<sup>1</sup> House Report No. 1747.    <sup>2</sup> Senate Report No. 973.

<sup>3</sup> Congressman McClintic of Oklahoma, formerly a supporter of the Farmers' Union plan, introduced a closely similar bill (H.R. 12841, June 28).

<sup>4</sup> See his address before the Round Table on Agriculture at the annual meeting of the Chamber in San Francisco, May 20, 1932, and his fuller address before a Round Table on Production Control, at the American Institute of Co-operation, University of New Hampshire, August 5, 1932.

<sup>5</sup> See the various trade journals in recent months, an open letter to Mr. Harriman by President Frank Hutchinson of the Millers National Federation, on August 30, 1932, and an address by ex-Congressman Sydney Anderson, former president of the Federation and now vice-president of General Mills, Inc., before the Grain and Feed Dealers National Association at French Lick, Indiana, September 20, 1932.

<sup>6</sup> The Millers National Federation organ (*The Hook-Up*) of September 30, 1932, reprinted a copy of a sympathetic letter by "one of the most outstanding men" in the industry.

In form, most of the recent bills are expressed in terms of amendments to the Agricultural Marketing Act, the Norbeck-Hope bills adding new sections 16 to 22. The Federal Farm Board is made the central agency for administering the plan. This is not, however, an essential feature of the proposal. From the standpoint of economy and efficiency of administration, however, it would seem proper to utilize existing federal machinery rather than to create a new board or separate commissions to administer the plan. In any case the work of the federal agency would fall mainly upon its staff, which would necessarily furnish the basic material for major and minor decisions.

#### INDICATIONS OF SUPPORT FOR THE PLAN

The domestic allotment plan has been gaining interest and support in various quarters. The names of Spillman, Black, and Wilson serve to indicate the position of some outstanding agricultural economists, though it cannot truthfully be said that the plan has wide support from agricultural or other economists. The membership of the committee appointed in Chicago in April 1932 to push the plan included mortgage bankers and representatives of business. Significant is the outspoken support of President Harriman of the Chamber of Commerce of the United States for a trial of the plan with two or three commodities.<sup>4</sup> Vigorous opposition has been expressed by representatives of the grain trade and milling industry,<sup>5</sup> but this opposition is not unanimous.<sup>6</sup> There are indications of considerable actual and potential support among farmers and farm organizations, although the leading farm organizations find difficulty in throwing over in its favor the alternative plans they have so long advocated. Many business men, convinced that legislation is inevitable, are endeavoring to cooperate in the hope of improving its workability and limiting its scope.

In the view of active supporters of the allotment plan, it conforms to a plank in the Republican party platform of 1932, which reads: "We will support any plan which will help to balance production against demand, and thereby raise agricultural prices, provided it

is economically sound, and administratively workable without burdensome bureaucracy."

Governor Roosevelt has at various times expressed the belief that some farm relief plan can be found that meets these same conditions. It would seem that, of those thus far prominently discussed, the voluntary domestic allotment plan alone conforms to the six points set forth in his campaign speech at Topeka, Kansas, September 14, 1932, as those "upon which most of the reasonable leaders of agriculture have agreed":<sup>1</sup>

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

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

3. It must not make use of any mechanism which would cause our European customers to retaliate on the grounds of dumping. It must be based upon making the tariff effective and direct in its operation.

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

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

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

The election of Governor Roosevelt to the presidency on November 8 strengthens the prospect that the domestic allotment plan will receive earnest consideration in the next few months. It now seems likely to figure prominently in Congressional deliberations during the coming winter, and in some form or other to be pressed to a vote before or after March 4.

#### TARIFF TERMINOLOGY

Domestic allotment plans are usually urged as a device for "making the tariff effective." The term "bonus to producers," though accurate, excites prejudices; so it is called a "tariff benefit." For similar reasons, what would legally be an excise tax on processors is called by a sweeter name, "tariff-adjustment charge." To strengthen the appearance of connection with the tariff, the standard rate is the same as the tariff duty.<sup>2</sup>

The obvious reason for such language is political and psychological. One of the important specifications in framing the plan, no less real because it is rarely listed, is that the scheme should have a powerful political appeal. The protective tariff is strongly entrenched, and it is politically easier to get the tariff wall raised still higher than to get it lowered. Farming interests have long protested that they bore the burdens of the protective tariff without reaping corresponding benefits, at least on products of which we produce a surplus. Well-nigh prohibitive tariffs on these products have no easily visible effects on their prices. Their producers have been taught to demand an assured place in the tariff sun. The case for a plan sounds better if it can be argued that it would merely make existing protective tariffs "effective."

Such language is, nevertheless, inaccurate and misleading, to an extent that is not generally realized. Tariff effectiveness may be considered with reference to many different kinds of effects, e.g., on the volume of imports, on customs revenues, on the volume and regional distribution of domestic production, on world prices, on domestic prices to consumers, on domestic prices to producers, and on the prosperity of domestic producers in the shorter or longer run. The *primary* effect of a protective tariff, however, is to

<sup>1</sup> In his Boston address of October 31, Governor Roosevelt referred briefly to such a measure as "my plan."

<sup>2</sup> For cotton, there being no duty except on long-staple imports, the proposed rate is 5 cents a pound.

keep imports down or out; other effects, in the main, are secondary. Many tariff duties, including that on wheat, practically prohibit imports of directly competitive foreign products.<sup>1</sup> Few tariff duties, whether prohibitive or not, cause prices to domestic producers to be higher by the full amount of the duty; and it leads to much confusion to interpret "tariff effectiveness" to mean this. Tariff protection, by handicapping foreign competition in the protected market, merely permits domestic market prices to rise, in greater or less degree, above the c.i.f. price of competing imported products. No tariff beneficiary is handed the amount of the tariff duty on his output, or assured of getting the equivalent in higher prices; much less is he assured of profits or prosperity.

The domestic allotment plan would not in any sense "make the tariff effective." It would do nothing to keep out wheat imports, or to raise domestic prices of wheat except as the proposed restriction on acreage might in time exert some influence in this direction here and abroad. The working of the plan would in no way depend upon importations, in any volume,<sup>2</sup> or upon their elimination. It would not require the existence of a tariff on wheat, cotton, or any other farm product to which the measure was applied.<sup>3</sup>

The so-called "tariff benefit" would there-

fore be in no sense a benefit attributable to or resulting from the tariff. The bonus is designed rather as an equivalent of what the tariff would yield if it caused domestic prices to rise by the full amount of the duty; but even this equivalence is imperfect, for under the plan the bonus would not be paid on wheat currently marketed, and the per bushel bonus would be paid on less than the total quantity marketed.

While we use the term "bonus" as alternative to "tariff benefit" without invidious connotation, it should be observed that, as the rain that falls alike on the just and the unjust, and like the proposed bonus to war veterans, the wheat bonus would be distributed regardless of need or merit. Farmers who can make a profit on wheat at 50 cents a bushel would get as much as those who produce at a loss when wheat sells below \$1.00. Those who had recently acquired farms at very depressed prices would obtain the bonus just as legally as those who had retained their farms through the depression.<sup>4</sup> It would go alike to those who raised no wheat, and to those who raised a great deal, in the year of payment. There is no prospect that anything like all of the bonus would go to operating farmers, for the claim to the bonus would go with the land, and the share of tenant operators would apparently depend upon their lease or special arrangement with their landlords.<sup>5</sup>

The "tariff-adjustment charge," moreover, would not adjust the tariff. It is simply a tax for which the standard rate is set at the tariff duty merely because people so commonly believe, contrary to the facts, that a tariff normally raises domestic prices to producers and consumers by the full amount of the duty (an end that the wheat duty has not achieved), and that the tax would therefore be a fair equivalent of such an "effective" tariff duty.

The idea of an "equivalent" of tariff protection, for export-surplus products, contains implications widely at variance with elementary economic facts which are sometimes strangely forgotten even by some who know them well. We export some commodities because, for more or less complex reasons, we can produce them more cheaply than import-

<sup>1</sup> Wheat imports for consumption, duty paid, have totaled less than 2½ million bushels in the period of over eight years since the present rate of duty went into effect; and most of this was imported in 1925-26 after a very short crop here.

<sup>2</sup> Black's form of the plan, as we have seen, contemplated an indirect connection with the tariff; but that feature had nothing to recommend it except that it would lend color to the tariff-effectiveness argument.

<sup>3</sup> The tariff on *manufactured forms* of farm products (or some equivalent handicap on imports) would be an essential accompaniment of the plan; otherwise imported wheat flour, for example, would displace domestic consumption of flour made from domestic wheat. See p. 42, footnote 1.

<sup>4</sup> Conceivably the prospect of applying the plan might hasten foreclosures where these are being deferred.

<sup>5</sup> The tendency might be to improve wheat-land values, to the advantage of the landlord, but to render these values subject to fluctuation in consequence of changes in the bonus rate and to serious deflation in the case of repeal of the act. See *Northwestern Miller* editorial, October 26, 1932, p. 215.

ing countries can. We import other commodities because we can produce them less cheaply than some exporting countries can. Tariff duties are designed to offset all or part of the comparative disadvantage under which we produce certain goods in competition with similar imported goods. The fact that we continue to export certain other commodities, with or without tariff duties upon them, is *prima facie* evidence that in producing these we enjoy a comparative advantage. To give a bonus to producers of these commodities is therefore to give them an added advantage.

If the usual tariff-effectiveness reasoning is used on behalf of the domestic allotment plan, it can be forcefully argued that other branches of agriculture and industry that are not getting higher prices to the full extent of the tariff duty are getting less than they are entitled to, and that they too should be favored by a tax-bonus scheme that would give them their due. Any industry that is not now getting "tariff benefits," whether or not its products are now subject to a duty or could benefit from one, might as logically ask for the application of some such plan to help it out of difficulties. Once the principle were accepted that all producers are entitled to

"effective" tariff protection or a full equivalent, there would be no logical point (perhaps no political point) at which to stop in extending the domestic allotment plan or some other with the same objective.

It is not surprising that proponents of various farm relief plans should seek to win support for these plans by appeal to prevalent if mistaken notions, and to meet opposition from supporters of protective tariffs by arguing that various tariff arguments apply to the farm relief plans in question. Both types of measures seek to burden consumers for the benefit of producers, on the theory that in roundabout fashion this works to the advantage of all. Yet the acceptance or rejection of the domestic allotment plan should not be influenced by misleading language and ill-founded arguments. The issue should be fought out on simpler grounds: Is it or is it not justifiable and wise to tax processors (and indirectly domestic consumers) of various farm products to provide a bonus to a large body of distressed farmers on whose land these products have been grown in recent years, when such bonus is coupled with provisions for readjustment of agricultural production?

## II. ARGUMENTS FOR THE PLAN

A condensed summary of the broad case for the voluntary domestic allotment plan is given in the Norbeck-Hope bills (long and short forms alike) which declare (Sec. 2):

(a) That the production of many important farm products is in excess of domestic consumption, and the price of the entire output is determined by the price at which the exportable surplus can be sold on world markets.

(b) That as a consequence the prices of such exportable products cannot be protected by ordinary tariffs.

(c) That by reason of their large number and individual control of their operations, farmers have been unable to reduce their production when demand declined. In consequence great surpluses of wheat, cotton, tobacco, and other products have been accumulated, which clog the channels of trade and drive prices to ruinously low levels.

(d) That the lack of sustained purchasing power on the part of farmers is helping to paralyze industry and trade and threatens the welfare of every citizen of the United States.

(e) That action must therefore be taken to return to farmers a protected income from that part of their production consumed within the United States, and to enable them to adjust their production to the demand for their products.

(f) The inequalities between the prices for agricultural and other commodities have given rise in the basic industry of agriculture to conditions that have affected transactions in agricultural commodities with a national public interest, that have burdened and obstructed the normal currents of commerce in such commodities, and that render imperative the enactment of this Act for the relief of the present national emergency in agriculture, industry, transportation, employment, and finance, and to help farmers maintain a safe and prosperous course in the future.

Some exception must be taken to this train of argument. It is not true that the price of the entire wheat crop "is determined by the price at which the exportable surplus can be sold on world markets." There is a tendency

in this direction; but frequently, as in each of the past four years, other forces operate to bring about a different net result.<sup>1</sup> The wheat tariff has not been wholly ineffective; not only has it kept out most wheat imports, but it has played a part in the complex process by which wheat prices were kept above export parity, in varying degree at different times and in different regions. Other forces than those mentioned have helped to restrain exports, prevent acreage contraction, and pile up surpluses of farm products. The other facts cited in the foregoing quotation, even without the modifications just suggested, do not necessarily lead to the conclusion "that action must therefore be taken to return to farmers a protected income from that part of their production consumed within the United States."

#### SOME BASIC ARGUMENTS

Part of this quoted summary, however, contains the basic arguments that have been urged, with powerful appeal, in support of all major farm relief proposals. They acquire added weight in the present severe depression, when farm distress is far more acute than it was in the years of agitation that finally led to the passage of the Agricultural Marketing Act. In brief, the argument is: the plight of agriculture reacts adversely upon the whole economic and financial situation; effective rehabilitation of agriculture is requisite for business recovery and for the maintenance of sustained prosperity. This reasoning does not lead directly to the support of any particular measure; but its widespread acceptance explains the continued search for workable and politically acceptable devices to raise the income of farmers. Many who are skeptical about a plan will give it their support if there seems a fair chance that it can be adopted and might yield the desired result.

It is not necessary here to present the evidence of agricultural distress, which is real and widespread. Whatever may have been true of the situation in 1925-29, beyond ques-

tion the present plight of farmers is serious not for them alone. It adversely affects business concerns that supply farmers with goods for production and consumption; wage earners in manufacturing, transportation, and commerce; farmer creditors, including holders of farm mortgages; and state and local governments. The national interest clearly justifies earnest search for measures not merely to alleviate farm distress but to change the position radically for the better. Any proposal that gives promise of making substantial contribution to these ends merits earnest consideration; but it should properly be scrutinized, in many quarters, to see how reliable is its promise and whether its probable indirect consequences are acceptable.

Unreserved acceptance of the broad argument does not carry with it indorsement of all the forms which this argument takes. Officials of Farm Bureau Federations in the Midwest states, in conference in Chicago August 3, 1932, adopted a statement featuring "the generally accepted belief that national prosperity cannot return to the United States until the general farm price level is restored to a basis above cost of production. . . ." This belief we do not share. It seems to us unlikely that general farm prices will ever reach, for any extended period, a level that farm leaders would regard as above cost of production. Unfortunately, theory and experience agree to the effect that agricultural cost data yield no criteria for "fair prices."

