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SENATE

PRICE SUPPORTS FOR PERISHABLE PRODUCTS:
A REVIEW OF EXPERIENCE

A STAFF REPORT ON THE SCOPE AND COST OF
PRICE-SUPPORT PROGRAMS FOR PERISHABLE
AGRICULTURAL COMMODITIES, 1933 TO DATE

OCTOBER 17, 1951



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LETTERS OF TRANSMITTAL

OCTOBER 17, 1951.

To Members of the Senate Committee on Agriculture and Forestry:

For the information of members of the committee and others interested, there is transmitted herewith a staff report on Price Supports for Perishable Farm Products: A Review of Experience.

It attempts to present a factual review of our price-support programs for perishable farm products and indicates a number of problem areas which should be given further study by our committee.

ALLEN J. ELLENDER, *Chairman.*

LIBRARY OF CONGRESS,
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Washington, D. C., October 17, 1951.

HON. ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry,
United States Senate, Washington, D. C.*

DEAR SENATOR ELLENDER: I am transmitting herewith a report on our past experience with price supports for perishable farm products.

This report is in response to your recent request and reviews our price-support activities from 1933 to date. It summarizes the pertinent information on the scope and cost of the programs and indicates the disposition of stocks acquired for price-support purposes.

Members of the United States Department of Agriculture have been most helpful in making their records available for this study, and in preparing special tabulations of pertinent data.

Sincerely yours,

WALTER W. WILCOX,
Senior Specialist, Agriculture.

LETTERS OF THE WESTERN

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PRICE SUPPORTS FOR PERISHABLE PRODUCTS: A REVIEW OF EXPERIENCE

SUMMARY

Producers of perishable farm products have received substantial benefits from Government price-supporting activities in the past 18 years. Consumers also have received important benefits in the form of more stable and larger supplies of these products than would have been produced and marketed without farm price-support and surplus-removal programs.

It is appropriate that this experience be reviewed with a view to increasing the effectiveness of price supports for perishable products and to protecting the Government against excessive costs. Government costs of price supports for perishable farm products increased from an annual rate of \$50,000,000 in the prewar, depression years to an annual rate of \$110,000,000 in the war and immediate postwar years and reached \$284,000,000 in the calendar year 1950.

Government costs of price-support activities for perishable and storable products compare as follows:

Expenditures on sec. 32 (purchase) programs and Commodity Credit Corporation price-support losses on perishable and storable products

[Thousands of dollars]

	Fiscal years 1936-41	July 1941 to Decem- ber 1949	Jan. 1, 1950, to Dec. 31, 1950	Total
Perishable products:				
Sec. 32 expenditure.....	301, 190	501, 627	62, 806	865, 623
CCC losses.....		401, 933	220, 991	622, 924
Subtotal.....	301, 190	903, 560	283, 797	1, 488, 547
Storable products:				
Sec. 32 expenditure.....	253, 599	179, 506	5, 004	438, 109
CCC losses.....	60, 390	6, 450	82, 939	149, 779
Subtotal.....	313, 989	185, 956	87, 943	587, 888
Total.....	615, 179	1, 089, 516	371, 740	2, 076, 435

These costs are approximately 1 percent of the total value of the perishable products marketed during these three periods and a small fraction of 1 percent of the value of the storable products marketed.

The discontinuance of price supports for both potatoes and eggs, beginning with the 1951 crops or production, abruptly ended situations which were becoming increasingly serious both from the standpoint of excessive Government costs and the misuse or misdirection of productive resources.

In spite of the inflationary situation in 1951, dairy product prices fell to price-support levels in the flush season and further weakening

of prices would have required substantial price-support purchases. Recent experiences indicate that had this occurred, there were no satisfactory outlets for Government-held stocks, unless market prices rapidly recovered as they did in the fall of 1950.

In addition to the need for developing additional methods and standards for supports for perishable products, particularly for milk and butterfat, the continued practice, year after year, of Government purchases of individual commodities merits special attention. Apples and dried prunes have benefited from Government-purchase programs in 15 of the last 18 years, ranging from several hundred thousand to several million dollars each year. Dairy products, raisins, and oranges have also benefited from Government-purchase programs in 12 to 14 of the last 18 years.

Special studies and hearings might well be undertaken to determine the effect on desirable industry adjustments of these almost continuous Government-purchase programs and to establish more specific criteria for administering continuing annual purchase programs for these commodities.

Potatoes and eggs will no doubt merit further price-support activities in the future. It should not be overlooked that the Government has purchased both potatoes and eggs in 17 of the last 18 years to support prices to the producers.

At the present time the Secretary of Agriculture is prohibited by legislation from using any funds for surplus removal or for supporting potato prices unless and until the producers adopt marketing quotas. Consideration might well be given to authorizing the use of section 32 funds in a limited manner to supplement potato-marketing agreements and orders in dealing with temporary surplus situations, since a program of this type could be of material assistance to producers without the serious waste and high Government cost of recent potato price-support programs.

Domestic noncompetitive outlets for perishable products such as school-lunch programs and charitable institutions cannot utilize more than 1 to 3 percent of the total production of most perishable products. This places a limit on the extent to which Government purchases may be used to support prices of perishable products if spoilage is to be avoided. Where the product may be exported as in the case of some fresh and most dried fruits, special export programs may be arranged to support prices to growers.

In view of the limitations within which price-support programs for perishables must operate in contrast to those for storable commodities, special consideration should be given to the feasibility of the following:

(1) Developing international agreements to widen the markets for fresh and dried fruit and for other exportable perishable products such as nonfat dry milk solids.

(2) Developing alternative methods for supporting prices of different perishable products such as direct payments to producers and domestic consumer-incentive programs to maintain the consumption of the more important perishable products if business activity declines.

(3) Developing additional standards for determining support levels for milk and butterfat, and

(4) Authorizing the use of marketing agreements and orders for fruits and vegetables produced for processing and, in the case of annual

crops, permit the general use of marketing quotas under specified conditions.

Government price-support and surplus-removal programs may have an important place in stabilizing year-to-year prices in an expanding industry. As a safeguard against involving the Government in excessive costs for perishable price supports and against causing undesirable effects in increasing or maintaining production in excess of available markets, however, additional legislative standards for price supports for perishable products might well be considered. These might include the requirement that the Secretary must find that price supports at the levels adopted will not stimulate production increases in excess of expected market requirements; or if a long-run contraction of the industry is needed because of a loss of markets, the Secretary might be required to attach conditions insuring that the price-support program facilitates rather than delays, the needed long-run adjustments.

TABLE 1.—Government cost of price-support activities by groups of perishable commodities, 1936 to date ¹

Commodity	Fiscal year 1936-41		July 1941 to De- cember 1949		Jan. 1 to Dec. 31, 1950		Total	
	Amount (000 omitted)	Percent	Amount (000 omitted)	Percent	Amount (000 omitted)	Percent	Amount (000 omitted)	Percent
Dairy products.....	\$77,388	25.6	\$44,621	4.9	\$89,194	31.3	\$211,203	14.2
Eggs.....	34,870	11.5	131,512	14.6	69,810	24.6	236,192	15.7
Potatoes.....	15,850	5.3	433,539	48.2	87,718	30.9	537,008	36.0
Pork and lard.....	56,546	18.7	14,851	1.6			71,397	4.8
Dried fruits.....	24,615	8.2	36,541	4.0	12,980	4.6	74,136	5.0
Apples.....	27,470	9.1	29,720	3.3	7,954	2.8	65,144	4.4
Citrus fruit.....	33,945	11.3	21,118	2.3	3,132	1.1	58,195	3.9
Other fruit.....	10,439	3.5	11,987	1.3	3,021	1.1	25,425	1.7
Garden vegetables.....	10,848	3.6	34,629	3.8	157	.1	47,827	3.2
Tree nuts.....	7,755	2.6	3,648	.4	3,931	1.4	14,523	1.0
All other ²	1,463	.6	141,392	15.6	5,899	2.1	148,655	10.1
Total.....	301,190	100.0	903,560	100.0	283,797	100.0	1,489,705	100.0

¹ Computed from PMA data, Government expenditures for sec. 32 programs and Commodity Credit Corporation losses.

² Includes expenditures and cash donations for school-lunch program.

TABLE 2.—Government cost of price supports for perishable commodities by type of program ¹

[Percent]

	Fiscal 1936-41	July 1941 to December 1949	January 1 to Dec. 31, 1950	Entire period
Sec. 32 programs:				
Direct distribution.....	95.1	48.5	12.9	51.2
Diversion.....	3.8	4.3	1.6	3.7
Export.....	1.1	2.7	7.6	3.3
CCC losses ²	0.0	44.5	77.9	41.8
Total.....	100.0	100.0	100.0	100.0

¹ Computed from PMA data.

² Potatoes, eggs, and dairy products account for most of these losses. The products themselves were disposed of through export channels, direct domestic distribution and diversion.

PART I. PREWAR PROGRAMS, 1933-41

Legal basis for prewar programs

Prewar programs directed toward the improvement of prices and incomes for producers of perishable products were of three types based on three different sections of the Agricultural Adjustment Act of 1933, as amended. One type included dairy products and hogs which were originally classified as basic commodities and were entitled to the same price-support and production-adjustment operations as storable commodities. The early corn-hog programs were similar to the adjustment programs for the other basic commodities, although an adjustment program was never undertaken for dairy products.

The second legal basis for price-support programs for perishables in those early years was section 12 (b) of the 1933 act which authorized the Secretary of Agriculture to use funds available to him "for expansion of markets and disposal of surplus agricultural products." The Federal Surplus Relief Corporation was created on October 4, 1933, and utilized funds from the Agricultural Adjustment Administration and from the Federal Emergency Relief Administration to purchase both storable and perishable farm products for distribution to people on the relief rolls. The first activities in this field had just gotten underway when the country experienced the severe drought of 1934. In an effort to relieve the hardship of the drought-stricken areas the Jones-Connally Cattle Act and other drought-relief legislation was passed which provided funds for the purchase of cattle, sheep, and goats in drought-stricken areas, many of which were processed for distribution to people on relief.

In August of 1935 Congress added another source of funds. Section 32 of the act of August 24, 1935, as later amended, authorized the Secretary of Agriculture to use an amount equal to 30 percent of the annual custom receipts—

to encourage the exportation of agricultural commodities and the products thereof, to encourage domestic consumption of such commodities by diverting them from the normal channels of trade or increasing their use among persons in low-income groups. * * *

Funds made available each year by this legislation soon became known as "section 32 funds," an identification which they still carry.

The third legal basis for the prewar price-support programs for perishables was the authorization for marketing agreements, licenses, and Secretary's orders, included first in the 1933 act but greatly strengthened in 1937. In section (8) of the Agricultural Adjustment Act of 1933 the Secretary of Agriculture was authorized—

to enter into marketing agreements with processors, associations of producers, and others engaged in the handling in interstate or foreign commerce of any agricultural commodity or product thereof [and] to issue licenses permitting processors, associations of producers, and others to engage in the handling in the current of interstate or foreign commerce of any agricultural commodity or product thereof * * * to eliminate unfair practices or charges that prevent or tend to prevent the effectuation of the declared policy and the restoration of normal economic conditions in the marketing of such commodities. * * *

General pattern of prewar price-support activities

The first purchases of perishable farm products to improve the price and income situation for producers were made in the fall of 1933. Hogs, cattle, and dairy products were purchased to remove "market

surpluses." In the early months the limiting factors in surplus-removal operations were funds and administrative arrangements to carry on the activities. The prices of many perishable products were exceedingly low and the number of people on relief correspondingly high. The processed products were turned over to the Federal Emergency Relief Administration for distribution. Although the records at the present time do not indicate the controlling factors in the decisions regarding which perishable products to purchase and in what amounts, it is probable that after the drought-relief period passed the following three were most important:

(1) Effectiveness with which groups of producers organized and pressed their request for governmental assistance.

(2) Suitability of the product for meeting the food requirements of the people on the relief rolls.

(3) The ability of the purchase program (in the amount permitted with available funds) to make an observable improvement in the market-price situation.

As mentioned earlier the drought of 1934 led to special legislation and funds for the purchase of cattle, sheep, and goats from the drought-stricken areas for processing and distribution to people on relief rolls. A number of hogs and pigs also were purchased, processed, and distributed as a part of the corn-hog adjustment program. But with these exceptions the early-purchase and direct-distribution programs were carried out within the wide discretionary powers of the administrators of the Agricultural Adjustment and the Federal Emergency Relief Administrations.

When Congress made available an amount equal to 30 percent of the gross custom receipts in 1935 for surplus removal, diversion, and related purposes, substantial funds for the first time became available for the purchase of nonbasic products. The annual report of the Administrator of the Agricultural Adjustment Administration for 1936 reported the use of section 32 funds for the purchase of a wide range of perishable products including apples, beans, cabbage, carrots, cauliflower, grapefruit, onions, oranges, peas, peaches, pears, prunes, sirup, eggs, and cattle and calves. Dairy products were purchased with Jones-Connally funds. This report comments on this activity as follows:

Surplus-removal programs have been so administered that even small but properly timed purchases of certain surpluses may have beneficial results far outweighing the actual operations involved.

Purchases and relief distribution of farm products have been carried out under programs that were designed to increase domestic or foreign demand for the product concerned, by introducing it to new consumers who, when their purchasing power is restored, will remain in the market for the commodity as buyers.¹

Marketing agreements, licenses, and orders were believed to be the most effective means of assisting a wide range of producers. From 1933 through December 31, 1935, 54 marketing agreements, 84 licenses, and 2 orders had been put into effect. These covered groups of producers of dairy products, tobacco, fruits, vegetables, and naval stores. Marketing agreements were also used at one time by the Pacific Northwest wheat producers and by the peanut growers and processors.

¹ Agricultural Conservation, 1936, USDA, p. 80.

When and wherever a group of producers and handlers requested assistance on a group basis and it appeared that their problem could be dealt with under the provisions of section 8 of the Agricultural Adjustment Act, an attempt was made to develop a marketing agreement or license specifically adapted to correct the undesirable market situation. Thus the milk marketing agreements and licenses tended to establish uniform producers prices and provide for pricing the fluid milk to the distributor on the basis of its use. The marketing agreements and licenses for perishable fruits and vegetables tended to prorate the supply sent to market each week throughout the marketing season.

Early attempts to set minimum prices in the fruit and vegetable marketing agreements were soon discontinued when it was found that they led to insuperable marketing restriction and allocation problems among the different producers supplying the market. The fixing of minimum prices to producers for milk in fluid milk marketing areas worked successfully, and these programs have had considerable expansion.

