

READINGS ON AGRICULTURAL POLICY

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AMERICAN FARM ECONOMIC ASSOCIATION

Editor
O. B. JESNESS



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READINGS ON
AGRICULTURAL POLICY

DEPARTMENT OF AGRICULTURAL ECONOMICS AND SOCIOLOGY
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Selection Committee For This Volume

O. B. JESNESS, Editor
University of Minnesota

HERRELL DeGRAFF
Cornell University

F. F. ELLIOTT
Bureau of Agricultural Economics

L. P. GABBARD
Agricultural and Mechanical
College of Texas

H. R. WELLMAN
University of California

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Editor's Preface

Decision to sponsor this publication was made by the American Farm Economic Association at its annual meeting in September 1947, when it approved the following proposal of its Executive Committee:

The Executive Committee recommends that the Association publish reprints of articles in particular fields in Agricultural Economics in accordance with the following plan:—

The President of the Association with approval of its Executive Committee shall designate the Editor of the *Journal of Farm Economics* and the Editorial Council of the American Farm Economic Association as a special committee to select the subject and title of the volume. This special committee shall also establish general rules as to the size of the volume, its makeup, and general criteria for selection of articles to be reprinted. The special committee shall also select and recommend to the President for his approval, the individual(s) who shall be the editor (or joint editors) of the volume.

The editor(s) shall be responsible for the selection of the articles to be printed in the volume. In this task he shall be given leeway in exercising professional judgment and consulting with professional colleagues. The editor shall also be responsible for the organization of the volume including the order of the articles. Furthermore, he will be responsible for preparing or arranging for preparation of the bibliography and index. (These recommendations are based upon a report prepared by a committee composed of Sidney Hoos and Henry Keller, Jr.)

The special committee selected Agricultural Policy as the field for the initial volume and invited the undersigned to assume the responsibilities of editor. He, in turn, then asked Herrell DeGraff, F. F. Elliott, L. P. Gabbard, and H. R. Wellman to serve as an advisory committee to make recommendations regarding articles to be considered.

Agricultural policy is a part of public policy. No single volume can even begin to provide coverage of so broad a field. The editor and the members of the committee on selections are keenly aware of this fact. The objective has been to include selections dealing with some of the more important agricultural aspects. Particular attention has been given to articles which have appeared in the *Journal of Farm Economics*, but a number of other sources have been drawn upon as well.

The editor appreciates greatly the very helpful assistance of the members of the committee on selections and of their associates and others to whom they turned for suggestions. He also acknowledges the assistance of colleagues at the University of Minnesota and others who helped make the task easier. Responsibility for final decisions on selections rested upon the editor and he, consequently, should be the target of criticism of those who may discover what appear to them as sins of omission or commission.

O. B. JESNESS

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Part I
BACKGROUND

1. Agricultural Fundamentalism*

By JOSEPH S. DAVIS

Director, Food Research Institute, Stanford University

THE ORTHODOX DOCTRINE

“Agriculture is the foundation of manufacture and commerce.” So runs the inscription on the great seal of the United States Department of Agriculture. “Agriculture is Fundamental” was the subject of an address in November, 1922, by E. T. Meredith, ex-Secretary of Agriculture and publisher of *Successful Farming*.⁷ He undertook to show the Association of National Advertisers that agriculture is “absolutely controlling” in the advertising business “and every other business in the United States.” In June, 1922, Eugene Meyer, Jr., then managing director of the War Finance Corporation and later Governor of the Federal Reserve Board, addressed the Associated Advertising Clubs of the World on “Farm Financing and Business Prosperity.” He said in part:

The fact that agriculture is the keystone of the American economic and business structure has been more widely advertised during the past five years . . . than at any time in the history of the country. . . . The farmer is the most essential cog in the driving wheel of the American business machine. He is the greatest producer, borrower, and buyer in the United States. . . . The agricultural crisis of the past two years has . . . brought home to every business man in every part of the nation a greater realization of the fact that agriculture furnishes the basis and the substance of American prosperity. They [business men] now understand . . . that one important part of the country cannot be happy and prosperous if another part is in distress.

[Bernard M. Baruch, former chairman of the War Industries Board, wrote in 1921:¹

. . . Not only do the farmers make up one-half [sic] of the nation, but the well-being of the other half depends upon them.

. . . Like her [Rome], we shall destroy our own agriculture and extend our sources of food distantly and precariously, if we do not see to it that our farmers are well and fairly paid for their services. The farm gives the nation men as well as food. Cities derive their vitality and are forever renewed from the country,

* From *Economics, Sociology and the Modern World*, edited by Norman E. Himes (Cambridge, Mass., Harvard University Press, 1935). Reprinted by permission of the publishers.

¹ “Some Aspects of the Farmers’ Problems,” *Atlantic Monthly*, CXXVIII, 111-20, July, 1921.

but an impoverished countryside exports intelligence and retains unintelligence. Only the lower grades of mentality and character will remain on, or seek, the farm unless agriculture is capable of being pursued with contentment and adequate compensation. Hence, to embitter and impoverish the farmer is to dry up and contaminate the vital sources of the nation.

...
Agriculture is the greatest and fundamentally the most important of our American industries. The cities are but the branches of the tree of national life, the roots of which go deeply into the land. We all flourish or decline with the farmer.]

[Sir Robert B. Greig, in his Presidential Address to the Agricultural Section of the British Association for the Advancement of Science at Pretoria, on August 1, 1929, said in part:²

... From the standpoint of area, or wealth, or population employed, agriculture is by far the most important activity in the Empire.] The true wealth of the world, the wealth which determines the standard of living of nations, is limited by the capacity to produce cereals, milk, meat, wool, cotton, hides, and other prime necessities of life of soil origin; without a sufficient supply of these progress in the art of living is impossible. Agriculture is also the one stable industry. Coal seams come to an end, or the discovery of new sources of energy changes the values of coal. Advances in physical science may, while creating new industries, destroy old ones. The wealth of gold and diamond fields depends upon artificial values which might disappear if society were constituted on a new basis with a different monetary system and different culture. But agricultural wealth, the capacity to produce every year the food and clothing without which life ends, is and always has been the one great permanent industry, the one which is the foundation of all national, or indeed, of world wealth.

[Professor T. N. Carver wrote in 1924:³ "... farming ... is vastly the most important industry in every large country, as well as in the world at large." While admitting that "agriculture is losing ground relatively" and "will never again be of such overwhelming importance as it once was," he also said: "... the prosperity of the nation depends largely on the work of those who till the soil." The agricultural statesman is one who, through his leadership and lawmaking, gives the utmost encouragement to the workers on the soil." Sir Albert Humphries, the great British milling expert, is reported to have told the World's Grain Conference at Regina in July, 1933:⁴ "If agriculturists in the widest sense can be made prosperous, then the whole world will very shortly become more prosperous as well."

Such quotations could be multiplied indefinitely, from many coun-

² *Report of the Ninety-Seventh Meeting* (London, 1930), p. 231.

³ *Elements of Rural Economics* (Boston, 1924), pp. 93-94. In spite of these quotations, Carver is by no means a thoroughgoing agricultural fundamentalist.

⁴ *Milling* (Liverpool), LXXXI, 220, August 26, 1933.

trices, ages, and interests. They bear witness to a widespread, deep-seated, persistent conviction that agriculture is *par excellence* the fundamental industry, and that farmers are, in a peculiar sense and degree, of basic importance in society.

"Agricultural fundamentalism" not only has a large following. It is rarely challenged,⁵ and many who do not wholly accept the faith are more or less under its sway. It is reflected in American agitation for restoring agriculture to "equality with industry," raising farm prices to their "fair exchange value," and ensuring that agriculture shall get its "fair share" of the national income. It has been influential in the adoption of farm relief measures, including the Agricultural Marketing Act, 1929, and the Agricultural Adjustment Act, 1933. It has contributed much to produce the fresh wave of agrarian protectionism in Europe—even in Great Britain—to prevent competition of cheap imports from forcing contraction of agricultural classes there.

DECLINING IMPORTANCE OF AGRICULTURE

{ In the face of such convictions, history reveals a trend, most conspicuous in countries of more advanced standards of living, toward a smaller place of agriculture in national economies. } This has been going on for centuries, at times slowly, again with quickened pace. It has been conspicuous since 1850, and especially so in the first decade after the Great War. Though the trend is sometimes interrupted or temporarily reversed, major reversals are rare. It is, of course, the obverse of the expansion of commerce and industry, the arts and the professions. Statistical evidence of it, though largely limited to the past century, is increasingly voluminous. While even now the data are by no means comprehensive, accurate, or easy to use, the testimony of various indicators is substantially concordant. One may even venture to state as a law of economic history that *economic progress, broadly viewed, tends to be accompanied by a decline in the relative importance of agriculture.*⁶ This has been true, if not universally, of most nations in most periods and of the world as a whole.

Limitations of space here prevent elaborate presentation and interpretation of the relevant evidence, a large body of which I have critically examined. [The declining relative importance of agriculture is imperfectly reflected in declining rates of increase in the rural

⁵ See, however, Edwin Cannan, in "The Need for Simpler Economics," *Economic Journal*, XLIII, 367-70, September, 1933.

⁶ This, of course, is part of a larger law, which it is unnecessary here to attempt to state.

population as compared with the urban, or even in stationary or declining rural populations while city populations increase. It is more clearly revealed by falling ratios of agricultural populations to the total, and of those engaged in agricultural occupations (particularly male workers) to the totals gainfully occupied; still more by absolute contraction of the numbers engaged in or primarily concerned with farming. It is reflected in available though imperfect indexes of the net output of agriculture as compared with that of industry, in evidence of falling ratios of agricultural wealth to total national wealth, and in falling percentages of agricultural income to national income.)

Such evidence is often regarded, particularly by agricultural fundamentalists, as indicating that society is "unfair" to agriculture, and that serious consequences must ensue if the trend is not arrested or reversed. In the main, however, the evidence shows that increasing adequacy of the food supply, higher planes of living, and even larger rewards for more limited numbers in farming, have accompanied declines in the relative importance of agriculture. In truer perspective, the trend appears to be largely the resultant of powerful socio-economic factors and forces which operate, however cruelly at times, to promote social progress.

Most fundamental of these factors are, first, the comparative satiability of human demands for farm products, and second, the successful urge of man to devise means of satisfying wants far beyond mere subsistence. Great economies in agricultural effort in the production of farm products have been achieved through developments in transportation, machinery and equipment, and the science and art of farm production. At the same time, opportunities have evolved in many fields outside agriculture for work which yields much more than bare subsistence. Other outlets for labor and capital have been found in ever-widening degrees, though not always with sufficient rapidity to utilize available resources smoothly and effectively. Auxiliary occupations of farm people have been absorbed into specialized industries, many of them urban. Latterly, some agricultural products have been displaced by industrial (notably horses and horse-feed by automotive equipment and gasoline), and some farm products of temperate agriculture by tropical and sub-tropical products. In recent decades, as a result of striking declines in the death rate and even more notable declines in the birth rate, the rate of population increase in western countries has fallen and the age structure of the population has changed radically. Partly because of this, and even more because of changes in occupational distribution and in modes of working and living, per capita physiological requirements for food and clothing have diminished.

These various influences have tended to decrease per capita demands upon agricultural efforts, and have been only partially offset by a few that work in the opposite direction. Chief among the latter are the increasingly general adequacy of per capita food consumption, and enrichment of the diet both through greater use of secondary products of agriculture (such as animal products as compared with wheat and cotton) and through increased variety. Of some importance also, particularly in the United States, have been increased waste of low-quality products at the farms or their diversion to feed or industrial uses; and increased waste by consumers—in households accompanying lessened incentives to thrift, and incidental to more extensive resort to public eating places. Moreover, the growth of population continues, though it can no longer be regarded, as many viewed it only a decade ago, as a slow but sure remedy for agricultural depression.

In the light of these facts, it is pertinent to ask: Is agricultural fundamentalism, after all, sound doctrine in spite of its antiquity and prevalence today? Is it, with its implications, true enough to furnish bases for wise national policies? The issues are of far-reaching importance. Politicians may cater to popular sentiments and prejudices, but statesmanship requires real insight and true perspective. It calls for recognition of truths even when they seem unpalatable, and for recognizing powerful economic forces for what they are. It requires measures that are directed not toward neutralizing such forces, but toward using them and making adaptations to them. Social scientists who do not fear heresy charges have a duty to contribute to clarification of thought in such a field.

ELEMENTS OF TRUTH IN THE DOCTRINE

[The elements of unquestioned truth in the doctrine may first be summarized. Agriculture employs a large fraction of the population of most nations and the world at large, and the welfare of so large a group is necessarily a matter of signal concern. It furnishes an important fraction of the materials for trade and manufacture, so that large non-farm groups are affected by the volume of output available to be handled.] Moreover, fluctuations in the purchasing power of so large a group inevitably affect the income of other large circles of the population. [Agriculture is also an essential industry, or rather a group of essential industries. Its chief products are foodstuffs, which man must have to live. It also produces raw materials well-nigh essential for clothing, household, and industrial uses.]

In terms of numbers engaged and even in value of net output,

agriculture is the most important industry. This is true in most nations if agriculture is considered as a single industry, and compared with other industries grouped more specifically, though in post war Britain agriculture has ranked below engineering and mining in respect to numbers employed, and below these and the textile industry in value of net output.⁷ With at least equal propriety, modern agriculture may be regarded as a group of industries, overlapping indeed but more or less distinct and with interest more or less divergent. If, like agriculture, various other industries are considered in major groups as single industries, there are other countries in which agriculture no longer ranks first in respect of number of workers or net value of output. According to the United States census of 1930, agriculture was surpassed by the group of manufacturing and mechanical industries including construction, and equalled by the trade and transportation group, in the number of gainfully-employed workers 16 years of age and older.⁸ Nevertheless, in the world as a whole even today, the primacy of agriculture in numbers engaged is beyond dispute.

Such simple quantitative tests, however, are inadequate and misleading. Size is not the supreme index. The importance of a man is very imperfectly indicated by his height, his weight, his age, his wealth, or his income. The importance of a nation is not proportional to its area, its population, or its wealth. Probably half the world's population, and more than half the world's agricultural population, is in three countries—China, India, and the USSR; but to say merely this is to exaggerate their relative importance in the world of today.

The great food-exporting countries—whether we measure their greatness as such by the volume of food products that they contribute to international trade, or by the proportion of their exports that consist of farm products in raw or processed form—find their prosperity heavily dependent upon the volume and value of their agricultural output and exports. Such are Canada, Argentina, Australia, Cuba, and Java. A large outturn and large exports of farm products mean great activity in transportation and handling; a large value of farm production makes for liberal purchases by farmers; a large value of agricultural exports gives

⁷ Ministry of Agriculture and Fisheries, *The Agricultural Output and the Food Supplies of Great Britain* (London, 1929), pp. 12–15. Yet in numbers employed in agriculture Great Britain surpasses each of the Dominions, and in value of agricultural output all except Canada. See excerpt from a luncheon address by Major Elliott, British Minister of Agriculture, reported in *Southwestern Miller*, February 7, 1933, p. 38.

⁸ R. G. Hurlin and M. B. Givens, in *Recent Social Trends in the United States* (New York, 1933), p. 280

liberal purchasing power for imports, debt payments, travel abroad, etc. What is true of such countries is true of agricultural-surplus sub-regions and communities within a nation. Such are the Prairie Provinces of Canada and numerous sections of the United States. There agriculture is truly basic, in the sense that the purchasing power, the tax- and debt-paying ability, and the opportunity to spend for education, amusement, vacations, travel, etc., are heavily dependent upon the volume of agricultural products marketed and the amount of cash farm-income. Such regions, however, are by no means typical of the world at large, and even in respect to them the preeminence of agriculture is often exaggerated.

LIMITATIONS OF THE DOCTRINE

{Agriculture, moreover, is by no means uniquely essential. Air and water, indeed, are even more vital necessities than food; but these are so generally available without cost, or at very low cost, that only a small proportion of human effort is required to provide them where they are not readily available.} Food is not likely ever to be as easily procurable as water, but beyond a certain point it is equally wasteful of human energy to expend efforts upon increasing the supply. Especially in the modern world, and conspicuously in the more advanced nations, "man does not live by bread alone." Progress is indicated not merely by attainment of increasingly regular sufficiency of food and other essential means of subsistence for all, but by increasing leisure and a larger consumption of a great variety of goods and services that are regarded as making life more worth living. All occupations that contribute to the satisfaction of human wants are constructively important, and, in the world as now organized, it is not easy to draw the line between the essential and the unessential, or to rate them in order of their importance.

{Even in the process of supplying the world's food, farm production of foodstuffs is only one link in a long chain by which food reaches the consumer's table. Transportation, processing, merchandizing, and finance are also necessary links; and, in the short run, transportation is the most immediately critical. Though agriculture appears to be the first link in the chain, it must be said that scientific investigation, communication and education in many forms, and provision of farm machinery and fertilizers, are even more primary than the farmer's efforts in making it possible for modern farmers to produce the quantities of foodstuffs and raw materials that they do}

Moreover, while food is essential to life, by no means all agricultural effort that goes into producing foodstuffs is thus essential. With food

as with other forms of consumption,⁹ we often choose to take our comforts, conveniences, and luxuries in a vast variety of forms and services linked with essentials, rather than get them wholly in distinct goods and services. Flavor, appearance, convenience, variety, even prestige, are super-added to calories, minerals, and vitamins. While this tendency is sometimes carried to such extremes that essentials are sacrificed, it is often an eminently rational procedure. If we chose to limit our diet to the minimum essential for life, health, and working efficiency, at minimum cost, the services of a large fraction of the farmers of the world, as well as of industry and commerce, would be dispensed with. To a large extent also, farm products other than foods go extensively into supplying wants for what cannot be called "necessaries of life."

In some countries today, indeed, the farmer's part in producing the food actually consumed is not the largest fraction; as much or more may be contributed by transportation, processing, and merchandizing services. Witness the extensive use of delivery and credit services, packaged breakfast foods, loaf and packaged sugar, canned fruits and vegetables, wrapped and even sliced bread, and quarter-pound table units of butter. Even where a product, such as fluid milk, reaches consumers apparently unchanged, what the consumer gets is economically different from what the farmer ships. [The "farmer's share of the consumer's dollar," as that is actually spent for food, has declined in large part because an increased share of that dollar has been earned by others who have contributed to the more elaborate processes through which foodstuffs reach the consumer.]

[Furthermore, it is by no means true that all farmers are essential even for producing the foodstuffs and other farm products that the world customarily consumes.] The aggregate importance of farm products is very great, but their *marginal importance* is modest. The elimination of agriculture and the "vanishing" of the farmer are almost unthinkable, but the practical questions concern the importance of moderate additions or reductions in the number of farmers and the supply of farm products. [With air and water relatively abundant, we properly regard those who provide our water supply and air-conditioning equipment as contributing to our comfort and convenience; but we do not magnify their importance because air and water are vitally necessary. Except in regard to the number of persons involved, the situation is essentially similar with respect to farm products and agriculture as an industry.]

⁹ Even the cheapest automobiles furnish more than mere transportation, which may be regarded as the most essential of their several "utilities."

Farming has a powerful attraction for large numbers of people, in spite of the risks and hardships associated with it, and the low financial return that it yields to the capital and labor employed. It commonly assures at least a minimum living at moderate cost. It is easy to enter, though for certain types considerable capital is essential. It does not require extensive training, though specialized education and experience both contribute to efficiency and pecuniary success. Children of farmers particularly find it easy to stay on the farm, and adults established in farming often find it difficult to quit. Many like not only to live but to work in the open country, and get very real satisfaction out of cooperating with nature in making plants and animals grow. Farming is the principal remaining field of independent enterprise other than retail-store keeping; and that freedom is cherished in spite of its practical limitations. Many who have tried urban occupations and residence find that these have drawbacks not apparent at first sight. Moreover, developments of recent years have made available to farmers in some countries, at a cost within reach of large numbers, such additions to their traditional standards of living as electricity, the telephone, automobile, and radio, and have lightened their drudgery with mechanical devices for farming and the farm household.

In competitive societies where occupational mobility exists, there is a broad tendency for group rates of remuneration to vary with the marginal importance of the services contributed by each group, the size of the group depending partly on the ease or difficulty of entering it, the appeal or repulsion of the risks it involves, and its all-round attractiveness. Broadly speaking, low financial remuneration of a group implies that its marginal importance is low; from whatever cause, the group is so large that society is unwilling to pay better for the services that it renders. When supplies of farm products are restricted or contracted, whether by war, by nature, or by farmers' actions, society pays the farmers more, at least per unit of product. When the restraint or contraction is serious and persistent, the remuneration of the farming group rises, and greater agricultural activity is stimulated. When, however, farm products come forward in abundance, compared with what society cares to use, a low remuneration for the farmers is a competitive society's way of encouraging a shift into other forms of activity.¹⁰

¹⁰ Cf., the Doctor, in "The Commonweal of This Realm of England" (c. 1549); ". . . the more necessary that corn is, the more be the men to be cherished that reared it; for if they see there be not so much profit in using the plough as they see in other feats, think you not that they will leave that trade, and fall to the other that they see more profitable?" Quoted in A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents* (London, 1914), p. 409.

SOME ALARMIST VIEWS CONSIDERED

Agricultural fundamentalists generally view this economic tendency, and the trend toward declining relative importance of agriculture, with pain, concern, and alarm. Some see it threatening to cause inadequacy of the food supply, decadence of agriculture, even the fall of civilization itself.¹

With respect to the dangers of food shortage, modern history affords little basis for such fears. Whatever of truth Malthusian laws contain, the pessimistic interpretation of history which Malthus held has not been borne out by the experience of at least the western world in the period since he wrote. (Increasing population and decreasing emphasis on agriculture have been accompanied by notable increases in the adequacy of food supplies per capita. Under some conditions still, limitations of the food supply may interpose more or less effective checks to population increase; but it is striking that latterly China, India, and the USSR, where the per capita food supply is very limited in relation to physical needs, have shown relatively high rates of population increase. In the greater part of the western world, at least, other checks are so effective that limitations through the national food supply are inoperative, or of little or no practical importance. Problems of ensuring adequate balanced diets for all persist, even in the most advanced countries, but their solution is not dependent upon increased efforts by farmers. The persistence of abnormally heavy stock of staple foodstuffs during the depression can be attributed only in very limited degree to simple underconsumption of food.

So far as the future is concerned, prophecies differ. Some regard the past century as a magnificent exception, and feel confident that, sooner or later, mankind must face painful restraints through limitations of the food supply. After much study, these predictions seem to me ill-founded. Elsewhere I have said: "The specter of coming dearth of food is a ghost that deserves to be laid."¹¹ Professor Edwin Cannan has well said:¹²

All this emphasis on food is now out of date. We no longer look forward to a future in which an increasing population will be forced by the operation of the law of diminishing returns to devote a larger and ever larger proportion of its whole labour force to the production of food. We know that even in the past, with a rapidly increasing population, the returns to agricultural industry have increased

¹¹ "The Specter of Dearth of Food: History's Answer to Sir William Crookes," in *Facts and Factors in Economic History* (Harvard University Press, 1932), p. 754.

¹² In his presidential address before Section F of the British Association, published in *Economic Journal*, XLI, 525, December 1931.

so much that civilized mankind has been able to feed itself better and better, while giving a smaller and ever smaller proportion of its whole labour force to the production of bare subsistence; and we can reasonably expect that the increase in the productiveness of agricultural industry will be at least as great in the future, so that under the combined influence of the "narrow capacity of the individual human stomach" and the stationary number of stomachs, not only a smaller and ever smaller proportion, but a smaller and smaller absolute number of workers will be able to raise food for the whole.

Whatever the more distant future may bring forth, it seems abundantly clear that the nearer future gives no warrant for subsidizing farmers, directly or indirectly, to avert undue contraction of supplies of farm products. On simple economic grounds, there is no warrant for seeking to maintain or increase the number of farmers, if they are already producing more than society wants and chooses to pay for, in relation to its desires for other goods and services. There is justification for seeking to make it possible for farmers individually to earn more, especially by rendering desired services at lower costs; but frequently an essential condition of increased average remuneration is a reduction in the size of the agricultural group. The economic adviser to the Secretary of Agriculture said recently:¹³

Even with our present techniques, we have more farmers than we need. Three-quarters of our farmers, that is, 15 per cent. of our total working population produce today as much farm products as we are consuming domestically. With even a moderately effective utilization of the methods and machines already known and in use, probably 10 per cent. of our workers could produce as much farm products as are now produced, and eventually the proportion will fall even lower. That means that as soon as urban or industrial occupations are ready to employ them, the proportion of farm and industrial workers could be changed from 8 to 2, to 9 to 1, and there would still be ample farm products for everyone. Eventually, the proportion of workers in commercial agriculture may fall to 5 per cent. or even lower, and yet we could maintain a stable and well-balanced industry—with far higher general standards of living than any we have yet enjoyed.

Mitigations of or substitutions for the painful economic pressure by which farming has been restricted or even contracted have properly been sought, thus far with little success. The Agricultural Adjustment Administration in the United States is now experimenting with organized contraction of agricultural output, in order to raise farm prices of farm products, and farm income both directly and indirectly.¹⁴ Whatever the

¹³ Mordecai Ezekiel, "Which Way, American Farmer?"—an address given before the Open Forum, Chicago Sinai Congregation, October 30, 1933.

¹⁴ The experiment is based partly on the assumption that increased incomes to the farming group, even if made at the expense of other classes, will give a substantial stimulus to general recovery from the depression. There is no doubt that

success of the bold experiment, it seems clearly to point toward reduction in the number of commercial farmers.

President Coolidge, in addressing the Association of Land Grant Colleges, November 13, 1924, said:¹⁵ "It has been attested by all experience, that agriculture tends to discouragement and decadence whenever the predominant interests of the country turn to manufacture and trade. We must prevent that in America." The bearing of Rome's experience on this point is still a matter of controversy. In the modern world, however, a declining importance of agriculture in a national economy, or in the world at large, has not implied, and does not imply, decadence of agriculture in respect to efficiency of farming or quality of farm population. On the contrary, improvements in the character of farming and the standard of living of farm workers commonly accompany the declining relative or absolute importance of agriculture. There is no doubt that in England, during the past century when the agricultural population has declined in absolute number almost without interruption, the level of farming efficiency has notably risen, and the standard of living in agriculture has improved. The same is true in the United States, where the decline in relative importance of agriculture is old but the decline in the numbers of farmers is relatively recent.

It seems safe to say that in the first post-war decade the general level of agriculture technique was higher than ever before, though never before had agriculture held so low a place among the world's activities. Despite all the real and alleged distress in agriculture in the years preceding the recent severe depression, it is greatly to be doubted whether farmers as a class had ever lived so well before. Since 1930, indeed, a significant increase in the farm population in the United States has been accompanied by some deterioration in the efficiency of farming and a lower standard of living on the farm. Both, however, are products of severe depression, and one is not a major cause of the other.

If one compares sections of the United States, or different countries of the world, one finds no direct association between a high proportion engaged in farming and high levels of efficiency in agriculture or of farm standards of living. On the whole, with some exceptions, the tendency is

such a transfer of domestic purchasing power will affect the course of economic events, aiding some sections and industries and affecting others adversely; but to date it does not appear that the net result confirms the theory. For a preliminary discussion of the evidence, see J. S. Davis, "AAA as a Force in Recovery," *Journal of Farm Economics*, XVII (February 1935), 1-19.

¹⁵ *Proceedings of the Thirty-Eighth Annual Convention of the Association of Land-Grant Colleges* (Burlington, Vt., 1925), p. 56.

toward inverse correlation. Certainly in the South, where the farm population is relatively largest, the levels of farming efficiency and standards of living are low, as compared with the North and West. In China, India, Russia, and Mexico, a high proportion engaged in agriculture is accompanied by low levels of farming efficiency and standards of living, as compared with England and Wales where the proportion engaged in agriculture is notably low.

Various other ideas for which there may have been some justification in earlier times are obsolete today. Maintenance or increase of the farm population is not essential to furnish a liberal supply of men for military service. War is no longer—if it ever was—an appropriate means whereby a vigorous people can insure expansion in numbers and improvement in living conditions. In a world with abundant facilities for international trade, it is not essential that a nation be able to feed its people from lands under its political control. Sanitary advances in urban centers indicate that agriculture has no inherent and inevitable superiority in respect to healthfulness and wholesomeness of living conditions. Physical deterioration of the race has certainly not accompanied the declining relative importance of agriculture, and the burden of proof rests upon those who believe that it entails moral degeneration. [Moderate rates of population growth, accompanying a declining proportion of the population in agriculture, are a condition of more rapid advance in standards of living; and if the tendency may go to excess, there are other means of checking it than to subsidize the agricultural population as breeders for the nation. In a world struggling with industrial unemployment, even before the recent depression, there is no danger that industry will be starved for workers.]

[With respect to political and social stability, it must be said that countries that are no longer predominantly agricultural have acquitted themselves well under the strains of a great war and a great depression. The most predominantly agricultural countries today include China, one of the most unsettled; the USSR, where has occurred the only recent revolution that has wrought fundamental changes in a civilization; and India, which is far from stable. Even in respect to food supplies, these very countries are relatively vulnerable, while most of those with low proportions engaged in agriculture are relatively secure.]

Another quite different idea is that special aid to agriculture is necessary to prevent more movement into other occupations than those can absorb. Undoubtedly even the most advanced nations have not satisfactorily solved the problem of smoothly readjusting the utilization of labor and capital so that available resources may be continuously

employed. Yet there exist, even in the face of idle plants and unemployed millions, outstanding deficits in the satisfaction of human wants, notably in the fields of housing, transportation, education, recreation, art in multifarious forms. Even with the present standards of desire, these deficits are so large that it is absurd to assert that there is not enough need for products and services to employ all who wish to work, provided their labor is directed to the things that people want and will work or pay for. The danger of overpopulation, in the strange new sense that the work of only part of the people will be needed to satisfy all demands of the whole, is a figment of the imagination. With the miracles that technological advance brings, the only excuse for unemployment is that society has not yet effectively learned to utilize available resources in satisfying human wants.

The oft-mentioned balance between agriculture and industry is wrongly regarded as a constant ratio of agricultural to total population, or of agricultural income to the total. Properly viewed, it implies a moving equilibrium, in which the proportions change. [Temporarily, agriculture may provide a haven for many from the storm and stress of drastic economic maladjustment. In the longer run, powerful forces that make for progress are irresistibly diminishing the relative importance of agriculture. In this field, as in many others, we may wisely seek to temper the cruelty of these forces; but far-sighted statesmanship will undertake, not the Canutian task of sweeping back the tides, but appropriate methods of making adaptations to them.]

It is no longer inevitable that declining relative importance of agriculture should involve the loss of all virtues associated with farming. Many over-idealize country living and the farmer's life, overlooking the rural counterparts of city slums, and forgetting the drudgery that for so many rural workers leaves little time or energy for developing actual or latent talents. Beyond doubt, there are genuine virtues in country life; yet there is no simple choice between idyllic agriculture and congested urban life. Modern economic conditions, especially with democratized ownership of the automobile, permit the combination of rural or semi-rural living with urban or town occupations; and most of the real advantages of farm life plus many that are erroneously imputed to it can be realized through increasing the extent of rural and semi-rural residence without combining it with more than a minimum of farming activity. In a broad view of a nation's welfare, it appears unwise to maintain an unnecessarily large farming population, with attendant problems of excessive output of farm products or low standards of living of subsistence farmers, in order that rural living may be enjoyed by a larger

fraction of the population. From the standpoint of maximum satisfaction of wants it is desirable, not undesirable, to have as small a proportion of the total energy as possible devoted to provision for essential wants, so as to leave the maximum available for leisure activities and satisfaction of wants for wholesome non-essentials.

CONCLUDING OBSERVATIONS

Much more might be said. In a brief discussion one cannot hope to exhaust so large a topic or to convert convinced adherents of orthodox doctrine. I challenge the soundness of agricultural fundamentalism, not because there is no truth in it, but because it contains so much of error as to lead the world astray. It stands in the way of progress, and its common acceptance often operates contrary to the interests of farmers themselves.

[Agriculture has, and probably always will have, an important place in the life of every nation.¹⁸ Measures to protect agricultural resources from needless depletion, to facilitate physical and economic processes of agricultural production and marketing, to mitigate the severity of fluctuations in farm income, and to raise the plane of living among farmers, are in the general interest; but they are justified on grounds independent of an allegedly peculiar importance of agriculture or farmers. Efforts to raise the level of attractiveness of farming, financially and otherwise, are desirable as part of a general policy; but most attempts to raise it in relation to the level of attractiveness of other occupations tend to be self-defeating. Efforts to make farming profitable for all who may choose to farm are foredoomed to failure. The wealth and welfare of nations depend upon many complex conditions. Today, agriculture is not uniquely basic, and the prosperity of a nation depends largely on other factors than the work of those who till the soil.]

¹⁸ Synthetic production of most essential foodstuffs is technologically possible, as C. L. Alsberg pointed out in "Progress in Chemistry and the Theory of Population," *Industrial and Engineering Chemistry*, XVI, 524-26, May 1, 1924. With further progress in the past decade, the time seems almost at hand when all the vitamins can be made available otherwise than through agriculture. It is possible that scientific developments may in time render much or most of our present agriculture superfluous, but Alsberg rightly asserts that the basic problem of obtaining the energy necessary for large-scale synthesis of foods remains to be solved.

2. Agriculture and the National Welfare*

Farm people, anxious to promote conditions favorable to themselves and to play their part as good citizens, must look far beyond their line fences and their local communities. Their welfare will be favorably or adversely affected, not only by what they do on their own land, but also by policies followed by various farm groups and non-farm groups.

[Two world wars and a great depression have demonstrated most strikingly that farm incomes rise and fall with city payrolls. In general the higher the total incomes of non-farm people, the higher the returns to farmers, with increases in the earnings of low-income families particularly being important in improving the market for farm products. In turn, high incomes of farmers help provide a market for the products of non-farm workers.]

[The special responsibilities of agriculture are (1) to provide consumers with foods and fibers at reasonable prices, and (2) to maintain the productivity of basic land resources. The objectives of rural people are to obtain (1) income to provide a standard of living comparable to that of other large productive groups, (2) freedom of opportunity, and (3) that degree of security which will make for stability of family and of community life.]

THESE ARE BASIC ECONOMIC CONSIDERATIONS

[Before proceeding with a more detailed analysis of farm problems and policies, we need to emphasize four basic characteristics of agriculture which can be observed historically in most countries of the world, and which must be taken into account in any realistic policy-making:

First, in a progressive economy the needed foods and fibers can be produced by a decreasing proportion of the total production.

Second, the farm population more than reproduces itself, while the urban population fails to maintain its own numbers.

Third, a period of economic depression not only interrupts but reverses the normal flow of population from the farm to the city.

Fourth, there is a constant tendency for advantages such as accrue from higher farm prices and farm incomes to be capitalized into higher farm land values rather than to be used primarily for improving the level of living of farm people.

The need is for policies based on panoramic rather than keyhole

* *Postwar Agricultural Policy*, report of Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, 1944, pp. 5-12. Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

views of society. The goal of serving the public interest should be the keystone of policy-making; it should be the criterion for resolving proposals which come from various groups.

Honest fact-facing compels us to admit that in the past we have not consistently promoted the general welfare. Too often the attempt has been to promote separate interests in turn, even at the expense of others. Industry, labor, and agriculture—all abetted at various times by government—have sought to improve their own positions by restricting production.]

Each saw better prices as the magic wand that was to raise his income. Each neglected to note that similar methods used by others would reduce the supply of products available for his use. Each in time might have higher prices but his income would buy fewer things.

Limiting output of needed commodities and services inevitably makes us poorer, not richer. Whatever may seem to be its short-term advantages in particular instances, the long-run effect is detrimental. Policies to limit output must be reversed all along the line if we are to attain the high level of living which our resources can provide.

[A very high proportion of Americans profess loyalty to the ideals of free enterprise and individual initiative. Just what these terms imply, however, is not generally recognized. The fact is that they have often been used to promote causes which check free enterprise and individual initiative.]

[Our economic system can function well only if freedom exists to enter any occupation, or to carry on any type of production that is thought to be profitable, provided only that necessary quality standards are maintained, and deception and fraud are not practiced. But such freedom has meaning only if there is economic opportunity open to everyone who is able and willing to work. That is not the situation when rules are adopted which bar competent people from any type of enterprise because of the wishes of those already in it.

If we want to speed up economic momentum, then we must outlaw attempts to hamstring people whether such attempts are made by industry, business, the professors, labor, or agriculture. The government must check the action of powerful groups that would restrict economic opportunity, and design public policies to permit maximum initiative and resourcefulness.]

Private enterprise involves the risk of loss as well as the possibility of gain. Risk can be reduced, but not eliminated. A major way of reducing risk is to maintain economic opportunity so that a high level of employment with efficient use of resources may result. Thus people and resources no longer profitably employed in one use quickly find other satisfactory

alternatives. This will avoid idle resources and loss of income that go with such idleness. On the other hand if security is sought through freezing past patterns of production, jobs, or methods, progress is not possible.

