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THE 1954 WOOL PRICE SUPPORT PROGRAM*

ABRAHAM C. WEINFELD

The price of the 1954 clip of wool was supported by a loan program in accordance with the Agricultural Act of 1949, which directed the Secretary of Agriculture to make available price support to producers for wool (including mohair) through loans, purchases, or other operations at such level, not in excess of 90 percent nor less than 60 percent of the parity price therefore, as the Secretary determines necessary in order to encourage an annual production of approximately 360 million pounds of shorn wool.

Loans were made by the U.S. Department of Agriculture on wool under the 1954 Wool Price Support Program if the application for a loan was filed on or before March 31, 1955. Beginning April 1, 1955, there has been in effect a different type of program, a price support program which includes incentive payments on shorn wool pursuant to the National Wool Act of 1954. But it may be of interest to take a look at the structure and functioning of the 1954 program. It was built of common law and statutory concepts, administrative procedures, and business practices, and was operated by a comparatively small number of people in the Government and in private business. On the Government side, the operation of the program was centered in the Boston CSS Commodity Office (CSS stands for the Commodity Stabilization Service of the United States Department of Agriculture). In private business, there were about 165 warehouses all over the country which

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3 For a description of another program, also a blend of various elements though on a smaller scale and with a different aim, see Weinfeld, Oil and Gas on Land Within the Jurisdiction of the Department of Agriculture, 7 Fed. B.J. 268 (1946).
stored wool pledged to Commodity Credit Corporation as security for loans or owned by Commodity Credit Corporation; about 70 wool handlers who represented wool producers in their dealings with the Government; and about 24 banks. Among the handlers, there were several marketing cooperatives of producers. Among the banks, there was the Central Bank for Cooperatives which is a part of the Farm Credit Administration, previously within the Department of Agriculture and now by virtue of the Farm Credit Act of 1953, an independent agency in the executive branch of the Government. Many of the features of the 1954 program may be found in other price support programs of the Department of Agriculture.5

Loans advanced under the 1954 Wool Price Support Program, from April 1, 1954, to March 31, 1955, amounted to about 32 million dollars.6a The agency within the United States Department of Agriculture which was responsible for this program as well as for other price support programs, is the Commodity Credit Corporation whose charter is contained in the Commodity Credit Corporation Charter Act.6 This corporation operated the program through employees and facilities of the Commodity Stabilization Service within the Department of Agriculture. Commodity Credit Corporation is a wholly-owned Government corporation.

THE COMMODITY

Wool is shorn from sheep and lambs (young sheep up to the age of about one year) at different times in various parts of the country. Usually, the shearing takes place once a year, but in some parts of Texas and California it may take place twice a year. Generally speaking, the marketing year for wool is between April 1 and March 31 of the next year, though contracts to sell wool while it is on the sheep’s back may be made as early as January. The wool which is shorn between April 1, 1954, and March 31, 1955, is usually referred to as the 1954 clip and that year as the 1954 marketing year.

There are various kinds of wool. Shorn wool is shorn from live sheep and lambs, pulled wool is pulled from skins of slaughtered sheep and lambs. The quantity of pulled wool is small compared with that of shorn wool.8 There is grease wool as it comes from the sheep, contain-

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5 For a general description of such programs, see U.S. Department of Agriculture, Price Programs, Agriculture Information Bulletin No. 135 (January 1955).
8 From 1946 to 1950 about 84 percent of the wool produced in this country was shorn, and about 16 percent was pulled. In 1953 the relation was about 79 percent shorn and about 21 percent pulled. Carr and Howell, Economics of Preparing Wool For Market and Manufacture, United States Department of Agriculture, Technical Bulletin No. 1078 (November 1953) 10; Hearing be-
ing fatty substances as well as other foreign matter. Grease wool may be cleaned by scouring, which is a washing process, and then it is called scoured wool. Shorn wool may be in the grease as well as scoured, and so may pulled wool. At times, wool may have to be carbonized, this being a method of removing vegetable matter by the application of acids. In 1953, the domestic production (both shorn and pulled) was 291 million pounds,9 greasy shorn basis.9a Of this total, shorn production was 229 million and pulled 62 million pounds.

Because there was an obligation pursuant to Section 201 of the Agricultural Act of 194910 to support the price of mohair (hair of Angora goats), a 1954 mohair price support program was announced.11 But there was no need to give active market support through loans, purchases, or other operations because during the greater part of the season when large quantities were sold, the market price of mohair was above the support level. The 1954 program was limited to wool.12

Production and shipment of shorn wool. Shorn wool is produced in this country by a very large number of growers. Over 285 thousand farms and ranches reported sheep shorn in 1949.13 A substantial amount of wool produced in the various wool growing States is merchandised through wool growers' cooperative associations. Boston is the chief central market for shorn wool. In some seasons, especially when prices look attractive, the bulk of the shorn wool moves out of producing areas within a short time after it is clipped. Wool is stored, pending consumption, either at central markets or at the mills. Certain points through which wool passes in the journey to mill centers have obtained from transportation agencies what is known as a "transit privilege." This means that wool—like other commodities which enjoy the same privilege—may be unloaded, warehoused, graded, and later shipped to consuming centers, with but a slight extra charge over the through freight rate.

