

The Voluntary Domestic Allotment Plan

BY THEODORE W. SCHULTZ AND A. G. BLACK

THE PLAN*

In simplest terms, the domestic allotment plan proposes to do two things: (1) Give the farmers, for example, of wheat, cotton, hogs, tobacco and rice certain benefits on that part of their production consumed within the United States, (2) provide the necessary control measures to keep the producers from expanding production and, also, if necessary, bring about a gradual reduction. Seven essential features underlie the plan:

1. The voluntary choice of farmers in entering the plan.
2. The collection of the required *allotment funds* from processors and manufacturers—millers, packers, textile manufacturers, etc.—by means of an excise tax or “processing charge” on that part of the commodity prepared for domestic consumption.
3. A yearly estimate of the total quantity of crops (wheat, cotton, tobacco and rice) required for domestic use other than feed and seed and the number of hogs needed for consumption other than for breeding stock and farm use.
4. Allotment of this total among individual producers in proportion to the past production of their present farms.
5. The distribution to allotment holders of a “compensatory payment” on each unit of the domestic allotments.

*The foreword to circular No. 141 included the following statement: The plan was originally proposed by the late W. J. Spillman. Since then it has undergone successive modifications at the hands of Professors J. D. Black and M. L. Wilson. A bill embodying the voluntary domestic allotment idea was introduced during the last session of Congress by Senator Norbeck of South Dakota and Representative Hope of Kansas.

The discussion that follows is, in the main, based on the Norbeck-Hope bill. What is said is of necessity tentative. The plan is comparatively new. There is no assurance that it will not be materially modified by those now working on it.

Our purpose is to point out the essential features of the plan as now proposed, rather than to pass judgment. Our task is to show the proposal in its various phases and to consider some of the problems that its application would involve. This discussion should prepare the way for a more thorough study of it by Corn Belt farmers and farm leaders.

6. The signing of a contract by allotment holders agreeing to restrict production if and as the administrative agency may decide.

7. The automatic discontinuation of the plan when the purchasing power of the commodity reaches the 1910-1914 level.

Voluntary Aspect of Plan

The plan is voluntary because the claim to compensatory payments would be acquired by voluntary signature to and fulfillment of a contract whereby farmers agree to limit or reduce their production if and as directed by the administrative agency. In no case would it go into effect until 60 percent of the producers of a commodity so desired.* All farmers who felt that they were sacrificing their personal liberty in entering the required production contract could stay out. They could continue to produce as much as they desired but of course would get none of the compensatory payments. The expression of willingness of 60 percent of the producers may be measured either by number or by average annual production.

Collecting the Allotment Funds

An excise tax will be collected from those who process, manufacture or distribute the product for domestic consumption. At just what point the tax will be levied is not fixed. Whether it will be at the time of processing or sale depends upon which proves the more equitable. When a processor exports any part of the commodity on which he has paid a tax, he will be refunded the amount of the tax.

The *allotment fund* derived from the tax is to be paid to the producers. It is a payment distinctly separate from the price of the commodity. Each farmer is to receive his prorata share of this fund, provided he signs a contract to restrict his production.

*The plan as it is being applied by the Agricultural Adjustment Administration in the case of wheat does not require that a referendum be taken. Whether all or only a few farmers desire the plan, it will be put into operation. The individual contracts, however, are purely voluntary.

Estimate of Domestic Consumption

The amount of the compensation payment to individual farmers is determined by the quantity of the commodity processed on which the tax is collected, the height of the tax, the administrative expenses deducted and the aggregate allotments of producers who are entitled to receive the payments.

First in importance is the size of the yearly allotment fund. This will depend, as already stated, chiefly upon two things, (1) the quantity of the commodity consumed within the United States, and (2) the height of the tax. We consume annually about 500,000,000 bushels of wheat in contrast to 20,000,000 bushels of rice. Obviously, with the same processing tax per bushel the allotment fund for wheat will be 25 times as large as that for rice. But there are, of course, many more wheat than rice growers. Table XXXIII shows the maximum amount that can possibly be collected for each of the five commodities, unless production is sharply reduced. It is based on the existing tariff rates, except cotton, which is calculated at 5 cents a pound.