Nor is it correct to reason that, because in a limited sense agriculture is basic, improvement in farm prices and farm purchasing power is a prerequisite for general recovery from depression. During the first post-war depression many argued that industry could not recover until agriculture did. This proved false. Industrial recovery preceded and outdistanced agricultural recovery, and was indeed responsible for much of the agricultural improvement that took place. For a time it was urged, in behalf of drastic price-lifting measures of farm relief, that industry could not long continue to prosper if agriculture remained relatively depressed. This too was not borne out. Industrial prosperity persisted for some years. True, this prosperity was rudely

<sup>1</sup> See "Price Spreads and Restraint of United States Wheat Exports," *WHEAT STUDIES*, October 1932, IX, 1-22.

interrupted by severe recession in 1929-32, when agriculture suffered severely along with industry; but among the multifarious causes of this vast reversal no large weight can be ascribed to the fact that gross farm income in 1925-29 averaged less than 12 billion dollars. It is to be recalled that great prosperity among American farmers during the war did not prevent the post-war crash, but even added, indirectly, to its severity.

Independent improvement in farm conditions, such as occurred in 1897-98 when the United States poured out a huge surplus of wheat at good prices to supply an unusual deficit in Europe due to short crops there, would certainly give a marked stimulus to general economic recovery in this country. Something very similar occurred in 1924-25, with the aid of marked recovery of confidence in the economic future of Europe. Favorable effects of recovery generated in any part of agriculture are transmitted far beyond the source. There is no doubt that substantial improvement in the income of farmers would, under some conditions, give an impetus to widespread economic gains. The same, however, can be said of improvement independently generated in other fields, or in other countries, as illustrated by revival in the textile industry in recent months and by the transformation of the German position following the international settlements of 1924. In modern economic society, improvement as well as disintegration may start at almost any point, and progress with cumulative effects.

It is quite another matter, however, to say that improvement in agriculture or any other line will redound to the general prosperity regardless of how this gain is brought about. Effects upon other branches of economic life must be weighed in. Agricultural recovery is not a prerequisite for general economic recovery, and does not have to be given priority over everything else. It is certainly wise to repair the weak spots in agriculture and in other fields, and to recognize the interactions for good and ill, in both directions, between agriculture and other industries. Yet it appears to be true that the extreme recession of farm income in 1929-32 was due less to agriculture than to causes outside agriculture.

Similarly the near outlook is that, as in 1921-25, substantial recovery in agriculture will come largely in response to broad economic recovery, and will not be either the necessary or the actually dominant cause of a general advance. Even if the domestic allotment plan should yield its maximum favorable results, it might still be true that, on the whole, farmers stand to gain much more from recovery in other lines, and from improvements in purchasing power, demand, and prices that may be expected to accompany it, than from any measure for farm relief at the direct expense of another part of society.

#### BALANCE BETWEEN AGRICULTURE AND INDUSTRY

Another broad argument used in behalf of the allotment plan and others makes use of an appealing phrase, "balance between industry and agriculture." It is held that there is a normal balance between agriculture and other industries, and that disturbance of this balance means injury to the whole social structure. No doubt there is a sense in which this is true; but no one makes clear in what such balance consists, how its existence or departures from it can be recognized and measured, and how the equilibrium can be restored when it is lacking.

A test question is illuminating: Was agriculture adversely out of balance with other industry in 1924-28? The common answer would be, Yes. Among the evidence cited would be (a) that farm income was a much smaller fraction of the national income than in 1909-13; (b) that prices of farm products at wholesale averaged lower in relation to the general wholesale index than in 1910-14; (c) that an average unit of farm products at farm prices would buy less of what farmers need for farm operation and consumption than in 1910-14; (d) that average net returns per farmer had risen far less than wages per industrial worker; (e) that farm land values were much lower, in relation to the general price level, in 1924-28 than in 1911; and perhaps (f) that the farm population constituted a smaller proportion of the total population than before the war. These facts led many to infer that vigorous measures to improve farm prices and farm incomes were essential to

restore a normal balance between agriculture and other industry.

Yet another answer can be made that squares with the same facts. The relative appeal of farming (coupled with obstacles to ready movement into other occupations) was such that so many people stayed on farms that, in the face of heightened efficiency of production, reduced per capita demand for some farm products, and diminishing effective demand for American farm products abroad, there were too many farmers, producing too much, to permit them as a class to get better prices and higher average incomes. The inference to be drawn from this answer is that various steps to increase farm prices and per capita farmer income would not have improved the balance, but would have made it worse by stimulating increases in the number of farmers and their volume of output.

The latter view is unpopular but has much in its favor. Reasoning supports the historical evidence that there is a powerful trend toward a declining proportion of farmers in the national population. As standards of living rise, the food and textile materials that farmers supply constitute a declining proportion of the national consumption of goods and services. With increasing opportunity to expand per capita consumption, in this country at least the expansion is almost wholly in ways that do not increase, and may even diminish, the per capita demand for services of farmers in general. The share of farm income in the total, expressed in dollars, tends to decline partly for this reason, and partly because non-farm income is actually calculated in money to a greater extent than is true of farm income. Paradoxical it may be, but it appears to be true that measures and factors calculated to make entrance into farming easier, farming itself more efficient, and life on farms more attractive have contributed heavily to make the number of farmers exceed requirements for farmer services and to bring on a condition of agricultural surplus. Regret this as one may, it is necessary to reckon with the fact that deep-seated economic forces are extremely powerful and little understood, and that their operation can be influenced but seldom reversed by social action.

This is not the place to go deeply into this large realm of social philosophy. Yet it is pertinent to remark that here social science does not yet afford much foundation for social engineering. We have no highly reliable indicators of normal or abnormal equilibrium between agricultural industries as a group and other occupations as a group. There is no rational basis for believing that a normal balance implies any particular proportion of farmers to the total population, any given share of farmers in the national income, any specific relationship of agricultural to other prices on some selected base, or any particular index of farmer purchasing power. Moreover, there is good reason to believe that the normal balance, whatever it be, is not something fixed or static but is a moving equilibrium, changing with the interplay of social and economic forces. In default of better indicators, it is unsafe to ignore the harsh economic touchstone, that persistently low remuneration for a group tends to mean that society as it is does not want so many of that kind. The view that farmers are peculiarly important as a class because they produce necessities of life does not mean that all who choose to be farmers ought to be supported in that occupation even if they produce more of particular commodities than society, as now organized, can effectively dispose of.

#### SPECIFIC ARGUMENTS

Much of the support for the domestic allotment plan rests upon acceptance (with or without proper qualification) of the broad arguments of tariff equality, agricultural "fundamentalism," and balanced economy, which apply to other plans in much the same degree. In addition, various arguments are put forward to show the superiority of this plan to alternative proposals, or to show its own peculiar merits. Several of those are well-founded, while others claim more limited indorsement.

We regard as real and important the following relative merits of the plan. It calls for no governmental agency with power to buy and sell in competition with private merchants and co-operatives, and free from whole-

some restraints that accompany efforts to make a business profit by risking one's own funds, but subject to peculiar restraints that business fears or public pressure impose upon sales policy. The plan would entail no stimulus to or bounty upon exports to which competing or importing countries could object as "dumping." It would not excite retaliation, intensify the drift toward higher barriers to trade, or be out of harmony with efforts to reduce or remove existing barriers. If tariff arguments for the plan were dropped (which could be done without weakening the plan as such), its adoption would not tend indirectly to strengthen the grip of high protectionism on the United States.

It is less clear that no disturbance to the grain and flour trades would be involved. Clearly none is intended, and the degree of interference would probably be less than under the equalization fee plan or stabilization operations. The extent of inconvenience and injury might be considerable under the plan as now outlined, but much less if certain modifications were made in the plan or its application. The collection of a tax on processing wheat would be unwelcome, and the imposition of the tax and changes in the rate would constitute disturbing influences for a time. Uncertainties about how the plan would work out, and about subsequent changes in it, would affect both grain and flour trades. Commercial mills run a risk of losing business through reduced flour consumption or processing in channels that could evade the tax. Substantial reduction in acreage and production, which the plan definitely contemplates, would directly tend to cut down the volume of business for the grain trade and the railroads. No one is yet in position fairly to appraise these factors, but it is not surprising that grain and flour interests have preferred to be let completely alone.

How the measure would affect co-operative marketing it is difficult to predict. It would not require wheat to be co-operatively marketed, or in any direct way interfere with the co-operative movement. The two would be supplementary and harmonious, not alternatives. Some, believing that in operation the plan would greatly facilitate the expansion of

co-operative marketing, support or oppose it on this ground. Others believe that it would weaken the movement by removing some of the basis for arguments with farmers that their salvation lies in co-operative marketing. We lean to the view that the actual influence on co-operative marketing, direct or indirect, would be slight.

It might well prove true that the plan would entail no burden upon the Treasury or taxpayers in general, provided the act were held constitutional<sup>1</sup> and no stabilization losses were incurred.<sup>2</sup> This argument, however, implies too much. Taxes on food and textile materials have in general been left out of the federal tax system, largely on the solid ground that they would tax necessities of life and so be "regressive," burdening most heavily those with lowest incomes. It is not a merit, but a demerit, of the plan that it is to be financed by such taxes. The proposal to limit and regulate the amount of the tax, so that the burden upon consumers shall not exceed certain limits, must be regarded as a mitigation of an evil feature rather than a positive argument for the plan.

The dissociation of the bonus from the current price of wheat would furnish a valuable form of income insurance such as no other proposal contemplates.<sup>3</sup> It often happens that individual farmers, or many of the farmers in a state or region, experience the disaster of crop failure. When prices of the commodity are very low, farmers who happen to have unusually low yields suffer doubly through having little to sell and getting low prices per bushel. The bitter experiences of spring-wheat growers in 1931 and winter-wheat growers in 1932 are fresh in mind. If a similar situation arose with the domestic al-

<sup>1</sup> Under certain conditions the Board's revolving fund directly, and the general funds of the Treasury indirectly, would be drawn upon for payment of tariff benefits. The Norbeck-Hope bills provide (Sec. 18, i) that, if any part of these payments is prevented by final invalidation of provisions in the bills, the deficit shall be made good to the end of that marketing year out of the revolving fund, and an appropriation is authorized sufficient "to make such fund adequate for such payments."

<sup>2</sup> See below, p. 60.

<sup>3</sup> Professor Black ably set this forth in his *Agricultural Reform*, pp. 285-86.



lotment plan in operation, farmers who got little or no income from their wheat would nevertheless receive their bonus based on past production. On the other hand, in a year of high prices for wheat, the excise tax and the amount of the bonus distributed would be lowered. The contribution to increased stability of income would be of great importance to individual growers and significant in the aggregate.

In consequence of these two features, the plan in operation would largely obviate the demand for relief and seed loans to wheat growers, to which Congress has customarily responded by appropriations that have contributed to keep individuals and sections in wheat growing when their own interests would have been better served by going out of it. Some weight should be given, though less than sponsors of the plan usually give, to the credit feature of the plan, whereby farmers might borrow on their allotment contracts.<sup>1</sup>

It is a real virtue of the plan that, since the bonus would be distributed on the basis of production in past years, it would not tend to stimulate production and thereby help to defeat its own ends. The acreage-restriction features have a wholesome intent. These virtues, however, might be weakened by frequent adjustments of the allotment basis or lax enforcement of the tax and acreage-restriction provisions. There is much merit also

in the avoidance of compulsory application of the plan to farmers, and in the proposal to get their understanding co-operation in carrying it into effect.

Certain arguments of some enthusiasts for the plan must be heavily discounted. Contrary to such assertions, it would not effect a "real stabilization" of wheat prices, permit the Grain Stabilization Corporation to recoup its losses, enable farmers to amortize outstanding farm mortgages in twenty years, or radically increase the purchasing power of the nation. The most competent spokesmen for the plan do not offer it "as a panacea for all of the ills of agriculture," or as "a substitute for the re-establishment of our world agricultural markets," but are content to argue that "it will do more to provide fair prices, insure production adjustments and re-establish purchasing power than any plan which has yet been proposed."<sup>2</sup>

Whether the plan succeeds in fact in avoiding "burdensome bureaucracy"; whether in fact the proposed transfer of purchasing power from consumers to farmers would give impetus to the "upward spiral" of recovery and contribute otherwise to national prosperity; whether the measure would actually constitute an important step toward a better balanced economy: these are large issues that can best be considered after the details of the proposal have been examined.

### III. PREREQUISITES FOR APPLYING THE MEASURE

Under the Norbeck-Hope bills, the application of the scheme to any commodity<sup>3</sup> is made contingent upon three conditions (Sec.

16, a): (1) that the commodity "is selling for less than its pre-war purchasing power" (2) "by reason of domestic production exceeding domestic consumption, or otherwise unduly depressing the price"; and (3) that 60 per cent of the producers have expressed by vote their willingness to co-operate in carrying out the provisions of the act.<sup>4</sup>

<sup>1</sup> See below, pp. 52-53.

<sup>2</sup> M. L. Wilson, in his address before the Mortgage Bankers Association of America, October 12, 1932.

<sup>3</sup> Under the Fulmer-Walsh bills, the domestic allotment plan would be put in force when the Federal Farm Board finds that a commodity "is selling below cost of production on account of the inability of producers to benefit by tariff protection on such commodity by reason of an exportable surplus of such commodity . . . ." There are serious obstacles— theoretical, statistical, and others—which stand in the way of arriving at suitable cost-of-production figures; in this connection, see M. K. Bennett, *Farm Cost Studies in the United States* (Food Research Institute, 1928), especially pp. 220-29.

<sup>4</sup> The short forms of the Norbeck-Hope bills, which in general are much less explicit than the longer forms, provide (Sec. 16) for applying the measure to a commodity whenever the Board finds:

"(a) That the returns to producers from that commodity are in an unduly low proportion to the costs of goods and services that farmers buy;

"(b) That the situation of the commodity is such that the voluntary allotment procedure will increase

## PURCHASING POWER PROVISIONS

Conceivably a simple calculation might suffice to determine the presence of the first condition, but the bills do not specify the statistical procedure to be used. It may be inferred from Section 17, *a*, 1, that the current wholesale price of wheat should be expressed in terms of the average wholesale price of wheat in 1910-14, and that the current index number of wholesale prices computed by the Bureau of Labor Statistics be expressed in terms of the 1910-14 average of this number. Then if the percentages thus computed were lower for wheat than for the general index, the purchasing power of wheat over commodities in general would be regarded as below its pre-war level.