A major issue centers around the question of how completely we shall rely on private action, and what role the government shall play in regulating it. Existing attitudes are often such that it is difficult to get objective thinking and calm discussion of the matter.

Government properly should be the guardian of the public interest. It can become so to the fullest extent only if powerful pressure groups are unable to enlist the government as a partner in enforcing their will on the others. One of our most challenging needs is to harness the potential statesmanship among leaders of agriculture, labor, and industry so as to cooperate in building a greater society rather than tearing the society asunder.

On the role of government it is important that we free ourselves from all-or-nothing thinking. Completely free enterprise or state socialism are not our only alternatives. We need more calm deliberation of broad objectives and less blind reaction against change. There is no magic in any system, in any form of control or lack of it; all are amenable to human ingenuity, subject to human frailties, and in need of constant scrutiny. Experimentation, modification, and orderly evolution are necessary for progress. This necessitates looking to the future and discovering new solutions that fit the changed conditions. Progress lies in wise adaptation. The right mixture of freedom and control is needed.

Frequent controversy over administrative and legislative jurisdiction between the national government and the states, among the states themselves, and among various agencies within each of these, indicates clearly the need for careful appraisal of the issues involved in order that they may be promptly and effectively adjusted. All too frequently the arguments have been directed toward maintaining the power and prestige of a particular unit or agency rather than toward promoting the welfare of all.

Foreign trade, an important factor in promoting prosperity, is subject to complex uncertainties; it is influenced by the policies of other governments as well as those of our own. But certain it is that Americans need to realize that exports can be paid for only with imports, and that a creditor nation can be paid only if it imports more than it exports.

WE NEED HIGH-LEVEL EMPLOYMENT AND PRODUCTION

Towering above all other considerations is our need for nearly full employment and unrestricted production. These are important to every-

one, and not the least to farmers. The amount of money that urban people have to spend largely determines how good customers they are for farm products. In addition, high-level industrial production brings a large supply of goods to farmers at reasonable prices, and it also provides job opportunities for those who are not needed in agriculture. Urban people in turn are benefited by good farm income and high-level farm production.

High-level employment in non-agricultural industry means very much more to farmers than any "farm-program" the government may attempt. Manipulations of agricultural production and prices are no substitute for good consumer markets.

Since agriculture normally does a good job of keeping up both employment and production, even in periods of urban unemployment, the real problem lies in doing equally well in other lines, notably construction and manufacturing. Few people desire to forego the advantages of large-scale production, or to deny the right of collective bargaining or cooperative organization. But the right to corporate, collective, or cooperative action carries with it responsibility for conduct which is in the public interest.

Although it is largely beyond the scope of this study on agricultural policy to attempt a blueprint of what must be done to maintain non-farm employment, certain things are obvious.

Enlightened self-interest for all economic groups makes it essential that they promote continuously large employment and production, even though to achieve it sometimes may require reductions in certain prices and wages.

Governmental action to stimulate continuous production can well include such long-standing activities as providing information, eliminating monopolistic practices, and reducing various barriers to trade. *More attention should, however, be given to carefully-planned positive actions designed to prevent severe depressions. The latter will include policies to maintain purchasing power. If this is done there will be less resistance to such adjustments in wages and prices as are needed to get better use of resources.*

ECONOMIC STABILITY CAN BE FOSTERED

Violent fluctuations in the general price level which contribute so much to economic uncertainty could be lessened materially by appropriate fiscal, credit, and monetary policies. The price level in the United States is now relatively high, with a strong possibility of further inflation extending into the immediate postwar period. During this period it will be essential to maintain certain price and rationing controls in order to

avoid an excessive inflation which would be followed by a disastrous deflation.

Farm prices tend to rise more rapidly than other prices during an inflationary boom, and while farmers may experience temporary gain from rapidly rising prices, they stand to lose heavily when the downswing comes. When purchasing power and market demand decline, industry reduces production with the result that industrial price levels are maintained or decline relatively little. Similarly, labor resists sharp reductions in wage rates by refusing to accept employment for less than established rates of pay. Consequently, wage levels tend to be maintained or decrease relatively little, but unemployment increases. Farmers, because of the nature of their business, are not in a position to restrict output and maintain prices to a like degree. However, in a depression all large economic groups experience reduced income.

[This nation has within its power a number of measures which it can utilize to reduce the violence of economic fluctuations. Reduction in taxes, increases in public expenditures, and expansion of credit should be instituted when necessary to maintain employment and to support the general price level. Conversely, increases in taxes, reduction in public expenditures, and contraction of credit should be undertaken to curb inflationary rises.]

Business confidence is an important element in industrial expansion, and such confidence will be strengthened by a definite program designed to bring about a downward trend in the national debt. However, it is neither necessary nor desirable that the program of debt retirement provide for a fixed annual payment. The aim should be to secure sufficient revenue over a period, including the ups and downs of a complete business cycle, to provide not only for wiping out the deficits incurred in bad years but also to permit gradual reduction of the debt.

Substantial changes in the existing tax structure would tend to encourage investment in new undertakings that provide employment and help create and maintain purchasing power. Personal income taxes should be emphasized in contrast to business income taxes. Excess profits taxes levied during the war should be repealed after the war. Corporate income taxes should be modified so as to exempt payments on amounts distributed to stockholders and provision made for a generous carryover of losses. Tax exempt government securities should be eliminated.

The main sources of federal revenue in the postwar period should be personal income, inheritance, and estate taxes. Gift and death taxes should be combined in a single transfer tax and the base widened by lowering exemptions. Existing loopholes in income and death taxes

should be more effectively plugged. No general sales taxes should be imposed because they cut heavily into the spending power of those who must be relied upon to provide the bulk of the postwar market.

Operations of monetary and credit agencies exert considerable influence on the economy. Regulations and techniques that have been developed, as well as the attitudes and outlooks of banking and credit agency personnel, affect the price level through influencing the supply of money and credit relative to the supply of commodities and services. Policies directly affecting money and credit are much more remote to most people generally than income and sales taxes. Yet, such policies are very important and should be coordinated with tax and public debt policies.

Extension of the unemployment insurance program, both as to coverage and benefits, would aid in maintaining consumers' expenditures and hence would lessen the tendency toward mass unemployment. Consideration should be given to raising the payroll tax rates during good times and to lowering them in bad times. Possibilities of developing some form of income insurance program for self-employed persons should be given careful study. Under such a program, farmers would be assured a minimum cash income in periods of severe economic depression. Assessments on farmers could be adjusted in proportion to the index of farm income, rising during good times and high income and falling or disappearing during bad times and low income.

[Powers with respect to taxes, debt, money, credit, and other economic factors at the present time are distributed among several governmental agencies. To be most effective in fostering general stability, they should be coordinated. This might be facilitated by establishment of a national economic stabilization board.]

A FARM-TO-CITY MOVEMENT IS NORMAL

One reason high industrial employment and free choice of occupation are essential is that farm people produce a surplus of population which need non-farm employment if they are to have opportunity to make the most of their abilities. This may be difficult to appreciate in wartime when farmers are unable to get sufficient help, but nevertheless it is true.

We have had a farm-to-city movement, except for a short interruption during the great depression, ever since colonial days. Whereas this nation once was predominantly rural, now only one-fifth of the population is on farms.

Three factors account for the trend. One is that the rural birth rate

is nearly twice that of urban areas. Another is that increased efficiency in farming tends to make some rural people available for other work. Third, with the development of technology many processes and services formerly performed by farmers on the farms have been transferred to the cities.

It was impossible for Americans to enjoy a high level of living as long as virtually the whole population was needed to produce food. We can raise our standard of living still further as a higher proportion of our people are put to work providing non-agricultural goods and services, leaving only enough in commercial farming to produce abundant food by efficient methods.)

One of the barriers to migration from farming, especially from depressed regions, is lack of training in city occupations for those who have inadequate opportunities in agriculture. This too often means that those who do migrate are restricted to the lower-paid unskilled non-farm jobs.

Improved education in farm communities, designed to fit many rural youth for city occupations, is a national as well as a state and local responsibility. There also needs to be an expansion of employment exchanges and vocational guidance services so that farm people can learn of non-farm opportunities.

Establishment of industrial plants and commercial agencies in rural areas, wherever conditions are such that they can operate economically, has much to commend it. Not only does it enable more people to combine non-agricultural employment with rural residence, but it expedites migration out of commercial agriculture, since the movement proceeds most readily if farm people do not have to go far to find suitable jobs.

Although need for non-farm opportunities has been emphasized, it is vital to maintain in agriculture a sufficient number of efficient people. Consequently, attention should be focused not only on economic rewards of farming, but also on every aspect of rural living. In this way, agriculture will be able to retain its share of ambitious and able young people; for it remains true that many thousands of persons who possess the necessary experience and ability, put forth the effort required, use good judgment, and take advantage of available private and public aids, will find their best opportunities on farms.

3. What Makes Farm Prosperity?*

By WALTER W. WILCOX

Professor of Agricultural Economics, University of Wisconsin.

Many studies have been made of agriculture's problems. These studies all agree that farmers' economic welfare is closely tied to the economic welfare of other groups in this country and to the other peoples of the world who deal with us in foreign trade.

This fact should be kept in mind at all times by those who are mapping our farm policy.

There is an old conundrum: "Which came first—the chicken or the egg?"

We have a "chicken or the egg" problem in agricultural policy, too. Is it changes in farm income that cause changes in non-farm income? Or is it changes in non-farm income that cause shifts in farm prices and income?

Some people have found that farm income and industrial wages have held about the same relationship to national income during the last 20 to 30 years. They point out that national income has averaged around seven times either the farm income or the industrial wage bill. They call it the "1-1-7 relationship."

So they argue that a one million dollar rise in farm income will boost our national income \$7 million. In their opinion, national prosperity depends on farm prosperity!

Others looking at the same problem point out that industrial workers' income and farm income go up and down together. Industrial workers buy the food produced by farmers. So they say that the rise and fall of farm income depends on the rise and fall of industrial workers' incomes—or the rise and fall of wage rates and employment.

A third basic relation was stressed in the 1920's and in the early depression years. Farm prosperity was pictured as dependent on foreign trade.

Our tariff policy cut imports; this ruined the foreign market for our export crops. That in turn caused the drop in farm prices of the 1920's. Farm leaders again are giving growing attention to the importance of these foreign markets as they look forward to the necessary postwar adjustments.

* *Farm Policy Forum*, Iowa State College Press, I, 4, pp. 51-56, October 1948. Reprinted by courtesy of the Iowa State College Press and the author.

INTERDEPENDENT ECONOMY

All too often only one of the above three relationships is stressed as the only one. But the answer is not that easy. There is no simple explanation for the ever changing relationships in our modern complex economic society.

Our modern industrial age is more complex than ever before. And we are continually becoming more industrialized. This means we depend more on each other. We are less self-sufficient—both as communities and as individual families. Families produce less of their own goods than formerly; the same is true of communities.

Each group of workers and its income is essential for our modern economy. If farmers quit producing and buying, city people would starve for lack of food; many factory workers would lose their jobs.

But this is no different from what would happen if transportation workers quit their jobs. City people again would starve. No raw materials would come in for industrial production. Soon industry would be at a standstill. Farmers soon would suffer from the loss of markets.

We can say the same for each group of workers in production and distribution. It is impossible to say which is most important in a modern economic society. Our high standard of living grows from specialized production and a relatively free exchange of goods.

The point is this: An efficient agriculture made up of farm families with a high standard of living and a high buying power per person contributes much toward a high national income and the economic well being of the nation—but the same can be said for each of the other groups.

Farming probably was the first settled occupation. People had to spend their time producing their own food and clothing. Industrial development came only after people became efficient enough in farming to produce enough extra food to feed nonfarming people.

In this sense farming can claim priority over other lines of work. *But to argue that it is more important is something else.* When we say that it is in any sense more a generator of income in modern society than other occupations, we fail to understand the true nature of our modern economic society.

Your automobile runs poorly with one of its cylinders missing. The movements of each of its cylinders are perfectly tied in with the movement of the car. We could take the front cylinder. We could find that its behavior was closely related to the behavior of the car. We could quote lots of figures to prove our point.

Yet few people would be misled into believing that the front cylinder was more important than the other cylinders because the operation of the modern motor car is fairly well understood today.

People do not have nearly so clear a picture of our modern economic society. This hazy understanding leads many people to place agriculture in a special class. They attempt to deal with agriculture as an independent industry or one which has different economic effects on the economy than other industries. This usually leads to wrong conclusions.

Agriculture along with all other industries which make up our modern economy is greatly affected by what happens in the other parts of the economy. It also helps determine what happens in the other parts of the economy. But in measuring the importance of changes in farm income to the economy as a whole, we should not forget to note that farm income accounts for only 10 to 15 per cent of our national income.

NATIONAL INCOME AND FARM INCOME

In 1935-39 cash farm income made up to 11.9 per cent of the total national income. In 1945-46 cash farm income made up 12.2 per cent of the national income. During this period cash farm income increased from \$8.0 billion to \$23.1 billion; but our national income increased from \$67.5 billion to \$180.5 billion.

The growth in farm income was an important cause of the increase in national income. But the rise in income (production times prices) in the nonfarm part of the economy (which made up 88 per cent of the whole) was an even more important cause in the \$15.1 billion increase in cash farm income.

With this as a background, let us study the influence of changes in national income as they affect the demand for farm products. For this purpose it is best to use the Commerce Department's data on disposable personal income.

From 1929 to 1946 disposable personal income varied from a low of \$45 billion in 1933 to a high of \$158 billion in 1946. There is a very close relation between changes in disposable consumer income and retail spending for food and tobacco: A 10 per cent change in disposable consumer income usually results in an equal percentage change in retail spending for food.

A lot of people didn't think this general relationship would hold as consumer incomes reached record levels after the war. They said spending for food would drop off in relation to disposable consumer income. The opposite happened.

Two reasons are put forward as a probable explanation. *First*, we

did not have as much consumer goods available as we wanted to buy. People had surplus buying power backed up from the war. So after rationing and price control was lifted people used their money to bid food prices higher than would have been the case if they could have bought other consumer goods. *Second*, the very high foreign demand put further upward pressure on food prices.

We get more light on these relationships from the data in the table below. As a general rule whenever one of the series went up they all went up; when one went down they all dropped.

SPENDING FOR MEAT AND MILK

Almost all of our livestock products are used in this country. We export very little of these. A study of spending for meat and milk shows that they have the same general relation to the shifts in national disposable income as was shown for all food and tobacco.

AVERAGE YEAR TO YEAR CHANGE IN DISPOSABLE PERSONAL INCOME EXPENDITURES FOR FOOD AND CASH FARM INCOME, 1929-46

	<i>Percentage Disposable Personal Income</i>	<i>Percentage Expenditures for Food*</i>	<i>Percentage Cash Farm Income †</i>
Years of Declining Income 1930-33 and 1938.....	down 8.8	down 10.4	down 15.1
Years of Increasing Income Before Price Control 1934-37 and 1939-41.....	up 12.0	up 10.4	up 13.9
War and Immediate Postwar 1942-46.....	up 11.6	up 16.0	up 17.5

* Does not include alcohol beverages.

† Does not include government payments.

When consumers have high incomes they spend more for meat and milk. Our figures are clear on that. What happens when incomes drop as in 1931-34? Consumers cut their spending for these livestock products.

Total cash farm income or cash income from the sale of livestock products at the farm changes around twice as much as the retail spending for these products. This is because the marketing costs are rather stable.

During the years 1935 to 1939 farmers got around 55 per cent of the consumer's dollar spent for meat and fluid milk, and 40 per cent of the consumer's dollar spent for all foods. Thus a 20 per cent change

in consumer spending for milk and meat results in a 40 per cent change in milk and meat producers' incomes.

We sell some crops outside the country as exports. These include cotton, wheat, tobacco and dried fruits. Income from them is not as closely tied up with changes in consumer incomes as is income from meat and milk. So we see that incomes of the producers of export crops go up and down with changes in world supplies and in export demand, as well as with shifts in domestic consumers' incomes.

A recent study by the Bureau of Agricultural Economics shows that over 95 per cent of the change in cash farm income between 1921 and 1941 can be explained by shifts in disposable personal income and in the dollar value of agricultural exports. During this period agricultural exports hit a high of \$2.1 billion in the early 1920's. They slumped to a low of \$500 million in 1940. The effects of this sharp slump in exports was largely felt by the producers of the few crops mentioned above and pork producers.

FARM OUTPUT STABLE

That leaves little to be explained by changes in supplies. This is surprising to most people. Yet the facts show that while the yields of individual crops vary sharply, total agricultural output has been remarkably stable on a per person basis.

A close study shows very little direct effect of the AAA programs on total farm output during the years 1933-1942. Those were the years when acreage restrictions on particular crops were in force. The two serious droughts in 1934 and 1936 appear to have affected production more than any other events in the period under study.

The conclusion is inescapable—total agricultural output is remarkably stable from year to year in spite of ups and downs in individual crops and regardless of changes in prices received for farm products. Improved farming "know-how" has permitted farm output to gain on the population in recent years. But this upward trend in output until around 1939 was just about matched by the increase in population.

WHAT'S AHEAD?

Industrial workers' earnings have more than doubled. Most of this increase has come since 1939. We have 38 per cent more people than in 1919. And the rate of increase has not slowed down in recent years as was expected before the war. National disposable personal income more than doubled between 1939 and 1946. It increased almost 2½ times as compared with 1919.

In contrast to these sharp boosts in consumer incomes and industrial wages, farm output (after adjusting for the reduction in feed used for horses in recent years) has gone up only 27 per cent above 1939 levels. Farm output per person in 1946-47 was only 10 to 15 per cent above the levels following World War I. But yearly income of industrial workers and disposable income per person has more than doubled. To a large extent this accounts for the record high prices for meat and other livestock prices in 1947 and 1948.

Wage rates have gone up some 15 to 20 per cent since the end of the war. Labor is highly unionized as compared with 25 years ago. Both suggest that the rest of the economy may have to adjust to the current wage level. Relatively full employment at current wage levels creates a demand for farm products twice as great as in any prewar year.

Export crops such as cotton, wheat, tobacco and dried fruits will benefit from this increased domestic demand only to a small extent. Their market depends primarily on world recovery and foreign trade developments. Small acreage crops which can be expanded rapidly such as vegetable and truck crops (also poultry and eggs) may from time to time over-expand despite this increased demand. These are exceptions, however.

So, if the economy can adjust itself to current wage levels and avoid sharp unemployment, agriculture will remain in a much more favorable position in relation to the nonfarm parts of our economy than during the years between the two wars.

4. What the Farmers Want*

By ALLAN B. KLINE

President, The American Farm Bureau Federation

It is commonly said that there are nearly six million farmers in this country, and the United States Census does report that many. According to the census definition, a farm is any tract of land, three acres or more in extent, upon which some farm operations are carried on; or any acreage less than that which produces farm commodities to the value of \$250 or more. The census classes as farmers many individuals who use the farm primarily as a dwelling place while they earn most of their living elsewhere. It includes many people in hilly areas who do more hunting, fishing, and trapping than they do farming. It includes businessmen who live on a patch of land near their offices but who do conduct some farming operations. It includes many actual farmers who produce little more than enough to feed themselves and their families. The three million farmers I am discussing are those which in 1944 each produced farm commodities worth \$1,500 or more.

Due to the wholesale substitution of mechanical power for horsepower, a smaller and smaller percentage of our population is needed in agriculture. If nonfarm jobs are not found for the displaced farm workers, they will constitute a national problem of underemployment on farms. A happy solution to the problem would be small industrial plants in small towns or in the open country, where people could work at industrial jobs and still live on their small farms, as many of them are doing today.

The three million so-called farmers who produce only 10 per cent of all farm commodities, and none of whom produce commodities worth more than \$1,500, need other income to enable them to enjoy a modern standard of living. This entire group, thus, should be classed as part-time farmers. Their problems differ widely from those of the half under consideration here, the three million who are full-time, commercial farmers.

As I have indicated, this group produces nearly 90 per cent of all United States farm commodities. This is the group primarily responsible

* *The Annals of The American Academy of Political and Social Science*, vol. 259 (September, 1948), pp. 122-27. Reprinted by courtesy of The American Academy of Political and Social Science and the author.

for the huge farm production during the war years, which was little less than astonishing. This is the group which is so important to the national economy; the group which buys the great bulk of the farm machinery, the electrical equipment, the water systems, the refrigerators, and the other goods which go with modern living.

These full-time farmers have become quite articulate through organization during the last fifteen years. More than 1,275,000 farm families, representing the preponderance of the group, now make up the membership of the American Farm Bureau Federation. Our organization has expressed its objectives quite clearly, and I believe our members are truly representative of the great group we are concerned with here.

DRIVE FOR PARITY PRICES

First of all, farmers want a fair opportunity to earn enough to enable their families to live comfortably, to enjoy in moderate degree the better things of life, to become educated according to modern standards, and to attain a measure of security for their old age.

During the 1920's and 1930's, farmers made spectacular efforts through their organizations to secure Federal legislation designed to assure parity or near-parity prices for their products. (The parity-price concept is an effort to develop a fair exchange value measure which will fluctuate with the general price level.)

Primarily responsible for the drive for parity prices was the nose dive in farm prices which occurred in 1920-21. Industrial wages and prices of manufactured goods remained high in comparison with farm prices during this period. This led farmers to examine critically the reasons for "sticky" prices and wages. They found plenty of evidence upon which to build a case for agriculture. They found that transportation and utility rates were maintained at stable levels through government regulation; that labor was beginning to achieve stabilized wages through the great power of collective bargaining; that industrial units had grown so large as to be able, to some extent at least, to control prices of manufactured goods as a result of the very size of their operations.

The principal measure which farmers backed during the 1920's, the McNary-Haugen Bill, was twice vetoed by President Coolidge. Followed the Agricultural Marketing Act and the Federal Farm Board. Farmers had misgivings about both, but used them to the best of their ability. The disappointing results are a matter of record.

THE CO-OPERATIVE MOVEMENT

Legislation to encourage the organization of farmer co-operatives has been on the books for a long time (the Capper-Volstead Act was passed in 1922), and the co-operatives that had been set up were generally serving a very useful purpose. Additional encouragement was given to the co-operative movement by the Agricultural Marketing Act, and the result was very considerable expansion of co-operative business enterprise. This fact should be noted well, for it is one tangible result of the efforts of that period to restore agriculture to its rightful position in the national economy. Farmers as well as a great many nonfarmers believe without question that the co-operative method of doing business is good for the country as a whole as well as for agriculture. They believe strongly, furthermore, that co-operative business is part and parcel of the private enterprise system—an anchor to windward against the assaults that are certain to be made in the future against that system.

LEGISLATION FAVORED BY FARMERS

The Roosevelt administration was responsible for several precedent-breaking farm laws. Surviving the Supreme Court decision of 1936, and still on the statute books, are measures which permit farmers to regulate production of basic farm commodities in the name of soil conservation; to store surpluses in the ever-normal granary and to secure nonrecourse loans on the stored commodities; and to market certain perishable commodities such as milk under collective bargaining arrangements with processors under the Marketing Agreement Act of 1938. There is other legislation also, but we are concerned here principally with the legislation I have mentioned.

Regional hearings all over the United States have definitely established that farmers generally favor the principles underlying this legislation. There is great difference of opinion among farmers as to the price levels which should be assured under these laws. Producers of certain commodities want very high loan levels for stored commodities, while others want loan levels primarily as a stop-loss device. In the legislation referred to is a provision for giving each producer of basic commodities a marketing quota which limits the amount of the commodity that he is permitted to place on the market. Such quotas are operative only when more than two-thirds of the farmers participating in the program vote affirmatively for them. Some groups in agriculture want to be able to vote for marketing quotas whenever supply is

in fair balance with demand and when the ever-normal granary is full enough to secure the consumer public against shortages. Other groups would like to vote on marketing quotas only when supplies are considerably in excess of demand.

While we do have this difference of opinion, it is clear that farmers want some sort of price assurance based upon the parity principle. It may be said also that the bulk of farmers do not want fixed prices or rigid price structures. They want to leave a substantial area for the operation of free markets. For example, they do not want to maintain corn prices at a rigidly high level which would unduly disturb the ratios between feed grains and livestock prices. Too rigid formulas in these things might freeze production in an uneconomic pattern and prevent the shifting of farm production to meet changes in consumer demand. For instance, with vastly increased incomes, consumers have indicated that they like to eat more meat, more dairy products, more fruits and vegetables than they consumed in prewar days. Shifts in production to meet such changes should be relatively easy to make, and any legislation which would hinder such shifts would certainly not be desirable.

INTEREST IN FOREIGN TRADE

Farmers want as large a market as possible, and therefore they are in favor of improving foreign relations, which will lead to increased trade. It is true that there are forty million more people to feed and clothe in the United States than there were after World War I, which leads some to believe that the foreign market is not nearly so important as it once was. However, it should be remembered that the shift to mechanical power on farms has eliminated some seventeen or eighteen million horses and mules from our farms; and each of these animals required just about the same acreage for subsistence as a human being requires.

The trend, of course, is toward still further mechanization. Furthermore, the productive capacity of the United States is so great that our farmers could supply a very much larger volume of commodities for export purposes than they customarily have supplied. For example, we have grown as much as forty million acres of cotton in the past. Now we grow only about half that amount. Tobacco production could also be enormously increased.

So we see that farmers are acutely aware of the importance of foreign trade. It must be admitted that producers of certain commodities in agriculture exhibit the desire to have their cake and eat

it too when it comes to foreign trade. They want to let in imports which will compete with someone else rather than with them. These inconsistencies are probably fundamental in human nature and we should not be surprised at them. The hope is that as time goes on, improved understanding of the whole question of imports and exports will lead to the backing of rational and constructive policies.

In spite of the inconsistencies that I have noted, farmers have backed the reciprocal-trade idea rather consistently and they have demonstrated in other ways their appreciation of the importance of better trade relations. They have always insisted that they be fairly treated in formulating trade policies. They appreciate the fact that adverse effects on rather large groups may result from sudden shifts in policy. They have favored gradual shifts in established policies, so that industries affected may have opportunity to adjust their operations to new conditions. They are truly interested in any program designed to advance foreign trade, but before approving any such program they want to be sure that it is sound. It goes without saying that they want world conditions stabilized politically and economically so that our own country may achieve its destiny in a free and peaceful world.

EXPANSION OF RESEARCH

The commercial farmer in America is now the most efficient producer of food and fiber in the world. He has attained that distinction not only because nature endowed this country with a marvelously rich soil, but also because he has had the advantage of better technological research than have those of other nations. He has attained it because our agricultural colleges have trained more farmers in agriculture and more technicians as advisers and teachers than any other country in the world. Farmers want a continuation and expansion of the research extension and teaching activities centered in the land-grant colleges in co-operation with the United States Department of Agriculture.

Since farming in this country is largely a business of relatively small units, most of them family-size farms, it is impossible for farmers themselves to do the research work that is necessary. The great bulk of farm research must be done by public agencies. Farmers want and are entitled to expanded service in this field.

TO LIVE WITH DIGNITY

Farmers, like all others, want the advantage of easy and convenient transportation and communication, and they want to be able to enjoy

the comforts that come with modern homes. They want good roads and good schools, and the tremendous popularity of the rural electrification program demonstrates how very strongly they desire the conveniences that electricity brings to the home and the barnyard.

Nation-wide activity among farmers in the public health field in very recent years proves conclusively how much farm people want improved medical and hospital service. There has been a sensational growth in the number of hospital associations providing prepaid hospital service. The number of medical service associations has increased remarkably. Farm people have participated almost everywhere in efforts to bring about improvements in this field, and in some states, notably Mississippi, they provided the key leadership which has brought about history-making state legislation.

The farmer likes to produce. He wants to be individually as productive as possible. He would like to get what his production is worth. He would like to improve his lot and the lot of his family. With his neighbors, he would like to afford a fine community. He wants to be able to live with the dignity that is the right of every individual. He believes in equality of opportunity, and he believes that the concept of parity is something that cannot be successfully attacked.

The farmer would like to see more peaceful relations between industry and labor. He is a capitalist in the true sense of the word, but it must be remembered that a large part of his income is earned by his own sweat. He fully realizes that the laborer is worthy of his hire, but he also believes that there are fundamental property rights which should be accorded the greatest respect. Because he believes in production, he hates work stoppages in any field. He cannot quite understand why, if both sides to a dispute believe in collective bargaining, production cannot go on as usual during a dispute, with assurances of a government agency that terms of settlement will be made retroactive to the date at which the dispute arose.

Faced as he is daily with the somber realities of life and of nature's processes, the farmer believes that wealth can be created only through abundant production. In the farmer's nature is a desire to produce abundantly. At present he faces the hard fact that much of his land has been drained of its richest elements. He believes that restoration and preservation of our soil are as much the concern of the public as they are his own. He believes that conservation projects which involve expenditures clearly beyond the power of individual farmers to meet should be charged to the public. He believes that the Nation is fully

justified in making rather large appropriations for this purpose, because the food for future generations depends on the quality of protection afforded our greatest natural resource.

TOWARD A CONSTANT PURCHASING POWER

A word should be said about what farmers do not want. In contacts with thousands of farmers each year, I am amazed at the number to whom 1933 is still a bitter memory. They are convinced that there is no good reason why we should permit conditions to develop which will bring on another period such as that which culminated in 1933. Farmers believe that wealth can come only from production. When they produce a bushel of wheat or a bale of cotton, they cannot understand why either unit should not buy as much in goods and services one year as another. They believe that the Nation itself would be better off if something approximating such a condition could be attained.

The farmer's interest in stabilized prices is due largely to the fact that changes in the general price level affect him to a greater extent than almost any other group. When the general price level declines, prices of farm products, along with prices of raw materials generally, decline more rapidly than most. Prices of goods used in farm production decline more slowly, resulting in disparity for farmers.

The farmers are the only major group which has addressed itself seriously to the problem of creating a dollar of fairly constant purchasing power. The farmers believe that something could be done with money and credit to iron out the more violent swings in the purchasing power of the current dollar. They do not quite understand a credit system that makes borrowing easy when you need not borrow, but hard or impossible when you need credit to save your business. The great popularity of the Federal Land Bank loans has been due largely to the fact that they provide for long-time loans on land. Farming is usually a slow turnover, and a credit system patterned after our commercial credit system did not begin to meet agriculture's needs.

This is not the place to discuss possible changes that might be made in our banking and fiscal structure to bring about a more stable monetary unit. Suffice it to say that farmers believe the currency can be stabilized while still maintaining free enterprise. In fact, it seems that these violent fluctuations in the general price level are a major threat to free enterprise.

Farmers believe that monetary and fiscal controls should be centered largely in one monetary authority, with power to use devices such as

changes in rediscount rates, reserve requirements, and open-market operations to bring about stabilization. In taxation and government spending, they are strong believers in the counter-cyclical theory.

DANGERS IN FEDERAL CONTROL

Because farmers have supported so many projects and programs involving government planning and control, it might be inferred that they are pretty strongly in favor of a managed economy. Any such assumption is subject to several qualifications. In their experience with farm programs, they quickly discovered the dangers of dictation from Washington. They found that almost inevitably, new Federal agencies soon gravitate into the familiar Federal pattern. They found too that it was a rather natural development for such agencies to speak for farmers at the national level.

Such things were enough to convince farmers very quickly of the dangers inherent in programs planned and run in Washington. The result is that in recent years when farmers and farm groups testify before congressional committees, they nearly always insist on a maximum of local control.

Farmers have always had implicit faith in the land-grant colleges, the state experiment stations, and the state extension service. One of the biggest reasons for this confidence is the fact that Federal appropriations for these institutions are made on a grant-in-aid basis to the states, leaving planning and policy-making largely to state people.

It probably is fair to say that farm people believe that, because of the complex nature of an industrial economy, Government will participate more rather than less in civilian affairs in the future; therefore it is up to the people, through the democratic processes, to make sure that the superstate does not develop. We have had experience enough to prove that it is possible for the Federal Government to take a leading part in local or regional affairs without taking away any of the rights and prerogatives of the people involved.

THE CONTRIBUTION OF THE FARMER

It has been traditional to refer to the farmer as a unique individual, the backbone of our economy, the balance wheel of society; farmers represent the last great group which practices individual enterprise in an economy to a great extent dominated by corporate enterprise. The United States farmer is unique in many ways. For one thing, our country is one of the few countries of the world in which it is possible for the farmer to rise above the status of peasantry. For another, he has

improved his efficiency of production at just about the same pace as has the industrialist. Beyond all this, however, there is something about country living and wrestling with the forces of Nature that leaves its mark on the character and make-up of farm people. The farmer is close to the eternal verities of life. Maybe country living is conducive to the development of a wholesome philosophy of life and a sound sense of values, because the farmer works with Nature, and his success can only be achieved by co-operation with her laws.

It is just possible that the farmer symbolizes something infinitely precious in our national heritage. Maybe he has a contribution to make to our national life which is important enough to warrant that he be given a respectful hearing.

5. Postwar Agricultural Policy—Pressure vs. General Welfare*

By O. B. JESNESS

Chief, Division of Agricultural Economics, University of Minnesota

Agreement among agricultural economists regarding the postwar agricultural prospects appears to be substantial. Farmers expanded output to meet war needs and often drove themselves and their equipment hard in order to do so. They might, therefore, be expected to welcome an opportunity to operate under lessened pressure and in the process reduce output materially. However, there are several offsetting factors. A more plentiful supply of labor of better quality will be available. New and improved equipment is eagerly awaited by many farmers. War gave impetus to the adoption of improved practices and methods, and there is no apparent reason for believing that an end has been reached in technological improvements. For these reasons, agricultural production is expected to continue at a high level. This prospect leads to concern over whether market demand will be adequate to absorb such a volume of output at prices which farmers will view as reasonably satisfactory.

Military requirements began to taper off with V-E Day since the need for building up stockpiles for the uncertainties of a war in Europe no longer existed. V-J Day and demobilization have reduced and are reducing those demands further. As members of the armed forces acquire the title of "veterans" they again become part of the civilian market, but it is doubtful whether they swell that market as much as they shrink the purchases for the armed forces.

Lend-lease shipments are out of the picture. Relief shipments of food through UNRRA or otherwise may not remain important for more than a year or two. Major concern, therefore, is over the prospects of restoring and developing international trade to the point where active demand for farm products for export will continue. Even if the efforts to continue and expand trade are crowned with success, changes in its makeup from war days are certain. Agricultural exports again will consist mainly of such products as cotton, tobacco, fruits, lard, and wheat,

* *Journal of Farm Economics*, XXVIII, 1 (February 1946), pp. 1-14. Reprinted by courtesy of the *Journal of Farm Economics* and the author. A paper presented at the annual meeting of the American Farm Economic Association, Chicago, December 27, 1945.

rather than cheese, meat, and butter included in the lend-lease and relief supplies. The prospects for foreign trade are linked very directly with domestic programs and with the degree to which international cooperation is developed and to which this country assumes its responsibilities for making that cooperation succeed.

Even with the high level of employment in prospect after reconversion, there is room for doubt with respect to the ability of the market to absorb the prospective output of all farm products. It is difficult to find any basis for anticipating a demand condition as strong as that existing during the war. At the best, the number of workers receiving regular pay checks will be less than during the war. Overtime will be largely eliminated. Raising wage rates to compensate for loss of overtime will not be reflected in higher real wages generally except to the extent they are earned by increased productivity. Additional sharing of profits through higher wages may benefit farmers to the extent increased wage payments result in more effective demand in farm markets than if those funds are distributed as dividends or retained in the business. However, agriculture will not gain if such sharing goes to the point where needed growth and expansion are prevented or discouraged. Increases in wage rates which are translated into higher prices for the products and services involved will tend to have an unfavorable effect on agriculture because they will increase farmers' operating and living expenses and will lessen the purchasing power of consumers who do not share in the higher rates. If wage rates are driven up to a point where they reduce employment, the loss in income and buying power will lessen demand for farm products. If the aim is to maintain purchasing power, one very effective way is to reduce prices as rapidly as gains in efficiency and profits make possible. This results in wider distribution of gains than is obtained by translating all of them into higher wages for selected groups of workers.

Another point worth noting in appraising the market outlook is that farm products will be faced with stronger competition for the consumer's dollar as civilian goods reenter the market. The prospects, consequently, are that demand for farm products will be somewhat below war peaks. Of course, these demands were not met in full during the war for consumption of many agricultural products would have been larger at prevailing prices had not shortages required rationing. As one weighs considerations such as these it is apparent that the threat of agricultural surpluses in some lines is real.

What are the desirable ends of agricultural policy in the view of these prospects, and what obstacles will prevent the attainment of those

ends? Man has certain resources placed at his disposal for use in the satisfaction of his wants. How fully and well the wants are satisfied depends upon how the resources are utilized. With continued surpluses in prospect in some agricultural lines, the call is for a shift in the use of some resources now employed in agriculture. This may in part involve less intensity, or lower pressure, in farm operations. If that is to occur, however, there must be a shift of some resources out of agriculture into other lines where they may be of greater service in satisfying wants. In the case of labor and capital, the choice is between their use in agriculture or a shift of some of these resources into other fields where their employment may yield more satisfaction of want. In the case of agricultural land, the choice is one of intensity of use in farming and, to a limited extent, a choice between continued use in agriculture, shift to forestry or other uses, or abandonment.