Most of the shorn wool is produced by annual shearing, and most of the sheep which are shorn annually are shorn within a period of a few months between February and June. Pulled wool production is also more or less seasonal. It is generally heaviest in the months from De-
December to April, partly because of the heavy slaughter in those months and partly because the skins of the sheep slaughtered during those months carry heavier fleeces than those slaughtered at other times. Production of wool has substantially decreased in recent years. In 1942, production of domestic wool, shorn and pulled, totaled 455 million pounds grease weight (actual weight of greasy shorn plus actual weight of greasy pulled wool), and was almost 11 percent of the world total. In the early fifties, production decreased to less than 260 million pounds, or about 6 percent of the world total. Factors responsible for the decrease included a scarcity of competent labor, relatively low returns, inability to increase the efficiency of production at a rate comparable to other agricultural enterprises, uncertainty as to the future of the industry, losses from predatory animals, and drought in some areas.\(^{13a}\)

Small flocks account for a substantial part of the shorn wool produced in this country. In 1949, for example, about 32 percent of the number of sheep and lambs shorn in 11 Western States and Texas were in flocks of fewer than 1000, and 57 percent were in flocks of fewer than 2500.\(^{14}\) For the United States as a whole, about 60 percent of the reporting farms and ranches reported shearing under 25 sheep per farm, and about 90 percent reported shearing under 100 sheep per farm.\(^{15}\)

**Shorn wool by areas of origin.** Wool shorn in the United States is classified as "territory," "fleece," "Texas," and "California." Territory wools, also known as western or range wools, are those grown in the States of Montana, Wyoming, Idaho, Nevada, Utah, Arizona, New Mexico, and Colorado, also the western portions of the Dakotas, Nebraska, and Kansas. Territory includes most of the wools produced in Washington and Oregon but does not include wools of Texas and California. The name "territory" dates back to the time when regions west of the Missouri River, before their admission to statehood, were called the territories. Fleece wools are generally those grown east of the Rocky Mountains and Texas, exclusive of the western (range) portions of the Dakotas, Nebraska, and Kansas. That term also includes the wool grown in a part of western Oregon and in parts of western Washington. In Texas and California, quite a high percentage of the sheep are sheared twice a year. According to the season shorn, the fleeces are known as "spring" and "fall" Texas or California; or, based on the number of months on the sheep's back, they are designated as 6 months, 8 months and 12 months wools. Texas produces approximately 20 percent of the total wool clip in the United States.\(^{16}\)

\(^{13a}\) Department of Agriculture, *Achieving a Sound Domestic Wool Industry*, a Report to the President of the United States from the Secretary of Agriculture, Washington, D.C. (December 1953) 7.

\(^{14}\) Carr and Howell, *op. cit.* note 8, at 2.

\(^{15}\) *Hearings*, note 13.

\(^{16}\) *Hearings*, note 13.
When a sheep is skillfully shorn, the wool from it holds together. The entire coat of wool from one sheep is termed a “fleece.” Fleeces vary in weight from about three pounds in southern States to about 10 pounds in northern States, averaging about 8 pounds. Immediately after a sheep is shorn, the fleece from it is rolled up and is tied in the rolled-up form with soluble paper twine. The fleeces are then generally packed in bags weighing from 200 to 400 pounds each. In that form of package, most domestic shorn wool moves to market or directly to mills.

Greasy and scoured wool. While a sheep is growing its fleece of wool on the range or farm, a substantial amount of foreign matter, consisting of fatty or oily excretions from the glands of the sheep, dried sweat (suint), dirt, and vegetable matter, becomes embedded in the wool. Wool which carries grease and other foreign matter is called “grease wool,” “greasy wool,” or “wool in the grease.” There may be greasy shorn wool and greasy pulled wool. Domestic greasy shorn wool may contain anywhere from around 40 percent to around 70 percent of foreign matter in terms of weight.

Grease wool must be cleansed before it can be manufactured. As previously stated, wool is usually cleansed by a process called “scouring,” and the wool which has gone through this process is called “scoured wool.” The difference between the weight of any lot of grease wool and the weight of the scoured wool which may be or is obtained from it is called the “shrinkage” of the grease wool, and this difference is expressed as a percentage of the weight of the grease wool. The value of the grease wool is almost entirely in the clean wool that may be obtained from it, and the shrinkage from the grease state to the scoured state is practically all loss from the standpoint of the consumer, except for the lanolin (wool grease) recovered by a few mills in the scouring operations. When a buyer of a lot of grease wool wants to buy at a certain price per pound of the actual weight of the wool, the “grease weight,” he has to make a price calculation in which he allows for his estimate of the shrinkage of the wool. The “grease basis price” is computed from the “clean basis price” and represents the amount which the buyer pays for each pound of grease wool, without any allowance for pre-scouring and scouring costs. Growers in this country sell practically all of their wool in the grease state, that is, they do not have it scoured before sale, but all prices are calculated from a clean basis.

It is obvious that ability to estimate shrinkage of grease wool correctly is highly important to any wool buyer and seller. There have also been developed scientific core-testing methods for the determina-

17 Garside, op. cit., note 12, at 18.
18 Ibid. 24-30.
tion of shrinkage. Commodity Credit Corporation used scientific core testing to determine shrinkage under its loan program.19

Grading.20 Fineness and length of the fiber are the chief variables in the qualities of wool, and therefore wool is classified principally on the basis of the fineness and length of the fiber. Various parts of a single fleece differ greatly with respect to these properties. Fineness refers to the diameter of the fiber. The wool trade use the word "grade" as a noun to mean the quality of wool from the standpoint of fineness, that is, fiber diameter, only, while "staple" as a noun means the quality of wool from the standpoint of fiber length only. "To grade" as a verb is used by the trade as meaning to classify wool fleece by fleece, that is, to classify the fleeces as units, either for fiber fineness or for fiber length or for both. When a dealer grades wool he takes the fleeces out of the bags in which the grower packed them—those bags are called "original bags"—examines each fleece for grade, length, and other characteristics, and stacks the fleeces in piles on the warehouse floor, putting in each pile fleeces of similar characteristics. After this has been done, the wool is called "graded." The term "original bag wool" is usually employed to mean wool in original bags which, although possibly more or less mixed in quality, runs largely to one quality, and therefore lends itself to fairly accurate valuation and to merchandising to consumers without being graded.

The wool trade classifies apparel wool for grade on the basis of very small gradations of fineness. The difference between the average fiber diameter of the finest apparel wool and that of the coarsest apparel wool is only about 1/500 of an inch. When a fleece is assigned to a given grade classification, the assignment is made on the basis of the grade of the bulk portion of the fleece.

