A STUDY OF THE COMMODITY CREDIT CORPORATION

By

Edward Scott Cates, B. A.

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Wilson Gee, May 15, 1950

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CHAPTER I

HISTORICAL BACKGROUND AND EVOLUTION

1. Introduction

Although the Commodity Credit Corporation was organized just a little over fifteen years ago, the causes of its evolution and the problems which were to be solved, to some extent, by its emergence arose during the period following the first World War. It is generally recognized that during this period agriculture witnessed a period of widespread depression.

The increased demands for food and fiber brought about by the war resulted in high prices for agricultural products. The period of rising prices brought the farmers exceptional prosperity for the time. Rising costs lagged behind rising prices, and large profits were made. Land values rose, and mortgage debts previously incurred became less burdensome. But in this period of prosperity was a seed of depression. It overstimulated production, and in agriculture, especially, it has always been easier to expand than contract. The increased credit margin tempted many farmers to buy new farms at high prices or to expand the existing farms which they owned. It encouraged the breaking up of new lands, the planting of orchards and vineyards, the building up of livestock herds and flocks.

After the war, the decline in the general level of prices was a severe blow to the farmer. Prices declined faster than costs. Farm values declined, but not mortgages. In addition, the decline in Europe's need of imports of agricultural products was accompanied by increased output in Canada, Argentina, and Australia. The per capita domestic consumption for many products which had been declining for several years, was intensified. The substitution of the automobile, the truck, and the tractor reduced the demand for horses, a farm product, and for horse feed. The restriction of immigration and the higher level of incomes after the war, made a reduction in per capita use of certain staple food products and an increased use of sugar, fruits, and vegetables, of which some are produced abroad, some on truck farms near the city, and only part by organized agriculture. The war demands for cotton ended, while the effects of the war retarded the recovery of European textile markets, and the increased use of silk and rayon competed with cotton.

Along with these factors was the increase in efficiency of crop and livestock production. This increased efficiency made possible larger production per farmer and thus tended toward overproduction and depressed prices.

The result of such developments was a state of overproduction coupled with a period of low prices for agricultural products -- a period of disparity between the prices the farmer had to pay for the products he bought and the prices he received for his own products.

This status of the farmer soon brought pleas for relief. Between 1920 and 1924 several important measures affecting agriculture were passed. In 1921 the War Finance Corporation was authorized to aid in the financing of exports of agricultural and other products. In June of the same year the Emergency Tariff Act became law, and in August the Packer and Stockyards Act, and the Grain Futures Act were passed. In 1922 the Capper-Volstead Act and the Tariff Act of 1922, which raised the tariff on many agricultural commodities, were passed. In 1923 the Agricultural Credit Act came into being. In 1925 the Purnell Act became law and in 1926 an act providing for a division of cooperative marketing in the United States Department of Agriculture was passed.

Important as these laws were to agriculture, they were not considered adequate by those who advocated surplus and price control measures. Legislation[1] which was advanced in the hope of obtaining a solution to this problem was twice vetoed by President Coolidge during the

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1. The McNary Haugen Plan; vetoed in 1927 and again in 1928.

1920's. It was not until 1929, with the passage of the Agricultural Marketing Act, that Congress and the President were able to agree on a plan for amelioration of the problem. This act, which created the Federal Farm Board, stated:

> That it is hereby declared to be the policy Of Congress to promote the effective merchandizing of agricultural commodities in interstate and foreign commerce, so that the industry of agriculture will be placed on a basis of economic equality with other industries, and to that end to protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural commodities and their food products --
>
> (1) by minimizing speculation;
>
> (2) by preventing inefficient and wasteful methods of distribution;
>
> (3) by encouraging the organization of producers into effective associations or corporations under their own control for greater unity of effort in marketing and by promoting the establishment and financing of a farm marketing system of producer-owned and producer-controlled cooperative associations and other agencies;
>
> (4) by aid in preventing and controlling surpluses in any agricultural commodity, through orderly production and distribution, so as to maintain advantageous domestic markets and prevent such surpluses from causing undue and excessive fluctuations or depressions in prices for the commodity.[1]

It seems apparent that Congress looked to the development of a system of producer-owned and producer-

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1. Annual Report of the U. S. Federal Farm Board, p. 64, June 30, 1930.

controlled cooperative marketing associations as a principal means for accomplishing the ultimate purpose of the act.[1] However, as things worked out, the stabilization operations undertaken by the Board overshadowed the original intention.

2. The Federal Farm Board

From its organization in 1929 until it was succeeded in May 1933 by the Farm Credit Administration, the Federal Farm Board made loans for the aid of agriculture amounting approximately to $1,150,000,000. Nearly 65 percent of these loans were made to the grain and cotton stabilization corporations in efforts to maintain price levels for the producers of these commodities. In addition, $200,000,000 of the Board's gross loans to agricultural cooperative associations were used as loans for maintaining prices or for redeeming the commodity-collateral loans of Federal intermediate credit banks or other banks.

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1. "In the first place it must be recognized that the development of cooperative agencies for the marketing of farm products has been declared by law to be a national policy. It is likewise true that under the terms of the Agricultural Marketing Act the Federal Farm Board has been charged with the responsibility of leadership in the development of such policy." From an address by Dr. F. B. Bomberger, Chief, Division of Cooperative Marketing, Federal Farm Bureau, Nov. 15, 1932.

A. Grain Operations

The Federal Farm Board, believing that the cause for the low price of wheat lay in the disorganized and disorderly marketing, sought to organize a marketing system composed of cooperative associations in every wheat state with membership open to every wheat farmer.

The grower would then be able to deliver his wheat as harvested, obtain substantial advances against it, and let the cooperatives market the crop through the year. In order to accomplish this purpose the Board sponsored the organization of the Farmers National Grain Corporation. The Corporation was established as a private corporation organized for profit, with regional cooperative associations as stockholders, which in turn were composed of local grain cooperatives. The Corporation was to receive Government loans but was in no sense a Government agency.

The Farmers National offered grain growers three options: (1) A grower could deliver his grain and receive the day's price for it, the grain then becoming the property of Farmers National; (2) He could deliver the grain to be held and sold at the grower's order, in which case, Farmers National received a storage fee and sales commission. While the grain was held the grower could finance himself by borrowing from the Farmers National a percentage of the market price; or (3) He could put his grain into Farmers National's seasonal pool, receive an advance on it, and after the close of the marketing season be paid the average price received through the season, less some deduction for costs of operation.

From its very beginning the Farm Board had been under strong pressure to peg wheat prices by buying in the market with Government funds. However, members of the Board felt that cooperatives, nationally organized and financed with Government loans, such as Farmers National, could hold wheat off the market for favorable prices. This position was maintained until February 1930 when the Grain Stabilization Corporation was organized. The continued decline of wheat prices following the stock market crash forced upon the Board the necessity of Government intervention in the market as a buyer in order to uphold the market prices and to protect its own loans to the cooperatives.

The Grain Stabilization Corporation, with money loaned from the Board, bought up the accumulated wheat stocks of Farmers National and other cooperatives and later expanded its purchases to include all country-run wheat.

With the continued decline of price the purchase of cash wheat was discontinued. By July, 1930, when it ceased purchasing, Grain Stabilization Corporation had spent $90,000,000 and had bought 65,000,000 bushels of wheat. Though the Board had announced that no stabilization purchases would be made from the 1930 crop, prices dropped to such a low that a second stabilization program was authorized which continued until June 1931. This operation accumulated 192,000,000 bushels of wheat and cost $169,000,000 in Government loans. Thereafter there was no systematic buying by the Government to maintain wheat prices.

B. Cotton Operations

In January 1930, under the guidance of the Farm Board the American Cotton Cooperative Association was established as a central agency for marketing cotton handled by the State cooperatives. It united fifteen such associations which were handling about 10 percent of the entire cotton crop.

Previous to this Association, the Board's initial efforts at price fixing had been attempted through the State cooperatives, to which the Board had made advancements limited to 10 percent of the spot market value. Later supplementary loans were made to cooperatives in sums sufficient to bring the total borrowed on the cotton to 16 cents per pound. Loans, totaling over $18 million were made through the State cooperatives and the Cooperative Association in an attempt to control the 1931 crop. The attempt, however, proved unsuccessful. Due to the continual expansion of activities, inexperience, stabilization policies, and a declining cotton market, the Association ended the 1930-31 season with a deficit of over $51 million. The cotton accumulated was disposed of in 1933 to the Farm Credit Administration, but even with the higher evaluation at that time, the final deficit for the 1930-31 operations was over $27 million.

In the 1931-32 and 1932-33 seasons the Association eliminated stabilization and price-fixing activities from its programs but made loans on a conservative credit basis. The seasonal pool operations were replaced by optional and fixation pool transactions. Individuals delivered their cotton to the State cooperatives and were paid the prevailing prices. The cotton was then delivered to the Association for sale, with profit or loss, determined at the end of the season, being divided among the State cooperatives on the basis of their patronage. Profits for the two seasons amounted to over $3 million.

In June 1930 the Cotton Stabilization Corporation, with the same officers and offices as the American Cotton Cooperative Association, was organized after the initial efforts of price fixing attempted through the State cooperatives and the Association had proved unsuccessful. The Corporation pegged cotton prices by purchase of spot cotton and futures with Government funds.

The State borrowers were unable to carry the handling charges or to repay the loans, amounting to over $18 million, which had been advanced by the Association. Accordingly, Cotton Stabilization Corporation was authorized by the Farm Board to buy at the 16 cent price all the cooperatives' pooled cotton and, at authorized prices, the futures contracts and call cotton which the Association held for the State cooperatives. The Farm Board advanced additional loans amounting to over $2 million to the State cooperatives in order that prior liens on the cotton and balances still owed to growers could be paid before the cotton was taken over by the Cotton Stabilization Corporation.

The Cotton Stabilization Corporation, as a result of its purchase from the 1930-31 crop, acquired over 1 million bales of cotton. It agreed to keep its stocks at this level until August 1932, unless the market price advanced to or above the purchase price. In July 1932 and February 1933 over half the stock was donated to the American Red Cross for relief purposes. For this donation the Corporation received a statutory cancellation of a large part of its indebtedness to the revolving fund, but the actual loss to the fund for the Corporation's operations was over $94 million.

C. Other Operations

Additional loans were made by the Federal Farm Board to growers and packers of fruits and vegetables, wool growers, the dairy industry, livestock raisers, growers of tobacco, rice and seeds, and miscellaneous commodities.

The largest share of the loans to fruit and vegetable growers went to grape and raisin producers, the bulk of which were represented by California cooperatives.

Farm Board loans to wool producers were made to but two associations, the National Wool Marketing Corporation, and a minor group of borrowers in Utah.

The loans to the dairy industry amounted to nearly $18,800,000 and went to 37 cooperatives in 27 states, but three-fourths of the total went to three borrowers and nearly half of the whole amount went to one cooperative, Land O' Lakes Creameries, Inc. of Minneapolis.

Loans for the benefit of stock raisers were made through three organizations, two of which were in effect national cooperatives. The National Livestock Marketing Association borrowed from the Farm Board in order to reloan to stock raisers for the feeding, finishing, and marketing of their stock. The National Producers' Feeder Pool, aided by loans from the Board, purchased range cattle for fattening and sold them to farmer members for that purpose.

Loans were also made to the growers of tobacco, rice, and seeds. Loans for these three commodities totaled over $7 million, the majority being made to tobacco growers in South Carolina, Blue Grass seed growers in Kentucky and rice growers in California.

Loans on miscellaneous commodities were made to Cooperatives Grange League Federation Exchange, Inc. of Ithaca, N. Y., a holding company uniting numerous New York and New Jersey cooperatives in a complicated corporate structure of organizations for marketing, processing, and cooperative buying; and to three minor buyers. One of the latter was the Cafeteros de Puerto Rico, composed of coffee growers, and the only borrower from the Farm Board not located in the continental United States. The other two borrowers were an association of honey producers in Idaho and a cooperative formed by growers of sugar beets in Michigan.

D. The Farm Board in Retrospect

Table I shows the financial condition of the Board as of December 1933. At the same time it shows clearly the importance of the two major operations -- grain and cotton, in regard to the expenditures of the Board.

