

What About the BURLEY TOBACCO CONTROL PROGRAM?

By Glenn L. Johnson
and Harry M. Young, Jr.

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FOREWORD

The present burley tobacco program is an outgrowth of a long experience of tobacco growers. Since the beginning of tobacco growing in the Virginia Colony, tobacco farmers have been plagued by unstable markets and inability to adjust production to market demand in such a way as to stabilize prices. These difficulties for growers stem from several characteristics of the production and marketing of tobacco.

First, especially since the close of the nineteenth century, the purchase of tobacco has become progressively centralized and needs for manufacture are relatively stable from year to year.

Second, storage stocks of aging tobacco, which amount to two or three times annual consumption for some types, are normally in the hands of commercial processors, which strengthens the buyers' bargaining position in the market by making them somewhat less dependent upon the production of any one year.

Third, tobacco is grown on thousands of farms in a limited geographic area, mostly on small acreages. Land and labor generally are easily available for growing additional tobacco. These two characteristics permit large changes in production from year to year, when no acreage controls are in effect. When left to individual farmers these changes usually were too much and came too late.

Fourth, there is no substitute for tobacco as an item of consumption. Among farm products this is unique to a large degree. This characteristic undoubtedly accentuates the effects of changes in supply on prices of tobacco and contributes to price instability.

In interpreting and analyzing the burley tobacco program since 1933, the characteristics of tobacco as a commodity and the conditions under which it is bought and sold become major considerations. Not to be dismissed lightly is the influence of the increasing demand for this type of tobacco that has prevailed in recent years. Because tobacco differs in so many respects from other major crops, caution is urged in using programs successful for other crops for tobacco, or vice versa.

The following discussion of the burley tobacco program is based upon technical analyses cited on page 3. An understanding of past experience should help farmers and agricultural leaders adjust programs to the needs of the future.

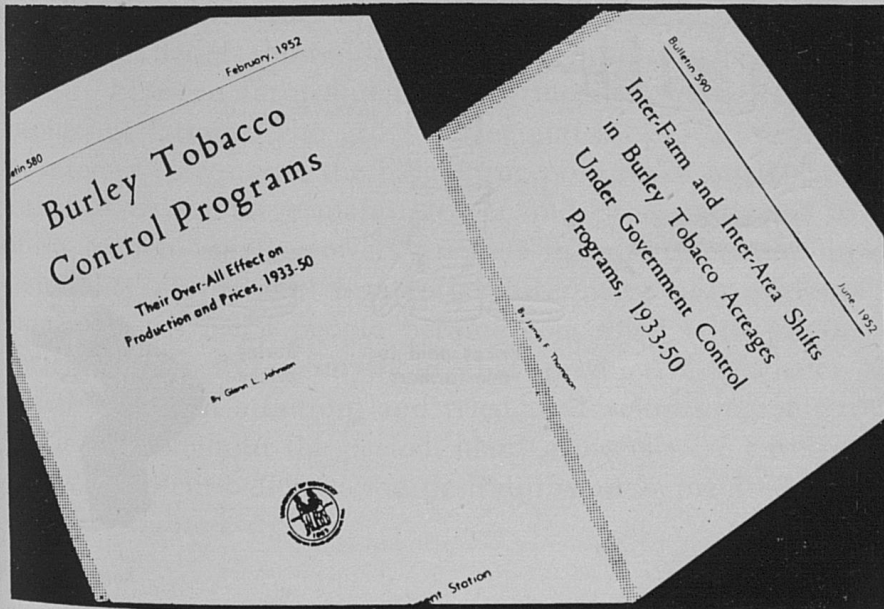
AUBREY J. BROWN, Head
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What About the Burley Tobacco Control Programs?

By Glenn L. Johnson, formerly Economist in Agricultural Economics, Kentucky Agricultural Experiment Station, and Harry M. Young, Jr., Extension Specialist in Agricultural Economics

1. What basis do we have for answering questions on the Burley Control Program?

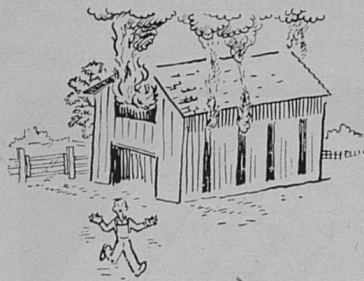
A special study on the effects of the control programs on production and price of burley tobacco has been carried out at the Kentucky Agricultural Experiment Station. The results of this study are reported in two bulletins: Bulletin 580, entitled *Burley Tobacco Control Programs, Their Over-All Effect on Production and Prices, 1933-50*, and Bulletin 590, *Inter-Farm and Inter-Area Shifts in Burley Tobacco Acreages Under Government Control Programs, 1933-50*. This research, done independently by persons close to burley growers and not involved in the administration of the control programs, provides more or less complete answers to a wide variety of questions concerning the programs.



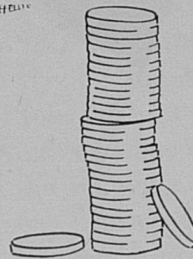
Sources of information on the burley program

2. What problems were the Burley Programs developed to handle?

The first important problem was the question of income and price equality between farmers and city people. While the general agricultural programs of the middle 30's were being worked out, the question of income and price equality among growers of different farm products also arose. Burley growers and leaders were also concerned about the alleged concentration of buying power in the hands of tobacco manufacturers. And, it should not be forgotten that because tobacco-raising areas had experienced strife and disorder in earlier attempts at production control, the people in these areas desired legal, peaceful means of setting up and administering controls. As the programs developed, other problems arose, one of which dealt with the welfare of small burley growers relative to that of large growers. It also became evident that the problem of *unstable* burley prices and production was about as important as the problem created by the *level* of burley prices.



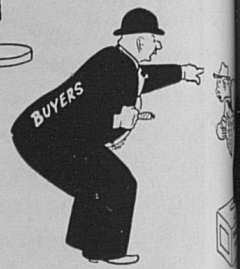
Violence and misunderstanding



Prices paid to non-farmers

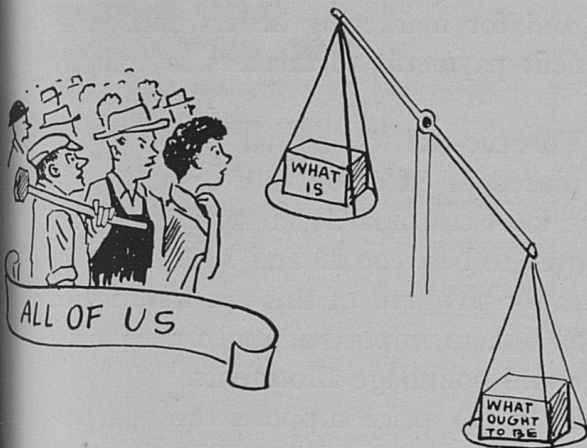


Burley prices



Bargaining position of farmers

3. What fundamental beliefs and convictions about how things ought to be are involved in the burley programs?



Problems exist because people have fundamental beliefs and convictions about how things ought to be, but find that things actually are not that way.