There are two alternative systems of grade terms, the blood system and the count system. The blood system term originally designated, in each case, what fraction of the blood in the sheep from which the wool was shorn was blood of merino sheep, a breed producing very fine wool. The count system term originally designated, in each case, the highest count of yarn into which the wool could be spun, yarn counts being measures of fineness of yarn. For example, a 60s grade of wool when processed and spun to capacity would result in 60 standard hanks of 560 yards of yarn which would weight approximately 1 pound, and an 80s grade of wool would make 80 standard hanks of wool which would weigh approximately 1 pound, etc.21 Today, however, these terms have lost their original significance and are considered simply as

20 Garside, op. cit., note 12, at 33-42.
names generally known and accepted in the trade for various degrees of fineness in wool fiber.

The blood system grades are: Fine, ½ Blood, ¾ Blood, ¼ Blood, Low ¼ Blood, and Common & Braid. Fine in the blood system corresponds to “64s-70s-80s” in the count system; ½ Blood in the blood system corresponds to “58s-60s” in the count system; ¾ Blood corresponds to “56s;” ¼ Blood corresponds to “48s-50s;” Low ¼ Blood corresponds to “46s;” and Common & Braid in the blood system corresponds to “36s-40s-44s” in the count system.

The Official Standards of the United States for Grades of Wool describe grades, both according to the blood system and the count system, by reference to samples marked as being of particular grades and kept in the custody of the United States Department of Agriculture. Practical forms of the official standards, namely, complete sets of 12 specimens and partial sets of 7 specimens, certified under the seal of the Department, are furnished upon application and payment of a fee.

The amount of wool graded in this country is believed to total much more than ½ of the entire clip. It is necessary to grade this portion of the clip because the great majority of growers produce such small amounts of wool and the wool has such variations in grade and length that it is not practicable to sell their individual clips separately. This is particularly true of growers in the fleece states. Individual clips are combined into large lots which usually are mixed in quality, and grading becomes necessary. Even with individual clips there may be variations in quality, especially on lower grade wools. In deciding whether or not to grade any lot of wool bought, the dealer is guided primarily by the quality composition of the lot, the demands of the market, and his belief as to whether it will be more advantageous to himself and his growers to sell the wool ungraded, that is, in the original bags, or graded.

Wool is commercially described by grades and classes. Grades may be expressed in blood system or count system terms, as previously stated. But wool is also classified for length of fiber or, as this is sometimes expressed, for staple. Length is important from the manufacturing standpoint, and longer stapled wools are generally worth more than shorter stapled wools of the same grade. Shorn wool produced in this country varies in length from less than one inch to seven or eight inches. The shortest wools produced in quantity are fine wools from sheep in Texas and California which are sheared twice a year. The longest wools are low grade wools from sheep sheared once a year. Low grade wools are generally longer than finer grade wools.

22 7 C.F.R. 31.1 to 31.12.
Apart from grade and class, a very important element in the valuation of wool is shrinkage.24

A handler normally has in his employ one or more graders who inspect each fleece. The wool on a single fleece may be of different grades. By inspecting and handling the fleece, the grader determines that the bulk of the wool in that fleece is of a certain grade and he puts the fleece into an appropriate pile. For manufacturing purposes, this grading is not sufficient. When the wool finally reaches a mill, each fleece has to be broken up, by a process called “sorting,” into separate portions depending on the fineness of the fiber. In practice, most mills use a method called trap-sorting, which derives its name from a few groups of sorters doing their work simultaneously, with less precision than a single sorter would do, and dropping the sorted product through a trap door into an area where the wool is to be stored or processed. But for trading in grease wool, before it reaches the mill, grading is sufficient.

**Loan Program**

**Legal basis.** The Agricultural Act of 194925 provided as follows:

Sec. 201. The Secretary is authorized and directed to make available . . . price support to producers for wool (including mohair), . . . as follows:

(a) The price of wool (including mohair) shall be supported through loans, purchases, or other operations at such level, not in excess of 90 per centum nor less than 60 percentum of the parity price therefor, as the Secretary determines necessary in order to encourage an annual production of approximately 360,000,000 pounds of shorn wool; . . .

Sec. 401. (a) The Secretary shall provide the price support authorized or required herein through the Commodity Credit Corporation and other means available to him.

These provisions dealing with the level of price support for wool (including mohair) should be considered in conjunction with general price support provisions in the Agricultural Act of 1949. For example, that statute enumerates the factors which the Secretary of Agriculture should take into consideration when he has discretionary power to determine the level of price support within certain fixed limits; the date as of which the support price for a commodity should be computed; adjustment in the support price for grade, type, location, and other factors; the nonrecourse character of price support loans; and advance announcement of the price support level.26

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24 See “Greasy and scoured wool,” at pp.
25 Note 1, supra, 7 U.S.C. 1446.
26 These provisions in the Agricultural Act of 1949, 63 Stat. 1051, 1054-5; 7 U.S.C. 1421, 1423, 1425, 1426, read as follows: “§401. . . . (b) Except as otherwise provided in this Act, the amounts, terms, and conditions of price support op-
WOOL PRICE SUPPORT

The Commodity Credit Corporation which the Secretary utilizes in extending price support is organized pursuant to the Commodity Credit Corporation Charter Act.\(^27\) One of the important provisions of this Act is contained in section 5 and reads as follows:

In the Corporation's purchasing and selling operations with respect to agricultural commodities (except sales to other Government agencies) and in the warehousing, transporting, processing, or handling of agricultural commodities, the Corporation shall, to the maximum extent practicable consistent with the fulfillment of the Corporation's purposes and the effective and efficient conduct of its business, utilize the usual and customary channels, facilities, and arrangements of trade and commerce.\(^28\)

operations and the extent to which such operations are carried out, shall be determined or approved by the Secretary. The following factors shall be taken into consideration in determining, in the case of any commodity for which price support is discretionary, whether a price-support operation shall be undertaken and the level of such support and, in the case of any commodity for which price support is mandatory, the level of support in excess of the minimum level prescribed for such commodity: (1) the supply of the commodity in relation to the demand therefor, (2) the price levels at which other commodities are being supported and, in the case of feed grains, the feed values of such grains in relation to corn, (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. . . .

"(d) The level of price support for any commodity shall be determined upon the basis of its parity price as of the beginning of the marketing year or season in the case of any commodity marketed on a marketing year or season basis and as of January 1 in the case of any other commodity. . . .