TABLE XXXIII. ESTIMATED ANNUAL MAXIMUM COMPENSATORY PAYMENTS TO PRODUCERS IN THE UNITED STATES^a

To producers of:	Units of measure	Production ^b (in thousands)	Consumption ^b (in thousands)	Maximum payments ^c (million dollars)
Hogs	Pounds	14,950,000	13,390,000	267
Wheat	Bushels	860,000	500,000	210
Cotton	Bales	14,800	6,600	165
Tobacco	Pounds	1,400,000	900,000	45
Rice	Bushels	43,000	20,000	6
Total				693

^aBased on 5 cents a pound for cotton and the existing tariffs: wheat 42 cents a bushel; hogs, 2 cents a pound; tobacco, 5 cents a pound; rice, $\frac{1}{2}$ cent a pound.

^bFive-year average, 1926-30.

^cAssuming that the whole burden of the tax is borne by the consumer and that there is no decrease in the quantity consumed, and also, that there are no administrative costs.

Making the Allotments

All allotments are based upon how much the state, county, and individual farm has been producing. In this the plan is really quite simple in design. The amount of the domestic consumption of each commodity is allotted to the various producing states in proportion to their average production in the preceding five

years. For example, the annual domestic consumption of flour is equivalent to approximately 500 million bushels of wheat. Since Iowa has averaged only 1 percent of the total production of the country, it is entitled to an allotment of 5 million bushels on which the compensatory payments are made.

The state allotment is divided among the counties in exactly the same way. Each county receives a share of the state allotment in proportion to its production. Likewise within the county, the total county allotment is distributed among the individual farms on the basis of their past production. Each farmer is then issued allotment certificates. These certificates belong to the farm. They are a property right over that share of the domestic consumption prorated to that farm. The certificates presumably will have a fairly constant value. Note again that the allotment certificates and the payments proposed on them are in no way connected with the going market price. The price structure is not affected. The payments are wholly supplementary.

Distribution of Compensatory Payments to Allotment Holders

Allotment holders are to receive a payment per bushel, bale, or pound on their allotment. The market price paid to the farmer is not disturbed in any way. He may sell his products to anyone at any time. Definitely, the compensatory payments do not aim at higher market prices; it leaves them to be determined by the ordinary forces. *The plan is income supplementing and not price raising.*

The number and the size of the farms will determine how large a share of the net allotment fund is to go to each farmer.

TABLE XXXIV. ESTIMATED AVERAGE ANNUAL MAXIMUM PAYMENTS PER FARM IN THE UNITED STATES

	Number of farms reporting (1930 census)	Maximum payment (dollars)	Average payment per farm (dollars)
Hogs: United States....	3,600,000*	267,000,000	74
Iowa	180,000	54,000,000	300
Wheat	1,210,000	210,000,000	174
Cotton	1,986,000	165,000,000	83
Tobacco	433,000	45,000,000	104
Rice	9,000	6,000,000	667

*Number of farms reporting hogs from 1925 Agricultural Census.

Incidentally, the name of the plan arises from the fact that the payments are allotted to specific farms. A payment will be made to the farm regardless of the quantity produced or sold, provided, of course, that the terms of the contract are not violated.

The Contract and Production Restriction

Allotment certificates are given only to those producers who will sign a contract not to increase their production, so far as it is within their control. The producer, also, must agree to reduce his production should the administrative agency decide that a reduction is desirable. The decision whether or not a reduction is advisable will be made after considering both the domestic and foreign economic prospects and the expressed opinions of the producers of the commodity.

This contract, voluntarily entered into by the farmer, is a most important feature of the plan; in fact, the heart of it. The contract feature is what distinguishes this plan from the equalization fee and export debenture. It is a real virtue of the plan that it would not stimulate production. Because no farmer is likely to pass up the compensatory payments to which he is entitled by the allotment, it appears that he will gladly enter into the contract. But there is no obligation upon him to do so. If the contract is not observed he loses his allotment rights.

The importance of the contract around which the domestic allotment plan is built can hardly be over-emphasized. It gives a definite method whereby farmers can restrict production when desirable. It protects the plan against the charge of dumping; there should be no danger of reprisals or retaliations on the part of foreign countries. It prevents increased incomes from stimulating production. Finally, it lays the foundation for a system of planning as well as controlling agricultural production.

Purchasing Power Provision

The application of the plan is contingent upon the condition that the commodity is selling for less than its pre-war purchasing power. After the plan is once in operation special provision is made for its automatic discontinuation when the price of the commodity rises to the 1910-1914 purchasing power level. This feature of the plan is clearly intended to protect the consumer.