Under authority of the Legislative Appropriation Act, fiscal year 1933, the President abolished the offices of the members of the Federal Farm Board, except the office of chairman, and changed the name of the agency to "Farm Credit Administration." The title of office of chairman was changed to Governor of the Farm Credit Administration, and in that office were vested the powers and duties formerly exercised by the Board. However, those functions exercised

Table I

Condition of Revolving Fund Loans, Dec. 31, 1933[1]

Commodity	Loans	Payments	Balances
Grain	636,011,742.51	538,707,060.81	97,304,681.70
Cotton	411,001,192.26	223,004,199.09	187,996,993.17
Fruits and vegetables	37,533,154.34	21,255,367.42	16,277,786.92
Wool	32,856,932.19	19,061,357.25	13,795,574.94
Dairy products	20,016,395.24	9,042,490.64	10,973,904.60
Livestock	7,295,832.39	3,637,224.06	3,658,608.33
Tobacco	6,092,906.84	4,564,647.65	1,528,259.19
Seeds	1,379,707.15	776,023.98	613,683.17
Rice	1,504,579.74	959,083.37	545,496.37
Poultry products	1,616,684.75	308,730.60	1,307,954.15
Miscellaneous	624,546.44	535,719.12	88,827.32
Total	$1,155,933,673.85	$821,841,903.99	$334,091,769.86

1. Data from report of audit of transactions of Federal Farm Board and Farm Credit Administration, made for United States Senate Committee on Agriculture and Forestry by employees of the General Accounting Office.

by the Board in respect of making loans to stabilization corporations were abolished by the President's order, and the order directed the winding up of the activities of the stabilization corporations then in existence. Loans to cooperatives continued to be made from the revolving fund, but in accordance with the provisions of the Farm Credit Act of 1933. The Farm Credit Administration set up a central bank for cooperatives, integrated with a system of regional banks, with a view of making the new banking system the future principal agency for extending Government credit to agricultural cooperatives.

Any evaluation of the activities of the Farm Board will of necessity be controversial. The important thing however, is to point out the lessons that are evident from the Board's activities and the extent to which its mistakes have proved valuable in formulating succeeding policy with regard to agriculture.

It is the view of one observer[1] that

> the Farm Board benefited farmers and others, but not in the manner intended. The Farm Board was intended to benefit farmers and others by stabilizing the prices of farm products, in the expectation that losses by the Board in this process would be only incidental. In actual operation, the Board did not stabilize prices, but benefited farmers, farm cooperatives, and others by bearing some of the losses which otherwise those groups would have had to bear them-

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1. Shepherd, Geoffrey S., <u>Agricultural Price Control</u>, The Collegiate Press, Inc., 1945, Ames, Iowa, pp. 34-35.

> selves. This was a specialized and unintended form of deficit financing to combat depressions, before that principle had become incorporated in governmental policy.

Others have pointed out that too much criticism has been placed upon the stabilization activities of the Board and the financial losses incurred, which has "served to divert public attention from the real, permanent, constructive work of the Board in its efforts to promote the development of a farm marketing system of producer-owned and producer-controlled cooperative associations."[1]

It should be pointed out, in fairness to the Board and the concept which it embodies, that any success which it might have been able to achieve was seriously affected by important forces outside its own control. One of these forces was the lack of funds. The lack of funds forced the Board into a decision to release, near the bottom of the depression, large amounts of the holdings which it had accumulated early in the depression. If the Board could have financed the large holdings of, say, its wheat, and held them until the short crop years of 1933-36, it would have come out with only a small loss or possibly even a profit in its stabilization operations. For such a severe depression as that which developed after 1929 the half a billion dollars granted to the Board was not enough to stabilize prices all the way through.

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1. _Op_. _cit_., note 1, p. 5.

Another factor was that of large yields. In both cotton and corn crops during this period there were years which represented some of the largest crops on record up to that time. Such large crops, in a period of declining demand, put an added strain upon the facilities of the Board. The impossibility of holding up prices in the face of continued production of surpluses was realized by the Board and resulted in its urging farmers to reduce production. There was no machinery in the Act for bringing about this reduction in production however and farmers continued to plant about the same amount of acreage as before.

The Board itself realized the shortcomings of its programs and in its last annual report concluded:

> Successful stabilization means keeping prices from going unduly low in periods of large supplies or poor demand. It also means keeping prices from becoming unduly high during periods of short supplies or of inflation. Prices cannot be kept artificially high over long periods by such methods. The experience of the past two years shows it is futile to engage in stabilization purchases for any product over a period of years in the face of a constantly accumulating surplus of that product.
>
> Stabilization involves selling as well as buying; producers must face this fact. Many people have thought "stabilization" means to hold the price permanently higher than it would otherwise be. This cannot be done without control of production - - -
>
> Experience with stabilization thus demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over

> a period of years unless it provides a more definite control of production than has been achieved so far.

This conclusion by the Farm Board that prices could not be raised over a period of years without control of production was included in the Agricultural Adjustment Act of 1933 when the Secretary of Agriculture was empowered

> To provide for reduction in the acreage or reduction in the production for market, or both, of any basic commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith or upon part of any basic agricultural commodity required for domestic consumption, in such amount as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments.

3. Organization of The Commodity Credit Corporation

Most farmers remember some of the conditions that led to the formation of the Commodity Credit Corporation. In 1932, for example, the average price received by farmers for hogs was $3.34 per hundredweight; for corn, about 32 cents a bushel; for wheat, 38 cents a bushel; for cotton about 6½ cents a pound. Storage facilities were clogged with commodity surpluses. Mortgage foreclosures, reflecting the generally unhealthy condition of agriculture, were at a very high level.

Against the backdrop of these and other economic ills the CCC was organized in 1933 to provide a definite price-support mechanism in the overall farm stabilization program that was being developed. From its organization in 1933 to late in 1939, the CCC was managed and operated in close affiliation with the Reconstruction Finance Corporation. In a sense these two agencies had similar functions. The RFC was organized to bring stability to the non-agricultural enterprises of the United States, while the CCC had as its prime objective the prevention of agricultural collapse.

In 1939 the Corporation was transferred from the RFC to the United States Department of Agriculture, and its operations were placed under the supervision and control of the Secretary of Agriculture.

Program activities of the Corporation today are carried out through the facilities and personnel of the Department's Production and Marketing Administration. The various programs carried on by the Corporation are formulated, in their details, by the appropriate branches of PMA. The programs, once they are approved by the Corporation, are administered by units of PMA.

Approval of the Commodity Credit Corporation Charter Act on June 29, 1948 established the CCC as an agent and instrumentality of the United States under a permanent Federal Charter.

The new Charter authorized the CCC to: (1) Support the prices of Agricultural commodities through loans, purchases, payments, and other operations; (2) make available materials and facilities required in connection with the production and marketing of agricultural commodities; (3) procure agricultural commodities for sale to other Government agencies, foreign governments, and domestic, foreign, or international relief or rehabilitation agencies, and to meet domestic requirements; (4) remove and dispose of or aid in the removal or disposition of surplus agricultural commodities; (5) increase the domestic consumption of agricultural commodities by expanding or aiding in the expansion of domestic markets or by developing or aiding in the development of new and additional markets, marketing facilities, and uses for such commodities; (6) export or cause to be exported, or aid in the development of foreign markets for, agricultural commodities; and (7) carry out such other operations as Congress may specifically authorize or provide for.

This Charter Act was amended June 7, 1949 to provide among other things that: (1) The Corporation shall have power to acquire personal property necessary to the conduct of its business but shall not have power to acquire real property or any interest therein except that it may (a) rent or lease office space for the conduct of its business and (b) acquire real property of any interest therein for the purpose of providing storage adequate to carry out effectively and efficiently any of the Corporation's programs, or of securing or discharging obligations owing to the Corporation, provided that no refrigerated cold-storage facilities shall be constructed or purchased except with funds specifically provided by Congress for that purpose; (2) the Commodity Credit Corporation is authorized, under terms and conditions prescribed or approved by the Secretary of Agriculture, to accept strategic and critical materials produced abroad in exchange for agricultural commodities acquired by the Corporation; (3) the management of the Corporation shall be vested in a board of directors subject to the general supervision and direction of the Secretary. The Secretary shall be an ex officio director and shall serve as chairman of the board. The board shall consist of six members (in addition to the Secretary of Agriculture), who shall be appointed by the President by and with the advice and consent of the Senate; and (4) in addition to the board of directors, there shall be an advisory board reflecting broad agricultural and business experience in its membership and consisting of five members who shall be appointed by the President, and who shall serve at the pleasure of the President.

In 1938, Congress authorized the Corporation to issue and have outstanding bonds, notes, debentures, and similar obligations in an amount not to exceed $500,000,000. The borrowing power of the Corporation has been increased by subsequent legislation and today the Corporation is authorized to borrow $4,750,000,000 on the credit of the United States.

CHAPTER II

PROGRAMS OF THE COMMODITY CREDIT CORPORATION

The current operations of the Commodity Credit Corporation group themselves into these major types of programs: (a) price-support program, (b) supply program, (c) commodity export program, (d) storage-facilities program, (e) foreign purchase program, and (f) loan to the Secretary of Agriculture for agricultural conservation purposes. During World War II, and for some time after, the Corporation also engaged in a subsidy program.

These various programs carried on by CCC have become increasingly important and broad in scope since the Corporation's inception in 1933. At that time CCC's main obligations were in regard to loans advanced on a few basic commodities. During those early years the Corporation's volume of major activities never exceeded one billion dollars. In contrast, the financial requirements for the coming year have been estimated to be as high as 6,300 million dollars.[1]

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1. Secretary of Agriculture Brannan in The Wall Street Journal, March 2, 1950.

In addition to the programs carried out by the Corporation, the Secretary of Agriculture has determined that Corporation funds should be transferred, under the provisions of the Act of July 30, 1947, to the appropriation for the eradication of foot-and-mouth, and other contagious diseases of animals. Proceeds from sales of canned meat procured in Mexico, under this program, and the funds so transferred are applied by the Corporation as a credit against the transfers made.

1. The Price-Support Program

Of the six types of programs now carried on by the Corporation, the price-support program is probably the best known and most controversial.

The purpose of such a program as this is to place a floor under the price of agricultural commodities by assuring the farmer a minimum price for the products he sells. This program has been accomplished mostly through loans, purchases, and purchase agreements.

In carrying out its price-support program the Corporation utilizes normal trade facilities to the fullest practicable extent. Thus, when loans are made to farmers CCC makes use of local banks, cooperatives, and other private lending agencies by entering into contracts, under which CCC agrees to take over loans from these agencies made in accordance with its programs. In addition the

Corporation enters into contracts with processors and dealers under which they buy, through normal trade channels, agricultural commodities at support prices for the account of the Corporation or for their own account. In the latter event the Corporation agrees with such processors and dealers to take over their inventories of such agricultural commodities, or otherwise gives them protection against loss arising out of the purchase of commodities at the support prices.

A. Purchase Agreements

The purchase agreements were put into effect with the 1947 crop operations and were offered to the producers of grains, including rice, seeds, peas, and beans.

These agreements permit producers to secure price-support guaranties without the necessity of taking out a loan. In those cases where the producer has no immediate requirement for funds, but wishes to assure himself of a buyer, namely the Government, he institutes a purchase agreement with the Corporation. These agreements are available during the same period that the loans are available but the producer must declare his intention to deliver his commodity under the agreement, within the 30-day period preceding the loan maturity date.

The Corporation is not obligated to purchase more than the producer specifies as the maximum quantity eligible for support when he executes the purchase agreement. The price paid for the commodity delivered to CCC under these agreements is the applicable loan value or the established support price.

B. Loans and Purchases

The loan part of the price-support program has been in effect since the Corporation was organized. In the early 1930's, the loans were used primarily to smooth out fluctuations in market supplies resulting from fluctuations in yields caused by changes in the weather. This use of the loans embodied the idea of an ever-normal granary.[1] The loans were also used to stabilize prices against changes in demand, and in the late 1930's, the loans were put to a third use -- the raising of prices over a period of years.