Human resources are the most important. Improvement in the agricultural situation by adjustment in the amount of labor employed and the numbers sharing in the farm income depends upon the availability of opportunities for farm people to enter productive employment in nonagricultural lines.¹ When such opportunities exist, some of those engaged in agriculture may improve upon their income status by moving into other fields and the reduction in the number of claimants to a share in the farm income will provide better returns for those remaining. This points to the vital concern which farm people have in the employment and investment opportunities in non-agricultural lines. It also suggests their keen interest in policies which reduce the barriers to employment of resources in other lines to the minimum.

The attainment of such adjustment does not need to and should not rely on the operations of relentless economic force alone. The effects of economic forces can be influenced and tempered by enlightened policies. However, policies which are not enlightened or which merely cling to the past instead of recognizing the need for adaptation to change may lead to longer-run consequences much more disastrous in the end than those involved in allowing economic forces to bring about needed

¹ It should be remembered that the farm population is far from homogeneous and that the census total includes a large number who are not producing farm products for market. Nonagricultural employment may help improve the income status of many of the latter. However, employment shifts to bring about adjustments in market supplies and in farm income must reach farm people who are actively engaged in production for market and who share in the income from sale of farm commodities. The mobility needed for such shifts naturally is greater for farmers' sons who are reaching maturity than for operators who are already established on farms. The latter often tend to have immobility resembling that of "sunk" capital.

adjustments now. The solution lies in finding the best way to make the needed adjustments, not in avoiding them. No intelligent person is suggesting that public policy be that of sacrificing the farmer for the gain of others. But, on the other hand, there is no reason for believing that farmers generally want to be protected to the point where they are made the wards of a benevolent government for all time to come. They, no doubt, realize that if they become the wards, the government will be the master.

Government should endeavor within its proper sphere to serve public interest by getting the best and fullest use of productive resources, not merely in agriculture but in all lines. It should seek policies which will encourage and promote productive activity and the welfare of the citizens. Improvements in diets may be effected through food distribution programs and educational efforts. The health and productivity of the population as well as markets for farm products may be aided by such measures. While the possibilities of developing outlets for farm products as raw materials for industry often are exaggerated by vivid imaginations, vigorous research should be carried on by public as well as private agencies to explore these possibilities to the limit. The basic purpose of such research should be that of better use of resources and fuller satisfaction of wants and not that of providing artificial markets. Careful distinction, consequently, needs to be made between uses which are physically possible and those which represent good economy.

The government can supply much guidance and leadership in the formulation of price and wage policy of labor and management. Conflicts between labor and management on wages and conditions of work will continue to arise from time to time. It ought not be the function of government to take sides in such controversy. It should constantly hold the common good uppermost and seek to guide settlement to that end. That guidance may play an important part in arriving at a price and wage structure which will help rather than hinder economic activity. Such an accomplishment can be of tremendous benefit to farmers.

It is doubtful whether any large number of Americans really would welcome leaving all decisions over economic affairs to government. Business constantly emphasizes its belief in "private enterprise." While organized labor wants the government on its side, there is nothing to indicate that it desires any economic monarchy. Experiences of other nations, whether under fascist or communistic domination, show labor what can happen to bargaining privileges under a totalitarian regime. Farmers on more than one occasion have voiced their antipathy towards regimentation. This suggests considerable support for the idea that

public policy ought to aim at the retention of the greatest possible amount of freedom of decision and action in private hands. Needless to say that freedom must be exercised with intelligence and with due regard to public interest. Failure to do so will invite curbs to protect the public against abuses, that is, it will lead to a limitation of freedom. This is a point which management and labor may not be appreciating as much as they should.

What sort of public programs will fit into such a framework and do the best job of attaining the desired ends? Programs designed to improve the agricultural situation center around farm income and usually aim at income improvement by affecting price. There is strong argument, however, for leaving the job of arriving at prices to the market. By and large, the market has not performed too badly in arriving at prices which have been serviceable as guides to production and at the same time have done a fairly effective job of moving supplies into consumption and export. The market has done a reasonably satisfactory job at pricing except in times of runaway inflation or extreme depression. Direct action by government with respect to prices at such times may have been inescapable but, even then, it has been a case of treating effects rather than causes.

One argument brought forward in support of price intervention by the government is that factors beyond the farmers' control affect the output of agricultural products and upset the market. The unfavorable consequences of such variations may be exaggerated if attention is given only to the downswings in price which may result. While no one will deny that these uncertainties create difficult problems for farmers, it is not clear how replacement of the market by government authority in arriving at prices will provide a solution. This is especially true in view of the fact that government is asked to eliminate the downswings and not to level out the peaks. If programs to overcome variations in supply due to weather conditions are to be undertaken, they need to be guided by supply considerations rather than be made the instruments for attaining certain arbitrary price levels. The latter will tend to build up abnormal stocks which will lead to production control.

Price manipulation by government involves more than merely deciding on the levels which it is hoped will produce the desired income results. The problem of price relationships in the case of agricultural commodities is most complex as the experiences of O.P.A. and other agencies demonstrate. Agricultural output probably is guided even more, at least in the short run, by price relationships than by the general level of farm prices. If the relationship among prices is thrown out of balance,

the best use of resources will not be secured. Government price programs tend to lack the flexibility needed to maintain the best balance.

Moreover, naming a price is one thing; making it "stick" is something else. There is little demand among farmers for price interference by government unless the objective is to raise the level. "Stabilization" as used in reference to farm prices connotes raising prices rather than smoothing them out at existing levels. But if the resulting price is above the market, more will be available for sale than the market can absorb and production expansion will be invited. The government, consequently, must establish control of supply, or at least of the surplus and its disposal and eventually of the volume produced or sold if such price fixing is to succeed over a period of time.

Furthermore, if artificial price levels are established, they will turn out to be rather effective in curbing exports. The glib assumption that this aspect of the price dilemma can be solved by some variant of the two-price system for export dumping is not based on any realistic facing of facts. A program of arbitrary price fixing now would be particularly unfortunate because it would lead inevitably in the direction of isolation and economic nationalism at the very time when the only real prospect we have for avoiding another war is found in international cooperation.

Considerations such as these suggest that income payments will be less disturbing to normal relationships than price support or manipulation in instances where public welfare will be served by providing additional income to farmers by governmental action. The most potent argument leveled against income payments is that they are a form of subsidy. Supporters of price maintenance through the use of government funds do not seem to realize that it likewise constitutes subsidy. The difference on these grounds is more apparent than real.

Another objection raised against income payments is that their continuance depends upon the willingness of Congress to appropriate the necessary funds. However, this limitation may in fact be an advantage in that it may give some promise that a program of income payments will be reserved for conditions of extreme depression or for other unusually abnormal situations instead of becoming a permanent source of farm income. While income payments do not interfere so directly with market functioning as does price control, they have some of the objectionable features of the latter if made permanent. They will tend to be capitalized in land values; they may interfere with production shifts, particularly if they are based on past production; and will tend to slow up movement of farm people into other fields.

While direct assistance in maintaining farm income should be re-

served for emergency use, there are various other programs of benefit to agriculture which should be a part of permanent policy. One of these is improved nutrition through school lunches and food distribution to low-income persons. This should be a nutrition and not a surplus disposal program; that is, it should be directed by considerations of nutritional requirements and standards and any effect on surpluses should be viewed as a by-product. A nutrition program should justify itself by its service to general welfare through its contributions to better health and productivity.

Public policy relating to support of such services as education, health, roads and the like provides a way of improving rural levels of living other than by price or direct income manipulation. Activities along these lines when properly planned and executed can be abundantly justified in terms of public responsibilities and benefits. The public is only partially aware of its concern for and interest in making basic educational opportunities available generally. Rural areas produce population as well as materials for the cities. One section draws population from another. The productivity and level of intelligence of the citizenry are of general concern. The cost of providing education for the population hence should be general rather than wholly individual or local. Health and highway facilities may be viewed in similar light. The omission of any mention of soil conservation in this listing is not because this is a matter of no importance but because it is of too great an importance to be used as a pretext for distributing income payments to farmers. Investment of public funds in soil conservation should be of such a nature that it will bring returns in benefits to the public.

Public policy which provides effective encouragement to active production and employment in nonagricultural lines will be of benefit to farmers. This is not a problem to be attacked by any such universal solvent as guarantees of jobs at given rates of pay. It is rather one of giving appropriate recognition to effects on employment and activity of a wide range of governmental programs. Some will at once think of what taxation, fiscal and monetary policies can do. Here again we need to view them as contributors rather than as universal solvents. It is unrealistic to assume that governmental programs will not continue to play an important role in economic activity. Government has a great responsibility for protecting general welfare in strifes between segments of the economy. Without dictating either wage or price policy of labor or management, it can supply helpful leadership. Government has a direct responsibility for curbing monopolistic practices or other activities contrary to public interest regardless of who the offender may

be. Government leadership may play an important part in breaking log jams which, if left unattended, might develop into major depressions.

Governments have been frequently charged, and not always without foundation, with taking sides in supporting one group against another. Government is administered by human beings and, consequently, is subject to the frailties to which the human flesh is heir. Legislative, administrative and judicial action and interpretation never will attain perfection, but the hope of democracy is that we never will give up striving for its attainment. Government might well adopt as a basic guide for all of its actions that it will constantly aim to serve general welfare clear across the board rather than to act more or less independently in behalf of this or that group or segment of the economy without weighing the effects on the whole.

Here is where the pressure referred to in the title enters. No one will interpret the wording of the title to imply that pressure groups commonly align themselves intentionally against general welfare. To the contrary the leaders of these groups probably would argue in all sincerity that acceding to their demands will be the most effective way of serving the ends of general welfare. They are not, however, so ready to admit that the demands and actions of rival groups fall into the same category. Pressure groups are established to present the interests of their partisans. We ought not deplore their existence for they are part of the democratic system. The danger lies not in pressures as such but in taking them too seriously and in the failure to use and support statesmanship which will develop from them adequate checks and balances for the protection of general welfare. The remedy is enlightenment rather than elimination.

Reference to some illustrations of how agricultural pressures may work against rather than for the common good should not be interpreted to mean that farm groups are the only sinners. Labor, business, and other groups supply illustrations which are equally good (or bad) but it so happens that our present concern is with agricultural policy.

There are, for instance, the agricultural "fundamentalists" who get all out of patience with anyone unwilling to subscribe to their creed that agriculture is *the* basic industry. They bolster their argument with the fact that the rest of the population would soon starve to death if agriculture suddenly should cease functioning. They do not seem to be equally impressed with the fact that present society, including the agricultural sector, could not last very long without transport, processing, financing, or a host of other functions essential to modern life. The emphasis of these "fundamentalists" on the basic importance of farming would be of no

concern if it did not lead them to insist that the *sine qua non* for national prosperity is that of holding up farm prices. One popular notion among the adherents of this belief is that there is some magic in the one to seven ratio. Hold the farm income at 20 billion and presto, the national income is 140 billion or more. What a comforting philosophy this would be if it only were true. Incidentally, this has a companion in the currently popular claim of labor leaders that the way to assure prosperity is to raise wage rates in order to maintain purchasing power.

The worship of parity price has become a fetish in many agricultural circles. Its title has such a comforting ring of right and justice. Why spoil the illusion by examining the vulnerable spots in its armor? The trouble with this view is that the weaknesses do not disappear because we shut our eyes to them, for, as Disraeli once said, "Ignorance never settles a question." To the objection that parity represents an out-moded relationship among prices, the supporters may have the comforting suggestion that the basic idea is sound but the formula may need to be brought up-to-date. However, the only renovation which will meet with acceptance is one which will adjust up, not down. A formula to measure parity which depends on relationships of the past is basically unsound. It rests on the assumption that there is a fixed relationship among prices to be preserved indefinitely. It assumes no change in efficiency or that changes are equal in all lines. It assumes no changes in demand. It overlooks the longer-run effects on both agricultural and general welfare. Its supporters do not seem to recognize that adherence to the parity dogma leads in the direction of accepting arbitrary price maintenance and the controls which that involves.

But we are told that as long as we are living in a "protected" economy, the farmer cannot be left to shift for himself and that programs to bolster farm prices must go on for that reason if for no other. Granting that the government may have gone quite a way in endeavoring to shield citizens from some of the cold facts of life need not keep us from wondering whether the above opinion does not sometimes rest on an exaggerated view of the gains to others from such activities. Moreover, it cannot be denied that the farmer has shared in the solicitous attitude of the government. Those who speak of the "protected" economy do not as a rule appear concerned about asking who does the protecting and against what or whom the protection is needed. What is the government if not the representative of all of its constituents? It has a responsibility for fair play, to see that the possessors of power do not abuse it by taking advantage of others. It has special concern for the unfortunates who are unable to take care of themselves. But how far can

it go in providing special protection for all? The contention referred to above is itself an illustration of how protection for one group leads to demands for similar or offsetting protection for others. Protection of one may easily be at the expense of another. A more rational approach would be to question and reexamine protection and to eliminate rather than compound that which cannot be justified by its service to the common good.

What sort of a postwar agricultural policy is it reasonable to expect in view of conflicts such as these? Surely one would need to be an incurable optimist to believe that all at once everyone will shed the cloak of narrow selfishness and don the cape of enlightened, intelligent selfishness which recognizes that the only real gain comes from serving the ends of general welfare. However, is not that the star to which we should hitch our wagon in formulating public policy?

One real danger is that we will go on extemporizing and yielding to expediency rather than to take sights and soundings to chart our future course. If we keep on extemporizing and deal with one "emergency" after another that will become our policy because short-run actions are the bricks of which long-run policy is built. We adopt price supports during war because they help assure the all-out effort needed for victory. We extend them for two years beyond a termination date yet unfixd to increase their effectiveness. Demands then arise to extend them for an additional period, and before we are fully aware of what has transpired we may find that we are so deeply enmeshed in price controls and have created so many dependencies and vested interests in their continuance that there may be no satisfactory point from which to reverse our direction. But if we go on and on, what will the harvest be in terms of regimentation and controls? If we do this for agriculture, will we not be forced to undertake special programs for other groups? How far can we go and still retain freedom of choice? Can we and will we preserve the essentials of democracy in such a process? These are questions which should cause every intelligent citizen real concern. They need to be faced before we take these steps, not afterwards. Then, it may be too late to do anything about it.

The activities and progress of pressure groups and other combinations are interpreted by some to signify an inescapable trend towards state socialism. Such a view rests on too solid ground to be dismissed as fantastic. Those who view state control as the answer may welcome such a trend. Others who are more dubious about the blessings or efficiency of state operation may find it less cheering. If the aim of each group is to enjoy increasing monopolistic privileges, either by govern-

mental sanction or with governmental aid, at someone else's expense, and such aim is realized, then government will be forced to assume increasing responsibility. For one thing, it will find itself pressed to do so from groups which clamor for governmental assistance in the attainment of their ends. It may be forced to assume increasing control to keep up productive activity or to protect public interest against group avarice.

While this is not an appropriate occasion to enter upon a discussion of the form or functions of government, it may be in order to pursue our analysis one step more. Persons who look with favor upon an expansion in the field of activity assigned to public operation may stress this as a desirable trend because they hold that government will have the common good as its constant goal. They may place faith in the hope that the expressions of the will of the citizen at the ballot box will be an adequate safeguard against any wide departure from that end. Others may be more skeptical on this score and question whether this does not overestimate the rationality of the voter on election day. He may be under stronger temptation than ever to vote for what he may think is special privilege for himself. Do pressure groups whose programs foster government intervention in economic activities have any intent of relinquishing their controls in this manner under state operation? Will they not continue to seek to lead their partisans to support the narrow ends they are after rather than the broader ends of general welfare? May they not be aided and abetted by governmental agencies which desire to maintain and expand their fields of activity? Of course, the assumption of control by government might prove so complete that pressure groups would be outlawed. But, in that event, all pressures including even those sincerely devoted to the welfare of citizens generally, might be wiped out. Such a situation would be a far cry from democratic rule.

Paradoxically, some leaders of groups seeking special treatment are among the most vigorous spokesmen for the preservation of "private enterprise" and objectors to governmental encroachment. They evidently see no inconsistency in such a dual role. Of course, there may be some leaders who are carrying on their programs with the specific aim of expanding the sphere of political government. They, at least, have the advantage of consistency in their activities and aims. It is no function of this discussion to attempt to lay down any dicta of how extensive governmental participation in economic activities should be. If the citizens want to expand the role of their government, it is within their power and privilege to elect to do so. The danger is that we unwittingly may drift into a situation of government control when many individuals may be

imagining that they have charted an opposite course. If we are to avoid this we need to develop public policy on the basis of careful and intelligent thinking about consequences as well as about methods.

It may be that we have moved so far on the road towards state control that some of the best places to veer our course have been bypassed. However, there is still time and room for change, at least of pace if not of direction. Agriculture may be in a strategic place to take the lead in seeking a change. Farm interests might well give more attention to getting other sectors of the economy and government to serve the interests of all rather than to center all their efforts on special gains for themselves. They at least might take time out to appraise prospects with respect to the outcome of present endeavors to obtain special benefits.

The world is in a state of turmoil and unrest, and that supplies added reason why we need to give some careful thought to the formulation of policy. No one questions the position of leadership of the United States among the nations of the world today. That leadership should not be viewed as occasion for boasting. Instead, it ought to be a sobering influence on all of us by filling us with a deep sense of obligation and responsibility to use that leadership as effectively as possible in the development of international cooperation to maintain peace and improve the lot of mankind. It is good sense, not cowardice, which makes us cringe at the thought of World War III. We know that it will be impossible for us to stay out. We know that we have more to lose than any other nation. We know that not only our nation but our way of life and our very civilization will be in grave danger.

Realization of facts such as these lead us to give ardent lip service to international cooperation to maintain peace. We have made a distinct advance over last time in that now we believe in international cooperation, at least as ideology. What we do not yet see clearly is that our international responsibilities do not leave us free to develop internal or domestic policies without regard to their world consequences. We are blissfully seeking special group gains without weighing their effects on our relations to the rest of the world. Are we going to foster a wage, cost and price structure here at home which will lead us away from rather than into international cooperation? Are we going to wake up to the fact that we cannot uphold the ideal of international cooperation by developing domestic policies which lead away from working with the rest of the world?

The question of what sort of an agricultural policy we adopt is inescapably linked with the future of the world. We are acting blindly.

We are behaving without reasonable intelligence. Does not that pose a real challenge? Do we not need to develop statesmanship in both government and group leadership which will formulate policies that will serve our larger and longer-run interests?

It is not the purpose here to attempt any forecast of what the future has in store. In emphasizing the problems and difficulties ahead, however, we will err if we do not realize that the clouds we see ahead have some silver linings. Our form of government and our way of life have shown remarkable resiliency in the past in adjusting to change. The large mass of the citizens of this country and of the entire world are fairminded and reasonable human beings. Clearly, this is no time to sink into despair. It is the time to go to work in attacking problems with intelligence, foresight and courage. Social scientists have a special responsibility of helping through research and teaching in the development of the intelligence and understanding which are essential to the formulation and adoption of sound policy.

Part II
PRICE AND PRODUCTION
ADJUSTMENT

6. The Development of Agricultural Policy Since the End of the World War*

By CHESTER C. DAVIS

President, St. Louis Federal Reserve Bank (member of the Board of Governors of the Federal Reserve System when the article was prepared)

(There can be little doubt but that the past 20 years will be looked back upon as one of the most eventful and interesting periods in the whole of American agricultural history. It is too early as yet to appraise the events of this period, and the forces that shaped them, from an entirely detached historical viewpoint. The attempt, however, is worth making; and few people are as well equipped to make it, from the standpoint of long and intimate acquaintance with agricultural problems, as the author of this article. Here he tells the story of the increasing economic pressure upon farmers in the 1920's; the gradual spread of a powerful farm movement from the grass roots; the ideas back of the farm legislation in the latter part of the decade; the modifications in these ideas and their extension in the agricultural programs of the 1930's. It cannot be said, he concludes, that these laws have solved the farm problem. Presumably they will themselves be subject to change and displacement. But if experience in this field teaches anything, it is that a continuous thread runs through the evolution of agricultural policy notwithstanding its inconsistencies and contradictions. The programs of the present become the foundations for the programs of the future.)

During 1919 and the first half of 1920 the general expectation prevailed that an enormous demand for American goods and products of the farm would follow the removal of restrictions on consumption that war had imposed on the people of the world. Farmers and nonfarmers were slow to realize that an effective market is not created by the desires or needs of men or of nations but by their ability to pay with goods, services, gold or credit.

Farmers of the United States had produced in abundance under the joint stimulus of patriotism and price; they continued the stride after the artificial market created by the war and the post-war spree of extravagant buying had faded away. The annual report of the Secretary of Agriculture for 1919 (11)¹ optimistically recited that "America during the war helped to save Europe and to preserve civilization by making available to the Allies, through increased production and conservation, large supplies of foodstuffs." The same report viewed the land problem

* (Editor's note: This title, of course, relates to World War I.) *U. S. Department of Agriculture Yearbook 1940*, pp. 297-326.

¹ Italic numbers in parentheses refer to Literature Cited at end of article, p. 89.

from the standpoint of our capacity to expand still further the acreage tilled, pointing out that the cultivation of land still unused could increase the output of commodities by over 60 per cent of the total.

Nevertheless a faint note of warning was discernible in the report. The Secretary raised a question (11, p. 26) as to "the bearing of the increasing prices of land and the resulting speculation on the progress of agriculture and the welfare of the farmer," and concluded (11, pp. 28-29):

American agriculture should consolidate the gains already made; prepare for the period of competition which is to be expected with the return of normal world conditions, principally by increasing, through sound and economical methods, the productivity of areas already under cultivation; and utilize the services of the most experienced and judicious agricultural leaders in determining where, when, and how to bring into cultivation and develop public and private unused land.

In spite of the prevailing optimism, Secretary Houston recommended to the President that he call an agricultural conference at the earliest possible date because of changed conditions at home and abroad, existing uncertainties, and disturbed states of mind. When the conference was finally called, in January 1921, it was by another Secretary of Agriculture at the direction of another President, and it raised the curtain upon two decades of swift and radical change in agricultural policy, which is still unfolding as another general war overwhelms Europe.

AGRICULTURAL PRICES BROKE FIRST

Agricultural prices were the first to break in 1920. The July 1920 index of prices paid to producers was 10 points under the June index; the August index, 15 points below the July; and the September index, 15 points below the August. In contrast there was no noticeable drop in nonagricultural prices until near the end of the year. The blow struck the farmers at about the time the grain crop of the United States was coming on the market. Within a few months every industry and producers of every class were swept along under the avalanche of descending prices. The boom market, which had endured while credits granted to Europe remained unexpended and while, at home, citizens were cashing bonds to buy goods, had come to an end.

The collapse of agricultural prices, particularly while the rigidity of nonagricultural prices and wages was creating a new and alarming disparity between farm income and costs, produced vehement protest from farmers everywhere. Existing farm organizations increased their membership, and new ones sprang into being. They exerted a pressure on lawmakers and administrators which, continuing through the years, has been

primarily responsible for the unparalleled sweep of farm legislation from the early 1920's through 1938 and has carried the Federal Government into fields of farm aid undreamed of when the crisis of 1920 broke.

The quick violence of farm protest was due partly at least to the general unexpectedness of the price downturn. The apparent hunger of a world that had been strictly rationed for years had encouraged farmers in the belief that good markets for their crops would continue. The crops sold in 1920 had been produced at the highest costs ever known. Farmers had used credit freely in buying more land and equipment. They had set aside little as a surplus to offset losses in commodity prices. They saw no way to reduce production to match falling demand. Old debts must now be paid with products that brought sharply lower prices. The pressure for debt liquidation struck at a time when returns from crop sales were wholly inadequate to balance the debts incurred in producing them.

The ferment throughout the country during the last half of 1920 did not result in action at Washington. A Presidential campaign was under way. While demands for Government price fixing stirred farmer mass meetings, Washington talk was of higher tariffs, better farm credits, more loans to finance exports, and an improved legal status for cooperatives. The 1920 report of the Secretary of Agriculture pointed out that the year's crop had been the largest but one in the country's history and that the returns were inadequate and, while suggesting that no single solution could be found, insisted that big crops should not be allowed to impoverish the farmers who produced them.

JOINT COMMISSION OF AGRICULTURAL INQUIRY

Early in 1921 the new Congress created a Joint Commission of Agricultural Inquiry, the Senate acting on May 31, the House on June 7, and instructed the Commission to report its findings within 90 days (7). The Commission was directed to—

investigate and report to the Congress * * * upon the following subjects: (1) the causes of the present condition of agriculture; (2) the cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer; (3) the comparative condition of industries other than agriculture; (4) the relation of prices of commodities other than agriculture; (5) the banking and financial resources and credits of the country, especially as affecting agricultural credits; (6) the marketing and transportation facilities of the country.

The Commission was also directed to "include in its report recommendations for legislation which in its opinion will tend to remedy existing conditions" (8, p. 3) and to report "specifically * * * upon the limitations of the powers of Congress in enacting relief legislation."

The Commission completed its hearings and report by early fall, and delivered its findings on the causes of the agricultural crisis, with its recommendations, to Congress in early December.

In general the inquiry was broad and important, but its specific recommendations were limited and proved ineffectual when subsequently carried out. The farm groups at the time regarded them as inadequate to meet the conditions that were developing.

In attempting to arrive at the causes, the Commission studied changes in the purchasing power of the farmer's dollar, the relation of the prices of farm products to those of other commodities, and the physical output and the return to capital and labor in agriculture as compared with other industries.

It found that by May 1921 the purchasing power of the farmer's dollar was only 77 percent of its pre-war value. It reported that the prices of farm products had declined more rapidly and had fallen to a lower level than those of other commodities, although the physical output of agriculture had not kept pace with that of other industries, and that the return to farm capital and labor was relatively low.

The distress of agriculture was attributed primarily to the general business depression which began in 1920, although a failure of export demand was considered to be an important cause. The maintenance of unduly high freight rates, the lack of facilities for intermediate credit, and the need for an adequate and integrated warehouse system were also deemed contributing factors. Overproduction or overmarketing of farm products in 1920 was not adjudged to be an important cause of the subsequent price decline.

The Commission recommended granting preferred legal status to cooperative marketing associations, a system of intermediate credits for agriculture, improved warehousing facilities and supervision, reduction in freight rates on farm products, extension of the statistical, research, and foreign-service functions of the Department of Agriculture, better grades and standards for farm products, farm-to-market roads, and rural life improvement; and finally the Commission declared that renewal of confidence and prosperity was dependent on readjustment of commodity prices, which "cannot be brought about by legislative formulas but must be the result for the most part of the interplay of economic forces" (8, p. 11).

NATIONAL AGRICULTURAL CONFERENCE CALLED IN 1922

In the meantime, the War Finance Corporation was revived particularly to finance exports; an emergency tariff act, vetoed by President

Wilson as one of his last official acts, was again passed and was signed by President Harding; the "farm bloc" was organized in Congress; the powers of the War Finance Corporation were broadened to enable it to make loans for agricultural rehabilitation, and its life was extended to 1924.

The National Agricultural Conference, called by Secretary of Agriculture Henry C. Wallace at the direction of President Harding, met in Washington January 23 to 27, 1922. Nearly 400 representatives of agricultural and related industries attended. Practically all of the notes that have been struck in subsequent agricultural policy were sounded in one way or another in that conference.

In his letter asking Secretary Wallace to call the conference, the President said (9, p. 3):

It is unthinkable that with our vast areas, our unparalleled endowment of agricultural resources, our fertility of soil, our vast home market, and the great ability and resourcefulness of our farmers we should accept the status of a distinctly industrial Nation. Our destiny seems to require that we should be a well-rounded Nation with a high development of both industry and agriculture, supporting one another and prospering together. It must be, and I feel sure it is, the national wish and purpose to maintain our agriculture at the highest possible efficiency.

But the President clearly was not thinking in terms of a broad assumption of responsibility for agricultural policy by the Federal Government. In his opening address to the conference, he said (9, p. 10):

It cannot be too strongly urged that the farmer must be ready to help himself. This conference would do most lasting good if it would find ways to impress the great mass of farmers to avail themselves of the best methods. By this I mean that, in the last analysis, legislation can do little more than give the farmer the chance to organize and help himself.

Secretary Wallace told the conference (9, p. 13) that "the agriculture of the Nation is in a bad state, and our entire business and industrial life is suffering in consequence."

The conference operated in 12 sections, each of which reported its recommendations, which, as incorporated in the final report, are too detailed and extensive for recapitulation here. One significant pronouncement on price adjustment suggested the slogan, "Equality for agriculture," which has resounded through every subsequent political campaign, and set prominently before the country for the first time the objective for which organized agriculture was to strive in the turbulent farm fights of succeeding decades. It was incorporated upon the insistence of a man who became an active leader of farm forces in their fight for farm

equality—George N. Peek, later first Administrator of the Agricultural Adjustment Act. The paragraph reads (9, p. 171):

Agriculture is necessary to the life of the Nation; and, whereas the prices of agricultural products are far below the cost of production, so far below that relatively they are the lowest in the history of our country; therefore, it is the sense of this committee that the Congress and the President of the United States should take such steps as will immediately reestablish a fair exchange value for all farm products with that of all other commodities.

The demand for equality for agriculture cropped out at several places in the conference report (9, p. 137):

The conference declares that no revival of American business is possible until the farmer's dollar is restored to its normal purchasing power when expressed in the prices paid for the commodities which the farmer must purchase, and the conference further declares that by right the men engaged in the agricultural field are entitled to a larger return than they have heretofore received for the service they give society.

Adjustment of farm production to demand was stressed (9, p. 137):

The manufacturer has in the past quickly adjusted his production to price recessions while the farmer has not. When farm production is so large that the product cannot be sold for prices that will maintain a reasonable standard of living on the farms, the supply is too large. We recommend that the farmers and the farm organizations consider the problem of world supply and demand and make comprehensive plans for production programs so that they may be able "to advise their members as to the probable demand for staples, and to propose measures for proper limitation of acreage in particular crops," as pointed out by the President of the United States.

The conference report favored higher tariffs, more foreign credits to facilitate exports, an intermediate credit system for farmers, and recognition of farm cooperative-marketing associations and price stabilization through their operations, and made scores of other recommendations of varying importance.

Recommended for study were a system of crop insurance and the whole question of Government guaranty of agricultural prices.

THE SURPLUS-DISPOSAL PLAN IN EMBRYO

In the meantime, in December 1921, George N. Peek and Hugh S. Johnson, who were associates in the management of a farm implement company at Moline, Ill., had written and filed with the American Farm Bureau Federation their first brief, *Equality for Agriculture* (3), which set forth principles and a plan of operation which were in general incorporated in the surplus-control bills which 2 years later became known

by the names of their legislative sponsors, Senator Charles L. McNary, of Oregon, and Representative Gilbert N. Haugen, of Iowa.

While the National Agricultural Conference was holding the spotlight in Washington, an important series of conferences took place between Mr. Peek and General Johnson and Cabinet members and other officials. At their suggestion their plan was submitted first to a group of economists within and outside the Government and then to a group of industrial and financial leaders. The proponents of the plan remained in Washington until mid-February. When they left, their proposal was assured continued study by the interest of the Secretary of Agriculture and of Henry C. Taylor, who that year was to become the first chief of the Bureau of Agricultural Economics. The first drafts were prepared in the Department of Agriculture in 1923 under the direction of Charles J. Brand, who 10 years later became coadministrator of the Agricultural Adjustment Act. They emerged as the McNary-Haugen bills, which reached both Houses of Congress in January 1924.

The proposal is described by its authors in the following summary taken from *Equality for Agriculture*:

This is a plan to improve marketing of farm products, to insure a fair return from farm operations, to stabilize farm securities, to facilitate farm finance, and to secure equality for agriculture in the benefits of the protective tariff, by the following means:

Establish each year the fair exchange value on the domestic market of each principal crop, by computing a price which bears the same relation to the general price index as the average price of such crop for ten pre-war years bore to the average general price index for the same period. Protect this fair exchange value from world price by a tariff fluctuating with it and with world price.

Organize under Federal legislative charter a private corporation to maintain this value by buying carry-over from any such crop from farmers or associations of farmers at such value. Such corporation may sell for export exportable surplus at the world price, even if less than domestic price, and may sell for domestic consumption, any of its carry-over at not less than the exchange value. The process will result in little, if any, material interference with existing mechanism for supplying domestic consumption.

Purchases and losses by reason of sales to export or of downward fluctuations in such fair exchange value to be financed, viz.:

From worst experienced years of price, production, and surplus, determine an empirical formula, which when applied to any future year, will compute a percentage of price per bushel or per pound, large enough to absorb any probable loss. This differential to be computed and announced in ample time before planting season to enable farmers to plan croppage with reference to existing supply.

By authority of a Federal statute, collect this percentage as a differential loan assessment on each pound or bushel when and as sold by the farmer. Issue scrip for such receipts, bearing interest on a retrievable value to be fixed and announced when losses and expenses are determined.

Pass unabsorbed amounts in such fund to a farm-loan fund for reloan to ap-

propriate banks and associations of farmers, at moderate interest, and on farmers' notes, for 1, 2, or 3 years, given for purchase of reproductive facilities.

In the first year, after a sufficient fund has accumulated to take care of annual agricultural loan requirements, the installment of scrip issued in the first year's operations is retired, and so on for each succeeding year's installment.

Wheat, cotton, corn and oats are tentatively proposed for the operation of this plan.

THE STAGE IS SET FOR FARM-RELIEF BATTLES

The Joint Commission of 1921 and the agricultural conference of 1922 helped set off the farm-relief campaigns which have continued almost without breathing space from that time to this. In the judgment of the more aggressive farm leaders the remedies proposed in the two reports were hopelessly inadequate to meet the conditions the reports recognized as existing.

Developments of later years reveal some surprising gaps and blind spots in these early post-war analyses of the farm problem. Commission and conference alike seemed unconscious of the clash between their demand that agricultural as well as industrial exports be restored and maintained and their insistence that this Nation vigorously pursue a policy of exclusion through higher and yet higher tariffs. Neither the conservative administration leaders nor the farm forces they called radical recognized that the volume of agricultural exports following the war and up to 1929 was financed in large part by extension of credit abroad—many of the loans not to be repaid.

It is less surprising that they failed to foresee the turn among the nations of the world toward autarchy, national self-sufficiency, and directed international trade, and that the consequence would be diminished export opportunities for the United States, a high-tariff, creditor Nation.

The full significance of the McNary-Haugen bills which were before Congress in varying forms from 1924 through 1928 does not end with the fact that the measures were twice put through Congress and twice vetoed. Their real importance lies in the fact that the continuous pressure for them made the Nation wholly conscious of its agricultural problem. Counterplans were put forward to sidetrack and substitute for the measures which the organized farm groups were demanding. Some of them were adopted, and their trial added to the experience and knowledge which has helped shape still later endeavors.

EARLY ALINEMENT ON FARM RELIEF

The line-up of forces on farm relief from 1923 to 1926 was discouraging from the point of view of those who favored aggressive action to restore farm prices to equality with costs. The cooperative marketing

associations, which had developed along commodity lines into strength and prominence in the years following the war, were generally hostile. They were unconvinced that, given Federal recognition and support, they could not do the job themselves. The South as a whole was indifferent, partly because its chief farm organizations were the cotton, tobacco, and rice cooperatives and partly because of traditional opposition to increased Federal powers and to extension or recognition of the protective-tariff principle.

The East and the industrial centers were inherently opposed. Even when prominent industrialists recognized the importance to national prosperity of restored farm buying power, they were violently critical of any specific method proposed to that end.

Agricultural colleges and economists were as a whole indifferent to the problem. During the early years their leadership was negative and their attitude scoffing.

Outside of Congress and a small group close to the Secretary in the Department of Agriculture, official Washington was solidly opposed to any but the most orthodox Government moves to strengthen agriculture.

The spearhead of the movement for positive Government action from 1923 to 1926, therefore, was made up in the first stages by individuals and special groups; State units of general farm organizations were next to fall in line, and after them the national farm associations—the American Farm Bureau Federation, the Farmers' Union, and the Grange.

Generally through those years the farm forces were disposed to divide all over the field as to details of procedure. The cooperatives went their own way, with the exception of Northwest wheat associations, who favored the surplus-disposal plan. Some farm leaders were for outright Government guaranty of fixed prices. There were lively debates over the surplus problem—even over the question whether in fact any surplus of farm products existed. Many farm leaders contended that there could be no overproduction if marketing were properly organized.