Diversion of a part of the product to lower value uses was a part of the first marketing agreements for a number of the fruits and vegetables. The olive marketing agreement included quotas for the packers with the provision that after the quotas had been filled, the excess olives were to be crushed for oil. The walnut marketing agreement provided for shelling a part of the crop for sale in a somewhat noncompetitive market. The dried fruit marketing agreements had similar provisions. Wherever it appeared that total returns to growers could be increased by diverting a part of the total supply to lower valued noncompetitive uses, the marketing agreements² offered a legal means of requiring all producers and handlers or processors to share equitably in the diversion operation.

This was the general pattern of price support for perishable products developed in the early years of agricultural adjustment programs. Two distribution programs, however, deserve a special review. These are the school-lunch program and the food stamp plan.

Early beginnings of Federal assistance for school lunches

The Federal Government first started the school-lunch assistance program as a means of providing employment for people on the relief rolls. The Work Projects Administration spent \$37,000,000 on school-lunch projects in one of its first years of operation.³ When section 32 funds became available in 1935, farm products purchased by the Government for price-improvement purposes were donated to schools which agreed to use donated products in serving free lunches to needy children. This outlet for farm products purchased under price-supporting operations developed rapidly. Workers for preparing and serving the free school lunches were provided by the WPA and much of the food was donated by the Department of Agriculture through the State welfare agencies. In the 1940 fiscal year more than 100,000,000 pounds of surplus farm products were distributed to

² The term "marketing agreements" as used in this report usually is a general expression intended also to cover licenses and marketing orders authorized under the marketing agreements legislation of 1933, 1935, and 1937. Upon the two-thirds majority vote of the producers of a particular product—three-fourths in the case of California citrus fruits—the Secretary of Agriculture is authorized to issue an order requiring all producers and processors to follow the marketing limitations agreed upon by the majority.

³ Hearings before a subcommittee of the Committee on Agriculture and Forestry on S. 1820 and S. 1824, 78th Cong., 2d sess., May 1944, p. 8.

43,000 schools in low-income areas where more than 3,000,000 children were given free lunches in the peak month.⁴ Beginning in the fiscal year 1940 sales of milk to school children were subsidized in the interests of increasing the consumption of milk and improving the nutrition of the children. This low-cost milk program for all school children in the cooperating schools and the general plan of providing free lunches to needy pupils with most of the food donated by the Surplus Marketing Administration and the workers provided by the Work Projects Administration was continued until 1943. At that time increasing war needs resulted in the abolishment of the Work Projects Administration and the disappearance of large food surpluses. It was at this time that the Federal Government shifted to the present basis of cash assistance for school lunches.

The food stamp plan

The purchase and distribution of surplus commodities reached a level of \$54,000,000 in the fiscal year 1938 with little prospect that full employment and a satisfactory level of farm prices would be reached in the near future. Direct distribution of this volume of foodstuffs through the State and local welfare agencies had proved to be an activity beset with many problems. Local farmers and merchants complained when the surpluses of another area were shipped into their locality for distribution. Delays in receipt of the products, spoilage, wastage, and inconvenience in serving the relief clients were other problems associated with the direct distribution of foods by the welfare agencies.

In view of these difficulties the food stamp plan was first tried on a limited experimental basis in 1939 and expanded rapidly until the decline in relief rolls and in the farm surpluses led to its being discontinued in 1943. As in the case of direct-distribution programs both perishable and storable farm products were included in the program. The food stamp plan as it was operated in most areas permitted persons on the relief rolls to buy orange-colored stamps equal to the average weekly expenditures per person on food. With each \$1 purchase of the orange stamps 50 cents worth of blue stamps were added without charge. The orange stamps were used to purchase any foods available in the grocery store. The blue stamps could only be used to purchase products listed by the Secretary of Agriculture as in surplus supply and this list changed from time to time as supplies of particular products changed. In 1939 the first year of the program the following products were included on the surplus list: butter, eggs, flour, rice, corn meal, hominy grits, peaches, pears, apples, oranges, grapefruit, dried prunes, raisins, peas, tomatoes, snap beans, cabbage, onions, dry beans, pork, and lard.⁵

The stamp plan was extended to cotton goods on an experimental basis. The magnitude of the surplus-removal operations under the stamp plan can best be pictured with reference to the total Government expenditures for this purpose. Throughout the life of the program from 1939 to 1943 a total of \$262,000,000 was spent on the food stamp plan and \$24,000,000 on the cotton stamp plan from section 32 funds. Approximately \$62,000,000 of the food stamp plan funds

⁴ Report of the Administrator, Surplus Marketing Administration, 1940, pp. 8-9.

⁵ Economic Analysis of the Food Stamp Plan, special report of the Bureau of Agricultural Economics and the Surplus Marketing Administration, 1940, p. 34.

was spent for dry beans, corn meal, hominy grits, rice, and flour. The remaining \$200,000,000 was utilized for perishable products including pork and lard.

Statistical summary for prewar period

In the period May 1933 to December 31, 1934, the Agricultural Adjustment Administration as a part of its drought-relief and surplus-removal activities spent over \$152,000,000 for the purchase of cattle, hogs, butter, cheese, sheep, and goats (table 3).

TABLE 3.—*Expenditures of the Agricultural Adjustment Administration for surplus removal and drought relief through Dec. 31, 1934*¹

Cattle.....	\$91,705,000
Hogs.....	46,063,000
Butter and cheese.....	12,350,000
Sheep and goats.....	2,294,000
Total.....	152,412,000

¹ From appendix D, Agricultural Adjustment in 1934, second report of the Administrator. Expenditures for wheat and seeds are not included as they are not perishable products.

Expenditures of the Federal Emergency Relief Corporation for surplus farm products during this period for distribution to people on relief are not readily available.

Complete records of surplus-removal operations are available beginning with the use of section 32 funds in the 1936 fiscal year. From 1936 through June 30, 1941, surplus-removal operations for perishable products totaled more than \$301,000,000. For the period as a whole the surplus-removal operations were largest for fruits and dairy products. (Table 4.)

Throughout the prewar period, marketing agreements may have been fully as effective as surplus-removal purchases in strengthening the prices of perishable products. No summary of the volume of perishable products marketed under marketing agreements for the entire prewar period is readily available. In the fiscal year 1940, however, the farm value of commodities sold under marketing agreements exceeded \$400,000,000. Forty-seven different marketing agreements were in effect, 29 of them being milk marketing agreements. In a number of these agreements a part of the supply was diverted into noncompetitive uses with section 32 funds used to finance the diversion operations. Where surplus-removal activities were not utilized, price improvement was achieved through marketing agreements by the regulation of the flow of supplies to markets throughout the season. Many of the marketing agreements and orders prohibited the shipment of the lower grade products.

TABLE 4.—Government expenditures for price-support activities for perishable products, fiscal years 1936-41

Commodity	Direct distribution ¹	Diversion	Export	Total
Butter.....	\$63,759,808	-----	\$32,708	\$63,792,516
Cheese.....	1,141,505	-----	-----	1,141,505
Eggs.....	34,869,570	-----	-----	34,869,570
Fruits:				
Apricots.....	361,295	-----	-----	361,295
Apples.....	27,455,374	\$14,300	-----	27,469,674
Dates.....	-----	308,859	-----	308,859
Figs.....	31,332	333,496	-----	364,828
Grapefruit and grapefruit juice.....	16,030,199	-----	-----	16,030,199
Oranges and orange juice.....	17,312,956	601,405	-----	17,914,361
Peaches.....	5,214,400	-----	-----	5,214,400
Pears.....	3,661,410	352,222	108,537	4,122,169
Prunes.....	14,533,502	685,761	8,480	15,227,743
Raisins.....	8,614,518	97,693	1,500	8,713,711
Other fruits.....	742,023	-----	-----	742,023
Subtotal fruits.....	93,957,009	2,393,736	118,517	96,469,262
Lard.....	17,973,571	-----	-----	17,973,571
Milk.....	10,130,541	2,210,997	112,426	12,453,964
Pork.....	38,430,540	-----	141,620	38,572,160
Potatoes:				
Irish.....	12,671,445	3,178,719	-----	15,850,164
Sweet.....	672,880	114,534	-----	787,414
Tree nuts.....	464,799	4,410,551	2,879,878	7,755,228
Turkeys.....	6,020	-----	-----	6,020
Vegetables, garden:				
Beans, fresh.....	118,631	-----	-----	118,631
Beets.....	291,492	-----	-----	291,492
Cabbage.....	2,647,750	-----	-----	2,647,750
Carrots.....	334,755	-----	-----	334,755
Onions.....	1,694,071	-----	-----	1,694,071
Tomatoes.....	1,536,063	-----	-----	1,536,063
Not identified.....	4,225,672	-----	-----	4,225,672
Subtotal, garden vegetables.....	10,848,434	-----	-----	10,848,434
All other.....	77,000	-----	-----	77,000
Total.....	285,003,122	12,308,537	3,285,149	300,596,808
School milk and lunch program ²	-----	-----	-----	592,859
Total².....	-----	-----	-----	301,189,667

¹ Includes expenditures for food stamp plan.² All expenditures for support of perishable product prices during this period were made from sec. 32 funds.*Benefits from price supports for perishables in prewar years*

Expenditures for surplus-removal or price-support operations for perishables in the prewar years amounted to approximately 1 percent of the total value of the perishable products marketed. Unfortunately, it is not possible to make an accurate quantitative estimate of the market-price improvement resulting from these price-support operations. Such market-price analyses as are available indicate that additional expenditures on perishable products of 1 percent should increase prices 1 to 2 percent.

More than one-fourth of the total funds (approximately \$77,000,000) were spent for dairy products, milk, butter, and cheese. The expenditures for fluid milk were to permit schools to serve milk to the low-income children free or for a nominal charge. Later the school milk programs provided that milk be made available to all children in the cooperating schools on the basis of token payments of 1 cent a half pint. While this program had an immediate price-strengthening effect, the more important benefits were the improved nutrition of the children and the development of the milk-drinking habit which tends to increase the long-term demand for milk.

Most of the butter and cheese purchased and distributed through the school-lunch program or to charitable institutions tended to increase the total consumption of butter and cheese although there was some substitution for regular market purchases. Even though substitution occurred, it is probable that the Government expenditures were a net addition to the income of dairy producers. The remaining smaller market supplies sold for more total dollars than the larger supply probably would have sold for.

These purchases of butter and cheese were made during the periods when prices were abnormally low and had a tendency to stabilize production from year to year. Milk production was continued on a somewhat higher level as a result of these price-supporting operations which proved to be desirable in view of the wartime demands after 1941.

The second largest price-supporting expenditure was for pork and lard. Egg price supports were third in cost. The immediate effect of the Government purchases was to reduce the market supply available and thus to strengthen prices. Since the total volume of hog and egg production is largely determined by the feed grains available, and acreage-allotment programs were in effect, hog and egg production were affected more directly by the feed grain allotments than by the modest surplus-removal programs.

Almost one-third of all price-support expenditures were made for fruits. Three types of fruits were in economic trouble during most of the prewar years. Apples were in almost continuous oversupply. There was a downward trend in the domestic demand for apples associated with the increased use of citrus and other fresh fruits and vegetables. The foreign demand also dropped sharply in the 1930's. Price-support operations for apples throughout the prewar period were thought to be in the nature of cushioning operations, including AAA payments for removal of trees, as the industry made the painful adjustments to a smaller market demand.

Dried fruits were in serious economic trouble throughout most of the prewar years because of the loss of foreign markets after 1930. The dried fruit industry in the United States (primarily prunes and raisins), before the depression of the 1930's exported approximately 40 percent of its output. With foreign trade at a very low level and the domestic demand for dried fruit relatively inflexible, large Government purchases were required in most years to bring supplies into a rough balance with the smaller demand.

Citrus fruit production, both oranges and grapefruit, was expanding during this period. Although the demand for citrus fruit was growing it often failed to keep pace with the increasing number of trees coming into bearing. Because of this and since citrus fruit is recognized by nutritional specialists as an excellent protective food which should be consumed by children in larger quantities, nearly \$34,000,000 of citrus fruits were purchased for direct distribution. These Government expenditures resulted in somewhat more than a simple net addition to grower receipts with an indeterminate effect on subsequent production levels. Purchases were made when prices were below normal and trees are planted in response to normal or above normal prices and seldom abandoned after they have been planted several years.

Potatoes, tree nuts and garden vegetables are the other groups of perishable products benefiting from Government purchases and disposal through noncompetitive channels in the prewar years. A total of about \$35,000,000 of section 32 funds were used in this way. Most of the expenditures on tree nuts were used to finance diversion and export operations. The export programs were designed to develop new foreign markets for United States tree nuts. Almost all other price-support activities for these groups of products were purchases for direct distribution through school lunches and to charitable institutions.

The continued unsatisfactory domestic and world business conditions throughout the period 1935-41, and the fact that Government purchases were usually limited to situations in which prices were below "normal" for this "subnormal" period, suggests that the Government price-support activities were of substantial benefit to the producers. Although funds equal to only 1 percent of the total value of the perishable products marketed were used, a number of groups of producers received substantial benefits. Grower returns for particular crops such as prunes, pears, onions or snap beans may have been increased by as much as 10 to 25 percent in individual years.

On the consumers' side, these operations prevented them from getting products at unusual bargain prices when the supply otherwise would have been excessive in relation to demand. The over-all result was increased rather than decreased total consumption of perishable products during the period 1935-41 for two reasons: (1) Production was maintained at a somewhat higher average annual level as a result of preventing prices from going as low as they otherwise would have when they were below normal, and (2) a larger proportion of the total crop was marketed in the low price years with increased consumption by school children and inmates of charitable institutions more than offsetting any reduction in supplies moving through regular market channels. In periods of low prices, the prices of fruits and vegetables often do not cover harvesting and transportation costs and the full crop is not harvested.

PART II. WARTIME AND EARLY POSTWAR PROGRAMS, 1941-49

July 1941, was the date of the beginning of mandatory price supports on those perishable products qualifying under the Steagall amendment passed in that year. Although the wartime price-support legislation expired in December 1948, the Agricultural Act of 1948 extended most of the mandatory price supports on perishables for the following year, 1949. Our experience with price supports for perishable farm products from July 1941, to December 1949, was largely influenced by this wartime legislation and its administration.