Even in this computation some difficulties would be encountered. The official index of wholesale prices has been changed several times since the pre-war years, in number of commodities covered, in weighting, and in base period. To get a continuous series reaching back to 1910, the successive series have to be spliced together. An index for 1932 computed just as the index was computed in 1910-14 would be very different from the index as now reported, even when corrected to the earlier base. Different methods of splicing the series yield different results for certain years. Even competent statisticians do not completely agree on such matters. At least until the procedure was challenged, the Board would presumably choose the one used by the Department of Agriculture in its published documents. On this basis, currently published wholesale indexes of the Bureau of Labor Statistics, on a 1926 base, must be multiplied by 1.46 to express them on a 1910-14 base.

Moreover, the bills do not indicate clearly what measure of the wholesale price of wheat would be chosen. It would probably be impossible to apply the measure specifically mentioned in Section 17, *a*, 1—"the wholesale

the net returns to producers from the production of such commodity;

"(c) That 60 per centum of the producers of that product have indicated, by a ballot or otherwise, their willingness to co-operate in applying the allotment procedure."

cost to the manufacturer or processor." This could not be ascertained currently for all millers, or for many in the pre-war period; and averages of data obtained would be vitiated by geographical factors among others. The bills might better not be specific at this point, and should not make mandatory a procedure difficult, costly, or perhaps impossible to apply. The average wholesale price of representative wheats in a few outstanding markets would presumably be adequate for the purpose in question. Different methods, however, would yield somewhat different results. Pre-war and post-war quotations at wholesale are not precisely comparable, and appropriate weights, if a weighted average were to be used, would not be the same today as before the war.

To get some reasonable figures for purposes of illustration, we have undertaken to extend back to 1910 the Bureau of Labor Statistics wheat price series much as the Bureau has reconstructed it back to 1913. As shown in the left-hand portion of the tabulation on page 38, this leads to a figure of 97.9 cents as the weighted average wholesale price of wheat in the base period 1910-14. Weighted monthly average prices for four recent months, as derived by the current Bureau procedure, are shown in the right-hand portion of the tabulation. Expressing recent monthly average prices in terms of the 1910-14 average, the wheat and general wholesale price indexes compare thus:

	June	July	Aug.	Sept.
General index .....	93.3	94.2	95.2	95.4
Wheat index .....	52.5	51.1	54.7	54.9
Percentage of general index..	56.3	54.2	57.5	57.5

When calculated on this reasonable basis, wheat has obviously been "selling for less than its pre-war purchasing power." Other methods, though yielding somewhat different figures, would lead to the same conclusion.

It should be observed, however, that before an educational campaign were started among farmers, consideration should be given to provisions limiting the height of the "tariff-adjustment charge" and thereby the allotment fund (see below, p. 44). Suffice it to say here that only on the basis of figures for July,

when the purchasing power of wheat was lower than in any other month here shown, could the maximum tariff-adjustment charge have been fixed as high as 42 cents a bushel.<sup>1</sup>

The second condition specified above (p. 36) would not be difficult to determine for wheat, in the near future at least. The United States has had a surplus of production over domestic consumption practically every year for at least sixty years. Latterly our export-

in many years, be clearly subject to inclusion if their producers so voted, e.g.:

Barley	Hops	Pears	Grapefruit
Corn	Apples	Peaches	Oranges
Oats	Prunes	Grapes	Potatoes
Rye	Apricots	Raisins	

It would not matter that in certain instances exports afford a negligible outlet for a "surplus," or that in others the export outlet is

Wheat <sup>a</sup>	Weights (1909)	Pre-war price (cents per bushel)						Wheat <sup>a</sup>	Weights (1926-28)	1932 price (cents per bushel)			
		1910	1911	1912	1913	1914	1910-14			June	July	Aug.	Sept.
A .....	242,859....	111.0	102.0	101.2	87.4	100.3	100.4	A .....	59,480....	57.4	53.6	57.6	58.7
B .....	26,984....	112.5	104.1	104.6	91.3	104.1	103.3	AA .....	138,785....	55.6	52.2	55.8	56.1
C .....	124,072....	106.6	92.4	105.0	98.6	100.5	100.6	C .....	102,328....	51.1	48.4	53.8	54.5
D .....	248,144....	103.1 <sup>b</sup>	93.2 <sup>b</sup>	93.1 <sup>b</sup>	87.7	93.9	94.2	CC .....	74,778....	48.3	47.7	54.1	53.9
E .....	41,357....	98.2 <sup>c</sup>	90.4 <sup>c</sup>	92.3 <sup>c</sup>	92.9	100.9	94.9	D .....	216,464....	45.3	46.7	49.0	48.8
								EE .....	65,759....	61.1	57.9	60.1	58.3
Weighted average		106.6	96.4	98.5	90.0	98.2	97.9	Weighted average		51.4	50.0	53.6	53.7

<sup>a</sup> A, No. 1 Northern Spring, Minneapolis; AA, No. 2 Dark Northern Spring, Minneapolis; B, No. 1 Northern Spring, Chicago; C, No. 2 Red Winter, Chicago; CC, No. 2 Red Winter, St. Louis; D, No. 2 Hard Winter, Kansas City; E, Blue-stem, Portland, Oregon; EE, No. 1 Hard White, Portland, Oregon.

<sup>b</sup> Simple average of monthly weighted average prices. Similar averages for 1913 and 1914 are 85.4 and 93.1 cents.

<sup>c</sup> Annual averages of Friday prices of "Milling Bluestem" plus 4 cents, the difference between the 1913 average of this series and the one reported by the Bureau of Labor Statistics.

able surplus, from carryover and new crop, has been unprecedentedly large; this year, even after a short crop, it is at least 300 million bushels. Probably none would question the fact that, among other things, this surplus was a factor depressing the price and purchasing power of wheat.

The decision on the first and second conditions would give rise to somewhat more difficulties with other commodities. In discussions of the plan, wheat, cotton, tobacco, hogs, and rice have been most often mentioned. Under the cited terms of pending bills (see p. 36) a large number of others would,

solely for canned, dried, or otherwise processed forms.

If applying the system to some commodities tended to stimulate the production of others, sooner or later various other products of which we have been net importers would presumably be included. Under provisions permitting separate classification within a commodity, the measure might be applied to portions of crops of which we export some types while importing others. In many such instances, partly because of limitations of data, it would be a very complicated matter to determine whether a commodity was selling below pre-war purchasing power "by reason of domestic production exceeding domestic consumption or otherwise unduly depressing the price."

#### FARMER REFERENDUM PROVISIONS

The third condition to be satisfied before applying the voluntary domestic allotment plan to wheat, under the Norbeck-Hope bills, would be an affirmative vote by 60 per cent of the wheat producers, measured either by number or by average annual production.<sup>2</sup>

<sup>1</sup> Since the July 1932 index of wholesale prices in general is 94.2 per cent of its pre-war average, the July 1932 equivalent of the pre-war average wheat price becomes 94.2 per cent of 97.9 cents, or 92.3 cents. This is 42.3 cents above the July 1932 average wheat price. Similarly calculated, the difference for June 1932 prices is 40 cents and for August and September a little less.

<sup>2</sup> Under Section 17 the referendum provision is not mandatory but permissive. The condition is merely imposed that either the vote or "such other evidence as the Board may possess" shall lead the Board to the opinion that at least 60 per cent of the producers (in number or average production) will co-operate.

There are no statistics showing how many individual farmers would be eligible to vote on the initial referendum, or to enter into contracts if the plan were put in operation. Recent censuses have shown the following number of farms on which wheat was grown in the years designated:<sup>1</sup>

Crop of	Winter wheat	Spring wheat	Gross total	Net total
1919 .....	1,740,300	566,811	3,307,111	2,225,134
1924 .....	1,032,553	267,939	1,300,492	no data
1929 .....	940,721	317,305	1,258,026	1,208,368

Net totals (which are not published by states and counties) omit duplications arising from the fact that some farmers grow both winter and spring wheat, or both durum and other spring wheat.

The possibility that some farms growing wheat in the census year may have escaped inclusion is suggested, though not proved, by the fact that census data on wheat acreage harvested in recent census years fall below the latest revised estimates of the Department of Agriculture, as shown below in thousand acres:

	1919	1924	1929
U.S.D.A. ....	75,694	52,535	62,761
Census .....	73,099	50,862	62,000
Difference .....	2,595	1,673	761

For 1929 the Department accepted the census figures for most states, but showed considerably larger figures for Indiana, Minnesota, and the Dakotas.

More important is the fact that many farms on which wheat is raised do not harvest wheat every year. Where wheat is customarily grown as part of a rotation system, some farms may omit wheat in a given year; in some areas, wheat is sown only occasionally, as a nurse crop; soil, weather, and/or price conditions may impel a farmer not to sow wheat in a particular year; or adverse conditions may lead to complete abandonment of sown acreage on some farms. For these reasons, the number of farms on which wheat has been grown in one or more of the past five years would certainly be far in excess of the 1,208,000 which reported wheat harvested

in 1929. Probably at least 1,500,000 farms, and possibly considerably more, would be eligible for "tariff benefits" and entitled to a vote under the proposed provisions.

The number of persons concerned would be considerably larger, for where all or part of a farm was rented, the proposed contract would require joint signatures of both landlord and tenant. Probably at least 2 million persons would be faced with the question of signing contracts. If the act did not specify that both landlords and tenants would be eligible to vote, the Farm Board would decide this question in arranging for the referendum. Logically it would appear that both groups should be declared eligible; but to do so would necessitate a system for preventing double counting.

In view of uncertainties about the total number of farmers eligible to vote on the initial referendum, several courses would be open to the Board in reaching a base upon which to compute the percentage of affirmative votes. It might take the latest census total of number of farmers, which would certainly be too low, or some higher figure estimated with a liberal margin of error; or it might take the average annual production for the United States for a recent period of years, as estimated by the Department of Agriculture (since the census applies to but a single year). We suspect that the last would be chosen, both because it would afford a more reliable basis, and because the vote would presumably represent a larger percentage of the production than of the number of producers.

The Norbeck-Hope bills provide (Sec. 20, a) that the vote is to be taken

... for the purpose of (1) informing such producers concerning the steps which may be taken under this Act in respect of such commodity, (2) ascertaining to what extent such producers will co-operate with the board in carrying out the provisions of sections 18 to 21, inclusive, if applied to such commodity, and (3) securing other information for use in carrying out the provisions of sections 18 to 21, inclusive, in respect of such commodity.

(b) In connection with such vote, the board may also request such other information as it deems necessary for its use in making the allot-

<sup>1</sup> *Fifteenth Census of the United States: 1930. Agriculture, Vol. II, Part 3, pp. 16, 79-80.*

ment hereinafter provided for. The ballots used in such vote shall be preserved for subsequent use in carrying out the provisions of this Act. . . .

(d) The board is authorized to prepare and distribute forms and ballots for such votes, and to distribute to the producers of such commodity such economic facts and information concerning the effect of this Act as may be necessary to enable them to vote with understanding.

(e) In carrying out the provisions of this section, the board is authorized to co-operate with the State agricultural colleges and State and county extension workers.

Sponsors of the measure contemplate that, before the vote is taken, two or more local meetings of farmers would be held in every wheat-growing community to make clear the nature of the measure and how it would work. The bills leave to the Board the determination of arrangements for framing the ballots, furnishing the printed information, organizing the educational campaign (in which all extension forces would doubtless be called upon to participate), determining the list of eligibles, supervising the voting, checking the ballots, and counting the votes. Conceivably the states might in time utilize their election machinery for this purpose, but no such requirement is suggested in the bills. Presumably at least the initial vote would be taken, with the voluntary co-operation of local people, in much less formal fashion than characterizes the usual elections; and experience would determine whether a tightening of the procedure would be necessary.

At the outset there would probably be no practical way of insuring that only those really eligible to vote were given the ballot, or of checking the ballots to distinguish legitimate and illegitimate ones, or of checking a

voter's statement of his acreage or production. In the absence of effective check at the time, the temptation might be strong for landlords and tenants both to vote, and for acreage and production to be stated liberally rather than conservatively. One may hazard the guess that the returns would give a clear indication of preponderance of sentiment among those who voted, but that computed percentages of affirmative votes to the total number of producers or the total production of wheat would be far from reliable.

The referendum provision has been devised for four principal reasons: (1) that farmers would prefer to have a direct voice in the adoption of the plan, rather than to have it thrust upon them; (2) that the pre-voting campaign would go far toward educating farmers in the economic aspects of the wheat problem, and specifically lead them to understand the principal phases of the plan that they would later encounter; (3) that information obtained by this ballot would facilitate the process of making individual allotments if the vote were favorable; and (4) that the subsequent process of getting the contracts signed would be rendered psychologically easier. It would seem that most of these objectives could be substantially attained, more simply and economically, by limiting the initial referendum to operating farmers who had grown wheat in the preceding year, and requiring an affirmative vote of 75 or 80 per cent of those voting or of the production that they reported. This would perhaps give less information for use in making allotments if the vote carried, but it would insure that the plan would not be imposed upon any large fraction of wheat growers against their will.

#### IV. THE TARIFF-ADJUSTMENT CHARGE

When the Board is satisfied that the conditions discussed above have been fulfilled, it "shall declare a tariff-adjustment charge to go into effect as soon as practicable, upon the domestic processing, manufacture, or distribution of such commodity, whether imported or of domestic production, except for feeding livestock only" (Sec. 17, *a*). This charge

would virtually be an excise tax, the precise amount being determined by the Federal Farm Board under specified conditions. Probably it would take the form of a manufacturers' stamp tax. The Bureau of Internal Revenue would have the task of collecting it for the Treasury, and collections would be "placed to the credit of the Federal Farm

Board revolving fund, domestic allotment account" (Sec. 17, *e, g*). For each commodity to which the plan was applied, a separate account would be kept.

#### COLLECTION OF THE TAX

It is left to the Board to determine, on grounds of convenience in collection, at what stage of processing or distribution the charge would be payable (Sec. 17, *e*). Spokesmen for the measure assume, with good reason, that for wheat it would be assessed upon millers on the basis of their mill grindings except for feed. On exports of flour milled from domestic wheat, the flour exporter (and directly or indirectly the miller who had paid the tax) could claim a refund from the domestic allotment account, calculated on the basis of conversion factors established by the Secretary of the Treasury (Sec. 17, *c*); or, under regulations established by the same official and the Board jointly, milling for export could be done in bond (Sec. 17, *d*).

