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AGRICULTURAL ADJUSTMENT ACT OF 1938

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Legislation to deal with the "farm problem" has been a subject of rather constant discussion much of the time since 1920. The equalization-fee and the export-debenture plans held the center of the stage for several years. The agricultural marketing act, creating the Federal Farm Board and authorizing it to engage in "stabilization", was passed in 1929. Endeavors of the Board to maintain prices by taking supplies of wheat and cotton off the market soon demonstrated the weaknesses of such a program. Next came the agricultural adjustment act of 1933 which recognized the need for supply restriction if price control were to be effective and therefore set up a program aimed at production control. Processing taxes were adopted as a source of funds for payments to farmers to induce them to enter into contracts to reduce production. Supplemental acts setting up more specific control over sales of cotton, tobacco and potatoes followed. When this legislation was found unconstitutional in 1936, the soil conservation and domestic allotment act was passed as a substitute. Its objective has been that of price improvement thru regulation of supply by encouraging shifts from soil-depleting to soil-conserving crops. The treasury is drawn upon for payments to farmers for adopting the recommended shifts.

More specific control of production was felt necessary and hence the legislation recently passed. This very sketchy review of events leading up to this step has been included because the latest act does not stand by itself but represents a stage in the development of plans to deal with the agricultural situation. The logical expectation is that as time goes on it will need modification or may be replaced by another program.

Reference to previous legislation is in order also, because the new act incorporates various principles developed earlier. Thus, soil conservation commodity loans and various other features are continued. In addition, provision is made for setting up marketing quotas for specific commodities (corn, wheat, cotton, tobacco and rice) and for restrictions on marketings while such quotas are in force. The idea of an "ever-normal" granary has been publicized in discussions of farm programs in recent years. The new act is intended to serve this end by production plans and commodity loans which will encourage the building up and maintenance of reserve supplies of some commodities. Parity prices and parity income have been the objectives of earlier acts. The new act moves somewhat more definitely in this direction by authorizing "parity payments" on corn, wheat, cotton, rice and tobacco when appropriations are made for such purpose. However, the law just passed does not include such appropriation. It is also specified that under certain circumstances parity prices are to be taken into consideration in determining the amounts of commodity loans to be made.

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Provisions for marketing quotas represent one of the aspects of the new program regarding which there is much interest. The conditions under which marketing quotas may be established by the Secretary of Agriculture for the five commodities are set forth in the act. For example, when the Secretary finds that the corn supply on October 1 will exceed normal supply by more than 10 per cent, quotas are to be in effect in the commercial corn-producing area. A referendum of the farmers subject to this quota must be held and the quota will be in force unless more than one-third of those voting are against it. A penalty of 15 cents a bushel is levied against sales by any farmer above his marketing quota in order to hold supplies on the market in check. Wheat quotas are to be proclaimed if total supply exceeds normal domestic consumption and exports by more than 35 per cent. These quotas are subject to vote of the growers. A penalty on excess sales of 15 cents a bushel is provided. Similarly, quotas are specified for the other products included in the act.

The use of commodity loans for price pegging is directed under certain circumstances. For example, wheat loans at between 52 and 75 per cent of the parity price are to be made available to cooperators when the price is less than 52 per cent of parity or when estimates indicate supplies in excess of normal domestic and export requirements. When quotas are in effect, non-cooperators may get loans at 60 per cent of the basis granted cooperators but limited to the grain subject to penalty if marketed. Provisions differing only in detail are made for such loans on corn and cotton. Commodity loans of this type are dependent upon the approval of quotas as they are not to be available for a commodity during any year when a quota on it has been voted down.

The act provides crop insurance for wheat. A federal corporation with capital of 100 million dollars subscribed by the government is created. The insurance is to provide coverage of from 50 to 75 per cent of losses in yields due to unavoidable causes. Premiums and payments for losses are to be in wheat or its cash equivalent. Rates are to be based on the crop-loss record of the farm adjusted to give fair and just rates for areas of similar risk.

The Secretary of Agriculture is directed to establish four regional research laboratories to carry on research in new uses of farm products. He is authorized to employ $4,000,000 a year for these laboratories. The Department of Commerce is allocated $1,000,000 annually for the promotion of the sale of farm products with the stipulation that for the year beginning July 1, 1938, $100,000 shall be employed in a survey "of the cause or causes of the reduction in exports of agricultural commodities from the United States". The Federal Surplus Commodities Corporation is extended until June 30, 1942.

The original bills of both houses of Congress included a provision designed to restrict the use of acres shifted to soil building crops for increasing dairy and livestock production. This provision was modified in the conference measure. While the language of the act on this point is far from clear, the test to be applied apparently is whether the increase in soil-conserving crops leads to an increase in cows kept in a county for production for market. The act is not specific with respect to the remedy that is to be applied but presumably soil conservation payments under such conditions are expected to be conditioned on their use for production for home consumption.

The new law adopts the policy of giving special aid to the small farmer in that where payments to any person total less than $200, a graduated scale of increasing them is established. Beginning with 1939, no total payment to any person for farms in a single state is to exceed $10,000.