Legal basis of wartime and early postwar programs

A few days after the passage of the Lend-Lease Act on March 31, 1941, the Secretary of Agriculture announced the need for increased supplies of pork, dairy products, eggs, canned vegetables, and dry beans, and as economic incentives, he announced Government price guaranties for the months ahead. Although the Lend-Lease Act did not give the Secretary of Agriculture additional authority to

support perishable-product prices, the lend-lease requirements for these products, in addition to increased domestic demand, eliminated most of the Government's risk in making such a commitment. Market prices, as had been expected, moved above the Government guaranties in these early months of the war.

On July 1, 1941, however, price supports for certain perishable farm products became mandatory for the first time by the adoption of the Steagall amendment (Public Law 147, 77th Cong.) which directed the support of all nonbasic commodities for which the Secretary of Agriculture requested by public announcement an increase in production to meet war needs, at not less than 85 percent of parity. In October 1942, this legislation was revised to require price supports on the designated commodities at not less than 90 percent of parity. The new amendment also provided that supports should be maintained at this level for 2 years beyond the year in which hostilities ended. This legislation was the controlling legal basis for price supports for for the so-called Steagall commodities, hogs, milk and butterfat, chickens, eggs, turkeys, potatoes, dry edible beans, sweet potatoes, dried peas, flaxseed for oil, soybeans for oil, American-Egyptian cotton, and peanuts for oil, during the period July 1, 1941, to December 31, 1948. On that date the time period covered by the legislation expired.

The Agricultural Act of 1948 became the controlling legislation in 1949. It required the Secretary of Agriculture to support until January 1, 1950, all nonbasic commodities entitled to mandatory supports during the war, at not less than 60 percent of parity and at not more than the level at which they were supported in 1948. The following commodities were listed as exceptions, however, and were to be supported at 90 percent of parity until January 1, 1950: Irish potatoes harvested before January 1, 1949, milk and milk products, hogs, chickens, and eggs.

Price supports or announced price floors on perishable products during the war period were not limited, however, to those for which supports were mandatory under existing legislation. In an effort to stimulate and maintain increased production of a wide number of products, the Secretary of Agriculture announced minimum guaranteed price floors each year for a large number of perishable and storable products in addition to the Steagall commodities. Because of the high lend-lease requirements, our military requirements, and the war demands of our domestic economy, market prices almost always exceeded the level of the guaranty. In the few cases where price-support operations were required, products purchased by the Government were usually distributed to the school-lunch program or used by the lend-lease program. With the exception of supporting the price of hogs in the winter of 1943-44 and the price of eggs in 1944, the Government never experienced any difficulty in maintaining prices at or above the announced support levels during this period. It did, however, incur heavy losses as early as 1947 in supporting potato prices at 90 percent of parity.

General plan of price supports during war period

During the war period the Secretary of Agriculture followed the policy of announcing minimum price guaranties which would tend to encourage the level of production desired. Hog-price floors were set as high as 112 percent of parity in the early months of the war. Other

price guaranties exceeded 100 percent of parity at times. On the other hand, when it appeared that production would be ample to meet all needs, no price guaranty was announced unless the product was entitled to mandatory supports as a result of congressional action. Where price supports were mandatory and production was ample as in the case of potatoes after 1944, supports were kept at the minimum level of 90 percent as required by law through 1948.

Throughout this period the Government had three major outlets for the products it acquired—lend-lease, military services, and school lunches, including charitable institutions. All of the supplies of some perishable products such as fresh fruits and vegetables acquired for price-support purposes were distributed in noncompetitive domestic channels. Purchases by the military services or for lend-lease account, however, kept the prices of most perishable products at or above support levels most of the time. Federal marketing orders were continued in the city fluid-milk markets where they had been established. Most of the fruit, vegetables, and tree nuts marketing agreements also were continued. The milk-marketing orders maintained the regulations regarding payment for milk on the basis of use and other similar regulations although price maintenance to producers as a problem temporarily disappeared. The primary function of the other marketing agreements and orders in effect during this period was the control of quality of the product marketed.

Funds spent for price supports for perishables during war years

Almost three times as much, \$904,000,000, was spent for price supports in the 8½ war and immediate postwar years as in the 6 prewar depression years. Expenditures for direct distribution, \$300,000,000, were approximately as large as the total expenditures for surplus-removal operations for perishables in the prewar years.

The food-stamp plan was not discontinued until 1943, and expenditures for surplus removal of perishable products were maintained at a high level in the fiscal year 1942. They remained at nominal levels in the fiscal years 1944, 1945, and 1946. In 1944, however, nearly \$6 million were spent in surplus-removal operations for eggs. This was in addition to lend-lease purchases of dried eggs. Again in 1945 surplus-removal operations for eggs exceeded \$3 million, most of the Government purchases with section 32 funds being utilized in the school-lunch program.

When supports became mandatory for a number of the perishable commodities under the Steagall amendment after July 1, 1941, the Commodity Credit Corporation assumed responsibility for the mandatory price supports. If prices could not be maintained at the mandatory level by purchase and distribution through noncompetitive domestic or foreign outlets, the Commodity Credit Corporation instituted the necessary additional programs and assumed the losses.

In addition the Commodity Credit Corporation undertook price-support programs for dried fruit and canned grapefruit juice, which resulted in losses of several million dollars to the Corporation. By far the greatest losses experienced by the CCC, however, were in the Irish-potato-support program. Approximately 85 percent of the CCC losses of \$402,000,000 on perishable products during the war and early postwar years resulted from the price-support programs for Irish potatoes. Losses on egg price supports amounted to \$39,000,000 or almost 10 per-

cent of the total, leaving 5 percent of the total to be accounted for by all other products. A statistical summary of the expenditures of section 32 funds and CCC losses on perishable products during the period July 1, 1941, to December 31, 1949, is shown in table 5.

Benefits from price supports for perishables in war years

We have already noted that it cost the Government nearly three times as much for price-supporting operations for perishables during the war and early postwar years as during the prewar depression years. The question is appropriate: Why should the Government spend more for supporting the prices of perishable products during this period of high-level business activity than it did when millions of workers were unemployed? Or more pointedly, in view of the extensive Government purchases for lend-lease and military requirements, why was it necessary to have any additional specific Government price-supporting activities?

TABLE 5.—Expenditures for price support of perishable products, July 1, 1941—Dec. 31, 1949

Commodity	Expenditures on sec. 32 program				CCC loss on price-support programs	Total
	Direct distribution ¹	Diversion	Export	Total		
Butter.....	\$18,069,435			\$18,069,435	\$10,503	\$18,079,938
Cheese.....	1,861,413			1,861,413	² 453	1,860,960
Eggs.....	80,392,657	\$193,234	\$11,647,227	92,233,118	39,279,331	131,512,449
Fruits:						
Apricots.....	742,277		143,663	885,940	² 13,368	872,572
Apples.....	29,538,189		181,797	29,719,986		29,719,986
Dates.....		36,420	33,777	70,197	1,297	71,494
Figs.....	1,330,349		281,056	1,611,405	² 9,304	1,602,101
Grapefruit and grapefruit juice.....	8,888,042		182,183	9,070,225	1,732,374	10,802,599
Oranges and orange juice.....	9,718,302		597,407	10,315,709		10,315,709
Peaches.....	4,566,601		102,928	4,669,529	² 9,769	4,659,760
Pears.....	4,512,311	133,981	70,540	4,716,832		4,716,832
Prunes.....	5,224,456	1,178,227	4,971,610	11,374,293	8,481,166	19,855,459
Raisins.....	2,991,509	1,371,697	4,004,750	8,367,956	6,644,429	15,012,385
Other fruit.....	1,738,740			1,738,740		1,738,740
Subtotal, fruit.....	69,250,776	2,720,325	10,569,711	82,540,812	16,826,825	99,367,637
Lard.....	1,340,771			1,340,771		1,340,771
Milk.....	16,537,587	8,968,867		25,506,454	² 826,113	24,680,341
Pork.....	13,510,447			13,510,447		13,510,447
Potatoes:						
Irish.....	53,768,787	31,390,489	1,881,315	87,040,591	346,498,858	433,539,449
Sweet.....	2,808,063	74,980		2,883,043	136,042	3,019,085
Tree nuts.....	2,049,057	1,595,546		3,644,603	3,751	3,648,354
Turkeys.....					4,203	4,203
Vegetables, garden:						
Beans, fresh.....	1,061,045			1,061,045		1,061,045
Beets.....	701,139			701,139		701,139
Cabbage.....	1,959,999	425,752		2,385,751		2,385,751
Carrots.....	913,030	65,710		978,740		978,740
Onions.....	1,234,875			1,234,875		1,234,875
Tomatoes.....	79,463			79,463		79,463
Not identified.....	28,188,000			28,188,000		28,188,000
Subtotal, garden vegetables.....	34,137,551	491,462		34,629,013		34,629,013
All other.....	199,151			199,151		199,151
Total	293,925,695	45,434,903	24,098,253	363,458,851	401,932,947	765,391,798
School milk and lunch program ³				138,168,423		138,168,423
Total				501,627,274		903,560,221

¹ Includes expenditures for food-stamp plan.

² Gain.

³ Includes cash payments and cost of perishable commodities purchased for the school-lunch program from sec. 32 funds prior to Public Law 396, 79th Cong., approved June 4, 1946—the School Lunch Act.

In the first place, most of the Government price-support operations were required either at the beginning of the war, July 1, 1941, to July 1, 1942, or after the war closed in the fiscal years 1947, 1948, and 1949. A second factor of considerable importance was the tendency of the mandatory support levels for eggs and potatoes at 90 percent of parity to encourage production expansion in excess of even the large wartime demands. As a result, more than 60 percent of the total program costs, including CCC losses, surplus-removal operations, and school-lunch programs, during this period were due to potato and egg price-support operations. In addition, because of its contribution to the broad support of agricultural markets, the school-lunch program continued to be financed out of section 32 funds after the cash assistance program was started in March 1943. After passage of the National School Lunch Act in 1946, funds provided during the fiscal years 1947, 1948, and 1949 were made available through a transfer of section 32 funds. The total amount of section 32 funds so used prior to the act was \$138,000,000; an additional \$215,000,000 was used during the 3 years following passage of the act.

Any attempt to evaluate the benefits of price supports for perishables during this war period must take into account these different factors. To the extent that the high level of price supports caused an excessive expansion in egg and potato production, a twofold national loss occurred. The overproduction of these products resulted in less production of other livestock products and crops which consumers would have preferred. In addition, Government funds were required and the Government debt increased to pay for products having little or no economic value.

There were positive benefits, however, for the price-support programs tended to maintain the production of perishable products at a higher level than would have otherwise been true in the early months of the war. The existence of mandatory price supports for a period of 2 years beyond the year in which hostilities closed also tended to encourage increased production of the supported products during the period foods were rationed. Although their importance cannot be measured, with the exception of potatoes and eggs noted above, the increased production which is usually associated with price supports was desirable.

Approximately half of the cost of supporting perishable products during the war period, other than potatoes and eggs, resulted from expenditures for apples, dried fruits, and citrus fruit, products characterized by continued production in excess of market demands at favorable prices. Section 32 expenditures and CCC losses on these products as indicated in table 3, for the period July 1, 1941, to December 31, 1949, were as follows:

Apples.....	\$29, 719, 986
Dried fruit.....	41, 201, 209
Citrus fruit.....	21, 118, 308
Total.....	<u>92, 039, 503</u>

PART III. CURRENT OPERATIONS, JANUARY 1, 1950, TO DATE

Postwar legislation affecting price supports for perishable products

Government price-support programs for perishable products have been affected by a number of different acts of Congress in recent years. Several of these acts in the early postwar years relate only to the release of Government stocks of surplus commodities.

The Agricultural Act of 1948, which extended the wartime price supports for a number of commodities through 1949, has already been mentioned.

The Agricultural Act of 1949, passed the following year, provided mandatory supports at levels between 60 and 90 percent of parity for Irish potatoes and at such level between 75 and 90 percent of parity for milk and butterfat as will assure an adequate supply of dairy products. All other perishable products were eligible for price supports at a level up to 90 percent of parity at the discretion of the Secretary of Agriculture after considering a number of specified factors. In March of 1950, the provisions of the Agricultural Act of 1949 were modified by prohibiting price supports on crops of Irish potatoes produced after 1950 unless marketing quotas are in effect. There is no legislative authority for marketing quotas on potatoes, hence price supports on potatoes have been discontinued.

The current (1951) situation with respect to the legislative basis for price supports for perishables may be summarized as follows: Price supports are mandatory at 75 to 90 percent of parity for milk and butterfat, and for all other perishable products except Irish potatoes they are discretionary at a level not to exceed 90 percent of parity.

The postwar disposal of surplus products acquired by the Commodity Credit Corporation has been affected by several acts. The Foreign Aid Act of 1947 and the Foreign Assistance Acts of 1948 and 1950 all contained special sections dealing with the disposal of surplus perishable and storable agricultural products.

Section 11 (e) of the Foreign Aid Act of 1947 (Public Law 389, 80th Cong.) permitted the transfer of surplus agricultural products owned by the Commodity Credit Corporation for foreign relief account at wheat equivalent prices, based on the caloric content of the commodity. Government losses under this section were limited by Congress to \$57,500,000. Under this legislation potatoes, dried eggs, prunes, raisins, citrus fruit juice, and honey costing the CCC \$81,000,000 were transferred to foreign aid at a sales price of \$25,000,000, involving a Government loss of \$56,000,000.

Section 112 of the Foreign Assistance Acts of 1948 and 1950 provided that if a country wanted to use ECA funds to buy commodities listed by the Secretary of Agriculture as in surplus supply, it must purchase them from the Commodity Credit Corporation, rather than from any other country, at prices equal to the lower of either the cost of the commodity to the CCC or the domestic market at the time and place of delivery. It also authorized the Secretary of Agriculture to use section 32 funds to pay not to exceed 50 percent of the sales price as determined above. The effect of this provision was to permit ECA and other Government agencies to obtain surplus products at prices attractive to them. Prior to this legislation, the Comptroller General held that section 32 funds could not be used by the Department of Agriculture to finance in any way transfers of surplus products to

another Government agency. as such action would augment the other agency's direct Government appropriation.

Under the provisions of section 112, up to the end of March 1951, dried fruits, dried eggs, dairy products, grain sorghums and several other products costing the CCC a total of \$184,000,000 were sold for use abroad for a total of \$171,000,000 or a net loss of \$13,000,000.