The majority of the loans offered to producers are "nonrecourse." That is to say, producers are not obligated to make good any loss incurred through a decline in the

1. "By the ever-normal granary I mean a definite system whereby supplies following years of drought or other great calamity would be large enough to take care of the consumer, but under which the farmer would not be unduly penalized in years of favorable weather. During the past seven years, weather, prices, and supplies have swung so violently from one extreme to the other that it is time for all thoughtful men and women, whether living on the farm or in town, to consider what action may be taken to promote greater stability." The Secretary of Agriculture in The Agricultural Situation, BAE, USDA, Vol. 20, No. 1, January 1, 1936.

market price of the commodity put up as collateral. For example, a producer who obtains a loan on his wheat at the support price of say, $2 per bushel, is not obligated to pay off his loan at the $2 rate, even though the market price of wheat at the time the loan matures is only $1.90. Instead, the producer delivers the wheat to CCC and discharges his obligation in full.

In the case of many commodities location, type or variety, and sometimes seasonal differentials are taken into account in the establishment of the loan rate. Location differentials reflect historical differences that have prevailed and are likely to prevail in price levels between producing areas, as well as adjustments in the freight rate structure. As in the case of location differentials, type or variety differentials are established if type or variety has been a factor making for significant differences in the price at which the commodity is marketed.

In the early years of the loan program the loan rates were set chiefly at the discretion of the administrators of the CCC. However, with the passage of the Agricultural Adjustment Act of 1938 these loans rates were required to be set within certain percentage ranges of parity. The parity price was computed on the basis of the Agricultural Adjustment Act of 1933, by multiplying the average price in the base period (usually 1909-14) by the current index of the prices of goods and services that farmers buy. The law specified the range of 52 to 75 percent of parity within which the loan rates had to be set for wheat, cotton, and corn. For wheat and cotton the rates could vary anywhere within these limits but the rate for corn varied inversely with the size of crop according to a formula in the Act. This formula directed the Corporation to "make available loans upon corn during any marketing year beginning in the calendar year in which the November crop estimate for corn is in excess of a normal year's domestic consumption and exports, or in any marketing year when on November 15 the farm price of corn is below 75 per centum of the parity price, at the following rates:

> Seventy-five per centum of such parity price if such estimate does not exceed a normal year's consumption and exports and the farm price of corn is below 75 per centum of the parity price on November 15;
>
> Seventy per centum of such parity price if such estimate exceeds a normal year's domestic consumption and exports by not more than 10 per centum;
>
> Sixty-five per centum of such parity price if such estimate exceeds a normal year's domestic consumption and exports by more than 10 per centum and not more than 15 per centum;
>
> Sixty per centum of such parity price if such estimate exceeds a normal year's domestic consumption and exports by more than 15 per centum and not more than 20 per centum;
>
> Fifty-five per centum of such parity price if such estimate exceeds a normal year's domestic consumption and exports by more than

20 per centum and not more than 25 per centum;

> Fifty-two per centum of such parity price if such estimate exceeds a normal year's domestic consumption and exports by more than 25 per centum.[1]

For the years 1938 and 1939 the loan rate for corn was 70, while for the 1940 crop the rate was set at 75 per cent of parity.

The loan rates for wheat for the same three years (1938-40) were set at 52, 55, and 57 percent of parity, respectively. The loan rates for cotton for these years were set at 52 and 56 percent of parity.

With the passage of Public Law 74 in 1941, Congress took the determination of the loan rates out of the CCC's hands and directed CCC to make available upon the 1941 crop of the "basic" commodities -- cotton, corn, tobacco, wheat, and rice -- loans at a single percentage figure, 85 percent of parity. The previous schedule for corn rates, based on the size of the crop, was abolished.

On July 1, 1941 the Steagall Amendment was passed which extended price support operations to non-basic products, under certain conditions. The Secretary of Agriculture was authorized to support the price of non-basic commodities through commodity loans, purchases or

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1. United States Laws, Statutes, etc., 1938, The Agricultural Adjustment Act of 1938, Seventy-fifth Congress, Third session, (U. S. Statutes at Large, 52:31-77).

other operations at not less than 85 percent of parity whenever he found it necessary to encourage the expansion of production of any such commodities. The primary purpose of these price floors was to stimulate an increase in the production of certain desired products by guaranteeing the farmer a high price for them.

However, in the latter part of 1942, the emphasis was shifted to the support of farm prices or at least to the reduction of their decline after the war. In October, 1942, Public Law 729 was passed, which raised the level of support for the products specified to 90 percent of parity. This level of support for the designated commodities was to continue "until 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."

This wartime legislation expired December 31, 1948 with respect to the "Steagall Commodities" and with the 1948 crops of the basic commodities. However, the Agricultural Act of 1948 extended wartime price-support legislation, with certain modifications, through the calendar year 1949 with respect to Steagall commodities and to June 30, 1950, with respect to basic commodities.

C. The 1949 Agricultural Act

Before the Agricultural Act of 1948 came into effect, the Congress passed another act -- the Agricultural Act of 1949, which is to supersede the 1948 Act. This new act makes price support mandatory for the "basic" commodities -- corn, cotton, wheat, rice, tobacco, and peanuts -- and for certain nonbasic commodities -- wool, mohair, tung nuts, honey, Irish potatoes, milk, butterfat, and the products of milk and butterfat. Price support is permissive for other nonbasic commodities at the discretion of the Secretary of Agriculture. The new legislation becomes effective, with respect to price-support operations for crops, the marketing year or season on or after January 1, 1950.

The price support program is generally divided into three major categories: (1) Mandatory loans on basic commodities; (2) Mandatory price support through loans, purchases, or other operations for the so-called "Steagall Commodities;" and (3) Price support operations with respect to agricultural commodities other than those previously mentioned, such as operations with respect to wool, naval stores, sugar beets, sugar cane and a number of other agricultural commodities.

a. Basic Commodities

In regard to the "basic" commodities the support price, under the new act, will be based on parity prices calculated by the "old" or "new" formula, which takes into consideration prices received by farmers during the most recent 10 calendar years or the most recent 10 marketing seasons, including wartime subsidy payments received by producers on milk, butterfat, beef cattle, sheep, and lambs under programs to maintain price ceilings established by the Office of Price Administration. With respect to prices paid, the formula makes allowance for wages farmers pay hired labor. The parity prices, as calculated by the new formula, are not allowed to drop more than 5 percent per year below what they would have been as computed with the old formula -- prices thus scaled down being designated as "transitional parity prices."

For the basic commodities the support level will vary from 90 to 80 percent of parity depending upon whether marketing quotas have been voted by the producers and if acreage allotments are in effect. In 1952 and after the support level will be based on a series of sliding scales which fix the minimum level of support between 75 and 90 percent of parity in accordance with the relationship between the total supply and the normal supply of the commodity at the beginning of a marketing season. The exact level of support will be determined by the Secretary of Agriculture. (See Table II)

b. Designated Nonbasic Commodities

These operations will consist of purchases and loans for wool, tung nuts, honey, Irish potatoes, whole milk, butterfat, and the products of such commodities.

The price support for wool will be between 60 and 90 percent of parity, as calculated by the "new" formula, depending upon the level which the Secretary of Agriculture thinks is necessary to encourage an annual production of 360,000,000 pounds of shorn wool.

For tung nuts, honey, and Irish potatoes the level of support will be between 60 and 90, while the support for whole milk, butterfat, and their products will be between 75 and 90 percent of parity, depending on the level designated necessary to assure an adequate supply.

c. Other Nonbasic Commodities

The price support operations for nonbasic agricultural commodities, other than the designated commodities, is permissive up to the level of 90 percent of parity. Support operations for these commodities will be determined on the basis of (1) the supply of the commodity in relation to the demand; (2) the price levels at which other commodi-

Table II

Sliding Scales of Support in the Agricultural Act of 1949[1]

The support level shall not be less than the following percentages of the parity price	If the supply percentage as of the beginning of the marketing year is -- for tobacco, corn, wheat and rice* over	but not over	for cotton and peanuts over	but not over
90	---	102	---	108
89	102	104	108	110
88	104	106	110	112
87	106	108	112	114
86	108	110	114	116
85	110	112	116	118
84	112	114	118	120
83	114	116	120	122
82	116	118	122	124
81	118	120	124	125
80	120	122	125	126
79	122	124	126	127
78	124	126	127	128
77	126	128	128	129
76	128	130	129	130
75	130	---	130	---

* and undesignated non-basic commodities.

1. Source: Digest of the Agricultural Act of 1949, PMA, U. S. Dept. of Agriculture.

ties are being supported; (3) the availability of funds; (4) the perishability of the commodity; (5) the importance of the commodity to agriculture and the national economy; (6) the ability to dispose of stocks acquired through a price-support operation; (7) the need for offsetting temporary losses of export markets; and (8) the ability and willingness of producers to keep supplies in line with demand.

2. Supply Program

With the passage of the Lend-Lease Act in March 1941, the Department of Agriculture was given the emergency assignment of procuring large quantities of food and other agricultural commodities for war purposes.

Operations under this program were expanded to include procurement for the Allies, the Armed Forces, and the Territories of the United States, after our entry into the war in December, 1941. In the post-war period, the Commodity Credit Corporation has continued procurement operations to facilitate distribution or to meet anticipated requirements during periods of short supply.

The procurement operations of the CCC under its supply program fall into four main categories: (1) Procurement for other Government agencies, mainly the Economic Cooperation Administration, and for the Department of the Army; (2) Procurement for foreign governments; (3) Procurement for international relief organizations such as the International Children's Emergency Fund and the Red Cross; and (4) Procurement or aiding in procurement of supplies and facilities needed by farmers in connection with the production, handling, and marketing of agricultural commodities.

The supply program is dependent to a large degree upon the export allotment quotas established by the Government. Under the allotment procedure the Government determines total export quotas and directs the exports to specific destinations. The requirements of importing nations and supplies of exporting nations are analyzed by the International Emergency Food Committee (IEFC) and form the basis for the recommendations concerning distribution of available exportable supplies to the member countries of the committee.

Recommendations, based on the information obtained from the IEFC, are prepared by interagency committees composed of representatives of the Department of Agriculture, Department of Commerce, Department of the Army, and the ECA, and submitted to the Secretary of Commerce for approval. If the allocations are approved, the Department of Commerce issues export licenses against the allocations. This method assumes the distribution of exports in accord with the allocations.

There are some agricultural commodities which are not allotted and may be shipped without license in any quantity to any destination. Many of the agricultural commodities, however, not under allocation are subject to export control by the office of International Trade of the Department of Commerce. The degree of this control depends largely upon the individual commodity and the proposed destination.

The procurement of both allocated and non-allocated commodities for foreign supply purposes is handled either by the commercial export trade or the Government. Government procurement is handled by either of two agencies -- the Commodity Credit Corporation or the Department of the Army. The CCC, with the cooperation of the Production and Marketing Administration, also handles shipping and storage functions from interior points to seaports and assists in arranging ocean transportation in a few instances.

In carrying on its supply program CCC sustains no net losses. All of the operations in the program are on a cash-and-carry basis. When commodities are purchased for foreign governments, the foreign governments deposit funds in advance to insure payment. When the CCC buys for the Department of the Army or the ECA, those agencies reimburse CCC through a transfer of funds.

The fundamental purpose of the program is to meet urgent requirements from abroad for food and other agricultural commodities -- not to support prices. However, the purchase of large quantities of agricultural commodities does affect prices. Consequently, operations under the supply program are tied in as closely as possible with the price programs. Many of the commodities acquired under the price support program are channeled into foreign markets under the supply program of the Corporation.

There are other ways in which the supply and price-support programs are interwoven. In some instances, when requirements of a certain commodity for the supply program are known, it is possible to make the necessary purchases during the season of heavy production, when prices are usually low. This conserves funds and at the same time the purchases for supply may make purchases for price support unnecessary. This policy has been used to advantage in the past few years in relation to American cheese, dried milk, and dried eggs.

It has also been the policy of Government agencies administering foreign-relief programs to purchase more of the commodities that are abundant and low in cost and less of those that are in short supply and high in cost. Such a policy aids the overall agricultural programs and at the same time allows foreign countries to stretch their food dollars more.

3. Commodity Export Program

The CCC, under its export program, can export or aid in the development of export markets for agricultural commodities and products.

The purpose of the program is to retain and expand the existing foreign markets for agricultural products produced in the United States. At the same time emphasis is placed upon the disposal of agricultural products which are in excess of domestic demand. Disposal of such commodities is made at competitive world prices, which are usually below domestic market prices.

