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FARM *and* FOOD POLICY

SHEPHERD—
Agricultural Prices After the War

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FARM *and* FOOD POLICY

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AGRICULTURAL PRICES AFTER THE WAR

by

GEOFFREY SHEPHERD

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SUMMARY

Congress has committed the War Food Administration to support the prices of about twenty major farm products at 90 per cent of parity or higher for at least two or three years after the end of the war. Farmers should have some protection from a possible sharp drop in prices during the reconversion period after the war. Yet it may be difficult—perhaps impossible—for the WFA to support prices at 90 per cent of parity for unlimited production of farm commodities. The demand for farm products is likely to decline toward peacetime levels, while agricultural production, left to itself, will continue large.

Thus, we are faced with several alternatives: (1) keeping price supports rigid and attempting to restrict production and marketings to the quantities than can be sold at those prices, (2) keeping price supports rigid and attempting to expand consumption, and (3) introducing some degree of flexibility into the price support program.

PROGRAMS TO RESTRICT PRODUCTION

The first alternative, *production control,* does not look too promising. In past reduction programs, most of the acres taken out of one crop were put into another; or if they were held idle, their fertility increased. Declines in acreage were offset by increases in yields, so that except in the case of cotton, acreage control did not reduce production below previous levels. Presumably the same thing would happen again if production control were attempted after the war, unless more stringent restrictions were placed upon farmers, and there would be objections to that. It does not seem likely that production control would do the job.

Furthermore, even if production restrictions were made effective by the use of more stringent controls, reducing production would not increase farm income much. The reduction in quantity would partly or completely offset the increase in price. And it would increase hardship among people with low incomes who would not be able to buy enough food for a decent diet.

PROGRAMS TO EXPAND CONSUMPTION

1. After foreign relief needs have been met, *export subsidy programs* similar to those used in the past may be considered. But

they would not do the job either. They subsidize foreign consumers at the expense of our own, yet they are not appreciated by foreign governments, most of whom have passed anti-dumping laws. To the extent that these laws are effective, they nullify the effects of export subsidies on prices and exports, so that all the subsidies do is transfer the subsidy money from our government to other governments. An international body to distribute surpluses whenever created to low-income consumers wherever located has possibilities, but involves many problems that require time for their solution.

2. *Large government purchases* is another possible solution. But even purchases amounting to several billion dollars would be only a step in the direction of solving the problem. They could not do the job alone. The WFA must have some place to put its purchases, some means of keeping them continuously moving into consumption.

Even in a time of great prosperity such as the present, it is estimated that about one-quarter of the people in the United States are not adequately fed. In less prosperous times, the percentage goes higher. Programs for subsidizing food consumption by low-income groups would both remove the chief reason for these inadequate diets and provide the WFA with a useful outlet for its purchases.

3. *The Aiken basic food allotment plan* would distribute enough food stamps to bring the food consumption of low income groups up to a standard nutritional level. This would help to improve diets, but the consumption of food would be increased by only about half of the value of the food stamps distributed. Recipients would spend all of the food money for food, but that would free some of their own cash money they previously spent for food, which then would be spent for other things.

A food price discount plan has been suggested as a way of preventing or reducing this partial replacement of previous expenditures of cash for food. Under this plan, simple one-color food stamps, enough for an adequate diet, would be sold to low income consumers at substantial discounts, varying inversely with the size of the participant's income and directly with the size of his family. Along with these stamps would go brief educational material recommending nutritious diets. An arrangement of this sort would reduce the ability of the participants to spend some of the money they previously spent for food on other things than food; for it would take most of that money away from them, giving them enough coupon books for an adequate diet, in return.

Some economists in the WFA and the Department of Agriculture are studying another approach to the same problem. Their method would involve the possibility of selling a complete book of coupons of a value equal to the cost of the standard diet. The purchasers would be charged some uniform percentage of their income—perhaps 40 per cent—for these books. This plan would be most attractive to people with the lowest incomes who need help most, and less attractive to people higher in the income scale.

The cost of these programs would vary inversely with industrial activity; it might run up to 2 or 3 billion dollars a year.

None of these programs would be able to direct purchasing power to specific surplus foods to any very appreciable extent. The blue (surplus food) stamp provisions of the pre-war Food Stamp Plan were ineffective in directing consumption to specific surplus products, and it is difficult to design any new plans that would do more. From a nutritional point of view, this may be just as well.

4. *A free school lunch program* also would be useful. Under such a program all school children would receive a substantial, nutritious lunch free of charge. This program would cost nearly 1 billion dollars a year.

5. *Subsidies paid to processors.* If these programs did not succeed in maintaining prices at the desired levels, it might be necessary to pay to processors subsidies large enough to enable them to continue to pay 90 per cent of parity prices to farmers while obtaining sufficiently low prices from consumers to keep the product moving into consumption. This might take another billion dollars or more.

FLEXIBLE PRICE SUPPORTS

1. *Possible Revision of the Steagall Amendment.* These amounts might be larger than Congress would be willing to appropriate. If so, it would be necessary to revise the existing price-support legislation. One possible revision would be to make up in *direct payments to farmers,* the difference between the prices that they had been promised and the prices that they received for their products.

This would take about as much money as the subsidies discussed above (in fact it amounts to about the same thing), but all of the payments would go direct to farmers. If appropriations were insufficient to bring returns equivalent to 90 per cent of parity, lower percentages might have to be adopted.

A different sort of revision might provide price supports only for

the quantities of farm products specified in the annual production goals; the rest would sell for what it would bring on the open market.

A simple way of conducting a program of this sort would be to announce a schedule of prices that would be paid for various quantities, such that variations in quantities would be offset by inversely proportional variations in prices. Thus, total agricultural income would remain the same as for the basic price and the basic quantity, no matter how much or how little was produced.

AGRICULTURAL PRICES AFTER THE WAR[1]

GEOFFREY SHEPHERD

What are the prices of farm products going to do after the end of the war? Are they going to remain anywhere near their present levels, twice as high as they were before the war began? Or are they going to decline almost to pre-war levels, as they did after the first world war?

The answer depends upon how large the supplies of farm products continue to be, and upon how strong the demand for farm products remains.

Figure 1 shows the nature of the forces at work. It shows that the United States is doing a better job of controlling inflation during World War II than it did during and just after World War I. The prices of farm products have risen only about two-thirds or three-quarters as far this time as they did during the first year or two after the first World War, in spite of the fact that the United States is involved far more heavily in the second war than in the first. The price ceilings and commodity rationing activities of the Office of Price Administration, the general fiscal policies of the federal government, and the great increase in agricultural production during the war, deserve the credit for that accomplishment.

The OPA policies held down the prices of nonfarm products to much lower levels than the prices of farm products. The lower part of Figure 1 shows that nonfarm prices have risen less than 25 per cent, whereas the prices of farm products have risen more than 100 per cent.

The fact that the prices of farm products have been held down more this time than last time could mean that they will not have so far to fall. Last time, however, they fell below the prices of non-farm products shortly after the end of the war. If they were to do

[1] Project 894 of the Iowa Agricultural Experiment Station, Ames, Iowa. Acknowledgments are due to Kenneth Boulding, Alvan Oderkirk, and Frank Robotka, all of Iowa State College, and to Margaret Reid, of the Bureau of Human Nutrition and Home Economics, USDA.

that again this time, the jolt would be severe; for the prices of non-farm products are so much lower this time than last.

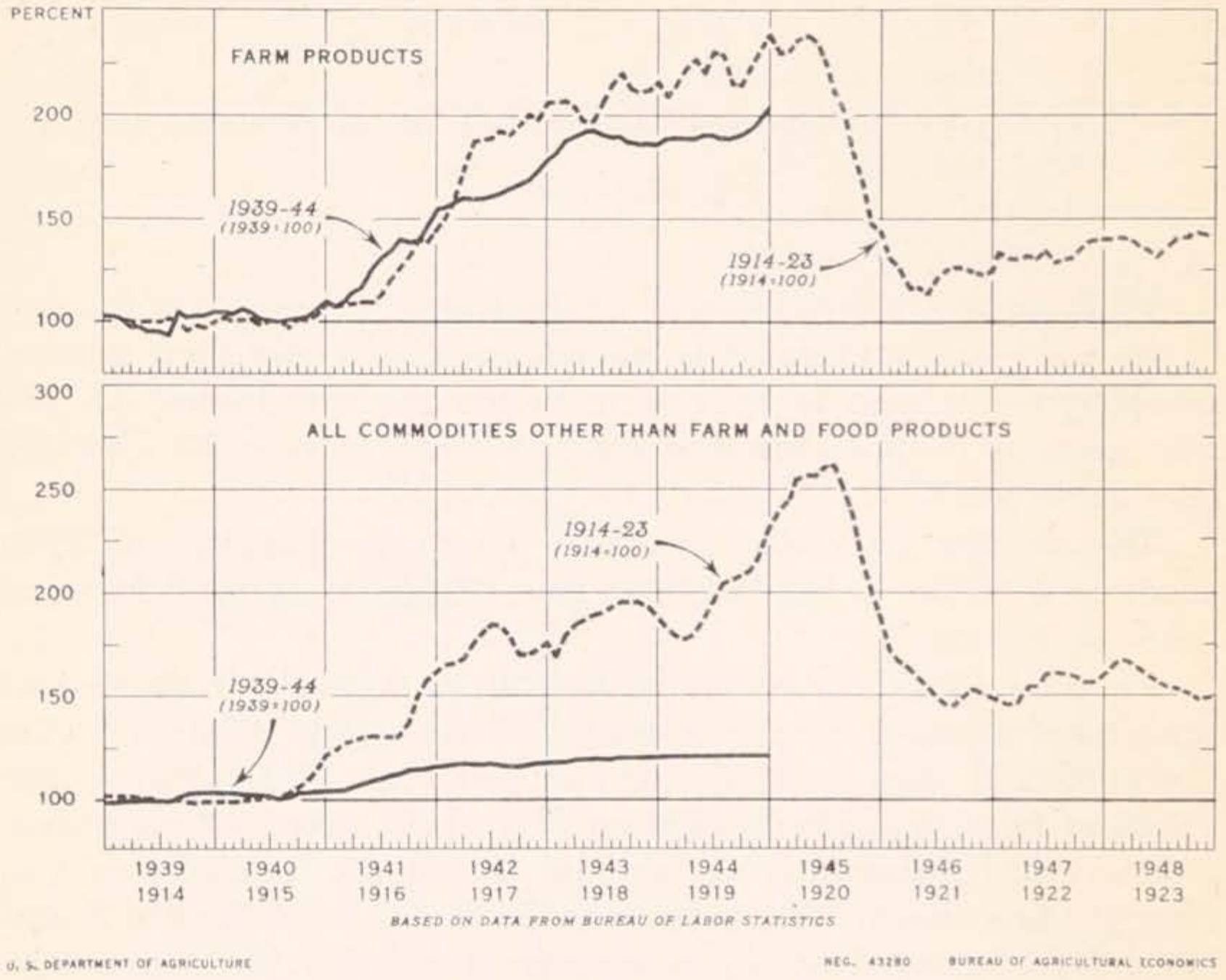

FIG. 1. Wholesale prices of farm products, and of all commodities other than farm and food products. Index numbers, United States, 1914–23 and 1939–44.

Let us look more closely at the specific factors that will determine the behavior of agricultural prices after the end of the war. One of the most concrete factors will be the total quantity of agricultural goods produced.

PROSPECTIVE INCREASE IN AGRICULTURAL PRODUCTION AFTER THE WAR

Figure 2 shows what happened to agricultural production during and after the last war. During that war, agricultural production increased about 5 per cent, and for two years after the war, continued to increase at the rate of one point per year.