Section 416 of the Agricultural Act of 1949 also dealt with release of Government stocks. It provided that the Secretary of Agriculture should make available to the Munitions Board or to any other Government agency any food commodities acquired by it which were in danger of spoiling before they could be sold back in the normal channels of trade, without impairment of the price-support program. The Munitions Board or other Government agency would then use these food products in making payments for commodities not produced in the United States. Thus far no commodities have been disposed of in this way. Section 416 also states that, after offering the products to the Munitions Board and other agencies for barter purposes, if they are not accepted, the Secretary and the CCC may donate such commodities at point of storage to school-lunch programs, to public welfare organizations for needy persons in the United States and to private welfare organizations for the assistance of needy persons either inside or outside the United States. Considerable quantities of perishable products were donated to school-lunch programs and to public and private welfare agencies in 1949 and 1950.

Criteria used in discretionary price-support activities

Section 401 (b) of the Agricultural Act of 1949 directs the Secretary to take into account the following factors in determining whether or not to undertake discretionary price-support operations:

(1) the supply of the commodity in relation to the demand therefor, (2) the price levels at which other commodities 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.

Most of the discretionary price-support activities for perishable products are concerned with fruits and vegetables. Marketing agreements and orders are considered the first step in dealing with price problems for fruits and vegetables. Marketing agreements are not adapted for dealing with all situations, but, where adapted, producers are urged to enter into a marketing agreement and do as much as they can for themselves before a Government purchase program is approved.

Vegetable production guides are issued by the Department, indicating the acreage of the various crops needed to supply normal market demands under usual weather conditions. If the reason for the price difficulty is acreage expansion in excess of the production guides, requests for price-supporting Government purchases are denied. Another factor which at times prevents the undertaking of price-support activities is the inability of the school-lunch program and charitable institutions to utilize the product before it spoils. Price-supporting purchases are not undertaken on a scale which raises growers' returns above average and thus encourages an expansion in acreage the following year. Rather they tend to reduce excessive

losses in periods when losses are being incurred because the current supply is in excess of what the market will absorb at profitable prices.

On the other hand, when seasonal weather developments cause an abnormal overlapping of the marketing of a product from two areas, such as early and midseason snap beans, and severe price declines result, if plantings have been in line with the production guides issued earlier and outlets are available, a purchase program will be undertaken to relieve the congested market situation. An unusually large supply because of favorable weather or the loss of a normal export market are two of the more common situations leading to price-support activities for perishable products in recent years. Another consideration given weight is the nutritive value of the product. Thus if two products are having price difficulties, one of which adds little to the nutrition of the consumers while the other supplies badly needed nutrients, Government purchases may be used to improve grower returns for the nutritious product only.

1950 mandatory price supports for perishables

Only two groups of perishable products were subject to mandatory price supports in 1950, (1) early, intermediate, and late potatoes and (2) milk and butterfat. As mentioned earlier, legislation in 1950 removed potatoes from the mandatory support list beginning in 1951.

Each year since 1947 acreage allotments have been established for potato growers. In order to be eligible for price support, growers were required to plant within their allotments. Prices were maintained at the minimum mandatory levels of 60 percent of parity in 1950 by Government purchases as necessary from eligible growers. Allotments were reduced to a level which would have balanced supply with demand had growers planted within their allotments and had they obtained average yields. A new record yield of 238 bushels an acre was obtained in 1950, however, resulting in a surplus of approximately 100,000,000 bushels more than could be sold at the price-support level.

Under the stimulus of price supports at attractive levels the yield of potatoes was increased from an average of 111 bushels an acre for the years 1929-38 to 238 bushels in 1950, as mentioned above. All of the surplus of 100,000,000 bushels in 1950 was not due to the unusually high yields, however. Substantial overplanting of allotments occurred. In many important commercial areas, more than half of the growers overplanted their allotments, often by as much as 100 percent. The eligible growers had reduced their acreage while their ineligible neighbors obtained unusual benefits from the price-support program by underselling the support price by a few cents a hundredweight, thereby forcing the eligible grower to sell most of his potatoes to the Government. This placed a severe handicap on the eligible grower who lost his commercial outlets to his ineligible competitors.

Preliminary summaries of the disposition of the potatoes purchased by the Government to support the price for the 1950 crop at 60 percent of parity indicates the following:

	<i>Percent</i>
Used as livestock feed.....	43
Destroyed on farm.....	32
Donated to school lunch and charitable institutions.....	5
Used for starch.....	16
Potato flour.....	1
Export.....	2
Miscellaneous.....	1
Total.....	100

Several years' experience indicates that many of the potatoes purchased by the Government in supporting prices must be destroyed on the farm where grown if Government costs are to be kept as low as possible. Also nothing is gained by society in moving the potatoes if their economic value in this use does not cover the cost of movement. For example, in 1948 the Government spent an estimated extra \$50,000,000 paying freight and handling costs moving potatoes to processors and livestock feeders.

During the 1950 season, after all available starch factories and other outlets had been supplied, many potatoes purchased by the Government were sold to livestock feeders at 1 cent per hundred-weight or destroyed.

Problems in mandatory price supports for potatoes

Among the problems encountered in supporting the price of potatoes listed by the staff of the Production and Marketing Administration and others, the following appear most important:

(1) Acreage allotments for potatoes must be established in September or October because planting of the early crop begins in October. Yet in each of the last 5 years the estimate of the size of the current crop has increased 40,000,000 bushels or more between July and December because of higher yield estimates.

(2) A variation in output of as little as 5 percent results in a change in prices of around 20 percent. Yet it is impossible to control the output within such a small range.

(3) Farmers have increased their yields as acreage allotments were reduced and can continue to do so making acreage control wholly inadequate if price supports are maintained at profitable levels as in recent years.

(4) Guaranteed prices for potatoes have changed the marketing pattern. Producers in late crop States normally market a substantial quantity of potatoes in May and June. Under price supports they have cleaned out their cellars in April, before the work of planting the new crop begins. This shortens the normal marketing season for late potatoes and increases the amount the Government is required to purchase.

(5) Disposal of the potatoes purchased by the Government involves serious problems. No fully satisfactory method has been devised for rendering the potatoes unfit for the commercial trade without destroying them. Potatoes dyed and sold to farmers for livestock feed can be washed in a modern washing plant and returned to the commercial trade with little danger of detection.

Marketing agreements for potatoes

On the basis of limited experience with marketing agreements for potatoes, it appears that they can be used to increase the income to growers when supplies are in excess of market demand at favorable prices. The use of grade, size, and quality regulations in marketing agreements and orders results in holding back from 5 to 25 percent of the low grades and less desirable sizes of potatoes.

Price supports for milk and butterfat in 1950

In December 1949 the Secretary of Agriculture, in accordance with the provisions of the Agricultural Act of 1949, announced a price-support program for milk and butterfat through the 1950-51 marketing year ending March 31, 1951. The program maintained the same support levels for the various dairy products as had been maintained in 1949. This represented about 79 percent of the parity equivalent for manufacturing milk on the basis of the new parity formula. The Commodity Credit Corporation offered to purchase dairy products in carload lots, f. o. b., in any location in the United States at the following prices:

		<i>Price</i>
Butter, U. S. grade A or higher	-----pound	\$0. 60
Butter, U. S. grade B	-----do	. 58
Cheddar cheese, U. S. grade A or higher	-----do	. 31
Nonfat dry milk solids, spray type, U. S. Extra	-----do	. 125
Nonfat dry milk solids, roller type, U. S. Extra	-----do	. 105
Evaporated milk, domestic packages	-----case	3. 95

At these price levels, substantial price-supporting purchases were required both in 1949 and 1950. The equivalent of approximately 3 percent of the total milk production was purchased in these 2 years.

Dairy products are normally stored for only one season, yet after purchasing 114.3 million pounds of butter, 25.5 million pounds of cheese and 325.5 million pounds of nonfat dry milk solids in 1949, the CCC was able to sell back into domestic channels during the winter of 1949-50 only 9 million pounds of butter and 6 million pounds of cheese. The disposal of stocks became a major problem as the 1950 heavy production season approached.

Under the authority given them in section 416 of the Agricultural Act of 1949, beginning with February 1950, CCC donated such quantities of non-fat dry milk solids to the school-lunch programs, the Bureau of Indian Affairs and public welfare agencies as they could use. Beginning a month later donations of this product were offered to private welfare organizations for needy persons in the United States and abroad. In April butter and cheese were added to the donation list for use in the United States and in June they also were offered to welfare agencies for use abroad. Yet donations were no solution to the problem, for these outlets could use only a small fraction of the stocks. With no prospect for the market prices of dairy products to increase sufficiently in the near future to permit the CCC to sell its stocks back into domestic channels at prices above support levels, sales in foreign outlets at reduced prices appeared to be the only means of keeping the stocks from spoiling.

In the fall of 1950, market prices for dairy products rallied sharply under the stimulus of general price rises following the outbreak of the war in Korea. It became possible to resell stocks to the domestic trade. When it became evident that the domestic trade would absorb the stocks of butter before they spoiled, donations and sales abroad at

reduced prices and donations to welfare agencies were discontinued. The quantities of butter, cheese, and nonfat dry milk solids purchased and disposed of in the different outlet channels, 1949 through May 1951, are shown in table 6.

TABLE 6.—*Purchases and disposals of dairy products under the 1949 and 1950-51 price-support programs*

[Millions of pounds] |

	Butter	Cheese	Nonfat
Purchases:			
1949.....	114.3	25.5	325.5
1950-51 ¹	127.9	108.9	352.6
Total.....	242.2	134.4	678.1
Sales:			
(a) Domestic trade.....	139.7	32.4	73.8
(b) Export trade (commercial).....			8.6
(c) Negotiated exports.....	5.5	71.9	418.5
(d) Sec. 32 (school lunch).....	19.1		19.5
(e) U. S. Army.....			5.2
(f) Miscellaneous.....	3.3	1.2	3.1
Total.....	167.6	105.5	528.7
Donations:			
(a) Domestic.....	36.7	20.4	22.3
(b) Export.....	37.9	8.5	124.7
Total.....	74.6	28.9	147.0
Total disposals.....	242.2	134.4	675.7

¹ January 1950-March 1951.

The total cost of the purchases of dairy products listed in table 6 was \$286,000,000. Recovery from sales totaled \$154,000,000, resulting in a loss to the CCC and use of section 32 funds on these operations of approximately \$132,000,000.

A similar dairy price-support program for the marketing year 1951-52 was announced on March 15, 1951. Government purchase prices have been set at approximately 90 percent of parity to act as an inducement to maintain milk production at a time when meat-animal production is more profitable. The increased demand for fluid milk in the heavy production season of 1951 as compared with 1950 resulted in a lower production of butter, cheese, and nonfat dry milk solids. Lower production together with a stronger demand for manufactured dairy products has made it unnecessary for the Government to purchase more than nominal quantities of butter, cheese, and nonfat dry milk solids in 1951. It is important to note, however, that in spite of the inflationary pressures on food prices in 1951, manufactured dairy products fell to the support level in the heavy production season and might have gone even lower in the absence of Government price guaranties.

Problems in maintaining dairy price supports

The key problem in dairy price support is the disposal of stocks before they spoil. The sharp upturn in prices following the outbreak of war in Korea made it possible to sell more than half of the Government stocks of butter back into domestic channels of trade. Most of the cheese and nonfat dry milk solids were sold at reduced prices to foreign countries. It is apparent that if price-supporting purchases are again required on a substantial scale as in 1949 and 1950, unless

an unusually prompt and sharp recovery follows, most of the stocks would have to be sold abroad at reduced prices. If other countries should be having farm-price difficulties at the same time, it might be difficult to find a foreign outlet. Furthermore, with domestic support prices substantially above world market levels, other exporting countries will protest the sale of United States surplus stocks at below world prices.

Milk marketing agreements

In addition to the purchase program for butter, cheese, nonfat dry milk solids, and evaporated milk, some 40 fluid-milk markets are operating under Federal milk orders as authorized in the 1937 marketing-agreements legislation, as amended. It is estimated that over 155,000 farmers in these markets produced milk valued in excess of \$813,000,000 in the 12 months ending June 30, 1951 (table 7).

TABLE 7.—Estimated average number of producers, annual volume of pooled milk in marketing areas regulated by Federal milk orders July 1, 1950, to June 30, 1951, and estimated value of same

Market	Number of producers	Volume of pooled milk, 1,000 pounds	Estimated annual value
Boston, Mass., 201-210-mile zone.....	13, 136	1, 430, 238	\$64, 553, 000
Chicago, Ill., 70-mile zone.....	21, 354	3, 441, 542	130, 609, 000
Cincinnati, Ohio.....	5, 403	363, 820	13, 990, 000
Cleveland, Ohio.....	7, 100	677, 892	28, 168, 000
Clinton, Iowa.....	113	14, 336	584, 000
Columbus, Ohio.....	2, 129	220, 786	9, 359, 000
Dayton-Springfield, Ohio, grade A.....	2, 477	235, 325	9, 637, 000
Dubuque, Iowa.....	223	32, 855	1, 214, 000
Duluth-Superior, Minn-Wis.....	1, 386	108, 249	4, 047, 000
Fall River, Mass., 20-mile zone.....	319	49, 325	2, 999, 000
Fort Wayne, Ind.....	1, 108	88, 344	3, 796, 000
Kansas City, Mo.-Kans.....	2, 812	308, 673	13, 704, 000
Knoxville, Tenn.....	610	83, 518	4, 138, 000
Lima, Ohio.....	356	32, 578	1, 378, 000
Louisville, Ky.....	2, 128	243, 328	10, 634, 000
Lowell-Lawrence, Mass., 20-mile zone.....	1, 010	113, 158	6, 361, 000
Memphis, Tenn. ¹	938	115, 535	6, 080, 000
Milwaukee, Wis. ²	2, 654	249, 121	9, 976, 000
Minneapolis-St. Paul, Minn.....	5, 822	675, 839	26, 090, 000
Nashville, Tenn.....	984	128, 747	6, 016, 000
New Orleans, La., 61-70-mile zone.....	2, 860	231, 557	12, 494, 000
New York, N. Y., 201-210-mile zone.....	50, 206	6, 812, 582	293, 574, 000
Oklahoma City, Okla.....	1, 230	114, 016	5, 706, 000
Omaha-Council Bluffs, Nebr.-Iowa.....	1, 981	140, 684	6, 265, 000
Paducah, Ky.....	306	23, 705	1, 090, 000
Philadelphia, Pa.....	8, 947	1, 100, 380	56, 326, 000
Quad Cities, Ill.-Iowa, grade A.....	768	103, 377	4, 204, 000
Quad Cities, Ill.-Iowa, nongrade A ³	688	240, 669	740, 000
Rockford-Freeport, Ill.....	278	44, 736	1, 736, 000
St. Louis, Mo.....	4, 145	462, 184	20, 046, 000
Sioux City, Iowa.....	517	40, 364	1, 685, 000
South Bend-La Porte, Ind.....	788	85, 243	3, 337, 000
Springfield, Mass.....	1, 327	170, 943	9, 686, 000
Springfield, Mo. ⁴	675	44, 546	1, 757, 000
Suburban Chicago.....	2, 474	281, 706	11, 234, 000
Toledo, Ohio.....	1, 882	167, 364	7, 026, 000
Topeka, Kans.....	392	40, 175	1, 728, 000
Tri-State: Huntington district plants.....	812	60, 245	2, 722, 000
Tri-State: Other plants.....	890	69, 074	3, 018, 000
Tulsa, Okla.....	760	107, 990	5, 411, 000
Wichita, Kans.....	882	94, 157	4, 345, 000
Worcester, Mass.....	816	107, 326	6, 168, 000
Total, 40 markets.....	155, 686	19, 156, 232	813, 631, 000

¹ Order effective October 1950.