Fundamental beliefs and convictions about justice and equality were involved in setting up and developing the burley programs. These same beliefs showed up repeatedly in the attempts to secure equality between farm and nonfarm incomes, and between the incomes of farmers who grow burley and those who did not; in the attempt to equalize the bargaining position of burley growers with that of the large manufacturer and processors; and in the efforts to help small growers. Beliefs in orderliness and in the desirability of peaceful legal procedures were also evident. As time went by, more people became concerned with productive efficiency—they were convinced that productive efficiency was something worth attaining and tried to develop programs to attain it. Throughout the period, many growers were emphatic in expressing their belief in the desirability of being free to grow what they wanted.

4. How did the first AAA legislation affect burley producers?

The AAA of 1933 was designed to reestablish the "fair exchange value" of agricultural products relative to prices paid by farmers. Those who framed the act recognized the special position of burley among farm products by defining a special base period for figuring the burley parity price. Provisions were made for burley acreage and poundage allotments, and for marketing orders and agreements, with rental and benefit payments to farmers as a means of securing compliance.

In 1934, the Kerr-Smith Tobacco Act was passed, providing for a tax on all burley, to be placed in effect by vote of persons in control of 75 percent of the land customarily engaged in burley production. The tax amounted to between 25 and 33 1/3 percent of the sale price. Certificates for payment of this tax were issued *free* to cooperators. The tax was an important tool for securing compliance with the acreage and poundage allotments.

These two acts provided for (1) price supports through production controls and (2) enforcement penalties. The short-run problem of handling extra production resulting from good weather was left to the individual farmer.

Cooperators were given free warrants to pay the tax on burley sales.

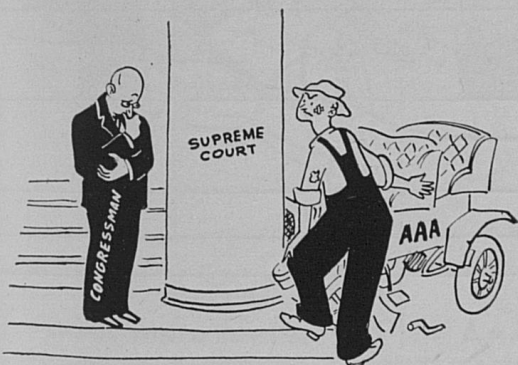
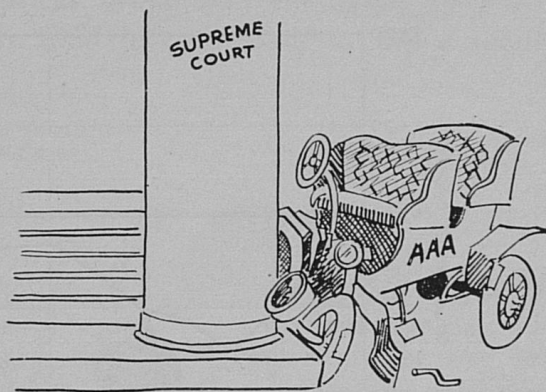


Farmers who failed to cooperate in the program had to pay their burley tax in cash amounting to a fourth to a third of the sales price.



5. What was the outcome of the first AAA legislation?

In the Hoosac Mills Case, on January 6, 1936, the United States Supreme Court declared unconstitutional those sections of the AAA of 1933 which provided for production controls and processing taxes. Congress thereupon repealed the Kerr-Smith Act, which had been made ineffective by the Supreme Court decision.

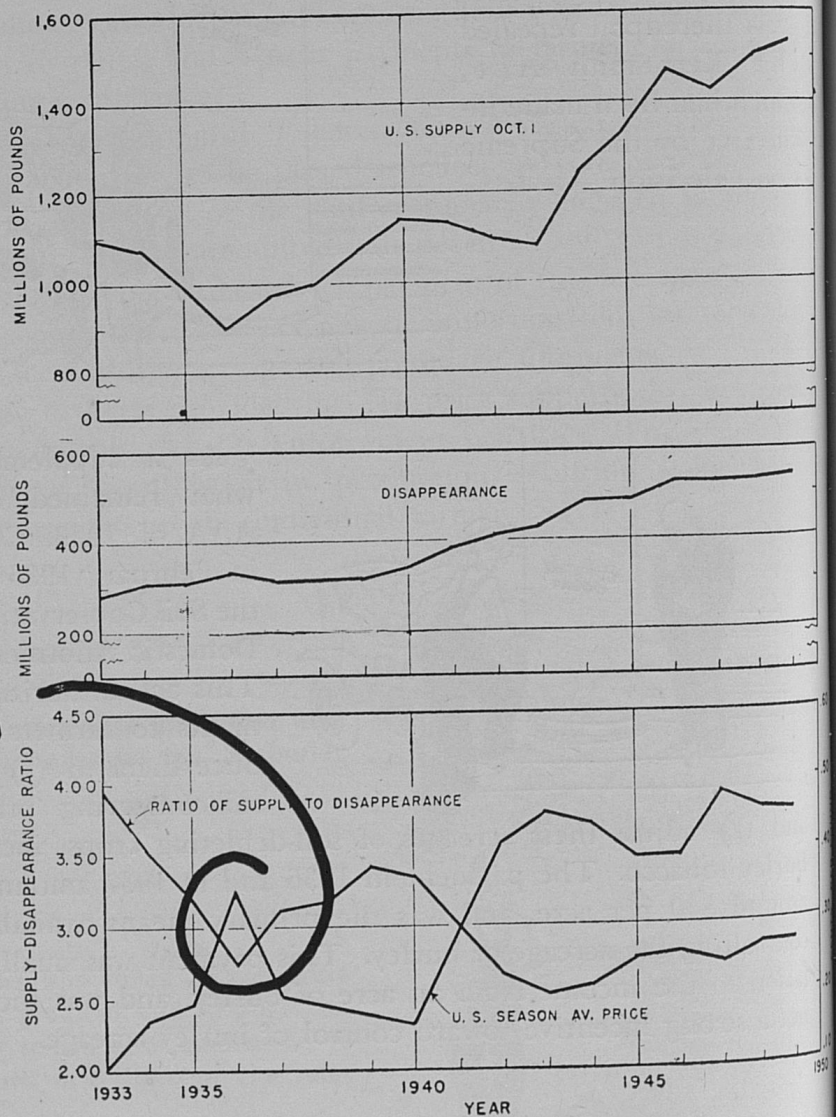


As a supplement to what remained of the AAA of 1933, Congress in February 1936 passed the Soil Conservation and Domestic Allotment Act. This act authorized payments to farmers to induce them to (1) adopt soil-conserving practices,

and (2) adjust their acreages of soil-depleting crops, including burley tobacco. The payment in 1936 and in 1937 amounted to around \$40 per acre, and was the primary means available for controlling the acreage of burley. This payment was small in relation to the income from an acre of burley, and was therefore not a strong incentive toward control of burley acreage.