Prior to the Surplus Property Act of 1944, the Corporation's ability to engage in export operations was substantially limited by the statutory prohibition against sale of farm commodities below parity or a comparable price. However, with the passage of this act, the Corporation was authorized to dispose of any farm commodity, provided that such commodity was not in short supply or that its disposition would not create a short supply, at competitive world prices.

A. Strategic Materials

With the passage of Public Law 85 on June 7, 1949 the CCC was authorized to accept strategic and critical materials produced abroad in exchange for agricultural commodities which it had acquired. Under this program the Corporation plans to exchange these commodities for materials needed by the Munitions Board of the National Military Establishment.

The acquisition of these strategic and critical materials is based on the assumption that the value established by the Secretary of the Treasury for such materials will be equal to the Corporation's investment in the agricultural commodities traded. However, if the Secretary of the Treasury sets a lower value than that represented by the Corporation's investment in its agricultural commodities, the Corporation will sustain a loss on such activities.[1]

B. The International Wheat Agreement

Another recent development under the Corporation's commodity export program came about as a result of the International Wheat Agreement, which was approved by the United States on June 13, 1949.

Plans dealing with international wheat surpluses have been proposed and discussed in international meetings for a number of years. The first International Wheat Agreement was signed by delegates from twenty-two nations in 1933. The purpose of the Agreement was to "bring about an adjustment of production so as to allow of the liquidation of existing surplus stocks within a period of two years."

The new Agreement has as its purpose the assurance of supplies of wheat to importing countries and markets

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1. From The Wall Street Journal, March 4, 1950. "Ralph Trigg, president of the Commodity Credit Corp., reported to Congress that the Administration's program to barter U. S. farm surpluses for strategic materials abroad has been ineffective so far.

- - - 'The big difficulty is this,' Mr. Trigg told the sub-committee. 'We find that any commodity that this country wants for strategic or critical materials, we are willing to go out and pay dollars for it, and that presents a problem insofar as these other countries are concerned when they are anxious to get dollars.'"

for wheat to exporting countries at equitable and stable prices.

Importing countries that have approved the Agreement are eligible to purchase approximately 168 million bushels of wheat and wheat flour equivalent produced in the United States at specified prices. The wheat and wheat flour may be sold by the CCC or by commercial exporters.

Under this program there are two types of activities which the Corporation is able to pursue:

(1) The sale of wheat which has been acquired under the price support program and wheat and wheat flour acquired under the supply program which the Corporation determines to be eligible for recording against the guaranteed quantities of the U. S. Government and the importing countries under the International Wheat Agreement. These sales are made at prices not in excess of the maximum equivalent price provided in the Agreement. The sales prices may be determined at the time of sale and in advance of the date of shipment and may include carrying charges and marketing costs;

(2) The Corporation is authorized to make payments to commercial exporters of domestic wheat and wheat flour processed in the United States for sale to participating countries, provided that such sales have been ruled eligible for entry in the records of the Wheat Council as sales against the guaranteed quantities of this country.

Payments are to be made on the basis of published announcements of the rate for the period of sale. These rates will be determined on the basis of the relationship between current domestic market prices and current prices equivalent to the International Wheat Agreement basic maximum price of $1.80 per bushel for No. 1 Manitoba Northern wheat delivered at Fort William and Port Arthur.

The International Wheat Agreement Act of 1949 authorizes the CCC to use its general borrowing authority to pay the current obligations of these activities, with the understanding that a request to the Congress for reimbursement of any losses sustained under the program can be made by the Corporation.

4. Storage Facilities Program

Storage operations have been carried on by CCC since 1939 when grain bins were first acquired. These operations have been conducted as an integral part of the price support program in the past, but because of the increasing importance and magnitude of these operations, they are to be classified as a separate program as of July 1, 1950.

The objectives of this program are (1) to provide adequate storage facilities for CCC-owned and producer-owned commodities; (2) to assist producers in financing the construction or purchase of suitable farm-storage facilities; (3) to encourage the construction of needed commercial storage facilities; and (4) to assist producers in financing the purchase of suitable mechanical driers to facilitate safe farm storage.

In order to provide storage for corn of the 1938-39 crop to be delivered to Commodity Credit Corporation in satisfaction of loans, the Corporation purchased in 1939 and 1940 a total of 62,929 steel grain bins to be used in the corn belt States. For that part of the wheat crop of 1940-41 to be delivered to CCC in satisfaction of loans and for the storage of feed wheat, CCC purchased 78,437 wooden grain bins to be used in the principal wheat-producing States. As the total carry-over of grain decreased during the war years, the need for these structures decreased and the Corporation sold storage bins, many of which were purchased by producers for use in storing commodities on the farm.

The continued increase in agricultural production during the war years was not accompanied by comparable increases in commercial storage, and because the Federal charter initially granted to CCC placed restrictions upon the Corporation, its storage facilities were not expanded either. Under these circumstances, adequate storage for increased stocks was not available when the record 1948 crops were harvested. In many instances producers had to sell their commodities at less than the support level because of the inability to obtain adequate storage.

With the passage of Public Law 85, Eighty-first Congress, many of the earlier restrictions in regard to storage facilities were removed. The Corporation, under the new law, was authorized to acquire additional storage facilities, and in order to encourage the storage of grains on the farm, allowed to make storage facility loans to farmers.

Under its storage facilities program, CCC may (1) purchase and maintain granaries and equipment for care and storage of Commodity Credit Corporation owned or controlled wheat; (2) make loans for the construction or expansion of farm storage facilities; (3) provide storage use guaranties to encourage the construction of commercial storage facilities; and (4) undertake other operations which it deems necessary to provide storage adequate to carry out effectively its other programs.

The bins and granaries bought by the Corporation are purchased on an offer-and-acceptance basis and are located only in areas where it is determined that existing privately-owned storage facilities are not adequate.

A. Storage Guaranties and Loans

Loans for construction or expansion of farm storage facilities are recourse loans made to producers, either through lending agencies or by the Corporation. Those loans are for a maximum period of about five years, payable in equal annual principal payments, with interest at 4 percent on the unpaid balance. The maximum amount to be loaned on any new farm-storage facility is 45 cents per bushel of capacity, provided that this maximum amount does not exceed 65 percent of the cost incurred. The loans are secured by mortgages on the facilities built.

Storage use guaranties are made under agreements with commercial firms, including cooperatives, in order to encourage the construction of additional commercial storage facilities for grain in areas where additional facilities are necessary. Under this operation, the Corporation guarantees the use of 75 percent of the new storage capacity for a period of three years in completely new storage structures, and for a period of two years in new additions to existing storage structures. Storage occupancy agreements provide that 75 percent of the storage capacity be reserved for grain which may be tendered by the Corporation or by farmers for storage for their account. The rates in effect under the Uniform Grain Storage Agreement are to be paid for grain stored in these facilities by the Corporation.

The law requires that CCC conduct its storage facilities program subject to the following restrictions: (1) No interest is acquired in real property in order to provide storage facilities unless it is determined that existing privately owned facilities for the storage of the commodity in the area concerned are not adequate; and

(2) to the maximum extent practicable, the Corporation utilizes the customary channels and arrangements of trade and commerce in the warehousing of its commodities.

5. Foreign Purchase Program

Under its foreign purchase program, the Commodity Credit Corporation makes purchases of agricultural commodities and products abroad which are needed to meet both foreign and domestic requirements. This program was instigated in April, 1942, when the President of the United States authorized "the use by the CCC of any of its funds for the purpose of carrying out projects involving the acquisition, handling and disposition of agricultural commodities produced in foreign countries friendly to the U. S."

On May 16, 1942, the Board of Economic Warfare, which had general jurisdiction over foreign economic matters, designated the Commodity Credit Corporation, with certain exceptions, or the sole and exclusive agency for the purchase of agricultural commodities in foreign countries. This foreign purchase program, with the exception of the purchases of sugar in Cuba and purchases of commodities in Canada, was transferred to the Foreign Economic Administration in 1943. The program was returned to the Department of Agriculture in 1945.

The purchases, under the program, have consisted largely of commodities in short supply, notably fats and oils, cocoa beans, long-staple cotton, protein meals, tea and rice.

6. Loan to the Secretary of Agriculture

The Agricultural Adjustment Act of 1938, as amended, requires that the Commodity Credit Corporation lend an amount not to exceed $50,000,000 to the Secretary of Agriculture each year. The exact amount of the loan is based on the estimates of the Secretary of Agriculture as to the amount necessary to make advances to producers under the Soil Conservation and Domestic Allotment Act. The principal use of these loans is the purchase of conservation materials during the period from January 1 to June 30 of each year.

These advances to the Secretary of Agriculture are repaid during the succeeding fiscal year from funds appropriated by Congress, with interest at a rate determined by the Secretary, but not less than the cost of the money to the Corporation.

Though these loans are considered as a separate program carried on by the Corporation, in essence they are not a major activity of the CCC.

7. Consumer Subsidy Programs

The consumer subsidy programs carried out by the

Commodity Credit Corporation were terminated on October 31, 1947, when price ceilings on sugar were removed. These programs were put into operation in 1941 and included payments by the Corporation to producers of milk and dairy products, grains, fruits and vegetables, oilseeds and their products, sugar, livestock production and meat, and others.

The purpose of the program was to maintain price ceilings established by the Office of Price Administration by payments on farm commodities, or purchase of farm commodities for resale at a loss. These programs enabled the CCC to provide farmers, directly or indirectly, with the additional returns necessary for a high level of production.

The nature of each subsidy paid and the total amount spent for the individual commodities is given in Table III.

Table III

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Milk and dairy products:		
Dairy production	1,205,644,696	Direct payments to producers on milk and butterfat to compensate for increased costs of feed and farm labor and to maintain OPA ceiling prices.
Cheddar cheese	67,633,569	Payments to manufacturers to support OPA ceiling prices and increase production; manufacturer made pro-rata distribution to milk producers
Fluid milk	38,130,231	Payments to milk handlers in milk shortage areas in compensation for increased prices paid producers and so to maintain OPA ceiling price.
Total milk and dairy products	1,311,408,496	

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Grain and pulses:		
Wheat		
For feed	238,412,410	Sale of CCC-owned wheat at parity price for corn for use as feed.
For alcohol	22,700,000	Sake of surplus wheat at parity price for corn to relieve industrial alcohol shortage
Total wheat	261,112,310	
Beans, dry edible	12,954,454	Payments to dealers on eligible loans in an amount equal to the difference by which the applicable support price exceeded the processor ceiling price.
Corn		
For alcohol	4,400,000[1]	Sale of CCC-owned corn at prices based on ethyl alcohol prices to encourage production of industrial alcohol.
Purchase and shelling	3,619,664	To make corn available to manufacturers of essential war materials.

1. Estimated.

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941, to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Importation	2,105,372	To relieve importers of import duty.
Ceiling price adjustment	1,535,679	To equalize OPA ceiling prices on mid-west and eastern seabord corn to be used for feed.
Total corn	11,660,715	
Mill feed price support	138,118	Payments to millers on mill feed to prevent rise in flour and bread prices.
Barley for feed	6,994	To obtain feed for deficit areas by purchase of malting barley from maltsters and resale at barley feed prices.
Total grain and pulses ...	285,872,591	
Fruits and vegetables:		
Vegetables for processing	86,490,622	Payments to canners to compensate for increased raw material and production costs and so to maintain OPA ceiling prices.