The act is very detailed and space prevents mention of many of its provisions. The aim in the preceding has been to refer to some of the more important features. Farmers are concerned with the probable results of the act over a period of time as well as with its immediate application. Therefore, a brief attempt at evaluation of some of its features may be in order. As has been true with previous legislation, the act is said to be "voluntary". No farmer is required to enter into the conservation program. If they do not, they forego conservation payments. If market quotas are established the restrictions and penalties will apply to all (except where small or non-commercial producers are specifically exempted). In such cases, cooperators are provided added benefits in connection with the loan program.

The "ever-normal" granary is not applicable to all farm products and consequently does not provide blanket protection against shortages. Its net effect depends not only on how much prices rise when supplies are stored but also on how prices are affected when supplies are released and on the costs of storage. Unless funds are appropriated for the purpose, the reference to "parity payments" amounts to only a gesture. However, it may invite pressure to provide the funds needed. In that event, the act takes on some aspects of definite price legislation. The fixing of the proportion of parity prices which shall be loaned under certain circumstances may become a form of price pegging when the loans are above current prices. Whether the control provisions are adequate to protect the government from loss on loans remains to be seen. If loans result in holding prices of export products above world levels, they will interfere with disposal of such products in foreign markets unless export dumping is employed. Opportunities for such dumping are decidedly limited at present.

Special consideration for the small farmer is referred to as a move to maintain the family farm. The facts are that nearly all farms in the United States belong in that category. To some extent, such a policy may foster units that are too small and this can hardly be said to be in the interest of long-run efficiency. Moreover, such variation in payment raises some question about whether the intended purpose is to achieve production adjustment and soil conservation or is one of effecting a different income distribution. Presumably, the participation of multiple owners is a requisite to adequate adjustment and conservation and should not be discouraged.

The question still remains as to what the permanent tie-up between conservation and production adjustment should be. A program aimed primarily at real soil conservation should be more concerned with the needs of each parcel of land than with the problem of production curtailment. There is needed a clearer definition of the division in responsibility between the public and the individual farmer for soil conservation. Public funds used for soil conservation ought to give full return in the form of public benefit from soil conservation. Subsidies to agriculture or payments to get production adjustments should not be disguised as soil conservation as permanent policy. If permanent production curtailment is needed, agriculture evidently is over-expanded. The only sound permanent solution for such a situation is curtailment of the industry rather than maintenance in its present state of development by permanent subsidy. Sufficient consideration has not yet been given to distinguish between what may appear to be desirable expediency in the short run and the consequences that may be expected in the longer run.

MINNESOTA FARM PRICES FOR FEBRUARY, 1938

Prepared by W. C. Waite and W. B. Garver

The index number of Minnesota farm prices for the month of February, 1938 was 77. When the average of farm prices of the three Februaries, 1924-25-26 is represented by 100, the indexes for February of each year from 1924 to date are as follows:

February 1924	88	February 1932	46
" 1925	100	" 1933	36
" 1926	115	" 1934	54
" 1927	113	" 1935	86
" 1928	101	" 1936	87
" 1929	107	" 1937	107*
" 1930	102	" 1938	77*
" 1931	69		

*Preliminary

The price index of 77 for the past month is the net result of increases and decreases in the prices of farm products in February, 1938, over the average of February, 1924-25-26, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, February 15, 1938, with Comparisons*

	Feb. 15, 1938	Jan. 15, 1938	Feb. 15, 1937	Av. Feb. 1924-25-26	% Feb. 15, 1938 is of Jan. 15, 1938	% Feb. 15, 1938 is of Feb. 15, 1937	% Feb. 15, 1938 is of Feb. 15, 1924-25-26
Wheat	$.96	$.99	$1.38	$1.41	97	70	68
Corn	.43	.45	1.08	.64	96	40	67
Oats	.24	.25	.48	.39	96	50	62
Barley	.57	.56	1.01	.61	102	56	93
Rye	.61	.62	1.01	.82	98	60	74
Flax	1.93	1.95	2.06	2.57	99	94	75
Potatoes	.41	.42	1.35	.80	98	30	51
Hogs	7.60	7.50	9.40	8.88	101	81	86
Cattle	5.70	6.00	6.70	5.54	95	85	103
Calves	8.40	8.30	8.60	8.50	101	98	99
Lambs-sheep	6.66	7.38	8.60	11.63	90	77	57
Chickens	.138	.146	.108	.167	95	128	83
Eggs	.135	.186	.173	.30	73	78	45
Butterfat	.33	.36	.36	.45	92	92	73
Hay	6.18	6.01	9.23	11.41	103	67	54
Milk	1.80	1.90	1.91	2.19	95	94	82

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture*

	Feb. 1938	Jan. 1938	Feb. 1937	Av. Feb. 1924-26
U.S. farm price index	68.0	72.0	89.0	100.0
Minnesota farm price index	77.0	80.0	107.0	100.0
U.S. purchasing power of farm products	84.0	86.0	108.0	100.0
Minnesota purchasing power of farm products	95.0	95.0	130.0	100.0
Minn. farmer's share of consumer's food dollar	-	47.6	52.3	53.2
U.S. hog-corn ratio	15.0	14.5	8.9	11.4
Minnesota hog-corn ratio	17.7	16.7	8.7	13.7
Minnesota egg-grain ratio	12.3	16.3	8.7	18.3
Minnesota butterfat-farm-grain ratio	38.2	40.8	20.5	36.4

*Explanations of the computation of these data may be had upon request.