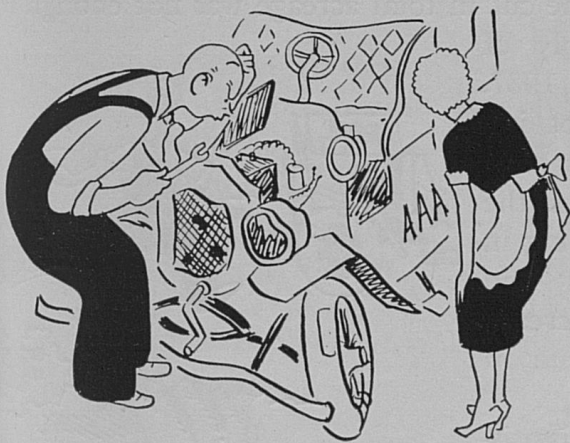
6. How did the programs developed under the Soil Conservation and Domestic Allotment Act work out?

These programs proved to be too weak to control the level and stabilize the production and price of burley. In 1936 poor



Season average price related to supply and disappearance of burley tobacco, United States, 1933-49

weather during the growing season resulted in the third small crop of burley in a row, and prices skyrocketed to give burley its highest purchasing power per pound in the 1933-50 period. Spurred by these prices and not held back by possible failure to collect benefit payments, growers in 1937 overplanted their allotments. Weather was good, and a crop 182 million pounds greater than in 1936 was produced. As a result, prices broke and the large 1937 crop brought only a little more total income than the much smaller crop of 1936.



As the Soil Conservation and Domestic Allotment Act was not reaching the objectives sought by many farm groups, Congress undertook a major overhaul of farm legislation, and the result was the AAA of 1938.

7. What main features of the AAA of 1938 affected burley?

The 1938 act provided for enforced acreage allotments as the primary means of price support, with stand-by loan provisions to handle short-run difficulties. Control was to be brought about by these provisions:

First—Marketing quotas on burley when (1) the total supply exceeded the reserve supply, and (2) two-thirds of the growers favored such quotas. The legal definition of “reserve supply level” was based on disappearance, and thus

specifically incorporated past experience concerning the relationship between supply and disappearance, on one hand, and price on the other.

Second—A penalty for enforcing poundage marketing quotas.

Third—Nonrecourse loans for short-run price-support operations.

8. What were the results of the 1938 legislation?

Burley growers in 1938 not only approved the marketing quotas, but also, on the average, planted less than their acreage allotments. However, the cut in total acreage was not enough to reduce the large supply of burley accumulated in 1937. Prices therefore did not improve in 1938—in fact, they weakened slightly. Thus, the apparent reward for voting in the marketing quotas and underplanting their acreage allotments was a decline in prices.

Growers were also dissatisfied with the confusion caused by having both acreage allotments and marketing quotas.

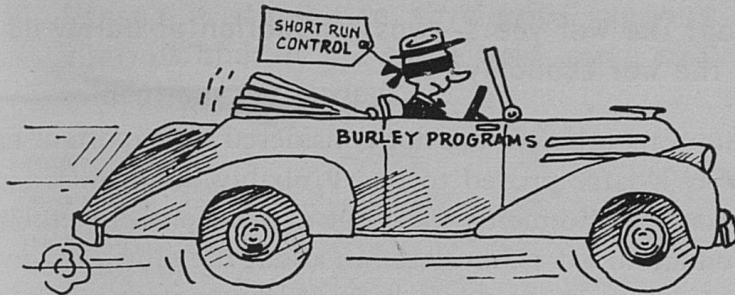
Some growers who complied with acreage allotments still grew more burley than their marketing quotas permitted. To meet this difficulty, Congress in 1939 passed a law making an individual farmer's marketing quota the production from his allotted acreage.

Two other shortcomings in the 1938 law hindered its operation. These were:

- (1) The program could be voted in or out annually. Before the short-run price-support program could be effectively administered, the administrators needed some assurance that production could be adjusted in following years to permit clearance of government loan stocks.

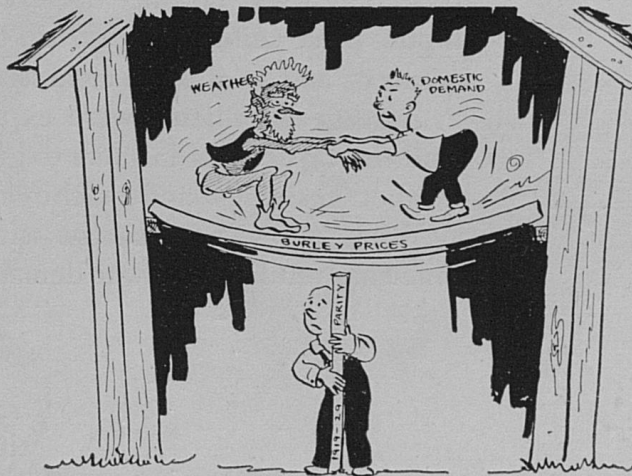


Burley growers voted marketing quotas
1939



Year-to-year
voting meant
"blind driving."

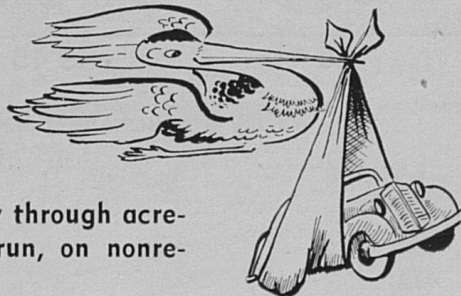
- (2) The level at which short-run price-support operations could legally be started was too low to permit effective price-stabilization to be carried out.



A longer prop was needed, to
stabilize prices.

Congress corrected the first of these shortcomings by changing the base period for computing the parity price for burley, and thereby raised the level of prices at which price-support operations could be started. The second shortcoming was corrected by legislation permitting approval of marketing quotas by 3-year periods.

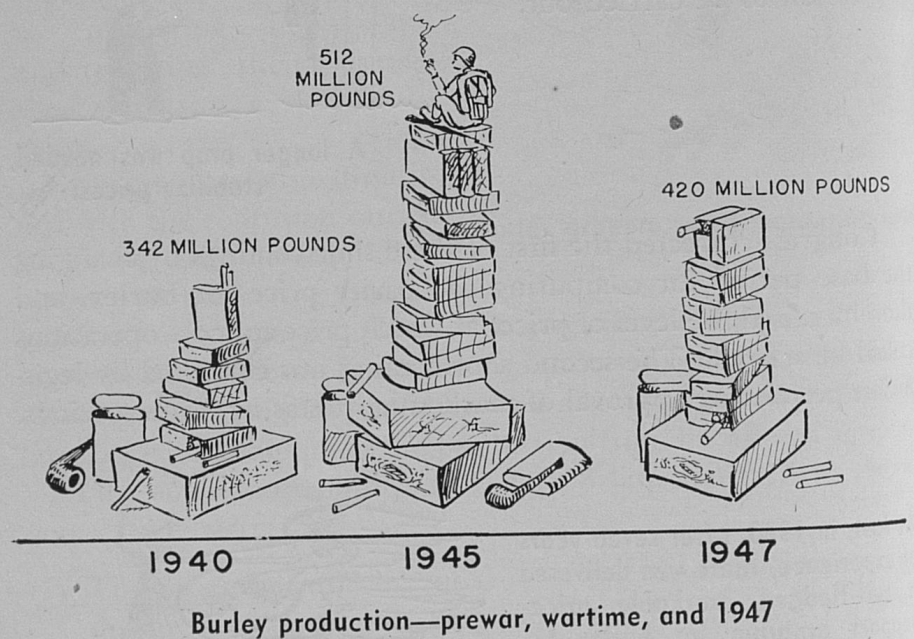
At last, in 1940, after seven years of experience, there was delivered a full-fledged, workable price-support program for burley tobacco. This program was based, in the long run, on control of supply through acreage allotments, and in the short run, on nonrecourse loans.