The Application of the Plan Illustrated With Hogs

From 1926 to 1930 the United States produced an average of 14,950 million pounds of hogs annually. Iowa's production was approximately 2,935 million pounds, or 20 percent of the total. This, then, would be Iowa's production allotment.

The pork and lard consumed each year in this country is equivalent to about 13,390 million pounds of hogs liveweight. The difference between 14,950 and 13,390 million pounds represents exports, principally lard. Iowa's share of the domestic consumption would be around 2,678 million pounds. On this part of its yearly marketings Iowa is to receive compensatory payments. At 2 cents a pound this would net the hog farmers of Iowa a maximum of not more than \$54,000,000.

But how would the plan apply to a farmer who, for example, usually keeps 10 brood sows? For the past 5 years Iowa farmers have had about 2 million sows farrow annually. These sows have averaged virtually 6 pigs to the litter. Thus, if a farmer in Iowa had a production allotment of 10 sows, meaning 10 litters of pigs, he would be entitled to sell in the neighborhood of 15,000 pounds of hogs. On the basis of the calculations given above, he would receive compensatory payments on 13,500 pounds of his production. Therefore, if he sold for slaughter not more than 15,000 pounds he would be paid as a maximum on his allotment certificates \$270.

In operation this would result in each farmer selling his hogs when they about reached the gross weight allowed him. With small litters it would mean heavy hogs and with large litters light ones. It is apparent that the certificates in the case of hogs must be made transferable, in whole or in part. Thus, if a farmer lost his hogs by cholera, he could sell his certificates to another farmer. This would provide some insurance for his pig crop. Similarly, if his feed crop should fail, he could sell his pigs below the gross weight allotted to him and also his remaining unused certificates. Under such an arrangement there would be considerable freedom in handling the breeding and feeding operations of the farm.

Of particular urgency is the need for a thoughtful consideration of the plan's application to the hog industry, mainly, because the domestic allotment plan has been conceived largely in

terms of wheat and cotton. What can it do for the hog producer? Is it at all workable when applied to hogs? If it is, what specific modifications are necessary? These and related questions involving a more or less critical appraisal of the plan under Iowa conditions merit, if not demand, the attention and study of Iowa farm people.

THE PROBLEM OF ADMINISTRATION

Each farmer is to receive a prorata share of the compensatory payments in proportion to his past production. How hard is it to make these allotments to individual producers? It is safe to say that the allotments to the state are easily determined. Even the allotments to the respective counties within a state such as Iowa can be made fairly satisfactorily on the basis of crop reporting figures now available. But the division of the total allotment of the county or township to each farm is likely to be a big task. To the extent that assessors' data are complete, this final step necessary to make allotments is not a serious administrative weakness. It is assumed also that the claims of individual farmers within the township will be published and that this publication will serve as a check on exorbitant claims. It would seem, therefore, that reasonably satisfactory allotments may be made to each farm.

To change the distribution of the allotments from time to time so as not to impede completely the natural shifting of production areas also presents a problem. If it is done each year, producers may be led to increase their production unduly for a few years so as to get a right to a larger allotment. On the other hand, if the production quotas are not redistributed at all, it will greatly restrict needed adjustments in production areas.

Another difficult task in administration is obtaining accurate information as to whether or not producers have fulfilled their contracts with regard to acreage devoted to wheat and cotton. In hogs, how is it feasible to determine just when a producer has increased his production?

Then, too, the question arises, how is it possible to keep these commodities from being sold to consumers without the payment of the processing tax? Processors may conceal evidence of purchase of hogs and production and sale of pork and lard to the re-

tail trade and thus save the cost of the 2-cent tax. Conceivably, processors may enter into gentlemen's agreements to conceal a proportion of their transactions. In the main this problem is less real than it may appear. The inspection of slaughter and the various checks on hog sales at the packing plants provide sufficient safeguards. With wheat it is even less a problem.

A more perplexing administrative problem lies in controlling slaughter for local consumption. Hogs slaughtered for home use are of course exempt from the processing tax. But slaughter for local sales by farmers and butchers is an important hog outlet, particularly in the East. For example, 50 percent of the farm slaughter of the New England states, compared with 2 percent for Iowa, is sold as pork. How is it possible to collect the 2-cent a pound tax on this local slaughter and not at the same time encourage the "bootlegging" of pork? Is it safe to assume that public sentiment would support rigid enforcement of the tax law in farming districts? Further study may indicate some modification that will overcome this difficulty.