Secretary Wallace, in his annual report for 1922 (*11, Yearbook 1922*), summed up the opposite view in saying:

Some contend that there is no such thing as overproduction of farm products and cannot be as long as there are people in the world who suffer for food and clothing. On the same line of reasoning it can be argued that the production of automobiles will be inadequate until every man and woman and every boy and girl of high-school age owns one. There is overproduction, so far as the producer is concerned, whenever the quantity produced cannot be marketed at a price which will cover all production costs and leave the producer enough to tempt him to continue production.

SOME TARIFF INCONSISTENCIES

Small voices were raised but scarcely heard when they questioned the wisdom of a tariff policy which excluded from this country the means by which foreign buyers could pay for our exports, while at the same time we demanded and expected that our exports would be maintained. Meanwhile the policy of raising tariffs swept on to its culmination in the Tariff Act of 1929 without effective protest either from the pros or the antis in the farm-relief fight.

Both sides failed to recognize the fact that continued exports through these years were made possible by the extension of credit to foreign nations and buyers. The total volume of new foreign issues floated in the United States from 1919 to 1929, inclusive, amounted to \$8,172,000,000, while the net outward movement of long-term capital during the period exceeded \$6,000,000,000. The heaviest flotations of new issues during these years were \$1,201,000,000 worth in 1927 and \$1,111,000,000 worth in 1928.

Even the farm proposals for a protected domestic consumption at parity with nonagricultural prices, independent of the world price for the surplus, depended for effective operation on the willingness and ability of the world market to take all the surplus the United States produced.

There was failure to recognize the effect of our change from a debtor to a creditor nation. Our status as a nation in another sense had also changed. We at last were at the end of the pioneering period. We now had a preempted continent: the last of the good free land had been taken up, and we were face to face with the problem of a maturing nation. No longer was there a frontier to act as shock absorber for dispossessed farmers and unemployed from industrial centers, with outside creditor nations ready to take our surplus production in payment on our debts to them.

THE FARM MOVEMENT SPREAD BY REGIONS

The persistence and growing strength of the farm-relief movement, from 1923 until the passage of the Agricultural Marketing (Federal Farm Board) Act in June 1929, is not explained wholly by index figures showing in national averages the purchasing power of farm crops in terms of other prices. The ratio of prices received to prices paid by farmers actually approached parity with the 1910-14 ratio in 1925, owing to the fall in nonagricultural prices at a time when farm prices were improving. But averages were misleading; they failed to reveal the local areas over which trouble was developing.

Distress did not strike all farm regions at the same time. It was most acutely felt first in the Spring Wheat Belt, and it was there that the first farm-relief movement caught on and incubated. The South had only three partly good years from 1919 to 1926, but nevertheless that region was slow to start thinking in terms of national action. The Corn Belt in 1921 and 1922 was not particularly interested when agitation for farm relief was running strong in Minnesota and westward. But when hog prices went back to pre-war levels in 1923, foreclosures and bankruptcies set in in earnest. The banks began to close. Land prices in Iowa in 1927 were 91 points below those of 1920. The storm center began to shift from the Northwest to the Midwest about 1924.

THE DEPARTMENT'S PART

The influence of the Department of Agriculture in giving direction to the gathering farm-relief movement became clearly evident in the autumn of 1923. In October, Henry C. Taylor, Chief of the Bureau of Agricultural Economics, made a trip into the Dakotas, Montana, and the Pacific Northwest which gave him an opportunity to question most of the farm leaders of the region about the agricultural situation. Members of the groups which gathered to meet Dr. Taylor recall that he made no positive statements in support of any particular form of farm relief, but it was after his trip that the Northwest with singular unanimity started its drive for a Government export corporation to segregate and dispose of agricultural surpluses.

Secretary Henry C. Wallace first publicly referred to the export plan in an address to the Chicago Association of Commerce on November 14, 1923 (12). In this guarded endorsement, he said:

Among all of the suggestions that have been made, the one which has been made by several people in this state and which has been considered at different times, seems to have more merit in it than anything else. It is simply this. In the case of those products of which we produce a large surplus, which must be exported, the government might well consider whether by setting up a government agency which would take that surplus and handle it in exactly the same way that many manufacturers have handled their surplus in times past, so that it would not be the government carrying the burden, but the producers of that crop, many who have given the matter consideration believe that of all the proposals suggested that offers the most hope.

On November 30, 1923, Secretary Wallace delivered to the President and published a report on *The Wheat Situation* (13), which provided the farm-relief forces of the Northwest with a wealth of ammunition which they were not slow to use. The report closed with these paragraphs:

Inasmuch as the first step looking toward increasing the domestic prices requires the disposition of the surplus over and above domestic needs, and inasmuch as the facts presented in the foregoing pages indicate that the world production of wheat will probably be over-large for another year or so, the suggestion that the Government set up an export corporation to aid in the disposition of this surplus is worthy of the most careful consideration. Such a corporation necessarily would need rather broad powers. It would not be necessary that it should undertake to handle the entire crop, and it could probably carry on its activities in cooperation with existing private agencies. If it should be found necessary to arrange for the sale of the surplus exported at a price much lower than the domestic price, the loss so incurred would properly be distributed over the entire crop.

The prime duty of such an export corporation would be to restore, so far as possible, the pre-war ratio between wheat, and other farm products of which we export a surplus, and other commodities. Its activities would therefore expand or contract according as the relative prices for farm products varied with other commodities, and it would cease to function as pre-war ratios become fairly well restored.

In December 1923 and throughout the winter so-called export corporation leagues sprang into being in the spring wheat States. Wheat growers' associations of the Northwest opened a militant campaign, and organizations of businessmen in cities and towns from Minnesota west pressed for action. In 1924 State farm organizations of the Corn Belt joined up, and the struggle was on in earnest.

CENTRAL IDEAS OF FARM-RELIEF PLANS

The agitation centered, first and foremost, around the general idea of equality for agriculture and the related idea of "a fair share of the national income." It also embodied the hope for security against bankruptcy prices and low and unstable income, drought and crop failure, and mortgage foreclosure and uncertain land tenure.

Prior to the appearance of the McNary-Haugen bill on the congressional scene, the Norris-Sinclair bill held the lead in farm support, although it had received no encouragement from the executive branch of the Government. Senator George W. Norris, of Nebraska, its chief sponsor, originally felt that the McNary-Haugen bill was an administration measure introduced to divert and divide farm support. He was strengthened in his conclusion by the fact that the original McNary-Haugen bill was drafted in the Department of Agriculture and had the quiet support of Henry C. Wallace, the Secretary of Agriculture, a fact which had much to do with the quick alinement of farm support back of it.

The Norris bill would have created a Government corporation empowered to buy or lease storage and processing facilities, and to buy,

process, and sell farm products in raw or finished form. Its declared purpose was to eliminate as far as possible the commissions and charges between producer and consumer so as to increase the price to the former while decreasing the cost to the latter.

On their face, therefore, the provisions of the Norris bill promised to increase farm income by savings and short cuts which it was believed would be secured by substituting a Government agency for the private processors and middlemen. Its supporters read into the measure, however, the hope and expectation that the corporation would fix prices to farmers on a cost-of-production basis. The corporation was to be given \$100,000,000 capital, with authority to sell tax-free bonds up to five times that amount.

In contrast, the McNary-Haugen bills proposed a minimum of interference with existing agencies and aimed only at the segregation and exportation of crop surpluses to bring domestic prices up to the "ratio" or fair-exchange level. It was proposed that operations should be made self-financing by collecting an "equalization fee" upon the first sale or the first processing of the commodity dealt with.

This plan was written into the original 1924 version of the McNary-Haugen measure and also into the vetoed bills of 1927 and 1928. The mechanism for implementing the plan varied considerably in the several bills, but at no time did the advocates abandon what they considered the essential ideas, (1) that the centralizing power of the Federal Government should be used to assist farmers to dispose of the surplus abroad and raise prices to the desired level in the domestic market, and (2) that the loss on the segregated exports was to be paid by the farmers themselves by means of an equalization fee.

The opposition centered its fire on the equalization fee, and assailed the proposal to bring about fair-exchange, or ratio, prices for export farm crops as "price fixing." They fought back against farmer charges that tariffs are ineffective on export crops. The supporters of the measures clung stubbornly to the principle of the equalization fee to enable the programs to pay their own way, but retreated temporarily from the fair-exchange-price principle and, instead, offered a bill in which the existing customs duties were made the measure of the price benefits to be secured by draining the surplus production off into export channels.

FARM-RELIEF PRESSURE FORCES COLLATERAL LEGISLATION

Under pressure of this general agitation, farm legislation advanced speedily along less controversial lines.

The Federal Government, always sympathetic to the idea of agri-

cultural cooperation, moved to strengthen further the legal position of cooperatives with respect to the antitrust legislation by enacting the Capper-Volstead law of 1922.

Demand for further improvement in the credit structure had paralleled the fight for marketing reform. Specifically this was a demand for farm credit at rates comparable to those paid by businessmen and for the establishment of new banking institutions that could meet the peculiar credit needs of farmers. The Federal Farm Loan Act had been passed in 1916. Although this act greatly increased the availability of long-time farm-mortgage credit, it did not meet the needs of farmers for intermediate and short-time credit.

The Federal Intermediate Credit Act of 1923 provided for the establishment of 12 intermediate credit banks, to rediscount agricultural paper maturing within 3 years for banks and special lending agencies. This still did not fully meet the short-time credit needs of farmers. They had to wait another decade until the banks for cooperatives, the production credit corporations, and the production credit associations were set up or provided for in 1933 under the Farm Credit Administration.

To meet the growing unrest in the Northwest, the Norbeck-Burtness bill was introduced in late 1923, appropriating Federal funds with the general idea of turning spring wheat farmers into dairy production, and the President called the Northwest Agricultural Conference to meet in Washington in February 1924 to give it public support. The main body of the conference, which was made up chiefly of nonfarmers, endorsed the plan to spend money to diversify northwestern agriculture and recommended the establishment of the Agricultural Credit Co. to assist banks in the Northwest. Most of the farmer-members of the conference, however, united on a minority report endorsing surplus-control legislation along the lines of the McNary-Haugen bills, which had just reached Congress, and took their statement to the White House.

Action by the President about the same time to increase the tariff on wheat from 30 to 42 cents a bushel failed to lessen the pressure from the Wheat Belt, and the Haugen bill was brought to a vote in the House of Representatives in June 1924 and came within 36 votes of passage. In July the American Council of Agriculture was established at a big farm mass meeting in St. Paul to carry on the campaign for surplus-control legislation.

SPECIAL ORGANIZATIONS PLAY IMPORTANT PART

The drive of the farm forces for a more clearly defined national agricultural policy brought into being from 1924 to 1928 a number of

special organizations which cooperated with the general and long-established farm organizations and some of the cooperative marketing associations in support of particular bills. The American Council of Agriculture was the first of these to bring together a membership of cooperating organizations with national rather than regional scope. It was the center of leadership for the aggressive farm forces during 1924 and 1925. The national farm organizations sometimes joined in its statements and sometimes expressed their views independently.

The functions of the American Council of Agriculture in guiding the campaign for the McNary-Haugen bills passed to another special organization when the Executive Committee of Twenty-two was created early in 1926. This committee grew out of a conference of Governors of 11 Midwestern and Northwestern States which met at Des Moines, Iowa, in January 1926, on the call of the Governor of Iowa. Its activity ended when the second Presidential veto of the McNary-Haugen bill threw the issue into the 1928 political campaign.

The Corn Belt Committee of Farm Organizations was still another special body whose representatives were in Washington working closely with the Committee of Twenty-two during the years when the latter was active. But the American Council of Agriculture did most of the speaking for the proponents of farm relief from midsummer of 1924 until the early months of 1926.

AGRICULTURAL CONFERENCE OF 1925 DRAWS FIRE

With this prospect of continued activity on the farm front, President Coolidge in November 1924 called an agricultural conference which held hearings culminating in a series of reports filed in late January and early February 1925.

The conference report (6) failed to develop any program acceptable to the farm forces and served to spread the irritation that had become increasingly apparent. One of its proposals for a Federal cooperative marketing board with broad powers was defeated shortly thereafter in the House of Representatives.

Another section of the report (6, p. 2) directly attacked the pending proposals for handling exportable surpluses when it said:

Any form of legislation or plan that tends toward a stimulation of production of any particular commodity for export will result in even further ill balance to our agriculture and, therefore, continued subjection of American farmers to competition with production based on lower standards of living abroad. There must, therefore, be established a balanced American agriculture by which production is kept in step with the demand of domestic markets and with only such foreign markets as may be profitable.

The conference failed to submit any blueprints for the establishment of the balanced agriculture it advocated. The fight went forward when the American Council of Agriculture filed its reply with Members of Congress, in which it declared (10, p. 63):

No human agency can adjust acreage or number of these great commodities and, except by accident, arrive at, or anywhere near, the desired mark in production. No human agency should attempt to. The one attempting it would be faced with the necessity of suggesting substitute crops to utilize the acres thus vacated. The difficulty of this is apparent. It is noteworthy that those ardent advocates who in 1923 would have turned the wheat farmers into commercial producers of butter-fat, are now silent in the face of existing conditions in the dairy industry.

Even if it were possible for farmers through voluntary organization to make a nice adjustment of acreage to the estimated domestic demand, there is no possible way of forecasting to what extent drought and flood, hail and freeze, insects and disease—all these and others beyond the farmers' power to foresee and control—would thwart such calculations.

On the proposition that the task of handling the surplus should be left to cooperative associations, the American Council had this to say (10, p. 63):

The great task is to deal with this normal surplus so as to preserve the home market for American producers at an American price that *does* equalize differences in production costs between farmers of this and competing countries. Those without experience in trying to accomplish this say: "Let the farmers organize cooperatively to do this thing." Undoubtedly, if this were practical, it would be the very remedy sought for. Co-operative organization has done great good for agriculture in this and other countries, and in years to come is destined to accomplish vastly more. The opportunity for co-operatives to demonstrate their worth by helping farmers secure a fair price for their products would be immensely increased if the question of the disposal of the surplus were itself disposed of otherwise. But to maintain a domestic price above world levels, and at the same time dispose of a substantial surplus at the world price, is a task which co-operative organizations of farmers alone cannot do, and which, if attempted by them, would destroy them.

The conference report had one direct effect on the form of the surplus-control legislation. Taking at face value the suggestion that cooperatives should handle the surplus problem, the bill was redrafted to provide that cooperative associations might organize to administer the export transactions with a particular commodity, backed by the equalization fee to spread the costs over all producers presumably benefited by the operation. While the modified bill failed to reach a vote in the Congress then in session, the changes may have accounted in part for the increased support the measure received from cooperative associations in 1926 and subsequent years.

SOUTH AND WEST UNITE

The year 1926 marked the union of the South with the West in backing the farm-relief program. The first conference with southern farm leaders took place in Memphis, Tenn., in March of that year, after which heads of southern commodity cooperatives, first cotton, then tobacco and rice, joined the western farm leaders in Washington.

These cooperative marketing associations, based on membership contracts and formed on commodity lines, were at that time the most active and influential of the southern farm organizations. Their influence in the national cooperative movement was great. As a result of their growing interest, midsummer conferences were held between proponents of the pending legislation and some of the nationally prominent sponsors of cooperative marketing, including former Governor Frank O. Lowden of Illinois.

A joint mass meeting of southern and western farmers in St. Louis in November, after the Haugen bill had met its second defeat in the House, issued a long declaration of principles. The section on surplus legislation said (4) :

As a practical and immediate move to secure for agriculture a just and proper share of the national income and a position of equality with other industries in our national economy, we favor legislation that will enable farmers to control and manage excess supplies of crops at their own expense, so as to secure cost of production with a reasonable profit. We assert our conviction that such legislation must function through and foster cooperative marketing.

The tariff came in for critical attention at this convention. The declaration reads (4) :

We recommend to farmers' organizations that they make a special study of the effects on agriculture of industrial tariffs and also of the effect of our change from debtor to creditor nation, and especially of its effects on the accumulation of our agricultural surpluses. Our "tariff primers" have taught us that the farmer would get his reward through the demand created by the high purchasing power of prosperous industrial classes. We demand that the farmer be given the opportunity to promote the national prosperity by his own increased purchasing power through increased prices.

ALTERNATIVE LEGISLATIVE PLANS APPEAR

An alternative method for surplus disposal through use of customs debentures to subsidize exports reached Congress early in 1926. The general plan was developed by Charles L. Stewart, of the University of Illinois, and chiefly supported by the National Grange. It was essentially an export bounty which, instead of being paid in cash, was to be paid to exporters in the form of negotiable certificates (debentures) that could

be used for paying import duties and hence would have a cash value. This increased buying power in the hands of exporters would enable them to bid more than the world price for exportable commodities. The increase above the world price was, of course, the objective of the plan.

The proposal that a Federal farm board be created to assist cooperatives to stabilize agriculture developed among opponents of the surplus-disposal programs and took several forms in 1927. The Curtis-Crisp bill, with administration support, gave it legislative status early in the year. The idea was endorsed in the report of the Business Men's Commission on Agriculture, which was one of two important committee pronouncements on agricultural policy published in late 1927 from quarters that until shortly before had been silent or negative on the farm question. The other report was presented by a special committee of the Association of Land Grant Colleges and Universities, also in November.

IMPORTANT COMMITTEES REPORT ON AGRICULTURAL POLICY

The Business Men's Commission was sponsored and financed jointly by the National Industrial Conference Board and the United States Chamber of Commerce. A report of the former body on The Agricultural Problem in the United States had been published and given wide attention in 1926.

Referring to it as the administration plan, the Business Men's Commission endorsed the proposal for a Federal farm board to aid in the stabilization of prices and production in agriculture through advice to farmers on production and marketing and through a system of quasi-official stabilization corporations with power eventually to buy farm products at a price announced before the date of planning.

The commission condemned "legislative measures designed artificially to raise the domestic level of farm products above the world price level by export bounties, export debentures, or by agencies designed to dispose of surplus products abroad at a loss * * * " (2). At the same time it asked, in effect, for a thoroughgoing revision downward of the tariff, starting with industrial rates, and then, when industry and agriculture reached approximately equal levels as to protection, to continue the reduction at equal rate, retaining adequate protection, however, on products the full domestic production of which is required by the country's long-run interests.

The report of the land-grant college special committee, like so many reports of the period, was strong on analysis and weak on remedy. It was important chiefly as a belated recognition by the agricultural colleges that a national agricultural problem did exist, and that they

should be concerned with the development of a national policy to meet it. The discussion of the agricultural situation was revealing; of the tariff, straddling; and of the surplus problem, vague. "The movement toward stabilization and control," it concluded (1), "may be hastened by favorable and sound types of legislation."

PROGRESS OF FARM BILLS IN CONGRESS

Before these studies were undertaken, the effect of the union of farm forces back of export control legislation had been felt in Congress. The McNary-Haugen bill had passed both Senate and House, but had been vetoed by President Coolidge.

Early in 1928 a revised measure was introduced, dealing with all farm products instead of a limited number of basic commodities, and providing for operations similar to those proposed under stabilization corporations, with use of the equalization-fee plan only as a last resort if other moves failed to achieve the specified results. Again, both Senate and House passed the bill by substantial margins, and again the President returned it with his veto. On May 25 the Senate failed by 10 votes to muster sufficient strength to override the veto.

Agricultural policy commanded first-rank attention from the major political parties, but the threatened farm revolt against the administration failed to materialize in 1928. The farmer had been promised a general farm bill, and the Federal Farm Board was provided for in the Agricultural Marketing Act of 1929. He had also been promised higher tariffs, and he got them, too, in the Smoot-Hawley Act of the same year.

THE AGRICULTURAL MARKETING ACT OF 1929

The Agricultural Marketing Act of 1929 aimed to provide agriculture with a mechanism for the orderly production and marketing of farm products that would parallel the production and marketing mechanisms of other industries. The major provisions of the act were concerned with marketing, and the Federal Farm Board undertook to encourage cooperatives and stabilization corporations, provided the latter were established and owned by cooperatives. To unify the process of agricultural marketing with the support of loans, a 500-million-dollar revolving fund was put into the hands of the Board.

At the beginning of its operations, the Board viewed its principal function as the fostering of a system of cooperative marketing associations, but the drastic decline of agricultural prices which developed in the latter part of 1929 caused the Board to become increasingly concerned with the stabilization of the prices of agricultural commodities.

Notwithstanding many previous unsuccessful attempts to hold up prices by stabilization measures of storage and withholding, the Federal Farm Board through its subsidized stabilization corporations launched an ambitious attempt to support prices in this manner. Unfortunately, the period selected for the venture coincided with a world depression of unprecedented scope and severity. Operations might have been temporarily much more successful if, instead, they had coincided with severe droughts such as those experienced in 1934 and 1936.

The first efforts toward stabilization consisted of making loans to the cooperatives which would enable them to hold the commodities in storage until the market improved. This was followed by the setting up of stabilization corporations for wheat and cotton. These corporations took over most of the supplies that had been held by the cooperatives and in addition accumulated stocks by direct purchase in the market. Legally, these stabilization corporations were owned by the cooperatives, but the actual financing, operation, and risk-bearing were ultimately taken over by the Farm Board itself. The operations of the stabilization corporations resulted in heavy losses to the Board, which soon began to insist that gains in withholding supplies from the market could be realized only if production were held in line with actual market demand at home and abroad.

CONTINUED DEPRESSION FORCES FURTHER ACTION

Meanwhile foreign loans had practically ceased, and the export market shrank year by year. Renewed depression fell with cruel force on the American farmer.

Even at the peak of the business cycle in 1929, farm products could be exchanged for only 91 percent as much of other products, on the average, as they could have been exchanged for in the period before the war. By February 1933 the exchange value of farm products for industrial goods had fallen to 50 percent of the pre-war average. Their value in terms of taxes and interest was even less.

The disparity was present in the price of every farm product. It was most severe in the prices of export commodities, such as cotton, wheat, tobacco, and rice, where the disappearance or severe contraction of export demand had backed up great excess stocks of the commodities. It was also marked in hogs and hog products, the reduced export outlets for which had forced increased quantities into domestic consumption.

Gross farm income from the production of 1932 was less than half that of 1929, while fixed charges, including taxes and interest, were not

proportionately lower. The Department of Agriculture estimated that the average farmer, after paying the expenses of production, rent, interest, and taxes, had only about \$230 left out of his year's income. This gave him nothing as a return on his investment and much less than common-labor pay for his labor and management.

All the capital employed in agriculture had a value in January 1933 of only 38 billions of dollars as compared with 58 billions in 1929 and 79 billions in 1919, while farm debt remained virtually unchanged.

Credit was restricted and in many communities practically ceased to flow as thousands of country banks closed. Nearly 15,000 banks suspended operations during the 14 years 1920-33, involving total deposits of \$8,500,000,000. Of these, 4,000 suspended in 1933, with total deposits of \$3,600,000,000.

In the face of these conditions, it was obvious that further farm legislation would be enacted soon. It was only a question of what and when. During the winter of 1932-33 the agricultural committees of both Senate and House held hearings and produced bills, but the effort to enact them was less than wholehearted in view of the change in administration scheduled for March.

When the three national farm organizations were asked by the Senate committee to embody in a farm bill their ideas of what should be done, each brought its favorite remedy out of the past, and the result was a three-barreled measure combining the equalization-fee-surplus-disposal program of the Farm Bureau, the cost-of-production goal of the Farmers' Union, and the export-debenture plan of the Grange. The Secretary of Agriculture was to choose the method, or combination of methods, best calculated to work. This proposal did not command much congressional attention.

FORCES THAT SHAPED FIRST AGRICULTURAL ADJUSTMENT ACT

With mounting surpluses and stagnant markets staring farmers in the face, the argument for production control began to gain ground. Control legislation was freely discussed in 1932, and prototypes heralding the coming Agricultural Adjustment Act appeared in Congress during the winter of 1932-33.

Economists inside and outside the Department of Agriculture took a hand in shaping the Agricultural Adjustment Act of 1933. At the same time, responsible leaders of farm organizations had reached a stage of willingness to cooperate in trying to devise practical means to work for fair-exchange or "parity" prices through adjustment of the productive plant in line with probable future demand. The forces that had

twice put the McNary-Haugen bill through Congress had been disorganized during the 4 years following 1928. Many of the leaders of that movement had experienced growing doubt whether, under existing and prospective world conditions, a sufficient foreign market could be found for an export surplus in the old proportions. This doubt became conviction when export outlets shrank with the termination of foreign loans by the United States.

All of the experience of the previous decade converged in the first Agricultural Adjustment Act and related measures.

The cooperatives had demonstrated to their own satisfaction that they could not hope to maintain and stabilize prices of the commodities for which they assumed responsibility so long as nonmembers shared in the benefits but escaped the costs assessed against members.

The interest of farmers in maintaining export outlets was recognized by provisions for disposal of excessive surpluses either abroad or in new uses at home.

The Federal Farm Board, which had operated with almost the complete support of organized agriculture, even of groups that had opposed its creation, had demonstrated the futility of attempting to control prices through storage and withholding without effective authority to control production.

OUTLOOK REPORTS A CONTRIBUTING FACTOR

Another important type of experience, of which nothing has yet been said, had originated in the Bureau of Agricultural Economics in the early 1920's and had continued with steady purpose since its beginning. That was the preparation and publication of outlook reports, covering all phases of farm production. In this work the Department drew heavily on the State agricultural colleges and experiment stations with their familiarity with local and regional conditions and problems.

The outlook reports aimed to promote efficient farming and balanced production. The Department had long lent its aid to the improvement of crops, livestock, and soils. The work got under way with the passage of the Morrill Act in 1862 providing for the establishment of the land-grant colleges. The research activities were intensified with the passage of the Hatch Act, in 1887, which provided for the establishment of the State agricultural experiment stations. Later on, in 1914 and 1917, with the passage of the Smith-Lever and Smith-Hughes Acts, machinery was provided for disseminating to the mass of farmers and farm youth the research findings and technical advances made in the experiment stations and research bureaus of the Department.

Beginning in 1922, the Department moved beyond the old boundary which had confined it merely to bringing the farmer improved techniques of production. The new step included the dissemination of economic information which would enable individual farmers to make adjustments in their acreage of crops and production of livestock in the light of prospective domestic and foreign demands. It was believed that farmers provided with such an outlook service could develop well-balanced systems of farming which would at least minimize, if not prevent, unprofitable agricultural surpluses and thereby stabilize income.

The objective of this program, obviously, was basically sound, but it depended entirely upon educational appeal as the motivating force. Even though they convinced farmers intellectually, the outlook reports failed to direct the economic behavior of many of the millions engaged in farming as individual units. The average farmer remained inclined to let the other fellow do the adjusting while he maintained or increased his production in his fight to meet expenses and interest payments. But the educational process started many farmers thinking about acreage allotments and quotas.

DOMESTIC-ALLOTMENT PLAN A FORERUNNER

An important contribution to the Agricultural Adjustment Act of 1933 was made by the domestic-allotment plan, which came to be widely discussed during the years in which the Federal Farm Board was gaining experience and disillusionment.

The domestic-allotment plan was proposed prominently after the export-debenture and equalization-fee plans had been set aside by the creation of the Federal Farm Board. The domestic-allotment plan recognized that these proposals would fail to work unless an expert market existed that would take, at some price, all of the surplus of a crop above domestic requirements. It grew out of a doubt whether, under existing conditions, such large export outlets could be found. Therefore it sought to increase income directly for the domestic consumption, leaving the export surplus to take care of itself.

As originally conceived, it involved raising the price that farmers would receive on the domestically consumed portion of their export crops by limiting sales of such crops in the domestic market. The part of the crop which farmers could sell in the domestic market was called the domestic allotment, and they were to be given certificates covering that allotment. In order to move a commodity into domestic consumption, processors had to cover the quantities offered for sale with certificates purchased from farmers. The increased return on each farmer's domestic

allotment was to result from the fact that he received not only the world price but also the proceeds from the sale of his certificates. No certificates were issued on production in excess of the domestic allotment, and on this quantity the farmers received only the prevailing world price. A somewhat different plan, incorporated in the Hope-Norbeck bills of 1932, eliminated the certificates and provided that cash-benefit payments realized from a processing tax and requiring limitation of production be made on the domestic allotment.

This plan, which developed through study and discussion by a small group of economists, aroused considerable interest in the winter of 1932-33 in both farm and nonagricultural circles. M. L. Wilson, recently Under Secretary of Agriculture, then an economist with the Montana State College, and John D. Black, professor of economics, Harvard University, developed the domestic-allotment plan with the aid of specialists on the staff of the Federal Farm Board and in the Department of Agriculture. Most of these men later became important figures in shaping programs under the Agricultural Adjustment Act.

The domestic-allotment plan definitely influenced the form of the agricultural adjustment legislation. Some of those who had worked on it participated in the discussions of farm legislation that took place following the election of 1932, before the new administration took office.

THE AGRICULTURAL ADJUSTMENT ACT OF 1933

In March 1933 the unofficial work carried on during the winter by informal groups matured into draftsmanship, with Members of Congress, farm leaders, Federal and independent economists, and executive officials all taking a hand.

The Agricultural Adjustment Act was passed in the spring of 1933. Under this act millions of farmers entered into contracts to reduce acreage in specified surplus crops in return for benefit payments, financed chiefly by processing taxes on the commodity concerned. In order to assure the success of the cotton adjustment program, cotton farmers were soon asking for marketing quotas with a penalty tax to force noncooperating producers into line. These requests led to the passage of the Bankhead Control Act, under the leadership of Senator John H. Bankhead, of Alabama.

This act imposed heavy taxes on the ginning of cotton, and at the same time provided participating cotton growers with tax-exemption certificates on their production allotments. This was soon followed by similar quota legislation for tobacco. Under the Kerr-Smith Tobacco Control Act, taxes were placed on the sale of tobacco, and participating tobacco growers were given tax-payment warrants on their production allotments.

The adjustment program was brought to a sharp halt by the Supreme Court decision in the Hoosac Mills case in January 1936, which held that the Agricultural Adjustment Act was unconstitutional in that it was a scheme for regulating and controlling agricultural production, whereas this power resided in the States and not in the Congress. The processing tax was also declared void because it was an inseparable part of the scheme for effecting production control. This decision, in turn, helped to determine the direction of the Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1938. Under the conservation act an open or unilateral offer on the part of the Secretary replaced the contracts under the original adjustment program; conditional payments replaced benefit payments; direct appropriations replaced processing taxes; and the emphasis was shifted from acreage control toward soil conservation and upbuilding. Although it had obvious merits as an aid to better use of land, the Soil Conservation and Domestic Allotment Act was largely impotent as an aid to continued acreage control. The heavy production of wheat and cotton in 1937 was in part a testimony to that lack and intensified the problem faced by farmers and officials in 1938.

Farmers in general were dissatisfied both with the Supreme Court's narrow definition of the powers of the Federal Government to assist agriculture and with the ineffectiveness of the Soil Conservation and Domestic Allotment Act to implement acreage adjustments. So farm leaders took a more important hand in shaping the latest general agricultural law, the Agricultural Adjustment Act of 1938, than they had done with any of its predecessors that had become law.

PRECEDING EVENTS AND EXPERIENCE MOLD 1938 LEGISLATION

It is interesting to examine the extent to which this act and related measures represent a synthesis and culmination of earlier efforts. For this purpose the existing legislation may be considered under five major headings: (1) Soil conservation, good farm management, and balanced output; (2) loans, marketing quotas, and parity payments; (3) marketing agreements; (4) the diversion of surplus production into both domestic and foreign channels, and the development of new uses for agricultural products; and (5) crop insurance.

SOIL CONSERVATION, GOOD FARM MANAGEMENT, AND BALANCED OUTPUT

Maintenance of soil resources is a basic objective of the Agricultural Adjustment Act of 1938 and must be included in any farm program which hopes to bring enduring benefits to agriculture and to the Nation. The act of 1938 provides for payments to farmers who save and build up the soil.

The supplemental income received for cooperation in the program enables them to check the inroads of soil erosion and hence take a necessary step in the application of the principles of good farm management to their enterprises. An important aim of the farmers' work under the present program is to keep the total acreage allotments at a level that will insure a normal supply of food and fiber for domestic consumption and export. This balance between depleting and nondepleting acreage tends not only to protect farmers against those erratic swings in production that have led to burdensome surpluses and ruinous prices but to guarantee consumers an ever-normal supply of essential farm products.

Under earlier programs the tendency was to work toward this objective through direct control of acreage. The experience of the Federal Farm Board led to this approach to the problem. As losses on commodities held by the stabilization corporations increased, the Board began to insist that gains could be made only if production were held in line with the requirements of orderly marketing. The shift from this approach following the Supreme Court's decisions of 1936 did not eliminate the necessity of working toward a balance between supplies of farm products, on the one hand, and domestic-consumption requirements and foreign demand on the other. On the contrary, it is only through such balance that the declared purposes of the present act—parity prices and parity incomes for producers and adequate and steady supplies of farm commodities at fair prices to consumers—may be attained.

These provisions emerge from the background of previous experience. The problem of soil erosion is one which has attracted the attention of farmers and agricultural experts since Revolutionary times. Since the latter part of the nineteenth century the State and Federal Governments have given attention to the problems of erosion control, and the results of this work eventually reached farmers through activities of the Extension Service. A most significant advance was made in 1930, when Congress authorized the establishment of 10 regional experiment stations whose work revealed the full seriousness of the problem and hastened the formulation of more effective measures for coping with it. Shortly afterward came the establishment of the Soil Erosion Service, first in the Department of the Interior and subsequently transferred to the Department of Agriculture, which inaugurated a program of soil-conservation demonstrations in cooperation with private landowners. The manifest importance of this work led to the passage of the Soil Conservation Act of 1935, which established the Soil Conservation Service. The work of this agency was closely integrated with that of the Agricultural Adjustment Administration, as the programs of the latter aimed not only to increase

agricultural purchasing power through control of the production of basic crops but also to encourage adjustments from the chief soil-depleting crops to crops or uses which would conserve or improve the soil and check or prevent erosion.

The movement in this direction was given further impetus with the enactment of the Soil Conservation and Domestic Allotment Act of 1936, under which soil conservation became the primary concern of the Agricultural Adjustment Administration and farmers and ranchers received payments conditioned upon positive performance in improving and conserving farm and range land. The Agricultural Adjustment Act of 1938 embodies a reenactment of the Conservation Act of 1936, and the objective of soil conservation remains a major objective under the present program.

LOANS, MARKETING QUOTAS, AND PARITY PAYMENTS

A separate title of the 1938 act provides a series of supplementary measures which enable producers of corn, wheat, cotton, tobacco, and rice to obtain storage loans to put a floor under prices when these are threatened by a slump and to finance the holding of surplus supplies until they are needed. Furthermore, marketing quotas may be employed to buttress the price-supporting influences of the loans. Their effect is to limit the sales of a commodity during a marketing year when supplies are at excessive levels. Each farm is given a marketing quota, and penalties are prescribed for sales in excess of that quota. Quotas, however, may be introduced only after producers of a commodity, in a special referendum, have voted in favor of their use by at least a two-thirds majority. Finally, since the result of the loans and quotas may be to stabilize farm prices at levels still too low in the light of the goals of parity prices and income, the Secretary is authorized to make payments, insofar as funds are available, to producers of the five basic commodities, that together with their income from the sale of their crops, will bring them a return approximately equal to parity price on their normal production.

Here again, there are historical antecedents. The crop-loan idea became sufficiently widespread to furnish a basis for the Agricultural Marketing Act of 1929, which was administered by the Federal Farm Board. Through its revolving fund, the Board was authorized to facilitate orderly marketing through loans to farmer-owned cooperatives and stabilization corporations. Loans on corn, cotton, naval stores, and other commodities were important adjuncts to programs under the Agricultural Adjustment Act of 1933.

The marketing-quota device found partial precedent in the Bank-

head and Kerr-Smith laws and is a logical accompaniment of acreage allotments and the present policy of encouraging the storage of excess supplies.

The direct parity payments are clearly traceable to the post-war demands, as evidenced by the McNary-Haugen and domestic allotment movements, that agriculture be accorded parity prices and its fair share of the national income.

Various criteria for determining the level of price stabilization have been discussed for years in connection with farm legislation. These have included such standards as equivalent tariff protection, cost of production, parity price, and, more recently, parity income.

The criterion of tariff equivalence, which implies raising agricultural prices above the world-market level in about the same average proportion that the tariff has raised the prices of industrial products above the world-market level, has considerable justification on grounds of equity. It is not, however, very satisfactory. Industrial tariff rates are designed to check imports, and the rates necessary to do this do not necessarily constitute an accurate measure of the discrepancy between the positions of agriculture and industry.

Cost of production has a considerable amount of theoretical validity, but it is an unsatisfactory concept to use in practice. The experience of farm-management investigations and the studies of the Tariff Commission have indicated that the statistical determination of cost is exceedingly difficult and involves many arbitrary decisions, particularly with respect to the allocation of costs among different products produced on the same farm.

Parity price is easily calculated and easily understood, but the Department of Agriculture has pointed out that it is not always a reliable index of disparity between agriculture and industry. It assumes that over a period of time prices of all agricultural products will continue to bear the same relations to one another that they bore during the period selected as a base. In many instances the attainment of parity prices will bring undesirable results, such as impeding the normal consumption of farm products and even reducing the net income of producers below a fair level.