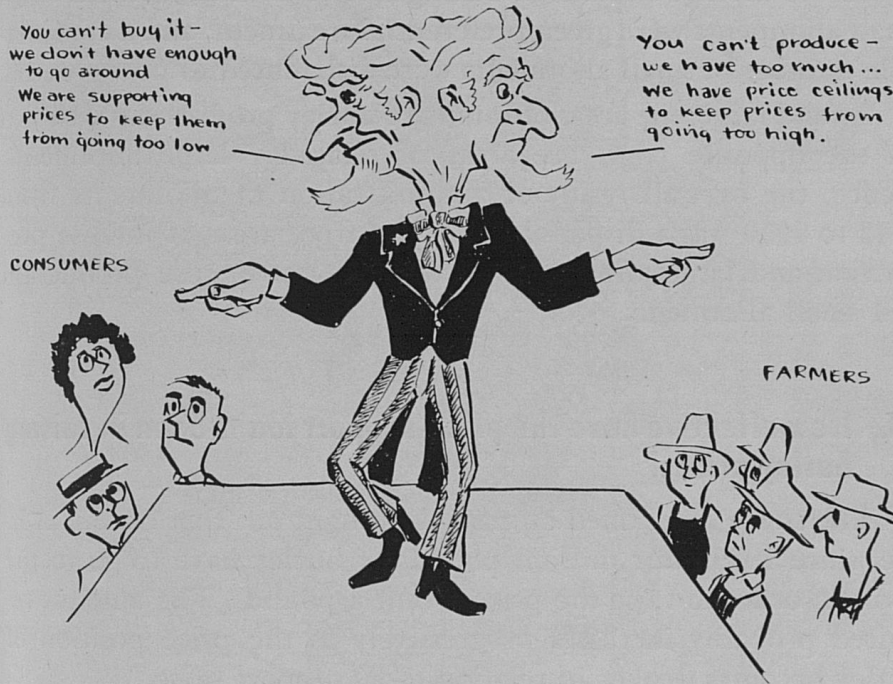
9. What about the war years—was production of burley adjusted to the war economy?

Early in the war, tobacco was not considered as important to the war effort as it later proved to be. Probably because of this feeling, 1942 acreage allotments were not expanded and controls on tobacco production were considered in about the same category as wartime restrictions on the production of luxury items. Before the end of the 1942 marketing year, however, the importance of tobacco as a war product became evident, and it was necessary to impose price ceilings on burley, to allocate the leaf among manufacturers, and to allocate cigarettes to the armed forces.

Acreage allotments were expanded during the war years beyond the capacity of farmers to grow them with wartime shortages of labor, fertilizer, and machinery. After the war, acreages were cut back to levels consistent with price-level objectives and the somewhat reduced postwar demand.



10. Wasn't it strange to have price supports and acreage controls and, at the same time, price ceilings and sales allocations for burley?



This situation is understandable mainly in view of the confused conditions of war and the desire to keep in existence the machinery for production control and price support so laboriously constructed in earlier years.

11. Did acreage allotments take on value?

From 1940 on, acreage allotments began to be assets of considerable value to farmers. The right to grow burley—which is what an allotment is—began to take on value as the program became successful in reducing year-to-year changes in prices and maintaining the purchasing power of burley despite increases in productive efficiency.



12. How were small growers affected by the wartime expansion in burley acreage?

In the acreage expansion during World War II, farmers with small allotments were given preferential treatment, and a considerable number of small allotments were distributed to new growers.

By and large, the areas of intensive burley production as shown on the opposite page, are areas of relatively large allotments. Hence, the over-all result of administration of allotments from 1942 to 1950 was a dispersal of acreage from areas of intense production and large allotments to areas of less intense production and small allotments.

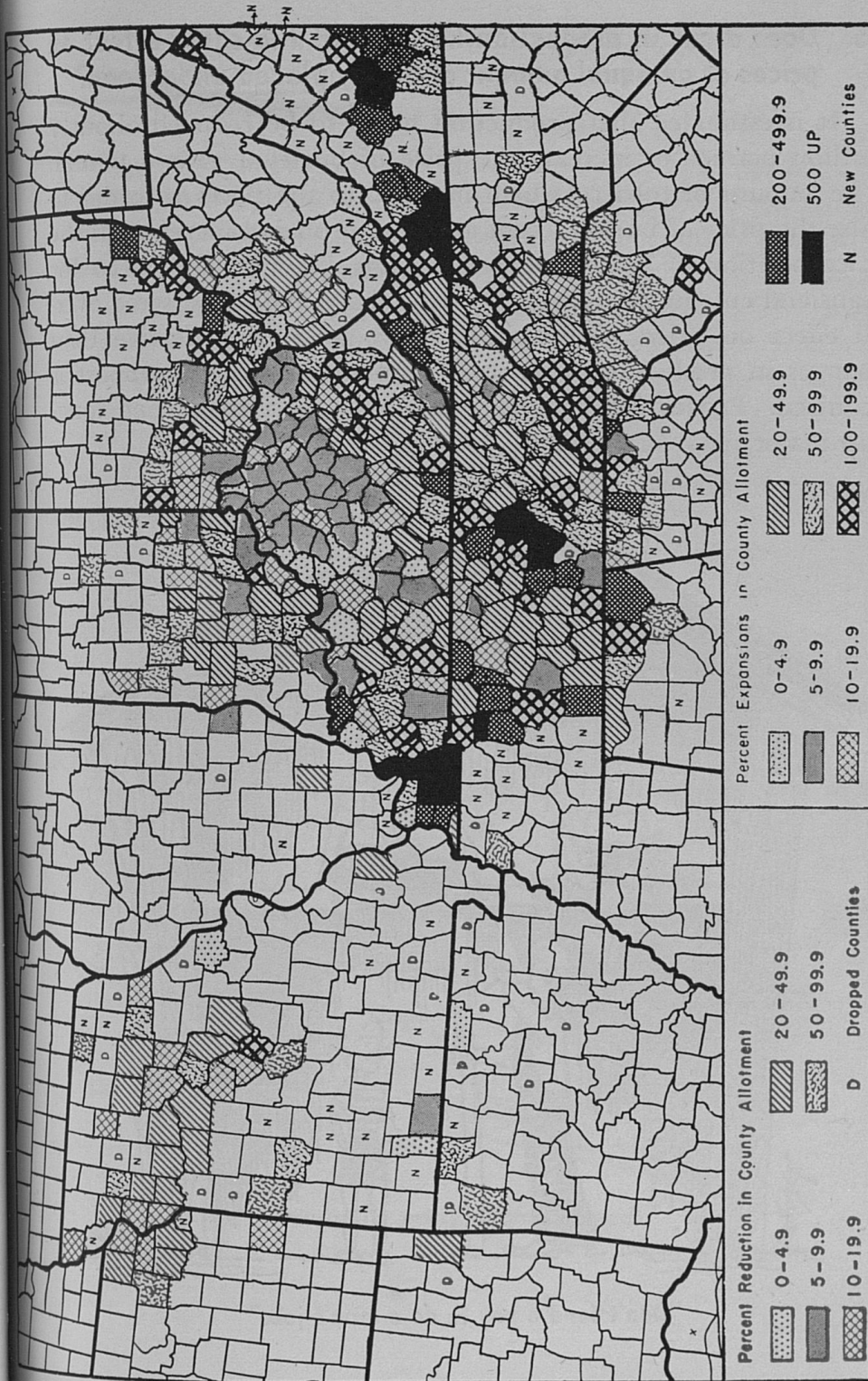
13. How effective have the price-support loans been in raising burley prices?