The Agricultural Act of 1949 provided for support at not less than 60% and not more than 90% of parity in order to achieve a production of approximately 360,000,000 pounds of shorn wool. Since the production in 1953 was only about 230,000,000 pounds, the maximum percentage, that is, 90% of parity, was determined to be the proper level of price support in the 1954 marketing year.\(^{29}\)

Computation of Parity Prices. The parity price for an agricultural commodity is computed pursuant to the Agricultural Act of 1938, as amended.\(^{30}\) Parity prices are the dollars-and-cents prices that give farm commodities the same purchasing power the commodities had in a selected base period when prices received and paid by farmers were considered to be in good balance. This purchasing power is measured in terms of prices of commodities that farmers buy, interest on farm indebtedness secured by farm real estate, taxes on farm real estate, and for most commodities cash wage rates paid to hired farm labor.\(^{31}\)

Generally speaking, the period 1910-14 is used as a base period or starting point in computing parity prices. This period was selected because it was one in which farm and nonfarm prices appeared to have been in reasonable balance with one another. Parity prices are calculated in such a way as to maintain this over-all balance between prices received by farmers and prices paid by farmers, and yet permit parity prices for individual commodities to be in a more recent or modernized relationship to one another. The parity price of a commodity is a general or over-all standard representing a United States average price for the various grades, qualities, and classes of the commodity as sold by farmers as a group, rather than a price received by an individual farmer for a specific grade, quality, or class of the commodity at a specific location.

Congress first gave legislative recognition to the parity concept in the Agricultural Act of 1933,\(^ {32}\) by declaring that it was the policy of Congress, among other things, "to reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of agricultural commodities in the base period." In line with this policy, the Department of Agriculture has been computing and publishing parity prices monthly since September 1933 for a large group of agricultural commodities. These prices appear in a publication called "Agricultural Prices". For nearly 17 years, up to January 1, 1950, the parity price of a commodity was computed simply by multi-


\(^{30}\) 7 U.S.C. 1301.

\(^{31}\) United States Department of Agriculture, Price Programs, note 5, supra, at 43.

\(^{32}\) 48 Stat. 31, 32.
plying the average price received for the commodity in a fixed base period by the latest index of prices paid by farmers for things they buy. The base period price used did not change after it once was computed. The index of prices paid, however, was computed monthly and changed as prices changed. As time went on, it became obvious that the parity formula required modernization because there had been numerous changes in the production, marketing, and consumption of agricultural commodities since 1910-14. Congress established a new or modernized formula for computing parity prices for agriculture, effective January 1, 1950, with some exceptions, under the provisions of the Agricultural Acts of 1948 and 1949.\footnote{\textsuperscript{33}} One of the important changes was that the base period used in determining the average price received for an agricultural commodity was placed on a current basis and was permitted to change from year to year instead of remaining fixed as under the old formula. As a result, both factors in the parity price formula for a commodity (the dollars-and-cents base period price received and the index of prices paid) instead of only one factor (the index of prices paid) were subject to change.\footnote{\textsuperscript{34}}

The parity price is a national or United States average. From this United States average price, adjustments are made to secure a parity price equivalent for a specific location and season. These adjustments are generally based upon usual or historical differences between the United States average price and the price for the specific grade, or in the specific location or season. The parity price refers to the price of the various grades and qualities of a commodity in the local market in which farmers usually sell. These local points of sale usually are the markets closest to the point of production, such as the local elevator or dairy plant.\footnote{\textsuperscript{35}}

The law prescribes a formula, applicable to wool among many other commodities, for computing parity prices.\footnote{\textsuperscript{36}} Generally speaking, in

\begin{quote}
\textsuperscript{35} Ibid. 12.
\textsuperscript{36} §301 (a) (I) (A), (B), (C) of the Agricultural Adjustment Act of 1938, 52 Stat. 31, 38, as amended, see note 33, supra, 7 U.S.C. 1301(a) (I) (A), (B), (C). "§301. (a) General definitions.—For the purposes of this title and the declaration of policy—
(I) (A) The 'parity price' for any agricultural commodity, as of any date, shall be determined by multiplying the adjusted base price of such commodity as of such date by the parity index as of such date.
(B) The 'adjusted base price' of any agricultural commodity, as of any date, shall be (i) the average of the prices received by farmers for such commodity, at such times as the Secretary may select during each year of the ten-year period ending on the 31st of December last before such date, or during each marketing season beginning in such period if the Secretary determines use of a calendar year basis to be impracticable, divided by (ii) the ratio of the general level of prices received by farmers for agricultural commodities during such period to the general level of prices received by farmers for agricultural commodities during the period January 1910 to December 1914, inclusive. As used in this subparagraph, the term 'prices' shall include
\end{quote}
order to compute the parity price of wool as of a certain date, one computes the average price received by farmers for wool during the last ten preceding marketing years. This price is then divided by the ratio of the general level of prices received by farmers for agricultural commodities during the ten-year period to the general level of prices received by farmers for agricultural commodities during the period 1910-14. The result is called the adjusted base price for the commodity. One further computes the ratio of the general level of prices the farmers paid for the calendar month ending last before that date (that is, the date for which one computes the parity price) to the general level of prices farmers paid during the period 1910-14. This ratio is called in the statute the parity index. Thereafter the adjusted base price is multiplied by the parity index, and the resulting figure is the parity price of the commodity as of the desired date.

The marketing season or year for wool is April 1 of a particular year to March 31 of the next year. The parity price on which the 1954 support price was based was the parity price as of the beginning of the marketing year or season. For the 1954 wool program, the parity price was the price as of April 1, 1954. By the use of the formula previously discussed, the parity price for shorn grease wool as of April 1, 1954, was determined to be 59.1 cents per pound. Ninety percent of this figure is 53.2, and so it was determined and announced by press release and in the Federal Register, that 53.2 cents per pound was the national average support level to producers for domestically produced shorn wool under the 1954 wool price support program.