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Fruits for processing	75,001,372	Payments to packers and processors to compensate for increased raw material and production costs and so to maintain OPA ceiling prices.
Vegetables, frozen	3,560,784	Payments to freezers to compensate for increased raw material and production costs and so to maintain OPA ceiling prices.
Apple freight equalization	3,229,718	Payments to shippers to encourage distribution to deficit areas.
Pear freight equalization	142,237	Payments to shippers to encourage distribution to deficit areas.
Total fruit and vegetables	168,424,733	

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Oilseeds and products:		
Soybeans	98,127,521	Subsidy to processors of soybean oil by purchase and resale operation; purchase at basic support price and resale on oil content values.
Peanut butter	19,472,701	To enable OPA to effectuate a reduction in the price of peanut butter.
Vegetable oils and meals	6,903,824	Payments to processors for difference in support price and OPA ceiling to encourage manufacture of meals.
Peanuts	6,191,337	Payments to crushers utilizing inferior grade peanuts in conversion to oil.
Shortening	1,917,901	Payments to manufacturers of shortening to adjust for increase in cost of drums.
Flaxseed	393,714	Payments to producers for difference in support price and OPA ceiling prices.
Total oilseeds and products	133,006,998	

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Sugar	115,431,522	Purchase and sale of Puerto Rican and foreign sugar crops to insure supply; payments to processors and refiners of cane and beets to obtain maximum production, also to encourage equitable distribution of payment of transportation costs.
Livestock production and meat:		
Sheep and lamb production	43,237,326	Payments to producers and feeders on a liveweight basis for animals sold for slaughter to encourage feeding to heavier weights.
Beef production	36,902,552	Payments to producers and feeders on a liveweight basis for animals sold for slaughter to encourage feeding to heavier weights.
Pork production	330	Bonus payments to packers who delivered up to 60 percent of total production to CCC under contract
Total livestock production and meat	80,140,208	

Table III - Continued

Amount and Nature of Subsidy Payments, Cumulative, July 1, 1941 to June 30, 1948

Commodity	Expenditures July 1, 1941 to June 30, 1948	Nature of Subsidy
	Dollars	
Beverages:		
Coffee	7,217,528	Payment of excess shipping costs to importers over OPA ceiling prices.
Cocoa	101,939	Payment of excess shipping costs to importers over OPA ceiling prices.
Total beverages	7,319,467	
Miscellaneous:		
Hay for dairymen	2,498,942	To pay cooperatives excess costs over sale prices under a program to move hay for dairy herd feeding to drought stricken areas.
Phosphate fertilizer	89,344	Payments to Agricultural Adjustment Administration for purchase and transportation costs in excess of sales price.
Total miscellaneous ..	2,588,286	
GRAND TOTAL	2,104,192,301	

Source: Price Programs of the United States Department of Agriculture 1949, Miscellaneous Publication 683, PMA, USDA.

CHAPTER III

A REVIEW OF SOME BASIC PRICE-SUPPORT OPERATIONS

As pointed out previously, the most important activities carried on by the Commodity Credit Corporation at the present time are those activities associated with its price-support operations. This program has developed from the original small-scale operation, involving only a few commodities, to the billion dollar, multi-commodity activity of today.

Because of the growing importance of this phase of the Corporation's activities, some insight into the development of the program is necessary. Three commodities -- cotton, corn, and wheat, have been chosen, not necessarily because they are entirely representative, but because they are "basic" commodities upon which the program was originally conceived. In addition, these commodities represent the largest proportion of the price-support loans made by the Corporation. Other commodities could have been chosen, such as potatoes or eggs, but these programs are recent introductions and do not show truthfully the original concepts of price-support operations.

The three commodities covered have one obvious trend in common. Since the passage of the Agricultural Adjustment Act of 1938, there has been a continued increase in the loan rates offered for the respective commodities. This rising trend has been brought about through successive Congressional legislation in regard to mandatory support levels, and because such loan rates are determined on a "parity" basis. At the same time there has been a corresponding rise in the market price, excluding the 1948 season, for the three commodities.

However, there has been no significant trend or evidence of regularity in either the quantity of the commodities placed under loan by producers, or the amount acquired by the Corporation during this period. There has been an increasing use, though, of location, and quality and grade differentials in the determination of loan rates, thus making the loans available to more producers. Along this same line, the loan program has been expanded to include farm-storage as well as warehouse-storage loans.

1. Cotton Operations

During the period 1933 to March 31, 1949 the Commodity Credit Corporation made loans on 36.6 million bales of cotton, almost 20 percent of the total cotton produced during these years in the United States. Of the cotton pledged for loans 22.7 million bales were redeemed by the borrower and 9.6 bales were either acquired by the Corporation, or pooled for the account of producers. Under the pooling plan, settlement with producers is made after all costs to the Corporation have been deducted, including loan advances, interest and other charges. These payments are in proportion to the amount of cotton each producer had in the pool. The remaining 4.3 million bales represent loans made on 1948 cotton which were outstanding as of March 31, 1949.

To March 31, 1949, the Commodity Credit Corporation has recorded a gross profit of 216.4 million dollars on cotton operations. This figure includes profit on cotton sold for the account of producers, so that after deducting the producers' equity included (16.6 million dollars) a net profit to the Corporation of 199.8 million dollars remains.

A. Characteristics of Loan Program

Cotton loans are made to eligible producers through approved lending agencies, through producers' cooperative associations, or directly by the Commodity Credit Corporation. A condition of eligibility for loans has been participation in the acreage adjustment and soil conservation programs of the Department of Agriculture in those years when such programs were in effect.

Cotton loans are made on a non-recourse basis, that is where loans are not repaid, the Corporation must look solely to the collateral for satisfaction of the loan. These loans are secured by the pledge of negotiable warehouse receipts for cotton stored in approved warehouses, although in 1942 and later years a small number of loans have been made on farm-stored cotton secured by chattel mortgage.

Prior to the enactment of the Agricultural Adjustment Act of 1938, the Corporation made loans under its charter powers. Loan rates were administratively determined during this period and ranged from 53 to 76 percent of parity. Section 302 of the Agricultural Adjustment Act of 1938 made loans mandatory, under certain specified conditions, at rates ranging from 52 to 75 percent of parity. Under later legislation, the level of loan rates has been increased to as high as 95 percent of parity in 1944. The Agricultural Act of 1949 provides for price support on 1950 crop cotton at 90 percent of parity.

B. History of the Cotton Loan Program

1933

Under the authority of the Charter of the CCC, loans were available to cooperating producers at a fixed rate of 10¢ per pound for cotton grading low middling or better and having a staple length of 7/8 inch or better. This loan rate was equivalent to 69 percent of parity.

There were 1,926,000 bales of cotton pledged under this program, representing approximately 15 percent of the total production for the year, and having a loan value of $99,498,000. All of these loans were repaid or converted into 1934 loans.

1934

The loan rate set for the 1934 crop was higher than in the previous year, being 12¢ per pound, or the equivalent of 76 percent of parity.

Approximately 49 percent of the production of cotton during this crop year, or 4,632,000 bales, was pledged for loans with a value of $282,644,000.

On April 4, 1936, CCC offered producers a program whereby they could redeem loan cotton at approximately 3/4¢ per pound less than loan value. Further releases were made in 1937 and in total over 2 million bales of 1934 cotton were released with a loss to the Corporation of over $14,000,000. Redemptions were later made on some of the remaining cotton but the Corporation still maintained about 1½ million bales of the 1934 cotton, which it placed in inventory status in August 1939.

1935

The loan rate for this crop was lower than the 1934 rate, being 10¢ per pound. Since the market price of cotton during the marketing season for this crop was considerably higher than the loan rate, very little cotton entered the program. Only 115,000 bales, or 1 percent of the crop produced that year, were pledged for loans, all of which were repaid.

1936

No loan was offered on 1936 crop cotton because of the continuing high market prices. The average market price during the season for middling 15/16 inch cotton was 13.25 cents per pound, higher than any year since 1929.

1937

With a record crop of over 18,000,000 bales, the price of cotton was severely depressed. At the same time loan rates were lower than in any previous year, being equivalent to 53 percent of parity. There were over 5 million bales pledged for loans at a value of $243,275,000. Of these loans, r epayment was made on only 325,000 bales, the remainder being acquired by the Corporation in August 1939.

1938

A more complete schedule of premiums and discounts was employed for the first time on 1938 crop cotton. This schedule covered each grade equal to or better than Low Middling White, and six staple length groups. This was done to make the loan rates and the market price relationships more nearly approximate.

Under the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation was directed to make "available to cooperators loans upon cotton during any marketing year beginning in any calendar year in which the average price on August 1 or at any time thereafter during such marketing year of seven-eighths middling spot cotton on the ten markets designated by the Secretary is below 52 per centum of the parity price at any such time, or the August crop estimate for cotton is in excess of a normal year's domestic consumption and exports, at rates not less than 52 per centum and not more than 75 per centum of the parity price of cotton as of the beginning of the marketing year."

The continued weakness of cotton prices during the early months of the 1938 marketing year resulted in heavy applications for loans. Loans were made on 4,482,000 bales of cotton, representing approximately 39 percent of the year's production. These loans matured on July 31, 1939, but were extended several times, finally to October 1, 1941.

Toward the end of the marketing year prices steadily rose with the result that repayments were made by producers on 4,453,000 bales, the remaining 29,000 bales being taken over by the Corporation on October 1, 1941.

1939

Under the terms of the Agricultural Adjustment Act of 1938, a loan for this crop was not mandatory since the market price was above 52 percent of parity at the beginning of the marketing year. However, loans were offered at a rate equivalent to 56 percent of parity, principally for their price-support effects.

With the program for this year a complete set of differentials for both grade and staple, and location was established for the first time.

Only 30,000 bales were pledged for loan and less than 500 bales were eventually pooled for the account of producers. The strength of domestic demand and the fact that exports exceeded 6,500,000 bales accounted for the small participation in the program.

1940

The basic loan rate on the 1940 crop was announced on a middling 15/16 inch basis since the cotton markets, both spot and future, had changed from a 7/8 inch standard to the 15/16 inch standard before the 1940 program had been developed. Separate classifications were made for the first time on cotton having staple lengths of 1 3/32 inches, 1 5/32 inches and 1 7/32 inches.

A total of 3,180,000 bales, or almost 26 percent of the 1940 crops, entered the loan, of which only 5,000 bales were not redeemed and these were pooled for the account of producers on October 1, 1941, along with the 1938 and 1939 cotton still remaining under loan.

The average loan rate was 9.55 cents per pound, approximately 56 percent of parity, and varied from a high of 9.90 cents per pound in the Carolina mill areas to 9.16 cents per pound in West Texas and New Mexico.

<u>1941</u>

The Act of May 26, 1941 directed that the Corporation make loans at 85 percent of parity on the 1941 crop. The amendment to this act required that loans at 85 percent of parity also be made on the 1942 through 1946 crops. However, this provision applied only to the 1941 crop since subsequent laws were passed setting the loan rate above 85 percent of parity.

The advent of war in Europe reduced exports to about 1,000,000 bales, but the increased domestic requirements resulted in a record consumption of 11,000,000 bales. There were 2,221,000 bales pledged for loan at an average rate of 14.22 cents per pound. Although the loans were to have matured on July 31, 1942 they were allowed to be carried until September, 1943, when the 334,000 bales still remaining under loan were pooled for the account of producers.

1942

For the first time, CCC made available loans on farm-stored as well as warehouse-stored cotton. The farm-stored loans were secured by chattel mortgages, with an allowance of 10¢ per bale per month for storage being paid to those producers who delivered their cotton to the corporation in satisfaction of the loan.

The Stabilization Act of 1942 authorized a change in the support price on cotton and other commodities from 85 percent of parity to 90 percent of parity. The effect of this change was to increase the average loan rate on cotton from 16.22 to 17.22 cents per pound.

There were 3,143,000 bales pledged for loan, of which 1,866,000 bales were redeemed by producers, while the remainder was pooled for the account of producers on August 15, 1944. During the marketing year the loan rate remained above the market rate for many grades and staples, which accounts for the fact that so much cotton was acquired under the program.

1943

The support price was again at 90 percent of parity with the average loan rate of 15/16 inch middling cotton set at 19.26 cents per pound. As in 1942, farm-stored cotton as well as warehouse-stored cotton was eligible for loan. A total of 3,594,000 bales, or over 32 percent of the crop, were pledged for loans. Of this total, 845,000 bales were pooled by the Corporation for the account of producers on August 1, 1945. The remaining 2,000 bales which had not been redeemed from farm-storage loans were acquired outright by the Corporation.

1944

With the passage of the Stabilization Extension Act of 1944, the Corporation was required to make loans on cotton at 92½ percent of the parity price as of the beginning of the crop year. On October 3, 1944, with the signing of the Surplus Property Disposal Act, the support level was increased to 95 percent of parity. Under the Stabilization Extension Act the President was required to assure producers of certain commodities the higher of (1) the parity or the comparable price or, (2) the highest price received by producers for the commodity between January 1, 1942 and September 15, 1942. In the case of cotton the parity price was the higher of the two, with the result that CCC announced that open market purchases of 1944 crop cotton would be made at 100 percent of parity.