The study mentioned on page 3 brought out that on the average, since 1939, four million pounds of burley have to go to the pools in order to raise the price 1 cent a pound. The amount required probably increases progressively as the price position of burley becomes weaker in relation to its support price.

14. Does an increase in stocks of old-crop burley depress burley prices as much as a corresponding increase in production?

Increases in the stock of old burley on hand at the opening of the auctions have not weakened prices as much as increases in production. Similarly, decreases in stocks have not strengthened prices as much as corresponding increases in the amounts of tobacco pledged for price-supporting loans.

Burley tobacco a year old is a commodity somewhat different from new tobacco, and is in different hands. Hence, the effect of increases in the stock of old crop tobacco on the price of new tobacco is somewhat different from the effect of increases in the production of new tobacco.



Percentage changes in allotments between 1942 and 1949, by counties

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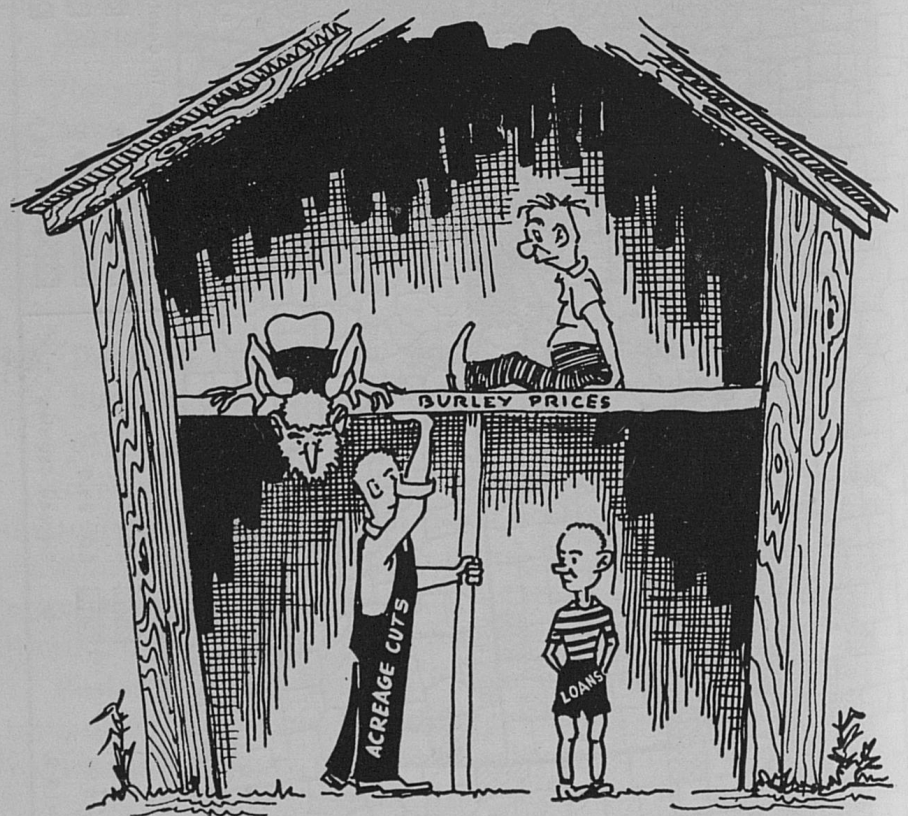
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15. Does a cut in production have about the same effect on prices as an equal amount of burley placed under loan?

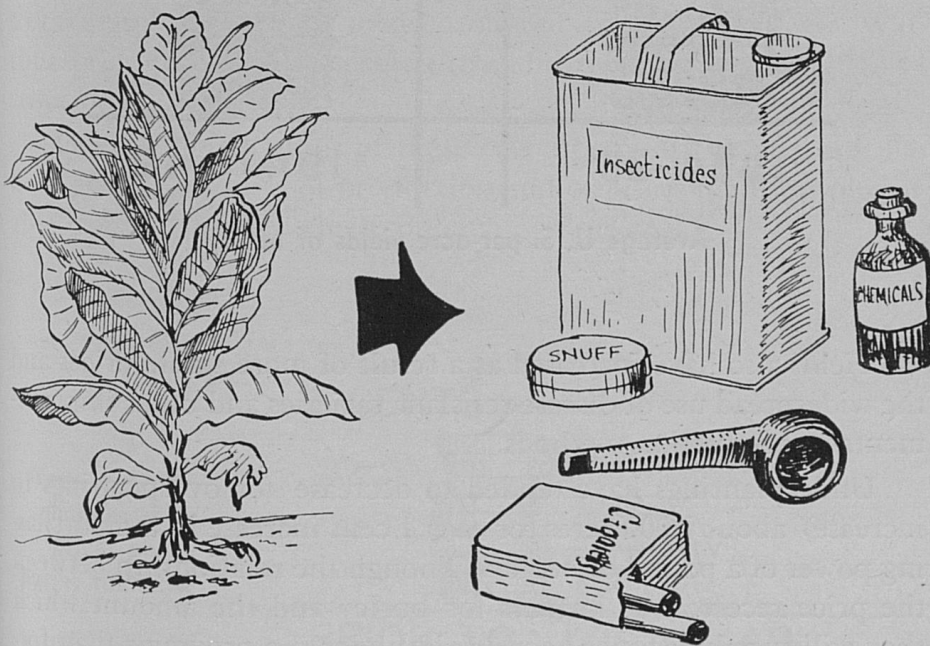
It is estimated that production needs to be reduced about 7 million pounds to increase the price of burley 1 cent a pound. The amount of tobacco which must go to the pools in order to raise the price of burley 1 cent a pound probably increases as the price position of burley weakens. Thus, pledges of tobacco for loans and cuts in production probably have about the same overall effect on prices. Apparently loans are more effective than changes in production when only a small amount of support is required. Production control, however, is necessary when long-run major price supports are desired.



"Don't send a boy to do a man's job."