Support price on Boston basis. The Secretary was directed to support the price of wool through loans, purchases, or other operations. He decided to support the price of wool in the 1954 marketing

(C). The 'parity index,' as of any date, shall be the ratio of (i) the general level of prices for articles and services that farmers buy, wages paid hired farm labor, interest on farm indebtedness secured by farm real estate, and taxes on farm real estate, for the calendar month ending last before such date to (ii) the general level of such prices, wages, rates, and taxes during the period January 1910 to December 1914, inclusive."

37 18 F.R. 1150 (1953).
37a This ratio appears, under the name of Index of Prices Received by Farmers, in the publication "Agricultural Prices" every month.
37b This ratio appears in "Agricultural Prices" under the name of Index of Prices Paid by Farmers for Commodities and Services, Interest, Taxes, and Wage Rates.
38 Note 7, supra.
38a §401(d) of the Agricultural Act of 1949, 63 Stat. 1051, 1054, 7 U.S.C. 1421 (d).
year through loans, and it therefore became necessary to translate the national average support price into specific loan rates.

The support price of 53.2 cents per pound for wool, grease basis, was a national average price equal to 90% of parity at the beginning of the marketing year. This average price, like the parity price, refers to the first sale out of producers' hands. It is an average price relating to the shipping point nearest the farm or ranch.

Since Boston is the main market for wool in the United States, this support price was adjusted to a Boston basis by the addition of the estimated cost per pound of moving the entire clip to Boston and of handling and marketing the wool. These estimates of cost were based on current transportation rates and on marketing charges as allowed in the so-called 1954 Wool Handler's Agreement, entered into between Commodity Credit Corporation and wool handlers as a part of the administration of the program. The current transportation charges were estimated at 2.76 cents per pound, handling charges at 3.20 cents, and grading charges at 1.23 cents, or a total of 7.2 cents per pound. When this 7.2 cents is added to the national average support price of 53.2 cents, the result is a support price on a Boston basis of 60.4 cents per pound.

The loan rates were established, except in the case of "off" wools, for good style wools, free of defects. Since grease wool frequently has defects like burrs, seeds, and stains which are the basis for discounts from normal prices, and the grower was supposed to obtain 90% of parity, an allowance to compensate for these defects was added to the national average support price, Boston basis, before this support price was converted to loan rates by grades and classes. The allowance, of 0.3 cents per pound, was based on experience in 1946 when the entire domestic wool clip was acquired by Commodity Credit Corporation. Thus 60.7 cents per pound, grease basis, was determined to be the national average support price in Boston required for clear wools, free of defects, to yield a net national average price to producers, after deductions for marketing costs and defects, of 53.2 cents per pound, grease basis.

Differentials between grades and classes. In establishing differentials between loan rates by grades and classes, the Department of Agriculture gave the same weight to the average relationship between market prices of wool by grades and classes which prevailed during the 10-year period 1944-53 that it gave to the relationship of

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42 The contents of this agreement will be discussed hereinafter, beginning with "Handlers under the Program" and ending with "Cooperative Marketing Associations."
43 See note 40, supra.
such market prices during the year 1953 alone. Thus, the market price relationship for 1953 was given a weighting of 55 percent, and each of the other 9 preceding years 5 percent, in figuring the differentials between grades and classes for the 1954 loan rates. This resulted in the loan rate differentials between the respective grades and classes of wool being brought up to date to reflect actual differentials prevailing during the most recent year but also being tempered by the average relationship that prevailed for a longer period, namely, the 10 years 1944-53.

The market prices of wool used in figuring the price differentials between grades and classes were the prices at Boston, as reported by the Agricultural Marketing Service of the United States Department of Agriculture in a publication called "Market News" (Weekly Review of the Boston Wool Market). Such price quotations are available for twenty grades and classes of greasy shorn wools for the full 10-year period 1944-53. As shown by the analysis of the 1946 clip acquired by Commodity Credit Corporation, these twenty grades and classes represent approximately 2/3 of the domestic wool clip. These market prices of wool, by years for the 10-year period 1944-53, were converted to index numbers expressing the year's price for each grade and class of wool as a percentage of that year's price for one particular grade and class, that is, Graded Fine Territory Staple and Good French Combing. Thereafter, a computation was made of the 10-year average (1944-53) of the annual indexes thus calculated for each grade and class, and this 10-year average and the 1953 average for each grade and class were then averaged. At this point, the computation has led to a series of index numbers showing the average relationship between the market prices of the twenty classes and grades for which the "Market News" reported prices, and the market price of wool known as Graded Fine Territory Staple and Good French Combing.

For the grades and classes for which regular market quotations were not available, comprising about 1/3 of the total wool clip, index numbers were estimated by reference to the computed index numbers. In some cases, the estimates were based on the relationships between market prices for a number of years, within the 10-year period, for which market quotations for the particular grades and classes were available. In some other cases, factors such as the cost of grading were used as measures of appropriate differences in prices. Thus, a series of index numbers was completed which showed the relationship of the prices of all grades and classes to the price of the one grade and class previously mentioned.
Loan Rates.\textsuperscript{44} Thereafter, the average market price of this one grade and class, that is, Graded Fine Territory Staple and Good French Combing, was computed for certain weeks in 1953 when the market for this grade and class was active. This average price, 172.8 cents per pound clean basis, was used as a base, and from it by means of the index numbers prices per pound clean basis were computed for all grades and classes. These prices per pound on a clean basis were then converted to prices per pound on a grease basis by means of yield figures obtained from an analysis of the shrinkage of the 1946 clip when practically all domestically produced wool was acquired by Commodity Credit Corporation in connection with price support operations.

Subsequently, the price per pound, grease basis, for each grade and class was weighted by the relative production of the particular grade and class. The percentages showing the relative production were obtained from the analysis of the 1946 clip. A weighted average was then calculated of the grease basis prices so adjusted. This weighted average was 64.05 cents, which was 3.35 cents above the 60.7 cents previously indicated as the required support level.\textsuperscript{45} Therefore, a factor was obtained by dividing 60.7 by 64.05. The factor was 0.9477. The price of each grade and class, computed in the manner indicated, was multiplied by this factor. The resulting support prices for each class and grade of wool on a grease basis were thereafter converted, by means of yield data based on the 1946 clip, into clean prices. Thus there was established a schedule of loan rates for all grades and classes of shorn wool per pound clean basis.