Those producers who had already placed their cotton under loan were able to redeem it and then sell the cotton to the Corporation at the higher price.

Over 2,500,000 bales of cotton were purchased under this program and as a result of this operation only a relatively small portion of the cotton placed under loan was not redeemed. As of the maturity date, loans on only 129,000 bales had not been redeemed out of a total of 2,122,000 bales pledged.

1945

Participation under the program in 1945 was very small due to the fact that cotton prices grew progressively stronger through the marketing season, reaching an average on the 10 spot markets of over 30 cents per pound in the spring of 1946.

Altogether, 216,000 bales were pledged for loan at an average rate of 21.09 cents per pound, reflecting 92½ percent of parity. Only 2,000 bales were pooled for the account of producers on October 1, 1946.

1946

With prices continuing to rise, the participation in the 1946 loan program was extremely small. Only 145,000 bales were pledged for loan at a rate of 24.38 cents per pound. Of this amount approximately 3,000 bales were left by producers for pooling by the Corporation on August 1, 1947.

1947

The cotton markets remained firm and strong throughout the year with spot prices exceeding the loan values by 4 or 5 cents per pound. Because of this, only 280,000 bales entered the loan, of which 251,000 bales were redeemed by the producers.

The average loan rate for 15/16 inch middling cotton was again based on 92½ percent of parity, which was equivalent to 27.94 cents per pound.

1948

With a production of 14.9 million bales of cotton, the highest since 1937, cotton prices tended to decline to about the loan level, 30.74 cents per pound, which reflected 92½ percent of parity.

Four million nine hundred sixty-six thousand bales of cotton were placed under the program, with only 636,500 bales being later redeemed by producers. The remainder was pooled for the account of producers on August 1, 1949.

2. Corn Operations

Shortly after the organization of the Commodity Credit Corporation on October 17, 1933, loans were offered to producers of corn of the 1933 crop, and there has been a program for each crop year since then.

Loans have been made on a total of 1,598,716,000 bushels on the 1933 through 1948 crops as of September 30, 1949. Four states, Iowa, Illinois, Nebraska and Minnesota have accounted for about 88 percent of the total number of bushels pledged for loan, Iowa accounting for 47 percent, Illinois 22 percent, Nebraska 11 percent and Minnesota 8 percent.

The cost of the Commodity Credit Corporation of its price-support operations on corn totalled $35,711,000 through September 30, 1949. The major part of these losses has been incurred through the release of corn from loans at less than full redemption value and on the sale of corn acquired from the loans.

A. Characteristics of Loan Program

Prior to the passage of the Agricultural Adjustment Act of 1938, loans on corn were made under the Corporation's charter powers. These loans, like those on cotton, were non-recourse in nature.

Section 302 (d) of the AAA of 1938 made it mandatory, under certain conditions, for the Corporation to offer loans at prices ranging from 52 percent to 75 percent at the beginning of the crop year. The actual support level between these percentages was determined by a formula written into the Act, which depended upon the quantity of corn in the carryover from the prior year, and the level of prevailing prices. Other provisions of this Act provided that loans were available at the full rate only to "cooperators" with the farm program, and in the event that a referendum for the establishment of marketing quotas was held and more than 1/3 of the producers disapproved of it, no loan was to be offered.

The Act of May 26, 1941, as amended, made the support rate mandatory at 85 percent of parity on the 1941 crop and for each subsequent crop through 1946. The Stabilization Act of 1942 required that support be extended on the 1942 crop, and subsequent crops through a period two years after cessation of hostilities, at 90 percent of parity. The Agricultural Act of 1949 makes mandatory a support level ranging between 75 percent and 90 percent of parity for the 1950 and subsequent crops, depending upon supply conditions at the beginning of the marketing year.

Loans were made on farm-stored corn only from the 1933 through 1948 programs, but warehouse-stored corn is eligible under the 1949 loan program. In addition to the regular loan program purchase agreements have been made available to producers.

B. History of The Corn Loan Program

1933

A straight loan rate of 45¢ per bushel for corn grading No. 4 or better was announced for the first loan program. A requirement for securing a loan was the execution of the corn-hog contract for the 1934-crop marketing year. This contract called for a reduction in the production of corn and hogs in order to reduce the quantity put on the market and thus strengthen prices.

Loans were made on a total of 267,762,000 bushels of corn having a loan value of $121,276,000. All the loans were either repaid in full or converted to 1934 loans.

1934

Due to the drought conditions prevailing in the corn belt production fell from 2.4 billion bushels to 1.5 billion bushels, the lowest production since 1881. As a result, corn prices moved upward during the marketing year and participation in the loan program declined.

The loan rate was established at 55¢ per bushel for corn grading No. 4 or better and corn from the 1933 crop still under the 1933 loan as well as the 1934-crop corn was eligible. The loans were, however, callable if the price of No. 2 corn reached or exceeded 85¢ per bushel on the Chicago Board of Trade.

During April 1935, the price of No. 2 corn at Chicago was in excess of 85¢ per bushel and an announcement was made by the Corporation that there would be no extension of the loan beyond the maturity date of June 30, 1935.

Under this program 20,075,000 bushels of corn, having a loan value of $11,042,000, entered the loan. All of these loans were repaid by the producers.

1935

The loan rate was announced for the 1935 crop at 45¢ per bushel. Due to the drought conditions which prevailed in 1934, it was expected that the program would enable producers to finance their feed supplies and rebuild their livestock herds which had been depleted.

Loans were made available from December 1, 1935 through March 31, 1936 and matured July 1, 1936. Total loans were made on 30,966,000 bushels, valued at $13,934,000, all of which were repaid.

1936

A severe drought prevailed during the 1936 growing season and corn production declined to a level only slightly higher than that in 1934. The loan program which was offered was designed to encourage farmers to store corn which could be used for seed for planting in 1937. A loan rate of 55¢ per bushel for corn grading No. 4

or better was offered.

Only 158,000 bushels were pledged for loan at a loan value of $87,000 and all of these loans were repaid.

1937

With favorable weather conditions prevailing during the growing season, corn production returned to normal. Because of the short crop in the prior year the number of livestock on farms had been reduced and this resulted in an excess of corn over current needs.

The original availability date for loans was the period between December 1, 1937 and April 1, 1938. As the program developed slowly, and since it was considered desirable to retain most of the corn on the farm, the availability of loans was extended indefinitely. This offer was finally closed after it was announced on August 27, 1938 that 1937 corn previously under loan, as well as corn not previously under loan, could be put under a new loan at 57¢ per bushel. (The original loan rate for the crop had been 50¢ per bushel.) On July 6, 1939 corn loans would be extended for another year, making the redemption date August 1, 1940.

Only July 5, 1940 the redemption price for the corn was fixed at 58¢ per bushel and producers had until October 31, 1940 to accomplish this redemption. The actual investment in 1937 corn at that time was approximately 67¢ per bushel.

There were a total of 61,117,000 bushels entering the loan, of which 14,000,000 bushels were placed under loan for the first time under the first renewal program in the fall of 1938. Out of this total, 47,521,000 bushels were eventually delivered to the Corporation in satisfaction of the loan.

1938

The Agricultural Adjustment Act of 1938 made loans on corn mandatory. Whereas in prior years loans were made only in states which had farm warehouse acts in effect, the new act provided that loans would be available in the so-called commercial producing areas at full rates to cooperators and at 75 percent of the rate in the commercial areas to cooperators outside this area.

Acreage allotments were set up for all farms within the commercial corn area and farmers not exceeding these allotments and who fulfilled other requirements for conserving soil fertility, were eligible to receive AAA conservation payments as well as being eligible to participate in the loan program.

The original maturity date for 1938-crop loans was August 1, 1939 but was moved to August 1, 1940. A further extension was later announced which provided for the resealing of the 1938-crop corn for 2 years. The renewal was to be made at the 57¢ loan rate plus a 10¢ advance per bushel for 2 years storage or a total of 67¢.

Approximately 9 percent of the year's production entered the loan, or 229,839,000 bushels with a loan value of $130,882,000. Deliveries at the conclusion of the original program totalled 80,972,000 bushels, and deliveries under either the first extension program or the two-year extension program totalled 52,011,000 bushels. The remainder of the corn was delivered to the Corporation in satisfaction of the loans.

<u>1939</u>

Farmers in the commercial corn-producing areas were offered loans at the rate of 57¢ per bushel, which reflected 70 percent of parity. Loans outside the commercial corn areas were offered at a rate of 43¢ per bushel.

Loans were available during the period from December 1, 1939 through March 31, 1940 and were to be due August 1, 1940. On July 24, 1940, the two-year extension program was announced for 1938 and 1939 corn. Although the maturity date for the two-year loans was August 1, 1942, it was decided to let them continue on until the spring of 1943 because producers desired to retain the corn for feeding at that time. The loans were called on July 1, 1943, along with the unredeemed loans on the 1938, 1940, and 1941 crops.

The loans made totalled 301,729,000 bushels having a loan value of $171,756,000. Of the original loans, 58,093,000 bushels were redeemed, 110,906,000 bushels were delivered to the Corporation and 132,730,000 bushels were resealed. Deliveries were made on 3,484,000 bushels under the resealed program and the remaining quantity was redeemed.

1940

Several new features were incorporated in the 1940 program. The usual period of availability of loans had been 4 months, but in this program a 10-month period was designated. Also the loan was to run for 3 years instead of the usual one-year period. In this way no resealed or extension programs would be necessary and farmers could be sure of the period of the loans. A further change was that the loans were made callable upon demand by the Corporation for the first time.

Loan corn could be delivered by producers at the end of the second year upon 30 days written notice to the AAA County Committee. In special cases where farmers were to lose possession of their farms or a tenant had been requested by the landlord to remove the corn from the farm, the corn could be delivered after one year.

The mandatory loan rate of 61¢ per bushel, representing 75 percent of parity, was offered for 1940-crop corn. Loans were made on 103,125,000 bushels, valued at $62,835,000. Of this quantity 12,299,000 bushels were delivered to the Corporation in satisfaction of the loan and 90,826,000 bushels were redeemed by producers.

1941

Up until this time the loan rate on corn had been a flat per bushel rate, the same rate prevailing regardless of the location of the corn. For the 1941 crop the rates were established by counties and varied according to the normal relationship of corn prices over the area. This was done in order to provide the least interference with normal livestock feeding operations and to encourage more uniform storage of corn throughout the corn belt.

The passage of the Act of May 26, 1941 made the loan rate mandatory at 85 percent of parity. The average loan rate in the commercial corn-producing areas was 74.8¢ per bushel and varied by counties from a low of 69¢ per bushel to a high of 79¢ per bushel. Corn pledged for loans totalled 110,871,000 bushels with a loan value of $80,914,000. Loans were repaid by producers on 81,072,000 bushels while the remainder was delivered to CCC.

1942

The loan rate for 1942 averaged about 6¢ per bushel higher than in 1941, reflecting 85 percent of parity. Loans were made on 56,401,000 bushels of corn having a loan value of $43,605,000. Except for a very few bushels (less than 500), all the loans were repaid. The explanation for such a large percentage of repayments lies in the fact that OPA price ceilings imposed for the first time on January 12, 1943 were based on then current market prices which were at levels reflecting at least 100 percent of parity.

1943

A significant change in the program for 1943 was the elimination of differences between commercial and non-commercial corn areas. Loans were offered at the full rate to producers all over the country. The only differentiation made was that the rates were set up on a county basis in the corn belt and on a state basis outside the corn belt.

The average loan rate was 90¢ per bushel and 7,895,000 bushels entered the program at a loan value of $6,648,000. All of the loans were repaid.

Because of the shortage of corn which developed during the crop year measures were taken which were deemed necessary to afford an adequate supply of corn. These measures were:

(1) The establishment on March 24, 1944 of an order requiring that grain elevators set aside 35 percent of all stocks for use by purchasers designated by the War Food Administration;

(2) The announcement on April 24, 1944 of a program through which the Government was to become the purchaser for corn moving from farms or elevators in 125 designated counties in Nebraska, Iowa, Minnesota, Illinois, and Indiana for not in excess of 60 days;

(3) The initiation of a program on June 11, 1944 for the importation of corn from Argentina under which private importers would be reimbursed for the import duties paid.