It is practically safe to assume that the charge could be collected, net, only on wheat processed by mills for domestic food use. Wheat ground for feed use is specifically exempt. Very little wheat is processed for industrial uses, and some of this might be exempted under Section 17, *f*: "When, in its judgment, the collection of the full tariff-adjustment charge would prevent the use of any commodity in the manufacture of any specific low-value product, and thereby reduce consumption and increase the surplus, the board is authorized to reduce or eliminate the charge for portions of the commodity used in the manufacture of such product."

It is unlikely that the charge could be collected on all mill grindings for domestic food use, despite prescribed penalties for evasion (Sec. 17, *h*). Presumably it could be effectively collected, though not without trouble and expense, from regular commercial mills, which number less than 4,000 if one includes mills producing as little as \$5,000 worth of product in 1929. Specifically exempt from the tax, however, are quantities processed "by producers for consumption by their own families, employees, or households, or by their livestock" (Sec. 17, *b*). This provision may be

expected to stimulate not only home grinding, but local grinding on toll if that were declared exempt from the charge, and/or grinding by mills controlled co-operatively by wheat growers and selling to members for their own use. Possibly the Farmers National Grain Corporation, or any of its member co-operatives, might legally operate mills whose grindings would be exempt from the charge if they sold only to wheat growers for their own use. In practice, such mills would probably find it impossible to prevent purchases by other farmers and some non-farmers; and "boot-leg" resales would doubtless be made by some growers who were legitimate buyers from such co-operative mills for their household use. One may reasonably expect the exempted categories of "families" and "employees" of producers to be liberally stretched to avoid the appearance of illicit action. In order to keep legal avoidance of the tax within narrow limits, the wording of the act, the regulations adopted under it, and their enforcement would present real difficulties.

The extent to which wheat milled for domestic food use would thus escape paying the charge cannot be foreseen. Legitimate and feasible avoidance of the tax, through home grinding, local milling on toll, and co-operative grinding for wheat growers, might easily reach or exceed 5 per cent of the annual average wheat consumption for food. The extent of illicit avoidance of the tax might be as much or more. Commercial millers fear loss of business through expansion of grinding by individuals, jobbers, and bakers who would succeed in evading the tax, especially in grinding whole-wheat flour. Illicit evasion might conceivably be kept to small proportions if vigorous efforts were made to prevent it. But it is perhaps safe to assume that public sentiment would not support rigid enforcement of this law in farming districts more strongly than it has supported rigid enforcement of prohibition laws in urban communities; the roundabout injury to local wheat growers through local evasion of the tax, by reducing the domestic allotment fund, would be perceived with difficulty, while the advantage to their neighbors in getting tax-free flour would be close and tangible.

## POSSIBLE EFFECTS ON CONSUMPTION

The foregoing possibility of legitimate and illicit avoidance of the tax must be reckoned with in considering the probable amount that would be collected for the domestic allotment fund, after the initial year to which reference must shortly be made. Also must be considered the possibility of reduction in domestic consumption of wheat as a result of increased prices of flour and bread to purchasers of the taxed commercial product.<sup>1</sup> It is reasonably safe to assume that a tax of 42 cents a bushel would raise flour prices by something like \$2.00 a barrel,<sup>2</sup> except as the price of wheat might be raised or lowered in consequence of the plan. Millers would endeavor, probably with success, to pass the tax on to flour purchasers.<sup>3</sup> Under prosperous conditions, with a considerably higher general price level, a difference of \$2.00 a barrel seems to make no appreciable difference to flour consumption, though available data are not accurate enough to permit one to determine closely the elasticity of demand for flour. During the present depression, however, consumption of commercial bakery products has fallen off considerably and flour consumption per capita has significantly declined, in spite of a large fall in flour prices.<sup>4</sup> With widespread unemployment and urgent necessity for economy even in small items, increases in flour prices running up to 50 per cent or more (except on highest grades) would certainly be noticeable. Since other foodstuffs prices would be unaffected by the tax (many, even if the plan were simultaneously applied to several farm products), some shifts in purchases from flour to other products could be reasonably anticipated. How far this would go, no one is in a position to estimate.<sup>5</sup> Much would depend on the degree of depression or prosperity, and on prices of foodstuffs unaffected by the plan.

In estimating the probable proceeds of the tax, the more conservative sponsors of the domestic allotment plan have commonly used a round figure of 500 million bushels as the amount on which the maximum charge, 42 cents a bushel, would be collected, yielding a fund of \$210,000,000. Actually, domestic flour

consumption has fallen off until in the past two years it has averaged, according to our best estimates, only about 490 million bushels. In view of considerations discussed above, we deem it probable that, if the plan went into effect in 1933-34, the tax would be collected in 1934-35 on only about 450 million

<sup>1</sup> Section 17, *i*, of the Norbeck-Hope bills directs the Tariff Commission to ascertain what increases in tariff duties on imported manufactured products, which if processed domestically would have been subject to the tariff-adjustment charge, are necessary to give added protection to domestic processors; and the President is directed to proclaim adjusted rates of duty as under the present flexible provisions. Section 17, *j*, provides that, "upon the proclamation of tariff-adjustment charges upon cotton, the board may also declare countervailing tariff-adjustment charges of not to exceed 5 cents per pound on the manufacture or processing of raw silk and rayon, . . ." Such taxes would swell the Treasury miscellaneous receipts.

<sup>2</sup> An Eastern miller is quoted in *The Hook-Up* of October 22, 1932, as follows:

"It seems to be assumed that the tax upon flour would be about \$2 per barrel, if the domestic allotment plan is adopted. I wonder if this assumption is correct, and whether it would not actually be more than that, if the levy is made at the rate of 42 cents per bushel of wheat. The cost of flour (except for some recent sales by certain of our competitors) is the cost of wheat, plus cost of manufacture and selling, minus the returns for millfeed and clears.

"Although clears are classed as flours, the fact is they are by-products resulting from the milling of flour, the same as millfeeds. Second clear sells largely in competition with feed, consequently there would be little chance of increasing its selling price to amount to anything. Even with first clears, the chances of advancing the price enough to include the tax would be very slight, in my opinion. Assuming that no advance could be secured on either first or second clear, a \$2 tax per barrel on flour would be equivalent to a tax of \$2.67 per barrel on 75 per cent patent."

<sup>3</sup> It cannot be assumed that, under usual competitive conditions, this shifting would be automatic or complete. One of the reasons for the recent "rationalization" of the British milling industry, with official sanction, was to enable the mills to pass a similar tax on to consumers in its entirety.

<sup>4</sup> This subject, to be dealt with in a future issue of *WHEAT STUDIES*, is briefly discussed in the issue of September 1932, VIII, 390.

<sup>5</sup> The President of the Millers National Federation, in his open letter to Mr. Harriman dated August 30, 1932, said on this point: "While we have no definite basis on which we may establish the probable percentage of reduction in consumption caused by the proposed increase in price, it would undoubtedly be material and amount to not less than 5 to 10 per cent, which, translated into barrels of flour, would amount to 5,000,000 to 10,000,000 annually, or in bushels to 25,000,000 to 50,000,000." We are not in a position to support or dispute these figures.

bushels, yielding at 42 cents a bushel a fund of about \$189,000,000.

#### COLLECTIONS IN THE FIRST YEAR

In the initial year of operation, even if the plan should go into effect at the beginning of the marketing year and if the charge were 42 cents a bushel, the collection would presumably be substantially less than in subsequent years. At best several weeks would elapse between the date of assured prospect of passage of the act and the imposition of the tariff-adjustment charge; if the farmer-referendum feature is retained, the period might be months instead of weeks. Millers, bakers, wholesalers, and retailers can be counted upon to reckon in advance upon the application of the tax on wheat grindings and the resulting increase in the price of flour; buyers would stock up in advance of the application of the tax.<sup>1</sup> When the charge became effective, a substantial amount of the year's requirements would already be provided for. Mill grindings for domestic use in the first year under the plan could therefore be expected to fall far short of the usual amount, and the yield of the tax would be well below average. No one can safely predict the extent of this stocking up with flour, but it seems conservative to suggest that flour milled for domestic use and the revenue from the tax might be reduced in the initial year of the plan, by 20 per cent or more on this account. We hazard the opinion that in this initial year, a tariff-adjustment charge of 42 cents a bushel would not yield much over \$150,000,000, instead of some \$210,000,000.

Growers might receive another shock early in the initial year of the plan. Before it came into operation, the process of stocking up with flour would stimulate mill demand for wheat

and tend to strengthen prices. When the plan came into operation, this stimulus would be removed, and mill demand would instead be relatively weak. Consequently, cash wheat prices might weaken significantly when the plan went into effect. How great would be the influence on wheat prices, before and after, and over how long a period it would extend, would depend on many factors. The plan itself might be widely blamed for causing declines in wheat prices, and less widely credited for being responsible for the preceding firmness.

The period of stimulus to milling operations before the tax came into force, and consequent effects on wheat prices and on collections of the tax, might be reduced if it were provided that the tax should be imposed without awaiting the result of the farmer referendum,<sup>2</sup> and refunded if farmers voted adversely. If the measure authorized application of the plan to only one or two major commodities, this would seem a reasonable provision; but at best some delays would be inevitable.

It would not of course be fair to judge the plan by its operation in the initial year, and the influences just mentioned would not extend further. Experience with stabilization operations, however, has shown that a scheme is commonly judged by the way it can be asserted to have operated, whether that judgment is fair or unfair. It is well for supporters of the plan to be aware of the complications that would probably be encountered, so that they, and if possible growers themselves, should be prepared for some disappointments that would otherwise come as a shock. It is desirable that Congress in deliberating upon the proposal should consider how it would actually work if applied, not how it might work ideally, as its sponsors tend to present it, or how impossibly it would work as its critics would have it.

#### FIXING THE ADJUSTMENT CHARGE

Thus far we have proceeded on the assumption that the "tariff-adjustment charge" would be uniformly 42 cents a bushel. Under the Norbeck-Hope bills, however, it might be more or less. The upper limit fixed is "the tariff

<sup>1</sup> See *The Hook-Up*, October 12, 1932. As a precaution against loss on sales contracts in force if and when this tax should be levied, the Millers National Federation has urged millers to incorporate in all contracts a safeguarding clause.

<sup>2</sup> The British tax on mill grindings to cover payments guaranteed to wheat growers under the Wheat Act of March 1, 1932, was imposed some months before the harvest on which these payments were to be made.



duty in effect at the time such charge is payable" (Sec. 17, *a*). If Congress, or the President under the flexible provisions of the tariff, should raise the duty on wheat, the maximum would be increased by the same amount. Within this maximum, however, the rate would be determined by two considerations resting upon statistical calculations and recalculations. "Such charge shall at all times be in such amount as will, in the judgment of the board, make the average return to the producers on that part of such commodity domestically consumed, including tariff benefits, as nearly as possible equal to the pre-war purchasing power . . ." (Sec. 17, *a*); but "the board shall not establish tariff-adjustment charges at a level which would advance the purchasing power of the wholesale cost to the manufacturer or processor (including the charge) above the purchasing power of the average wholesale price of the same article during the five-year period 1910 to 1914, inclusive . . ." (Sec. 17, *a*, 1).

This limiting provision has been inserted in the bills in an attempt to protect consumers from excessive enhancement in the price of food.<sup>1</sup> Some such provision is probably necessary to win the support of labor interests. Yet supporters of the measure appear not to have realized how restrictive the proposed limitation might be. Calculations given above (p. 37), on a reasonable basis for determining the purchasing power of wheat at wholesale, lead to the conclusion that the charge might have been put as high as 42 cents a bushel on the basis of July 1932 figures, but not over 40 cents on the basis of June, August, and September figures. For a considerable period, the proposed limitation might keep the tax rate

well below 42 cents a bushel, and collections for the allotment fund might for this reason fall short of the figures we have suggested above.

The language of the paragraph quoted (Sec. 17, *a*, 1) is not explicit at one important point. Does it mean that the charge is to be *initially* fixed within the stated limits as calculated at the time, or for the preceding month? If so, the procedure would be simple, but the intent would not be served. Does it mean that *at no time* shall the sum of the wheat price and tax yield a figure above the pre-war purchasing power of wheat? If so, either frequent changes in the tax rate would be necessary, or the Board would have to fix it at a very conservative level. Or does it mean that *on the average*, during a marketing year, the charge shall not be at such a level as to exceed the expressed limit? If so, the Board would have to attempt forecasts of wheat prices and the wholesale price index, fix the charge at a somewhat conservative figure, and be ready to change it during the year if necessary to keep within the limit.

The provision in Section 17, *a*, 2, that "such charge shall be changed only at the end of each marketing year, except for decreases or increases made in accordance with the preceding paragraph," would leave much opportunity for changes. From the standpoints of the milling and baking industries, and the grain and flour trades, since changes in the tax would cause more or less serious disturbance in their business calculations, a fixed charge for a year would be preferred to a variable one. In practice, it would probably be found necessary to choose either a fixed charge established for a year, with the possibility that, with inevitable changes in wheat prices, this would be hard on wheat growers or consumers for the time being; or a more or less variable charge that would seem fairer to growers and consumers but harder on business interests concerned.<sup>2</sup> This phase of the latest bills clearly calls for reconsideration.

Brief reference must also be made to Section 17, *a*, 3, of the Norbeck-Hope bills: "When in the judgment of the board the production of surpluses may be more effectively prevented thereby, any regional or market classi-

<sup>1</sup> Because of real economies in costs of producing wheat, it is probable that wheat *normally* has, nowadays, a lower purchasing power over goods in general than it had before the war. Since, however, an upper limit set by a five-year pre-war average is conservative as applied to any single year, the limit suggested is not an unreasonable one.

<sup>2</sup> Conceivably, the tax might be made to vary in such manner that the tax plus the price of, say, No. 2 Hard Winter at Chicago would be continuously equal to the pre-war average price of the same grade in the same market, adjusted for the general level of prices. The resulting approach to stability of mill costs for wheat would have numerous advantages.

fication or type of any agricultural commodity shall be treated for the purposes of sections 16 to 22, inclusive, of this Act as a separate agricultural commodity." Under this provision different charges, benefits, and acreage-restriction percentages might be established for durum, hard spring, hard winter, soft winter, and white wheats; and conceivably premium wheats might be differentiated from representative or discount wheats. If the primary intent were to eliminate export surpluses where they exist, this provision would

seem to have some merit. Any board charged with administering the plan, however, would face not only grave difficulties in deciding upon any such differentiation, but also serious complaint from groups that felt themselves discriminated against. Moreover, while a simple regional differentiation would not add greatly to administrative problems, differentiation between types of wheat would multiply the difficulties of applying the plan. Probably any such provision would be resorted to with great reluctance, in the case of wheat at least.