The Department of Agriculture has come to believe that parity income constitutes a more justifiable expression of the concept of agricultural-industrial balance than does parity price. The income concept was introduced into the Soil Conservation and Domestic Allotment Act of 1936, the purposes of which include the—

reestablishment, at as rapid a rate as the Secretary of Agriculture determines

to be practicable and in the general public interest, of the ratio between the purchasing power of the net income per person on farms and that of the income per person not on farms that prevailed during the 5-year period August 1909-July 1914, inclusive.

Unfortunately, the fact that incomes cannot be determined with the same statistical accuracy as prices greatly reduces the usefulness of the income criterion.

Consideration of all the proposed criteria raises the question whether the objectives of agricultural policy can be once and for all established by a simple exercise in arithmetic.

MARKETING AGREEMENTS

Supplementing the provisions of the 1938 act aimed to prevent sudden surpluses from disrupting the farm-price structure, the Agricultural Marketing Agreement Act of 1937 enables farmers and distributors to establish permanent and rational marketing systems for entire crops and groups of crops. The basic device authorized by this act is the marketing agreement, the genesis of which is easily discerned. Like so many other devices, this idea crystallized during the McNary-Haugen period. The final version of the McNary-Haugen bill provided that surpluses in excess of the requirements for orderly marketing could be handled by marketing agreements between the then contemplated Federal Farm Board and farmers' cooperative associations or corporations established and controlled by cooperatives. The Agricultural Marketing Act of 1929 laid great emphasis upon orderly marketing and effective market organization but did not specifically provide for the use of marketing agreements.

The marketing-agreement idea was revived and made an integral part of the Agricultural Adjustment Act of 1933. The marketing-agreement provisions of the act permitted the organization of processors, distributors, and cooperatives into groups exercising centralized control over the marketing of agricultural products, and exempted such groups from antitrust laws. These provisions were supplemented by others granting the Secretary of Agriculture power to license distributors in order to eliminate unfair practices and to effectuate the general purposes of the act. Because of the doubt cast on the validity of the licensing provisions by the Panama Refining and Schechter decisions of the Supreme Court, orders of the Secretary were substituted for licenses in the 1935 amendments to the Agricultural Adjustment Act. The principal marketing-agreement provisions of this amended act were reenacted as the Marketing Agreement Act of 1937.

SURPLUS DIVERSION AND NEW USES

The Agricultural Adjustment Act of 1938 contains important provisions designed to widen the market for farm products. In the forefront are provisions authorizing the continuation of the Federal Surplus Commodities Corporation and the establishment of four regional laboratories to conduct research into and develop new uses and outlets for farm products. In addition, the Secretary of Agriculture is authorized to—

use available funds to stimulate and widen the use of all farm commodities in the United States and to increase in every practical way the flow of such commodities and the products thereof into the markets of the world (5).

The idea of diverting farm surpluses into domestic channels antedated the present act, as evidenced by the congressional resolutions of 1932 directing the Farm Board to make available to the Red Cross up to 40,000,000 bushels of wheat and to distribute 45,000,000 bushels of wheat and 500,000 bales of cotton to distressed persons in the 1932 crop-failure areas.

The original Agricultural Adjustment Act authorized the Secretary to make use of available funds for the disposal of surplus agricultural products. This authority was greatly emphasized and extended by section 32 of the amending acts which provided that 30 percent of the receipts from import duties be segregated for use in surplus-removal operations.

Operations designed to increase domestic use of farm products by low-income consumers were carried out first by the Agricultural Adjustment Administration in conjunction with the Federal Surplus Relief Corporation, and since 1935 have been carried out by the Federal Surplus Commodities Corporation. As to new uses, the regional research laboratories represent the culmination of a line of activity in which the Department of Agriculture has long been engaged and to which both farm and industrial groups have given wholehearted support.

The provisions for encouragement of exports have a distinguished and obvious lineage in the equalization-fee plan which was a prominent feature of the McNary-Haugen bills and in the export-debenture plan of the late 1920's which was written into the proposed McKinley-Adkins bill of 1926 and Jones-Ketcham bill of 1928. Last of this line was the domestic-allotment plan, which was designed primarily to avoid the appearance of export dumping, which had been charged against both the equalization-fee and the export-debenture plans.

The history of the special provision enacted in 1935 that sets aside 30 percent of annual customs revenues to finance disposal of surplus at home and abroad illustrates clearly the influence of past events on present

legislation. Representative Marvin Jones, of Texas, Chairman of the House Committee on Agriculture since 1933, was one of the early supporters of the export-debenture plan, which indirectly would have diverted customs revenues to pay bounties on agricultural exports. Chairman Jones conceived section 32 of the amending legislation as a direct way to accomplish the same purpose but broadened the purposes for which the funds could be used so as to include disposal of surpluses for relief and other domestic uses.

In many quarters consideration has recently been given to current proposals which would give the export-diversion idea a more prominent place in the present program than it now occupies. In some of their forms these proposals would virtually abandon other approaches, such as soil conservation and orderly marketing, in favor of a program of large-scale export diversion plus certain direct subsidies to farmers.

While under the present program large-scale attempts to stimulate exports have been made, notably with wheat and cotton and their products, it needs to be recognized that in view of existing world conditions this approach is less likely to attain desired results now than in earlier periods. With the progressive narrowing of world markets for agricultural products and with increasing supplies of competitive substitutes throughout the world, it seems impossible to increase our agricultural exports much above the recent level without causing sharp declines in price. Furthermore, many important countries to which we used to export in large volumes are engaged in a drive for agricultural self-sufficiency, and their strongly centralized governments are almost certain to resist effectively any influx of large supplies from abroad which would tend to make these countries more dependent upon outside sources of supply.

In presenting these new proposals, the proponents naturally give only the broad outlines, which possess a disarming appearance of simplicity, particularly when contrasted with the administrative detail necessary to carry out the present program. A more rigorous examination of such proposals reveals that without exception their effective operation requires detailed administration. For example, many of these plans call for the segregation of farmers' crops into two parts, one for export and one for domestic use. This means that quotas must be determined and enforced on the individual farms. Again, many of the plans imply the extensive regulation of all types of middlemen and processors in order to secure information as to the prices at which different portions of various crops are bought and sold. In any event, it is certain that proposals which involve the abandonment of vital parts of the current program should be carefully scrutinized to see whether or not they are really any simpler

than the current program and whether their promise of greater gain for the farmer is a reality or only a mistaken hope.

CROP INSURANCE

The Agricultural Adjustment Act of 1938, under title V, cited as the Federal Crop Insurance Act, sets up the Federal Crop Insurance Corporation, an agency of and within the Department of Agriculture. This new agency has a capital stock of \$100,000,000 and is empowered to write insurance against loss in wheat yields, commencing with crops planted for harvest in 1939. This new development has a background of its own. The hazards of farming have long been a subject of serious discussion, and in seeking modification it is but natural that the idea of insurance, applied so successfully to the elimination of other hazards, should be tried out in the field of agriculture.

As early as the latter part of the nineteenth century, private companies made an attempt to enter the field of all-risk crop insurance, and governments have been interested in the possibilities of crop insurance from an early date. The topic has been a matter of public interest in the United States since the early 1920's, and bills relating to crop insurance and resolutions calling for investigation of its possibilities have appeared frequently since that time. The immediate inspiration of the present law was the report of the President's Committee on Crop Insurance in December 1936, which proposed, among other things, that a crop-insurance plan for wheat, effective in 1938, be recommended to Congress.

SOME NEWER PROBLEMS

Even a brief history of agricultural policy since the end of the World War would be incomplete without some reference to three types of problems that have become increasingly prominent during the past decade. Approaches to a solution of these problems have been tentative and experimental, but there is a growing realization that they must be met.

One is the problem of tenancy. This is not a new problem. Ever since 1880, when the Census Bureau, under Francis A. Walker, first began to collect figures on farm tenancy, some attention has been given to the steady growth of tenancy at the expense of operator ownership. The trend did not become a matter of public concern, however, partly because other agricultural problems seemed more urgent and perhaps partly because farm tenants are not a homogeneous or articulate group. But during the last few years farm tenancy has received new emphasis as a factor in soil misuse. In addition, the fact that 42 percent of our farmers are now tenants, with the percentage as high as 70 in some States, seems to some

people to be a sharp contradiction of the traditional American ideal of individual ownership.

The problem received prominent recognition through the appointment in 1936 of a Committee on Farm Tenancy, composed of citizens from various parts of the country. In 1937 Congress passed the Bankhead-Jones Farm Tenant Act, and under this act increasing sums have been appropriated each year to be loaned for the purchase of farms on a 40-year-mortgage basis. The administration of the fund, which is still small enough to be considered only experimental, is now in the hands of the Farm Security Administration. Meanwhile an attack on the tenancy problem is being made from another angle through the study, in several States, of local customs and laws relating to leases. The idea here is that many of the so-called evils of tenancy may be largely a matter of the conditions of tenure and that by an intelligent approach on the part of States and communities, these conditions can be made consistent with the welfare alike of tenants, landlords, and the soil.

The second problem is that of the large group of farmers who are on the fringe of commercial production or entirely outside it. This problem is possibly a belated backwash of the industrial revolution, finally having its full effect in agriculture.

Broadly speaking, three conditions prevented the appearance of a surplus farm population in the United States in the past. At first American farmers were largely self-sufficient. Next they were kept busy supplying the wherewithal for building up American industry, which was founded on farm exports. Then, when industry got into its stride, it was able for a time to absorb whatever surplus population there was on the farm.

One by one, these three conditions were reversed. The United States now has a highly commercialized agriculture which, like industry, is constantly undergoing technical improvement so that year by year fewer workers are needed to produce a given quantity of products. At the same time the domestic demand for many important food staples, unlike that for industrial products, is relatively inelastic; adequate industrial opportunities for the part of the farm population released from labor by improved techniques do not exist at present; and the rate of natural increase among rural people remains relatively high.

The net effect of these conditions is summed up in the fact that 50 percent of our farmers now produce 90 percent of our commercial agricultural products. The other 50 percent—which is more likely to grow than to be reduced—perforce constitutes a marginal and in part a surplus farm population. How are these people to make a livelihood?

The situation is not a theory but a hard fact. It is made worse by any adverse condition such as the recent widespread droughts. The marginal and surplus farmer is the rural counterpart of the unemployed city worker, and both would of course disappear if industry expanded enough to absorb them. Throwing the problem on industry's doorstep, however, does not alleviate the immediate plight of some millions of American citizens. On humanitarian grounds alone, their problem cannot be left unsolved. Aside from humanitarian grounds, there is the question of how healthy a society can remain if so large a number of its members have no apparent economic function and therefore no self-respecting way to gain a subsistence.

Obviously there is no simple or easy solution for this problem, which in fact is only one aspect of a much more complex situation. Too little has been done as yet to draw any very significant conclusions, though recognition of the problem as of major importance is itself significant. A limited attack has been made on the problem, first by the Federal Emergency Relief Administration, then by the Resettlement Administration, and today by the Farm Security Administration. This agency uses an individual-case-study method. The situation of each family with which it is concerned is studied individually, and an effort is made to give the family an adequate start toward self-sufficiency and a modest livelihood. This may involve resettlement of the subsistence-homestead type. The work proceeds on the theory that for the most part the rural unemployed are average folk, willing and able to make a living and that they can find a place for themselves if they can get the right kind of start. The Farm Security Administration has also attempted some cooperative projects, and it has started a promising program for medical care in rural areas.

The third problem has to do with the domestic consumption of farm surpluses. Orthodox methods for disposing of these surpluses have already been mentioned. An ingenious new method has recently been receiving considerable attention. This is the food-stamp plan being tried by the the Federal Surplus Commodities Corporation as a possible way to overcome some of the shortcomings of distribution through ordinary relief channels. The food-stamp plan has three distinctive features. It attempts a systematic correlation of surplus production with actual need—for example, by getting certain foods to people whose diets are deficient. It operates through regular trade channels, making commercial dealers an integral part of the picture. And it apparently stimulates some additional buying of the surplus products beyond what the stamps themselves would provide.

All these aspects of the current farm problem are discussed at greater

length elsewhere in this Yearbook. They are brought into the historical record here because though relatively new, they indicate that under the drive of necessity there has been a significant broadening out of agricultural policy beyond the areas of price, export, and credit with which it has been traditionally concerned.

AGRICULTURAL POLICY; ITS MEANING AND EVOLUTION

A nation's agricultural policy is not set forth in a single law, or even in a system of laws dealing directly with current farm problems. It is expressed in a complexity of laws and attitudes which, in the importance of their influence on agriculture, shade off from direct measures like the Agricultural Adjustment Act through the almost infinite fields of taxation, tariffs, international trade, and labor, money, credit, and banking policy.

The combined indirect effect of policies in many of these other fields may be nearly as important, if not fully as important, in determining progress toward the goal—equality for agriculture—as are the direct approaches to the farm problem. A common tendency to ignore these related factors has been apparent in the oversimplification of most statements of what is called the farm problem.

Our own experience with farm legislation indicates that a nation never reaches the time when it can say its agricultural policy is fixed and complete. Evolution and change are nearly the only constant factors, partly because conditions at home and abroad which policy is required to meet are themselves constantly changing.

The intense effort and deep study of the business of farming in the United States, which so many individuals and groups have contributed during the two past decades, have produced the present system of agricultural laws and organizations, but it cannot be said they have solved the farm problems. Presumably these laws themselves will be subject to change and displacement. But if experience in this field teaches anything of value, it is that a continuous thread runs through the evolution of an agricultural policy notwithstanding the manifest inconsistencies and contradictions that appear in it. The programs of the present become the foundations for the programs of the future.

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7. The Evolution of Parity*

By JOHN D. BLACK

Professor of Economics, Harvard University

Not until the reader has clearly in mind the manner in which Parity was brought into the agricultural reform movement, and later became the basing point for much of the administration of the New Deal agricultural programs, is he in position to sense the full significance of the issues about to be analyzed. This chapter will attempt to fit into a moving panorama the forces, institutions and personalities that have brought the parity issue to its present stage.

In its inception, the parity idea had two origins. If there never had been any statisticians collecting data on prices of farm and other commodities, there never would have been any "farm parity." On the other hand, the parity movement is merely the outward expression of a maladjustment in the relation between agriculture and the rest of society which came at the end of the last war. The parity concept was introduced into the discussion of these maladjustments at a conference on agricultural policy called by Secretary Henry C. Wallace in the winter of 1922. The name given it then by Mr. George Peek was "fair exchange value." The first McNary-Haugen bill spelled out very carefully the method by which the amount of the inequality of purchasing power of farm products was to be measured, and how this inequality was to be dispelled. Mr. Peek, in his pamphlet "Equality for Agriculture" privately printed in 1922, defined "a fair exchange value for any crop" as "one which bears the same ratio to the current general price index as a ten-year pre-war, average crop price bore to average price index, for the same period." According to the illustration he used, wheat should be \$1.60 a bushel in 1922, as compared with \$1.02 in a ten-year base period, because the 1922 general price index number was 152 as compared with 97 in the same base period.

Mr. Peek got the statistical bearings for his idea in USDA Bulletin 999, *Prices of Farm Products in the United States* by George F. Warren,

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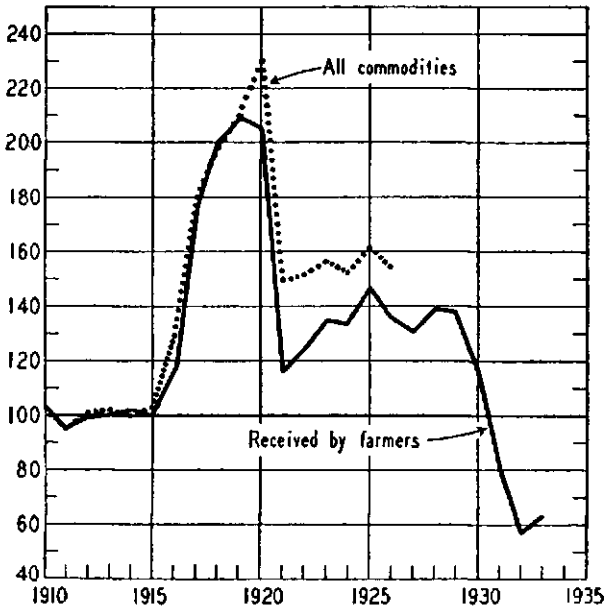


CHART I. First Published Index Numbers of Prices Received by Farmers; also Index Numbers of All Commodities at Wholesale.

(1910-14 = 100. Farm prices based upon 1918-23 weights; wholesale prices upon 1919 weights. The latter index is that of the Bureau of Labor Statistics.)

published in August 1921. Professor Warren had been going about the country presenting a varicolored chart showing the separate price movements for 20 farm products, the movement of the weighted average price for 31 farm products, and the movement of the "all-commodities" index of the Bureau of Labor Statistics. The all-commodities price movement was explained as due to monetary factors and the individual-commodity price movement as due to conditions of supply and demand for that product. Professor Warren was asked to come to Washington and put his chart and explanations into a government bulletin. The ratio of prices received by farmers to the all-commodities wholesale price index was designated as "the purchasing power of farm products." The farm price series was a weighted average, the relative production of different crops and livestock products reported in the 1910 census being used as weights.

The United States Department of Agriculture began publishing a purchasing power index series currently in *Weather, Crops and Markets* in March 1922. Prices in 1913 were called the base, or 100. The 1921 annual figure on this base was 61 as compared with 111 in

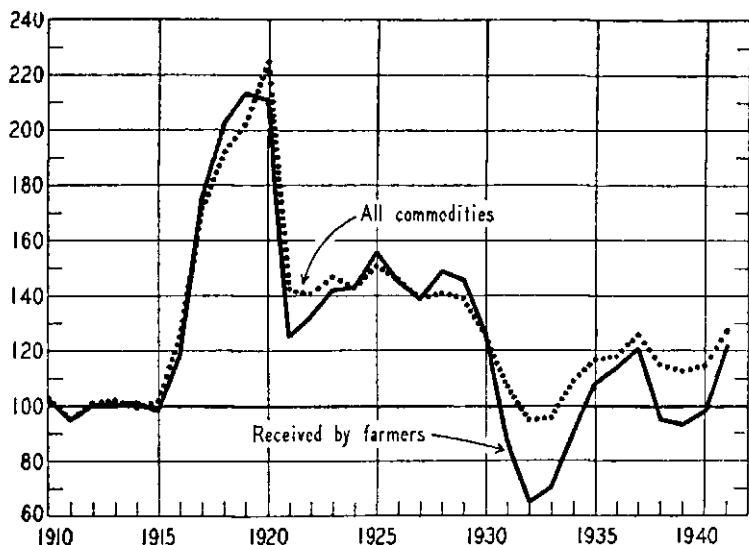


CHART II. Second Series of Index Numbers of Prices Received by Farmers; also Index Numbers of All Commodities at Wholesale.

(1910-14 = 100. Farm prices based upon 1924-29 weights, wholesale prices upon 1927-29 weights.)

1918. This much had the "exchange value" of farm products fallen away since the war peak.

In 1924, it was possible to shift the weightings to use the new 1920 census data, an average of the years 1918-23 being taken to smooth out the irregularities in crop yields of single years. This had the effect of reducing the amount of apparent disparity, since the farm products whose prices had risen most had increased most in output and hence in the weighting. Chart I shows the farm price index series calculated in this way, set in contrast with the all-commodities wholesale price series published by the Bureau of Labor Statistics. The spread between those two series was said to measure the "disparity in purchasing power of farm products." Mr. Peek wanted to bring these two together. Then there would be a "fair exchange value" between farm and other products. The series shown in this chart were the statistical bases for all the agitation for price adjustment legislation during the whole McNary-Haugen period from 1923 to 1929. The disparity, or purchasing power ratio, was 77 in 1921, but had narrowed to 91 by 1925.

It narrowed still more in the next few years. In fact, when the next revision was worked out, with average farm production in 1924-29 used as weights, and average 1927-29 production as weights for the all-

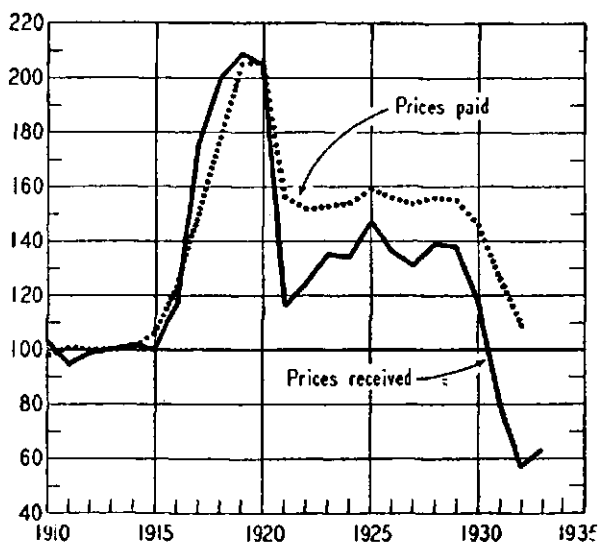


CHART III. First Index Numbers of Prices Paid and of Prices Received by Farmers.

(1910-14 = 100. Prices received are based on 1918-23 weights; prices paid, upon 1920-25 weights.)

commodities series, the parity ratio appeared at or above 100 from 1924 to 1929, as shown in Chart II. Again the farm products whose prices had risen most had increased most in output—notably such items as dairy products and tobacco. But this revision was not released until September, 1934.

In the meantime, it had been recognized that farmers spend little of their income in wholesale markets, but most of it in retail markets, and that retail prices had been relatively high since the war as compared with wholesale prices. Accordingly a special index had been under construction for the prices of commodities actually bought by farmers mostly in retail markets. This was released in 1928 as the index of "prices paid by farmers." Chart III shows this index in parallel with the original index numbers of prices received by farmers as given in Chart I. The parity ratio in these terms was 74 in 1921, and still 89 in 1929. Here was new thunder for the McNary-Haugenites.

The new index for prices received, released in 1934, had been under construction for some time. At the same time, the index of prices paid was being brought up to date by introducing as weights the 1924-29 quantities of things bought by farmers. These two series are highly important because the 1933 Agricultural Adjustment Act was administered in terms of these from the beginning. They were near enough to com-

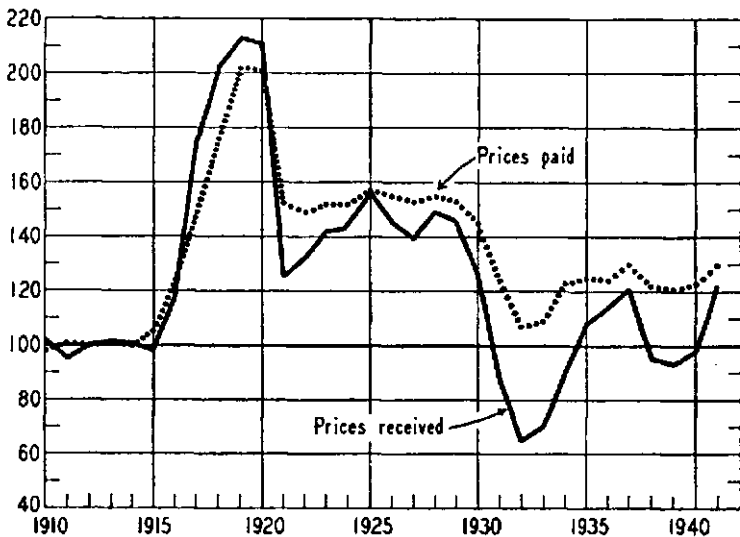


CHART IV. Second Index Numbers of Prices Paid and Received by Farmers. (1910-14 = 100. Both based upon 1924-29 weights.)

pletion for use in the summer of 1933. Chart IV presents those two series. The 1921 parity ratio here is 82, that for 1925 is 99, and that for 1929 is 95. But the new depression had widened it to 61 by 1932. The two series were brought fairly close together from 1925 to 1929 because farmers were in these later years buying more of things whose prices had declined considerably—automobiles, for example.

Perhaps by this time, some readers of this chapter will find their heads in a maze. Of what use can statistics and index numbers be as a guide if, by juggling weights and the like, a 1921 parity ratio is first 61, then 77 in Chart I, then 74 in Chart III, and finally 82 in Chart IV? First it must be made clear that none of these changes was made deliberately to make a case for or against the farmers. Statisticians cannot be blamed when economic facts change. If automobiles and tractors come into much greater use, or cigarette tobacco, the statisticians can do nothing honestly and scientifically but record the effects of it in their index numbers. They must do their best to keep the index series abreast of changing facts. Some critics of the farm program in the last two years have openly charged the Department of Agriculture with failing to provide for economic changes in their index series. It should be obvious that this is not true. A case might be made for its not doing so promptly enough, or fully enough, but that is all.

Second, the shift from a wholesale to a retail price basis was

thoroughly in keeping with the facts. It is merely unfortunate that retail prices could not have been used in the first place in Bulletin 999.

The first McNary-Haugen bill, introduced in 1924, was defeated in the House. The second and third bills, still containing the "fair exchange value" principle, but stated in more general terms, were passed by Congress in 1927 and 1928, but were vetoed by President Coolidge. In the thinking of Mr. Peek, of Chester Davis—who was Mr. Peek's field general during most of the McNary-Haugen campaign—and of Mr. Charles J. Brand and others who helped formulate the proposed legislation, the parity idea was its vital principle. Mr. Peek tied up his ideas of parity with foreign trade. He was a staunch Republican and wanted farmers to get the equivalent of tariff benefits on export farm products. This would, as he said, just be an extension of the principle of the protective tariff—protect export products as well as import products. Tariff duties should equalize the differences in costs of production between the home and foreign country. If they did, and prices could be made to rise to the full tariff-duty level by forced sale abroad of the export surplus, then the farmers would get cost of production. Such duties would at the same time necessarily equal the amount of disparity in purchasing power; hence the farmers would by definition get full equality in exchange. Indeed a whimsical bit of reasoning for a trained economist! But Mr. Peek, and he was very grateful to his Maker for it, was not that kind of creature.

Nevertheless, of such stuff was the McNary-Haugen dream made; and although not much was said of fair exchange value as such in the debates on the later versions of the bills, its rootstocks were everywhere in the fertile soil of agricultural discontent of those years. The computation of the ratio of prices received for farm products to prices paid for goods bought had become an established ritual in the Department of Agriculture—and continued as such even in the Hoover Administration! Why he ever let that get by has never been adequately explained. Maybe it was because he was a mining engineer.

Even Mr. Roosevelt had to set up some kind of plausible level for prices of farm products. He could not provide the more abundant life for his farmers with no limit whatever on the abundance. The practical choice confronting the new lawmakers was between fair exchange value and "cost of production," which always has a strong following among farmers and even among business men. The Hope-Norbeck bills developed for use in the Roosevelt campaign, mainly by M. L. Wilson, took up fair exchange value as the safer basis. By that time, the farm

leaders had learned ways of talking about it that had farmer appeal. The term "parity" was coming into general use. But even at that, parity just nosed out cost of production by a whisker in the final votings in the Senate in the spring of 1933, Senator Norris leading the fight for the latter.

The first two administrators of the AAA, George Peck and Chester Davis, were almost as if by definition, devout worshippers of the parity principle. Davis now preached it from one farm's end of the land to the other—from every rostrum he ascended, in every AAA circular and press release. Likewise Secretary Wallace, until he discovered his own little Moses in the bulrushes of Egypt—"the ever-normal granary." The principal farm organization leaders also soon found parity a good rally call with their members, and congressmen with their voting constituencies. Around this standard, the beleaguered farmers now marshal their forces in their long struggle for economic "equality and independence." Seldom does any presentation at a congressional hearing on agriculture get by the quarter hour before some member wants to know what bearing the proposal has on parity for the farmers. Not without doffing in obeisance to parity does a speech on agriculture get really going on the floor of either house. There was once a farm organization that wanted "cost of production" instead of parity. Now it asks for "whichever is the higher," which is parity in most cases so far as can be figured.

The Agricultural Adjustment Act of 1933 contained a clear statement of the intent of Congress 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. The base period in the case of all agricultural commodities except tobacco shall be the pre-war period, August 1909–July 1914. In the case of tobacco, the base period shall be the post-war period, August 1919–July 1929.

But the actual drafting of the Act was mainly in the hands of a non-political group containing persons who knew that no device as crude as an inflexible application of the parity ratios in terms of a 1910–14 base uniformly to all products could be made to work in such a way as to achieve the declared goals. Accordingly they carefully instructed the administrators of the Act:

to approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets.

If tobacco wouldn't fit into the 1910-14 base period mold, because of changed conditions of production and consumption since then, it was highly improbable that all the others would. Hence flexibility was highly necessary.

At the outset there were two ideas as to how parity for any product was to be attained. Mr. Peek wanted to call in the processors and handlers and coax them into a "marketing agreement" in which they would contract to pay the producers flat parity, and not worry much over any "surpluses" that might ensue. Mr. M. L. Wilson, Mr. Davis and others believed the important need was to stabilize production at a level that would support the parity prices—or rather to move in that direction as rapidly as was possible. A Peekian agreement was worked out with the tobacco processors—but only after the growers had voted a promise to accept production quotas the next year. Mr. Roosevelt decided in favor of production adjustment for the basic crops and Mr. Peek stepped out.

There was argument also as to whether the parity intended was not fundamentally parity of income rather than parity of prices. The language of the original act was specific in terms of prices, but mentioned income also. After all, wasn't it the purchasing power of the farmer's total income that must be raised to its pre-war level if they were to have parity?

The next shifts in the legislation were in the direction of income parity. In 1935, provisions were made for bringing interest and tax payments per acre into the equation. It was being said that it wasn't enough to give the farmers price equality, that interest and tax bills had mounted out of all proportion to prices because of growing indebtedness and the expanding volume of support needed for roads, schools and the like. Chart V shows in general what the addition of interest and taxes did to the parity ratios. They were lowered considerably in the 1920's but not very much afterwards. Tax and interest payments managed somehow to come down during the depression years of the 1930's.¹

Then in the extensive revision of the Act in 1936, after the contrary court decision in the Hoosac Mills case, the parity basis was shifted over almost entirely to income—to a comparison of the purchasing power per capita of the farm population with that for the total non-farm population, still as against the 1910-14 base period. But figuring out this kind of a parity income called for much data that the Depart-

¹ Freight rates were also added in the 1938 legislation, but the statisticians pointed out that these were automatically included in the index numbers of prices paid.

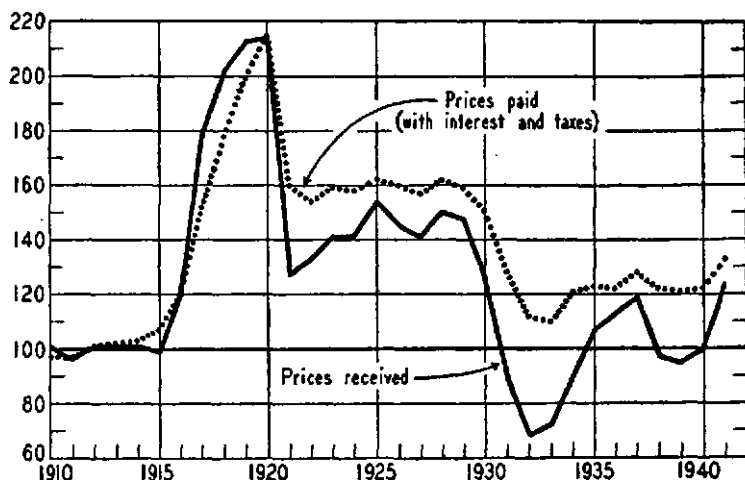


CHART V. Latest Revised Index Numbers of Prices Received and Prices Paid, Including Interest and Tax Payments, 1935-39 Weights. (1910-14 = 100.)

ment of Agriculture had never collected. And long before the collecting and figuring was done, the farmers in Congress again were hard on the lagging heels of parity prices. Prices of farm products slumped badly again after 1937. The congressmen did not want to hear any more nonsense about equalizing incomes—what they wanted was a proper price for their cotton and corn. If they got that, income would take care of itself.

The only places in which parity income is left in the present legislation is in the inclusion still of tax and interest payments, and in the provision that the "parity payments"—those general lump sums of \$200,000,000 or more annually that Congress has voted since 1938 to make up for the failure of prices to rise to parity—shall be distributed among the five basic products in proportion to the amounts by which their producers fail to realize "parity income," determined by taking into account the volume of their output times their parity price.

Also a paragraph in the 1938 legislation redefines parity income in more workable terms, as follows:

"Parity," as applied to income, shall be that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914.

By now any index numbers based on relative volume of production away back in 1925-29 are of course out of line with present realities.

The relative importance of cotton, for example, has greatly declined. The Department of Agriculture statisticians have accordingly been at work revising this index series to use the 1935-39 weights. The index of prices received is raised a little by the shift to the new weights—2 points in 1938, 1939 and 1940. The index of prices paid, in turn, is lowered 3 points in these years. Much of the reduction in the latter index is the result of a belated inclusion of proper weighting for power machinery and fuel oil. The combined effect of those two shifts, one up and the other down, is to raise the parity ratio an average of 4 points for the years 1938-40. Including interest and tax payments, as required under the present acts, lowers the parity ratios an average of 3 points for these years.² Chart V is in terms of the final form of the parity ratios as they should now be used.

The Department of Agriculture, however, has not come to the point of releasing these ratios currently in *Crops and Markets* and *The Agricultural Situation*. They would have the effect of lowering parity prices by around 4 percent. It will be apparent that this is entirely consistent with the facts, and with practice in the past, but there are men in Congress and out who do not understand index numbers and parity, and who are naturally uneasy about what they do not understand—as was a bulldog named Muggins, once in the writer's family, who would pitch into any dog twice his size, but would bark and whine all night long at a peculiar fluttering shadow made by the moonlight, the wind, and the waving branches of a big tree on a slope facing the house.

The March index of prices paid, including interest and taxes, based on the old weightings of 1925-29, was 146. This is multiplied currently into the average prices of each product in its designated base period—1910-14, 1919-29, or what not—to get the current parity price. Thus $146 \times \$.98$ gives the current March parity price for wheat, \$1.43. If the new revised index were used, the current parity price would be \$1.40.³ According to the old series, farm prices have been above parity most of

² Interest and tax payments carry a weight of 11 out of 100 in the index of prices paid.

³ To compute parity price from index numbers, one needs to understand something about how index numbers are made. The number for the base year of such series is always 100. This makes it possible to look upon the other numbers as percentages of the base-year number. If the base period is several years, as 1910-14, then the numbers average 100 for these years.

In computing current parity price for tobacco, with the base period 1919-29 in use, it is the ratio of the current index number of prices paid to the average of the numbers from 1919 to 1929 that is multiplied into the base period price of tobacco.

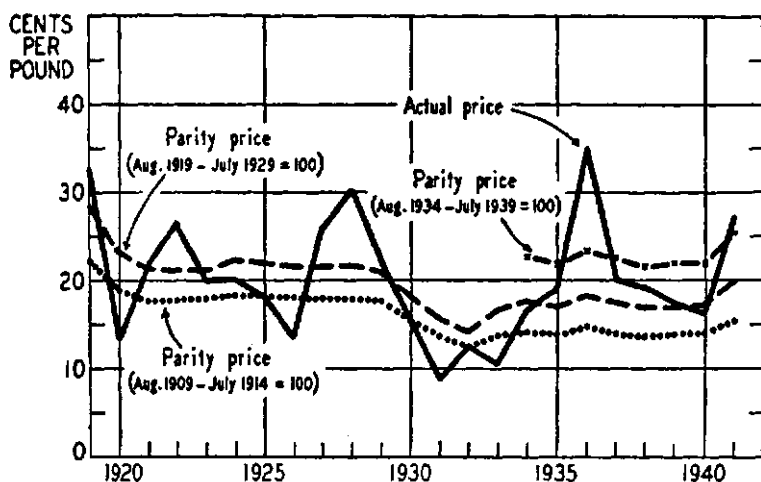


CHART VI. Parity Prices for Burley Tobacco According to Three Different Base Periods.

(For years beginning October. From *The Tobacco Situation*, September 1941, with preliminary figures for 1941 added.)

the time since September, 1941. According to the new one shown in Chart V, they have been above parity all the time since July.

Many have urged that wages of hired farm labor should be included in the index of prices paid by farmers. To have done so would have lowered that index slightly in 1938-40. In recent months, however, it would have raised it a point or two. Farm wages are a third higher now than they were last spring; and had already risen somewhat a year ago. These are national averages, of course; in defense areas the military program has had more pronounced effects.

Several groups in this country—notably the cotton producers and in some measure, the dairy farmers—have not prospered as greatly as others since 1933, in spite of the bounties offered by the AAA program. In later chapters, X and XI, the whys and wherefores of this will be spelled out in detail. An early result of this was the provision already noted for supplementary “parity payments” and for distribution of these in part according to a formula that would insure cotton growers a sizable though restricted fraction thereof.