16. What effect do increases in disappearance have on price of burley?

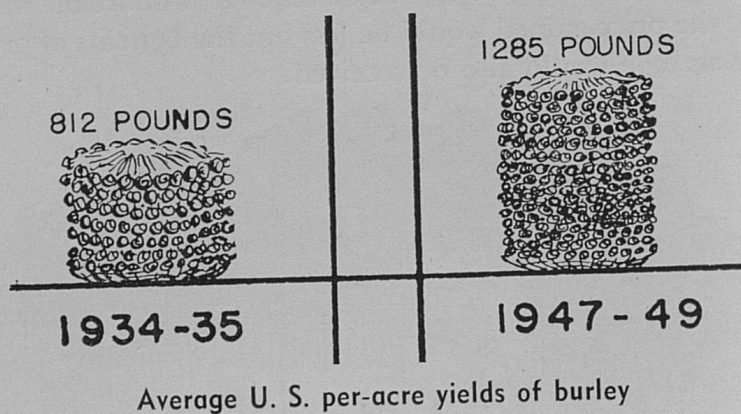
Increases in the disappearance of burley tobacco have about the same effect on prices as corresponding decreases in production. In other words, prices tend to increase about 1 cent a pound for each 7 million pounds increase in disappearance, other considerations unchanged. While there has not been much export demand for burley, it appears logical to conclude that increases in exports would have about the same over-all effect on prices as increases in domestic disappearance. That is, if exports could be increased 7 million pounds, tobacco growers stand to gain about 1 cent a pound if production were not expanded. If production were expanded, the price gained would be less but the benefits of growing a larger acreage would also be received.



Eventually every pound is used.

17. How have price changes affected the yield and acreage under the program?

Prices received by farmers for burley at one year's auction have a direct effect on the amount of burley raised the next year, even with acreage controls in operation. This effect is two-fold, as both yield and acreage are related to the prices received for the preceding crop of burley. Yields have gone up about 90 pounds per acre for each 10 cents increase in the price of a pound of burley *at low levels of prices*, and about 20 pounds per acre *at high levels of prices*.



Yields also have increased as a result of more stable prices and the widespread use of disease-resistant varieties and other improvements in production methods.

Underplantings have tended to decrease (or overplantings to increase) about 1,000 acres for each 1 cent increase in the purchasing power of a pound of burley. Though the relationship between the price received by farmers for burley and the amount which they will supply is much more rigid under the programs than formerly, production of burley still responds to price changes.

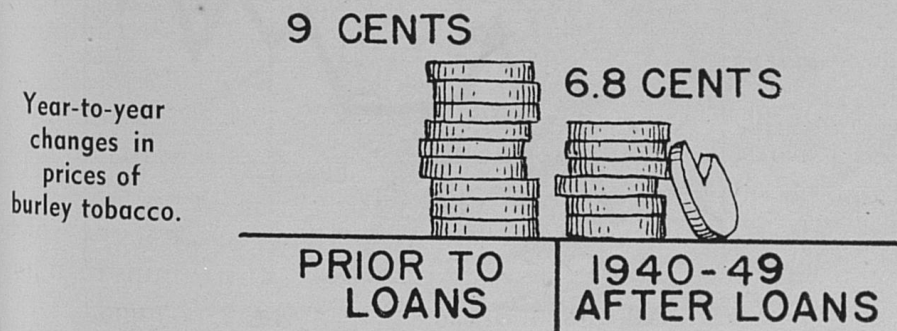
Under the program, 315,000 acres were harvested in 1949 as compared with an average of 338,000 from 1931 to 1933, and 211,000 in 1934-35.

18. Have the programs stabilized burley prices, and if so, how?

The programs have definitely stabilized prices, mainly since 1940. From 1940 to 1949 the year-to-year variation in prices amounted to 6.8 cents per pound, as compared with 9 cents for the 1933-38 period, 8 cents for the 1930-39 period, and 9 cents for the 1920-29 period.

This stabilization has been brought about by two operations: (1) The acreage control aspect of the program has made production much less responsive to prices. Hence, changes in production have been reduced which, in turn, has reduced changes in prices due to changes in production. (2) The other stabilization aspect of the burley programs is the non-recourse loans. These loans have made effective demand at the auctions flexible enough to absorb increases in supplies due to good weather without breaking prices. The associations (with government backing) stand ready to take any quantity of tobacco offered at support prices. War-time price ceilings also seemed to stabilize prices for the 1942-44 crops.

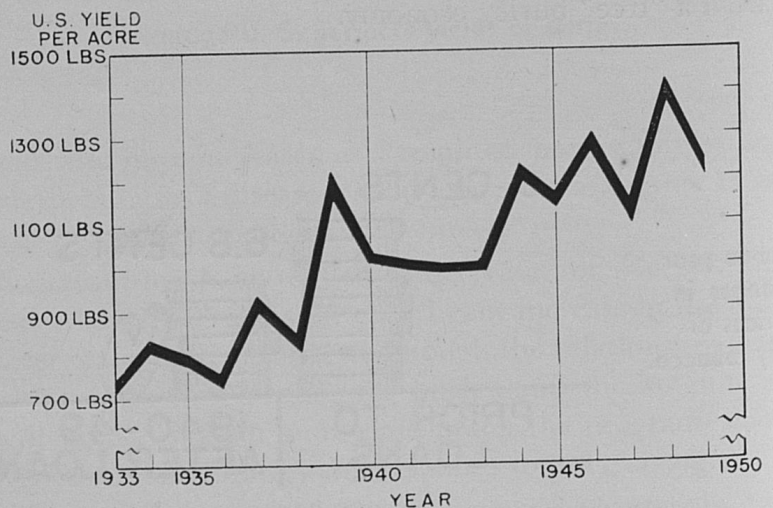
The combined result of these two aspects of the program has been greater stability of production and of prices than was obtainable from a "free" burley economy.



19. Has greater stability of burley prices affected yields?

There has been a definite trend upward in yields in the past 12 or 15 years. This trend really started about 1940, if allowance is made for the influence on yields of price changes and the changed geographic distribution of acreage. About 1940, two significant developments occurred. *One* was the development of high yielding, root-rot resistant varieties and the *other* was the increased stability of prices resulting from the program.

It is difficult to isolate the separate effects of these two developments on yields. The fact that the acreage was being distributed to lower yielding areas and to smaller, and at times, less efficient growers, further confuses the question. The trend in yield amounts to something in the neighborhood of 50 pounds per acre per year. After allowance for the decrease in yield resulting from dispersal of acreage, such a trend in yield cannot be easily accounted for by technical advances alone. Thus, part of the increase in yield appears to be due to the better farm organization and financing made possible by the increased stability of prices.