In arriving at the loan rates for scoured wool, the cost of scouring was taken into consideration. Loan rates for pulled wool were established at a reasonable relationship to rates for comparable classes of shorn wool, consideration being given to differences in preparation for market and to differences in descriptions of grade and length.

The schedules of loan rates for shorn\textsuperscript{46} and for pulled wool,\textsuperscript{47} greasy and scoured, computed on a per pound clean basis, were published in the Federal Register. It may have been noted that these computations commenced with market prices which at the end of the computations became loan rates. In normal commercial transactions, a lender will not lend, on the security of a commodity, an amount equal to the market price of the commodity. Under the price support program, however, the loans are so-called nonrecourse loans.\textsuperscript{48} Even if the borrower in such a loan transaction does not repay the loan he is

\textsuperscript{44} See note 40, supra.
\textsuperscript{45} See last sentence under “Support Price on Boston Basis.”
\textsuperscript{47} Ibid. §472.478, 19 F.R. 2846 (1954).
\textsuperscript{48} To be discussed hereinafter under “Nonrecourse Loans.”
not liable for a deficiency resulting from the amount of the loan being higher than the market value of the pledged wool, and therefore Commodity Credit Corporation must consider its loan rate to be in effect ultimately a purchase price.

The Handlers under the program. There are in this country close to 300,000 growers of sheep, which also means growers of wool, scattered on farms and ranches. Some produce hundreds of thousands of pounds of wool and ship them directly to Boston or to other centers. Some have a few pounds which they sell to the country store. Many growers spend a considerable part of the year in mountain areas with their flocks and have little contact with commercial centers.

In an effort to furnish price support to growers of wool in accordance with the Agricultural Act of 1949, Commodity Credit Corporation determined that it was not practical to lend money directly to each individual grower and obtain from him his wool as security. Instead, Commodity Credit Corporation decided to make wool dealers a part of its program and to furnish price support to growers through dealers. The dealers, after being approved by Commodity Credit Corporation, acted as representatives of the growers. They received the wool from the growers; performed various services, like grading and storing; applied to Commodity Credit Corporation for loans and submitted warehouse certificates for the producers' wool as security; and distributed the loan proceeds to the producers, after deducting certain amounts for services rendered. The rights and obligations of Commodity Credit Corporation and the handlers were embodied in agreements like the Wool Handler's Agreement (Shorn Wool) and the Pulled Wool Agreement. The substance of these agreements was embodied in the Federal Register.

Producers Eligible for Loans. This being a program for the benefit of the producers of wool, a loan was extended to a producer as long as he owned the wool, both legally and equitably. If he parted with the legal title or if he retained the legal title but disposed of his beneficial interest, he was not eligible for a loan. An exception was made in the case of cooperative marketing associations. In marketing wool produced by members, cooperative marketing associations frequently take legal title in order to dispose of the wool more easily, but account to the member for the proceeds of his wool. This being an established way in which many cooperatives do business, Com-

49 See note 13, supra.
50 The words "producers" and "growers" are used interchangeably with reference to shorn wool under the price support program. It seems that the farmers and ranchers who grow wool prefer to be called growers.
modity Credit Corporation extended loans to such cooperatives for the benefit of their members even though legal title had passed to the cooperatives.\footnote{1954 Wool Price Support Program (Shorn Wool) §472.503(b), 19 F.R. 3071, 3072 (1954).}

The grower signed a form, prepared by Commodity Credit Corporation and called Grower’s Designation of Handler, in which he authorizes the handler to act as the representative of the grower in commingling his wool with wool delivered by others, in pledging the wool as security for loans, in receiving and distributing the loan proceeds, and in redeeming the wool from loans. The grower certified that he owned the sheep or lambs from which the wool was shorn in the continental United States or Territories; that title and beneficial interest in such wool was, and always had been, in him since the wool was shorn; and that the wool was free and clear of liens and incumbrances, or if there were any they had been waived.\footnote{Ibid. §472.503(c) (1).} There were modifications of these forms to fit situations where a grower delivered his wool to a pool manager or to a cooperative marketing association, and the pool manager or the association designated a handler.\footnote{Ibid. §472.503 (c) (2) (3).} The handler received the wool and stored it in his own warehouse, if he had one, or in a public warehouse, but each such warehouse must have been approved by Commodity Credit Corporation.\footnote{Ibid. §472.506, 19 F.R. 3074 (1954).} The handler deducted storage charges thus incurred from the proceeds of the loan when transmitting them to the growers; in other words, the grower paid for the storage charges.\footnote{Ibid. §472.518(e), 19 F.R. 3076 (1954).}

Appraisers employed by Commodity Credit Corporation determined the value of the wool for loan purposes under the program, relying on their experienced eyes and sense of touch, except that shrinkage is usually determined by the core test method. When this method is used, a tube is inserted into a bag or bale of wool in several places in order to obtain a representative sample, and thereafter the sample is analyzed in a laboratory in order to determine the clean content of the wool.\footnote{Ibid. §472.507(c), 19 F.R. 3074 (1954).}

Advance Loans. Even before the appraisal was made, a handler might, if he wished to, obtain a so-called advance loan\footnote{Ibid. §472.505, 19 F.R. 3073 (1954).} from Commodity Credit Corporation. In the normal course of business, the handler had made his own advance loan to the producer, in form of cash or commodities, and the purpose of the advance loan which Commodity Credit Corporation made available to the handler was to
lend him an amount sufficient to wipe out the producer's indebtedness to the handler. The advance loan which Commodity Credit Corporation made to the handler was either for the amount which the handler had advanced to the producer or for 70 percent of the estimated appraisal value of the wool, as determined by the handler and accepted by Commodity Credit Corporation, whichever amount was lower. It was a prerequisite to the handler's obtaining an advance loan that he must have made advances to the producer. The handler was obligated immediately to apply the advance loan proceeds received from Commodity Credit Corporation to the advances he had previously made to the producer. The handler repaid the advance loan obtained from Commodity Credit Corporation when he received the main loan, the nonrecourse loan.