Then came the sharp decline in agricultural prices—they fell almost 50 per cent—in 1920. Partly in response to that fall in prices, and partly on account of poor weather, agricultural production fell

about 10 per cent. The yield per acre of cotton was the lowest on record; the acreage of tobacco harvested was the lowest in ten years; and the production of fruits and tree nuts was the lowest on record.

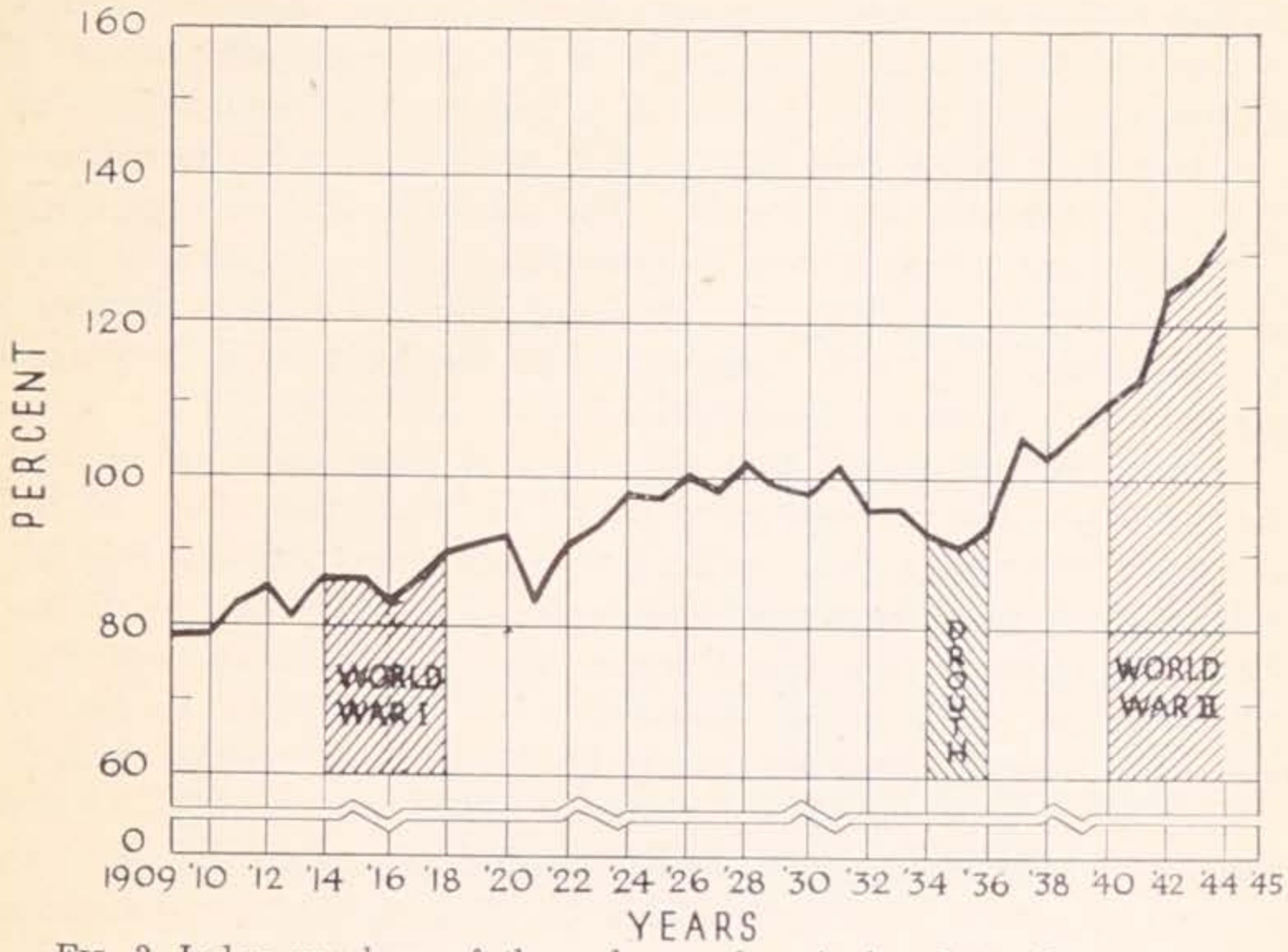

FIG. 2. Index numbers of the volume of agricultural production, 1909–44. Index numbers (1935–39=100).

(The production of each of these crops in 1921 was between 35 and 40 per cent lower than in 1920.)

Agricultural production declined 10 per cent in 1921, but it recovered nine-tenths of that loss immediately. It snapped back up to wartime levels in 1922 and increased each year thereafter for several years. By eight years after the end of the war, agricultural production reached a plateau about 10 per cent higher than the wartime levels.

PRODUCTION DURING THE PRESENT WAR

Agriculture has done a better job during the present war than it did in World War I. Agricultural production in the United States increased each year after 1938 until 1944. The 1944 output is estimated to have been 33 per cent greater than in the base period 1935–39.

This large increase in production during the war is partly the

result of exceptionally good weather. Crop statisticians estimate that from 8 to 10 per cent of the 33 per cent increase in production resulted from the effects of this good weather on yields.

The return of average weather in the future, therefore, would tend to reduce production as much as 8 to 10 points. The effects of the unduly heavy cropping of land during the war would probably tend to reduce yields still further. But more permanent factors are working in the opposite direction. The use of hybrid seed corn has increased corn yields about 20 per cent.[2] New varieties of oats, wheat, barley, grain sorghums, soybeans, and cotton have increased the yields of those crops. More fertilizer has been used. Improved practices and increased mechanization have also helped.

It has been estimated that the effect of these more permanent developments will increase crop yields in the future about 20 per cent over the average yields in the pre-drouth years 1923–32. Further technological improvements are expected during the next few years, and if employment and prices remain reasonably high, it is expected that agricultural production in the United States by 1950, with average weather, would be 45 per cent greater than in 1935–39. That is, it would be 9 per cent higher than in 1944. Under depression conditions, agricultural production might be only 35 per cent greater in 1950 than in 1935–39. That would be still slightly higher than in 1944.[3]

PROSPECTIVE DECLINE IN DEMAND FROM WARTIME LEVELS

Figure 3 shows the overwhelming importance of industrial employment in the United States in determining the level of agricultural income. The income of industrial workers more than trebled during World War II. In addition, the demand for lend-lease and our own military purposes abroad was strong; in 1944, it took about 25 per cent of the food produced in the United States. Figure 4 shows how greatly our exports expanded. No wonder wartime agricultural prices were high.

FOREIGN DEMAND

It now seems likely that rehabilitation needs in Europe will not be so large as formerly believed. Most of Russia's agriculture is now

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[2] Statement of H. D. Hughes, Agronomy Department, Iowa State College, and of G. F. Sprague, Agronomist, USDA.

[3] *Production Adjustments—1945 and Post-War*, address by Sherman E. Johnson, head, Division of Farm Management and Costs, at Twenty-second Annual Agricultural Outlook Conference, Washington, D. C., November 14, 1944, BAE, USDA.

back into production, and the WFA has stated that relief needs in Europe are expected to be only about half as great in 1945 as lend-lease shipments have been. Great Britain, which increased its agricultural production 70 per cent during the war, intends to maintain

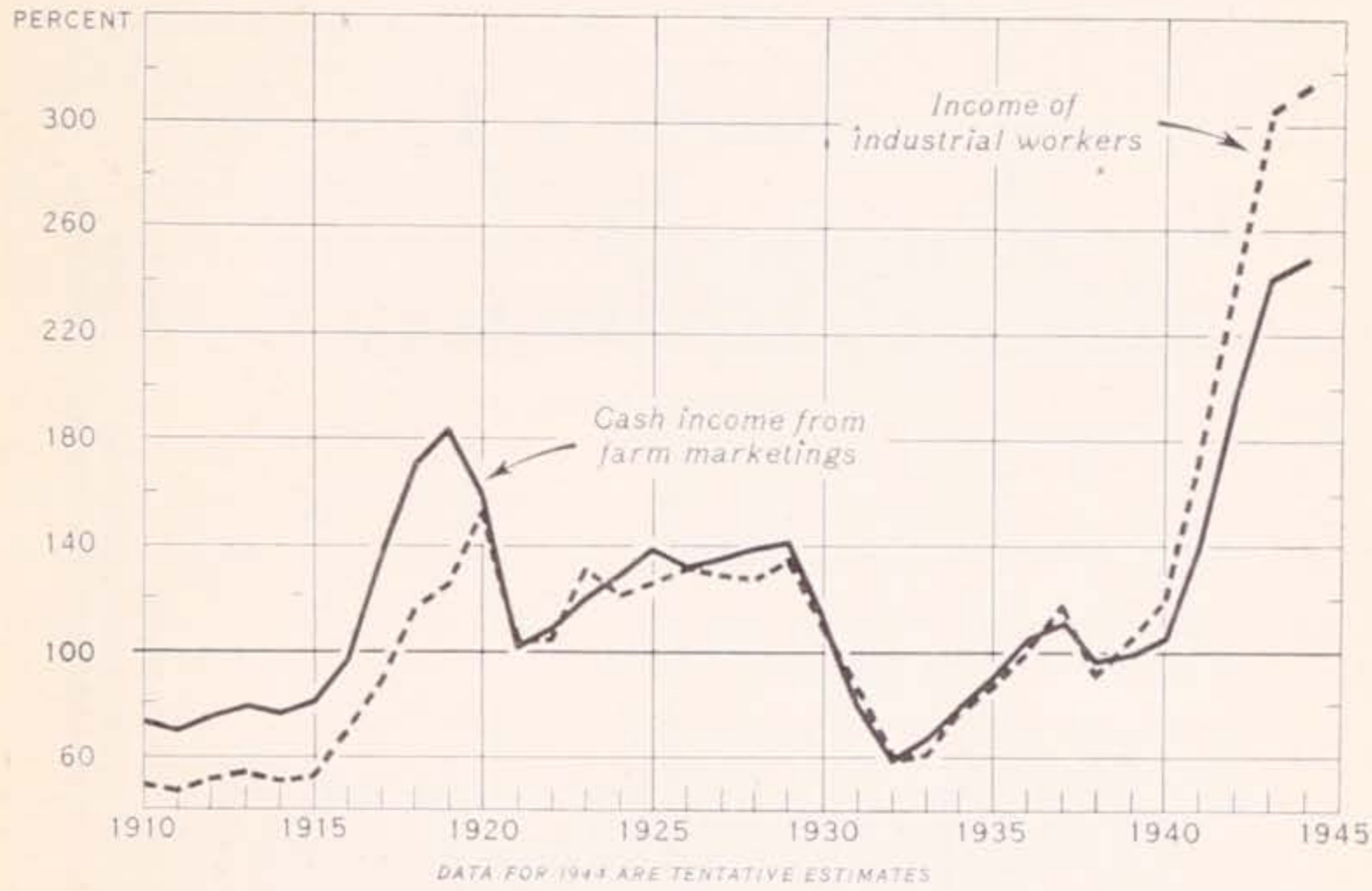

FIG. 3. Cash income from farm marketings, and income of industrial workers, United States, 1910–44. Index numbers (1935–39=100).

a good share of this increase after the war. Asiatic needs are still uncertain, but as other exporting countries get back into the picture it seems likely that exports of food from the United States will decline, rather soon after the postwar relief period is past, from their wartime 25 per cent toward their pre-war 5 to 10 per cent of United States' production.

DOMESTIC DEMAND

How strong will the domestic demand for farm products be after the war?

Plans are being worked out for maintaining full employment after the war and for keeping the national income in the neighborhood of its 1944 level of 159 billion dollars a year. This is an ambitious goal. Before the United States entered the war the highest national incomes ever attained were 85 billion dollars in 1929 and

95 billion in 1941. (The figure for 1940 was only 76 billion). A postwar income of 150 billion would be more than 50 per cent higher than the highest prewar level.