## V. MAKING AND REVISING THE ALLOTMENTS

### NATIONAL AND STATE QUOTAS

The first steps in the allotment procedure, it is proposed, would be taken in Washington (Sec. 19, *a*). "(1) Upon declaring a tariff adjustment charge upon any commodity, the board shall proceed to determine the probable annual amount upon which tariff adjustment charges will be paid, and to allot that amount among the several States." This provision would entail complications that have usually been ignored. A forecast would be necessary. As we have seen, the amount upon which the tax could be collected would be less, especially in the initial year, than the amount of wheat that would be processed for domestic use (other than feed) if the plan were not in effect. By taking due account of considerations already discussed, the Board might make a reasonable forecast, though not an accurate determination. It would be tempted to err on the liberal side, for a conservative forecast would arouse widespread protest.

"(2) The allotment to each State for any commodity shall be in proportion to the average acreage planted to such commodity in such State for the past five years multiplied by the average yield per acre so planted for the past twenty-five years; except that the allotment to each State for livestock or livestock products shall be in proportion to the average production for sale during the past five years."

The subdivision of the national wheat quota among the states would be easy if it were made on the basis of average production in

the preceding five years, using the latest estimates of the Department of Agriculture. The actual provision would be theoretically fairer, but it would require the construction of estimates of acreage sown to spring wheat which the Department has not hitherto made, and a recomputation of yield figures on the basis of acreage sown. The procedure would be simpler, and the results probably equally just, if the average yield were calculated on the basis of ten years instead of twenty-five.

The national quota would be recalculated annually, and as it changed the state allotments would be altered. The present bills, however, do not provide for annual redetermination of what may be termed allotment ratios for the several states, counties, and individuals. Instead,

When, as a result of readjustments in the geographic distribution of production, or in the relative importance of the commodity in systems of farming or on individual farms, a reallocation is necessary, in the judgment of the board, to obtain a more equitable distribution of benefits, the allotments in any county or State or between the States shall be redetermined, in the same manner as the original allotments, except that in such redetermination any reduction of production to a point not below the amount of the existing allotment, shall be disregarded;<sup>1</sup> and such new allotments shall become effective at the beginning of the succeeding marketing year (Sec. 19, *i*).

<sup>1</sup> This "except" clause is presumably inserted to remove fears that future allotments will be reduced if acreage and production are cut down; it seems nevertheless objectionable as unduly complicating the reallocation procedure and destroying the logical basis for allotments as revised.

Annual revision of allotment bases would materially increase and complicate the statistical procedure. It might tend to encourage distortion of the basic data, and to discourage acreage contraction or stimulate acreage expansion by individuals who would seek thereby to maintain or increase their allotments in subsequent years. The farther the bonus is removed from annual production for sale, the less would be its tendency to stimulate production. On these grounds, allotment ratios fixed once for all would be preferable. On the other hand, annual revision of quotas and allotments would probably be more generally regarded as just; and it can be argued that, if fixed once for all, they would tend to go to land owners rather than to operating farmers as such. The provision quoted represents a compromise between the two extremes.<sup>1</sup> In practice, however, it would open the door to something like annual revisions, thereby complicating the machinery of operating the plan and tending to prevent acreage adjustments that would take place in the absence of the plan.

Beyond the allocation of quotas to states, the allotment procedure would be decentralized—a point on which supporters of the plan lay great stress.

For the purpose of allotment of tariff benefits to individual producers, the board is authorized to enter into co-operative agreements with duly authorized representatives of the States where any commodity is produced upon which a tariff adjustment charge is in effect, for the formation of State, county, and local allotment committees, which shall have powers and duties as hereinafter provided, and upon which representation shall be given, so far as practicable, to producers, consumers, bankers, co-operative marketing associations, and other dealers in any of such commodities, and to different geographical divisions (Sec. 19, a).

#### STATE ALLOTMENT COMMITTEES

The bills do not specify the make-up of the state committees. It would presumably be

determined under the proposed agreements, and might vary in different states. Supporters of the plan have suggested that each State Allotment Committee should comprise seven members, as follows:

The Dean of the State College of Agriculture, or a person designated by him to act for him;

The State Commissioner of Agriculture;

One representative of commerce and business, designated by the State Bankers Association;

One representative of consumers, designated by the Governor;

One farmer selected by the Governor from a list of nominees prepared by co-operative associations handling products covered by this Act in the state;

One farmer selected by the Governor from a list of nominees prepared by the general farm organizations in the state;

One farmer selected by the Governor from a list of nominees prepared by the association of private dealers handling products covered by this Act, or by recognized dealers handling products covered by this Act, where no association exists.

It is suggested that the five appointive members serve for 5-year terms; one term expiring each year. It is further suggested that the State Director of Extension, or some person designated by him, should act as executive secretary of the committee.

Ostensibly the primary task of the State Allotment Committee would be simple. Having been notified by the Board of the allotment made for the state, expressed in bushels, its primary task would be to divide this total among the several counties. In most presentations of the plan, it is broadly stated that this allocation would be in proportion to each county's contribution to the state's production in the preceding five years, and is assumed or asserted that data are available for this computation. Even this procedure would be difficult in many states. The Department of Agriculture does not make or publish its crop estimates on a county basis. Census data are not available annually, and for years to which they apply they do not invariably combine into state figures that the Department of Agriculture has accepted. In about a dozen states county statistics of wheat acreage and production are annually prepared by state authorities, and in some others the basic materials for such statistics are fairly well in

<sup>1</sup> Professor Black discusses this dilemma and possible compromises, and leans toward fairly frequent revisions; but his discussion seems confused by the impression that even with frequent revisions the tariff would be made "effective" on current prices (*Agricultural Reform*, pp. 296-98).

hand.<sup>1</sup> In a good many states, however, it would be necessary for the State Allotment Committee to make its county allotments on rough approximations based on such data of variable quality as it could get together.

The subdivision of state allotments among counties would be more difficult under the provision that they be made on the basis of the average acreage *planted* in the past five years multiplied by the average yield per sown acre in the past ten years. The logic of this, of course, is to diminish the influence of recent exceptional yields per acre, high or low. But available data by counties are less adequate for acreage sown than for acreage harvested, and yields are not usually reported or computed per acre sown. Where reliable data were lacking, the State Allotment Committee would have to resort, at the outset, to estimates of acreage sown, yield, or both, and its county allotments would not be above criticism. Presumably, however, its decision would generally be regarded as sufficiently close to the facts to be accepted without grave objection. The Norbeck-Hope bills provide (Sec. 19, *h*) that, "in case of dispute between counties as to allotments by the State Allotment Committees, appeal may be taken to the board, or to an arbitration board established by it, whose actions shall be final."

Having arrived at county allotment ratios, at the outset and as often thereafter as the Farm Board deemed it advisable, the state committees would apply these ratios to the state allotment made by the Board. The redeterminations of allotment ratios might become easier as experience and data were gained under the plan. On the other hand, there is danger that the operation of the plan would introduce new bias into acreage and yield estimates made by official crop statisticians. If so, more data would be available but they would be less trustworthy.

The State Allotment Committees would have a few minor duties to which reference is made below. Provision is made for compensation

of members of these committees "not to exceed \$10 per day when actually engaged in the work of the committee, travel expenses, and subsistence expenses not to exceed \$5 per day" (Sec. 21, *c*). Such expenses would be payable out of the allotment fund. Presumably the State Agricultural Colleges and Extension Services would perform the greater part of the burden of the committee's work at no direct expense to the allotment fund. It would seem possible to keep within reasonable limits this part of the administrative expense, but the matter might need to be dealt with in agreements between the Board and the states.

#### COUNTY AND LOCAL ALLOTMENT COMMITTEES

The heaviest burden of responsibility under bills now pending would be borne by County Allotment Committees. Their make-up would presumably be determined by the agreement between the Farm Board and the states, or perhaps, within its terms, by the State Allotment Committee. Sponsors of the plan have suggested a committee of five, selected as follows but so as to represent all portions of the county growing wheat:

One representative of consumers, selected by the County Board of Commissioners, or similar administrative authority;

One representative of business, selected by the bankers of the county;

Three producers of farm products, selected by the County Board from lists of nominees prepared by co-operative associations, general farm associations, and private dealers, operating in the county.

The proposal is that the County Agricultural Extension Agent should act as executive secretary of the county committee. The clerical and secretarial function would be an important one. In counties with numerous farmers it would become an onerous task. It implies the possession of an office where valuable papers would be filed—ballots, records of transfer of ownership or tenancy, contracts signed by farmers, duplicates of summaries sent to the State Allotment Committee, etc.—and perhaps from which checks for tariff benefits would be distributed. Unless a person were chosen for secretary who had such an office, and whose work permitted him to sub-

<sup>1</sup> County data for acreage harvested and production are available at least in Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Carolina, Wisconsin, and Wyoming; and necessary basic data in Indiana, the Dakotas, and Texas (beginning in 1932).

stitute this task for other duties, additional expense would be entailed. Presumably this would be necessary in counties where no agricultural extension agent is now engaged.<sup>1</sup> Where there is such an agent, it can be taken for granted that such work would generally be done at the expense of other activities for which he was primarily engaged.

According to the census of 1930, wheat was raised in 1929 in 2,550 counties out of a total of 3,074 in the 48 states not counting Alaska. In 18 states some wheat was grown in every county, and in 10 more in all but 1 or 2 counties. Florida was the only state in which the 1930 census discovered no wheat raised, and Alabama, Mississippi, Louisiana, and Rhode Island were the only other states where the number of counties not producing wheat exceeded the number of counties in which wheat was grown. All but 96 of the 524 counties not growing wheat were in the Southern states from South Carolina west to Texas, including Arkansas.

It is safe to say that, on the basis of a 5-year record, more than 2,550 counties would have claim to county quotas. Under bills now pending, each of these would be entitled to its own allotment committee, and it would presumably claim its right to one even if an agent of the Farm Board<sup>2</sup> might do the work more economically and efficiently.

The detailed requirements of the plan are inherently expensive. In many of the counties where wheat is grown it is only a minor crop. Even in these counties, however, it is usually raised by numerous growers. As in experience with loans to small borrowers, the administrative problem of determining allotments, handling contracts, and distributing bonus payments would depend not so much upon the amount of acreage or production as

upon the number of growers. It is easily possible that in some counties the expense of administering the plan (coming out of the national allotment fund) would exceed the bonus that its wheat growers would receive, at least in the initial year.<sup>3</sup>

Provision is further made for setting up local allotment committees to "assist the county allotment committees in examining reports, hearing complaints, and working out the individual allotments for the producers in its township or other local unit" (Sec. 19, *a, f*). The bills do not specify who should decide how many of these local committees there should be, or how they should be constituted. Sponsors of the plan have suggested committees of three farmers of the local area, to be appointed by the County Allotment Committee. The expense of administration would depend in considerable measure upon the number of these local committees and the efficiency with which they operated. Complete decentralization might require setting up such committees in all townships or other appropriate units of a county where there was reason to believe that any land had been sown to wheat in the past five years. In counties where very few farmers raised wheat, such decentralization would hardly seem necessary; the county committee might perform the task alone, or with only two or three local committees, rather than appoint a considerable number of local committees with little for each to do. If the county committee chose to handle the job itself, in a county or district where few farmers raised wheat, it would have to spend the time to cover the county or district. If local committees were chosen, they would be nearer to their task, but presumably, on the average, less capable of doing it expeditiously and in conformity with a uniform plan.

The bills provide (Sec. 21, *c*) that "members of county and local allotment committees shall serve without compensation, but shall be paid travel expenses and actual subsistence expenses at not to exceed \$5 per day when engaged in the work of the committee under this Act away from their places of residence." Such expenses would be payable out of the allotment account of the Farm Board. Con-

<sup>1</sup> There are county agents in some 2,300 out of the 2,800 agricultural counties in the United States, but under depression conditions the number is being somewhat reduced. Many county agents have no clerical assistance.

<sup>2</sup> Section 19, *k*, provides: "In any state or county for which no allotment committee has been established, the Federal Farm Board shall have such powers and duties as are herein enumerated for such committees."

<sup>3</sup> Cf. the suggestion made below, pp. 59-60.

ceivably, itemized bills would be rendered for these expenses. More probably, some standard per diem charge would be set, in order to render the procedure manageable. Even in this event, it would be difficult to maintain satisfactory control over expense accounts, for conditions would vary so greatly that it would be very difficult to set up standards for expense allowances.

#### MAKING INDIVIDUAL ALLOTMENTS

The County Allotment Committee's first task would be to get the statistical basis for arriving at individual allotment ratios, by determining (Sec. 19, d)

the average quantity of the commodity in question produced or, in the case of livestock, the average production for sale in each of the past five years on the land farmed at the time of such determination by each producer in each county. Such determination shall be made (1) by examination of ballots cast by producers in any vote taken under section 17, (2) by inquiry among producers, (3) by publication of data so obtained and investigation of challenges to the accuracy thereof, and (4) by examination of elevator and gin records and any other data which the committee may deem proper.

It is safe to say that this task would be an enormous one. As we have seen, there are probably at least 1,500,000 farms on which wheat has been grown in one or more of the past five years. To get a reliable basis for allotments, every one of these farms would have to be represented with approximately correct data for each year of the five. Wherever a farm had changed hands, in whole or in part, it would be necessary to arrive at figures for farms as operated when the inquiry was made. The data reported on referendum ballots could not safely be accepted without detailed check, and they would not cover all eligible farms. Other inquiries among producers would be answered largely on the basis not of records but of individual memories or estimates, with a strong but variable tendency toward overstatement. The checking of elevator records would be a huge task, even if elevator operators had kept them and permitted them to be used. Such a check would be a crude one at best, for these records relate to sales by individuals, not to acreage

or production by farms; and it would yield only suggestive indications of marked overstatement or understatement. Hence it would probably be resorted to in particular cases rather than in comprehensive form.

Sponsors of the plan would not deny these difficulties. They believe, however, that each local allotment committee of farmers could cover its limited territory with reasonably satisfactory results, and that when their results were published significant overstatements would be locally challenged and could be locally investigated and adjusted. Experience in some sections with publicity of self-assessments for property taxes is cited as evidence that the same device would work in reaching individual bases for allotments. It is also emphasized that it would be brought home to farmers in each locality that any overstatement by one farmer would be at the expense of other farmers in that locality, and that each would have a distinct self-interest in challenging any overstatement by a neighbor. The procedure might be effective, but it would seem to encourage a type of neighborhood spirit that is not wholly admirable.