Nonrecourse loans. The Agricultural Act of 194959 provided that no producer should be personally liable for any deficiency arising from the sale of the collateral securing any loan made under the authority of the Act unless such loan was obtained through fraudulent representations by the producer. Since the handler represented the producer under the loan program, Commodity Credit Corporation extended a nonrecourse loan to the handler. He was not liable for any deficiency resulting from the unpaid amount of any nonrecourse loan, including charges and accrued interest, being in excess of the net proceeds of the sale of the collateral.60

The computation of the exact amount which a handler obtained on a nonrecourse loan required consideration of several factors. The loan rates which Commodity Credit Corporation listed in its published schedules61 as applicable to enumerated grades and classes of wool were on a Boston basis, that is, they applied when the wool securing the loan was located in Boston. The same rates also applied when the wool was located anywhere in New England because, by and large, transportation charges from the rest of the country to Boston are about the same as transportation charges from the rest of the country to any New England State. But if the wool was located in a place other than New England the wool was worth less than the published rates; it was worth less by the cost of transportation from that place to Boston. For this reason, the amount Commodity Credit Corporation lent on the security of wool stored anywhere outside of New England was the loan value as published in the schedules less the cost of transportation from that point where the wool was stored to Boston.

At times, the handler asked Commodity Credit Corporation to

59 §405, note 26, supra.
61 Notes 46 and 47, supra.
reimburse him for the cost of transportation of the wool from the original shipping point to the point of storage, whether he paid for this transportation or whether the producer did. This occurred in connection with transit privileges, the point of storage might be a transit point, that is, one where railroads grant transit privileges. Such a privilege means that if a shipper has paid the regular freight rate for the transportation of the commodity from the original shipping point to the transit point and thereafter wishes to transport the commodity from the transit point to the ultimate destination, in this case mostly Boston, the railroads give him the benefit of the direct haul. They charge him the through rate from the original shipping point to Boston (plus a small charge which railroads make in connection with this transit privilege) and give him credit for the inbound freight payment, that is, the payment that he had made for the transportation from the original shipping point to the transit point. When the handler asked to be reimbursed for the inbound freight he in effect, as far as the price support program was concerned, placed the wool at the original shipping point rather than at the point of storage. Under these circumstances, Commodity Credit Corporation increased the amount of its loan to the handler by the inbound freight and deducted transportation costs based on the through rate from the original shipping point to Boston as well as the charge connected with the transit privilege.

To summarize, the face amount of the note, representing the gross loan proceeds which the handler received from Commodity Credit Corporation, was either the published loan value, also called the appraisal value, of the wool less transportation costs from the point of storage to Boston, or, at the request of the handler, the published loan value of the wool plus the amount of inbound freight, less transportation costs based on one through rate from the original shipping point to Boston increased by the charge which the railroads make in connection with the transit privilege. The handler who asked for reimbursement of the inbound freight was required to make the transit privilege, which he or the grower whom he represented had acquired by paying the inbound freight, available to Commodity Credit Corporation. The latter could utilize the privilege in shipping this or other wool from the point of storage to Boston. The handler paid interest of 3 1/2 percent on the face amount of the note and the note matured on April 30, 1955, or earlier upon demand.

Before paying the loan proceeds to the handler, Commodity Credit

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62 Transit privileges were mentioned under "Production and shipment of shorn wool."
64 Ibid. §472.515, 19 F.R. 3075 (1954).
Corporation deducted an appraisal fee which covered the cost of the appraisal of the wool by the appraiser. The amount which the handler received after such deduction was frequently referred to as the net loan proceeds. The reason for the deduction of the appraisal fee was that it was up to the grower, or the handler who represented him, to place the wool in a position where Commodity Credit Corporation was able to make a loan on the security of the wool and determine the amount of such loan. To place it in that position, the grower had to store it in a warehouse approved by Commodity Credit Corporation, had to pay storage up to the time of the maturity of the note, and had to have the wool appraised so that its loan value might be determined in accordance with the published schedules. The grower paid the appraisal fee by the deduction from the gross loan proceeds, and he pays for storage by a deduction which the handler made when he transmitted the loan proceeds to the grower.65

**Distribution of loan proceeds.** The handler was obligated to transmit to the producer the nonrecourse loan proceeds he received from Commodity Credit Corporation by pledging the producer's wool, unless the producer had agreed to accept a uniform loan rate for the quantity of his wool irrespective of grade and quality. When transmitting these proceeds, the handler was authorized to deduct charges up to a certain maximum for each specified service, for instances, for storage, grading, and handling, and also for services not mentioned in the Wool Handler's Agreement which the producer wanted to be rendered by the handler and for which he agreed to pay. The handler also deducted any advances he had made to the producer. The entire account had to be embodied in a form called Account of Loan Settlement which the handler sent to the producer together with the loan proceeds.66 While the note is outstanding, the handler was free to pay it and redeem the wool, or pay it in part and redeem a corresponding part of the wool. If the handler did not pay the note when it was due and the pledge was foreclosed, the handler was not liable for any deficiency.67 On the other hand, the handler was entitled to any overplus resulting from the net proceeds of the foreclosure sale exceeding the amount of the loan, and he was obligated to distribute this overplus among the producers.68

**Banks.** In order to serve the convenience of the wool handlers and thereby the producers, Commodity Credit Corporation entered

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65 Note 56, supra. As to handler's deductions generally, see the following paragraph "Distribution of loan proceeds."
67 See "Nonrecourse loans," supra.
68 Note 60, supra, §472.523 (d).
WOOL PRICE SUPPORT

into so-called lending agency agreements with banks so that loan funds
would be disbursed to the handler by a bank with which he normally
did business rather than by Commodity Credit Corporation. Generally
speaking, the banks paid the loan funds to the handler, could at any
time obtain reimbursement of these funds from Commodity Credit
Corporation, retained custody of the notes and warehouse receipts
representing the wool, performed other paper work required, received
repayment of loans, and returned to the handler the notes and ware-
house receipts. For these services, Commodity Credit Corporation
paid the banks certain percentages which constituted a portion of the
interest rate payable by the handler on the loan.