It is possible that the goal of 150 billion dollars can be attained. After the last war, national income continued to increase for a year

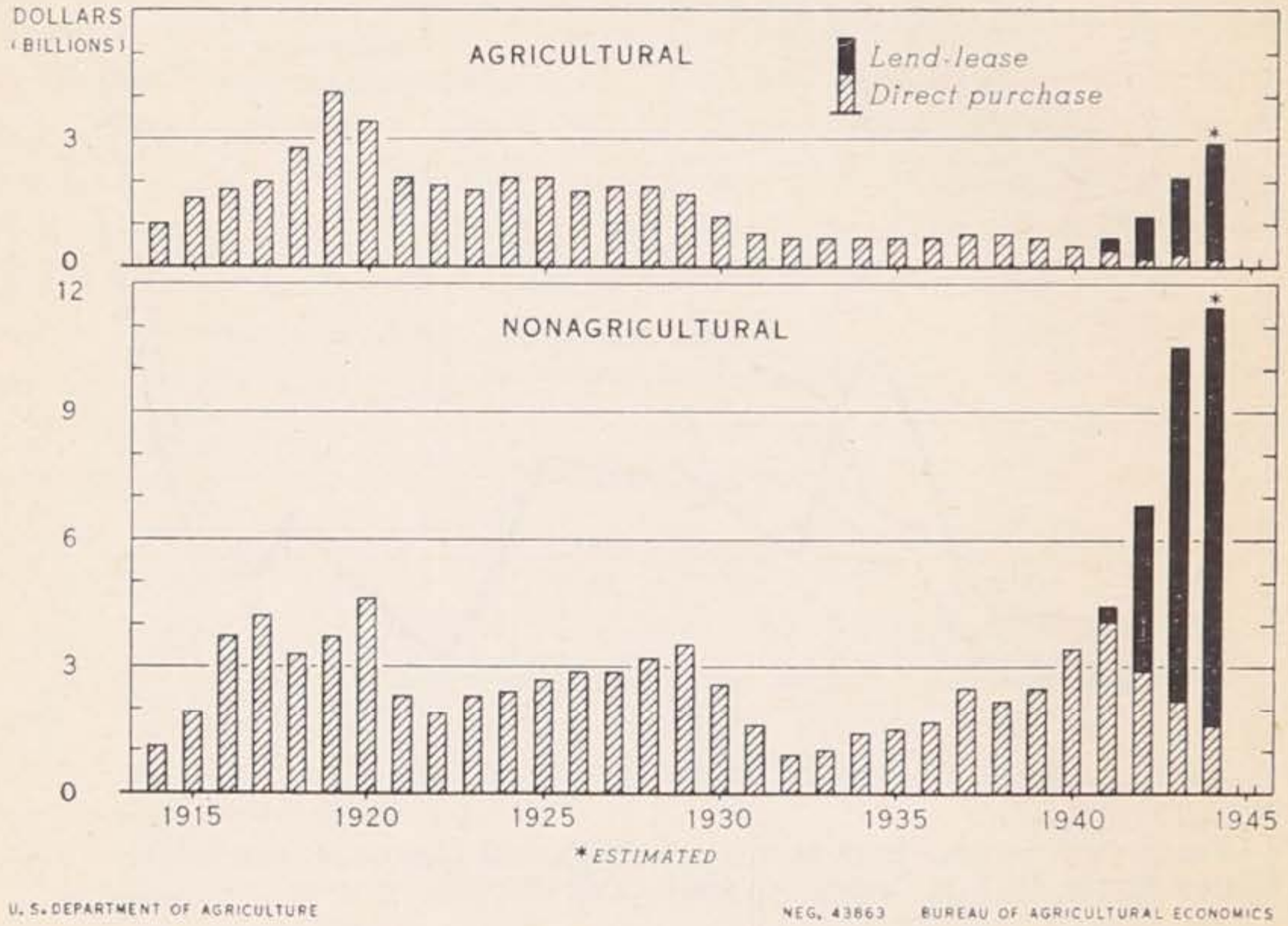

FIG. 4. Domestic exports: agricultural and nonagricultural, lend-lease and direct purchase, United States, 1914–44.

or two even over wartime levels, to a peak of 73 billion in 1920, almost exactly twice as high as it had been during 1914 and 1915. And most of this gain was retained until 1930.

Nearly half of this increase in national income, however, was purely monetary. The general price level (as measured by the Bureau of Labor Statistics index of the prices of goods at wholesale) crashed in 1920, but it recovered during the decade of the 1920's to a level about 50 per cent higher than it had been before the war.[4] During the present war, the general price level has risen

[4] The prices paid by farmers rose during the 1920's to a level higher than 50 per cent above prewar. Accordingly, even if the prices of farm products had been twice as high during the 1920's as they were before the war, farmers would have benefited by only about 30 per cent of the increase. Actually, the prices received by farmers rose less than 50 per cent, so that if there had been no change in their production farmers would have been worse off after the war than before.

only from 115 in 1940 (base, 1910–14 = 100) to 151 in 1943 and 152 in 1944. This is a rise of only 32 per cent. In May, 1920, the same index on the same base rose to 242—nearly two and one-half times as high as before the war. With the price controls that are in effect now, the general price level is not likely to rise much above its current levels, if at all. It is likely to settle down after the war to levels only perhaps 25 per cent higher than before the war. This in itself would bring national income not much above 100 billion. The goal of 150 billion appears rather high.

Every effort, of course, will be made to bring the plans for a high national income into operation; it is earnestly to be hoped that they succeed. The United States now knows more about controlling reconversion and keeping employment at a high level than it knew during the first World War. But eight years ago, with all that had been learned by that time, the country was not able to prevent a considerable "recession" from taking place in 1937. Perhaps enough has been learned since that time to insure success; but until that is certain, plans should be laid in readiness to meet conditions of somewhat less than full employment, if they should develop.

EXISTING AGRICULTURAL PRICE FLOOR LEGISLATION

If the demand for farm products declines after the war, and production continues at a high level, it seems likely that the prices of farm products, left to themselves, would decline substantially. With that possibility in mind, on several occasions during the course of the war, Congress passed or amended previous legislation with the intention of preventing any such decline. This legislation, built up in several steps, can be summarized in these words:[5]

". . . The laws dealing directly with support price operation . . . divide the some 166 agricultural commodities into three groups: (1) the so-called basic commodities, (2) the so-called Steagall commodities, and (3) the other commodities. . . . The basic commodities are *corn, wheat, cotton, tobacco, rice, and peanuts (for nuts)*. The Steagall commodities are those as to which the Department has requested an expansion of production for war purposes and has made public announcement to that effect under the provision of the so-called Steagall Amendment. The Steagall commodities are: *hogs, eggs, chickens* (with certain exceptions), and *tur-*

[5] Rober H. Shields, solicitor, WFA and USDA, talk before a meeting of Regional Attorneys of WFA and USDA, August 16, 1944, Denver, Colorado.

keys, milk and butterfat, dry peas of certain varieties, dry edible beans of certain varieties, soybeans for oil, peanuts for oil, flaxseed for oil, American Egyptian cotton, potatoes, and cured sweet potatoes."

Of the "other commodities," upwards of 140, "the chief ones for which support prices have been announced are *wool, naval stores, American hemp, sugar beets, sugar cane, black-eye peas and beans, certain fruits for processing, certain vegetables for processing, barley, grain sorghums, rye, Sea Island cotton, certain vegetable seeds, winter cover crop seeds, and hay and pasture seeds.*

"The law provides that farm prices of the basic commodities shall be supported by producer loans at 90 per cent of parity in the case of corn, wheat, tobacco, rice, and peanuts (for nuts) and 92½ per cent of parity in the case of cotton . . .[6]

Loans are to be made on the basic crops "harvested . . . before the expiration of the two-year period beginning with the first day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated . . ."

Thus, if the war were to end in 1945, the prices of the crops harvested in 1945, 1946, and 1947 would be supported. This price support, therefore, would extend into 1948, until the 1947 crop had been marketed. The support for the Steagall commodities, however, would cease at the end of 1947 (the time specified is the same as for the basic crops, except that the word "harvested" is not included) provided that the Secretary had announced the termination of the supports far enough ahead to give producers time to readjust their production.

The fact that the minimum loan rates are expressed in terms of parity provides some flexibility in the loan rates and floors. If there is a decline in the general price level after the war, the prices of things that farmers buy will decline also, and that will lower the level of parity to the same extent. But the amount of this flexibility is small. After the last war, the change in the prices of the things that farmers buy was only a fraction of the change in the prices of the products that they sell, and it lagged a year or so behind. The prices of hogs and corn fell to 30 or 40 per cent of their 1919 levels by the end of 1920—two years after the end of the war. Wheat fell to

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[6] The surplus property disposal act of October 3, 1944, raised the loan rate on the 1944 cotton crop to 95 per cent of parity.

similar levels by the end of 1921. But the prices of the things that farmers buy, which determine the level of parity, *rose* twenty-one points from 1918 to 1919, and rose an additional eighteen points from 1919 to 1920. By 1921, they had fallen only moderately, 20 per cent below their 1919 levels. The decline in parity was only about one-third as great as the decline in the market prices of farm products.

Early in the course of the war, when the legislation for supporting prices after the war was passed, about all that the legislators had to go on in the way of experience was the last war. That war ended all at once, and the demand for agricultural products for rehabilitation purposes lasted for a year or two after the war and helped to keep the demand strong during that time. The legislators could not have been expected to foresee that the present war will end in Europe first. After Germany surrenders, a year or more may be required before the Japanese war is ended. By that time Europe will be past the period of its greatest needs and well on the way to taking care of itself. The postwar demand for agricultural products for rehabilitation purposes will be limited to the Asiatic theater. It will not be as strong as if the war had ended all at once all over the world.

It seems likely, therefore, that the demand for farm products for rehabilitation purposes will not be so strong after the war as originally expected. The total demand, domestic plus foreign, will probably decline substantially when the fighting stops. It also seems likely that agricultural production, left to itself, will tend to remain high. The conclusion appears inescapable, therefore, that agricultural prices are likely to decline severely. But Congress has committed the WFA to support agricultural prices at 90 per cent of parity or higher, for two to three years after the end of the war.

There is no profit in discussing now whether Congress did wisely in committing the WFA to support agricultural prices at that level for that period of time. Wisely or not, the commitment was made, and the WFA has the job of carrying it through. How can the job be done?

ALTERNATIVE METHODS OF SUPPORTING PRICES AFTER THE WAR

PRODUCTION CONTROL

One method that receives a good deal of attention is production control (in this case, reduction). Reducing supplies would be one

way to support prices. Production is a concrete and tangible factor determining prices, and it lies close at home; it was used to a marked extent by industrial concerns during the severe industrial depression that began in 1929. It is not surprising, therefore, that agriculture turned to production control as a means for controlling agricultural prices in the 1930's, and it would not be surprising if production control were used again after the end of the war.

Production control would be effective with some crops. Hemp is one illustration of a drastic application of this method. The production goal for hemp for 1944–45 was reduced about 40 per cent from its expanded wartime levels of 1943–44; the goal for 1945 was reduced to zero. The production of soybeans and peanuts for oil also will need to be reduced when peacetime sources of other fats again can be drawn upon.

This method, however, has severe limitations: One limitation is that when the acreage of one crop is reduced, most of the land taken out of that crop does not lie idle; in most cases it is put into some other crop. The land that does lie idle, as in the case of summer fallow, stores up fertility. Total crop production, therefore, may not be reduced very much. It may not be reduced at all.