The burley and flue-cured tobacco growers helped themselves out again by getting Congress, in November, 1940, to shift the base period from 1919-29 to 1934-39. The effect of this upon parity prices is indicated by Chart VI.

The groups selling market milk had secured an even more liberal charter under which to juggle parity, in a revision of the marketing agreement part of the AAA Act in 1937. Whenever the statistics for a market do not go back to 1910-14, the post-war period 1919-29 can be used as a base,

or all that portion thereof for which the Secretary finds and proclaims that the purchasing power of such commodity can be satisfactorily determined from available statistics of the Department of Agriculture.

Moreover, it was further provided that whenever parity prices so determined

are not reasonable in view of the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products in the marketing area to which the contemplated agreement, order, or amendment relates, he shall fix such prices as he finds will reflect such factors, insure a sufficient quantity of pure and wholesome milk, and be in the public interest. Thereafter, as the Secretary finds necessary on account of changed circumstances, he shall, after due notice and opportunity for hearing, made adjustments in such prices.

Nominally this provision covers all products under marketing agreements or orders, but it was obviously meant for the milk producers. For the principal milk markets, the needed 1919-29 milk price data are available, though not always for Class I, Class II and other classes of milk separately.⁴ Parity price is figured by the Department of Agriculture for each class of milk separately, but also as a check in terms of the "composite" or "blended" price. Computed in this second way it may run above or below a weighted average of the separate class parities. The Department does not attempt to keep milk prices exactly at parity figured either way. It assumes that the conditions of supply and demand which it is instructed to take into account should work either way, justifying less than parity as well as more than parity.

This latter, of course, was not really in the minds of those who drafted the covering provision, and is proving rather difficult for some of them to accept. Demands for price increases have arisen recently in most of the markets under federal agreements,⁵ even though supplies of milk have tended generally to increase more rapidly than consumption. The spokesmen for the milk producers have commonly asserted

⁴ Class I milk is that which is consumed as fluid milk, Class II ordinarily that which is used as cream or converted to other product uses. The New York market, however, has ten classifications of uses of milk.

⁵ Technically most of the markets are under "orders," and a few are under "agreements" or "licenses."

that their constituents are expanding their output only as a short-run response to patriotic appeals for more milk, and that they cannot afford to do it long. The evidence in support of this contention is by no means always conclusive.

When this article went to press, price increases had been granted in 16 markets under federal orders. Prices had been advanced in 3 others by industry agreements without amendments to orders, as also in effect in the 6 markets under licenses.

These liberalizations of parity did not reach all the dissatisfied commodity groups, and in the summer of 1941 the cotton and dairy legions began storming the fortress with great guns, urged on by the rising levels of wages, non-farm as well as farm. Senator Thomas got himself appointed Chairman of a subcommittee to inquire into the whole subject of parity. What he really wanted was a general shift to a 1926 base for all products. Cotton prices were very favorable then. In October he called a large and divergent group of farm leaders together in Washington to help him, including the state commissioners of agriculture—a body of men ordinarily taking little part in national agricultural affairs. Parity held high court, but a noisy one. The talking was wilder and looser than the representatives of some of the more substantial farm organizations could altogether stomach. Parity was all they had been asking for, and here were men wanting parity and a quarter. The following extracts from the authorized press release issued following this conference, are significant indeed:

We, the assembled farmers and farm representatives of thirty-seven states, meeting together in the city of Washington, District of Columbia, for the purpose of aiding and protecting agriculture, hereby declare our avowed determination to secure for the farmer of this nation his proper relationship with other branches of organized society by demanding for raw materials, which he has to sell, prices that will insure the above-mentioned parity relationship.

Further, we do declare our intention to resist any attempt by any official, or group of officials, in our government who by act, or statement or otherwise affect the interest of agriculture adversely, until such a relationship as we deem essential to our own welfare has been established.

In this crisis our government is calling upon many industries and certain branches of agriculture enormously to increase production. Either by price, contract or otherwise, industrial plants are being indemnified against loss on operation or expansions. We hold that the same principle should apply to the individually-owned farm.

Recent price rises of agricultural commodities have been both normal and needed, if farmers are not to break under the heavy load of national defense. They still lack much in restoring the economic balances among groups or giving farmers a fair share of the national income.

Our deliberations have revealed a common objective as to parity. While present parity operations have aided agriculture's status, we still desire to improve its legislative and administrative application so that farmers may obtain their rightful share of the national income. But we have also discovered that the same legislative parity formula may not always operate equitably for all commodity groups. We have therefore agreed that the present method of computing parity, as prescribed by law and administrative action, should be modernized for those commodities that cannot be priced adequately by the old method, and that the exponents of new parity methods should, at this juncture, present their proposals immediately to the Congressional Committee concerned with this problem.

The dairy group at this meeting presented a proposal to shift the base years to 1920-29—the series of years when dairy product and cotton prices were unusually high—and also to tie parity prices onto industrial wage rates. They pointed out that the index of prices paid by farmers was based half on supplies used by farmers in production and half on goods used in family living. It was all right to base the first half of parity prices on prices paid for supplies. But the family living part of it should improve over the years, just as had the living of the city workingman since the World War along with his much higher real wages. It couldn't do this unless real farm income rose as much as real wages. Parity as now figured, they argued, tends to freeze the farmer's standard of living at its pre-war level. Hence the proposal was to base parity one-half on the index of industrial wages, which in July, 1941, stood 45 percent higher than its 1920-29 average. The effect of this would have been to raise parity prices for corn only 3 percent, and for wheat 15 percent; but parity prices for cotton by 34 percent, for butterfat by 39 percent and for wool by 57 percent. It was a proposal that would have left high the parity prices that were high by the now existing standard—those for corn and wheat—and raised greatly those that were too low according to the existing standard. None lowered; some raised greatly!

As the Price Control Act of 1942 was being drafted and debated in the House, provision was inserted, under the leadership of Congressman Steagall, for setting the ceiling, first, at nothing lower than 110 percent of parity, using whatever base period is provided for the different commodities; then later under the Brown Amendment, for substituting, whenever higher, the average of 1919-29 prices, without any regard to the purchasing power formula; and in due time, the October 1 and December 15 prices. In this form the bill went to the Senate as HR 5990 on January 10, 1942.

In the Senate, the dairy group proposal to include industrial wages in parity, after being toned down to give the wage item a weight of

only one-fifth instead of one-half when the index base was shifted back to 1910-14, was introduced and passed as the O'Mahoney Amendment. As in 1921 earlier, the dairy group joined in alliance with the western wool-growing interests, who stood to gain very greatly from it. Senator O'Mahoney votes in Wyoming. The O'Mahoney Amendment, according to O'Mahoney's own figures would have raised the ceiling on wool prices to 37 cents a pound, as compared with a 110 percent parity of 29 cents; the ceiling of butterfat to 45 cents as compared with 42 cents; that on wholesale milk to \$2.91 per hundred as compared with \$2.08. Comparable figures for hogs are \$12.35 and \$11.44; for wheat, \$1.46 and \$1.40; and for cotton, 20.0 cents and 19.6 cents. Parity prices in January called for an index of prices received of 144; 110 percent of parity for an index of 158; and the O'Mahoney Amendment, according to his testimony, for an index of 172,⁶ or 120 percent of parity.

As will be remembered, President Roosevelt vigorously protested the O'Mahoney Amendment, and it was dropped in the House-Senate conference. But this did not settle the issue of industrial wages *vs.* farm prices. The Farm Bloc did not retreat from its position. Nor did it respond with a cordial, "Yes, Mr. President—only too glad to help you out," when the Chief Executive in his April 28 message to Congress made the following formal request:

For nearly nine years it has been the policy of the government to seek an objective known as "parity"—or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity.

This calls for the second legislative action which I have mentioned. Under a complicated formula in the existing law, prices for farm products—prices which housewives have to pay for many articles of food—may rise to 110 percent of parity or even higher. It is the fault of the formula. In the case of many articles this can mean a dangerous increase in the cost of living for the average family over present prices.

In fairness to the American people as a whole, and adhering to the purpose of keeping the cost of living from going up, I ask that this formula be corrected, and that the original and excellent objective of obtaining parity for the farmers of the United States be restored.

⁶ *Congressional Record*, January 10, p. 235.

8. The Economics of the Ever-normal Granary*

By JOSEPH S. DAVIS

Food Research Institute, Stanford University

The "ever-normal granary" was a favorite notion with Henry A. Wallace for at least 10 to 15 years before he entered the Roosevelt Cabinet. As early as 1926 he coined the phrase, taken from the Chinese. From a bright idea to play with, it increasingly became a central element in his agro-political thinking. The 1934 drought impelled him, as Secretary of Agriculture, to bring it repeatedly before farmers and the general public, inviting serious discussion. Soon he urged its outright incorporation in our agricultural policy. Congress responded in part in August 1935, but the Supreme Court decision early in 1936 interposed a severe check. This year, "with profound conviction," the Secretary has vigorously pressed the ever-normal granary as "the heart" of proposed "permanent" legislation. In some form not yet clear, provision for it will presumably be included in the new Agricultural Adjustment Act. If the scheme in practice should measure up to the high expectations held out, the lion's share of the credit will belong to Secretary Wallace, its persistent sponsor and outstanding spokesman.

Because the proposal is primarily his brain-child, it is peculiarly difficult to discuss it critically without seeming objectionably personal. Inside or outside the Department of Agriculture, anyone who subjects to careful scrutiny the idea, the arguments, the plans, runs grave risk of stepping on the Secretary's toes. I cannot avoid doing this. The forthright appraisal you expect of me will contain much that he will not like.

Now, I assure you, nothing approaching rancor or disrespect inspires my words. On the contrary, it pains me to cause Mr. Wallace pain. Ten years ago, at the Williamstown Institute of Politics, he and I occupied neighboring dormitory rooms for six weeks, took part in each other's round tables, chatted between sessions. My cordial friendship for him has not wavered since, regardless of the degree to which it is reciprocated. I admire and honor him for much that he is, and says, and does. More than he may realize, I agree with him. Yet on this topic and some others, when I cannot endorse his reasoning or share his conviction,

* *Journal of Farm Economics*, XX, 1, February 1938. Reprinted by courtesy of the *Journal of Farm Economics* and the author.

tions, I must sometimes speak out even though I offend him. He said last June: ". . . The farmers and consumers of the United States would like to know the enemies of the ever-normal granary plan—the real enemies who hide behind false whiskers and spread false propaganda."¹ Without whiskers, false or real, I stand up again to be counted against the proposal,² though I do not call myself an "enemy" of anything or anybody. So far as I am aware, I serve no special interests, and have only at stake such reputation as I may have for seeing straight.

For other reasons the topic assigned me is hard to deal with briefly, especially at this juncture. The broad idea, long stated only in general terms, is only now emerging into something approaching concrete form; and Congress will doubtless leave considerable latitude to the Secretary of Agriculture. It is difficult to make a "projective analysis" without appearing to predict the unpredictable. I must concentrate mainly on the idea, the arguments on behalf of the "principle," and how some such scheme may be expected to work with one or two commodities. Even so, it is hard to disentangle the economics from the "politiconomics" of the ever-normal granary. By politiconomics I mean a spurious imitation of economics put forward, for broadly political purposes, as if it were equivalent to the real article. "Parity price," "parity income," "fair exchange value," "fair share of the national income," are typical politiconomic concepts.

THE PROPOSED SCHEME IN OUTLINE

Secretary Wallace has defined the ever-normal granary as "a definite system whereby supplies following years of drought or other great calamity would be large enough to take care of the consumer, but under which the farmer would not be unduly penalized in years of favorable weather."³ In its evolved forms, several overlapping elements are involved: (1) government-financed storage of certain staple farm products, in substantial volume; (2) commodity loans to growers in years of large crops, to hold price-depressing influences in check; (3) releasing portions of these stocks under certain conditions, when Nature curtails the crop;

¹ Radio address, June 1, 1937.

² Administration spokesmen have chosen to ignore the considerations on the ever-normal granary that our Brookings Institution studies led us to put into print between May 1935 and February 1937. These were honest, seriously considered utterances of professional students such as are called experts if one agrees with them.

³ *The Agricultural Situation*, March 1937, p. 9.

(4) production "controls," "voluntary" or compulsory according to conditions, designed to prevent the stored surplus from growing too large; and, if occasion arises, (5) marketing quotas to replace or supplement production restraints. Essentially what is contemplated is a linked system of stored reserves, plus crop restrictions and/or marketing restrictions.

The term "ever-normal granary," apparently retained for its intended appeal to consumers, is obviously inappropriate for this whole system; but one cannot properly consider the scheme of reserves apart from the restraints on production and marketing that are proposed to be coupled with it.⁴ Secretary Wallace tries to bring production restriction under the same term by calling it "storing the grain in the soil" instead of "storing it in the bin"; but this, of course, is just *politiconomics*. What is left stored in the soil when a "soil-depleting" crop is not planted is not grain, but only a certain amount of soil moisture and fertility which, under some conditions but by no means universally or inevitably, will give higher yields when the land is again planted to the crop.

Wheat, corn, rice, cotton, and tobacco are most commonly proposed as the commodities to which the system shall be applied. Here I can deal only with wheat and corn. These loom up largest in the minds of the advocates. Moreover, many of the arguments for the linked system, as contrasted with production control as such, do not apply at all to rice, cotton, and tobacco. In this country rice is a very minor foodstuff, and a "basic agricultural commodity" only so far as the fiat of Congress can make it so. Cotton and tobacco, of course, are not foodstuffs. Tobacco stocks are customarily very large in relation to annual production and consumption, and persistent trade incentives keep them large. Cotton, even when compulsory control did its utmost, has been produced so greatly in excess of domestic consumption that the need for special reserve stocks is too remote to deserve discussion. If I refer to certain experience under the AAA cotton program, it is only for the light that it throws on the prospective working of an ever-normal granary with wheat and corn.

Spokesmen for the proposed system paint a rosy picture of what it would accomplish: essential assurance of ample food supplies for consumers, at "fair prices" through thick and thin; "ever-normal," stable supplies and prices of food, feed, and fiber crops, to the advantage of consumers, processors, dairymen and livestock producers, labor, and indeed all interests except speculators; and a stabilizing influence in the whole national economy. Sometimes these claims are qualified, but

⁴ An AAA official has criticised my earlier published discussions on the ground that they tended to mislead readers in this respect.

often they are not.⁵ Farmer spokesmen, moreover, ostensibly expect it to achieve the objectives of "parity prices" for "normal" supplies of the five specified farm products⁶ and "parity income" for the farmer.

If this roseate picture were really true, and if the cost were not excessive, the grafting of the system onto our permanent national policy would be opposed only by fools or knaves or those whose personal interest were threatened. I accept classification in none of these categories, and I venture to assert that the picture is far from true. Many of the official statements reflect extraordinary rashness or gullibility. Of course, I cannot predict just how the ever-normal granary would work if applied, but neither can Secretary Wallace, nor any or all of his staff. Incalculable influences would be exerted by weather, business reactions, public opinion, and public policies at home and abroad; by choices of millions of individual American farmers; and by decisions of those administering the program. But one can appraise various arguments and consider in advance various likely possibilities.

CONSUMER PROTECTION

A whole series of arguments for the ever-normal granary system are directed toward inducing consumers to believe it essential to protect them against food shortage and/or oppressive food prices. Practically none of these "politiconomic" arguments rests on a solid economic foundation.

In the fall of 1934 Secretary Wallace interpreted "the lesson of the cycle of the generations" thus: "There probably will be serious food shortage over the entire world beginning sometime during the next ten or fifteen years, and . . . the shortage once definitely started will continue for a number of years, with an intensity varying . . . with the weather."⁷ Conceivably this prophecy was truly inspired. I will merely say that extensive and prolonged research on world food problems, past and present, affords no basis for anything like it; that, on the contrary, every decade

⁵ Only rarely has Secretary Wallace openly admitted, as in an address on September 10, 1936, that "We are not even certain that we have found a method to prevent the recurrence of alternate glut and scarcity which make our farm income charts look like a series of high hills and deep valleys. We think we have but we cannot yet be sure."

⁶ For example, Earl C. Smith, Vice-President of the American Farm Bureau Federation, testifying before the House Committee on Agriculture last May, expressed the conviction that the provisions of the draft bill then under consideration "would keep the price level effectively confined . . . between 10 per cent below the parity and 10 per cent above parity."

⁷ *New Frontiers* (New York, 1934), p. 232.

sees increasing economic assurance against world food shortages due to adverse weather or any cause but devastating general war; and that our new agricultural policy correctly implies that, in this country, prospective abundance of wheat and corn, not prospective national scarcity, presents the difficult problems to those with exaggerated ideas of "fair prices."

More specifically, the succession of poor crops in North America from 1933 through 1936 has been used as a basis for urging the consumer's need of ever-normal-granary protection. Secretary Wallace has presented the scheme as "a better mechanism to level out the years of feast and famine."⁸ He has said: "The American farmer owes a sacred duty to the American consumer to see that he is adequately fed no matter how severe the drought."⁹ Dr. A. G. Black said recently: ". . . the first and foremost provision of any comprehensive program for meeting future problems of surpluses, of falling or fluctuating prices, or of drought, will be to assure an adequate food supply for the Nation."¹⁰ It is ostensibly on such grounds that Congress is asked to provide for building up government-financed supplementary grain reserves, such that after good crops there will be minimum total carryovers of perhaps 200 million bushels of wheat and 350 million bushels of corn. "Without such stored quantities to call upon in time of shortage," said Dr. Black, "prices tend to rise to heights which tempt farmers to plant to excess of needs in succeeding years."¹¹ Secretary Wallace said last May: "Since the droughts of 1934 and 1936 the consumers have been heavily penalized by the lack of protection which such a plan as the ever-normal granary would afford."¹² Again he said: "To keep agriculture producing on a basis that will afford ample assurance of national food supply it is necessary that farmers shall receive their fair share of the nation's income."¹³

Hardly one of these statements bears analysis. Even if farmers have not received for years what Secretary Wallace computes as their "fair share of the national income,"¹⁴ there is no sign of their voluntarily

⁸ June 1, 1937.

⁹ August 19, 1936, p. 5.

¹⁰ Address at Frederick, Md., August 11, 1937 (197-238), p. 7.

¹¹ *Ibid.*, p. 8.

¹² *House Committee Hearings, Series C*, p. 137.

¹³ *Ibid.*, p. 136.

¹⁴ Secretary Wallace was conservative in saying at Caldwell, Idaho, on August 4, 1937: "Scarcely anyone denies that farmers ought to have their fair share in the National income." No one wants farmers to be underpaid, but many would deny the economic validity of the official definition of what their "fair share" is.

failing to produce abundant food supplies for the nation. Whether individual consumers will be adequately fed is quite another matter. The long campaign for surplus-control measures testifies unmistakably to the absence of danger of food shortage resulting from farmers' actions or inaction. Prices well below computed parities have induced farmers to plant acreages that can be expected, on the average, to yield far more wheat and corn than the nation can readily use. At any levels thus far suggested, the ever-normal granary carryovers would be quite inadequate to "level out" such corn crop failures as those of 1934 and 1936, or to insure us against four short crops of wheat in a row as in 1933-36. Even the so-called "towering surpluses" that were used as arguments for production control in 1933—in the case of wheat nearly double the proposed ever-normal carryovers—did not suffice to prevent commercial imports of wheat and corn over high duties. Yet prices did not rise enough to lead to the very simple expedient of temporarily lowering those duties.

The farmer spokesmen's idea of safeguarding consumers appeared in a provision in the Flannagan bill (H.R. 7577). Release of wheat and corn stocks and other relaxations were authorized when the farm price reached 10 per cent above parity. Yet even in 1936-37, after three short world wheat crops, the weighted average farm price of wheat in the United States was only 88 per cent of the official parity, and at its peak in April, 1937 the monthly price hardly reached 8 per cent above parity. Need I comment on the unrealistic character of such provisions?

Crop-wise, the four years 1933-36 were unprecedented in our history. Decades or centuries may elapse before this experience is repeated. Yet though we utilized only a fraction of our available alternatives, there was nothing approaching national food shortage, to say nothing of famine, and only limited complaints of high prices. These disastrous droughts were totally unpredictable. Ironically enough, the most drastic crop restrictions were effective in 1934, the worst drought year in our history; and so little foreseen was the corn crop failure in 1936 that the Secretary of Agriculture made no attempt to build up reserves from the good crop of 1935, as the corn loan of 1933 had accidentally done two years earlier.

If time permitted, I would pay my respects to the examples Secretary Wallace is fond of using—the biblical tale of Joseph in prehistoric Egypt and the asserted use of an ever-normal granary in China "for over 1400 years." Even if one accepts these stories at their face value, they have not the slightest significant bearing on the current problem. I will not insult your intelligence by laboring the point that the food position in ancient Egypt and in medieval China must have been totally different from what it is in twentieth century America. Perhaps there are

nations today in which "security reserves" of food may prudently be accumulated. Some recent experiences, as with Japanese rice control since 1921, yield no support; for there is no evidence that consumer security in Japan has been significantly enhanced thereby, and it is amply clear that it did not save Japanese farmers from extreme distress. Sir Arthur Salter has recently urged that the British government take steps to build up, as a defense measure, special food stocks equivalent to a year's consumption of wheat.¹⁵ But again our position in this respect is so vastly different from Great Britain's that I need not discuss the lack of parallel.

In short, the arguments for the ever-normal granary as a protection to the American consumer are unworthy of their spokesmen. Such protection is not needed, even against an unpredictable succession of bad seasons. Recent experience gives no reason to expect that, under such circumstances, the scheme would be so operated as to improve the consumers' position significantly. The politico-economic character of the argument comes out only in rare cases, when it is quietly said that the American public may not stand for crop-restriction programs unless these are accompanied by specific machinery to insure consumers against shortage or high prices. Important objectives of such restrictions are price levels much above what consumers would otherwise have to pay and farmers would be willing to continue to accept. On behalf of consumers it is notoriously easy to shed "crocodile tears."

In return for the so-called "protection" already discussed, the consumer is told that he "through the Government owes it to the farmer to see that surpluses accumulated through the years of good weather do not ruin the farmer."¹⁶ The mechanism usually contemplated includes two parts: first, loans to wheat and corn growers to encourage them to hold over their grain, and under some circumstances prohibition of sale and/or use of amounts exceeding specified quotas; and second, voluntary or (under certain conditions) compulsory restrictions in plantings.

THE LOAN POLICY

Let us consider first the loan scheme. Secretary Wallace seeks to have certain reserves of wheat built up under a crop-yield insurance program, in which premiums and losses would be settled for in wheat. He recognizes the possibility of accumulating other stocks of wheat and corn through government purchase, but sees dangers in this from political

¹⁵ *Economist* (London), October 2, 1937, pp. 12-16.

¹⁶ Secretary Wallace, address of August 19, 1936, p. 5.

pressure. The bulk of the ever-normal granary reserves would be grower-owned but government-financed, presumably under regulations broadly similar to those applied in the corn loans since 1933. While the corn collateral would be mainly stored on growers' farms, the wheat collateral would probably be stored mainly in public elevators or warehouses, much as under the cotton loans. Presumably the loans would be "without recourse," that is, any gain from price advance would go to the borrowers, any loss fall on the federal Treasury.¹⁷ Nominally, at least, the collateral would be under government control, but experience under the cotton loans shows that such control is by no means untrammelled.

There would be no difficulty in thus building up any reserves of the magnitude contemplated, except in years of very low yields. The crucial instrument would be the amount loaned per bushel. Put low enough, as on corn in 1934-35 and 1935-36, it will attract no significant borrowing. At another level, as on corn in 1933-34 and cotton in 1934-35, large amounts will be borrowed on. Not the specific loan rate, but its relation to changing current prices, will determine whether it is high or low. This relation may change during the season. Some thought the 12-cent rate on cotton conservative in August 1934, but it proved excessive. The 9-cent rate may have seemed likewise conservative in August 1937, but it has proved still more excessive. If the loan rate is put too high, whatever the intention when it was fixed, it leads to unexpected and potentially embarrassing accumulations and other undesired economic consequences.

Unfortunately, there is no reliable basis for setting a loan rate at the "right" figure. One important factor, the size of the next crop, is essentially unpredictable, regardless of the presence or absence of crop restrictions, voluntary or compulsory. Only unforeseeable drought in 1934 made the corn loan of 1933-34 a successful gamble. Even the size of the current crop may not be known within sufficiently narrow limits when the loan rate is set. As an extreme example, this year's cotton crop is now estimated 20 per cent or 3,153,000 bales above the official estimate standing when the 9-cent loan rate was fixed late in August. The extent of the foreign demand cannot be accurately appraised by the time a loan rate must be fixed; this has been illustrated in the world wheat trade

¹⁷ Secretary Wallace resents the fact that farmers do not always share in a price advance that occurs during the season. The loan feature of the ever-normal granary plan is calculated to permit borrowing farmers to reap speculative gains while the government stands any speculative losses. For the government routinely to underwrite such farmer speculations would seem to require extraordinary justification.

for several recent years. Many other instances might be cited. The statistical task is beyond all the experts that can be assembled, and from all that we can see it will remain so.

Moreover, terrific pressure from growers and their political spokesmen will usually be exerted to fix the loan rate too high, and only within limits can even an enlightened Administration resist this pressure. This has been past experience, and there is every reason to expect it in future. Farm leaders have done their best to get parity price tied into the present bill, in such a way as to limit official discretion. If the loan rate is somehow based on the uneconomic parity price, there are good prospects that it too will be uneconomically high.

I must specify some of the undesirable economic consequences of fixing the loan rate too high. The extent of this effect depends on many factors, but particularly on how excessive the loan rate proves. Too high a loan rate checks the normal flow of supplies into export, into low-price uses at home, and to some extent even into ordinary domestic use. Thus it interferes with final disposition of abundant supplies, and needlessly intensifies the surplus problem. Large stocks acquired under loan arrangements are extremely difficult to dispose of, unless the next crop is short. In the case of wheat, huge reserves would tend to congest the physical channels of trade, raising the margin between farm and market prices. Carrying large stocks is expensive, and the loan volume and potential Treasury losses must be reckoned as financial factors of real magnitude. Heavy stocks lead directly to demands for drastic restraints on production and marketing, and under some plans under consideration would automatically force these into effect. Even so, there would be no insurance against a surplus crop following a surplus crop, if Nature counteracted compulsory restriction of acreage with a high yield.

The Farm Board experience with its wheat and cotton loans, and the AAA experience with the cotton loans of 1934-35 and the present season, afford supporting testimony on several of these points.¹⁸ We should have had more by this time if Nature had been less niggardly in 1933-36.

Among the potent defects in the plan that I can barely touch upon is the horizontal character of the loan rate. Under the corn and cotton loans, the rate has been uniform regardless of location. To facilitate administration, the whole complex but natural geographic price structure is ignored. Especially with corn and wheat, such a procedure

¹⁸ Congress literally gave away much of the Farm Board's "stabilization" stocks of wheat and cotton; and the AAA had left 1.4 million bales of 1934-35 loan cotton when the bumper crop of 1937 was harvested.

interferes with the commercial flow of the grain and tends to confer the greatest financial benefit on those economically farthest from the market. Even if attempts are made to overcome this defect, the plan almost necessarily involves for a season a fixed loan-rate structure, by type, grade, and location, more or less completely supplanting the continually adjusting price structure that normally facilitates the most effective and economic disposition of the composite supply. In this respect as in others, the present economic system is by no means perfect, but the proposed substitute has these serious imperfections.

STABILITY OF SUPPLIES AND PRICES

A plausible argument for the ever-normal granary system is that it would "stabilize" domestic supplies of the crops concerned, and their prices, or at least make them much more stable from year to year than they would be without it. This is theoretically possible as to supplies in a special sense.

Theoretically, a considerable part of any big crop would be held off the market, the next crop reduced by restrictions either on acreage directly or through marketings indirectly, and a short crop compensated by release of stocks. In practice, however, large and small crops do not regularly alternate, even compulsory crop restrictions do not constitute production control,¹⁹ and many factors would prevent the nice compensation anticipated through accumulation and release of stocks. To meet the unpredictable risk of very short crops, or two or more in succession, would require average carryovers so huge as to be almost always *abnormal*. If such were carried, the *percentage* fluctuations in marketable supplies could be lessened, but only at extremely heavy cost. Fluctuations in total supplies would continue, probably on a higher level; the price interference contemplated would limit the flow into export and less im-

¹⁹ In respect to what is miscalled "production control," the AAA has faced and again would face certain dilemmas. Relative ease of administration, and apparent fairness, point to the use of historical bases from which required contraction may be figured. Yet diversity of circumstances and sound economic adjustment to changing conditions speak in favor of much more numerous, diverse, and flexible bases. In 1933-35 the AAA employed mainly historical bases, but was preparing to introduce various flexible devices. The new plan may call for far more detailed and specific fixation of bases. Conceivably, at huge expense for administration, this might avoid the frying pan of the old scheme, but if it did so it could hardly escape the fire. Complaints of unfairness and discrimination could not be avoided, and efforts to minimize such complaints would render the degree of voluntary production control much less than under the former system, when results from such measures were quantitatively small.

portant domestic uses which ordinarily absorb considerable fractions of large crops; and year-to-year fluctuations in total supplies might be greater than ever.

The Agricultural Adjustment Act of 1933 was passed under the shadow of what then seemed enormous stocks of wheat and cotton. In retrospect, under ever-normal granary principles, the wheat stocks were too small, restriction of wheat acreage for harvest in 1934 to 1936 was a mistake, and some stimulus should have been given to wheat production in order to obviate importations and to prevent the carryover from falling as low as it did in 1937.

Contrary to official arguments, there is no prospect that wide swings in production would be avoided under the scheme. In the main, variations in production have resulted and will continue to result from unpredictable variations in acreage abandonment and yield per acre due to natural causes. But crop restrictions and relaxations may intensify rather than offset such fluctuations. Certainly the downswing from 1933 to 1934 was accentuated in some degree by crop restrictions imposed on wheat, corn, and cotton, such as might be imposed under the new plan. The great upswing in wheat, corn, and cotton production in 1937 took place with the Secretary's blessing, and might well have occurred if the proposed system had been in operation.

Whatever the specific form of the completed act, Secretary Wallace's idea has been that compulsory restriction of marketings and production should be invoked only when the ever-normal granary was "overflowing." With figures such as have been used, however, it is easy to show that such resort might easily come early, instead of being long deferred or perhaps never resorted to. Many regarded the "stabilization" provisions of the Agricultural Marketing Act of 1929 as a last resort, but they were invoked in the first year of the Farm Board. Unless specifically prohibited under the new law, compulsory procedures might be applied to wheat and corn in 1938-39 if yields were moderately high.

The existence of a huge average carryover, which the system would surely tend to bring, obviously means heavy storage costs. Carrying even an extra 200 million bushels of wheat would probably cost at least \$30,000,000 a year. This might be welcomed by private owners of commercial grain storage facilities, which are now considerably overbuilt so far as prospective economic requirements for the next decade are concerned. But it could easily entail sinking still more capital in construction, on an insecure politico-economic basis, or else threaten growers with the risk of congested facilities at various times.

The maintenance of huge stocks under government control, sub-

ject to official decisions as to release of stocks, loan rates, and production restraints, and subject also to threat of breakdown of the system, implies continuous obstacles to the commercial movement of the products, and the constant presence of political factors in the business decisions of growers, middlemen, and processors. What this can signify, we know in part from Farm Board experience with wheat and cotton, and from AAA experience with cotton; but the magnitude cannot be fully appreciated on the basis of those experiences.

Far more important from the viewpoint of its sponsors, a system that required average carryovers large enough to insure something approaching stability of marketable supplies would be one in which commercial prices would average far below what growers consider normal, even if they openly recognize parity prices as super-normal. Whatever the procedure by which huge stocks are "kept off the market," they count as part of the total supply that helps to determine market price. Provision for production restraints somewhat modifies but does not nullify this important economic fact. So long as the law and the program are subject to revision, uncertainties as to release of stocks increase the burden of such stocks on the market. The surest way to insure persistently unsatisfactory market prices is to have persistently large supplies. If such is the outcome, the disillusionment of the farmers can be partially met by more or less disguised subsidies, called loans, crop-adjustment payments, parity payments, or what not; but this means that the growers' income depends more on their political influence than on their economic contribution to society. Witness the cotton growers' situation this year.

If my reasoning as to the prospective working of the scheme is at all reliable, its chief contribution to price stabilization would come through limiting price advances. Disturbances to price stability, however, come from many sources, and not merely from fluctuations in domestic production, or crop plus carryover, as Secretary Wallace usually seems to imply. Several of the greatest advances in wheat prices in the past 50 years, notably those of 1897-98, 1914-15, and 1924-25, occurred when the United States had a large crop. Some of the notable declines in wheat prices have not been primarily due to big crops here. The size of crops abroad, particularly in Canada, Argentina, and Europe, is important in the case of wheat. For corn, the size of the Argentine and European crops is important. The level of business activity is vital, especially in the case of cotton, as well as the size of cotton crops abroad. Currency influences, the scope of minor wars, the threats of larger wars, and ocean shipping rates, all figure; and there are many other factors. Genuine stabilization of prices of individual commodities is an imprac-

tical goal except in a completely managed economy, and a highly questionable ideal.

Stabilization of farm income is still another matter. As I envisage the operation of the contemplated system, it would reduce in some degree the compensating effect of higher prices with shorter crops, and vice versa, imperfect though such compensation often is. But this would make for larger fluctuations in farm returns from fluctuating crops. Destabilization of farm income would be dearly bought by moderating year-to-year price swings. Under the circumstances, crop returns could not be expected to yield higher and more stable farm income from which it is argued that processors, labor, and consumers would reap important advantages.

CONCLUDING OBSERVATIONS

I must pass over various important questions. Such are the cost of the scheme, which no one can now estimate; the feasibility of enforcing compulsory provisions and penalties; the difficulties to be faced in handling out-of-position stocks, of special import with corn; and the position in case financial limitations should prevent increasing government-financed reserves or force liquidation of accumulated stocks.

My own considered conclusions are that, whatever its real intent, the ever-normal granary system is essentially a scheme for far-reaching government regulation of farm production and marketing, at great expense to taxpayers and probably consumers. It would fail of its major avowed objectives. In operation it would sometimes seem successful, sometimes a great fiasco. It would probably create more emergencies than it would forestall. It would bring less weal than woe.

Secretary Wallace has said: "I know of no interests which could be injured by the ever-normal granary except the interests of speculators in farm products."²⁰ I am not so sure that speculative interests would be injured, but others would be. Farmers would probably be helped little by increased price stability, and hurt both by a lower level of prices than would otherwise prevail, and by regulation of their production and marketing, except as these were rendered palatable by government subsidies. Consumers would probably be hurt, not so much in consequence of farm prices higher than would otherwise exist, but by processing or sales taxes imposed to relieve other taxpayers. Merchants and processors would be injured by added uncertainties, arising from official decisions largely made in ignorance of their business significance, from court decisions and delays incident thereto, and from changes in the political wind.

²⁰ *House Committee Hearings*, p. 137.

From the standpoint of American farmers, the most serious objection is that, without realizing it in advance, they would be "selling their birthright for a mess of pottage." Except perhaps at the outset, their maximum gains would gravely disappoint them. If it did not break down first, the system would lead, not late but fairly soon, to compulsory regulation of acreage, production, and marketing of the specified crops and probably others not yet named. The substantial degree of freedom farmers have truly enjoyed, and deeply prized, would be replaced by a large measure of government fiat. Perhaps they would have chances to vote on its application, but only on referenda framed in Washington, after "educational" campaigns dominated by Washington propaganda. True also, the pills would be sugar-coated with government payments, which farmers might be persuaded were only their due but which many would recognize as uneconomic and wrong in principle, even if they could not give them an appropriate label.

I shall doubtless be criticized for being destructive rather than constructive; yet when blundering policy-building is going on, destructive criticism is the most constructive act, even though it be ignored. There is economic justification for various developments in our agricultural policy. The soil-conservation program has a core of soundness and is worthy of perfecting. Crop-yield insurance merits limited and careful government experimentation. Other provisions for meeting local or regional farm disasters should be put on a permanent basis. The problem of how best to meet general extreme emergencies, when they come, should be faced well in advance, in the light of both experience and constructive policy research. But there is no economic warrant for fixing in our permanent agricultural policy an uneconomic doctrine of parity price, large-scale subsidies to farmers, regimentation of farm production and marketing, and huge government stores of wheat, corn, and cotton. Though presented as a permanent policy, I predict that the ever-normal granary system—like the ill-considered, ill-starred Agricultural Marketing Act of 1929—would not work well enough to endure long.

9. Needed! A Production and Marketing Price Policy*

By THEODORE W. SCHULTZ

Department of Economics, University of Chicago

Our present farm price policy is based on depression and wartime conditions. There is serious question whether it fits the circumstances that lie ahead. What's more, it asks more of our pricing system than that system can efficiently do.

Two big unknowns make it hard for us to tell just what to expect. We do not know how well our industrial economy will perform. It may not be as highly unstable as it was during the years between the two wars. But there is enough uncertainty to warn us to be prepared for a lot of economic instability.