The summations of individual farmers' reports of average production, as eventually adjusted, would constitute the base upon which individual allotment ratios would be computed. This county total need not agree with the county figures used by the State Allotment Committee in making the county allotment. If the summation were considerably larger, it might reflect a tendency to upward bias; if it were considerably smaller, it might imply that any such bias was more than offset by failure to reach all eligible farms. Doubtless considerable disparities would evoke special investigation, but it would have to be assumed that the county totals obtained by summation would serve better for computation of individual allotment ratios.

Once these ratios were definitely ascertained, the County Allotment Committee would apply them to the county quota, and thus reach individual allotments in bushels. These too would be published "in a newspaper of general circulation in such county." Individuals dissatisfied with their allotments would have the right of appeal either "to the

State allotment committee, or to an arbitration committee established by the board" (Sec. 19, *e*).

Individual allotments would be changed each year, as the county quotas were altered by reason of changes in the national or state quotas, and also to the extent that individual allotment ratios were revised. Pending bills contemplate that these ratios would be changed only as often as the Board decided that a reallocation was "necessary . . . to obtain a more equitable distribution of benefits . . ." (Sec. 19, *i*), except as follows:

Upon any sale or transfer of title in land, or any change in tenancy, the vendor, transferor, or landlord, as the case may be, shall so notify the county allotment committee or the board, and the

county allotment committee or the board shall reallocate the previous allotment on such land for the next marketing year, at the beginning of the marketing year, and have new contracts signed . . . (Sec. 19, *g*).

The task of making individual allotments would be most difficult and expensive in the first year of operations under the plan. We doubt if the task could be performed with acceptable accuracy in the first year within the expense limits specified in pending bills (2½ per cent of allotment fund receipts), unless a large part of the burden were borne by agencies already established. Experience alone would determine how well the allotments could be made, how long the task would require, and what it would cost.

## VI. EXECUTION OF CONTRACTS AND DISTRIBUTION OF TARIFF BENEFITS

### SIGNING OF CONTRACTS

Once the individual allotments were definitely made, the County Allotment Committees would prepare individual contracts in duplicate, using forms supplied by the Board (Sec. 18, *c*). Presumably each would specify the land covered, the name and address of the operator, the amount of wheat acreage sown and the production on this farm for each of the preceding five years,<sup>1</sup> and the amount of the allotment in bushels. Each would set forth the right of the signer to a corresponding share of the total bonus payment on condition of restricting his acreage as the Board might prescribe.<sup>2</sup> Where all or part of an eligible farm was rented, the contract would be signed by both tenant and landlord. To avoid dispute over subsequent division of the bonus payment between them, it would be desirable that the contracts should set forth the basis of division upon which they had agreed. The pending bills are silent on this point.

<sup>1</sup> The bills merely specify (Sec. 18, *d*): "Such contract shall show the average amount of such commodity produced during the preceding five years on the land being farmed by such producer at the time such contract is entered into, and shall be prima facie evidence of such average amount."

<sup>2</sup> Provisions of Section 18, *a*, are discussed below, pp. 54-58.

<sup>3</sup> See also below, pp. 59-60.

Local allotment committees would presumably assist in making contracts available for signature. Presumably a time limit would be set for completing the process of signing. Drives for getting signatures might be necessary, but they would differ greatly from the usual sign-up campaign, for in this case those who failed to sign would lose a tangible claim to financial advantage. It is not unlikely that, at the outset, contracts might be signed for nearly all of the allotments authorized.<sup>3</sup> The agreement to adjust acreage as might be prescribed by the Board would probably not be welcomed, but its burden would probably not be rated so high as to impel a farmer to sacrifice his claim to a bonus by refusing to sign. Probably oversight and inadvertence would be responsible for most failures to sign contracts; for even a 50-bushel allotment, promising a check for around \$20, would be regarded as worth an effort to get.

When a contract was signed, one copy would be turned over to "the producer," the other retained by the county committee. Upon the expiration of the time limit for signing contracts, each county committee would assemble the contract duplicates, make an itemized list (presumably in triplicate), and forward copies of this list to the State Allotment Committee. That committee would then transmit these to the Board. Under pending bills,

new contracts would have to be drawn and signed each year; for individual allotments would be changed, even where individual allotment ratios were not. The use of the file of duplicates would make the procedure simpler in succeeding years.

#### FULFILMENT OF CONTRACTS

The record of allotments contracted for would be only a provisional basis for distribution of the allotment fund. The final basis would be determined only at the end of the marketing year, when the county committees had ascertained "which producers have fulfilled their contracts . . ." (Sec. 18, *f*, 1). "Any producer who violates any such agreement shall lose his right to tariff benefits under his contract, and for as many subsequent years as the board may decide, on recommendation from county and State allotment committees, and each such contract shall so provide" (Sec. 18, *b*).

The task of ascertaining whether or not farmers had fulfilled their part of the contract would be exceedingly difficult to do well. It would presumably require not only a reliable report of the acreage sown to wheat on each farm for which a contract had been signed, but an allowance for acreage rights acquired or lost by transfer (see below, p. 56), and a comparison of the net figure with the 5-year average of acreage sown on the same farm as shown by the contract. Probably it would involve publication of a list of at least those farms on which it appeared that the prescribed reduction had not been made, and special investigation of cases in which this record was challenged. For a committee to report non-fulfilment would be a serious matter, because it would mean outright loss of the bonus upon which a producer had been counting. If a committee were not conscientious, or found itself unable to make the necessary check-up, or were lax for other reasons, the intended acreage restriction might not be achieved. Policing by state or federal agents would be a large, difficult, and expensive task.

Here is one of the weakest spots in the plan. The task of arriving at a basis for individual allotments and making them would be tedious but probably not unpleasant to members of

county and local committees. By contrast, the job of checking up on fulfilment of contracts would probably be unpleasant, or even dangerous, as well as tedious and difficult. One may therefore doubt whether, after a little experience, positions on these committees would be generally accepted by men well qualified to discharge the duties.

#### THE AMOUNT OF TARIFF BENEFITS

In discussions of the proposal it is commonly assumed that growers who signed contracts would know, when they received their allotments expressed in bushels, that they would receive in tariff benefits 42 cents per bushel of allotment. This assumption is unwarranted. Actually, under the provisions of the Norbeck-Hope bills, the amount received might be greater but would probably be less.

Section 18, *f*, 1, provides that "no payment of tariff benefits to any producer shall exceed the sum of the adjustment charges on the amount of his allotment." If the charge was 42 cents a bushel throughout the year, and if the domestic allotment fund less administrative costs was sufficient to yield this amount on all allotments made on contracts which were certified as fulfilled, this would be the amount of the per bushel bonus that beneficiaries would get. If the tariff rate were raised during the year, and the adjustment charge correspondingly, with other conditions the same the contract performers would get more than 42 cents per bushel of allotment. Those contracting growers who, as determined by the County Allotment Committee, had violated their contracts, would be deprived of payments. Those who had signed no contracts would of course get no payments. To the extent that the allotment fund was not drawn upon to pay "benefits" forfeited or not contracted for, the chances of contract performers to get the maximum amount would be increased.

The bills, however, provide that after the county committees have reported who are entitled to benefits, the Board shall "determine what payments per unit can be made . . ." (Sec. 18, *f*, 1). This would be determined by taking the amounts received from tariff-adjustment charges on wheat during the year



plus any balance from the preceding year (Sec. 21, *e*), deducting not over 2½ per cent of the year's receipts for expenses incidental to central, state, and local administration (Sec. 21, *a*, 1), and dividing the result by the number of bushels in allotments on fulfilled contracts. If receipts from the excise tax fell considerably short of 42 cents a bushel on the total quota allotted, either because the tax was actually collected on a smaller quantity or because the rate of tax averaged less than 42 cents, and if nearly all of the authorized contracts were signed and certified as fulfilled, the per bushel "benefits" would be more or less substantially below 42 cents a bushel.

Reasons have already been given for believing the rate of tax would often be less than 42 cents a bushel, that even after the initial year the charge would not be collected on the full amount of domestic consumption for food use, and that in the initial year it would fall considerably lower than subsequently. We think it probable that most of the allotments would be contracted for, and that relatively few allottees would be denied benefits for violation of contracts. On these grounds it would appear possible that, if the scheme went into effect in June 1933, the allotment fund might yield "tariff benefits" not exceeding 30 cents per bushel of allotment in 1933-34,<sup>1</sup> and not much over 35 cents a bushel in 1934-35.

These are very rough figures. No one could now make a reliable estimate, for many separate forecasts are involved and various changes in provisions would alter the basis for forecasts. Yet analysis yields clear indications that, without radical changes in the plan as it stands, the contracting farmers might be sadly disappointed if they were led

to expect 41 or 42 cents per bushel of their pro rata share of the amount usually consumed in the United States.

#### PAYMENT OF BENEFITS

Pending bills apparently contemplate that bonus checks shall be drawn in Washington but distributed through local committees, though the language below is not unambiguous (Sec. 18, *f*, 2; *g*):

(2) Such payments to producers shall be made from the domestic allotment account and shall be transmitted through the State, county, and local allotment committees, where such committees have been created.

(*g*) Where land is rented for cash such contract shall be made jointly by owner and tenant, and the tariff benefits shall be paid by checks drawn jointly to both;<sup>2</sup> where it is rented on shares, checks shall be drawn separately to landlord and tenant, in proportion to the shares of cash income which each receive under the rental agreement.

From the standpoint of simplicity and economy of operation, it would seem wisest to have individual checks mailed direct from Washington, on the basis of final lists of qualified beneficiaries as certified by the County Allotment Committees. To have county and local committees distribute the checks would entail needless effort and expense, even though some committee members might regard it as a welcome chore tending to enhance their prestige. A good deal more unnecessary labor, and needless risks of misapplication of the funds, would be involved if the federal agency turned over lump sums for distribution by state, county, and local committees.<sup>3</sup>

The controlling reason for the proposal that checks be distributed through the committees is suggested by the credit provision (Sec. 18, *e*).

Any producer may deposit his contract with any bank or credit corporation as security for a loan not to exceed 90 per centum of the probable amount of the tariff benefit which will accrue within the current marketing year under such contract, as estimated and announced by the board; in which case the producer and the bank shall so notify the secretary of the county allotment committee; and the check in payment of such tariff benefit, when due, shall be delivered to the producer through the bank: *Provided, however*, That no bank shall charge an interest rate in excess of 6 per centum per annum on loans made on the security of such contracts, or require

<sup>1</sup> Possibly allowance would be made in the first year by estimating the national quota conservatively, and making the allotments correspondingly smaller. In this event the per bushel benefit might be nearer to expectations, and the disappointment would be felt when the allotments were made.

<sup>2</sup> It would be simpler if separate checks could be drawn to landlord and tenant in cases of cash-rent leases, and there is no obvious reason why the agreed basis of distribution could not be incorporated in such contracts and reported by County Allotment Committees.

<sup>3</sup> Cf. the expense provision discussed below, p. 59.

any additional consideration. It shall be unlawful for the producer to transfer rights in, or claims to, his tariff benefit except as provided in this Act; and any such unlawful transfer shall result in the loss of tariff benefits for the current marketing year. Any notice in evidence of such loan as is herein provided for, accompanied by the allotment contract deposited as security therefor, shall be eligible for rediscount by Federal reserve banks.

It is very unlikely that the Board could safely publish a forecast of the probable amount of tariff benefit per bushel in the initial year; in subsequent years, it might do so without so wide a margin of error. Uncertainty about this figure, and even about a grower's fulfilment of his contractual obligation, would diminish the loanable value of the contract as collateral. Yet it is probable that large numbers of farmers would seek to take advantage of this credit feature. The procedure indicated would impose a heavy additional burden upon secretaries of County Allotment Committees. It would appear, however, that a supplementary report on this matter, made late in the marketing year, could be turned into the State Allotment Committee for transmission to the Board, so that checks could be properly mailed from Washington instead of being handled locally.

#### EXTENT OF FARM RELIEF

Proponents of the measure have mentioned rough estimates that the "tariff benefit" addition to farmer purchasing power under the plan, if it were applied to wheat, cotton, hogs, tobacco, and rice, would be from 600 to 800 million dollars, including 180 to 200 million dollars to wheat growers. These estimates rest on the assumption that the excise taxes would be imposed at the present tariff rates (but 5 cents a pound on cotton and 2 cents a pound on tobacco). The range of estimates arises chiefly from variations in the assumed quantities domestically consumed.

These estimates appear to be too high for at least the first full year in which the plan might be applied, for reasons varying somewhat with the several commodities. Moreover, the amount of "tariff benefits" would not, in every instance, represent a net addition to farm income. With hogs, for example, it is

probable that the tax could not fully be passed on to consumers, and that farm sales and prices of hogs would be diminished in consequence of the tax. Also, the "tariff benefits" would go in part to landlords, from the start; as time passed, the tendency would be for the bonus to benefit farm owners rather than farm operators as such.

Suppose, however, one should accept the mean of the foregoing estimates, 700 million dollars, as the net addition to the gross and cash income of agriculture that would be attributable to the plan, apart from the effects of production restraints. It is illuminating to compare this figure with the Department of Agriculture's latest estimates of *cash income* from these five products in the past three years, in million dollars:

Year	Wheat	Cotton and seed	Hogs	Tobacco	Rice	Total
1929 .....	698	1,389	1,531	286	38	3,942
1930 .....	406	751	1,346	211	34	2,748
1931 .....	242	529	897	156	22	1,846

and of the *gross income* of American agriculture and *net income* of all farm operators<sup>1</sup> in recent years, in million dollars:

Year	Total gross income	Net income to operators
1924-28 av. ....	11,628	5,415
1929 .....	11,950	5,329
1930 .....	9,406	3,553
1931 .....	6,955	2,144
1932 .....	5,420	.....

Any such amount would represent a relatively large and most welcome supplement to the very depressed income of farm owners and operators. Yet it would obviously fall far short of making up for the severe drop in farm income from the levels of 1924-29, which were widely regarded as unduly depressed. The "tariff benefits" alone therefore would not warrant description of the measure as a major remedy for agricultural ills. Unless the domestic allotment plan should serve, by restraint of production, to advance farm prices very substantially, the plan would not go far toward solving the agricultural problem.

<sup>1</sup> Available for capital, unpaid labor, and management after adjustment for taxes paid by landlords and deduction of interest and rent paid by operators.