Effects of Acreage Control on Crop Production. This was the main reason why the production control methods that were used in the 1930's did not accomplish what they set out to do. From 1930 to 1932, just before the AAA went into effect, to 1938–40, the acreage of the basic crops was reduced, but production was very little affected, except in the case of cotton. Cotton acreage was reduced about 40 per cent, but yields per acre increased, and cotton production was reduced only about 17 per cent. Wheat production was reduced about 4 per cent; corn production was not reduced at all; tobacco production increased 12 per cent; total crop production increased 9 per cent. During these periods, the effect of the weather on yields was not a factor of importance in either direction. These data are shown in Table 1. The upward course of total agricultural production during the AAA period is shown in Figure 3 earlier in this bulletin.

The AAA probably reduced production below what it would have been if there had been no AAA, although it is difficult to prove this one way or the other; but the size of the unsalable storage stocks that accumulated by the early 1940's shows that in

TABLE 1

COTTON, WHEAT, CORN, AND TOBACCO PRODUCTION, AND INDEX OF TOTAL CROP PRODUCTION AND TOTAL AGRICULTURAL PRODUCTION, 1930–32 AND 1938–40

Year	Cotton Production	Wheat Production	Corn Production	Tobacco Production	Total Crop Production 1924–29 = 100	Total Agricultural Production 1924–29 = 100
	(000 bales)	*(000 bushels)*	*(000 bushels)*	*(000 pounds)*	*(index)*	*(index)*
1930	13,932	886,522	2,080,130	1,648,037	96	98
1931	17,097	941,540	2,575,927	1,565,088	104	102
1932	13,003	756,307	2,930,352	1,018,011	92	96
Average 1930–32	14,677	861,456	2,528,803	1,410,379	97	99
1938	11,943	919,913	2,548,753	1,385,573	105	103
1939	11,817	741,180	2,580,912	1,880,793	107	106
1940	12,566	813,305	2,462,320	1,462,080	107	110
Average 1938–40	12,109	824,799	2,530,662	1,576,149	106	106
Percentage change, 1930–32 to 1938–40	−17	−4	0	+12	+9	+7

Source: *Agricultural Statistics*, USDA, 1943.

any case production was not reduced enough to support the loan rates (the loans were a form of price floor) that were legislatively forced upon the CCC. It seems likely that that experience would be repeated if production control were undertaken again.

Acreage control may be an effective means for reducing production when prices have fallen below longtime equilibrium levels. It may work out better then than when prices are high. When prices are high, the incentive is strong for farmers to make up for reduced acreage by high yields per acre. Judging by past results, a program for reducing acreage while prices were being supported at high levels, as under existing legislation, would probably not have much effect on production, except in the case of cotton. The program might be effective if stricter control measures were enforced upon farmers; but farmers complain of regimentation as it is.

Effects of Production Control on Farm Income. The effects of the AAA upon total farm income, exclusive of benefit payments, appear to have been small. The statistics showing the total cash income from farm marketings compared with the income of industrial workers do not reveal any significant effect of the AAA upon farm income. One cannot tell from the income data shown in Figure 2 when the AAA began to reduce production and when it stopped. All that the chart shows is that changes in demand, as measured by changes in industrial employment, are by all odds the major controlling factor determining the prices of farm products. Any effect that the AAA had upon farm income, through its effect upon the total supply, was too small to show up.

The inability of the AAA to reduce total agricultural production would be sufficient to explain why the AAA did not increase total farm income above its usual relation to the income of industrial workers. But economic analysis leads to the conclusion that the AAA would not have had much effect on total farm income even if it had succeeded in reducing production. When the production of a commodity is reduced, prices rise; but the effect of the higher prices upon income is partly offset or more than offset by the reduction in production, according to whether the demand is less or more elastic than unity. The long-time elasticity of the demand for farm products probably is not far from unity in the upper part of the curve; that is, a reduction of 10 per cent in production probably would not

raise prices much more than 11 per cent.[7] The increase in price probably would not much more than offset the decrease in supply, so that total agricultural income would be little if any greater than before. Net income would be increased to some extent, because the variable costs of production would be reduced; but variable costs are small on most family farms.

The demand for food as a whole is generally believed to be less elastic than the demands for the individual foods considered separately. The partial interchangeability among foods, however, raises a question as to the accuracy of this belief. If the total production of food were reduced, and food prices rose on that account, a partial substitution of cheaper foods would be made to take the place of some of the more expensive foods. Low-income groups would probably buy less meat, butter, and eggs, and more cereals. It seems likely that total agricultural income would rise to some extent, but not as much as if "food" were a single commodity. Accordingly, reducing the production of one food would not directly increase the total income from that food, unless the demand for that food were inelastic; but it would reduce the total production of food slightly, and thus increase the prices, and probably the total incomes, of all food producers to a small extent.

The probable small increase in the total incomes of all food producers is not the sort of benefit that the "basic commodity" producers had in mind when they set out to reduce the production of their commodities. Wheat farmers did not cut their acreage in order to benefit potato farmers. If wheat farmers had been successful in reducing their production, their chief benefit from their actions would have been the reduction in their variable costs of production resulting from their reduced production. Their *net* incomes would have been increased, chiefly because their variable costs would have been reduced.

Thus, regardless of the arguments for and against production control as a matter of principle, the data show that, as a matter of fact, reducing acreage in the past has not succeeded in reducing production (except in the case of cotton); and if it had succeeded, it would have had very little effect on farm income.

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[7] A rise of 11.1 per cent in prices would be required to maintain total income at previous levels if production were reduced 10 per cent. A rise of 25 per cent would be required if production were reduced 20 per cent.

LARGE GOVERNMENT PURCHASES

Another method of supporting prices that is prominent in the minds of some administrators in the WFA is "large government purchases" running to 2 or 3 billion dollars.

Large government purchases, however, are not much more than a mirage, an illusion, even in the case of durable products. The Federal Farm Board learned that fifteen years ago, and the Commodity Credit Corporation was beginning to find it out just before the present war. Large government purchases at most are only one preliminary step, useless without other follow-up steps of a more substantial nature. Government purchases do not solve anything in themselves. It is only government purchases and *distribution outside of the regular channels of trade,* in a manner that does not affect the regular demand, that can accomplish anything.

In the case of perishable products, purchases are of no use at all unless the WFA has a means of disposing of its purchases outside of the regular channels of trade, without weakening the regular demand. It is the means of disposition that does the job, not the purchases. Purchases by themselves accomplish nothing. If they are disposed of through the normal channels of trade, they depress prices as much as if they had never been made in the first place. In any case, government disposition of its purchases is hamstrung by the existing legislation that prohibits government sale of farm products below parity prices.

The WFA could purchase durable farm products and put them into storage, perhaps for several years. This, however, would be nothing more than a stop-gap operation. It would not effect a settlement; it would only postpone it. Storage is an appropriate method for dealing with a large crop resulting from good weather, because by the laws of chance such a crop will sooner or later be followed by a small crop resulting from bad weather. The surplus supplies can then be disposed of. But storage is not an appropriate method for dealing with a reduction in demand. This is particularly true of a reduction in demand from a high point, in this case a wartime peak, to more normal levels; prices in that case are likely to remain low rather than to rise again after a few years.

The most that this storage of surpluses of durable products could be expected to do is to postpone an effective settlement until after the two or three postwar years covered by existing legislation had

elapsed. Even if this policy succeeded in this postponement, it would fill storage space so full that at the end of the period drastic readjustments in loan rates would be necessary.

The nonbasic, "proclamation" products are likely to cause immediate trouble. The problem in their case cannot be postponed by storage; it must be dealt with at once. Most of the proclamation commodities are perishable, and they can be stored for only a few days, weeks, or months (according to the commodity) before deterioration would make further storage equivalent to waste.

Such waste would be politically disastrous, for unemployment would probably exist on a small scale, if not on a large one, and the spectacle of food spoiling in government hands while unemployed workers went on short rations would be too explosive for safety. Some appear to think that all that is necessary is to be hard-boiled, to purchase enough food to support prices, and let it spoil. It is difficult to conceive of a policy which would more quickly alienate public support.

It would be possible to support the price floors by reducing the supply; but the time would be so short that this reduction would have to be a reduction of the supply of goods already produced. It would have to be, not a reduction of planting or breeding, but a destruction of crops or livestock already on the way. Aside from any purely economic rights or wrongs involved, the adverse emotional reaction that this sort of destruction involves is too strong to be ignored. The ghosts of the several million little pigs that were slaughtered in 1933 still haunt the scene, and the wisdom of repeating that performance is open to serious question.

Diversion programs could be developed, designed to remove enough of the product from the regular market to support its price at the desired level and put the diverted product to some lower use.

A separate study would need to be made of each product in order to determine the probable effectiveness of this diversion. Subsidies could be paid to finance the conversion of some corn into industrial alcohol. But there is a general aversion—and it is sound—against diverting products to lower uses if they are worth less there than in their regular use. This involves a loss to the nation, and somebody has to pay the bill.

For many products, the returns from diversion sales would be so small that the diversion would be in effect only a step or two short

of the equivalent of destruction. The most extreme illustration of this was the conversion of some eggs into tankage in early 1944. The results of experiments in the United States with the conversion of potatoes to livestock feed are not much more encouraging.

EXPORT SUBSIDIES

Export subsidies were used, particularly with wheat, as a means of supporting prices in the United States in the late 1930's.[8] They might be considered as a means of supporting prices after the present war.

Domestic consumers, however, object to export subsidies. They have definite reasons for their objections. Export subsidies reduce prices to foreign consumers and raise them to domestic consumers. Domestic consumers believe that if anybody is to be benefited by bargain sales at government expense, it should be they (the domestic consumers) rather than foreign consumers. Export subsidies appear to consumers to be a hangover of the early "surplus removal" philosophy, where plenty was regarded as a curse and the chief object was to get rid of it.

Furthermore, foreign governments do not seem to welcome the benefits that export subsidies confer upon their consumers. Their producers object to subsidized competition, and most foreign governments have passed anti-dumping legislation to prevent it. To the extent that this legislation attains its ends, it nullifies the effects of the subsidies. If the United States subsidizes wheat exports, for example, 25 cents a bushel, and foreign governments levy an additional anti-dumping tariff of 25 cents against United States wheat on that account, the net effect on prices and quantities exported is zero. The United States loses, however, because 25 cents per bushel exported is paid out by the United States and is received by the foreign governments.

Taken all around, export subsidies as they have been handled in the past do not seem to have much to recommend them.

Suggestions have been made for a different type of export subsidy, designed to improve nutrition on an international scale. It is proposed to set up an international nutrition program, something like the domestic food stamp plan, but dedicated to providing low-

[8] More accurately, in the case of wheat, they were used to reduce carryover stocks in the United States. Wheat prices were being supported by CCC loan and storage operations. Eventually, of course, anything that reduces domestic stocks raises domestic prices.

income consumers all over the globe with more adequate diets than they have had in the past. The plan would reach low-income consumers wherever they might be, and would draw on supplies from all over the world.

This is an ambitious project, and many angles would need consideration. In some of the countries where low incomes are prevalent (India, for example, and Puerto Rico) an improvement in the nutritional status of their population would shortly be followed by a decline in the death rate—particularly the infant death rate—which would again bring the standard of living of the population down to the present consumption levels and nullify the beneficial effects of the plan. A population program would need to go along with the nutritional program, and such population programs are not easy to work out and apply, nor are they likely to be accepted quickly. Problems of allocating both the contributions to the world food pool and the disbursements from it would have to be threshed out, and that, too, would take time. It is not certain how long public support for this sort of program would continue after postwar rehabilitation needs had been met. The proposed plan has great possibilities, which should be fully explored; but it is not likely to be worked out and applied on a large scale soon.

SUBSIDIZED CONSUMPTION PROGRAMS

Some price-supporting effect could be exercised through programs that would increase the demand for farm products by subsidizing their consumption.