Nor can we foresee the amount and nature of foreign trade after 1948. It may become more free and more settled. But the uncertainties are large. Here, too, it is wise to be prepared.

ROLE OF PRICES

Some people are urging the continuation of support prices tied to parity as the best way of dealing with the ups and downs of farm prices. But before we decide what to do about support prices, we had better see just what it is we want prices to do. What role do prices play in our economy?

Prices perform several distinct roles:

1. *Prices guide production.*
2. *Prices channel products into trade, both at home and abroad.*
3. *Prices distribute income from farming from year to year.*
4. *Prices distribute income among persons.*

1. The price of corn compared with the price of pork plays a big role in helping farmers decide how many pigs to raise. Farmers compare cattle and corn prices in deciding whether to feed cattle. The \$6 a bushel guarantee for flaxseed brought a lot of acres into flax that would otherwise have been planted to wheat. When eggs are high-

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priced compared with feed, farmers raise more chickens; when eggs are low-priced compared with feed costs, they buy fewer chicks.

In all of these cases prices help decide what is produced.

2. Prices also help decide what is consumed. When Mrs. Home-maker goes shopping, she looks at price tags. Fewer people buy butter at a dollar than at 50c a pound. If butter is scarce, the price goes up; the higher price causes some people to cut down on the amount of butter they use—or quit entirely. The price rises until enough people cut down or drop out to leave enough butter to go around for those who can and are willing to buy it.

During the war, we rationed goods by coupons. We had to have coupons to buy meat. Now we let prices do the rationing; the people who are willing and have the ability to pay the price get the meat. Prices, in this context, help perform the function of channeling products among those consumers who want and can afford the product.

3. Prices also distribute the income from farming over time. They make the income from farming steady or erratic. With no significant change in agricultural production, farm income may be excessively high and then again seriously low. Farmers generally want a price policy that will assure them a steadier income. They want to be protected from the erratic performance of the business economy with its periodic mass unemployment.

4. Finally, prices distribute the farm income among families and persons. Society rewards us for the use of the property we have and for our work by paying us a price for the product of our efforts. In a perfect market, the more valuable the service we render, the higher is the price. If a hired man is a skilled cattle feeder, he is worth more, and presumably receives higher wages, than a hired man who merely works.

These brief remarks illustrate the four functions of prices: they guide production, channel products into trade, distribute income over time, and distribute income among persons.

CAN IT BE DONE?

But can any pricing system be "efficient" in all of these functions at one and the same time? Or are we asking too much of our pricing system? Are we weakening it thereby? Are we making it less efficient than it would otherwise be in performing the more limited tasks that are within its capacity? Both theory and experience give us a strong "yes" as the answer to the last question.

I believe that our pricing system can be made efficient in guiding production and in channeling products into consumption. I doubt, how-

ever, that prices are a suitable means for "stabilizing" the income from farming when mass unemployment hits our economy. Nor are they satisfactory for lessening the inequality in income among farmers.

If our pricing system is to play its production and marketing role efficiently, some way must be found to: (1) make farm income much more steady than it has been from one year to another; and (2) to get rid of much of the inequality in the income among farm families.

Plainly, we now have an agricultural price policy designed mainly to stabilize farm income from year to year. This should not be the major purpose of an efficient pricing system. Rather, we should try to develop a pricing system which will guide agricultural production and which will channel farm products to the consumer.

To place the burden of stabilizing farm income on the pricing system—as has been done in recent years—can only reduce greatly its capacity to perform the two functions for which it is best fitted.

The other two objectives are important: We need to improve the personal distribution of income among families; we need to cut down the instability of farm income from one year to another. But we should do these by other means than prices.

Under fairly stable conditions, such as characterized the period from 1895 to 1915, our pricing system seems to succeed in its two major functions. But under highly unstable conditions (between World Wars I and II) the pricing system doesn't do so well. It no longer fulfills its task of weaving together decisions of what and how much to produce with a good job of moving those products to the consumer.

AVOID BREAKDOWN

We must try to avoid this breakdown of the pricing system. The first lines of defense are measures that will achieve and maintain full employment. This is, however, a big order. Meanwhile, we need other measures to help keep the pricing system from breaking down under unstable economic conditions.

We may need to approach separately the two functions that properly are the task of the pricing system. In that case, we may need such means as forward pricing and other new devices to lessen the price uncertainty that farmers face. These will substantially strengthen the pricing system in its job of guiding production.

On the other hand, we need to channel farm products into markets at home and abroad by freeing market prices instead of maintaining them above competition levels by one device or another.

WHAT PRICE POLICY?

What sort of price policy should we therefore develop? In view of this analysis, I would suggest the following specific steps:

1. Continue a policy of price supports for agriculture after 1948;
2. Announce the price support level before farmers have made their production plans (forward pricing);
3. Make the announced price support less (somewhere between 15 and 25 percent less) than the expected market price at full employment;
4. Let the market price rise above and fall below the support price level;
5. Whenever the market price is less than the announced support price, have the government make up the difference by means of income payments to farmers. These income payments should meet the following conditions: They should be strictly counter-cyclical in design (that is, they should serve to boost farm income in times of deflation and lower it in times of inflation); they should not cause farmers to make production decisions that are inconsistent with long run needs; and they should not clog the channels of trade.

10. Outline of a Price Policy for American Agriculture for the Postwar Period*

REPORT OF THE COMMITTEE ON PARITY CONCEPTS†

A citation of the principles upon which a sound public policy to protect the income of the United States farm population can be built, depends to a great extent upon the realization that the modern economy functions as an organic whole. No part weakens without affecting the others. Agriculture is one of the vital segments of this economy.

A century ago, American agriculture was still the center of gravity of our national economy. In the course of what has been called the "industrial revolution" with the tremendous growth of urban and metropolitan areas in the industrial zones, agriculture, too, has made great progress in improving the efficiency and output of its manpower. Agriculture today represents a substantially smaller proportion of the national income and of the number of gainfully employed people than in earlier periods. This gradual shift was caused in part by the transfer to other sectors of the economy of more and more activities originally incorporated in the productive activity of the farm. Partially it was caused by the tremendous expansion of new industries and occupations. The manufacture of tools and all durable goods used on the farm, the processing of food raw materials into finished consumer foods, as well as the transportation of farm needs from city to farm, and of farmers' produce from farm to city, are the chief activities of this nature which have been taken over by industry and commerce.

Because the center of gravity within the national economy thus

* *Journal of Farm Economics*, XXVIII, 1 (February 1946), pp. 380-97. Reprinted by courtesy of the *Journal of Farm Economics*.

† The preliminary draft of this report was written largely by Dr. Karl Brandt after several meetings with members of the Committee.

However, because of his absence from the country in recent weeks he has not seen this final draft in which certain changes, especially in the last section, were made by the other members of the Committee. Members of the Committee include:

Karl Brandt, Chairman, Food Research Institute, Stanford, Calif.

H. R. Wellman, Vice Chairman, Giannini Foundation, Berkeley, Calif.

R. J. Eggert, American Meat Institute, Chicago, Ill.

H. J. Henney, Colorado State College, Fort Collins, Colo. (Resigned July, 1945.)

Fred Waugh, Office of War Mobilization and Reconversion, Washington, D. C.

Karl Wright, Michigan State College, East Lansing, Mich.

shifted away from the farm and the farm population toward the city and urban productive groups, the nation's general prosperity has gradually come to depend upon the multiple set of conditions generating a high rate of productive industrial employment and high national output by industries. The urban population's high aggregate real income, in turn, results in an increased flow of goods and services to and from the farm.

America's roughly six million farms, accounting for 18 percent of the nation's gainfully employed people, are a vital part of the arterial system of circulation through which flow the goods and services of the national economy. The nation depends on properly functioning farms as important sources of primary materials, food, and fibers. Yet the farms cannot be treated as an independent object of policies, nor can they be made prosperous in emancipation from the remainder of the economy. Nor can conditions creating mass unemployment and decreased output in cities be cured by maintaining or restoring economic well-being to the farms alone.

Certain popular theories argue that prosperity for all can be secured simply by putting, one way or another, enough money into the farmers' pockets.¹ It is further claimed that such artificial farm solvency would be reflected many times throughout the urban economy. Speculative theories of this sort are dangerous fallacies. They are built upon untenable assertions without a thread of evidence to support them.

NATIONAL WELFARE AND RURAL WELFARE

The prerequisite for the well-being of the farm population is closely linked with the well-being of all the other people living within our national boundaries. This well-being requires a healthy flow of "real" income consisting of goods and services. The distribution of such real income must grant all social groups at least a minimum of subsistence permitting the maintenance of life and health. The necessary inequities in income must not preclude the potential pursuit of happiness in times of better income by impaired health or stunted growth resulting from shortage or deficient consumption of food.

While the question of agricultural income technically belongs in the realm of economics and deals with goods, services, and money, it is impossible to ignore the ultimate social function and purpose of all

¹ Cf. C. H. Wilken, *The Future of American Agriculture and the Need of Irrigation* (Address delivered before the convention of the Nebraska Reclamation Association, 8 pp., mimeographed, January 19, 1945); E. H. Taylor, "The Key to Prosperity," *Country Gentleman* (December 1944).

man's economic activity. Goods and services are means toward the ultimate end of supplying the physical requirements for a decent living for the entire community, as well as of meeting the moral and cultural obligations involved in it. Contemporary history, particularly in the recent decades that have brought western civilization to the brink of disaster, has proved beyond doubt that a "good society" cannot stand mass unemployment for prolonged periods without suffering corrosion of its ethical and moral foundations.

Through their government, the sovereign self-governing people of a democracy are obliged not to let conditions arise in which through no fault of their own masses of their fellow men, be they individuals or whole groups, lack the means of livelihood and the protection of opportunities for a full life and physical and mental health for themselves and their children.

The House Special Committee on Postwar Economic Policy and Planning, under the chairmanship of William H. Colmer, well stated in its report:

*For the attainment of postwar prosperity we must look primarily to the efforts of private enterprise, its management and its labor force. The role of the government is essentially to provide the setting in which these efforts have the best prospects of success. At the same time it is the obligation of the government to take direct public measures for the protection of its citizens against the economic hazards which are unavoidable in a progressing economy that preserves freedom of private enterprise and individual opportunity . . .*²

Constitutional government in the western countries stands or falls by the principle of equality of opportunity. Political freedom and individual liberty are secured by the economic device of private property in means of production and goods, freedom of movement, and choice of employment and profession. The efficient utilization of human and material resources is organized in a system governed by competition. It grants benefits in the form of gains, and penalties in the form of losses. It is enforced by the rules of bankruptcy for the losers. But the ethics of this system require that the majority of the toiling people who are willing and able to work have an opportunity to do so. The process by which the unfit are eliminated as the owner-manager-operators of productive resources must not degenerate into the wholesale loss of property and livelihood by large numbers of people regardless of their individual performance and accomplishment, such as took place during the last world-

² H. Rept. 1855, 78th Congress, 2d Session (Fourth Report of the House Special Committee on Postwar Economic Policy and Planning, *General Report on Economic Problems of the Reconversion Period*), p. 71, italics ours.

wide economic depression. The extreme social insecurity created by the depression had in its wake the sweep of political tyranny, and the military and political catastrophe of World War II.

It is internationally recognized today by the people of democratic countries that the legitimate and even primary task of statecraft revolves around the protection of the people—that is, individuals, families, and larger constituent groups which make up society as a whole, from the repetition of such calamities. *In every nation, therefore, the greatest issue of statecraft of our day is to determine how a necessary minimum of social security and governmental controls can be combined with an optimum of freedom and economic progress.* This issue underlies the whole worldwide struggle for the best form of contemporary government, and must be vigilantly kept in mind lest liberty be lost.

PUBLIC AID TO AGRICULTURE: THE RISE OF PARITY

During the inter-war period, the people of the United States gradually came to acknowledge the principle that in exchange for his hard toil the farmer ought to earn a real income sufficient to provide the material base for a living which would at least not deprive the generation growing up on the farm of equality of opportunity. In early decades the public in the newly rising cities took the narrow view of its best interest by trying to obtain food at the lowest possible price, irrespective of the conditions under which that food was produced or what conditions on the farms such prices would create. Particularly since the depression years of the early thirties, most Americans living in urban regions have changed their minds.

Today there is a solid core of agreement throughout the nation that it is unjust and unfair to the farmer if he, who toils at least as hard as do the heavy workers in industries, is left without a minimum of real income and means of livelihood because of market events beyond his control or foreknowledge. This common conviction has found expression in the legislation enacted first under the Hoover administration and carried through with increased momentum in the three Roosevelt administrations. This policy, as it now stands, extends about three years into the future. It tries to establish "equality for the farmer" by giving government support to farm prices under the so-called parity principle. Farm legislation has gone beyond assuring a minimum of real income. Particularly in view of the increasing legal protection of more extensive rights of organized labor, legislators have tried to establish a balance between the improved share of the industrial worker and the share of the farmer in the nation's output of goods and services.

No matter how serious its flaws and inconsistencies, the concept of income parity for agriculture is imbedded in a healthy though not fully rational public thinking. The parity idea is in part an outgrowth of the conviction of the American people that democracy becomes a farce if it proves to be no more than Marxian doctrine proclaims it to be—a relentless slugging match between controversial interest groups which have nothing in common except their selfish greed.

Fortunately most of our substantial citizens now agree that in spite of the existence of controversy of material interests, a superior unity exists—the intelligently interpreted moral, spiritual, and material interest of all the people. They believe the task and function of any enlightened government must be to find workable policies which reconcile the divergencies in favor of the common weal without recourse to the short-cut methods of tyranny.

BASIC CHARACTERISTICS OF THE FARMING ENTERPRISE

It is common knowledge that the farmer's crops are grown in the open field subject to the whim of sunshine, storm, rain, hail, frost, or drought. These crops have to be nursed through attacks by insects and pests. Thus the farmer has no direct or accurate control over the yield and the output of each crop for which he plans. He may expand his acreage and yet harvest far less than in the preceding year. He may have a smaller acreage and much larger crops.

It takes from 1 to 2 years to realize yield from one crop; up to four years to raise a dairy cow to the point where she gives her optimum milk supply, and from four to eight years or more for fruit orchards to mature to full bearing age. The farmer cannot accelerate nature's growth cycle of plants and animals, nor can he make any alterations in crops once the seed is in the ground. Once the investment in crops and animals is made, production yields an urgent market supply which can hardly be stopped without heavy loss to the grower. The situation is at the same time responsible for the remarkable steadiness of agricultural output compared with that of industries.

The farmer is entrusted with the use of land, one of the nation's most prized possessions. This heritage is defended by the nation's armed forces with supreme sacrifices in life. It is the chief resource for the production of food and fibers. The livelihood of a substantial part of the people depends upon it. The farmer is implicitly charged with the responsibility of making such use of this great asset as to sustain its yield and usefulness in the interest of the general public and future generations.

American agriculture and its farm land are for many reasons operated and managed in the form of family units. At the same time, farming in properly sized and well equipped family units happens to be the most efficient method of using manpower in the production of food and fibers known to the world. American farming has for a long while held the world lead in productivity per man hour. However, despite its beneficial qualities, this highly efficient family farm unit has the inherent weakness of being unable to defend itself against the advantages gained by other economic groups through political organization and pressure or by virtue of monopoly.

Other economic groups frequently violate the principle of competition. Competition is anchored in our Constitution as the invigorating and propelling force of our economic system, and the rule of the game. Monopoly is a conspiracy against competition, and incompatible with the general welfare.

Six million farms, scattered over two billion acres between the Atlantic and the Pacific, can never as easily play the game of monopoly as certain other groups. Even if they could, the results would be detrimental to the national welfare similar to the restrictions against work-efficiency imposed by other ill-advised economic groups.

In the family farm unit, characteristic of and predominating in the occupation of farming, home and productive workshop are combined. Therefore the fortune or misfortune of the business end of the farm cannot be separated from that of the farmer immediately concerned.

The farm population, by and large, has maintained a much higher birthrate than has the urban population. The rural areas, therefore, feed into the urban economy a steady stream of people of working age who have been reared on farms. Without this important biological and economic support, the cities of the United States would either stagnate or die out in two or three generations. Even in some of the most highly developed farming states, the farm population reaches the point where it does not reproduce itself. In a competitive world of great powers, where the differential of biological pressures plays a decisive role, the urban population cannot fail to overlook entirely the important and wholesome contribution made by the American farming community to the very existence of the country.

For these and many other reasons the parity principle must be taken as the political *communis opinio* of the American people today and in the near future. As stated earlier, this Committee not only respects this view as such, but considers the underlying set of ideas and the major social and political aims to be essentially sound.

TREND OF PARITY LEGISLATION

The parity principle as incorporated in the now effective legislation enacted by the Congress of the United States³ attempts to carry out the mandate of the people. The public does not wish to see the American farm consistently or over long periods of depression submerged in an economic ditch. Nor does it want large parts of the American farm or non-farm population, through no fault of its own, condemned by ups and downs of the violent squeeze of the business cycle or general economic conditions to exist on an income so low it means living in a rural or urban slum.

This legislation has chosen a particular avenue of executing the policy by interfering in the market on behalf of the farmer so that the prices obtained by him, and in general the prices paid by the consumer, have been kept higher than they would have been subject to the influence of supply and demand alone, and without much government interference. The government has done this by applying a formula which obliged the price-supporting agencies to keep prices at a level not lower than a certain percent of their level during a period before World War I, or another later period at which it was assumed that farm income from such commodities was sufficient to permit the average farmer to cover costs and realize some profit.

In selecting the methods of keeping prices at these promised levels, the government has given priority to purchases in the open market, storage in public granaries, and non-recourse loans to farmers for commodities stored on the farm. Other supplementary methods have included price-fixing by decree through marketing agreements, buying and selling at a loss by paper transactions, and payments of outright subsidies at the point of distribution.

Prior to World War II, as a result of this policy, the public support of prices kept production of many key commodities continually far above the point at which the market would have absorbed the bulk of supply. Excess carryovers were accumulated. In order to prevent this situation from getting out of hand, the government negotiated quota arrangements with farmers, trying to reduce output through curtailment of

³Legislation on parity prices and price supports is summarized in a talk by Robert H. Shields, Solicitor of the U. S. Department of Agriculture, in Denver, Colorado, on August 16, 1944. The title of the talk is, *Federal Statutory Provisions Relating to Price Support for Agricultural Commodities*. It is available in mimeographed form. USDA 2947-44.

acreage. Since this alone did not have sufficient effect with most crops, additional quota restrictions were imposed on the marketing of certain depressed commodities.

This system of publicly controlled scarcity prevailed until 1940-41 when our economic support of Great Britain and the prospect of America's entry into the war created an ever-widening demand for farm products. Then the Secretary of Agriculture threw the throttle wide open and used the powers bestowed upon him under the parity formula in order to expand farm production as rapidly as possible and to the greatest volume that farmers could turn out under the aggravating circumstances.

During this era, the government used its price support machinery as it had before the war (except for the discontinuation of all restrictive features) but with a much more liberal interpretation than in earlier years. The guaranteed level was boosted to a higher and higher percentage of the historical base period. At the same time the inevitable war demand for farm products forced many prices far beyond the parity support level. The government's desire to put brakes on the wheels of inflation led to the establishment of price ceilings for various farm products.

CRITICISMS OF AMERICA'S FARM-PRICE POLICY

From 1933 to 1940 the American farm community became increasingly critical of the farm-price policy. As soon as industrial recovery began, many farmers began to resent being denied the best use of their resources. At the same time, the price policy prohibited the development of a maximum demand for their produce at home and abroad. Yet the farmers were not willing to go back to a situation where the government kept its hands completely off the market as well as other factors determining their income.

During the war years the situation in the market changed completely. Farmers had no cause to complain about the price policy, because the war created an ideal situation; a situation which in an economic sense is paradoxical: while production was boosted sky-high, prices remained at the top levels, many of them tending to rise even further. Commodities for which price ceilings had been established soon began to seep into the black markets. This unusual situation developed because in a war economy financial considerations must be almost disregarded. Physical production and ample supply are the chief considerations.

Farmers have enjoyed an income which, in exchange for their

magnificent performance in the national interest, has given them a large share in the war boom. Net farm income increased from 5.4 billion dollars in 1935-39 to 13.6 billion dollars in 1944. In addition, they have received the government's solid promise that prices will be maintained for at least two years beyond the official decree terminating the war. Thus from the angle of income alone, the farmers have no legitimate reason to criticize governmental parity policy. They know, of course, that a part of their income depends merely on political considerations in Congress. However, this is compensated by the fact that the absence of any restriction on farm production has caused any tangible form of control or regimentation by support-lending government agencies to disappear from public view.

However, the American farmer, the elected leaders of his organizations, and the many civil servants of the United States Department of Agriculture, and others, are not deceived by the continuation of relative prosperity for agriculture that is carried along by the natural postwar buoyancy of the international food market. They sense keenly the inevitable revival of vigorous competition between farmers of the world's great food- and fiber-exporting countries, and the probable recurrence of burdensome surpluses in markets for commodities which do not enter foreign trade. There seems to be agreement among the leaders of public opinion that a return to regimented scarcity would be disastrous, equivalent to the deliberate frustration of the creative capacity of the economy of the United States, and would impair human welfare here and in other countries.

Instinctively the people reject the idea of a stagnant economy, and rationally they repudiate as faulty reasoning theories about its oversaturation.¹ Politically, they seem at long last to have realized that freedom is invariably lost under controlled economic scarcity and stagnation.

After rejecting controlled scarcity, many leaders of the farming community have become suspicious of the continued usefulness and the political propriety of the parity-price formula. While this formula has the merit of being a convenient legislative and administrative device, it has demonstrated crucial economic weaknesses. At the root of this profound distrust of the perpetual usefulness of the present parity-price policy and the Steagall Amendment, lies the conviction that this policy will accelerate the recurrence of excessive surpluses, and resulting from those, ruinous prices or regimented scarcity, or both.

¹ Cf. George Terbough, *The Bogey of Economic Maturity* (Machinery and Allied Products Institute, Chicago, Ill., 1945).

Some quotations from public utterances may serve as evidence in support of this view.

In a report to the President of the United States, the Senate, and the House of Representatives, James F. Byrnes, when Director of War Mobilization and Reconversion, said:

Situations may arise . . . in which it would ultimately cost the government less, and be to the long-time interest of producers, to permit the prices to decline below the authorized support price level, and make up the difference with direct government payments.⁶

Fred M. Vinson, in a similar report at a later date when he was Director of War Mobilization and Reconversion, repeated the statement of Mr. Byrnes, and urged that this idea be given most thorough study. He pointed out that:

. . . if the government makes this payment direct, it has the advantage of permitting the consumer to get more for his money, thus encouraging increased consumption. It allows farm prices to reach their natural level and thus puts the farmer in a better position to compete in the foreign market.⁷

Albert S. Goss, Master of the National Grange, said to that body on November 14, 1945:⁷

. . . the formula does not recognize the constantly changing demand between commodities, and should be modernized.

The results are so erratic that the Congress has authorized the Secretary of Agriculture to establish "comparable prices" when the formula produces indefensible results. Thus we abandon the principle of parity and rely upon the judgment of one man. On some items the Congress has even changed the base period. Obviously every commodity so adjusted, throws the rest of the formula out of balance.

Because of the inequities which have crept into the formula through obsolescence, some items are now far too high while others are too low.

Secretary of Agriculture Clinton P. Anderson, stated in his address "Equality for Agriculture":

. . . we definitely know that if a historical base is used, changing conditions sooner or later will make any fixed set of prices unacceptable to farmers and non-

⁶ *War Production and VE-Day* (Second Report to the President, Senate, and House of Representatives by the Director of War Mobilization and Reconversion, April 1, 1945), p. 40.

⁷ *The Road to Tokyo and Beyond* (Third Report . . . by the Director of War Mobilization and Reconversion, July 1, 1945), p. 65.

⁷ A. S. Goss, in an address delivered to the 79th annual session of the National Grange, Kansas City, Mo., November 14, 1945.

farmers alike. And this happens, no matter how reasonable the relationship between farm and non-farm prices may have been in the base period. The fact is that production factors in agriculture and industry shift so much and so rapidly that no price relationship is permanently stable. People's wants, their methods of living, their methods of working—and the number of people themselves—continually change and make new patterns.⁸

As a matter of objective history, parity price bases have been changed and amended so much in the past 15 years that they are now a patchwork of special provisions. Even a Philadelphia lawyer could not explain just why the parity price of a particular commodity is what it is.⁹

We know from past experience that parity prices don't necessarily produce parity income.¹⁰

During World War II parity income . . . could have been produced by farm prices below parity.¹¹

LIMITATIONS AND WEAKNESSES OF THE PARITY FORMULA

In the course of its deliberations, this Committee has carefully weighed the performance and the utility of the present parity-price formula by the standards of the ends which it is supposed to serve. It is not reasonable to attribute any sacredness to this or any price formula. The only valid measuring rod is the degree to which it attains its goal in operation. While a detailed analysis of the performance of the parity formula may be found in Parts III and IV of the Appendix, the main conclusions are summarized below.

1. By adopting a historical base period as the yardstick for the support price of specific commodities, the parity-price formula freezes the functional and otherwise self-adjusting price mechanism. The historical base leads to rigid maintenance of accidental price relations that existed under an entirely different situation. Prices, and even more so price relations, are the most powerful instrument for directing and allocating manpower, brainpower, and man-made resources (such as capital and research) as well as natural resources. Even the economic solutions applied by the Soviet Union and Nazi Germany have not refuted this economic axiom.

⁸ C. P. Anderson, *Equality for Agriculture* (Address before the National Association of Commissioners, Secretaries, and Directors of Agriculture, Memphis, Tenn., U. S. Department of Agriculture, Office of the Secretary, Press Release 2082-45, mimeographed, November 12, 1945), p. 5.

⁹ *Ibid.*, p. 6.

¹⁰ *Ibid.*, p. 11.

¹¹ *Ibid.*

2. In allocating productive resources and people, the only alternative to relative prices that we have available is the direct order of the government. Political command cannot fail to result eventually in decrees as to who can farm, and where, and how, and who must leave the farm.

3. The parity formula disregards the progress made in farm technology which in recent years substantially reduced the production costs of some commodities, but has left at former levels the production costs of others. Therefore, some parity prices are too high, others too low, for a balanced agricultural production sensitive to the relative demand in the market for specific products, and to shifts in that demand.

4. The parity formula does not make allowance for the improvement in the quality of goods and services which the farmer buys. Many of the goods used in production have not changed in price or at least have not risen in price, but the quality and performance he obtains gives him far more for his money. This is notably so for motor cars, tractors, and other power equipment.

5. Production controls in the form of acreage quotas are ineffective for most of the crops. During the period before the war the system of controlling the crop through acreage restrictions broke down for nearly all crops. The farmer shifted the restricted crops to more productive land, used more fertilizer, better seed, and better methods of cultivation. The high support price gave him the incentive to produce on fewer acres as much as his too easily underrated ingenuity and resourcefulness would allow.

6. Thus the parity formula has actually been instrumental in subsidizing excess production simply to fill public granaries. While the nation has reason to desire a sufficient cushion between years of poor and bumper crops, to avoid running out of the physical volume of supplies, the rigid parity-price formula abuses the granary system merely for the sake of fixing prices, irrespective of what happens in the market.

7. Unchanged support prices in the market in view of overloaded granaries violate the rule of good common sense. The domestic consumer and the foreign importer take their cue for heavier or lesser buying just as much from the price as the farmer does his for production. If prices continue high while granaries overflow, the consumer continues to economize and consumes as little as his budget permits and only what he absolutely needs. The industrial manufacturer, processor, or converter does the same. If substitutes of similar quality but lower in price are available, he will use those. Manufacturers of substitutes will be greatly

encouraged by the maintenance of the fixed price of the product against which they compete. Thus parity prices actually undermine the market position of some of the American farmers' staple crops—for example, cotton.

The worst feature of all is that government price supports which keep prices above the free market price levels tend to restrict consumption.

8. Fixed parity prices do similar harm to American agriculture in the foreign market by pricing its export products out of the range of the importing countries. As a result, America's farmers must reduce their output and farmers in other countries will tend to fill the gap. Such renunciation of otherwise possible exports is a net loss of income to the farmer, to our nation, and to other nations.

At the outset of this report, the Committee stated its belief in creating through public policy a certain minimum degree of social security for the farmer. But we are convinced that the parity price formula and related methods of price support are an approach which will become the more untenable as the overlapping war boom and the relief period subside. We believe, moreover, that failure to revise and reorient the parity policy without much further delay will inflict immeasurable damage upon American agriculture and this nation's whole economy.

THE PREREQUISITES OF A SOUND FARM-INCOME POLICY

A sound farm-income policy must see to it that a maximum volume of food and fibers is absorbed by domestic and foreign consumption through the ordinary trade channels of distribution. Policies which curtail consumption are to be condemned. A sound farm-income policy must protect the adjustability of our economy and the open frontier of technological progress. Both are among our greatest and most indispensable assets. America's farmers must not trade their birthright of better farming tomorrow for government price supports. *Economic statesmen must realize, however, that gradualness of change, adjustment, and progress are the essence of fairness to those who hold our agricultural resources in trust.*

A sound farm-income policy must keep prices flexible so that they can respond to changing crop yields and thereby balance the income from crops. Prices must be flexible so that they can respond to changing costs of production. Farm-commodity prices must be kept flexible also in order to express through their relative level and quality the preference of the market for some, and the slackening demand for others.

Such principles by no means imply that the general price level of any and all agricultural commodities must continually fall. If we rule out the case of severe industrial depression, the lowering of specific prices would proceed only insofar as either the costs of production were reduced or the demand fell continually because there was a shift to other products.

The United States government should therefore pursue policies that will protect farmers against extreme losses caused by sudden and radical changes in the market beyond farmers' foreknowledge or ability of adjustment. These policies should also avoid any direct or indirect encouragement of extreme price rises, since these are followed invariably by violent price declines. Policies of this sort do not require interference with the delicate automatism of market prices so vital to a free, competitive, and expanding economy. Furthermore, they provide ample leeway for accomplishing their goals with the use of less harmful and objectionable methods.

The first consideration is that the government steer a course in general economic affairs (particularly in taxation, monetary policies, labor and wage policies, transportation, public procurement, foreign trade, international finance, etc.) which fosters conditions favorable to the gradual, healthy growth of the economy. Such a course will, if successful, create enough leeway and margin of action in many non-agricultural fields of employment to absorb the least productive and hence poorest farmers. This will tend to shift them by their own volition into a position where they can make a better contribution to the welfare of the nation.

The shift of the marginal farmers to other fields is essential, if the national farm policy's task is to be manageable at all, and if it is to improve the situation for the rest of the farmers, the commercial as well as the predominantly self-supporting ones, by economic methods. But the chief support and enforcement of a farm-income policy must still come from the success with which economic policy is applied in fields outside of agriculture.

Agriculture loses disproportionately more in potential real income through impediments of competition in economic fields other than agriculture, such as industrial monopoly wages and monopoly prices for industrial goods and commercial services, than direct government aid to farmers can ever compensate. Fixed margins in wholesaling and retailing, and fixed transportation charges are devices which load the dice against the farmer whenever his prices drop. If the powerful farm organizations shall promote the real welfare of the farm population, they should throw

the full weight of their political influence behind a legislative policy through which the government restores greater competition in those parts of industry, and labor where it does not now exist, in order to keep the costs of farming low, rather than to appease agriculture by some more or less monopolistic protective devices for farm products.

PROPOSED PRICE AND INCOME POLICIES FOR AGRICULTURE

The Committee recommends that the government fulfill the general obligation assumed under the Steagall Amendment. This strong financial support grants the farmers a maximum of leeway for converting their farm operations to the changed conditions of a peacetime market. The government should not fail to urge the farmers to start measures of conversion immediately, and should assist them in this work by a strong and well-planned educational program advising them about shifts in production that will be most profitable in the long run.

The Committee believes strongly that the present type of price-support commitments are at best a temporary expedient. If the government should attempt to support prices of major agricultural products permanently at the 1910-14 parities, or higher, we would face either enormous surpluses or some extreme form of regimentation of farmers.

The Committee therefore urges that the Congress without delay provide new legislation that will provide the framework for a long-time price and income program to become effective at the end of the Steagall period.

Farmers should know as soon as possible what this long-time program is to be, so that they may prepare suitable adjustments in crops and livestock production.

The following principles are suggested as a basis for the long-time program:

1. The government must be prepared to take vigorous action to prevent a rapid deterioration of the level of living on farms which would result from a sudden postwar collapse of real incomes on farms. Research and educational policies alone will not be sufficient to prevent such a collapse in incomes.

2. The main support to agricultural income must result from general economic policies which create the circumstances under which a high rate of production and employment gives the consumers the purchasing power to buy an optimum of food and fibers.

3. In order to maintain a high and stable rate of food and fiber consumption, the government should avoid restrictions of agricultural production or of sales of farm produce. A comprehensive outlook pro-

gram should aid materially in securing a better production balance within agriculture, but in some cases payments to farmers may be necessary in order to cushion the shock of making needed production adjustments and of bringing them about more quickly than would otherwise occur.

4. In order to give the farmer the orientation and incentive to make shifts in the proper direction, and to assure him against drastic declines in the return from specific commodities, the government should announce in advance a support schedule of prices for each agricultural commodity.¹² The support schedule for any year should be fixed within a range of 70-90 percent of the average price of the commodity for the previous 3-5 years, adjusted for changes in the Index of Prices Paid by Farmers for articles used in Living and Production. The lower part of the range is intended to apply to commodities which are in surplus, the upper part to commodities which are in short supply relative to demand.

5. The Congress should authorize a flexible program to carry out the support commitments. Main reliance should be placed on direct payments to farmers of *the difference between the announced support schedule and the market price*.¹³ This would permit a maximum movement of each commodity into consumption and into export markets. Consideration should be given to making the payments conditioned upon following improved practices for both crops and livestock.

6. In addition to direct payments certain supplementary devices to support farm prices might also be employed. Food distribution programs such as a school lunch program and a food stamp plan or a food allotment plan should be developed and put into operation on a limited scale immediately. Such programs should be expanded rapidly as employment and consumer income decline. The primary emphasis of these programs should be on improving diets of undernourished groups. However, they will help maintain markets for many important products.

Government agencies also should be authorized to purchase sur-

¹² Mr. Wellman would restrict government price supports for agricultural products generally to periods of severe business depressions. In such periods he would favor large expansion of subsidized food consumption programs and the institution of direct supplemental income payments to farmers. In periods of high-level employment in industry and trade he would center attention upon improving the operations of the competitive market.

¹³ Mr. Waugh and Mr. Wellman would give precedence to programs to improve the diets of undernourished groups. They believe that in many cases direct payments would be a more expensive and less effective way of supporting prices than government purchases or loans. They agree, however, that direct payments should be authorized whenever necessary to prevent waste of perishables, or the accumulation of burdensome stocks.

pluses when this is found to be the most efficient way of carrying out price support commitments. In such cases, however, great care should be taken to avoid spoilage or the accumulation of excessive stocks. This can be done only by the development of concrete programs for disposing of Government purchases in an orderly manner.

Storage programs may well be used, but should be limited to true "ever-normal granary" operations.

International commodity agreements should put major emphasis on expansion of world trade, not on restriction of supplies.

Marketing agreements for increasing the efficiency of physical distribution of products, improving the operations of the pricing process, and expanding consumption should be explored.

The Committee recognized possibilities of abuse in these devices as well as in direct payments, and believes that effective measures to prevent such abuses should be developed.

7. Consideration might well be given to transferring the administration of the farm-income support policy to a *Non-Partisan Board* with a long term of office and staggered expirations of tenure. Salaries should be sufficiently attractive to obtain the highest caliber of competence, impartiality, and wisdom. The Board might stand between the Secretary of Agriculture and the President. It should be made as invulnerable as possible, to political pressures and should execute with economy and businesslike efficiency the policy laid down in its framework by the Congress.

11. Agricultural Prices*

Farmers too often tend to judge their financial well-being only by the prices which they receive for their products. Consequently in recent years the goals of public policy for agriculture have been largely set in terms of specific prices and price relationships.

Although reasonably favorable prices are undeniably important, it is a mistake to assume that everything depends on them. It would be more nearly accurate to say that the welfare of agriculture depends on net farm incomes, which are determined by a complex of factors in addition to farm prices.

In dealing with the price aspect of national farm policy, it is well to distinguish three types of situations: (1) the immediate postwar period when the problems of transition will be uppermost; (2) periods of reasonably full industrial production and employment; and (3) severe depressions such as existed in the early 1930's.

PRICE CONTROL NEEDED FOR A TIME

Even before the war there was a pronounced shift away from free market prices and toward publicly-administered prices. This trend has been accentuated during the war. Price supports have been employed to encourage expanded production of the most-needed products, and price ceilings used to check inflation.

Clearly it would be impracticable to remove all wartime price controls on either agricultural or non-agricultural products as soon as the war ends. That would aggravate the problems of transition, and would tend to interfere with the establishment of a high level of industrial activity and employment. The termination of price controls needs to be selective rather than general, with proper timing highly important.