² Order effective Nov. 1, 1950; pricing provisions effective Dec. 1, 1950.

³ Suspended from order effective Apr. 16, 1951.

⁴ Order effective Mar. 1, 1950.

Source: Reports of the market administrators.

Compiled by the Program Analysis and Development Division, Dairy Branch, PMA.

Although recent statistical analyses are not available, Federal orders appear to have stabilized prices, required uniform marketing practices throughout the market, and increased returns to producers. In recent months there has been a substantial increase in the number of applications from milk markets desiring to have a Federal order put into effect. A further extension of Federal milk orders, however, will not be of material benefit to the producers of milk for manufacturing purposes if the demand for manufactured dairy products should decline in the future.

Recent experience with egg-price supports

Although price supports for eggs were not mandatory after December 31, 1949, the Secretary of Agriculture announced that the Department in 1950 would support the price of eggs at about 75 percent of parity in 1950, which was 37 cents a dozen, as a national average. As in earlier years, contracts were entered into with egg-drying firms with the provision that they pay the producer stipulated prices, or that the egg dealers from whom the dryer buys shall in turn have paid the producers the announced support price. Under such contracts the Commodity Credit Corporation purchased dried eggs equivalent to 8,242,000 cases of shell eggs in 1950, or 4.5 percent of production.

The 1950 purchase program was by far the largest egg purchase program ever conducted by the Department. Egg production during the first half of 1950 was 7 percent larger than during the same period of 1949. This sharp increase in egg production can be traced to the fact that the mandatory support level of 90 percent of parity in 1949 had encouraged an expansion in the number of pullets raised for flock replacement purposes. The reduction of 10 cents per dozen in the support level during 1950 from a national average of 47 cents per dozen (90 percent of parity) to a national average of 37 cents per dozen (75 percent of parity) was followed by a reduction in the number of pullets raised in 1950 of 8 percent and which in turn led to lower egg production during the first half of 1951. However, the lower price support level in 1950 had little effect on egg production during 1950 and, as a result, large-scale purchase operations in 1950 were necessary.

One of the problems encountered in large-scale price-support programs is well summarized in the Secretary of Agriculture's press release of November 22, 1950. He reports:

Experience of the past year has also established our inability to dispose of stocks of dried eggs acquired under the support program. While we have been able during the course of the year, through authorized donations and reduced-price sales abroad, to dispose of approximately 60.2 million pounds of dried eggs acquired under earlier programs, acquisitions during the year have far exceeded disposals.

Our current inventory of dried eggs represents an investment of more than \$100,000,000, and a probable eventual net loss to the Corporation of more than \$85,000,000. This is in addition to net losses of \$60,000,000 already realized on earlier egg support programs. This illustrates the lack of an effective method for supporting the price of this commodity.

Price supports for fruits and vegetables, 1950

Price-supporting activities were undertaken in 1950 for sour cherries, apples, cranberries, fresh vegetables, sweetpotatoes, pears, oranges, grapefruit, dried prunes and raisins. Canned sour cherries, fresh apples, canned cranberries from the 1949 pack, fresh vegetables and sweetpotatoes were purchased with section 32 funds and donated to the school lunch program and public institutions. These purchases

amounted to more than \$10,000,000. In addition, purchases of concentrated orange juice, canned grapefruit sections and canned tomatoes totaling more than \$5,000,000 were made from funds made available by section 6 of the School Lunch Act.

Export diversion programs totaling more than \$13,000,000 included citrus fruit, dried fruit, apples and pears. The estimated cost of each purchase or export program for the fiscal year ending June 30, 1951, is shown in table 8.

TABLE 8.—Purchase and export payments for fruits and vegetables by types of programs, fiscal year 1951¹

<i>Type of program and commodity</i>	<i>Total estimated cost</i>
Sec. 32, purchase:	
Canned sour cherries.....	\$1, 971, 638
Fresh apples.....	7, 000, 000
Canned cranberries.....	1, 285, 000
Fresh vegetables.....	48, 855
Sweetpotatoes.....	145, 528
Total.....	<u>10, 451, 021</u>
Sec. 32, export:	
Fresh and processed oranges.....	875, 570
Fresh apple export program.....	2, 716, 846
Fresh pear export program.....	457, 459
Citrus fruit export program:	
Oranges.....	5, 061, 259
Grapefruit.....	456, 434
Dried prunes.....	1, 936, 795
Raisins.....	1, 405, 877
Dried apples.....	320, 000
Total.....	<u>13, 230, 240</u>
Sec. 6 of the School Lunch Act, purchase:	
Concentrated orange juice.....	2, 831, 651
Canned grapefruit sections.....	571, 862
Canned tomatoes.....	2, 091, 490
Total.....	<u>5, 495, 003</u>
Total, all programs.....	<u>29, 176, 264</u>

¹ Source: Production and Marketing Administration, Fruits and Vegetables Branch.

Fruit and vegetable marketing agreements

During the fiscal year ending June 30, 1951, a total of 30 different marketing agreements and orders were in effect, covering the marketing of an estimated \$727,000,000 of fruits and vegetables, including Irish potatoes (table 9). As pointed out earlier, these marketing agreements and orders usually limit the marketing of undersized and low grade products and often regulate the day-to-day and weekly flow of the product to market throughout the season. A number of these marketing agreements such as those for pears, dried prunes, and dried raisins were supplemented by purchase programs described earlier. A few of the marketing agreements and orders, in particular some of those for tree nuts, provided for a diversion of a part of the crop into a noncompetitive lower-valued outlet.

TABLE 9.—*Fruit and vegetable marketing agreement and order programs in effect during fiscal year 1951*¹

Commodity	Estimated number of commercial producers	Estimated farm value
Citrus fruits:		
California-Arizona desert grapefruit.....	2,000	\$2,878,000
California-Arizona lemons.....	6,100	30,000,000
California-Arizona oranges.....	20,000	66,660,000
Florida oranges, grapefruit, and tangerines.....	15,000	139,030,000
Deciduous fruits:		
California Tokay grapes.....	1,900	9,000,000
Colorado peaches.....	2,600	3,291,000
Georgia peaches.....	2,400	3,802,000
Utah peaches.....	1,300	500,000
California Bartlett pears, plums, and Elberta peaches.....	2,600	43,890,000
California Beurre Hardy pears.....	300	1,000,000
Oregon-Washington-California fall and winter pears.....	3,000	19,111,000
Oregon-Washington fresh prunes.....	600	2,083,000
Dried fruits:		
California dried prunes.....	7,500	36,520,000
California raisins.....	12,000	40,209,000
Vegetables: Colorado peas and cauliflower.....	305	1,015,000
Potatoes:		
Idaho-Oregon.....	10,855	28,278,000
Colorado.....	3,201	19,530,000
Oregon-California.....	2,336	10,120,000
North Central.....	13,241	75,400,000
Virginia-North Carolina.....	3,766	10,842,000
New Jersey.....	1,138	12,840,000
Eastern South Dakota.....	278	1,395,000
Maine.....	4,747	47,548,000
Washington.....	1,493	12,840,000
New England except Maine.....	1,323	12,022,000
Nuts:		
California almonds.....	8,500	21,960,000
Oregon-Washington filberts.....	3,800	1,843,000
Southeastern pecans.....	20,500	17,041,000
California-Oregon-Washington walnuts.....	16,000	25,526,000
Hops: California-Oregon-Washington-Idaho hops.....	850	31,032,000
Total.....		727,206,000

¹ Source: Production and Marketing Administration, Fruit and Vegetable Branch.

Distribution programs

The Food Distribution Branch of the Production and Marketing Administration has the responsibility for administering the school lunch program and the domestic distribution of products purchased to support producers' prices. It also has the responsibility for increasing market outlets as much as possible for foods in abundant or surplus supply.

Under what is called its plentiful foods program, the Branch mobilizes the merchandising and promotional resources of food distributors and Government information services to focus consumer attention upon the most plentiful foods. This plentiful-foods program consists of several activities. Monthly bulletins are issued from Washington listing the foods in abundant supply to food wholesalers, retailers, large-scale food buyers, and allied groups. These are supplemented with similar bulletins issued by each regional office, calling special attention to the abundant foods in each particular region. These bulletins are often carried by trade-association magazines, and in the daily and weekly press. Almost all daily and weekly papers with food-service features receive this food-supply information.

Another activity of this Branch consists of carrying on special merchandising programs for individual commodities when a temporary

surplus is in need of extra sales effort. Thus in the fiscal year ending June 30, 1951, the Branch carried on seven national merchandising programs covering cranberries, sweetpotatoes, fall apples, spring apples, locally grown vegetables, broilers, and lettuce. In addition they carried on 15 area merchandising programs to relieve area surpluses of such diverse products as currants, cabbage, cheese, peaches, Long Island ducklings, sweetpotatoes, snap beans, black raspberries, turkeys, eggs, onions, cucumbers, spinach, strawberries, and dry beans.

The area peach merchandising program mentioned above is a good example of the organization required and the accomplishment of these programs:

Because weather conditions tended to bunch the harvesting dates for peaches, a special merchandising effort was needed to move the 1950 crop of Hale Havens peaches in Michigan. Faced with a harvest of nearly 1,000,000 bushels of the Hale Havens variety less than 3 weeks before the harvest of a 3,000,000-bushel crop of Elbertas, the Michigan Peach Growers Committee and the South Haven Fruit Exchange requested merchandising assistance of the Department. The food industry, public feeding establishments, press, radio, and others joined the effort to encourage increased consumer use of peaches.

In Chicago, usually not a Hale Haven market, 1 large chain store started off the season with 20 cars of that variety as a direct result of the Department's peach program. The State of Wisconsin bought seven cars for canning by institutions, after State officials were told the story on Michigan peaches. Eleven days after the program got under way, the Department was able to discontinue further activities, and the momentum of this drive carried over to the benefit of the oncoming Elberta crop. A leading restaurant chain in Chicago sold a normal week's supply of peaches during 1 day as the result of the special efforts they made to push peaches.

Six members of the regional offices of this branch spend most of their time calling on food distributors, directors of public feeding establishments, and other groups who handle large quantities of food and can be most helpful in expanding the market outlets for foods in plentiful supply.

In addition to activities expanding the market outlets for plentiful foods in the fiscal year 1951, the Branch distributed foods valued at approximately \$19,000,000 purchased under section 32 programs, foods valued at approximately \$41,000,000 turned over to it by the Commodity Credit Corporation under section 416 of the Agricultural Act of 1949 and products valued at approximately \$13,500,000 purchased with funds made available by section 6 of the School Lunch Act (table 10).

TABLE 10.—Value of commodities distributed in the fiscal year 1951 (preliminary)

[Thousands of dollars]

Commodity	Schools	Institutions	Welfare	Indians and other	Total
Products donated by CCC under sec. 416 of 1949 Agricultural Act: ¹					
Irish potatoes.....	2, 131	1, 714	399	41	4, 284
Nonfat dry milk.....	1, 089	908	512	31	2, 539
Dried eggs.....	4, 055	4, 305	2, 208	115	10, 683
Cheddar cheese.....	3, 199	1, 256	832	21	5, 309
Butter.....	9, 167	6, 300	2, 288	196	17, 951
Total.....	19, 642	14, 482	6, 238	404	40, 766
Products purchased under sec. 32 programs: ²					
Apples, fresh.....	5, 410	2, 057			7, 467
Beets, fresh.....	4	18			21
Beans, dried.....		22			22
Butter.....	511	1			512
Canned cherries.....	1, 578	390			1, 968
Cranberry sauce.....	981	282			1, 262
Dried eggs.....	2, 056	640			2, 696
Honey.....	1, 027	311			1, 338
Nonfat dry milk.....	995	97			1, 092
Irish potatoes.....	11	58			70
Sweetpotatoes.....	97	33			130
Turkeys, frozen.....	2, 493	220			2, 712
Miscellaneous ³	32	51			83
Total.....	15, 195	4, 179			19, 374
Products purchased under sec. 6, National School Lunch Act: ⁴					
Beans, dried.....	796				796
Process cheese.....	3, 061				3, 061
Grapefruit segments.....	561				561
Concentrated orange juice.....	2, 800				2, 800
Peanut butter.....	962				962
Smoked pork.....	3, 356				3, 356
Tomatoes, canned.....	2, 006				2, 006
Total.....	13, 542				13, 542

¹ Total cost to the Government of the commodity as delivered to storage points. Transportation charges from point of storage to final destination paid by recipient.

² Total cost to the Government of the commodity as delivered to distributing agency; includes cost of purchase and transportation to central receiving points within States.

³ Includes dried apples, applesauce, dried apricots, cabbage, dried figs, concentrated orange juice, fresh pears, dried prunes, and dried raisins.

⁴ Commodity cost plus estimated transportation charges to central receiving points within the States.

Benefits from perishable price supports in 1950

As in earlier years, price supports for perishable products in 1950 helped reduce producers' losses in a number of situations and thus tended to stabilize market supplies both in 1950 and in the following year, 1951.

In addition, purchases of butter and other dairy products made early in 1950 were released later in the year, thus moderating inflationary increases in food prices.

The price-support programs were a substantial benefit to producers of fresh fruits, vegetables, dried fruits, and dairy products, while at the same time tending to increase and stabilize consumers' supplies. Egg price supports also prevented a greater decline in 1951 egg production than would have occurred otherwise. Government purchases of eggs in 1950 were in dried form. It has been possible to sell only limited quantities in the domestic market at a later date. The price-support program for potatoes caused an unwarranted expansion in production, not only involving excessive costs to the Government, but also causing a misuse of productive resources.

Before market prices reversed themselves in midsummer, 1950, price-support problems were increasing rapidly. In addition to the embarrassing problem of disposing of surplus potatoes, manufactured dairy products and dried egg stocks were threatening spoilage before they could be moved.