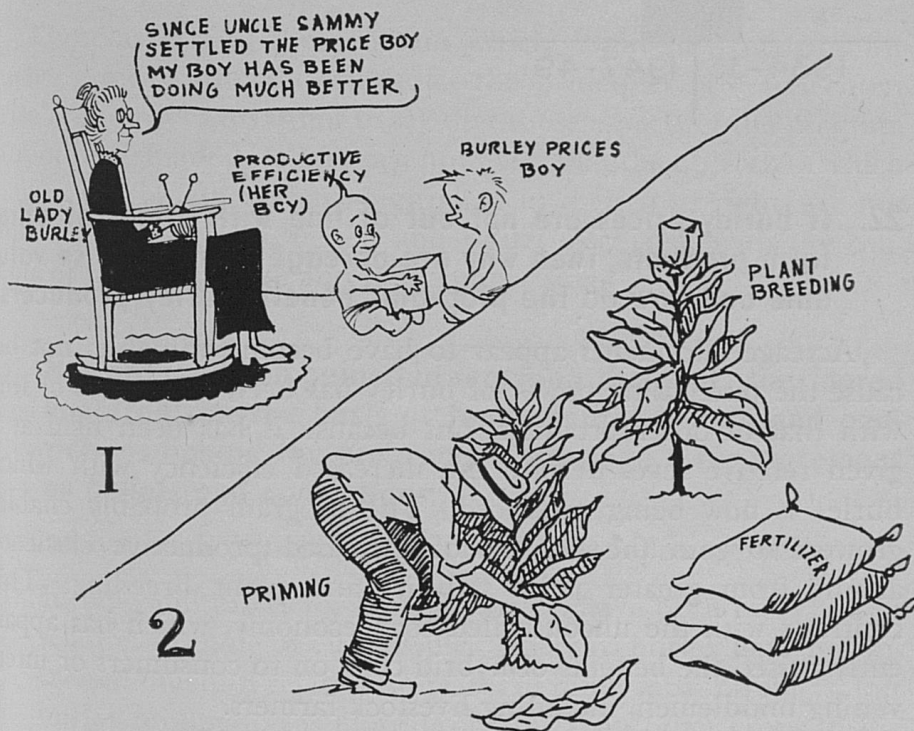


Trends in acre-yields of burley tobacco, 1933-49

20. What have the programs done to the efficiency with which burley is produced?

The programs probably have had two effects on the efficiency with which burley is produced. (1) Without arguing whether the dispersal of acreage to outlying areas and to smaller producers was increased, decreased, or permitted, the dispersal which has occurred under the program has probably reduced efficiency. One computation indicates that this may have reduced average per-acre yields by around 2 percent.

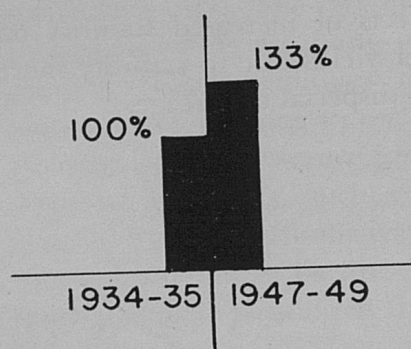
(2) When we consider the effects of increased stability on yields, it seems probable that higher yields due to stability more than offset the reduced yields due to dispersal of acreage.



Higher yields due to price stability probably more than offset the reduced yields due to dispersal of acreage.

21. Have the programs raised burley prices out of line with prices of other farm products?

From the 1930-33 period to the 1946-49 period, yields of burley went up 65 percent, yields of corn 57 percent, cotton 45 percent, and small grain around 25 percent. Between the same two periods, burley prices went up 280 percent, corn 247 percent, cotton 287 percent, and small grain around 260 percent.



Purchasing power, or real value of burley per pound, in terms of 1930-44 dollars.

22. If burley prices are not out of line with prices of other farm products, then why are acreage allotments so valuable and how do the programs benefit burley producers?

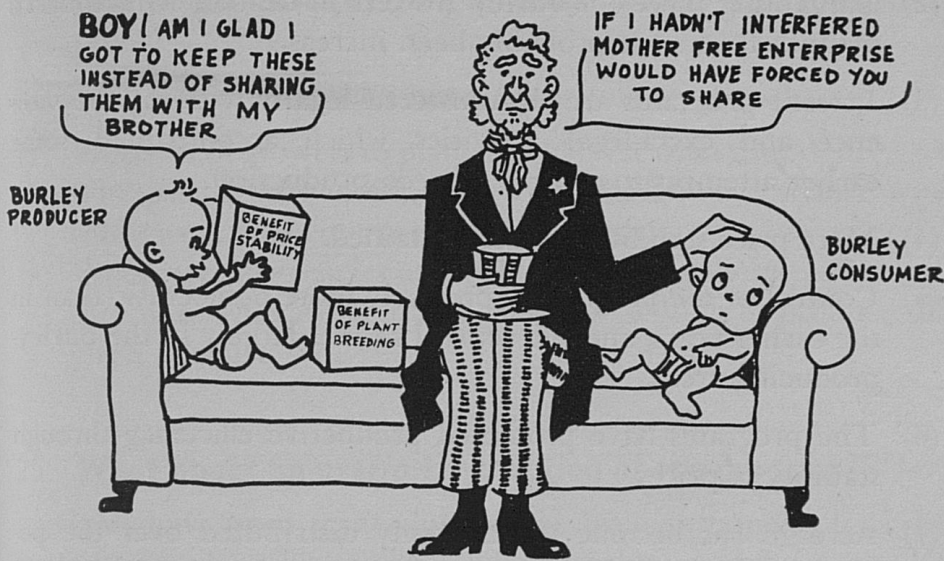
Acreage allotments appear to have become valuable, not because the purchasing power of burley has been raised out of line with that of other products, but because it has been held at a given relative level despite the increased efficiency with which burley is now being produced. The program probably enables growers to gain the benefits of increased productive efficiency arising from greater price stability and plant breeding. This contrasts with the uncontrolled corn economy, which has apparently passed the benefits of hybrid corn on to consumers or intervening middlemen, including livestock farmers.

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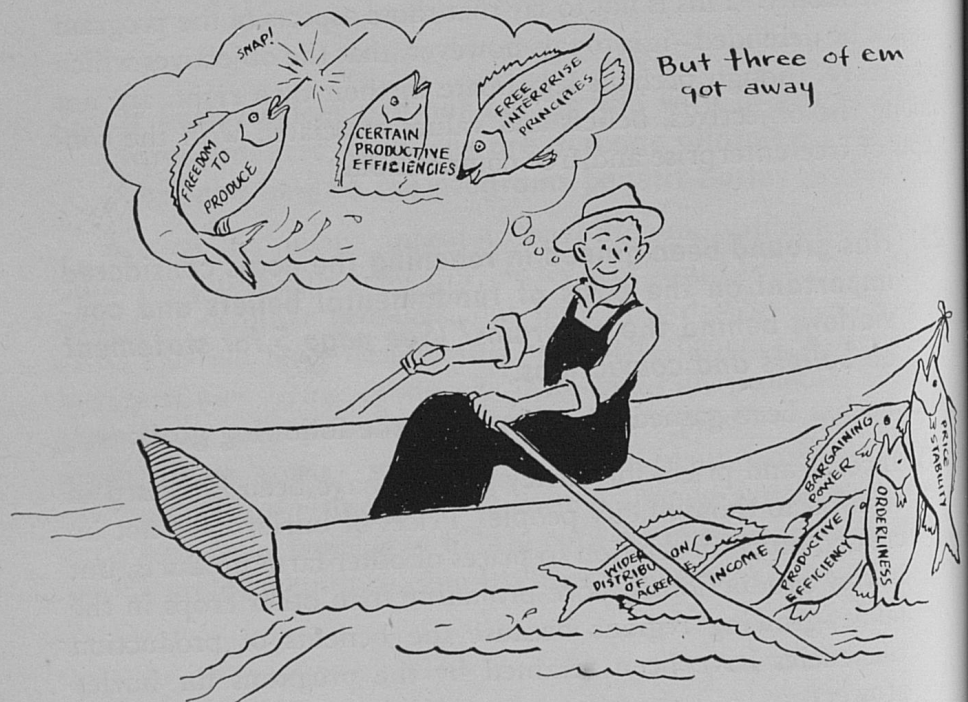
Those aspects of the program which retain such benefits for burley growers directly contradict the principles of a free-enterprise economy. This is not to say that those aspects of the program cannot be defended—it is to say, however, that the objectives which they serve, though perhaps legitimate in their own right, are not among the objectives, beliefs and values associated with the concepts of free enterprise and free competition.