Studies have shown that even in boom times like the present, about a quarter of the people in the United States are not getting enough of the right kinds of food.[9] Even in 1942, between one-quarter and one-third of the families and individuals in the United States had net incomes of less than $1,000 per year.[10] Families with annual incomes below $500 spent only $77.80 per person on food. Families with incomes between $500 and $1,000 spent only $104.27. Dietary

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[9] H. R. Tolley, chief of BAE, USDA hearings before a subcommittee of the Committee on Agriculture and Forestry, United States Senate, Seventy-eighth Congress, on the National Food Allotment Plan, January, 1944, p. 45. See also National Research Council, *Inadequate Diets and Nutritional Deficiencies* in the United States, Bul. 109, November, 1943, p. 46.

[10] *Civilian Spending and Saving, 1941 and 1942,* Division of Research, Consumer Income and Demand Branch, OPA, Washington, D. C., Mimeographed 1943, p. 16. See also *Family Food Consumption in the United States,* USDA Misc. Pub. No. 550, 1944, p. 3.

deficiencies of about 50 per cent in some foods are found in these groups.[11] The basic data are given in Tables 2, 3, and 4.

A program to subsidize food consumption like this would, therefore, be of some benefit to low-income consumers and to farmers, even while operating on a comparatively small scale in times of high employment such as the present. It would be of great benefit in times of low employment and low national income, when the numbers of people with incomes below the level that would purchase adequate diets would increase many times over, and when the decline in general demand would bring farm prices down.

A program for subsidizing consumption by low-income groups who otherwise would not have enough of the right foods to eat also would support farm prices. It would support farm prices in two ways. It would add to the demand for food and thus strengthen food prices directly. And it would, in addition, have a general anti-deflationary effect because it would put additional purchasing power into the hands of people with low incomes, who would add it all to the general income stream, because they would spend it all as fast as they received it. Government spending that merely ends up in people's savings has no anti-deflationary effect, but spending that keeps on circulating has the desired anti-deflationary effect. A program to subsidize food consumption, therefore, would kill two or three birds with one stone.

SUBSIDIZED FOOD CONSUMPTION PROGRAMS AFTER THE WAR

What sort of distribution programs would accomplish these results most effectively?

There is some disagreement as to the sort of food distribution program or programs that should be adopted. The various proposals cover a wide range.

The most effective program is to give everybody a job, in private industry if possible, or work on government projects if private industry is not providing enough jobs. Consumers then can buy what they want with their own money. It may be presumed, however, that as much will have been done along those lines as can be done. There is no guarantee that this will be sufficient to maintain full employment, and additional measures should be at least worked out ahead of time, ready to go into effect if needed.

At the one extreme is direct distribution of the physical food

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[11] Tolley, *op. cit.*, pp. 47–48.

TABLE 2

PER CAPITA EXPENDITURES IN DOLLARS FOR ELEVEN FOOD GROUPS BY FAMILIES AND SINGLE INDIVIDUALS (EXCLUDING MILITARY PERSONNEL AND INSTITUTIONAL RESIDENTS) BY INCOME LEVEL, UNITED STATES, 1941

Income Level per Family or Individual	Per Capita Expenditures, by Food Groups											
	Total	Meats, Poultry and Sea Food	Eggs	Butter	Other Fats and Oils	Other Dairy Products	Cereal Products	Potatoes	Other Vegetables	Fruits and Nuts	Sweets	Miscellaneous
Under $500	77.80	19.08	3.23	2.86	4.43	9.74	12.37	1.70	8.99	3.48	5.88	6.04
$500–$1,000	104.27	27.33	4.68	4.28	4.16	16.04	13.75	2.51	11.41	5.81	6.34	7.96
$1,000–$1,500	128.42	35.93	5.63	4.98	3.76	21.01	15.12	2.88	13.38	8.70	7.37	9.66
$1,500–$2,000	145.94	42.11	6.38	5.64	3.68	24.03	15.83	3.05	15.25	10.83	7.81	11.33
$2,000–$3,000	163.93	48.76	6.99	6.05	3.69	27.59	16.32	3.06	17.20	13.22	8.29	12.76
$3,000–$5,000	188.83	58.30	7.41	6.68	3.82	32.00	16.22	3.11	19.55	16.64	9.23	15.87
$5,000 and over	261.06	83.88	9.53	7.67	4.66	43.52	20.23	3.46	24.34	24.23	14.11	25.43
All levels	145.24	42.17	6.11	5.38	3.91	23.73	15.46	2.85	15.14	10.89	7.95	11.65

Source: *The National Food Situation*, BAE, USDA, July, 1942, p. 19.

TABLE 3

ESTIMATED PER CAPITA FOOD CONSUMPTION IN 1941 * AND "THE BASIC FOOD ALLOTMENT"
(FARM FAMILIES † AND SINGLE INDIVIDUALS) ‡
(Pounds per year)

Food Group	Basic Food Allotment	Income Under $500		Income $500–$1,000		Income $1,000–$1,500		Income $1,500–$2,000	
		Deficiency	Excess	Deficiency	Excess	Deficiency	Excess	Deficiency	Excess
Milk (or its equivalent)	559.0	239.0	.....	185.0	.....	140.1	.....	111.3	.....
Potatoes and sweet potatoes	208.0	98.1	.....	63.8	.....	.....	12.0	.....	15.7
Dry beans, peas, and nuts	26.0	14.6	.....	14.4	.....	9.6	.....	9.2	.....
Tomatoes and citrus fruits	78.0	50.3	.....	40.7	.....	28.4	.....	24.2	.....
Leafy green and yellow vegetables	78.0	.....	34.7	.....	42.0	.....	54.7	.....	63.9
Other vegetables and fruits	120.2	.....	83.7	.....	84.8	.....	100.0	.....	114.1
Eggs	26.0	2.4	.....	.....	3.0	.....	11.9	.....	19.0
Meat, poultry, and fish	78.0	.....	32.7	.....	40.6	.....	72.2	.....	81.5
Flour and cereals	230.8	.....	83.5	.....	65.1	.....	44.1	.....	34.3
Fats and oils	45.5	3.3	.....	.....	.7	.....	2.4	.....	2.7
Sugars, sirups, preserves	39.0	.....	53.1	.....	62.9	.....	79.5	.....	82.5

* Based on estimates of per capita consumption of major food categories by families and single individuals, *National Food Situation*, BAE, July, 1942, pp. 17 and 18.

† Persons living in families are classified according to the income of the family unit.

‡ Institutional residents and military personnel are not included.

TABLE 4

ESTIMATED PER CAPITA FOOD CONSUMPTION IN 1941* AND "THE BASIC FOOD ALLOTMENT"
(NONFARM FAMILIES† AND SINGLE INDIVIDUALS)‡
(Pounds per Year)

Food Group	Basic Food Allotment	Income Under $500		Income $500–$1,000		Income $1,000–$1,500		Income $1,500–$2,000	
		Deficiency	Excess	Deficiency	Excess	Deficiency	Excess	Deficiency	Excess
Milk (or its equivalent)	559.0	377.2		253.7		192.2		183.2	
Potatoes and sweet potatoes	208.0	104.7		68.3		71.8		70.1	
Dry beans, peas, and nuts	26.0	10.6		10.8		12.7		14.3	
Tomatoes and citrus fruits	78.0	54.6		26.3		7.4			10.6
Leafy green and yellow vegetables	78.0	39.3		23.1		14.0		3.8	
Other vegetables and fruits	120.2	22.0			27.8		65.5		100.1
Eggs	26.0	5.1			3.7		6.3		8.3
Meat, poultry, and fish	78.0		28.0		58.3		76.0		94.3
Flour and cereals	230.8		53.1	10.5		26.4		28.7	
Fats and oils	45.5	2.0		1.3		2.5		2.1	
Sugars, sirups, preserves	39.0		44.5		43.2		46.0		44.6

* Based on estimates of per capita consumption of major food categories by families and single individuals, the *National Food Situation*, BAE, July, 1942, pp. 17 and 18.

† Persons living in families are classified according to the income of the family unit.

‡ Institutional residents and military personnel are not included.

Source of tables: H. R. Tolley, *Hearings Before a Subcommittee of the Committee on Agriculture and Forestry*, United States Senate, Seventy-Eighth Congress, Second Session on S.1331 United States Government Printing Office, Washington: 1944. p. 48.

The "Basic Allotment" is based upon the recommended allowances of the National Research Council.

itself. Under this program participants would go to government depots and get food directly. With this method, the government would have complete control over the specific kinds and quantities of food distributed. The participants would have virtually no choice but to take what was given them.

The direct distribution of free food to relief clients and others has been practiced for some time in the United States. A given amount of money will go farther in direct distribution than in almost any other food distribution program, because the government spends the money for food at wholesale instead of at retail.

Direct distribution, however, has some shortcomings as well as advantages. It is difficult to get away from the breadline connotation of food depots, which are better adapted to saving people from starvation than to bringing about high-level food consumption. Direct distribution by-passes the regular distribution channels, and partly for that reason is not regarded with favor by retailers. It saves some distribution costs, but the government distribution system costs something. The overall result, two systems of distribution operating side by side—the regular private trade system for most consumers, and a low-cost government system for low-income consumers—is not a happy solution from many sociological, democratic, and political points of view.

At the other extreme is the distribution of the most liquid form of purchasing power, namely money, either as wages for work on government projects or as straight relief payments. At this extreme, the government has no control over the kinds of food and other items—shelter, etc.—for which the money is spent, and participants have complete freedom of choice in spending the money they receive.

Low-income groups spend about half of their incomes for food.[12] When they are given cash, therefore, they spend only about half of it for food. They spend the rest for housing, clothing, medical care, etc. From the point of view of administrators seeking to support the prices of farm products, therefore, this plan is only about 50 per cent efficient.

In an attempt to avoid the disadvantages of direct distribution at one extreme, and cash money for food at the other, various forms of "food money" or "food stamp" plans have been proposed, under

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[12] *Family Food Consumption in the United States*, USDA Misc. pub. 550, 1944, p. 35.

which the government distributes stamps good for the purchase of food only.

THE FOOD STAMP PLAN

One of these plans, the Food Stamp Plan, was operated on a considerable scale in the United States from 1939 to 1943. As much as 112 million dollars was spent on this plan in the peak year 1941–42. This plan used two colors of stamps—orange stamps that could be used for buying any foods, and blue stamps that could be used only for buying certain foods that were placed on a "surplus" list.

BLUE STAMP REQUIREMENT

The blue stamps and surplus lists appeared to give the government some control over the foods that could be bought by the participants; the free blue stamps could be spent only for the foods on the surplus list. Actually, this control was more apparent than real. Placing foods on the surplus list increased their consumption only if they were foods which the participant otherwise would not have bought. If the surplus foods were foods that the participant would have bought with his own money anyway, or with his orange stamp money, then placing the foods on the surplus list had no effect upon their consumption. In that case, there might as well be no surplus list at all.

The effectiveness of the surplus list, therefore, depended upon the number and kinds of foods placed on it. During the first year or two of the operation of the Food Stamp Plan, the surplus list included foods that constituted from one-fifth to one-third of the recipients' normal expenditures for food. Most of these foods would have been bought anyway. Investigation showed that the blue stamp and surplus list provisions had very little effect in directing purchases to the goods placed on the surplus list.

ORANGE STAMP REQUIREMENT

The orange stamp requirement of the Food Stamp Plan apparently was effective in increasing the quantity of food consumed by the participants. In order to obtain free blue stamps, participants were required to buy orange stamps in quantities approximately equal to their previous expenditures for food. They would then be given blue stamps equal to half the value of the orange stamps. If these provisions were completely effective, the participants' food consumption would increase 50 per cent.