While the marketing agreements and orders continued to be highly popular, there was evidence accumulating that the more successful of the marketing agreements, those for some tree nuts and hops in particular, were keeping prices so attractive that increased production was being stimulated in excess of available markets.

Expenditures on section 32 programs and Commodity Credit Corporation losses on price-support programs for perishable products for the period January 1 to December 31, 1950, are summarized in table 11.

TABLE 11.—Expenditures for price support of perishable products, calendar year 1950

Commodity	• Expenditures on sec. 32 programs				CCC loss on price-support programs	Total
	Direct distribution	Diversion	Export	Total		
Butter.....	\$11,301,250			\$11,301,250	\$29,676,662	\$40,977,912
Cheese.....					12,325,424	12,325,424
Eggs.....	5,658,456		\$3,016,020	8,674,476	61,135,391	69,809,867
Fruits:						
Apples.....	5,083,238		2,871,463	7,954,701		7,954,701
Figs.....		\$11,515		11,515		11,515
Grapefruit and grapefruit juice.....			36,345	36,345		36,345
Oranges and orange juice.....			3,095,925	3,095,925		3,095,925
Pears.....	18,671		443,693	462,364		462,364
Prunes.....	207,043	555,053	5,366,877	6,128,973	¹ 262,671	5,866,302
Raisins.....	293,970		6,759,491	7,053,461	48,559	7,102,020
Other fruit.....	2,559,084			2,559,084		2,559,084
Subtotal, fruits.....	8,162,006	566,568	18,573,794	27,302,368	¹ 214,112	27,088,256
Milk.....	2,536,208			2,536,208	33,354,203	35,890,411
Potatoes:						
Irish.....	2,997,166			2,997,166	84,720,991	87,718,157
Sweet.....	239,660			239,660	¹ 692	238,968
Tree nuts.....		3,930,651		3,930,651		3,930,651
Turkeys.....	5,666,947			5,666,947	¹ 6,520	5,660,427
Vegetables, garden:						
Beans, fresh.....	47,349			47,349		47,349
Beets.....	19,948			19,948		19,948
Cabbage.....	87,991			87,991		87,991
Not identified.....	2,039			2,039		2,039
Subtotal, garden vegetables.....	157,327			157,327		157,327
Total.....	36,719,020	4,497,219	21,589,814	62,806,053	220,991,347	283,797,400

¹Gain.

APPENDIXES

APPENDIX 1

CIRCUMSTANCES UNDER WHICH CCC AND SECTION 32 FUNDS ARE USED IN CONNECTION WITH THE DEPARTMENT'S PRICE SUPPORT AND SURPLUS REMOVAL OPERATIONS

In conducting price support and surplus removal operations, a choice frequently must be made between use of borrowed funds of the Commodity Credit Corporation and of appropriated funds of section 32. In any case, the funds must be used to carry out the statutory objectives of the Congress as expressed in the charter of CCC and related legislation, and in section 32, respectively. Under these statutes, the CCC primarily is interested in direct price support with surplus removal as incidental thereto. Section 32 is primarily interested in surplus removal and its consequent impact on price support.

In determining which of these funds should be used in any case an analysis of the specific commodity problem must be made. This analysis involves consideration of the perishability of the commodity, the type of program, the volume of activity required, the type of outlet available, the prospect of the absorption of the surplus in the domestic markets or in the foreign markets, and other pertinent factors, including the different permissible operating methods with respect to the two funds.

These statutory objectives, and the factors considered in determining whether CCC or section 32 funds are used to achieve these objectives, are discussed in the following sections:

A. Statutory authority and objectives

1. *CCC and related legislation.*—The specific powers of CCC relating to agricultural commodities include price support as well as supply procurement, surplus removal and development of domestic and foreign markets (sec. 5 of the CCC Charter Act). The Agricultural Act of 1949 provides for mandatory price support for basic commodities and for some of the nonbasic commodities, and discretionary support for other commodities by the Secretary of Agriculture. The act specifies that this price support is to be carried out by the Secretary of Agriculture through the CCC or "other means available to him." The "other means" referred to here include section 32 funds.

Disposition of commodities acquired by CCC under price support and other operations is subject to several restrictions under the Agricultural Act of 1949, and other acts. For example, it may not sell basic commodities or storable nonbasic commodities at prices below 105 percent of the current support price, plus reasonable carrying charges, unless the sale falls within one of a number of exceptions named in the statute; it may not dispose of surplus agricultural

commodities acquired under its price-support program when payment is to be made from funds appropriated for foreign assistance at a price other than the lower of domestic market price or cost of the commodity to CCC; it may not donate for consumption purposes commodities acquired under price support unless they are in danger of loss through deterioration or spoilage and the priority among possible recipients is rigidly fixed in the statute.

The International Wheat Agreement Act of 1949 authorizes the use of CCC funds, subject to later reimbursement by the Congress, for payments in connection with commercial sales of wheat and flour, or sales of stocks of wheat and flour owned by the Corporation, for export under the agreement.

2. *Section 32 and related legislation.*—Section 32 of the act of August 24, 1935, as amended (7 U. S. C. 612c), contains a continuing appropriation of an amount equal to 30 percent of gross receipts from custom duties to be available to (a) encourage domestic consumption or exportation of agricultural commodities and products thereof, and (b) reestablish farmers' purchasing power. The encouragement of exports is to take place by the payment of benefits or indemnities in connection therewith or by payments to producers in connection with the production required for domestic consumption. The encouragement of domestic consumption is to take place through diversion from the normal channels of commerce by the payment of benefits or indemnities or by other means (including purchases of commodities for donation for school lunch and relief purposes), and through increasing utilization among persons in the low-income groups by benefits, indemnities, donations, or by other means. The reestablishment of farmers' purchasing power would be accomplished by making payments in connection with normal production for domestic consumption.

In carrying out section 32 programs, the Secretary is authorized by the Agricultural Act of 1949 to "utilize the services and facilities of CCC (including but not limited to procurement by contract) and make advance payments to it."

Not more than 25 percent of section 32 funds may, in any fiscal year, be spent on any one agricultural commodity, and such funds are required by section 411 of the Agricultural Act of 1949 to be devoted principally to perishable, nonbasic agricultural commodities, with specified exceptions, and their products. The exceptions are wool (including mohair), honey, tung nuts, Irish potatoes, and milk and butterfat. In the sale of surplus commodities, including price support stocks of the CCC, to Government agencies for foreign assistance, section 32 funds may be used under section 112 (f) of the Foreign Assistance Act of 1948 to pay to the agencies procuring or selling the commodity not to exceed 50 percent of the selling price.

B. Factors considered in determining whether to use section 32 funds or CCC funds

A number of factors are considered in determining whether to use CCC or section 32 funds in connection with the Department's price support and surplus removal program. Some of the more important of these factors are as follows:

1. *Nature of the commodity; that is, whether or not it is perishable.*—Section 32 funds must be devoted principally to the discretionary support of perishable agricultural commodities. While there is no

similar restriction on use of CCC funds, the perishability of the commodity and the ability to dispose of stocks acquired are factors which CCC considers before undertaking a price-support program. This situation has the effect of maximizing the use of section 32 funds on these perishables and of maximizing the use of CCC funds on storable commodities.

2. *Type of price support operation.*—Section 32 funds may be used for purchases or making payments to bring about a permanent withdrawal from the domestic market, but they are not available for making loans for the purpose of the temporary withdrawal from the market of a surplus to be later fed back into the market. CCC funds, however, may be used for loan, purchase or other operations. Price-support programs for all the basic commodities and for most storables utilize loans, although these sometimes are supplemented by purchase programs and other operations. This means that for these basic and storable commodities CCC funds are used to a far greater extent than section 32 funds.

3. *Estimate of the total funds necessary to carry out the program.*—Not more than 25 percent of section 32 funds available in any fiscal year may be used in that year for any one commodity. In addition, the total amount of CCC funds available for program use is considerably larger than the total amount of available section 32 funds. The total borrowing authority of CCC amounts to 6¾ billion dollars, whereas only around \$130,000,000 in section 32 funds has been available annually in recent years.—This situation usually requires CCC funds to be used on large-scale price-support programs which establish a floor under the price of the entire eligible production, such as mandatory price-support programs. It also means that the use of section 32 funds generally is limited to surplus removal operations—operations which involve limited purchases of the commodities in surplus.

4. *Outlets in prospect at the time the program is undertaken.*—Section 32 funds generally are used in the acquisition of surpluses for which there are available outlets through new uses and donations to school-lunch programs, charitable institutions and other needy groups eligible to receive commodities under section 32. CCC is subject to far more restriction in making donations than is section 32. CCC funds are used when there are prospects that the commodity can be sold in commercial outlets or for other uses.

5. *Ownership of the commodities at the time exports and diversion programs are undertaken.*—Section 32 funds generally are used for the payment of benefits or indemnities in connection with commodities owned by private firms. CCC funds generally are used where it is necessary to buy and dispose of the commodities for export or diversion, or when CCC-owned stocks are exported or diverted. However, section 32 funds often are used to facilitate transfer of Government-owned stocks for foreign relief and assistance purposes in accordance with section 112 (f) of the Foreign Assistance Act of 1948, which specifically makes provision for the use of such funds to pay not to exceed 50 percent of the selling price.

C. Joint use of section 32 funds and CCC funds

Sometimes a program may be such as to become more effective through the joint use of CCC and section 32 funds. For example, in

the case of a commodity subject to seasonal variation in production, such as butter, the direct price-support program may require a large investment of funds or an operating mechanism which would permit a large portion of the commodity to find its way back into the market when production had fallen off. The remainder would be absorbed through donations to school lunch and other eligible section 32 outlets. In such cases for the sake of operating efficiency, all procurement is handled by CCC under the authority contained in section 404 of the Agricultural Act of 1949, and section 32 funds are used to reimburse CCC for the expense of the section 32 phase of the operation. Each fund bears its appropriate program expense. Joint use of section 32 and CCC funds generally is made whenever a section 32 purchase program is developed at the same time that CCC has in operation or plans to operate a price-support program or has price-support stocks.

CCC's authority to make donations of price support commodities is limited to that contained in section 416 of the Agricultural Act of 1949, effective since October 31, 1949. On the other hand section 32 authority for the distribution of commodities is much broader, consequently when it is desirable to encourage the domestic consumption of surplus commodities which also are in CCC's inventory, through the donation of such commodities in these broader outlets, section 32 funds are used to procure the commodities from CCC and make the desired distribution.

APPENDIX 2

FORMAT FOR A SAMPLE DOCKET FOR A SECTION 32 PROGRAM ¹

To: Administrator, Production and Marketing Administration.
 From: Director, Fruit and Vegetable Branch.
 Subject: Section 32 purchase and donation of ----- vegetable.

I. Purpose

This is a summary of the authorization requested, covering briefly the type of program, the commodities involved, the amount of funds, and the period in which the program will be operative.

II. Justification and background

This section contains a statement of the current economic position of the commodity which requires the program to be undertaken, and a brief review of producer problems which required Government programs in previous years and of the extent and nature of such governmental assistance for the commodity. In addition to the economic discussion of current supplies relative to demand, the section contains a discussion of these other factors which are given consideration in recommending the program:

A. *Importance to agriculture and national economy.*—This contains relevant statistics about the commodity, such as actual farm value and the value related to the value of all farm products.

B. *Ability to dispose of stocks acquired.*—This section discusses any problems that might be involved in disposing of commodities acquired.

¹ The example shown is a brief outline of the memorandum from the director of the commodity branch recommending the program. The complete sec. 32 docket consists of this memorandum, a directive from the Secretary of Agriculture to the Administrator, PMA, authorizing and approving the program, a legal opinion from the Solicitor, and a statement as to the availability of funds.

C. *Perishability*.—This section contains a discussion of the perishability of the commodity and whether the commodity is a nonbasic perishable commodity coming within the provisions of section 411 of the Agricultural Act of 1949 which places certain restrictions on the use of section 32 funds.

D. *Cost in relation to nutritive value*.—This section contains a discussion of the nutritive value of the particular vegetables to be purchased relative to that for other commodities, and in consideration of the prospective purchase price.

E. *Ability and willingness of producers to keep supplies in line with demand*.—This section discusses the question of what producers have done or can do to keep supplies in line with demand. Usually purchases are restricted to areas where producers have complied substantially with suggested acreages issued by the Department of Agriculture.

F. *Prevailing prices in the area*.—This section indicates how a determination will be made as to what prices prevail for the commodity, so that a decision can be made as to the need for purchases. Generally, purchases are made only in the areas where prices for the U. S. No. 1 grade are not expected otherwise to average more than the maximum purchase price for the season as a whole. This policy avoids the practice of purchasing the tag ends from an otherwise profitable crop.

III. *Program provisions*

This section summarizes the basic provisions of the program which are contained in more detail in the directive to be signed by the Secretary and included as part of the docket. It covers such matters as the maximum amount of money that may be spent, specific vegetables included in the program, vendors' eligibility to participate, area and period in which program will operate, method of purchase, the maximum prices to be paid, the grades to be purchased, containers in which purchase will be made, inspection requirements, and disposition of the commodities acquired. There usually also is a discussion of the circumstances under which purchases will be made. Ordinarily a policy is followed of assisting growers in the disposition of surpluses insofar as possible through regular commercial channels by such means as a plentiful foods program, before Government purchases are made.

After preparation by the Fruit and Vegetable Branch, the docket is handled as follows:

The docket is signed by the Director of the Fruit and Vegetable Branch, concurred in by the Director of the Food Distribution Branch, and approved for submission to the Board of Directors of the Commodity Credit Corporation by the Administrator of PMA.

After favorable consideration by the Board of Directors of CCC, the Secretary of CCC recommends the docket for approval by the Secretary of Agriculture. The Secretary of Agriculture's signature on the directive included in the docket folder authorizes the Administrator of PMA to undertake the section 32 program and to delegate the authority to conduct operations to other PMA employees, such as the Commodity Branch Director.

APPENDIX 3

EXAMPLES OF EFFECTS OF FRUIT AND VEGETABLE
SURPLUS-REMOVAL PROGRAMS

For various reasons it is usually impossible to measure accurately the economic effects of specific surplus-removal programs.

From information furnished by the United States Department of Agriculture there is presented below a brief description of a few selected programs and the market and trade reactions to them.

Vegetables and Sweetpotatoes

The effects of surplus removal purchase programs on vegetables may be classified as either direct or indirect. Insofar as this report is concerned, the direct effects refer to the influence of purchase program operation upon the market for the particular commodity, whereas the indirect effects refer to long-range influences. Many of these programs tend to produce both these types of results.