## VII. THE PLAN AS AN INSTRUMENT FOR PRODUCTION CONTROL

The voluntary domestic allotment plan is the first of the major farm relief proposals in which the attempt is squarely made to link production control with a device to increase farm income. The debenture plan ignored the danger of stimulus to production. Supporters of the equalization fee plan argued that tendencies to increase production would be checked or prevented by increases in the fee, but their reasoning was unconvincing. Stabilization operations were accompanied by strenuous efforts by the Federal Farm Board and the Secretary of Agriculture to persuade farmers to curtail acreage of wheat and cotton, but the results attributable to these efforts were inappreciable. Some supporters of co-operative marketing have faith that when a co-operative becomes sufficiently inclusive it can serve as an agency for production control; but there is no prospect of a wheat co-operative gaining so high a percentage of control or of retaining such control while attempting to diminish production. The case for the allotment plan is strengthened by the feature that the benefits would be distributed in such a way as to give a minimum stimulus to production, and by provisions designed to bring contraction of production where output has been excessive in relation to demand.

## THE PROBLEM

As we have recently pointed out, the world wheat problem is one of persisting surplus.<sup>1</sup> The bulk of the world's carryover surplus is in the United States, where wheat stocks have risen for four years to successively unprecedented heights. So long as wheat acreage is maintained at the level of recent years, a large current surplus over domestic require-

ments must be expected, on the average, for lower average yields are not in prospect. In the near future, supplies so large cannot be sold except at prices that spell loss to most growers. Piling up stocks, as a result of government action or the operation of ordinary market forces,<sup>2</sup> relieves the market pressure somewhat for a time; but it works against substantial price improvement even in the event of a short crop (as in 1932), when farmers most need higher prices to offset low yields. Any method of surplus disposal is difficult and costly, and most methods run the risk of foreign resistance or retaliation. A satisfactory solution of the wheat surplus problem requires prevention of the "economic surplus," though not necessarily elimination of the exportable surplus. This involves, among other things,<sup>3</sup> acreage reduction, since variations in yields are largely beyond farmers' control.

Some believe it important that our wheat acreage and production should be reduced to the point where we shall no longer have, on the average, any export surplus; others shrink from urging so extreme a curtailment; but most of those familiar with the situation regard reduction of wheat acreage as inevitable and essential, in the world at large and in this country in particular.

The question is, how to bring this about. Pressure of low prices has done something, but not enough.<sup>4</sup> Preachments have had very limited results. One obstacle to voluntary reduction is that curtailment by any one farmer has no appreciable effect on the total output, and no individual can count upon all acting alike. Another obstacle is that profitable alternative uses of acreage have been difficult for most farmers to find. Compulsory reduction of wheat acreage appears quite impractical, and there is no hope of success from efforts to organize farmers for concerted reduction. The problem is to find some effective inducement to contraction to supplement, and in part to replace, the cruel instrument of low prices leading to bankruptcy of farmers. Instead of an incidental bonus for expansion, a virtual bonus for contraction is sought.

<sup>1</sup> WHEAT STUDIES, July 1932, VIII, 409-44.

<sup>2</sup> See "Price Spreads and Restraint of United States Wheat Exports," WHEAT STUDIES, October 1932, IX, 1-22.

<sup>3</sup> Improvement in world economic conditions, and reversal of policies tending to restrict consumption and trade and abnormally to expand production in certain countries, are important as well.

<sup>4</sup> In the tabulation given below, p. 54, the high winter-wheat figure for 1928 and the low one for 1932 were due in part to weather conditions.

This the recent supporters of the domestic allotment plan think they have found. The "tariff benefit" is to be available only to those growers who voluntarily agree (1) not to increase their acreage and (2) to reduce their acreage by a percentage stipulated by the Board, subject to further provisions discussed below. Violators of these contracts are to lose their right to benefits. In effect, the bonus represents a contractual consideration for an obligation to participate in such acreage restriction as may be called for.

#### EXTENT OF EARLY RESTRICTIONS

The initial referendum among producers, as we have seen, would ask (without obligation to voters) what percentage of reduction in the wheat acreage each favored. It would be rash to attempt to forecast how growers would answer this question; this might depend in part upon the educational campaign preceding the referendum and on propaganda by opposing interests. Presumably, for convenience in tabulation, the Board would have to indicate on the ballot a number of different percentages. A trustworthy tabulation of this vote might be fairly simple if only the number of votes for each percentage were counted; but it would be more difficult and open to more error if the acreage or production voting for each percentage should be called for.

Apparently the sponsors of the plan believe that this feature of the vote would be used by the Board merely as an indication of sentiment among the growers, for the Board is left free to specify the percentage reduction of wheat acreage up to a maximum, in any one year, of 10 per cent "of that on which his allotment was based" (Sec. 18, *a*, 2). If, however, farmers voted against any reduction, or in favor of a very small one, the Board would face a very difficult decision—either to disregard farmer sentiment thus expressed and to prescribe perhaps the maximum percentage reduction, or to abide by the vote and thereby weaken the effect of the measure in bringing about readjustment of production. This problem would assume greater importance in the second and subsequent years, particularly if the Board sought to reduce acreage substantially by successive steps.

Under pending bills, it would not have to put the matter to a vote again;<sup>1</sup> but if it did not do so, it might run the risk of imposing a requirement that farmers found objectionable. Farmers could make no effective protest by refusing to sign the new contracts, for by so doing they would lose their claim to a share in the bonus.

If the plan were to go into effect on the crop of 1933, the maximum initial reduction that could be prescribed under pending bills would be much less than 10 per cent of the acreage sown for the crop of 1932. The maximum would apply, individually and in the aggregate, to the average acreage sown for the five preceding years. Approximate totals for 1928–32 are as follows, in million acres:<sup>2</sup>

Crop of	Winter	Spring	Total
1928 .....	48.35	22.68	71.03
1929 .....	43.34	22.83	66.17
1930 .....	43.63	22.11	65.74
1931 .....	43.15	20.13	63.28
1932 .....	40.17	22.17	62.34
Average .....	43.73	21.98	65.71

A 10 per cent reduction from the average acreage sown in 1928–32 would call for a reduction to 59.14 million acres, only about 5 per cent below the acreage sown for the 1932 harvest. Corresponding figures cannot yet be calculated on the basis of acreage sown for the crops of 1929–33, but it is safe to assume that the limitation indicated would permit an initial reduction of much less than 10 per cent from the acreage sown for 1933.

To prescribe only a small reduction from current levels of acreage would lessen initial resistance to the plan and the early difficulties farmers would face in complying with it; but it would also lessen the initial effect upon production. As the restriction screw was

<sup>1</sup> Section 20 also provides: "(c) Votes of producers may also be taken at such subsequent periods as the board believes desirable to ascertain the desires of producers concerning reductions in acreage or production, or other features concerned in the administration of this Act."

<sup>2</sup> These rest mainly on the latest official data, but since estimates of spring-sown acreage are incomplete, acreage *harvested* for durum is used for all states except Minnesota, the Dakotas, Montana, and for other spring wheat except for the Dakotas, Montana, Wyoming, and Colorado.

given further turns in the next year or two, farmers would feel the pinch more severely.

It is easily possible that the initial contracts would contain no acreage-restriction provisions. Section 18, *a*, 7, provides:

If, at the time the individual allotments are made, the marketing year has so far advanced that the provisions of paragraphs (1) and (2) cannot be applied with respect to the production for such year, the board is authorized and directed, under rules and regulations prescribed by it, to enter into a contract with each producer who so desires, with respect to such year, containing as nearly as practicable the same provisions as the contract hereinbefore provided for, except that the terms provided for in paragraphs (1) and (2) shall be omitted.

If an act embodying the plan substantially as now outlined should be passed late in the spring of 1933, it seems doubtful whether the required machinery could function quickly enough to impose acreage restrictions before winter-wheat farmers had gone far toward preparing the ground for fall planting, if indeed before planting had begun. The plan might then be applied to the wheat crop of 1933 without restrictions on acreage sown for 1934. This would doubtless facilitate the adoption of the plan and its initial application, but the test of a crucial element in the plan would be deferred.

The bills set forth no principles to guide the Board in arriving at the percentage of acreage restriction to prescribe, within the stated limits. The determination of this percentage, and defense of the figure reached, would be no easy matter, especially after the initial year.

#### TRANSFER OF ACREAGE RIGHTS

The acreage restriction prescribed by the Board is not required to be taken "horizontally." An individual farmer might reduce his acreage by less than the prescribed amount, or not at all, or even increase his acreage without loss of "tariff benefits," provided he acquired from another farmer, who chose to reduce by more than the prescribed amount, a corresponding amount of appropriate "rights." "The board shall establish the necessary rules, regulations, and

forms to provide for such transfers" (Sec. 18, *a*, 4).

Such a provision is logical. Uniform reduction of acreage would run counter to good farm-management practice, in many cases would increase costs of operation, and would fit badly with adaptations in farming programs that soil and weather conditions dictate. Yet this provision would add greatly to the administrative burden of the plan. Almost no farmer could conveniently reduce by just the prescribed amount. If the provisions were scrupulously observed, almost every wheat grower would wish to acquire or to dispose of "acreage rights." These might command a price, and be traded in over more than a local area. Protection against forgery and counterfeiting would be necessary if the prescribed restriction were to be really accomplished. A County Allotment Committee, in determining whether each individual's contract to reduce acreage had been fulfilled, would have to go beyond its contract records and compare the farmer's actual sown acreage in the year in question with his "net rights."<sup>1</sup> The bookkeeping task alone would be formidable. A complete check would seem possible only with the aid of a large number of local committees working conscientiously and efficiently, and at considerable expense.

A limited check might serve only to determine whether the plan was or was not being automatically carried out. One is not cynical in regarding it as utopian to expect farmers automatically to abide by these provisions with substantial accuracy. If evasions of contract obligations appeared to be numerous, committees might easily find their task impossible; conscientious ones might even find their persons and property in danger from contract violators whom they were about to penalize by reporting them not entitled to the contractual benefits. For such reasons it is optimistic to expect that the acreage reduction achieved would equal the prescribed percentage.

<sup>1</sup> One minor complication would be encountered. Data on wheat acreage sown include a varying amount of acreage that was planted to winter wheat, abandoned, and resown with spring wheat. Presumably such reseeded would be permitted under the limitations imposed without counting these acres twice.

It is conceivable that large numbers of farmers, assured of tariff benefit for a year regardless of their acreage or production in that year, would plant little or no wheat, and that the reduction of acreage in the initial year would go far beyond the amount that the Board might prescribe. Indeed, it is sometimes objected that some farmers would accept their allotment bonus and stop raising wheat, or even stop farming. To some critics such an idea seems revolting; yet if our wheat production really is depressingly excessive, this result should be welcomed, not deplored. It would be an advantage if the scheme should lead high-cost wheat growers to stop growing wheat, at least for the time being.

We suspect that while some farmers would take this course, the proportion of the total acreage would be small. Presumably, those who have wheat land and wheat equipment would generally wish to use it, and many would not have alternative operations or occupations that promised better returns. The disposition to run no chance of having one's allotment cut down in the future would probably limit curtailment beyond the prescribed amount; and the desire for increase in subsequent allotments might give some net stimulus to increase of acreage, particularly in low-cost regions and in the event that wheat prices in time showed advances. Yet it seems unlikely that many farmers would refuse to sign contracts merely to retain complete freedom to plant what acreage they chose (Sec. 18, *h*). Probably they would sign up, at the start, and await results.

#### EFFECTS OF RESTRICTION

It would be highly conducive to the success of the plan if the results of acreage contraction, on production and prices, were readily apparent. For various reasons they would not be.

Restriction of acreage would not constitute control of production; reduction in acreage sown would not necessarily be followed by a corresponding reduction in wheat produced or necessarily lead directly to price improvement. Because of wide variations in the extent of abandonment and in yield per harvested acre, there is no close correlation, year

by year, between acreage sown and harvest outturn; and it is the outturn, not acreage sown, that affects wheat prices and per bushel costs as well. The broad tendency might easily be obscured by other factors.

Moreover, if acreage were restricted, there would be some tendency for more care to be taken in choosing the acres to be sown to wheat, in preparation of the soil, and in harvesting; in some regions to do more summer fallowing, in others to apply more fertilizer. Higher average yields would probably result. Hence a reduction of 30 per cent in acreage sown might be necessary in order to get a reduction of the average harvest by 25 per cent. The results here suggested might be in the interest of the national economy, but they might readily yield disappointment to growers' hopes of higher *prices* under the plan.

It is also probable that, to some extent, a vigorous policy of reducing acreage here would encourage other exporting countries to resist contraction there and even to expand their wheat acreage. It cannot safely be assumed that the combined exportable surpluses of exporting countries would decline by as much as ours was reduced. Conceivably, international agreement might be reached among the major exporting countries whereby each adopted something like the same domestic allotment scheme. It has recently been reported<sup>1</sup> that Argentina has invited Canada, Australia, and the United States to join her to bring about a reduction of wheat sowings in the next two years, and that this proposal will be considered at the forthcoming international economic conference. Hitherto the possibility of reaching such an agreement has seemed remote. In the absence of effective arrangements of this sort, the price advantage from acreage restriction in the United States is the more unpredictable.

The purchasing power of farmers depends not alone on prices of their products, but primarily on their net income, which is determined by quantity sold as well as price, and by costs as well as receipts. Restriction of acreage would tend to reduce the quantity for sale; income from wheat sales would

<sup>1</sup> Broomhall's *Corn Trade News*, November 2, 1932.

be raised only if prices rose by more than enough to offset declines in quantity sold. If the acreage contraction should eliminate high-cost producers and high-cost portions of the output of others, the cost level would be generally reduced, to the advantage of net income. But if the contraction were more or less horizontal, it would tend to raise costs and thereby reduce net income. Farmers who had equipment for handling a given acreage could not as economically handle a smaller acreage. To cope with this problem, farmers would seek to maintain their wheat-growing unit at the optimum size by extensive leasing of acreage on which allotments were available. Adjustments of this sort might be easier because farm equipment has depreciated during the depression, but they would complicate the administrative task.

#### OTHER CONTROL PROVISIONS

It has sometimes been argued that the plan, if applied to wheat, would have a "tonic effect" on the prices of grains to which it was not applied. This view rests on the erroneous impression that the plan would operate, from the outset, to raise wheat prices. On the contrary, there is real danger that enforced restriction of wheat acreage would work to swell the acreage in other crops and thereby tend to depress their prices. It is to prevent such an outcome that a further provision is made (Sec. 18, *a*, 3):

When the board deems it desirable to prevent the production of surpluses the contract may also carry provisions that the producer will put the land withheld from production of the crop in question into pasture, other grassland, summer fallow, crops for improving fertility or preventing erosion, or in such other uses as to prevent increasing the surplus, as the board may direct; and that in the case of tariff benefit payments on livestock the contract may control or restrict the acreage of corn and other feed crops, as well as the production and sale of livestock.

