POSSIBILITIES AND LIMITATIONS OF THE AGRICULTURAL ADJUSTMENT ACT AS AN AID TO AMERICAN AGRICULTURE

Roy A. Ballinger
Oklahoma A. and M. College

The general purpose of the Agricultural Adjustment Act is to reestablish prices to farmers at such a level that farm products will have a purchasing power equal to their purchasing power in the base period from 1909 to 1914, except in the case of tobacco for which the base period is 1919 to 1929. The purchasing power of farm products was relatively high during this period. However, parity prices do not necessarily mean parity of net income because the costs of production of farm products has changed since 1909 to 1914.

The Secretary of Agriculture is given power to levy processing taxes and make benefit payments to farmers for reducing their production of the basic agricultural commodities which are wheat cotton, field corn, hogs, rice, tobacco, and milk and its products. Up to the present time this has been done for all of these products except milk. The production-reducing plans which are now in operation have resulted in immediate cash benefit to most of the farmers using them. The prices of the products are sufficiently below parity so that the processing taxes bring in enough money to enable the Adjustment Administration to pay the farmers more for the reduction they made in their production than they would receive for the extra products if they made no reductions.

The reduction in production from the plans announced up to the present time cannot be expected to be as great as the percentage reduction required of individual farmers. Not all farmers who produce a particular crop will sign the contract to reduce their acreage. Those who do not sign may increase their acreage and new producers may enter the field because of the prospect for higher prices.

In addition to the plans for reducing the production of basic commodities, marketing agreements may be entered into by the producers of any agricultural commodity. These agreements have been most extensively used in connection with the marketing of fluid milk and various fruits and vegetables. The price-raising features of these agreements usually consist of some forms of the basic-surplus plan for milk and of the pro rata plan for fruits and vegetables by which the supply reaching the market is regulated to some extent.

In spite of their immediate benefits to farmers, most of the plans for farm relief appear to have certain faults. None of the plans appear to provide any incentive for farmers to permanently reduce their acreage after the government stops paying them for the reduction. A reduction in the acreage of a crop can be accomplished most economically if the marginal acres devoted to the production of that crop are taken out of production, but the control plans now being used do not affect the marginal acres to any greater extent than the more productive acres. The benefit payments are larger for the better acres.

If the price of a commodity that is exported is increased greatly as a result of the relief plans, American producers will lose part of their export markets, because foreign producers will be willing to sell more cheaply. It may be difficult to regain these lost markets after the relief plans have ceased to operate.

The processing taxes from which the money for benefit payments is secured are regressive in their effects and particularly burdensome on poor people. It does not appear particularly just to use regressive taxes to increase the share of the national wealth and income going to farmers.

In spite of the difficulties involved in the operation of the Agricultural Adjustment Act, it seems probable that some form of farm relief of a rather drastic nature is necessary for the immediate aid of farmers. Perhaps the plan adopted is about as good as any plan which would have been accepted by congress at the time.