SOME PROBABLE ECONOMIC CONSEQUENCES OF THE PLAN

What effect will the plan have upon consumption, prices, shifts in production areas, trade movements, and the many other adjustments that are apparently involved? All of these problems need to be carefully analyzed. Much technical information is needed. Special work is now being done by research workers at Iowa State College, at Washington and elsewhere.

It will be helpful to indicate some of the more important consequences that may be anticipated when the domestic allotment plan goes into effect. This discussion is at best only a preliminary survey of the economic effects of the plan. The following suggested consequences, provisional as they are, should aid in focusing attention upon those parts of the plan that most need consideration.

Plan Assures Minimum Farm Income

The domestic allotment plan provides some important insurance features. It assures the farmer of a minimum income regardless of low prices or crop failure. The compensatory pay-

ments, depending mainly upon the quantity consumed, are not likely to vary much from year to year. Because the compensatory payments are certain they would reduce the hazard of price decline. Thus, if the assumed payments were added to the present farm prices of wheat, cotton and hogs, they would practically double the income that farmers receive from these commodities. In view of the ruinous low prices now current, the social importance of some such safeguard is patent.

The plan is also an insurance against production failures. As already suggested, any farmer having lost his hogs due to cholera will still receive compensatory payments on his allotment certificates. Similarly, it is a protection against crop failure. The need for some form of insurance in cotton and wheat farming against crop failure has been repeatedly dramatized. The experiences in the spring wheat area in 1931 and the winter wheat area in 1932 are all too near to be forgotten.

The farmer is to be given a payment whether he produces a single bushel, or pound of pork, provided he has been a wheat or hog farmer in the past. This is in some ways a wide departure from the usual social philosophy. It is justified, however, by some of our foremost economists on the ground that there is a net gain. They hold it is good policy to give up some production efficiency in order to obtain a larger measure of certainty in social well-being.

Would Prices at the Farm Drop?

Will the packer, miller, and textile manufacturer simply pay proportionately less for hogs, wheat, and cotton when the domestic allotment plan goes into effect? Clearly, the assumption underlying the preceding discussion has been that farm prices will not be affected adversely by the processing tax.

Neither will farm prices drop by the full amount of the processing tax nor will the consumer bear the whole burden. Take wheat; suppose the miller pays 30 cents a bushel tax. What will prevent him from paying that much less for wheat in the open market? The answer is to be found in world prices. If the miller offered less than the exporter could receive by shipping to Liverpool, his bins would remain empty. And, presumably, if the total amount of flour consumed in the United States remained un-

changed the farm price of wheat would not be lower after the adjustments were completed.

But sight must not be lost of the fact that higher prices will decrease domestic consumption. The processor will try to pass the tax on to the retailer who will in turn raise his price to housewives. They will buy less. Just how much less is a rather technical question. It is different during depression than in boom times. Each commodity would have to be studied separately.

Returning for a moment to wheat, to the extent that domestic consumption decreases, wheat prices will decline to a point that will permit either larger exports or more domestic consumption. If, as is proposed in the plan, wheat acreage is reduced, the lessened consumption may be counteracted. Then, farm prices would not drop.

The balancing of any decrease in consumption by less production so as not to disturb farm prices and exports is the central idea underlying the domestic allotment plan. Whether or not this is a profitable adjustment for farmers depends largely upon the type of demand they are dealing with. In this, too, each commodity is different. In general, though, it is true that higher prices do not reduce the consumption of foodstuffs proportionally. The demands for necessities are usually quite inelastic in character. With inelastic demands the processing tax is largely borne by the consumer. Here, again, the problem is very intricate.

The demand for pork particularly presents a very knotty problem. The price interrelationship of pork, beef, mutton and eggs is of special interest. Any appreciable rise in pork prices would cause housewives to use more of these other foods. The consumption of pork would consequently decline accordingly, but this very process of substitution would increase the demand for pork substitutes, hence their price. Thus, indirectly the plan will benefit the cattle, sheep and poultry farmers. The problem is not whether substitution will result, but to what extent it is likely to take place. Again, the question can only be raised at this time.