Such a provision appears to be in harmony with the ideal of a planned economy and the maintenance of a sound balance within agriculture. Yet we believe that this task would be found so immense, so intricate, so impossible to do wisely, that it would hardly be

attempted. The Board would have to choose either to lay down rules of general application over wide areas, or to prescribe separately for individual farmers. Rules applied to all farmers in a wide area could not possibly be suited to the conditions that individual farmers face. The information and wisdom required for prescribing in detail for over a million wheat farmers, to say nothing of other farmers, is not and will not soon be at hand. Prescriptions, general or particular, that might appear sound when issued would become inappropriate as the season progressed. The task seems utterly beyond the actual powers of the Board, even with the utmost possible aid from State Agricultural Colleges, the Department of Agriculture, and other agencies.

Moreover, it is most difficult to imagine American farmers either accepting such dictation or willingly submitting to loss of "tariff benefits" if they violated the terms dictated. Freedom of individual action gives no assurance of prosperity; yet, with all its practical limitations, it is a prized attribute of farm life. American farmers would be loath to have it thus curtailed even in return for assured prosperity; without such assurance, which the scheme could not give, the reluctance would be far greater. If they were persuaded so far to sell their birthright for a mess of pottage, farmers would rue their bargain and widely refuse to carry it out.

Unless some more practical method can be devised to meet this difficulty, individual farmers would decide what to do with land they took out of wheat. Some, no doubt, would simply not be cultivated; in some regions, much more would be fallowed, with advantage to average yields; some would be planted to other crops for home use or for market. The utmost efforts of the agricultural research and extension forces would be needed, as now, to help farmers to make wise decisions. To some extent at least, there would be a tendency to increase production of other commercial crops. If this resulted, as it might, in reducing farm income from those crops, such reduction would constitute an offset to the gain in farm income from wheat.

## VIII. CONCLUDING OBSERVATIONS

## THE ADMINISTRATIVE PROBLEM

The outstanding fact that tempers admiration of the ingenuity of the voluntary domestic allotment plan is the complex task of administering its provisions, especially in making and revising individual allotments and in enforcing compliance with acreage prescriptions. Such difficulties are inherent in any individual allotment plan. We would not exaggerate them, but it is only prudent to face squarely, in advance, those we have mentioned and others.

It may be true that the plan would involve no "burdensome bureaucracy," but the argument implies too much. It rests mainly on excluding from the term the great number of members of county and local committees who would not be paid employees. The huge administrative task would be different, but not smaller, by reason of the high degree of decentralization proposed in order to make the scheme more acceptable to farmers and legislators. The direct expense would be considerable, and the indirect cost heavy also. Even the collection of the tax and endeavors to keep tax evasions to a minimum would entail burdens that might be far from negligible.

A source of danger lies in the provision (Sec. 21, *b*) authorizing the Board "to transfer to other agencies of the Federal Government, and to State and local authorities . . . , such sums from the domestic allotment account as are required to pay the additional expenses incurred by such agencies and authorities in the administration of this Act." At best it would be difficult to keep expenses under proper control, and this provision would open the door to abuses. Some system might better be devised for rendering expense accounts, conceivably including those from State Agricultural Colleges and the Extension Service, so that proper payments could be made direct from Washington.

The plan as thus far presented does not seem to provide for such checking, at various stages, as would be necessary to insure freedom from small or glaring errors. The pro-

cedure would call for an enormous amount of statistical and accounting work, fairly simple in character. Opportunities for error would be greater because of the proposed decentralization, for much of the work would fall on those not trained in the technique of transcription and computation. Numerous errors would give rise to a great deal of complaint and even charges of "graft." To keep them to a minimum would necessitate an extensive system of what would be dubbed "red tape."

Even apart from this, the central administrative agency could not avoid a considerable burden. Although some provisions would be easy to carry out, much time and effort on the part of the Board and its staff would be required in preparing for and holding farmer referenda and organizing the preliminary educational campaign; in fixing and revising the national quota and the tariff-adjustment charge; in reaching agreements with state authorities, and drafting and revising contract forms and multifarious regulations; in handling the allotment fund accounts and records of individual allotments; and in deciding such delicate questions as when to change the basis of allotments, whether to break up a commodity into different classes with different treatment, at what point to fix the percentage of acreage reduction, and how far to attempt to go in prescribing the use of acreage released from wheat. If the measure were initially applied only to wheat, the task would add materially to the Board's present duties and staff requirements. This effect would be much greater if the plan were applicable to a number of export-surplus products; indeed, the task of applying it promptly to several products would probably prove impossible to discharge effectively.

Administrative problems and costs might be greatly reduced if it were provided that the administrative burden within each county should be borne by allotment participants there. In counties where wheat growing is an important enterprise, this burden would probably be small in proportion to the benefits, and such a provision would merely provide



a desirable incentive to keep expenses to a minimum. In a large number of counties, where few farmers grow wheat or the average acreage is very small, eligible growers would elect not to participate because the trouble and expense would outweigh the benefits. If, in consequence of such voluntary limitation of the scope of the plan, neither bonus nor acreage restrictions were involved in counties where wheat acreage per wheat-growing farm runs very small, a great gain in simplicity of operation could be achieved at negligible sacrifice of the main purpose.

On the other hand, the political appeal of the plan would be radically reduced by such a modification; and if a referendum were taken under the plan thus modified, it might easily happen that the majority of wheat growers would vote against it while more than half of the wheat acreage would vote for it. The chances of success of the measure in operation would be increased by limiting the initial experiment not only in this way, but by confining it to one or two commodities; but to get enough votes to pass the bill might require the much broader scope outlined in the bills here discussed. In these ways political factors tend to increase the difficulties of administering the plan, if not to jeopardize the success of the experiment.

#### MINOR STABILIZATION OPERATIONS

One miscellaneous provision in the latest form of the allotment plan requires passing comment. Section 22 of the Norbeck-Hope bills provides that operations under it "shall be so conducted as not to increase the pressure of export supplies upon world markets and not to depress world prices," and further:

(1) When it appears that the collection of the tariff adjustment charge is likely to force increased quantities of any product into export, the board is authorized to conduct a minor stabilization operation to remove such excess exportable supply from the market and to divert it to the production of products of lower value, or to hold it for subsequent sale.

(2) When such stabilizing purchases have been necessary during one marketing season, the acreage or production specified in the contracts for the next season shall be reduced to such an extent that, with average yields, the board will be

able to dispose of such stabilization purchases without loss.

(3) In no case shall stabilization purchases made under the terms of this section be withheld from resale for a longer period than two marketing years after purchase.

So far as we can see, these provisions rest on unsound reasoning, add no virtues to the plan, and are definitely objectionable. The collection of the excise tax on domestic grindings and its refund on flour exported would exert no influence on the course of exports of wheat; if they proved to stimulate or discourage exports of flour, the remedy would lie in changing details of the regulations. We question whether any feature of the plan would in fact cause export pressure. It is a virtue of the plan that it would permit our surplus to flow into export without special restraint. This virtue would be lost if, whenever export pressure put in an appearance, efforts could be made to check exports by resort to stabilization operations. Experience has shown that a minor stabilization operation leads to a major one, that such operations are easy to begin but difficult to carry through to a successful conclusion. Sound arguments for the domestic allotment plan, as compared with stabilization operations, are that it would be self-financing and would not involve governmental interposition in the marketing process or lead to accumulation of stocks in government hands. These arguments would not hold if the door were left open for stabilization operations. The two schemes are alternatives in theory, and would be found incapable of being harmonized in practice. The acreage-restriction provisions, difficult to apply at best, should not be further complicated as suggested in the second paragraph quoted above; and it is a mistake to assume that under the provisions cited the stabilization operation would entail no net loss. On the basis of the experiences of the Farm Board during 1929-32, we regard Section 22 as highly inexpedient.

#### TRANSFER OF PURCHASING POWER

The allotment plan plainly calls for raising prices to domestic consumers of wheat products in order to provide funds for distribution

to wheat growers, in part to relieve their financial distress and in part to induce them to reduce production so that prices of wheat may rise. It is urged that, under the limitations prescribed, the prospective increase in flour prices would not raise them to levels that could rightly be regarded as high, that the resulting increase in bread prices would hardly be noticed, that similar advances in the event of short crops would excite no general complaint, and that most consumers have a stake in a more prosperous agriculture. But it is also true that flour and its products are consumed mainly by classes with low incomes. A substantial transfer of purchasing power from consumers to farmers is contemplated—in the main, from low-income urban consumers to low-income farmers, and from wheat-deficit states to wheat-surplus states. One of the fundamental issues raised by the plan is whether such a transfer is justified. On this point, opinions differ, but no one really knows.

Spokesmen for this and other plans tend to reason that the contemplated addition to the purchasing power of farmers would be a net addition to the purchasing power of the nation. This is to overlook the fact that, at least directly, what farmers gained (and perhaps somewhat more) consumers would lose. Purchasing power has become a phrase to conjure with, but no one knows much about it in its larger significance. Shifts in purchasing power benefit some, injure others; it is partly for this reason that "we cannot squander ourselves into prosperity." The springs of increased total purchasing power are hidden, and it is those we need to tap.

The principal rational basis for assuming that the transfer of purchasing power from consumers to farmers would be important lies in the seldom ventilated notion that farmers have no reserves of unused purchasing power, while consumers as a class have such reserves. It is not desire or potential demand, but effective demand, that influences prices. It is not available purchasing power, but purchasing power put to work, that exerts a pervasive influence. One of the basic problems in the midst of depression is to stimulate the wise use of purchasing power that fear

and caution cause to be held in reserve. If this view is sound, the specific question here pertinent is whether wheat consumers as a class have larger reserves of purchasing power than farmers, and whether the tax-bonus scheme would increase the purchasing power put to work.

There are reasons for believing that, to some indeterminate extent, this is the fact; if so, it is not simply "robbing Peter to pay Paul." But there is equal reason to doubt whether the maximum net results that the plan could achieve, in the near future, would be sufficient to give a notable stimulus to economic recovery in general. Such net additions to the purchasing power of farm owners and farm operators as the plan might bring, in the first year or two (see above, p. 53), would in some substantial degree be offset by net reductions in purchasing power used by consuming classes.

#### CONTROL OF ECONOMIC FORCES

It is correct to say that the plan undertakes to supplement and modify economic forces by human regulations. It does not go so far as to fix prices, but it does go far beyond tariff policies. The supplementing of wheat prices by a bonus, the raising of prices to consumers by a tax for the benefit of producers, the resort to administrative restraints upon acreage or production, and provisions for directing the use of acreage released from wheat, all reflect notable dissatisfaction with the results of economic forces and high ambitions to improve the situation by social action.

There is a tendency in some business and academic circles to reason as if it were something worse than sacrilegious for men to attempt to interfere with the "natural" operation of economic forces. This view is irrational. Most human advance has come through intelligent manipulation of natural forces so as to serve human ends. Social and economic forces are likewise inherently susceptible of understanding manipulation. Neither the "law of supply and demand" nor the law of gravitation should be ignored; but the operation of either, if properly taken into account, can be made to serve social requirements. Many instances of legislation and ad-

ministration affecting the operation of economic forces command general approval.

Yet there is some warrant for the prevalent view. The social sciences are in their infancy compared with the natural sciences. Even the best experts in the field understand but dimly the nature and operation of complex economic forces. For what may be termed social engineering, the scientific foundations are inadequate. In this stage of development well-intentioned efforts often have results quite at variance with expectations, and even lead to "confusion worse confounded." Far-reaching social experiments cannot be conducted like controlled experimentation in the laboratory. For such reasons, there is ample ground for caution in undertaking, in our present state of knowledge, new large schemes of social control. There is a mean between readiness to experiment rashly and unwillingness to experiment at all. Before a social experiment is tried, it should be thought through so far as possible, limited in scope and in time, and so devised as to afford the maximum promise of success with a minimum risk of net disadvantage; and after trial, careful effort should be made to analyze the results.

It is not often frankly stated that the allotment plan definitely implies the contraction of agriculture. If production of wheat, cotton, and perhaps other farm products is to be restricted, without correspondingly increasing opportunities to produce others remuneratively, many farmers will have to quit agriculture or settle down to something like self-contained farming. The plan seeks to bring about this contraction in orderly fashion, by voluntarily accepted means, instead of by the cruel process of economic attrition; it might reduce, but it could not eliminate, the pains that contraction of agriculture inevitably entails. This is no criticism of the plan; other plans have been weak in assuming that contraction is unnecessary and that price-raising devices can be applied without concern over a resulting stimulus to production. We believe the search is vain for some one formula or scheme, with a commodity approach or otherwise, that can bring pros-

perity and contentment to all who freely choose to farm.

Few are willing to face the hard facts that agriculture, almost the world over, is relatively overextended and that at least relative contraction is inevitable. Some economic forces are irresistible; they cannot safely be ignored or fought against; wisdom consists in making adaptations to them. The degree of necessary contraction of agriculture, however, depends greatly on a wide range of policies. The trend of recent national policies has been in the direction of restraining consumption of farm products and, in certain countries, increasing agricultural output at the same time. If this trend persists, both distress and severe contraction of agriculture are inevitable at least in exporting countries. If this trend could be reversed, much less readjustment in agriculture would be required. In our judgment the most important steps on behalf of agriculture include those calculated to remove the multifarious obstacles to revived and expanding consumption of farm products; to eliminate policies that lead to expansion of output in the face of burdensome surpluses; and to reverse the influences that prevent the ready flow from producer to consumer and the widest distribution of stocks.<sup>1</sup>

It is therefore important that the voluntary domestic allotment plan, if adopted, should not be given too high a place in our economic policy affecting agriculture. It has attractive features and seems preferable to some alternative schemes; but it involves major experiments, and its probable complications should not be minimized or its promise exaggerated. At best, it would fall far short of providing *the* solution of our complex agricultural problem. It would be most unfortunate if inflated hopes of gains from its application should interfere with adoption of policies that hold more promise of improving the position of American farmers and bringing agriculture into a truly normal equilibrium with other parts of the national economy.

<sup>1</sup> These matters are discussed in "The World Wheat Problem," *WHEAT STUDIES*, July 1932, VIII, 428-44.

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