Direct effects

Inasmuch as vegetables generally have an inelastic demand, slight surpluses tend to cause buyers to be apprehensive and consequently to withdraw from the market, or if the situation is one of slight shortage, buyers become extremely active. The direct effect, then, of a purchase program is that of withdrawing from the market a relatively small quantity of the available supplies so as to permit the market to adjust itself. The need for a surplus-removal program usually occurs in local areas during or near the peak of the harvest season for a particular commodity. Such surpluses may be local in character and may occur as a result of temporary situations occasioned by unusually good yields, and overlapping of marketings from two or more producing areas. Many of the marketing difficulties arise from the timing of marketings occasioned through no fault of the producers but rather as a result of weather conditions. Examples of the direct effects of purchase programs follow:

Purchase programs for the 1950 crop of sweetpotatoes were instituted in Texas, Georgia, and New Jersey. In each of these States the announcement of the purchase program was sufficient to stimulate trade interest and to improve the producer price situation. Moreover, in each State purchases were far less than the quantities authorized.

In Texas the crop was early and offerings on the part of growers to dealers during the early part of the season was heavy and the price low. Growers requested assistance and the Department of Agriculture authorized the purchase of approximately 200 carloads for the period October 16 through November 15, 1950. The effect of the purchase program was immediate and Government purchases totaled only one carload and the total expenditures amounted to about \$1,163. The effect of the announcement of the Government's purchase program was sufficient to stimulate commercial interest in the crop and dealers became active in bidding for supplies.

In Georgia the circumstances were quite similar to those in Texas and the Department authorized the purchase of approximately 100 carloads of sweetpotatoes at a commodity cost of \$70,000. Georgia dealers reacted somewhat slower to the purchase announcement than

in Texas but Government purchases amounted to only 15 carloads and the total cost was only \$14,000. The remainder of the crop went to the dealers at prices above that offered by the Department. According to the Department's purchase representative in the field, the effect of the announcement of the purchase program was sufficient to change the situation from one of a decided bargaining advantage in favor of the dealers, which resulted in a depressed market situation to one of a somewhat equalized bargaining position between growers and dealers.

In New Jersey the market became draggy for the storage crop in the spring of 1951 and growers were becoming somewhat despaired in the fear that they might suffer serious losses. At their request the Department authorized the purchase of approximately 100 carloads of cured sweetpotatoes at a commodity cost of about \$95,000 through the period of April 6 to May 15, 1951. Immediately following the effective date of the program, the movement to market through commercial trade channels improved with buyers paying prices higher than the Department's price. The Department purchased only 10 carloads at an estimated total cost of \$4,000. Moreover, the purchase program was discontinued 20 days before the final closing date previously authorized.

Similar experiences to those described for sweetpotatoes characterized many of the Department's operations including the cabbage purchase programs authorized in Ohio in 1951 and Louisiana in 1949; those for cabbage or snap beans in North Carolina in 1949 and in the tri-State area of North Carolina, Tennessee, and Virginia in 1947.

Indirect effects

Some of the outstanding examples of the indirect effects of programs for vegetables are (a) the sweetpotato purchase and storage operations in the Maryland-Virginia Eastern Shore section in 1947; (b) purchase of snap beans in the Tennessee area; and (c) assistance in developing new markets for the Norfolk, Va., spinach- and kale-producing section. In each of these instances, as with all other purchase programs for vegetables, the Department's grading and packing requirements are based upon good commercial practices and growers are required to pack and grade the commodity according to such good commercial practices, for any offerings accepted by the Department of Agriculture. The basic reasons for such requirements are (a) to afford the grower an alternative sales opportunity, i. e., commercial trade channels as well as departmental; (b) to demonstrate in those instances of which growers are not otherwise aware, good commercial practices with respect to grading and preparation for market; (c) to avoid buying products not suitable for the commercial trade and to assure school-lunch outlets good quality produce, since the ultimate object of these types of programs is to encourage consumption of these foods. The purchase of poor quality product would tend to have the opposite effect.

In the Maryland-Virginia Eastern Shore sweetpotato sections the Department required carefully graded and sized sweetpotatoes so as to avoid purchase of jumbos and small sweetpotatoes and sweetpotatoes that have been bruised in the harvesting and packing processes. Much of that purchased by the Department was placed in storage and demonstrated to growers that carefully selected lots of sweetpo-

tatoes produced in this area could be stored satisfactorily. Upon removing the sweetpotatoes from storage, only a small percentage was discarded as not suitable for human consumption and the remainder shipped to school-lunch outlets. A large part of that not shipped to school-lunch outlets was sold to a dehydrator. The program had a dual effect upon the long-range producer operations of (a) improving the pack of sweetpotatoes for commercial trade, and (b) a demonstration that their sweetpotatoes could be stored satisfactorily.

In the Tennessee snap-bean producing area the principal difficulty was over maturity of the snap beans. Beans that are overmature are not suitable for processing because of high fiber content and not desirable in the fresh market channels of trade because of toughness. Because of the limited use of snap beans for shelling purposes, there is a very limited demand for such beans in this outlet. Associated with this problem also was the matter of producing quantities in excess of market outlets. Since a high percentage of the production is sold to canners and freezers the production in this area must be geared primarily to the capacity of available processing facilities. The grade requirements established under the purchase program were set in accordance with good commercial practices. In the early days of the purchase operations large quantities were rejected for the reason that the snap beans were overmature. As the program progressed, better quality snap beans were offered by growers and the commercial dealers purchased the beans at prices above the Department's price. In subsequent years the Department, in cooperation with the Extension Service, has carried on an extensive educational program to encourage growers to harvest their summer production at an optimum stage of maturity and to restrict and schedule their plantings in line with the capacity of the processing outlets. The program has been highly successful and growers have been very receptive to the educational program. No marketing difficulties have been encountered since 1947 and grower prices each year have been among the highest in the country for the season of year in which they are in production.

The Norfolk spinach- and kale-producing area presented an example of the dual problem of low-quality production and limited distribution. The growers in this area had followed the practice of planting an excessive quantity and immediately alerting the Department that when the harvesting season arrived they would be needing assistance. In order to remedy this chronic situation and to encourage growers to be less dependent upon Department purchases, the Department in cooperation with the growers' association, began an educational and indirect assistant program. This was correlated with the Department's vegetable-guides program. The Department encouraged the growers and shippers in the area to develop new commercial marketing outlets so as to widen their area of distribution, gave assistance to them in accomplishing this objective, and also advised them concerning marketing conditions in these possible additional outlets. Through the combined effect of this type of assistance, together with rigid requirements on Government purchases with respect to grade and packages, the purchase program type of assistance has not been requested by producers in this area for 3 or 4 years.

Apple Purchase Programs

The surplus removal programs established for fresh apples during the 1949 and 1950 crop seasons differed sharply in their results. The differences stemmed primarily from industry marketing programs in the respective seasons.

Fresh apple programs during the past two seasons were directed toward purchasing fruit to the extent that the available school lunch and eligible relief outlets were able to utilize them. The total capacity of these outlets during an apple marketing season is roughly $3\frac{1}{4}$ to $3\frac{1}{2}$ million bushels. Purchases in each of these two seasons approximated 3 million bushels. This quantity may be contrasted with a total crop of over 120 million bushels and total domestic fresh shipments of some 75 million bushels.

The problem

At the start of the 1949 crop marketing season apple producers and marketers recognized that an acute marketing problem confronted the industry. The crop was estimated at around 130 million bushels, the largest in over a decade. Purchase prices established by canners in the Potomac Valley and New York areas were placed at relatively low levels, averaging about \$37 per ton. Faced with the extraordinarily large available supplies, producers' organizations advocated rigorous grading practices and recommended that no fruit be stored for subsequent sale during the winter and spring months which would not meet U. S. No. 1 grade. Early season prices were at relatively low levels and producers moved extremely heavy volumes to commercial markets during the harvest season.

At the start of the 1950 season the crop was estimated at about 120 million bushels, or some 10 million bushels less than the 1949 crop. Canners' purchase prices were established at relatively favorable levels, averaging about \$52 per ton in the Appalachian and New York canning areas. Processors' early season indications were to the effect that record quantities of apples would be purchased for canning in the respective areas. The central and eastern apples matured earlier than normal, whereas Washington State apple maturity was later than normal. As a result, opening prices were relatively high and less-than-normal quantities were marketed during the harvest season. Weather conditions affected harvesting practices to some extent. Relatively cool weather during the harvest season permitted the harvesting of a larger-than-normal portion of the MacIntosh crop. Continual rainfall at the harvest season in Washington State affected the storage life of many of the apples harvested in that area. The advent of the Korean war stimulated canners' purchase plans and, in addition, led producers to envision higher prices for apples in the spring.

Operations

Following the public announcement of a surplus removal program for fresh apples in the fall of 1949, meetings were held with representatives of growers and shippers from all of the commercial producing States. Meetings were held in October at Portland, Oreg., Chicago, Ill., and Washington, D. C., with representatives of the producing areas. Specifications of apples to be purchased under the program

and the operations of the program were discussed. At the outset it was made clear that no fruit would be purchased unless an outlet existed for the fruit. With exceptionally large available supplies, allocation of the purchase orders among the respective States was required. Representatives of the Department and the industry mutually arrived at the conclusion that the most effective program from a marketing sense would be that of purchasing only the preferred grades, sizes, and varieties of apples for distribution to school-lunch channels. Purchases were confined to fruit of U. S. No. 1 grade, 2½ inches and larger, of about a dozen leading commercial varieties. Moreover, purchases were to be confined to fruit meeting the condition requirements of the United States export standards. It was quite clear that if purchases were not confined to the commercially more preferred fruit, the effects of the purchase program would be dissipated through the purchase of varieties, grades, or sizes of fruit which would not be eligible for marketing in domestic commercial channels that season.

In the fall of 1950, with prices to consumers at fairly high levels and movement into consumption during the harvest season at lower than warranted levels, producers anticipated favorable conditions to prevail throughout the season. Growers of MacIntosh and Cortland apples, after the prices had begun to drop in late October and early November, began to exhibit concern over the marketing prospects for those varieties during the remainder of the season. A meeting was held in New York late in November to discuss with New York and New England apple producers a program of purchasing MacIntosh and Cortland apples for distribution in school lunch channels prior to the holidays. At this meeting, producers, although urging the inception of such a program, were optimistic in their expectations with respect to prices at which such apples should move in commercial and relief channels. The program of purchases of MacIntosh and Cortland apples was started early in December. Procurement operations were undertaken for a 3-week period in December and small-sized apples were purchased later in the spring.

Prices

Purchases at the start of the 1949 program were made at a price of \$1.70 per bushel for acceptable varieties and sizes. This price was approximately equal to commercial prices in the Pacific Northwest, about 50 cents a bushel above the then prevailing commercial price in the Central States, and 25 to 30 cents per bushel above prevailing commercial levels in New York and New England. By November, commercial prices in the Central and Eastern States had strengthened somewhat, although they had not increased to the level of the purchase program. The purchase price announced for the spring period of the 1949 crop season was established at \$1.80 per bushel. Commercial prices following the holiday season strengthened and by March exceeded the purchase level. The last deliveries of fruit to the program were made in March. The commercial market strengthened, and by the end of the 1949 crop season prices were at generally remunerative levels to producers.

The MacIntosh and Cortland apples in the late fall of 1950 were purchased at \$1.80 per bushel, which was approximately equal to the then prevailing commercial market levels for those varieties in the

principal Eastern States. The quantities accepted under the program, however, were not sufficient to maintain prevailing commercial prices, and the market deteriorated gradually over the season. After the first of January, small-sized apples of acceptable varieties were purchased at \$1.65 per bushel. In this instance, too, comparable commercial prices gradually deteriorated. The Department was asked to extend its purchases through the month of April and the last deliveries under the program were made in mid-May. Even though substantial quantities of small-sized apples were distributed to surplus removal outlets, some two to three thousand cars of Washington State apples were dumped.

Effects of program

There were 3,134,000 bushels purchased during the 1949 program at an average cost, f. o. b., shipping point, of \$1.75 per bushel. Distribution of the fruit from shipping point to destination cost, on the average, 82 cents per bushel. The total cost of the program was \$8,058,000. During the 1950 program, 2,910,000 bushels of apples were purchased at an average f. o. b. cost of \$1.72 per bushel. With a larger share of the 1950 crop being purchased in Eastern States than was the case in 1949, the average delivery charge was only 72 cents per bushel. The total cost of the program including distribution was \$7,100,000.

An analysis of the factors affecting changes in annual average prices of fresh apples indicates that other factors being held constant a reduction in domestic commercial supplies of 1,000,000 bushels results in an increase in the average market price of 3 cents per bushel. With approximately 3,000,000 bushels being removed from domestic commercial channels in each of the programs, it may be reasoned, therefore, that the potential indirect influence of these programs was a 9-cent-per-bushel increase in domestic commercial prices. With about 75,000,000 bushels being marketed in domestic fresh commercial channels the effect could, therefore, amount to an increase of almost \$7,000,000 in grower receipts from commercial fresh sales.

An examination of marketing conditions prevailing during the 1949-50 season leads to the conclusion that the fruit purchased under the surplus-removal program properly may be considered as a net reduction in supplies available for domestic commercial channels. The most significant marketing job was accomplished through industry efforts which (1) resulted in a discard of nearly 12,000,000 bushels of fruit at harvesttime, and (2) initiated a momentum of movement which moved successfully the available supplies, generally speaking, consisting of fruit of acceptable grades. With the surplus-removal program pointed at these grades, it becomes apparent that the net reduction in commercial supplies improved returns by say \$7,000,000 over and above the \$5,500,000 commodity cost expended in acquiring the supplies.

The 1950 season was a different story. Producers generally were extremely optimistic regarding future prices even though previous crops this size had caused problems. At the meetings with producers it was evident that growers viewed with skepticism the indications that marketing problems were imminent. As the season progressed shipments fell further behind schedule. Early in the season the industry generally believed that small-sized apples would present the

greatest problem. By early January, condition problems became apparent and sellers generally began to move the off-condition fruit as quickly as possible. With all apples grown apparently harvested and sold or stored, a reserve of poor-condition apples was continually available for sale at any price which exceeded the cost of dumping. Probably a surplus-removal program of twice or three times the magnitude of that utilized, with no restrictions regarding variety, grade, or size, would have been necessary before such activities would have affected the quantity available for commercial sale. In retrospect, it appears that commercial prices were not affected by such program activities and that the program merely provided a useful outlet for fruit that might otherwise have been thrown away.