Probable Immediate Effect on Consumer Prices

The domestic allotment plan will perforce increase prices to the consumer. But consumer prices will not increase at once by

the full amount of the tariff charge. Thus, if the miller were required today to pay a tax of 30 cents, it would nearly double the cost of his wheat.* But even though the cost of wheat to the miller were increased from around 40 cents to 70 cents a bushel, it is not likely that the price of flour, much less of bread, would rise proportionately. For the time being much of the processing tax would be absorbed in the distributive system in the same way that much of the price decline of these raw materials has not been reflected in retail prices.

Although in general consumer prices will not increase at once by the full amount of the tax, some will do so more quickly than others. Prices of cigarettes, cigars, and snuff in all probability are influenced very little by a tax of, for instance, 5 cents a pound on tobacco. On the other hand, 2 cents added to the price of hogs would soon be reflected in higher retail prices. But generally speaking, should the processing taxes go into effect now with wheat, cotton, hogs, tobacco, and rice, prices all proportionally lower—compared with 1920 to 1929—than the prices of the respective consumer goods made from these commodities, it is probable that a large part of these taxes would be absorbed by the processor, manufacturer and distributor.

Lard and Lard Substitutes

Lard is being severely pressed in the domestic market by substitutes, particularly by vegetable oils. Presumably, the disadvantage of its competitive position would be further accentuated by the proposed tax on hogs. Several possibilities arise: (1) The packer may force more lard into export channels, (2) the tax on hogs may be shifted to other pork products, especially cured pork, (3) some countervailing tax might be imposed on lard substitutes. The processing tax applied to cotton may increase the price of cottonseed oil, especially if acreage is restricted. This, then, would help the lard market. The appraisal of each of these adjustments is not possible. The information at hand is too fragmentary. The outlook for lard and lard prices is even now clouded by a number of uncertainties.

*December, 1932.

SUMMARY

The allotment plan differs from the McNary-Haugen bills and the export debenture in that it definitely recognizes the need for some form of production control when prices are increased. The lack of such control is one of the strongest economic arguments that has been directed against the other two farm relief proposals.

Clearly, the domestic allotment idea is a recognition of the principle that a tariff does not benefit farmers who produce a commodity of which there is an exportable surplus. Since this country is committed to high tariffs and since foreign countries have turned to almost every conceivable form of restriction—export bounties, licensing systems, import quotas, mixing regulations, importing monopolies, etc.—the domestic allotment plan has been developed to give the American farmer the benefits of protection for that portion of his produce used domestically.

Although economic isolation is not in the best interest of the welfare of the world as a whole, we must recognize that the trend has been decidedly in that direction. The American farmer has been a victim of economic nationalism at home and abroad. The allotment plan is frankly a means for equalizing the social costs of adjusting the agricultural plant of the United States to this situation.

With farm distress having reached the emergency stage, there is today a widespread feeling that the plight of agriculture reacts adversely upon the whole economic community. The purchasing power of farmers has been disastrously diminished. It is argued that it must be restored before it is possible to have business recovery. Many who heretofore have opposed the very idea of farm relief are now granting its necessity on social grounds. Because of this, there is the danger that the domestic allotment plan, coming to the fore during a general emergency, may be adopted without due consideration of the more important consequences that may result.

In short, the plan calls for distributing compensatory payments among producers on the basis of their past production. It derives the necessary funds from excise taxes levied on processors

and manufacturers. The plan is decentralized in the procedure of making the allotments to individual farmers. Farmers' claims to the payments rest upon voluntary signature. The contract calls for a restriction of production as the federal agency may prescribe.

SELECTED READINGS

1. Black, John D., *Agricultural Reform in the United States*. McGraw-Hill Book Co., N. Y., Chap. X.
2. Davis, Joseph S., "The Voluntary Domestic Allotment Plan for Wheat," *Wheat Studies*. Food Research Institute, Stanford University, Calif. Vol. IX, No. 2, Nov., 1932.
3. Hope, C. R., "The Voluntary Domestic Allotment Plan of Farm Relief." *Congressional Record* 75, (Part 14):15303-15398. July 14, 1932.
4. Hope, C. R. Bill referred to Committee on Agriculture. H. R. 12918. United States House of Representatives, 72d Congress, 1st Session. July 7, 1932.
5. Wilson, M. L., "A Program of Agricultural Reconstruction." Address mimeographed. Montana Agr. Exp. Sta., Bozeman, Mont. October, 1932.