Insurance. While the wool was pledged to secure an advance loan,
the handler was required to insure it but not when it secured a non-
recourse loan unless Commodity Credit Corporation in a particular
case demanded that the wool be insured.69

Pools. At times, producers joined together to deliver wool to a
handler, through a pool manager, for the purpose of obtaining loans
under the program. The pool manager obtained proper authorizations
from the members of the pool, distributed loan proceeds to them and
gave them a proper accounting.70

Cooperative marketing associations. There are many cooperative
marketing associations among wool growers. The loan program in-
cluded provisions applicable to such associations if they are incorpo-
rated and met certain requirements, for instance, if the major part of
the wool marketed by the association was produced by individual
grower-members and if the grower-members shared proportionately in
the proceeds of marketing according to the quantity, grade, and quality
of the wool delivered to the association unless they had agreed to
share according to quantity alone.71 In view of the nature of coopera-
tives and their obligation to account to members for loan proceeds in
accordance with their charters, by-laws, and agreements, Commodity
Credit Corporation considered its price support obligation to the mem-
ers of such an association as being satisfied when it disbursed loans
to the association, the proper distribution of the loans among the
members being a matter primarily between the association and the
members. When such an association obtained loans through a handler,
the handler was required to furnish an Account of Loan Settlement
to the association, but there was no requirement that the association

69 1954 Wool Price Support Program (Shorn Wool) §472.526, 19 F.R. 3078
(1954).
70 Ibid. §§472.517(c), 472.521, 472.530(1); 19 F.R. 3075, 3077, 3079 (1954).
71 Ibid. §472.530(c), 19 F.R. 3079 (1954).
or the handler furnish an Account of Loan Settlement to the members of the association.\textsuperscript{72}

**Pulled wool program.** Section 201 of the Agricultural Act of 1949,\textsuperscript{73} required the support of wool without specifically referring to pulled wool. But in the Conference Report\textsuperscript{74} on the bill which became the Agricultural Act of 1949, it was stated that the term “wool” included both shorn and pulled wool. A pullery removes, or causes to be removed, for its own account, wool from the skins of slaughtered sheep or lambs raised in the continental United States or territories. If the pullery entered into a 1954 Pulled Wool Agreement with Commodity Credit Corporation, the pullery was called a Puller under the program.\textsuperscript{75} Prices of pulled wool were supported by means of loans to pullers or to wool dealers who represented pulleries and obtained loans on behalf of the pulleries.\textsuperscript{76} The program for pulled wool was generally similar to that for shorn wool. An important difference between them was that the money which Commodity Credit Corporation spent on price support of shorn wool went to the farmer or rancher (through a handler acting as his agent) while the money which Commodity Credit Corporation spent on price support of pulled wool went to the pullery; the farmer or rancher benefited from it only through the increase in price of the sheep or lambs he was able to obtain in the bargaining process because he knew that ultimately the pullery would obtain price support on the wool to be pulled from the animals he sold. No pools or cooperative marketing associations function significantly in the pulled wool trade. When a dealer obtained a loan in behalf of a pullery he had to transmit the net proceeds to the pullery, accompanied by an Account of Loan Settlement.\textsuperscript{77}

**Liquidation of Loans**

**Foreclosure of pledge.** The nonrecourse note gave Commodity Credit Corporation the power, in case of nonpayment at maturity, to sell the pledged wool at public or private sale and to become a purchaser thereof. Commodity Credit Corporation had to be prepared to take over the great bulk of the wool pledged under the program because, if the wool could bring more in the open market than the loans plus the interest and charges, the handler would redeem it and sell it in the open market. Before taking over the wool, Commodity Credit Corporation directed all handlers to make special efforts for a period

\textsuperscript{72} Ibid. \$472.517 (a) (b), 19 F.R. 3075 (1954).
\textsuperscript{73} See “Loan program, Legal basis,” and note 25, supra.
\textsuperscript{74} H.R. Rep. No. 1459, 81st Cong., 1st Sess. 16 (1949).
\textsuperscript{75} 1954 Wool Price Support Program (Pulled Wool) \$472.577(e) (f), 19 F.R. 3083 (1954).
\textsuperscript{76} Ibid. \$472.551, 19 F.R. 3079 (1954).
\textsuperscript{77} Ibid. \$\$472.565, 472.566; 19 F.R. 3081 (1954).
of 14 days to sell this wool in the open market at the best price obtainable but not lower than the principal amount of the note plus interest and charges. If the handler sold above such a price, the loan was paid off, and the excess was distributed to the producers. The wool which was not so sold was taken over by Commodity Credit Corporation. In May 1955, Commodity Credit Corporation took over about 45 million pounds of wool under the 1954 Wool Price Support Program.

Sale of wool owned by Commodity Credit Corporation. The handler acts as agent of Commodity Credit Corporation in selling wool owned by it and receives a sales commission. Wool which is owned by Commodity Credit Corporation may be sold at a price which is not subject to the statutory limitations laid down in Section 407 of the Agricultural Act of 1949, as amended, because sales of wool have been expressly excepted from those limitations. From time to time, Commodity Credit Corporation establishes sales prices designed to give it the highest possible return but with due regard to existing price support programs and other relevant factors. The handlers sell wool owned by Commodity Credit Corporation in the private trade, on an "as is where is" basis. Some of the basic terms on which they may sell are laid down in instructions given to them by Commodity Credit Corporation.


79 Note 1, supra; 7 U.S.C. 1427. "§407. The Commodity Credit Corporation may sell any farm commodity owned or controlled by it at any price not prohibited by this section. In determining sales policies for basic agricultural commodities or storable nonbasic commodities, the Corporation should give consideration to the establishing of such policies with respect to prices, terms, and conditions as it determines will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the commodity of the current crop. The Corporation shall not sell any basic agricultural commodity or storable nonbasic commodity at less than 5 percentum above the current support price for such commodity, plus reasonable carrying charges. The foregoing restrictions shall not apply to... (G) sales of wool;...