In actual operation, the plan was only about 75 per cent effective. That is to say, for every dollar the government spent on the plan (exclusive of administrative costs) the participants increased their consumption of food by 75 cents.[13] If cash had been distributed with no strings attached instead of food stamps, about 50 cents of each dollar would have been spent for food.

Apparently, therefore, the Food Stamp Plan (1) did not have much effect in directing purchases to the foods on the surplus list, but (2) did increase the consumption of food by participants about 50 per cent more (75 per cent compared with 50) than if the government had distributed cash instead of food stamps. In addition, the food stamps may have focused low-income consumers' attention on nutritional needs more than a distribution of cash would have done.

The fact that the blue-stamp, surplus-list provisions of the Food Stamp Plan were not very effective in directing purchases to the foods on the surplus list may be more of a recommendation for the plan than against it. The whole idea of surplus-removal—removal of surpluses of whatever foods happen to be over-produced, whether they are needed in the diet or not—is inconsistent with the conception of a program designed to improve the nutritional status of low-income groups. A nutritional program may call for more protective foods and less cereals in the diet of the participants, but a surplus of wheat may be produced. A surplus-removal program in that case would further unbalance rather than balance diets, and would tend to perpetuate that unbalance by not discouraging the continued over-production of cereals. It would seem that a permanent program would have to be a nutritional program, based primarily on nutritional needs.

The Food Stamp Plan was about 50 per cent more effective in increasing food consumption by low income groups, than an equivalent amount of cash. Is this higher "efficiency" of food stamps compared with cash desirable?

The principle of equalizing marginal returns to expenditures on different food and nonfood items is involved here. The Food Stamp Plan did not conform to this principle. It increased food consumption by low income groups, but attempted to hold their expenditures on shelter, medical care, etc., constant. Thus a participant might need dental care as much as he needs food. Under the Food Stamp Plan,

[13] N. L. Gold, A. C. Hoffman, and F. V. Waugh, *Economic Analysis of the Food Stamp Plan*, USDA, 1940, p. 44.

his food needs would be fully satisfied, but his needs for dental treatment would remain as unsatisfied as ever.

This can hardly be considered a shortcoming of any food plan—that it does not help to correct deficiencies in nonfood items such as shelter and medical care. It does, however, raise the question whether it is desirable to have a food plan, a shelter plan, a medical care plan, etc., or to give money in the first place that would be spent on all of these needs as the recipient desired. The question will be considered further at a later point.

THE AIKEN BASIC FOOD ALLOTMENT PLAN

Another proposal reached the stage of being drafted as a Senate bill, S. 1331, Seventy-eighth Congress, first session, by Senator Aiken, early in 1944. The purpose of this bill was to insure "that the means of obtaining sufficient food for an adequate diet be placed so far as possible within the reach of every person in the nation."[14]

This bill first set up a "basic food allotment" per person per week. This allotment is given in Table 5. Each participant then would be

TABLE 5

BASIC FOOD ALLOTMENT PER PERSON PER WEEK

Milk, or its equivalent in cheese, evaporated milk, or dry milk, 5 quarts
Potatoes and sweet potatoes, 4 pounds
Dry beans, peas, and nuts, 8 ounces
Tomatoes and citrus fruits, 1 pound 8 ounces
Leafy, green, or yellow vegetables, such as green cabbage, kale, snap beans, and carrots, 1 pound 8 ounces
Other vegetables and fruits, 2 pounds 5 ounces
Eggs, 4 (number of eggs)
Meat, poultry, and fish, 1 pound 8 ounces
Flour and cereals, 4 pounds 7 ounces
Fats and oils, 14 ounces
Sugars, sirups, and preserves, 12 ounces

given "food-allotment coupons of a value which, when added to the normal expenditures for households of the same size and income classification . . . shall equal the reasonable cost of the basic food allotment." These coupons would be used for the purchase of food only through the normal channels of trade.

The cost of the basic food allotment for a family of four for a year at 1943 prices was estimated to be $646. The total cost of bringing

[14] Section 1. See also the hearings on this bill, January 14–26, 1944.

the entire population up to the level of the basic food allotment was estimated as 3 billion dollars per year.

The authors of this bill may have believed that if a family of four previously had been spending only half enough money to buy a basic allotment of food, and was given enough coupons to buy the other half, that the family would then buy the other half of the basic allotment in addition to the first half. Thus it would get a full basic allotment of food.

Actually, of course, this belief would not be fulfilled. Most families would spend the food coupons all right, but they would probably not continue to spend as much of their own money for food as before. They would be more likely to spend about half as much of their own money on food as before, and spend the other half on other things—shelter, clothes, etc. Since low-income consumers spend about half of their income for food, an addition to their income would be spent in about the same proportions. Thus only about half the money appropriated for the plan would be spent for food; the other half would be spent for other things. In addition, it is not likely that the foods listed in the basic allotment would be purchased in the quantities specified. No doubt, in many cases some of them would not be purchased at all. The plan would make no attempt to expand the consumption of particular surplus foods.

As indicated in the discussion of other plans above, these two features of the Aiken Plan are not necessarily shortcomings. They may be regarded from some points of view as advantages. But they need to be clearly recognized from the outset and taken into account in the way the plan would be set up and operated.

THE FOOD PRICE DISCOUNT PLAN

Another proposal, somewhat similar to the Aiken Plan, has been called the Food Price Discount Plan.[15] Under this plan, each participant would buy a book of food stamps from a local issuing office each week or month, sufficient in value to provide him with a good adequate diet. The participant would be able to buy this book of food stamps at a discount below its face value. This discount would vary inversely with the size of his income and directly with the number of his family.

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[15] Willard Cochrane, *Achieving a High Level of Food Consumption,* unpublished report, Division of Program Analysis and Development, BAE, November, 1944, and Joseph D. Coppock, *Special Purpose Money: The Food Stamp Plan and Its Possibilities,* unpublished manuscript, January, 1943.

Like the Aiken Plan, this plan would make no attempt to expand the consumption of surplus foods. Along with each book would go a statement showing the quantities of each major food group required to provide a good adequate diet. The recipient would be free to spend his food money for whatever foods he wished, at regular retail stores, but the statement with each food would give him nutritional information which he could use if he wished.

This plan differs from the Aiken Plan in one important respect. In principle, it solves the problem of participants substituting food money for some of their own money that they previously spent for food. The Aiken bill would make up in food stamps the difference between what the participant had been spending for food and what he needed to spend for an adequate diet; but it would leave him free to spend that much less of his own money on food. Thus it would in effect leave him free to spend all of his food money for other things than food. The Food Price Discount Plan would prevent that. The participant would pay the amount of money that he had previously been spending for food, as the price for the food stamps that would buy him an adequate diet. Thus he would have food stamps enough to buy an adequate diet, but he would not be able to spend more money on other things than food than before. The payment for the food stamps would have taken all that money away from him. All the food money, therefore, would be spent for food.

Some economists in the WFA and USDA are considering another plan for reducing substitution. This plan is similar to the Food Price Discount Plan, but it is perhaps simpler to administer. Books of food stamps would be sold, each book having a value equal to the cost of an adequate diet, as in the food price discount plan. Each purchaser would be charged some uniform percentage of his income—say 40 per cent—for his family's books. (The lowest income groups spend roughly 50 per cent of their incomes for food.)

This plan would be most attractive to the people with the lowest incomes, whose diets are the poorest. Among those people, it would benefit most those with the larger families, whose diets are the poorest of all. The man with six in his family would get six books for 40 per cent of his income. The man with three in his family would get only three books. Groups higher in the income scale would find the plan less attractive, up to the level at which 40 per cent of the income would be equal to the value of the books. At that level, and above it, there would be no reason for participation.

The suggestion has been made that a small proportion of the stamps—say 10 per cent—could be surplus food stamps like the blue stamps of the old stamp plan, good only for specific surplus foods. It seems likely, however, that these stamps would be as ineffective as the blue stamps were, unless they were greater in value than the amounts that otherwise would be spent for the surplus food or foods. If they were less in value than this, the surplus stamp purchases would merely replace purchases that otherwise would have been made with ordinary stamps, and the surplus stamps would be completely ineffective.

The surplus list, therefore, would need to be kept very short, perhaps only one or two items in length. Otherwise, enough of the stamp book would be earmarked for larger than normal quantities of surplus foods to make it unattractive to prospective participants, and participation would be low. And the surplus food or foods would need to be those that were also needed in greater quantities in the diet. The effectiveness of surplus stamps is inherently very limited.

The administrative difficulties involved in the operation of these plans would be considerable. Each participant's family and income status would have to be determined, and adjustments made for any garden produce that he raised. The participants would have about the same difficulty in paying for their food stamps that they previously had in paying for their groceries.

All three plans would have one shortcoming from a nutritional point of view. They all speak of providing an adequate diet; they all list the kinds and quantities of foods that make up an adequate diet; and they all provide enough purchasing power to buy an adequate diet. But none carries through to the point of insuring that the purchasing power will actually be spent for the particular foods that make up an adequate diet. The purchasing power is merely food money—money that can be spent for food. No provision is made to insure that the food money will be spent for the adequate diet that is in the planners' minds. The participants might buy more expensive foods than before, but they might not be much more nutritious foods.

The remedy for this shortcoming is nutritional education, rather than some form of coercion. This is considered in the next section.

THE SCHOOL LUNCH PROGRAM

The Aiken Plan or the Food Price Discount Plan would largely

remedy dietary deficiencies insofar as they result from inadequate consumers' income. Neither, however, would deal very adequately with the problem of dietary deficiencies resulting from inadequate consumer education in nutrition. Many consumers with adequate incomes might continue to live on poor diets because they did not know enough about nutrition to buy better ones.

This could be remedied to some extent by various forms of adult education. Both the Aiken bill and the Food Price Discount Plan provide for nutritional educational activities to go along with the food stamps. A long-time attack on the problem could be made by putting into effect a nationwide Free School Lunch Program. Children could learn by experience, and fix their learning by habit, if they were served a substantial high-nutrition lunch at school every day, free of charge to all children alike.

Education in the United States is locally administered, with a minimum of overhead supervision. The school lunches could be handled similarly, on a voluntary basis. The federal government would provide the food, or the money to buy the food, and some advisory supervision, but the program would be administered locally like other educational matters.

The School Lunch Program has been in operation on a small scale since 1939. An appropriation of 50 million dollars was made for the 1943–44 fiscal year, and renewed for the 1944–45 fiscal year.

This appropriation provides for reimbursing schools for only 50 to 60 per cent of the cost of the food going into the lunches, and requires that all children who are able to pay for the lunches should do so. The proposal that goes along with the Food Price Discount Plan recommends that the federal government defray all the cost of the food going into the free lunches.[16] It also recommends that the lunches be free to all children, so that poor children will be treated the same as well-to-do children. It further recommends that kitchen and lunch-room facilities be constructed in schools, under a federal public works program.[17]

The sort of school lunch that is envisioned in this proposal would provide almost half the total daily nutritional requirements of the growing child, except for calories, where the proportion would be

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[16] Willard Cochrane, *op. cit.*

[17] It would be desirable to expand the application of this sort of plan to pre-school children. But the administrative difficulties involved in reaching pre-school children appear insuperable.

about one-third. It is estimated that at 1943 retail food price levels, if three-quarters of the number of children from six through nineteen years that attended school in 1940 participated, the food cost of the plan would amount to about 830 million dollars a year. The cost of building and operating the facilities would be an additional item. In round numbers, the total cost to the federal government would be put at nearly 1 billion dollars a year.

The Food Price Discount Plan would give participants a great deal of latitude in their choice of food; it stops only one step short of the most liquid form of assistance, namely money. The school lunch plan lies close to the other extreme; it is a form of direct distribution, and local boards specify exactly what foods and how much of them the participants receive.

Why is the policy of free choice followed in the one case and the policy of exact specification followed in the other?