The contrast in behavior of the apple industry during the 1950-51 season as compared with the 1949-50 season magnifies the relative importance of sound commercial grading and marketing programs on the part of the industry to make surplus-removal activities on the part of the Department most effective.

APPENDIX 4

ECONOMIC ASPECTS OF SPECIAL DISTRIBUTION PROGRAMS FOR FLUID MILK

From time to time a fluid-milk consumption program as a supplement to the present price-support activities has been discussed. Such a combination of programs would have the advantage of encouraging increased consumption of milk as well as manufactured dairy products, all of which are nutritionally important foods.

Considerable increases in fluid-milk consumption would be possible under programs to increase milk consumption among low-income families and school children. It is conservatively estimated that fluid-milk consumption could be increased by 1 billion pounds annually, if special milk programs were in operation for families receiving welfare assistance and for school children. If nonrelief low-income families were included, an even greater increase in fluid-milk consumption could be achieved, although this would increase the administrative complexities of the program.

Increasing fluid-milk consumption by 1 billion pounds would be equivalent to the annual purchase of approximately 49 million pounds of butter and 81 million pounds of nonfat dry milk solids, or 100 million pounds of cheese.

Family milk program

1. Even in periods of high economic activity, there are a significant number of families whose income does not permit them to purchase all of the food they need and are willing to consume. Most important in this group are families dependent upon some form of public assistance. Currently, approximately 6 million persons are members of families receiving public assistance, excluding families that are receiving unemployment compensation. It is possible that these data underestimate the number of persons whose incomes would permit them to be included in the welfare category because some families in need of

general assistance do not receive it because of the shortage of welfare funds.

During periods when a family milk program would be operated as a means of supporting milk prices, the number of families receiving public assistance probably would be larger than at present. It is estimated, therefore, that at least 6,000,000 persons in some type of welfare category would be eligible to participate in a family milk program.

2. Among low-income families one of the most frequent methods used to cut down the food budget is to economize on meat and milk. Often fluid milk purchases are made only for the children in the family.¹ The 1948 study made by the Bureau of Human Nutrition and Home Economics showed that among urban families having less than \$1,000 in income (after taxes) 1.83 quarts of fluid whole milk were purchased per person per week, compared with 3.19 quarts per person per week for families in the \$3,000-\$4,000 income class, and 3.47 quarts for families with incomes of \$7,500 or over. This study also showed that in the under \$1,000 class, average per capita consumption of milk was less in families with children than in families without children. In all other income classes, the reverse was true—indicating that the larger-sized low-income families found it impossible to purchase milk for all members of the family.

On the basis of the spread in per capita consumption between high- and low-income families, it is estimated that the fluid-milk purchases of low-income families would increase by at least an average of 1 quart per person per week, if a program were available to permit them to do so. After the program was in operation for some period, and special provisions made for groups with special needs (pregnant and nursing mothers, etc.), the average additional consumption might well be increased over the 1-quart level.

3. With 6 million persons increasing their fluid milk consumption by 1 quart per week, the program would increase fluid milk consumption by 670 million pounds annually. This rate of use is equivalent to the purchase by the Government of 32.5 million pounds of butter and 53.5 million pounds of nonfat dry milk, or 67 million pounds of cheese.

4. There are several alternative methods for operating a program to increase milk consumption among welfare families. In view of the need for flexibility and based upon previous experience with the food stamp plan, it appears desirable to—

(a) Utilize State and/or local welfare agencies in the administration of the program; and

(b) Utilize, whenever possible, regular trade channels to distribute the milk.

One possible method of operating such a program would be the following:

State or local welfare agencies, operating under an agreement with the Department of Agriculture, would be responsible for certifying welfare families as eligible for the program. This would involve issuing an eligibility card to the welfare client, which would serve to identify the family as an eligible participant to the vendor of milk.

The welfare agency would issue to participating families, on a weekly or monthly basis, milk vouchers good for the purchase of fluid

¹ Joint Committee on the Economic Report, Making Ends Meet on Less Than \$2,000 a Year, 1951.

milk at special reduced prices. The number of vouchers provided would be based upon maximum per person allowances developed by the Department of Agriculture.

Retailers accepting the vouchers would return them to dairies as evidence of the numbers of quarts of milk sold at the reduced price, which would be credited on the retailer's account with the dairy. (In some cases, an alternative method of delivery would be for the dairy to establish special distribution centers where the special-priced milk would be sold.)

Dairies would submit monthly claims to the Department of Agriculture for cash reimbursement for the amount of special-price milk sold. These claims would be accompanied by the vouchers the dairy received from retailers or from the special distribution centers.

5. Costs to the Federal Government would vary according to the type of program in effect.

If producers received the class I or fluid milk price for the additional milk sold, and distributors received their normal margins, the Federal Government probably would be required to bear the full retail cost of the additional milk consumed. This would exceed the cost of purchasing and distributing an equivalent amount of dairy products. Producers, however, would be receiving the higher class I price for the additional milk, rather than the lower price received for manufacturing uses.

Assuming a retail price of 20 cents per quart, increasing fluid milk consumption by 670,000,000 pounds a year would require the expenditure of approximately \$62,000,000. At current support levels, the purchase cost of an equivalent amount of dairy products would be between \$25,000,000 and \$30,000,000. These cost comparisons, however, do not take into account the cost of storage or distributing dairy products to eligible schools and charitable institutions, or for possible recoveries through resales, or the higher blend prices producers would receive if the additional milk were sold for fluid use.

Costs to the Federal Government would be reduced if producers were paid a special price (below the fluid milk price but higher than the surplus price) and distributors received less than their usual margins.

In a period of sharply reduced economic activity, with wide-scale unemployment and large relief rolls, a proposal that States or local communities match, on an equal basis, funds provided by the Federal Government would merit consideration. Such a matching requirement would reduce Federal costs by one-half.

Penny school milk program

1. In addition to the increased demand for fluid milk resulting from the presently operating national school-lunch program, the market for fluid milk could be increased through a penny school-milk program. Schools eligible for assistance would be those unable to serve lunch because of the lack of facilities or those that would serve the milk at a midmorning or afternoon recess, thus insuring the maximum net increase in consumption. The difference between the cost of the milk and the combined Federal contribution and children's payments would be borne by local sources. It is estimated such a program could be extended to 4,000,000 children during the first year of operation.

2. By the end of the first year, the program would be using fluid milk at an annual rate of approximately 340 million pounds. This

rate of use is equivalent to the purchase by the Government of approximately 16.5 million pounds of butter and 27.5 million pounds of nonfat dry milk solids, or 34.5 million pounds of cheese.

3. A penny school-milk program could be operated in much the same fashion as the national school-lunch program. Federal funds would be provided to schools through State departments of education. Schools would negotiate contracts with local dairies for the delivery of the milk and would receive Federal reimbursement for the milk served by submitting claims to the State agency.

4. Costs to the Federal Government to increase fluid milk consumption through a penny school-milk program would be about the same as the cost of purchasing an equivalent amount of manufactured dairy products, if the Federal Government reimbursed schools at the rate 2 cents per half-pint. An expenditure of \$12.8 million would be required to finance a program reaching 4,000,000 children. At current price-support levels, the purchase cost of an equivalent amount of butter and nonfat dry milk would be \$14.9 million; of cheese, \$12.6 million. These cost comparisons do not include costs of storing or disposing of purchased supplies, nor do they include any adjustment for Government recoveries through resale or purchased supplies.

APPENDIX 5

Expenditures for price support of storable farm products, fiscal years 1936-41

Storable commodities	Sec. 32 funds				CCC loss on price support programs	Total
	Direct distribution	Diversion	Export	Total		
Barley.....						
Beans:						
Dry edible.....	\$12, 893, 273			\$12, 893, 273		\$12, 893, 273
Castor.....						
Corn.....			\$758, 466	758, 466	\$20, 078, 488	20, 836, 954
Corn products.....	12, 443, 385		12, 625	12, 456, 010		12, 456, 010
Cotton.....	65, 729, 074	\$2, 030, 183	41, 834, 810	109, 594, 067	27, 401, 798	136, 995, 865
Cotton, American-Egyptian.....						
Cottonseed and products.....	793, 008			793, 008		793, 008
Fish, frozen.....	1, 159, 723			1, 159, 723		1, 159, 723
Flax fiber.....		189, 736		189, 736		189, 736
Flaxseed and linseed oil.....						
Grain sorghum.....						
Hemp and hemp fiber.....						
Honey.....	121, 278			121, 278		121, 278
Hops.....		664, 839		664, 839	162, 036	826, 875
Naval stores.....					4, 435, 579	4, 435, 579
Oats.....						
Oat products.....	3, 026, 290			3, 026, 290		3, 026, 290
Peanuts.....		11, 240, 103		11, 240, 103		11, 240, 103
Peas, dry edible.....	646, 688			646, 688		646, 688
Rice.....	6, 587, 736		25, 200	6, 612, 936		6, 612, 936
Rye.....					4, 575	4, 575
Seeds.....						
Soup, dehydrated.....	559, 874			559, 874		559, 874
Soybeans.....						
Sugar.....	110, 951			110, 951		110, 951
Syrup.....	328, 688			328, 688		328, 688
Tobacco.....			3, 881	3, 881	2, 107, 589	2, 111, 470
Tobacco products.....		4, 015, 996		4, 015, 996		4, 015, 996
Tung oil.....						
Wheat.....	5, 555, 941	8, 034	10, 134, 861	15, 698, 836	6, 199, 460	21, 898, 296
Wheat products.....	52, 463, 846		14, 230, 301	66, 694, 147		66, 694, 147
Wool.....					176	176
Vegetables, canned.....	5, 601, 889			5, 601, 889		5, 601, 889
All other.....	428, 372			428, 372		428, 372
Total storable commodities.....	168, 450, 016	18, 148, 891	67, 000, 144	253, 599, 051	60, 389, 701	313, 988, 752

PRICE SUPPORTS FOR PERISHABLE PRODUCTS

Expenditures for price support of storable farm products, July 1941-December 1949

Storable commodities	Sec. 32 funds				CCC loss on price support programs	Total
	Direct distribution	Diversion	Export	Total		
Barley.....						
Beans:					\$3, 101, 247	\$3, 101, 247
Dry edible.....	\$10, 860, 728			\$10, 860, 728	368, 890	11, 229, 618
Castor.....					171, 193	171, 193
Corn.....					22, 552, 779	22, 552, 779
Corn products.....	8, 537, 434			8, 537, 434		8, 537, 434
Cotton.....	4, 796, 160	\$13, 821, 834	\$24, 022, 970	42, 640, 964	¹ 233, 325, 318	¹ 190, 684, 354
Cotton, American-Egyptian.....					494, 975	494, 975
Cottonseed and products.....		658, 440		658, 440	29, 742	688, 182
Fish, frozen.....						
Flax fiber.....						
Flaxseed and linseed oil.....					335, 708	335, 708
Grain sorghum.....			4, 247, 371	4, 247, 371	¹ 566, 664	3, 680, 707
Hemp and hemp fiber.....					10, 010, 788	10, 010, 788
Honey.....	2, 564, 235			2, 564, 235	21, 457, 335	21, 457, 335
Hops.....					874, 470	3, 438, 705
Naval stores.....					792, 164	792, 164
Oats.....					¹ 5, 239, 853	¹ 5, 239, 853
Oat products.....	375, 000			375, 000	282, 015	282, 015
Peanuts.....						375, 000
Peas, dry edible.....			11, 273, 209	11, 273, 209	57, 988, 756	69, 261, 965
Rice.....					630, 891	630, 891
Rye.....					8, 440	8, 440
Seeds.....					¹ 64, 096	¹ 64, 096
Soup, dehydrated.....	366, 751			366, 751	503, 307	503, 307
Soybeans.....						366, 751
Sugar.....					¹ 4, 890, 066	¹ 4, 890, 066
Syrup.....	32, 920			32, 920	16, 493, 439	16, 493, 439
Tobacco.....						32, 920
Tobacco products.....			8, 546, 500	8, 546, 500	¹ 7, 402, 869	1, 143, 631
Tung oil.....		4, 769, 836		4, 769, 836		4, 769, 836
Wheat.....					311, 591	311, 591
Wheat products.....	28, 507, 615		5, 482, 012	5, 482, 012	34, 397, 715	39, 879, 727
Wool.....			49, 108, 732	77, 616, 347		77, 616, 347
Vegetables, canned.....	223			223	87, 145, 739	87, 145, 739
All other.....	1, 534, 366			1, 534, 366	¹ 11, 942	¹ 11, 719
Total storable commodities.....	57, 575, 432	19, 250, 110	102, 680, 794	179, 506, 336	6, 450, 376	185, 956, 712

¹ Gain.

Expenditures for price support of storable farm products, January-December 1950

Storable commodities	Sec. 32 funds				CCC loss on price support programs	Total
	Direct distribution	Diversion	Export	Total		
Barley.....					\$1,788,520	\$1,788,520
Beans:						
Dry edible.....	\$50,564			\$50,564	4,630,049	4,680,613
Castor.....						
Corn.....					14,992,246	14,992,246
Corn products.....						
Cotton.....		\$19,458	\$447	19,905	¹ 30,186,094	¹ 30,166,189
Cotton, American-Egyptian.....					¹ 9,098	¹ 9,098
Cottonseed and products.....					¹ 2,824,433	¹ 2,824,433
Fish, frozen.....						
Flax fiber.....					61,350	61,350
Flaxseed and linseed oil.....			493,458	493,458	24,271,078	24,764,536
Grain sorghum.....		26,386		26,386	20,914,892	20,941,278
Hemp and hemp fiber.....					¹ 131	¹ 131
Honey.....	77,640		322,863	400,503		400,503
Hops.....						
Naval stores.....					2,922,072	2,922,072
Oats.....					260,018	260,018
Oat products.....						
Peanuts.....			3,453,006	3,453,006	13,172,924	16,625,930
Peas, dry edible.....					370,404	370,404
Rice.....					1,135,171	1,135,171
Rye.....					316,153	316,153
Seeds.....					65,188	65,188
Soup, dehydrated.....						
Soybeans.....					465,108	465,108
Sugar.....						
Syrup.....						
Tobacco.....					¹ 207,160	¹ 207,160
Tobacco products.....						
Tung oil.....					947	947
Wheat.....			560,293	560,293	25,691,981	26,252,174
Wheat products.....						
Wool.....					5,108,072	5,108,072
Vegetables, canned.....						
All other.....						
Total storable commodities.....	128,204	45,844	4,830,067	5,004,115	82,939,257	87,943,372

¹ Gain.