<u>1944</u>

The loan rate for 1944 was 98¢ per bushel on a national average, representing 90 percent of parity. Twenty million six hundred forty-seven thousand bushels of corn were placed under loan, all of which was redeemed by the producers.

In addition to the loan features of the program, purchases of corn at ceiling prices were authorized to be made in order to cover lend-lease and other government requirements. The OPA ceiling price for No. 2 yellow corn, which reflected 100 percent of parity, was 11¢ per bushel over the average support rates. On January 9, 1945 a public announcement was made that the Government would make purchases under this program in order to build a reserve supply of corn.

1945

The national average loan rate of $1.01 reflected 90 percent of parity as of the beginning of the marketing year. The total number of bushels entering loan was 2,996,000, all of which were redeemed by producers.

During this time corn ceiling prices were still maintained at a level approximating 100 percent of parity. However, the need for corn was so urgent that on April 19, 1946 farmers were offered a plan whereby they could deliver corn to CCC and receive a bonus of 30¢ per bushel over and above the applicable OPA ceiling price. Under this program approximately 34,137,000 bushels were acquired.

1946

Although the participation in the corn loan program for the 1946 crop was somewhat greater than that in the previous 3 years, it was essentially a financing method used by farmers to secure a partial return on their crop until they sold the corn in the market or fed it.

The average market price for No. 3 yellow corn at Chicago was about $1,80 per bushel for the year, while the loan rate was only $1.15 per bushel. Loans were made on 25,982,000 bushels of corn having a loan value of $28,140,000. All of these loans were repaid by producers.

1947

In the 1947-crop year prices began a rapid rise with corn reaching a price in excess of $2.40 per bushel, about $1 over the national average loan rate. The demand for corn was so great that by the end of the crop year carryover stocks had been depleted to only 125,000,000 bushels.

A new feature of the program was the addition of purchase agreements. These agreements were available during the same period loans were available and deliveries were to be made within 30 days after the maturity date of loans.

The loan rate was again based on 90 percent of parity and was equivalent to $1.37 per bushel. There were 1,134,000 bushels placed under loan all of which were redeemed by producers. The quantity of corn placed under purchase agreements was very small.

1948

At the time the 1948-crop program was announced the farm price for corn was well over 100 percent of parity. The August mid-month average price was $1.91 per bushel, but due to the excellent crop prospects for corn and other grain crops, the mid-month price of corn had dropped 70¢ by November. This price lf $1.21 per bushel was 23¢ below the average support level of $1.44 per bushel, which represented 90 percent of parity.

As the crop year progressed it became apparent that there would be a large carryover of corn to the next year and the Department announced a program under which corn under loan could be resealed on the farm for an additional period of time with the maturity date fixed at July 31, 1950. In addition, producers having corn under purchase agreements were given the option of taking out loans, instead of delivering the corn to CCC. Under the resealing plan farmers could earn a 10¢-per-bushel allowance for storing the corn and delivering it to CCC at the maturity date.

Through September 30, 1949, under the original loan program, loans had been made on a total of 357,000,000 bushels of corn, and total purchase agreements entered into covered a maximum of 195,000,000 bushels. Thus price support was extended on 553,753,000 bushels of 1948-crop corn, representing about 15 percent of the total crop.

Of the loans previously recorded, 1,108,000 bushels had been resealed by September 30, 1949 and new loans were made on 114,000 bushels of corn previously under purchase agreements. There were 6,120,000 bushels delivered to the Corporation from the loan and 15,537,000 bushels had been purchased under purchase agreements. Loans were still outstanding on 347,381,000 bushels as of September 30, and it was estimated that approximately 145,000,000 bushels of purchase-agreement corn might be either delivered to CCC or placed under loan.

3. Wheat Operations

The first loan program for wheat was offered by the Commodity Credit Corporation on the 1938 crop. This price support program has resulted in an estimated cumulative loss to the Corporation of $21,121,000 through June 30, 1949. Of this amount $4,476,000 represents charge-offs of loans receivable and the remainder losses on sale of wheat from inventory acquired under the support program.

Loans have been made on a total of 1,983,825,000 bushels of wheat representing a loan value of over 2 billion dollars.

A. Characteristics of Loan Program

The loans offered by the Corporation are available to eligible producers through private lending agencies, cooperatives and directly through the Corporation. Such loans are of a non-recourse nature.

Since the first program in 1938, loans have been made on both farm- and warehouse-stored wheat and the schedule of rates has included differentials for location, and premiums and discounts for grade and quality. Generally, payments of 7¢ per bushel have been made to producers for storing pledged wheat on the farm during the loan period, if they actually delivered the wheat to the Corporation in satisfaction of the loan.

The loan rates for wheat have been established in accordance with applicable laws. Through 1943 compliance with acreage allotments under the AAA program was one of the requirements for eligibility for a loan. Marketing quotas were in effect during 1941 and were approved for the 1942 crop. However, due to the increased consumption of wheat, quotas were suspended on February 23, 1943 with respect to the remainder of the 1942 crop and the call for a referendum on the 1943 crop was cancelled. Since that time there have been no acreage allotments or marketing quotas.

B. History of the Wheat Loan Program

<u>1938</u>

In accordance with the Agricultural Adjustment Act of 1938, the requirements for participation in the first wheat loan program were announced on June 14, 1938. Though the farm price for wheat was above 52 percent of parity, the estimated production of 967 million bushels was in excess of the year's normal domestic consumption and exports which was estimated at 750 million bushels.

An average loan rate of 59¢ per bushel at the farm was offered with the result that 85,745,000 bushels were pledged for loans, or roughly 9 percent of the total production of wheat during the crop year. Prior to the maturity date of farm-stored loans, it was announced that these loans might be resealed for a period of 10 months beyond the original maturity date.

In order to encourage redemption of wheat by producers, and because the 1938 program did not provide premiums for high-protein content, the Corporation, in the spring of 1939, offered to release wheat on the basis of current market prices for ordinary protein wheat. This release of wheat resulted in a loss to the Corporation of almost $3,900,000 but saved other costs incident to the acquisition and sale of the collateral that would otherwise have been incurred.

Deliveries of 15,723,000 bushels were made to CCC under the regular loan program. There were no deliveries on the 3,708,000 bushels placed under the resealed program.

1939

The general provisions of the program for 1939 were similar to those under the 1938 program with only a few exceptions. Some adjustments in loan rates between areas and other small rate adjustments were made in order to make the rates follow more closely the usual market price relationships.

The average loan rate at the farm was 63¢ per bushel or approximately 55 percent of parity. There were 167,702,000 bushels pledged for loans, or the equivalent of

22.6 percent of the production for the year. Producers redeemed 155,789,000 bushels and delivered 1,809,000 bushels to the Corporation. Ten million one hundred four thousand bushels had been resealed with a maturity date of April 30, 1940. Of this quantity, 5,891,000 bushels were delivered to CCC, the remainder being redeemed by the producers.

<u>1940</u>

Since the market prices were about 20¢ per bushel over the loan rate on June 15, 1940, it was not mandatory for the Corporation to offer a loan program. However, it was thought that the stabilizing effect of such an announcement would contribute to more orderly marketing of the crop.

Heavy participation in the program was not anticipated at the time the first announcement of the loan was made because of the high market prices. However, by August markets prices had declined sharply.

With the average loan rate established at 64¢ per bushel 278,430,000 bushels entered the loan representing about 34 percent of the total crop. Deliveries totalled 173,636,000 bushels, 98,673,000 bushels were redeemed and 6,120,000 bushels were resealed under an extension program.

1941

The passage of the Act of May 26, 1941 required the Corporation to make loans available at 85 percent of parity, with the result that the average loan rate was 98¢ per bushel.

The wheat parity payments and conservation payments of approximately 18¢ per bushel, when added to the 98¢ per bushel average loan rate, approximated 100 percent of parity. This was the first time since the early 1920's that farmers reached a return equivalent to 100 percent of parity.

Almost 39 percent of the wheat produced in 1941 was pledged for loans, the total pledged being 366,326,000 bushels. There were 269,807,000 bushels (including 6,272,000 bushels of resealed wheat) delivered to the Corporation in satisfaction of loans. This was 76.4 percent of all the wheat pledged and represented the highest proportion of collateral acquired in relation to loans made up to the 1948 program.

Under the announcement of May 20, 1942, farmers were afforded the opportunity of redeeming their wheat at feed wheat prices. Much of the wheat acquired by CCC was actually sold to the producers who had taken out loans, for use as feed at feed wheat prices. In addition, wheat acquired under the loan program was made available to producers who wished to purchase from the Corporation for feeding purposes at feed wheat prices. Producers redeeming their wheat for feeding purposes were permitted to retain the storage allowance.

1942

The loan rate was again set at 85 percent of parity and the national average loan rate was $1.14 per bushel. Participation in the program was, as it had been in the past, contingent upon compliance with acreage allotments and in addition marketing quotas were established. However, these quotas were suspended on February 23, 1943 because of the increase in the rate of consumption of wheat.

The 7¢ per bushel storage allowance which was usually given producers holding farm storage loans upon delivery of the collateral in satisfaction of loans, was in this program given as an advance to encourage the construction of new storage structures and repairs to old structures.

Participation in the 1942 program was the highest in the history of the Corporation with 408,136,000 bushels, representing over 42 percent of the year's production, being placed under loan. The Corporation acquired 45 percent of the wheat placed under loan. A large part of these acquisitions was never actually delivered to CCC but was released to producers for feed wheat.

1943

For the first time since 1938 the price for wheat during the 1943 crop year was above the loan value at all times. As a result, participation by producers in the program decreased from earlier years.

The average loan rate was established at $1.23 per bushel and was equivalent to 85 percent of parity. About 15 percent of the year's production, 130,170,000 bushels, was pledged for loan. Almost all of the wheat was redeemed, only 287,000 bushels actually being delivered to CCC in satisfaction of the loan.

In addition to the loan features of the program, the Corporation offered to purchase wheat from producers at the applicable support price in cases where local storage was not available or where producers could not ship to normal markets.

1944

The Stabilization Extension Act of June 30, 1944 authorized an increase in the loan rate to 90 percent of parity. Purchases of wheat at loan value in areas where storage facilities were inadequate or where wheat was needed for other programs were also authorized.

With the average loan rate at $1.35 per bushel, 180,413,000 bushels of wheat, about 17 percent of the crop, were pledged for loans.

During the spring of 1945 a serious shortage of storage and transportation facilities existed and the Corporation was unable to accept all of the wheat offered to it at the maturity date of the loan. An extension of the loan was offered with the maturity date being set at April 30, 1946. Only 93,000 bushels entered this loan extension program and 4,000 bushels were purchased by CCC under the parity purchase plan. The remaining 89,000 bushels were redeemed.

1945

The average loan rate was $1.38 per bushel, equalling 90 percent of parity. The loan program was of declining importance as the marketing year progressed because of the exceptionally heavy demand for wheat for export.

Under an announcement of August 25, 1945, the Corporation offered to purchase the loan wheat at full parity. However, due to the continued high market price, only 24,000 bushels were acquired by the Corporation under this program.

1946

In the 1946 crop year wheat prices experienced a rapid rise. Commodity Credit Corporation was offering a bonus of 30¢ per bushel for wheat in the spring of 1946 in order to obtain wheat to meet export commitments.

The average loan rate was $1.49 per bushel representing 90 percent of parity. There were only 21,988,000 bushels pledged for loan, all of which were redeemed by producers.

1947

As the 1947 crop began to move to market, the price for No. 2 hard winter wheat at Kansas City was 27¢ above the applicable loan level. By January 1948 the market price exceeded $3 per bushel. Though prices dropped sharply from the January high, at the end of the marketing year they were still 27¢ per bushel above the loan rate.

With the loan rate averaging $1.83 per bushel, only 31,239,000 bushels were offered for loan, and with the exception of loans on 4,000 bushels, all of the loans were repaid.

To enable producers who did not need immediate cash to secure the protection of the price-support program, purchase agreements were also offered.

1948

As a result of the large crop of 1,288,406,000 bushels, and a further recovery of foreign production, wheat prices were depressed below the loan level.