23. **Has ground been gained in reaching the goals considered important on the basis of fundamental beliefs and convictions behind the programs? (See page 5 for statement on beliefs and convictions.)**

Ground has been gained with respect to the following goals:

- (1) Income and prices for burley growers have been increased in relation to those of city people. Prices of burley have not increased much in relation to prices of other farm products, but burley production is more profitable than other crops in the burley-growing regions because the benefits of production efficiencies have been retained by the programs for burley growers.

- (2) Bargaining power of burley growers in dealing with tobacco manufacturers has probably been increased.
- (3) Present programs are administered legally without the violence and extra-legal activities which accompanied some earlier attempts to control tobacco production.
- (4) More price stability has been attained.
- (5) Control of the program is probably more democratic than in the earlier years, and the control resides largely in the burley-producing areas.
- (6) The programs have promoted productive efficiency through stability of prices.
- (7) Acreage has become more evenly distributed over the potential burley-producing area (not everyone, by far, would agree on the desirability of this as a goal).



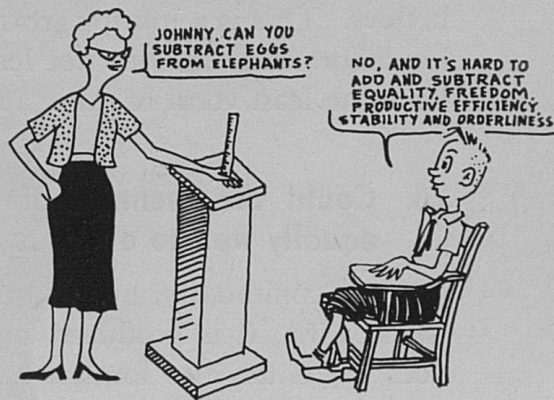
24. How about losses of ground in connection with important goals?

Ground has been lost with respect to the following goals:

- (1) Freedom of growers to plant and harvest what they desire.
- (2) The passing of benefits on to consumers in accordance with concepts of free enterprise and competition.
- (3) Productive efficiencies attainable by letting those produce all they want who are best able and most willing to produce the given product.

25. What about an over-all evaluation of the program?

Gains have been made—losses have been sustained. It is difficult to say whether the balance is favorable or unfavorable, because the present burley control programs are the composite result of many attempts to solve problems involving a wide range of beliefs. A fair over-all evaluation of the programs could be made, if at all, only on the basis of an integrated scheme of beliefs and convictions. Partial evaluations could be made from the standpoint of, say, equality of farm and nonfarm income, economic efficiency, price stability, and a wide variety of other criteria. Each such partial evaluation, however, would not fairly evaluate the programs as instruments for solving all the problems they were created to solve.



In the past eighteen years, legislators and administrators, with the advice of economists and farmers, have developed burley control programs to meet various problems. The situations to be met would not have been considered problems were it not for beliefs in such things as productive efficiency, freedom, democratic voting processes, the importance of the consumer, the "evil" of concentrated buying power, equality, the desirability of price stability, and the desirability of legal in contrast to extra-legal controls.

Though the programs have been adjusted, compromised, and integrated as the importance attached to various beliefs has changed, the beliefs inevitably remain in partial conflict. For example, productive efficiency, freedom, and equality cannot be completely reconciled.

The people of the burley industry, of course, are not the only ones facing these conflicting beliefs and consequent problems. The same beliefs and problems reappear at national and international levels, altered only by the situations in which they occur. The past eighteen years offer considerable evidence that the people of the burley industry have seen their problems with enough clarity to develop policies and programs capable of handling them. Existing problems arise from (1) conflicts among beliefs of different people and (2) the difference between reality and our belief as to what "ought to be." It is hoped that these problems will be handled in the future, as in the past, by a series of adjustments which will bring reality more nearly in line with our beliefs as to what ought to be. If this hope is to be fulfilled, it behooves all who are concerned with burley tobacco to examine their beliefs diligently by asking themselves what they really want, what they really believe. This is a job for growers, local leaders, state leaders and legislators and, last but not least, the tobacco consumer who has been the least vocal of those affected by the program.

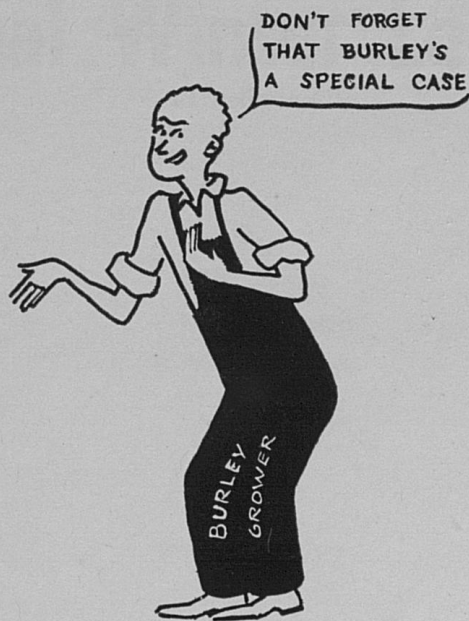
26. Could the technics of the burley program be applied equally well to other commodities?

As a commodity, burley tobacco has several special characteristics. First, it is produced in a rather limited area. Second, it does not enter into foreign trade to a great extent. Also burley tobacco is not used on the farm to produce other farm products. Still, further, burley tobacco is not an important product in the over-all farm economy of the United States.

Thus, we have in burley tobacco a commodity which nationally is relatively unimportant and is geographically and economically isolated. These characteristics of burley, as a commodity, have made it possible for burley producers and their leaders to devise

and develop a program serving the interest of burley producers *without coming into important conflicts with other producer groups*. This absence of conflict has made it possible for the burley growers and leaders to retain control over their own program. Had conflicts arisen, the federal government probably would have been called upon to settle them. And, in settling the conflicts, the government would necessarily have had to wrest control of the program from the producers and their leaders. This tendency is illustrated, in a minor way, by the manner in which the conflict between the large and the small burley growers has been handled.

Thus, we cannot conclude that the program would work as well for farm products which are not isolated geographically, which are important to other agricultural groups, and which are of greater importance in the national economy.



Burley tobacco is a commodity which nationally is relatively unimportant and is geographically and economically isolated. These characteristics have made it possible for burley producers and their leaders to develop a program serving the interests of burley producers without coming into important conflicts with other producer groups, and to retain control over their own program.

Lexington, Kentucky

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