The answer is that children are different from adults; they cannot be expected to know much about nutrition. They have to be given the foods that are good for them. This direct donation of food is the easier because the children are all in one place (school) and if the lunches are given free to all of them, one of the objections to direct distribution—the stigma of charity status—is overcome.

EFFECTS ON FARM INCOME

How much would full scale nutritional programs of the kind described above increase farm income?

It was estimated in 1944 that a full scale food stamp plan would cost up to 3 billion dollars a year. Perhaps about 2 billion dollars a year would actually be appropriated. The free school lunch program would cost nearly 1 billion, about four-fifths of which would go for food. If both plans were in operation at the same time, about a third of the children in the school lunch program (the low-income third) would belong to the families that would also be participating in the food stamp program. Those children would eat about half of the food consumed by those families. The cost of the food stamp program, therefore, would be reduced by about one-sixth of the food cost of the school lunch program—by a little more than 100 million dollars. The total cost of the two programs would be between 2 and 3 billion dollars.

Would farm income be increased by this amount?

Some observers have maintained that distribution programs of

this sort increase farm incomes indirectly more than they increase them directly (in this case, more than the 2 to 3 billion dollars specified above). They believe that the programs divert part of the total supply of food from well-to-do consumers to low income consumers. This diversion reduces supplies to well-to-do consumers; and being well-to-do, these consumers bid up prices rather than go without. If their demand for food is inelastic, they will pay out more total money for their food, even though they get less food for their money than they did before.

This position seems reasonable, but it is difficult to prove it or disprove it statistically. It is more than difficult—it is clearly impossible—to go further and measure the extent to which farm income is increased by this indirect effect.

Another factor works in the opposite direction. It reduces the direct and indirect effects of distribution programs on United States farm income. The increase in farm income resulting from the programs does not all go to farmers in the United States. This is true of other agricultural price-raising programs as well as of distribution programs. To the extent that we import or export farm products, some of the increase in farm income goes to farmers in foreign countries. If a food distribution program increases the demand for bananas, for example, and the price of bananas rises, that benefit goes to foreign producers, not domestic producers.[18] We raise no bananas in the United States. Similarly, if a program increases the demand for wheat, that raises the price of wheat all over the world, not just in the United States. While the United States remains on an export basis, the price of wheat is a world price, not a United States price. The benefit of a rise in the price of wheat, therefore, goes to foreign as well as domestic wheat producers. The same thing is true of cotton.

Another factor also operates to reduce the effects of distribution programs on domestic farm income. Some of the increase in the amounts spent for food goes to distributors—a small share at first before distributors' margins have time to increase much in dollars and cents, and a larger share with the passage of time. Eventually,

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[18] If the domestic demand for bananas is elastic, some of the benefit goes to domestic producers; for a rise in the price of bananas, curtailing their domestic consumption, leaves consumers more money to spend for other things. If, however, the demand for bananas is inelastic, consumers have less money left to spend for other things.

this share would amount to about half of the consumer's dollar—the normal share that goes to the distributor.

Finally, the increase in farm income resulting from the program would tend to increase agricultural production to some extent. Only about half of the retail value of this increase in agricultural production would be added to farm income. And if the demand for food were inelastic, the decline in price resulting from the increase in production would further reduce the increase in farm income.

What then would be the net effect of a full-scale nutritional program on farm income?

It was estimated above that the total cost of the program would be 2 to 3 billion dollars. Depending upon the particular plans used, from one-half to three-quarters of this amount would represent direct net additions to the demand for food (the rest would replace part of the recipients' own money that they previously spent for food). The programs would therefore add directly about 2 billion dollars to the total demand for food in the United States. Farm income would be increased by about half of this amount—that is, by about 1 billion dollars. This is about 10 per cent of the prewar (1935–39) farm income of 10 billion dollars.

SUBSIDIES TO PROCESSORS

Even with distribution programs amounting to 2 or 3 billion dollars in effect, it is not certain that agricultural prices would remain above 90 per cent of parity after the war. Agricultural prices might stay above 90 per cent of parity if full employment is maintained, and total national income declines only slightly, say to 140 billion dollars. But they probably would not remain above 90 per cent of parity if national income declines very far. In 1943, consumers spent between 25 and 30 billion dollars for food.[19] Distribution programs amounting to 2 or 3 billion dollars would add only about 10 per cent to the total demand for food. If the total demand declined more than that, on account of a decline in employment and national income, agricultural prices would probably fall below 90 per cent of parity. Additional measures would then be required.

One possibility would be to increase the demand for food by all groups, high and medium income as well as low-income groups. This could be done by subsidizing the processors of farm products (or increasing the existing subsidies, such as those that are now

[19] *Survey of Current Business.* USDC, April, 1944, p. 8.

being paid to processors of meat and butter) to enable them to cut prices to consumers (while still paying the support prices to producers) enough to keep all the product moving into consumption. The existing subsidy of $1.30 per 100 pounds on hogs, for example, could be increased to $2.00, $3.00, or whatever figure was necessary to move the product. This sort of program would run into large additional sums of money—2 or 3 billion dollars, perhaps; but carried to sufficient lengths, it could do the job.

POSSIBLE REVISIONS OF EXISTING LEGISLATION

No one of the alternatives considered above would enable the WFA satisfactorily to carry its price-support commitments through. All of them put together might be able to do the job, but they would require expenditures running into several billions of dollars.

If they succeeded, their success would create a new problem. It would tend to perpetuate the over-expansion of production of farm products relative to the demand, and thus create a new problem of supporting prices after the two- to three-year period specified in the existing legislation had expired. By that time the nation might not be willing to continue further the expensive methods of supporting agricultural prices that it had supported as a war measure. The decline in prices that would then take place might be worse than if no supports had been used in the first place.

Accordingly, revisions of the existing price-support legislation may be necessary. And if they are necessary, the earlier they are considered, the better. Several suggestions of this sort are considered below.

DEFICIENCY PAYMENTS

The intent of the price-support legislation could be carried through, even if prices were not kept at the specified levels, by making up to farmers the difference between the prices that they had been promised for their products, and the prices that they actually received in the market.[20] If 90 per cent of parity for butterfat were 45 cents per pound, but all that a farmer got in the open market when he sold his butterfat was 35 cents, the WFA would send him a check for 10 cents per pound for as many pounds of butterfat as he sold. The farmer would then in effect get 45 cents

[20] T. W. Schultz, "Two Conditions Necessary for Economic Progress in Agriculture." *Canadian Journal of Economics and Political Science*, Vol. 10, No. 3, August, 1944.

per pound for his butterfat, the same as if the WFA had been able to support the price at that figure.

This course of action is essentially the same as expanding the subsidy payments at present being made to processors and presumably being passed on to farmers. It is superior to that method in insuring that farmers actually get all of the subsidy; it is inferior in that several million small accounts between individual farmers and the WFA would have to be certified by some agency such as the local AAA committees, and several million small checks made out to cover the accounts. Otherwise the two plans are essentially the same.

Some administrative problems would arise in the operation of this "make-up-the-difference" plan. In the case of corn, about 20 per cent of the crop is sold as cash grain, but the bulk of the crop is fed to livestock on the farm where it was grown. If the price of corn fell below the support level, the WFA would make up the difference. But how much corn would it include in the plan? Would it make up the difference on the corn that was fed on the farm, as well as on the corn that was sold off the farm? If not, farmers could set up dummy partnerships or other arrangements on their farms, by which each farmer would sell all of his corn to his hired man, who would then feed it to the livestock.

If these difficulties were solved, and the difference between the promised prices and the actual market prices were made up in full, that would perpetuate the over-expansion of agricultural production the same as if prices were kept at the promised levels. If that happened it would be necessary to provide that after the end of the war the percentage of parity should be lowered gradually until it reached the level at which production and consumption again came into balance.

PRICE SUPPORTS FOR INDIVIDUAL BASIC QUANTITIES ONLY

A different type of revision might be considered. The price support could be made to apply, not to all the crop produced, but only to some basic quantity or percentage of the crop.

Supporting prices at the levels required by the present legislation would induce farmers to continue the existing wartime expansion in agricultural production past the time when that large production would be required. One way to head off this continued over-expansion would be to apply the price-supports only to the

production that could be sold at the support prices; the rest would then be sold for what it would bring on the open market.

If this were done, how could the amount of that production (to be sold at support prices) be determined, and how could the prices for that production be supported at those levels?

The quantity that could be sold at the support price level could be estimated in advance, on the basis of the estimated strength of the demand during the price-support period. This estimate of the demand would include not only the ordinary private demand but also the governmental demand for its distribution programs. This government demand would increase when the private demand decreased (distribution programs would expand when employment declined and more consumer's incomes fell below the minimum nutritional level). Thus, the total demand would be more stable, and therefore easier to forecast, than if no government distribution programs were in effect.

In actual practice, the whole crop would be sold at the open market price, whatever that might be. The WFA would then pay the difference between that price and the support price on the quantity that could have been sold at the support price. Thus, the plan ends up similar to the deficiency payments or subsidy plans considered earlier, but applies those payments or subsidies only to the basic quantities of the crop that could be sold at the announced support price levels.

Thus, if 70 million hogs were all that could be sold at the support price of $12.50, but 80 million were produced, and sold at $9.50, the WFA would pay $3.00 on the 70 million hogs, thus in effect bringing their price up to the support level of $12.50.

This $3.00 would need to be allotted to hog producers in some equitable fashion. This could be done by paying each hog producer $3.00 on 70/80 of the number of hogs he sold (1) during the first year the plan went into effect, or (2) during the last year before the plan went into effect.[21] In either case, individual base quantities would need to be established.

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[21] Under the first alternative, hog producers would base their decision as to how many hogs they would produce upon their estimate of the average price they would receive for their hogs (including the $3.00 as part of the price on seven-eighths of their hogs, although at that time the fraction would be unknown); that average price would be the same no matter how many or how few hogs any one farmer produced. Under the second plan, producers would act on their estimate of the open market price alone. This price would exert a strong influence on individual (and therefore total) production, for it would be a marginal price. In this case, the average price received by a producer would vary inversely with his production.

If these individual bases were historically determined, they would have a tendency to freeze production patterns. The bases would be determined by the size and type of farm, and that would squeeze individual operators' diverse abilities into one uniform strait jacket. Neither of these situations would be desirable. This is the same sort of problem that existed with production control programs. Working out a solution for this problem of determining bases would require close cooperation with farm management research and action agencies.

TOTAL INCOME SUPPORT

A simpler plan would guarantee producers as a group the same *total income* they would receive from the basic quantity sold at the support price, no matter how much or how little was produced. It would guarantee this income to the group as a whole, not to each individual producer.

This program develops further a proposal made in another context. The original Agricultural Adjustment Act of 1938 provided for corn, not a fixed loan rate, but a schedule of rates varying inversely with the size of the crop. More recently, the suggestion has been made that a similar sort of schedule be used with wheat and cotton, rather than a fixed loan rate. The loan rates in this schedule would vary inversely and proportionally with the size of the crop. These varying loan rates would have two advantages over the present fixed loan rates: (1) They would stabilize incomes rather than prices, and (2) they would expedite the movement of large crops into consumption.[22]

This idea has been carried a step farther, combined with certain features of the basic-quantity plan described in the preceding section, and applied to the post-war situation.[23] Again, hogs may be used as an example. The basic quantity—say, 70 million hogs—that could be sold at the support price would be announced in advance. The support price, however, would be announced not merely as a single figure of $12.50, as at present, but as a schedule of prices that varied inversely and proportionally with the number of hogs

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[22] For a more detailed account, see *The Coordination of Wheat and Corn Price Controls*, Iowa Agr. Exp. Sta. Res. Bul. 330, June, 1944, by the present author.