Loans and purchase agreements were made available to producers from harvest through December 31, 1948. On May 12, 1949 an announcement was made that through June 30, 1949 producers having farm-stored wheat under loan might renew these loans for a period of one year, making the maturity date April 30, 1950.

Through June 30, 1949, price support had been extended on 367,509,000 bushels of wheat. Loans were made on 253,982,000 bushels, purchase agreements covered 113,516,000 bushels and direct purchases of 11,000 accounted for the remainder. Almost 82 percent of the wheat pledged for loan had been delivered to CCC in satisfaction of the loan as of June 30, 1949.

CHAPTER IV

CONCLUSION

Few corporations either private or governmental, in the development of world trade and in the industrial and financial progress of the Nation have had at their command such enormous funds and financial resources as the Commodity Credit Corporation. Fewer still have been authorized by any government to engage in, and carry out, so many large programs involving so many commodities and serving such vast operations of loans, purchases, and sales. Since its inception in 1933, CCC has engaged in programs affecting at least 45 different commodities, with a resultant loss of over $2 billion (as of June 30, 1949).

From these vast operations carried on by CCC there are certain conclusions which can be drawn:

(a) Storage programs, which operate on the principle of putting products into storage at one time and releasing them at a later date, can stabilize prices but cannot raise their level over a period of years.

The actual analysis of this concept has been worked

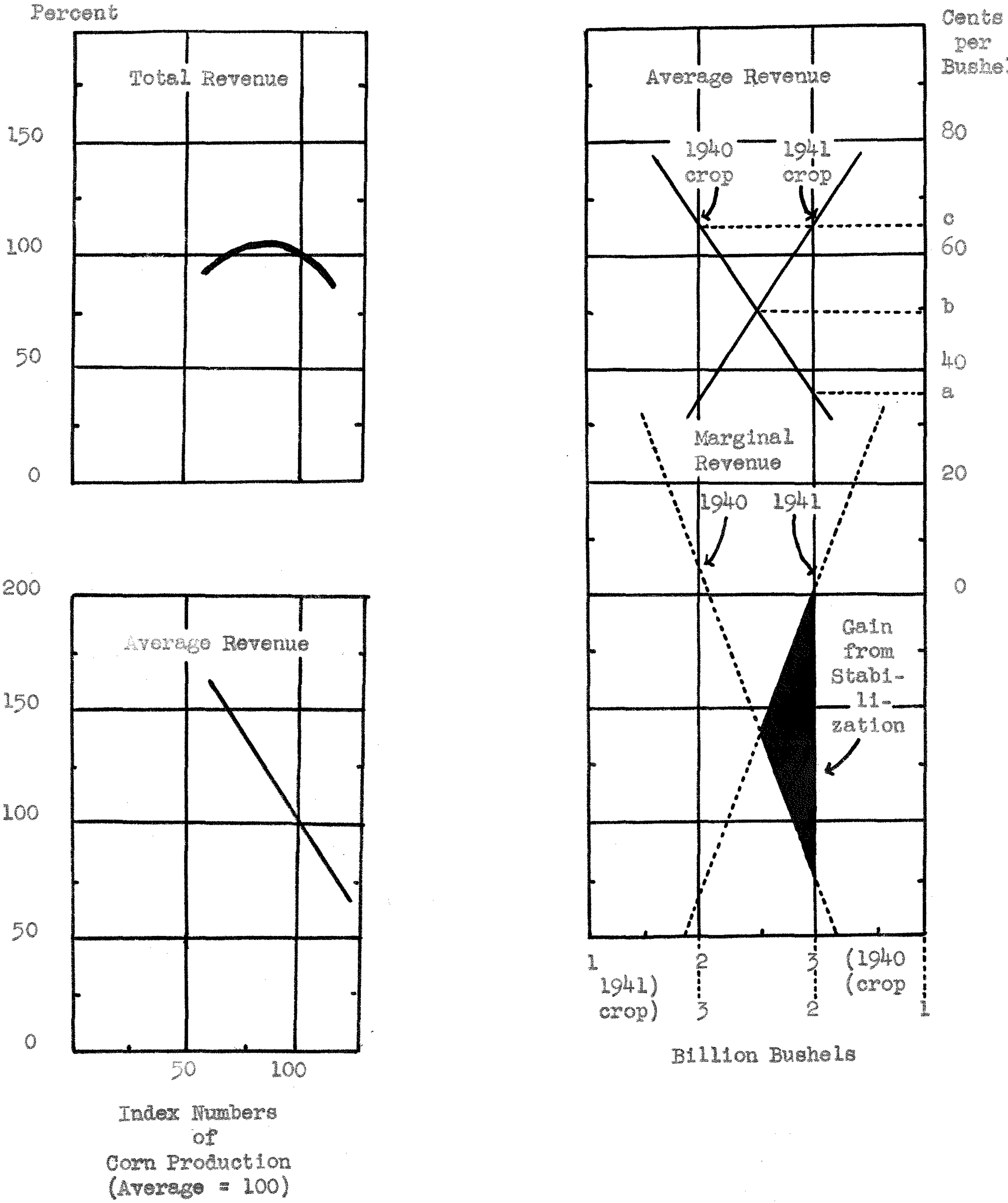

Fig. 1. AVERAGE, MARGINAL, AND TOTAL REVENUE FOR DIFFERENT SIZE CORN CROPS.

Source: Shepherd, Geoffrey S., Agricultural Price Control, The Iowa State College Press, 1945, p. 89.

out by Professor Shepherd.[1] For example, if two corn crops, one large and the other small, are both converted into average-size crops by storing the excess of one year and adding it to the other, these two average-size crops are worth more than the two original large and small crops. This principle, however, does not apply to all crops.

The lower left section of Figure 1 shows the demand curve or average-revenue curve for corn. The upper left section shows the total-value curve for corn; this shows the total value of different-sized crops. A study of this total-revenue shows that under a freely fluctuating price system, before storage operations were undertaken, two crops, one large and the other small, were worth less than two crops of average size. The average-revenue curves in the upper right-hand corner of Figure 1 point this out more clearly. Assuming a 3 billion bushel production in 1940 and a 2 billion production in 1941, the total revenue for the two years would have been $2,350,000,000.[2] But with a storage plan whereby 2.5 billion bushels would be placed on the market each year the total revenue would have been increased to $2,500,000,000.

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1. Shepherd, G. S., Agricultural Price Control, The Collegiate Press, Inc., 1945, pp. 88-90.

2. Point "A" represents price at 2 million bushels; point "B" represents price at 3 million bushels; point "C" represents price for normal production.

The dotted lines in the lower right part of Figure 1 are the marginal revenue curves. They have equal values at 2.5 billion bushels. This means that if the crop were large in 1940 and small in 1941, so that the two crops totaled 5 billion bushels, the way to maximize returns would be to sell 2.5 bushels each year. The amount gained by this plan, compared to that of selling crops of unequal sizes is shown by the black triangular area in the lower part of the chart. The gross gain, as pointed out above would be 150 million dollars (2,500,000,000 - 2,350,000,000 equals 150 million).

Stabilizing corn supplies by storage operations stabilizes prices and slightly increases incomes, but by merely smoothing out irregularities in supply it cannot be expected that the general level of corn prices, or any other such commodity, will be raised higher than they normally would be. The only way to raise prices over a period of years is to increase the demand or decrease the supply. When storage operations are used as an attempt to accomplish this, consumption is reduced, production is stimulated, and stocks accumulate.

(b) Different farm products require different programs. For such crops as corn and other livestock feeds, the program should be established on the basis of stabilizing the fluctuations in market supplies caused by variations in weather. The necessity of such a basis rests upon the fact livestock production and prices are continually being disturbed by fluctuations in corn supplies. This program can be accomplished by loan and storage activities that withhold from the market the excess created by large crops, and release them in times of short crops.

In the case of crops other than the livestock feeds, stable incomes are preferable to stable prices. When the price of these commodities is held stable at a constant level, the total income varies from year to year, directly and proportionally with variations in the size of crop. A crop 20 percent above average means 20 percent more gross income than average; a small crop means an equally small gross income. Thus a price floor which varies with the size of the crop would be the most beneficial plan to use for these commodities. Such a price floor would aid the movement of these commodities into consumption channels and stabilize gross incomes at the same time.

For perishable commodities it is not only preferable but necessary to use price floors which vary with the size of crop. Inflexible price supports for this type of commodity lead to unsalable surpluses in years of large crops and unsatisfied consumers in years of short crops.

(c) Since the early 1920's the problems of the American farmer have become increasingly important -- both from an economic and a social point of view. At the same time, the national agricultural policies have undergone a striking evolution. Previous to these years the chief features of agricultural policy were tariffs on farm products and public provision for education, research, and dissemination of information.

Shortly before the depression years of the 20's, however, new policies began to evolve. As the depression years came upon us these new policies came strongly into focus. There was a pronounced drift towards high and complex trade barriers, unprecedented financial aid to farmers, active intervention by government agencies, and increasing control of farming operations. Today this drift has reached its extreme conclusion in the agricultural system of Soviet Russia, and to some extent, that of England. In the United States this trend in policy manifest itself in the establishment of the Federal Farm Board, the AAA programs, the Commodity Credit Corporation and other programs.

The basic objectives underlying the Commodity Credit Corporation, and other such examples of the new trend in agricultural policy are generally approved by most economists. There is usually no argument found for such objectives as conservation of natural and human resources, adequate production to meet domestic and foreign demand, stability of acreage and production, fair prices for farm products, and a fair share of the national income for farmers. The fundamental conflict arises, however, between these plausible slogans and their workable solutions. To the writer, it seems that too often the slogans have become political "planks" without regard to their economic implications or consequences. The fact cannot be overlooked that the farmer's vote is important, or that the farmer himself becomes increasingly influenced when his income seems to depend more on political matters than on the economic value which society places on his products and services. One writer[1] has pointed out: "The most far-reaching and in an economic sense the most dangerously ambitious legislative proposals for agriculture are not those advanced by responsible farmers or farm organizations but by men who are honestly -- and understandably -- interested in farm votes. . . . If given a choice they tend to vote for the bill which on the face of it promises the highest support prices in their part of the country." The recent passage by the Congress of legislation[2] which increases the support prices for many commodities in the face of accumulating surpluses and declining foreign demand, bears this statement out.

The Commodity Credit Corporation cannot be expected to have a program which will aid the farmer in the long run, if the policy for such a program is determined largely by political necessities rather than on sound economic principles.

(d) In regard to a more specific point, these facts should be noted. About half the entire number of farmers

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1. Davis, Chester C., Farm Policy Forum, April, 1950, p. 27.

2. The 1949 Agricultural Act.

in the United States operate large-scale farms or plantations, or family commercial farms, with a value of product of more than $600 per farm. In 1939 about 90 percent of the value of the farm products sold, traded, or used by farm households was produced by these farms. The rest of the farms, the small-scale farms, produced only about 10 percent.[1] Such a situation as this raises the question as to whether or not the policy upon which CCC now operates is benefiting the small-scale farmer. It seems logical to assume that most of these small-scale farms produce too little for sale to earn decent incomes through government price-supports, however high. Yet nearly half of the farmers in the United States fall into this group. It is these farmers who face the most serious problems -- inadequate shelter, clothing nutrition, education, etc.

The effect of CCC price support programs upon the small-scale farmers' incomes will have to await further study. If such a study reveals the inadequacy of CCC policies, as the writer believes it will, there will be need for revision of this policy.

In summary, the four conclusions regarding the activities of the Commodity Credit Corporation are these: (1) storage operations carried on by the Corporation can

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1. Sixteenth Census, United States, 1940. "Analysis of Specified Farm Characteristics for Farms Classified by Total Value of Products, Cooperative Study," USDC and USDA, 1943, p. 30.

stabilize prices but cannot raise their level over a period of years; (2) the various commodities require differing programs in accordance with their respective characteristics; (3) policy decisions in regard to support of agricultural prices must be made on economic bases rather than on political motivations; and (4) there is an indication that present price policies carried on by CCC are not directly affecting the small-scale farmers. If further study bears this conclusion out, there will be need for revision in such policies.

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12. Unpublished material furnished by the Production and Marketing Administration, USDA.