[23] F. V. Waugh, chief, Program Appraisal Branch, OD, in consultation with some of his staff, developed the broad outline of this plan in July, 1944.

produced, such that the total income from the sale of hogs would remain the same as from 70 million hogs at $12.50, no matter how many or how few hogs were produced. An illustrative schedule of this sort is shown in Table 6. The average weight of hogs assumed is 250 pounds.

TABLE 6

SCHEDULE OF PRICE FLOORS FOR DIFFERENT QUANTITIES OF HOGS PRODUCED

Quantity Head	Produced Pounds	Price Floors per 100 Lbs.	Total Incomes in Millions	Actual Market Prices
40	10,000	$21.87	$2,187	
50	12,500	17.50	2,187	$18.90
60	15,000	14.58	2,187	15.70
70	17,500	12.50	2,187	12.50
80	20,000	10.94	2,187	9.30
90	22,500	9.72	2,187	6.00
100	25,000	8.75	2,187	

This plan would require no individual bases, accounts, or checks. It would leave each producer free to produce as many or as few hogs as he wished. It would guarantee hog producers the same income that they would get from the basic quantity of hogs at the support price, no matter how many hogs were produced. But it would leave prices free to move to whatever levels would be required to move all the product into consumption.

SOME DIFFICULTIES, AND PARTIAL SOLUTIONS

Some technical difficulties would be involved in the operation of this plan.

1. *The demand for some products is less elastic than unity.* The elasticity of the demand for hogs at the farm is about 0.65. Thus, if production were greater than the basic quantity (70 million head assumed above), the price would fall more than proportionally to the increase in quantity. The difference between the open market prices and the price that would keep total income constant would increase as production increased, because the demand curve is straight but the constant-income curve is curved and rises farther above the demand curve as production increases. This is shown[24] in Figure 5.

[24] The straight line in this chart is based upon a statistical analysis of the nature of the demand curve for hogs in the United States, published in Agricultural Price Analysis, Iowa State College Press, pp. 268–69, 1941.

This means that the WFA would need to step in and make substantial purchases equal to the horizontal distance between the two lines shown in the lower part of Figure 5, in order to keep the price

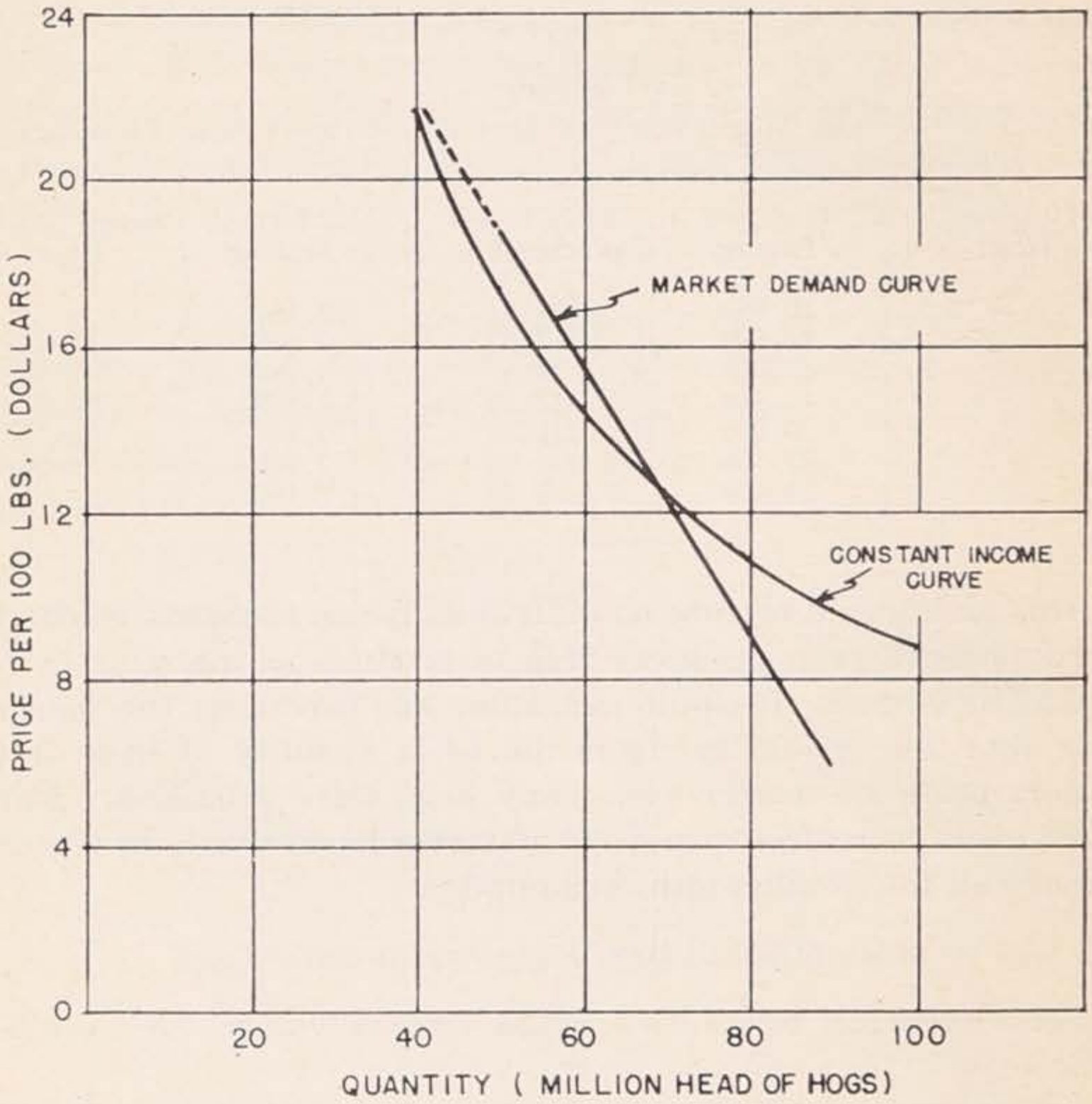

FIG. 5. Market demand curve for hogs, and constant-income curve.

up to the constant income level, if production exceeded the basic quantity. The limitations of this sort of purchase program have been pointed out above. The WFA could use some of the meat it purchased as part of the food for distribution programs for low-income groups. But it might have difficulty in disposing of all of it.

Curiously enough, the opposite situation would exist only on a small scale if production fell below the basic quantity. Figure 5 shows that to the left of the basic quantity, the market demand

curve and the constant income curve lie comparatively close together.[25]

The elasticity of the demand for potatoes is about 0.5, and the demand curve has a concave curvature on arithmetic paper. The situation for potatoes is somewhat similar to the situation for hogs, except that the two curves (the market curve and the constant income curve) do not come so close together in the upper left-hand part of the chart.

2. *"Crops" that are continuously produced.* Additional problems are encountered in the case of crops or products that are produced continuously throughout the season. What is the butter "crop" season? When does it begin and end? When should the loan or support price be announced, how frequently should it be announced, and how far should it extend into the future?

The butter price-support schedule could be put on a monthly basis rather than an annual basis. That would require either setting up a series of monthly price schedules, each in turn announced about a year in advance, or else announcing a fixed schedule for the calendar (or other) year and basing the price support afresh each month in the production that month.

In any case, it would be impossible to tell until the end of the monthly or annual "season" how big the "crop" was. That means that the size of the "crop" would have to be forecast in advance.

In the case of most crops, the size of the crop is estimated just before harvest. That estimate can be used as the basis for the loan or support price for the crop, and the loan rate or price can be announced before the crop begins to move.

Some crops, however, are harvested over a wide area, and the harvest begins in some parts of the area earlier than in others. Early, intermediate, and late potatoes are one example; wheat is another. In these cases, the crop starts to move to market from one part of the area before the crop in other parts is ripe. Wheat harvesting starts in the southwestern states in June, while the spring wheat crop in the northwestern states is still green. In cases like

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[25] This chart illustrates the general statement made earlier in the report, that reducing supplies below average increases gross income very little, if at all. In the case of the curve shown for hogs, the maximum increase in income resulting from a decrease of 17 per cent in production would be only 4 per cent. The long-run curve would be more elastic than the short-run curve shown; in the long run, it probably would be impossible to increase total income at all by reducing production.

this, either the crops in the different areas have to be handled as different crops, with different loan rates or support prices, or estimates of the size of the crop have to be made considerably in advance of harvest time for the crop in the later areas.[26]

That forecasting could be done reasonably accurately on a monthly basis (the estimate for a month being made just before the month began) in the case of butter. It would be more difficult in the case of hogs, because hog receipts fluctuate from month to month in a manner that is difficult to forecast. Perhaps hogs would have to be handled on an annual or semi-annual basis. The June pig survey estimates the number of pigs farrowed the previous spring; those pigs go to market during the first part of the marketing year. The survey also estimates the number of sows bred (or to be bred) for the fall crop, which goes to market during the latter part of the marketing year. These surveys have a record of high accuracy, seldom differing from the actual marketings by more than 5 per cent. The estimate for the crop year could be broken down by months, and purchases by the WFA could be concentrated mostly in any months when hog runs were higher than forecast.

In order to be most effective, the price floor or price schedule should be announced before breeding or seeding time. This would mean that the schedule of floor prices for the hog marketing year October, 1946, to September, 1947, would need to be announced before November and December, 1945, when sows are bred for the 1946 spring crop. Looking at it the other way around, it would be necessary early in November, 1945, to announce the schedule which would apply during the hog marketing year from October, 1946, to September, 1947, up to twenty-two months ahead.

It is very difficult to forecast the demand for hogs that far ahead. It would be better to split the hog marketing year into two parts, and handle the spring and fall crops separately. This would reduce the length of time for which demand would have to be forecast from twenty-two months to sixteen, and thus reduce the possible error in the forecast. The remaining error, however, might still be very large. The effects of this error could be reduced by announcing floors at say 90 per cent of the expected level of prices, to allow a 10 per cent leeway.

3. *A price schedule might not be acceptable.* Producers might

[26] *The Coordination of Wheat and Corn Price Controls,* Iowa State College Res. Bul. 330, June, 1944, by the present author.

not be willing to accept a price floor schedule in place of a single price floor. They could well object that they would be unable to forecast how much would be produced in response to the schedule, and therefore that they would be unable to forecast what the price would be when they came to sell their product. The price schedule system would in fact require a considerably expanded "outlook" program to go along with it.

The schedule system would do more than quantify the price outlook. In announcing a schedule of price floors, the WFA would be in effect fixing the demand schedule. This would constitute a substantial departure from the free competitive market. But it is difficult for the WFA to go further and fix the supply schedule, for that varies unpredictably with variations in the weather.

4. *Disposition of governmental purchases.* The gap between the quantities that could be sold at the given schedule of prices and the actual market prices (the horizontal difference between the straight and curved lines in the lower part of Figure 5) would have to be bridged by government purchases. What disposition could the government then make of its supplies?

This problem would have to be attacked on several fronts. Some of the purchases could be disposed of through the distribution programs that would be in effect. This channel, however, has its limitations, as shown earlier. The distribution programs would be nutritional programs, and increased quantities of the purchased goods might not be needed; at least, the increase in the quantities needed might not be very large.

Another channel of disposition would be the government's armed forces. It appears likely that a substantial skeleton armed force may be kept for some time after the war is over, perhaps augmented by a succession of trainees for brief periods for each group of trainees. Here also nutritional considerations would limit the use of surplus foods on a very large scale.

Nationwide sales drives could expand the sales on the regular domestic market to some extent. Such programs already have accomplished a good deal upon occasion in the past, and might do more in the future.

Finally, subsidies or deficiency payments (which amount to the same thing) might have to be relied upon as a last resort. If it proved impossible to hold prices to the levels announced in the schedule, subsidies or deficiency payments could be paid to make up the difference. Those payments would then gradually be tapered off.