A postwar inflation coming on top of the wartime increase in prices would have serious consequences for our whole economy, with particularly disastrous effects on agriculture. To the post-World War I inflation which occurred during the eighteen months following the Armistice in November, 1918, must be attributed a large share of the acute distress experienced by the large groups of American farmers in

* *Postwar Agricultural Policy*, report of Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, 1944, pp. 21-29. Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

the 1920's and 1930's. Not only did that inflation contribute to the subsequent drastic decline in farm prices, but also to the growth of the farm mortgage debt which so heavily burdened farmers during the interwar years.

This time, Congress already has passed some measures to protect farmers against possible drastic price declines before they have time to readjust their farming operations to a peacetime basis. The Steagall amendment and related legislation authorize government action to support the prices of practically all agricultural commodities at 90 per cent (in the case of cotton at 92½ per cent) of their respective "parity" levels. This price support program is to continue for as long as three years beyond the cessation of hostilities.

Already there is growing concern as to how these provisions can be carried out and what the consequences of doing so will be. This concern is fully warranted.

For many commodities, the support price levels are so high that a larger production will be called forth than can be sold in regular commercial markets at those prices, even with high business activity and employment after the war. Under these conditions, huge public expenditures will be required to carry out the present provisions of the legislation. In addition, it will tend to prevent, rather than assist in, the necessary adjustments in crop acreages and livestock numbers, and it may lead to loss of markets.

If the Steagall amendment and related legislation are not modified so that market prices are allowed to move products into regular consumption, plans will have to be made for the disposal of surpluses. This problem is greater for perishable than for staple products because the latter can be stored; yet the storage of large amounts of produce has a price depressing effect which cannot be ignored.

The limitations on dumping surpluses on other countries have already been pointed out. In this country, a food stamp plan with the eligibility rules formerly used will dispose of only small quantities; and if this program is to be extended it is important, as stated previously, that it be based on dietary needs rather than on the existence of particular surpluses of certain crops. A final alternative, to divert foodstuffs to lower uses, such as the conversion of fresh eggs to livestock feed, is certain to arouse widespread public resentment.

In short, these consequences would not only be adverse to the farmers' own long-run interests but they would force the nation as a whole into a very difficult situation.

Clearly, some method for an orderly tapering off of wartime produc-

tion incentives in agriculture is highly desirable. The present legislation should be changed to provide for it. These are several possible ways to meet the situation.

One alternative would be to provide for successive reductions in the levels at which prices would be supported. For example, government action might be authorized to help maintain for the first year following the close of hostilities in Europe, the price levels now authorized. In the second year, prices would be supported if necessary to maintain 80 per cent of those levels. In the third year, action would be taken if needed to hold to a 60 per cent level.

Any time public funds are used to support prices, it should be made very clear to producers just what part of the price they receive is justified by market conditions, and what part represents governmental payments. This information, coupled with the knowledge that price supports are temporary, would serve as a warning against continuing production at unwarranted levels.

A second alternative would be to make equivalent payments to farmers instead of supporting market prices directly. These payments would be based upon the difference between the current market price and the legally designated price. Under this program, the farmer would market his product through regular market channels at the going price. But for each unit sold, he would receive a payment from the government which would represent the difference between the price at which he had sold and the price level which is now authorized as a standard. In the second and third postwar years, the standard level would be less than in the preceding year.

Total returns to farmers would be the same in each of these two methods, but there would be substantial advantages in the equivalent payments program. Because products will flow through trade channels freely at market prices, there would not be the dangers of building up unmanageable surpluses of commodities.

A third alternative is like the second in that payments would be made to farmers and the determination of actual prices would be left to the market. In this case, however, the authorized price would remain the same for three years. The farmer would be paid each year for the difference between current market prices and the price levels now authorized; but the payment would apply to a decreasing proportion of his output. In the second and third years, for example, the payment would be made on only 80 per cent and 60 per cent of the amount which he sold on the market.

Whichever method is employed, it is doubtful if the program should

extend more than three years beyond the cessation of hostilities in Europe. In many lines, production readjustments should start as soon as the European war is over. To delay such adjustments until after the war in the Pacific would simply aggravate an already difficult problem.

WHAT POLICIES UNDER HIGH-EMPLOYMENT CONDITIONS?

Assuming that industrial activity and employment can be kept at reasonably high levels following the war, there are good reasons to believe that governmental policies and agencies would be more effective if directed toward improvement of the competitive market for farm products, rather than attempting to manipulate prices indefinitely.

For a clear insight on this issue, which is one of the most critical ones facing the American public, it is necessary to consider without bias what may ordinarily be expected of the market for farm products. Common impressions on that point are woefully confused by memories of recent history covering two great wars, a disastrous depression, and their attendant effects.

Free-market prices usually do a fairly good job, though by no means a perfect one, in adjusting current consumption of farm products to the available supplies. That is, prices rise and consumption necessarily drops off when the supplies are low, and conversely in periods of abundance prices should drop enough to induce consumers to purchase a larger quantity.

Sometimes prices to consumers fall little even though farm prices have declined greatly, so that consumers are not encouraged to expand their consumption much. It should therefore be a cardinal point of public policy to promote by all possible means the quick adjustment of retail prices to the wholesale price of farm commodities.

Prices also influence future production of farm products. In fact, competitive market prices in the long run offer the only sound means of guiding production to a suitable level. There is, however, the difficulty that current prices often cause temporary over-expansion or over-contraction of production in the immediately following period or crop year.

What often happens is this: when the price of a product is high, a farmer decides to expand production, and so do most other farmers; the result is that by the time the increased output can be marketed—which may be in a year's time with most crops, or as much as several years with livestock products—there is over-production and low prices.

Conversely when the price is low, too many producers decide to retrench; by the time market offerings reflect that decision, supplies are

low, prices are high, consumers are penalized, and farmers have missed a chance to make good returns.

Since prevailing prices are often inadequate guides in making production plans, farmers urgently need outlook information as to what future marketing conditions are likely to be. The problem is complicated by the uncertainties of weather and other factors affecting production, but in the main the present and prospective stocks, the amount needed, and the intentions to produce are the critical factors.

Outlook work never has had a real trial. It made a creditable start at one time, despite lack of adequate personnel to collect, analyze, and interpret the data and make known the results. But the work had hardly got well under way when the depression came, the drastic down-sweep of all farm prices then greatly overshadowing the importance of individual price differences. Since the prevention of general business depressions is quite another problem, whose solution never can be found within agriculture alone, it is too much to expect outlook information or any other farm measure to accomplish the feat.

In addition to better outlook information, two other types of improvements are needed to make the prices of the free market serve well both farmers and consumers: greater efficiency in the physical distribution of products, and better operation of the pricing process itself.

To accomplish these objectives, the principal activities undertaken by the government in the past have involved the development of market news; standardization, grading, and inspection of products; regulation of trade practices; and elimination of monopolistic practices by firms purchasing farm products. Although the results have not been spectacular, they have been highly useful, and such work can well be greatly extended.

Farmers' cooperative associations are particularly effective in improving the marketing of agricultural products and the purchasing of farm supplies and services. As pace-setters in promoting efficiency, they benefit non-members as well as members, and in the long run a portion of the savings they achieve are passed on to consumers in the form of lower prices.

Cooperative associations also contribute significantly by raising standards of quality and by improving distribution of supplies between geographical areas and over time.

There is widespread concern over the large differences between the prices paid by consumers and what farmers actually receive. Reduction in these spreads can be achieved mainly by simplifying marketing services or by doing them more efficiently. Considerable progress in these direc-

tions has been made during the war and these gains should be maintained. In many cities modernization of public wholesale markets, particularly for fresh fruits and vegetables, is urgently needed. To bring about these improvements some public assistance will be required in initiating and in financing the projects.

In summary it may be said that improvements in the competitive market can make it unnecessary during periods of satisfactory industrial production and employment for the government to control prices of farm products which are sold chiefly in this country. In the case of some export commodities, however, it is not certain that this will apply.

As was emphasized in Chapter II,¹ a good market for those farm products which are produced to a large extent for export depends upon multilateral trade on a relatively free basis. If such trade can be developed, there should be little occasion for the government to set prices. But if the trade of the major importing and exporting countries of the world is to be conducted by, or under the close control of, their governments, this country too may be forced to adopt similar policies as a protective measure. Then it may be necessary for the government to control the prices and quantities produced of these commodities, both for export and domestic consumption.

DEPRESSION CALLS FOR DRASTIC MEASURES

At the outset it should be clearly understood that there is no way of having a painless depression. Therefore, every reasonable device should be used to prevent a depression from setting in. But if one cannot be prevented, drastic measures will need to be undertaken by government, not only to alleviate suffering both inside and outside of agriculture, but also to pave the way for recovery.

In the last depression, public action was delayed, and because little advance planning had been done, the measure varied greatly in effectiveness. Clearly the need is to work out plans well in advance, subjecting any proposals to the most critical scrutiny. The methods must be economically and administratively sound, and they must command public support.

Before discussing measures which will help alleviate the effects upon farmers of a severe business depression, it is well to clarify certain ideas in order to avoid futile or harmful steps.

In a severe depression the financial distress of farmers does not center in failure of the agricultural marketing system or competitive

¹ *Committee's report.*

pricing process as such. Rather, the primary reason why farmers do not obtain large enough net incomes is that the purchasing power of consumers is inadequate.

No solution to the problem of exceedingly low farm incomes is to be found in shifting the production of farm products to retrench in some lines and expand in others. This remedy, which takes care of maladjustments within farming, is of little avail when the prices of all farm products go into an extraordinarily deep dive.

There are serious dangers if solutions are sought by using artificial price devices. Price fixing measures not only interfere with the continuance of needed long-run production adjustments, but they also encourage excessive output, which in turn necessitates strict governmental controls over production. Since price benefits are distributed in proportion to amount of production, they are not related to family living needs, and they may not be of significance to the large number of small-scale farms.

Stockpiling mountainous quantities of farm products for the purpose of raising current prices is not a good policy even during a severe depression. Holding huge stocks off the market tends to invite competition from new producers, demoralize potential buyers, and retard recovery.

General curtailment of agricultural production does not solve the problems of a depression. A policy of scarcity harms consumers, who from the health and morale standpoints need about as much food in depression as in prosperity; curtails employment on farms and industries and trades handling farm products when employment is especially needed; fails to raise net farm incomes to satisfactory levels; and involves complicated and sometimes unpopular controls over individual farming operations.

Three feasible measures are available to alleviate the effects of depression from the farm standpoint. They should be used when urgently needed, but with full recognition of the fact that prosperity on the farm is dependent on high employment and full protection in useful non-agricultural enterprises.

First, subsidized food-consumption programs need to be greatly expanded. As pointed out in Chapter II, these programs should be continued even in periods of high employment. In a depression period, they become even more important. By assuring adequate diets to those least able to afford them, and by bolstering the market for farm products, these programs simultaneously and efficiently combat two of the worst aspects of depression.

Second, deferment of farm mortgage payments, except to the extent

of a landlord's share of return, can be used to help alleviate distress caused by the failure of the fixed costs of farming to drop as commodity prices go down.

Third, in the case of a long and severe depression, certain income payments to farmers as well as other groups may be advisable. As suggested previously the master-key in preventing or curing depressions is maintaining the flow of consumers' purchasing power into the market. It was pointed out in Chapter I that when unemployment increases and a downward trend in general price level occurs, taxes should be reduced, public expenditures increased, and credit policies modified to check bankruptcy and to encourage expansion. Special efforts should be made to maintain and expand productive employment, particularly in those fields of activity where unemployment is serious. Self-interest should insure full cooperation of industry and labor with farmers to develop sound policy.

It would be a mistake to make payments to farmers in the form of rewards for decreasing production, or in the shape of artificially-raised commodity prices. Rather, they can best be outright payments designed to keep farms in productive condition, and to speed recovery by injecting additional money into the nation's income stream at a strategic place. A sound method of making supplemental income payments to farmers will need to be adapted to varying farm conditions by taking account of family living expenses and cash outlays for maintaining production capacity. Also, there should be a maximum limit to the amount that any one producer might be paid. Some comparable system of payments to non-farm enterprises would aid in restoring production and employment in other lines and in maintaining markets generally.

Consideration might well be given to the advisability of building up a fund from contributions by industry and agriculture in relatively favorable times from which such payments would be made to industry and agriculture in times of severe depression.

There must also be forethought in answering this question: what constitutes a depression? The danger is that a comparatively minor normal downswing in prices might be construed as a depression calling for the most drastic remedies. For this reason it would be necessary to establish beforehand a statutory method of determining objectively when the supplemental payment program should go into effect and when it should cease. The best yardstick probably would be an index of unemployment or industrial production.

12. A Rational System of Agricultural Price and Income Controls*

By GEOFFREY SHEPHERD

Department of Economics and Sociology, Iowa State College

There is widespread agreement among agricultural economists that parity prices are not good bases for agricultural price or income controls.¹

The reasons for this are comparatively simple and clear. Parity prices freeze price relationships among agricultural products, and among agricultural and other products, in a pattern that in most cases is more than 30 years out of date. It certainly is not well adapted to changing requirements from year to year now—big crops, poor crops, peace, war, etc. Parity misdirects both the production and the consumption of farm products.

Parity also is unsatisfactory in its other use—as a standard for measuring the economic status of agriculture. It is highly inaccurate. Agricultural prices in 1944 averaged 115 percent of parity, but net farm income—the thing that really counts—had more than twice as much purchasing power (204 percent) as it had in 1909–14. As a measure of net income then, parity prices in 1944 were 77 percent inaccurate ($204/115 = 177$). The inaccuracy of parity price as a measure of net farm income results from the fact that net farm income varies not only with prices but with quantities produced. It also varies with the costs of production (that is, with the quantities as well as the prices of the goods and services used in production). And in any case, even if parity prices did accurately meas-

* *Journal of Farm Economics*, XXVIII, 3 (August 1946), pp. 756–72. Reprinted by the courtesy of the *Journal of Farm Economics* and the author. Journal Paper, No. J-197, of the Iowa Agricultural Experiment Station, Ames, Iowa, Project No. 894. I am indebted to Don Kaldor, Oswald Brownlee, Ivan Lee, and Clifford Hildreth, of Iowa State College, for helpful criticism.

¹ W. H. Nicholls, "A Price Policy for Agriculture, Consistent With Economic Progress, That Will Promote Adequate and More Stable Income From Farming," *Journal of Farm Economics*, XXVII, 4, November 1945; T. W. Schultz, *Agriculture in an Unstable Economy* (New York, McGraw-Hill Book Company, Inc., 1945); L. J. Norton and E. J. Working, "A Proposal for Supporting Farm Income," *Illinois Farm Economics*, University of Illinois, December 1945 and January 1946, Nos 127 and 128; K. T. Wright, "Basic Weaknesses of the Parity Price Formula for a Period of Extensive Adjustments in Agriculture," *Journal of Farm Economics*, XXVIII, 1, February 1946; O. C. Stine, "Parity Prices," *Journal of Farm Economics*, XXVIII, 1, February 1946.

ure parity net income, and parity were attained, that would not at all mean that parity between agriculture and other groups had been attained; for most other groups are considerably better off now than they were in 1909-14.

It is comparatively easy to show what is wrong with parity, but it is far more difficult to work out something better. Several agricultural economists have recently made the attempt; they have proposed other bases for price controls, to replace parity prices.²

Their proposals differ considerably. Some of the proposals deal only with parts of the problem, while others are outlined only in general terms. The present paper is an attempt to outline a coordinated system of measures in terms more specific than hitherto.

AGREEMENT ON OBJECTIVE

There is substantial agreement among the recent proposals that the desirable general objective of agricultural price policy is stability of agricultural income, and at a level as high as is consistent with the welfare of the nation as a whole. This objective apparently is based on the reasonable assumption that greater stability of income would increase farm production. This would benefit the nation as a whole as well as benefiting agriculture.

There probably is further agreement that stability of income means stability of the incomes of individual farmers as well as of the group as a whole. And it seems reasonable to believe that income here means net income.

DISAGREEMENT ON SPECIFIC PRICE CONTROL MEASURES

There is much disagreement, however, concerning the measures required to attain this objective.

A number of economists urge that the objective can best be attained by abandoning any attempts to control agricultural prices.³ Some of these economists base their views on the belief that politicians will not let economists set prices where economists know they should be. Others argue that any attempt to set prices at some other level than they would attain if they were left alone is bound to misdirect, impede or accelerate production, the flow to market, and consumption, in uneconomic direc-

² See the references given in footnotes 1, 3, 5 and 6.

³ *Postwar Agricultural Policy*, report of Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities (October) 1944; F. A. Pearson, W. I. Myers and Don Paarlberg, "Our Problems and World Prices," *Farm Economics*, Cornell University, Ithaca, New York, December 1945.

tions. What is required, they say, are prices that will continuously adjust consumption and production to each other; and those are free-market prices. In addition, free-market prices vary inversely with production and therefore result in fairly stable income so far as variations in production are concerned.

At the other extreme, other economists say that unpredictably variable free-market prices are poor guides to farmers as they lay their production plans, and lead to much misallocation of resources. This is not necessarily an argument for controlling prices. In itself it could be merely an argument for the announcement, before breeding or seeding time, of the levels that free-market prices were expected to attain when that season's products are ready to go to market. This would be merely "Outlook" work. But farmers would not pay much attention to these announced forecasted prices unless they were guaranteed minimum prices. So, in view of the unpredictable fluctuations in yields and in demand that are likely to take place between the time of the announcement of the guaranteed price and the time when the product moves to market, guaranteeing minimum prices is likely to involve controlling prices, in a considerable percentage of the cases (whenever the market prices turn out to be lower than the forward prices, as they frequently would).

In between these two extremes, or alongside of them, are various other proposals.⁴ No attempt will be made here to appraise them all. Only two or three representative proposals will be considered. Our own coordinated system of proposals will then be offered.

MODIFICATIONS OF PARITY

Several recent proposals use historical bases of one sort or another, like the parity formula, only with a more recent base.

One proposal would use the simple average of two prices over the preceding three years, both expressed in terms of parity. These two prices would be (1) the price-support levels for the product over the past three years, and (2) the average market price over the same period, adjusted where necessary to offset the effect of price raising measures such as storage programs.⁵

⁴ See the references given in footnotes 1, 3, 5, 6 and 8.

⁵ Frederick V. Waugh, "A Price Policy for Agriculture, Consistent With Economic Progress, That Will Promote Adequate and More Stable Income from Farming," Third Award Paper, *Journal of Farm Economics*, XXVII, 4, November 1945. See also "Outline of a Price Policy for American Agriculture for the Post-war Period," Committee on Parity Concepts, *Journal of Farm Economics*, XXVIII, 1, February 1946.

This proposal seems like a step in the right direction, but at best it is only somewhat less bad than parity. At worst it is worse than parity.

During a boom, as at the present time, the prices of many farm products would be above parity. In a subsequent recession or depression they would average below parity. It would be difficult to carry a program based on parity through a depression. It would be still more difficult to carry through a program based on parity plus half-of-the-excess-over-parity-during-a-boom. The relative prices thus established might be better guides to relative production than prices based simply on parity, but the system as a whole would be worse. The same thing is true the other way round of prices just after a depression. Prices based on this formula would have been very poor prices to use in 1941, and it seems to

me that they would be poor prices to use now.

EIGHTY-FIVE PERCENT OF THE "PRE-DEPRESSION PRICE"
FOR EACH PRODUCT

Another proposal would use as the base for the price "the pre-depression price." This is defined as "that price for each farm product that reflects accurately both supply and demand conditions (just prior to the depression) when the economy was operating at high production and full employment."⁶

A depression for these purposes is defined thus: "Whenever unemployment exceeded 5 percent of the total labor force, a depression would be deemed to exist." If prices fell below 85 percent of the pre-depression price, the difference would be made up in direct payments to producers.

Under this proposal the pre-depression farm price of hogs in 1930, for example, would have been computed at about \$10 if the average of the five preceding years had been used as the basis. The level below which producer payments would begin therefore would have been about \$8.50. During the next four years, from 1931 to 1934, the farm price of hogs remained well below \$8.50, as shown in Table 1. The payments per 100 pounds that would have been required are also shown.

Total slaughter during those years averaged close to 70 million head. One could knock off 10 million head of farm slaughter, perhaps, on which the payments would not be made, and estimate the average weight of hogs at 250 pounds. The total payments each year would then be approximately as shown on Table 1.

When the total payments to the producers of other products are

⁶ Theodore W. Schultz, *Agriculture in an Unstable Economy* (New York and London, McGraw-Hill Book Company, Inc., 1945), p. 226.

computed and added in, the grand total becomes rather large. For our purposes here, it is not necessary to make the detailed computations. A rough approximation can be made by taking 85 percent of the total pre-

Table 1

FARM PRICE OF HOGS AND PAYMENTS TO PRODUCERS, 1931-34

Year	Farm Price of Hogs (\$ Per 100 Pounds)	Payments to Producers	
		\$ Per 100 Pounds	(Millions of Dollars)
1931	\$5.73	\$2.77	\$405
1932	3.34	5.16	460
1933	3.53	4.47	548
1934	4.14	4.36	700

depression gross agricultural income per year, and subtracting from that the actual income during the depression. Total agricultural income for 1925-29 inclusive averaged close to 13.5 billion dollars; 85 percent of that would be 11.4 billion. The actual income by years thereafter, and the payments that would need to be made, are shown in Table 2.⁷

Table 2

AGRICULTURAL INCOME, AND PAYMENTS NECESSARY TO BRING THEM UP TO 85 PERCENT OF THE PRE-DEPRESSION LEVEL, 1931-35

(Billions of dollars)

Year	Total Agricultural Income	85 Percent of Pre-depression Level	Total Payments Required
1931	8.4	11.4	3.0
1932	6.4	11.4	5.0
1933	7.0	11.4	4.4
1934	8.5	11.4	2.9

Source: Agricultural statistics.

⁷ If payments of the magnitudes shown in Tables 1 and 2 had been made in the first year or two of the depression, their counter-cyclical effect would have reduced the severity of the depression in subsequent years. This would have increased farm income during those years, and thus would have reduced the size of the payments required per unit. But the payments would have induced an increase in the number of units produced. The combined effect of these two factors working in opposite directions is anybody's guess. I see no basis for making an accurate estimate of it.

It is not clear whether the bases for the forward prices proposed along with the compensatory payments would be the same as for the compensatory payments (85 percent of the pre-depression price of each product) or not. If they were the same, the forward prices would certainly be too high most of the time—higher than 90 percent of parity, at present, in many cases. This would direct relative production within agriculture better than Waugh's proposal; but like Waugh's proposal, it would misdirect agricultural production as a whole, misdirect it worse than present parity prices. It would in effect maintain agricultural prices and gross incomes at 85 percent of boom levels, and maintain agricultural *net* incomes higher than this since agricultural costs would decline during the depression. This would attract uneconomically large quantities of economic resources into agriculture.

If this proposal were put into effect at the end of the "Steagall period," it would involve using prices in the neighborhood of those existing now for hogs, wheat, corn, cotton, etc., as the "pre-depression" bases for the following 5 to 10 years. These are pretty high prices, but I feel sure that if Congress adopted the proposal, those are the prices they would want to use.

Perhaps Schultz' proposal would use different bases for the forward prices than the pre-depression prices. If that course were adopted, there would be some question whether anybody would pay much attention to the forward prices. Farmers would not be interested in forward prices of say 75 cents for wheat if they were going to get 75 cents in the market place plus another 50 cents in compensatory payments. They would base their production plans on \$1.25 per bushel without paying much attention to the forward price of 75 cents a bushel.

This proposal would freeze agricultural returns per unit at boom levels, in effect giving farmers 85 percent of the prices they had received during the last boom period. Relative demands change with the change from boom to depression, but relative returns to farmers for the production of different products would remain unchanged, and this would tend to keep relative production unchanged. Gross agricultural income would remain at 85 percent of boom levels, and net agricultural income would be still higher. This would retain more farmers on farms.

After the high net agricultural income had been capitalized into high land values, and after the larger total net agricultural income had been divided up among the larger number of farmers, it is not certain that individual farmers would be any better off than before. And the nation would begin to wonder whether it had helped or harmed itself by subsidizing an already overcrowded industry and retaining more farmers on the land than were needed there.

PRESERVING THE LONG TIME RELATION BETWEEN PER CAPITA
FARM INCOME AND NATIONAL INCOME

Another recent proposal would return agricultural prices to the free market, but would use as the basis for income payments direct to farmers the long time trend relationship between per capita farm income and per capita national income.⁸

In a depression year, for example, when per capita agricultural income was only 80 per cent of its trend relation to per capita national income, a production payment would be made direct to each farmer equal to $\frac{(100 - 80) 100}{80} = 25$ percent of his income.

This proposal would leave relative prices free to direct relative production, and would maintain agricultural income at average levels rather than at boom levels. It would thus direct agricultural production—both the production of different farm products, and agricultural production as a whole—better, it seems to me, than Schultz' proposal.

But it is not without shortcomings of its own. An extreme illustration will make one of the shortcomings clear. Two farmers might be living side by side in the Cornbelt, both raising 5,000 bushels of corn. The one sells all his corn as cash grain, while the other feeds it all to livestock which he purchases as feeders each fall. A severe drop might take place in livestock prices, say from \$10 to \$7.50 per 100 pounds, such as the decline that took place from December 1930, to May 1931. The price of corn would be likely to decline correspondingly, from 80 cents per bushel to 60 cents, an equal percentage decline (25 percent).

If prices before the drop represented average income levels, the grain farmer would get a production payment then of \$1,000. But the livestock feeder might have paid as much for his feeders as he eventually received from the sale of his fed stock; in that case he would have no income as defined in this proposal; so he would get no production payment at all. Yet this neighbor across the road would get \$1,000. The two men, entitled to similar treatment, actually would get very unequal treatment.

A second shortcoming is more serious. The proposal would freeze the historical relation between per capita farm and non-farm income, at the same level that existed in some earlier base period. There is no reason to suppose that this is the relation that will be required to allocate

⁸L. J. Norton and E. J. Working, "A Proposal for Supporting Farm Income," *Illinois Farm Economics*, University of Illinois, Urbana, Illinois, December 1945 and January 1946, Nos. 127 and 128, pp. 309-313. Agricultural income here is defined as gross income minus the cost of feed and livestock purchased.

resources properly between agriculture and the rest of the economy in the future.

Finally, the proposal would return all agricultural prices to the free market, with all the shortcomings of that market that have proved unsatisfactory in the past.

DIFFERENT MEASURES NEEDED FOR DIFFERENT CONTINGENCIES AND PRODUCTS

There is not time to appraise other proposals here. We will proceed to the more difficult and more useful problem—what do we propose instead?

STABILIZING PRICES AGAINST FLUCTUATIONS IN SUPPLY. One set of measures is required to stabilize prices or incomes against fluctuations in production, and another set against fluctuations in demand. And within each set, different measures are required for different crops. What is needed thus is a system of price controls, each one fitted to the particular conditions of particular crops.

FEED PRICES NEED TO BE STABILIZED. The evidence seems clear that free-market prices do not work out satisfactorily for one important group of commodities—livestock feeds. Fluctuations in the production of livestock feeds lead to opposite fluctuations in prices and to consequent fluctuations in livestock production and prices. The four-year cycles in hog production and prices are one striking illustration of this. Fluctuations of this sort increase the costs of livestock production, processing, and distribution, and thus reduce the total production and consumption of meat.

Accordingly, the prices of livestock feed crops should not be left to the free market. They should be controlled by storage operations designed to convert an irregularly fluctuating production from year to year into a relatively constant flow to market so as to stabilize livestock production and prices against fluctuations in feed production. For this purpose the loan rates should be set each year at the levels that would move average-weather crops into consumption. This would not stabilize income from the sale of feed grains as such; that income would vary with the size of the crop. But it would stabilize the income from the principal product, livestock, against fluctuations in feed production.

A program of this sort would not stabilize incomes to individual producers. Most individual producers' yields vary differently from the variation in average yields for the group. Individual crop (yield) insurance would be needed for the attainment of individual income stability

from the sale of feed crops as such. If this insurance provided 100 percent coverage, and operated from a high yield base, it would in effect give each producer the equivalent of a full crop each year. Stable loan rates then would stabilize his income. But obviously crop insurance can not provide 100 percent coverage, for if it did, farmers would find it cheaper and easier to farm poorly and collect the insurance, even in good years, than to farm well and collect none. That is the reason why the maximum coverage in existing crop insurance programs has been set at 75 percent. With only 75 percent coverage, the incomes of individual farmers could decline as much as 25 percent below average. Perhaps this is as nearly stable as incomes from the sale of feed crops can be made, consistent with stability in livestock production prices and incomes.

STABILIZING COTTON PRICES WOULD NOT STABILIZE COTTON INCOMES. Other products need different measures to stabilize their incomes.

Stabilizing cotton prices would not stabilize cotton incomes; it would cause cotton incomes to vary directly with total United States cotton production. Furthermore, fluctuations in cotton production do not cause corresponding fluctuations in cotton consumption, as in the case of livestock feeds. Cotton consumption varies with industrial activity rather than with cotton production. And finally, cotton is an export crop, and prices need to be lower in years of large United States crops than in years of small United States crops in order to promote larger exports in large crop years. Loan rates that varied inversely with the size of the United States crop would meet these features of cotton better than loan rates that remained constant from year to year.

WHEAT PRICES AND INCOMES. Wheat is in an intermediate situation between cotton and livestock feeds, although closer to cotton than to livestock feeds. Wheat is an export crop, although to a smaller extent than cotton; the United States actually had net imports of wheat during the drouth period, 1934-36. The United States uses about 500 million bushels of wheat for human food year in and year out, almost ignoring variations in production and prices. Variations in production are taken care of by variations in exports, in domestic feeding to livestock, and in year-end carryover. The price program for wheat would be more like the cotton program than the livestock feeds program.

With cotton and wheat, as in the case of livestock feeds, stability of income to the growers of each crop as a group would not bring stability to each grower to the extent that yields varied differently from the variation in average yields. Crop insurance would be required to reduce variations in individual incomes.

This crop insurance could provide only up to 75 percent coverage,

and therefore could reduce downward variation in individual growers' incomes at the most only 75 percent, even if average yields and loan rates remained constant. To the extent that average yields and loan rates varied an additional source of instability would exist. A grower whose crop was half wiped out would receive a lower income in a year of good crops for most growers (when prices would be low) than in a year of poor crops, when prices would be high. The unstabilizing effect of this situation could be reduced, since there is some correlation between individual growers' yield and average yields each year, by using loan rates that varied inversely but less than proportionally with the size of the crop. Perhaps this is as close to stability as the individual incomes of the producers of these crops can be brought.

PERISHABLE CROP PRICES CANNOT BE STABILIZED. In the case of perishable crops there is really no choice between stable price floors and variable price floors that would vary inversely with the size of the crop. Variable price floors would practically have to be used, for a stable price floor set at the right level for an average crop clearly would be too high for a big crop to move into consumption. In most cases stable price floors could be used only at a prohibitive cost for converting perishable crop surpluses into durable form so that they could be carried over to later years of short crop. What would be needed would be a schedule of prices that varied inversely with the size of the crop about the central price for an average crop.

Price floors that depend upon the size of the crop like this would be very difficult to handle for crops that are harvested at different times in different parts of the country. For what is the size of the crop? Is it the size of the United States crop? If so, that size is not known until the crop is all in from the latest areas, perhaps weeks or months after the crop from the early areas had all been sold. If the size of the crop is reckoned separately in separate time areas, there is likely to be trouble at the edges of those areas unless some form of moving price floor can be used.

Furthermore, what is "the crop" in the case of products such as livestock, butter, eggs, etc., that are more or less continuously produced? Where does the season begin or end?

Different answers would probably be given for different products. The hog crop might be split into two—the spring and fall crops. Butter and eggs probably would do better on a monthly "crop" basis. Answers to these questions can be worked out but not in any simple blanket manner.

In view of these complications, it may be that for the time being, until a good deal of experience had been gained, the most workable floors

for perishable crops would be stable floors set low at the level that would be right for a large crop. How much lower this level would be than the level for an average crop would need to be determined separately for each crop.

SETTING LOAN RATES AND PRICES. The basic loan rates or prices for each crop would need to be set in advance of seeding, breeding, or feeding each year, at the level that would move an average crop into consumption. How would that level be determined each year?

The BAE plus the state college economists should be able to forecast the prices of the different farm products for a production and marketing period ahead like this with a reasonably high degree of accuracy. They have been doing it in "Outlook" work for over 20 years, most of the time with a far smaller and less well-trained staff than they have now.

The BAE helped to set corn and cotton loan rates at sensible levels before the job was taken out of their hands in 1938. It did a good job early in 1941 when it set a hog price floor of \$9. It did a good job, except where parity legislation prevented it, all during World War II. It even did a good job during and after the war when the time came to reduce the hog price floor to lower levels. There is no economic reason why it could not continue to do a good job in the future.

It may be that Congress would be unwilling to turn the setting of these loan rates and prices over to the BAE without any strings on them. Congress might insist on some sort of formula or formalized procedure which they would lay out.

If so, this formula or formal procedure could start with the loan rate for corn. The need for price controls for corn is more clear than that for almost any other product, for corn is the most important livestock feed and the need for stabilizing the prices of livestock feed is clear. The price of corn can be controlled fairly easily, because corn can be stored for several years if necessary, and it can be stored in cribs at a lower cost per ton than oats, the next most important feed crop.

It seems to me clearly preferable to stabilize corn prices and let that act as a stabilizing influence on livestock prices than to go at it the other way round, as Nicholls appears to suggest in proposing to "limit forward pricing to livestock and livestock products, since . . . (2) these products, in turn, form the principal demand for the feed grains."⁹ It may be, however, that Nicholls intends forward prices to be used purely as an "Outlook" proposition, in which case it wouldn't make any difference where you started. This point is related to Nicholls' other proposal to

⁹ *Op. cit.*, p. 750.

conduct storage operations on a physical quantity rather than price basis. In the case of feed grains, it seems to me that the present loan technique is superior to government purchases and sales. The loan rate can be raised or lowered to meet changes in demand, as from peace to war and back again. And the loan technique permits most of the grain in storage to remain in the best place for it—in a crib on the farm where it was grown and in the hands of the man who grew it.

The loan rate for corn should be set each year at the estimated level at which an average-weather crop would move into consumption. Any excess over average-weather production would move into storage, to come out in later years of short crops.

If Congress were unwilling to leave the matter as open as that, and insisted on setting the loan rates at rather high levels, it would not be long until those high rates would decrease consumption and increase production until storage stocks would accumulate and call attention to the matter. Old crop corn stocks (October) grew to 700 million bushels in 1940. They could easily exceed a billion bushels, and still keep on growing. But sooner or later they would reach a size where legislators would begin to listen to the economists' arguments that previously they had brushed aside. You can't brush aside a billion and a half bushels of corn. The 11 million bales of cotton carried over from earlier crops in 1945, and the increasing use of other fiber, is beginning now to temper the thoughts of southern congressmen.

By that time, the legislators would be willing to move in the direction of lowering loan rates to economic levels. This lowering might be done just on the basis of common sense economics, as in the case of the lowering of the hog price floors that took place in 1943 and 1945, or by some formula such as a 1 percent reduction in rates for each 1 percent by which year-end stocks of corn exceeded the size required for stabilization purposes—say one billion bushels.

Eventually this would bring the corn to something like the right economic levels. This would make it easier to set the price floors for livestock at proper levels. They would be set at the ratios to corn prices that would induce the production of the quantities of each kind of livestock that would move into consumption at those prices. The same thing is true of dairy and other livestock products.

The loan rates for cotton and other export crops would eventually be set in relation to export price levels. Thus the loan rates and prices for most farm products could be set by fairly objective measures. The prices for fresh fruits and vegetables would remain as the most difficult to handle.

SUPPORTING PRICES OR INCOMES AGAINST A MAJOR DECLINE IN DEMAND

Price supports are not good measures for meeting a major decline in general demand. In the case of durable products, the severity and duration of the decline in demand is unpredictable, and there is very little basis for estimating how much of the commodity to carry and how long to carry it. It is difficult to support the prices of perishable products without paying large subsidies to processors, which are unpopular. And holding up the prices of food would accentuate the difficulties of low-income consumers in times of depression.

The way to deal with a decline in general demand is first of all to do everything that can be done, by measures affecting the whole economy, to keep the decline from happening in the first place. Next, to have nutritional programs like the Food Stamp Program ready to go into effect to reduce the decline in the demand for food among low-income groups. And third, if a decline still takes place in spite of these measures, to let prices go on down so as to keep products moving into consumption, but to prevent farm income from declining proportionally by making direct payments to farmers. Their markets would have gone to pieces through no fault of their own, and they would need depression compensation much as industrial workers need unemployment compensation.

BASIS FOR PAYMENTS

What basis should be adopted for determining the amount and time of these depression payments?

It seems to me that the objective of stabilizing agricultural income against a decline in general demand could best be attained by using as the basis the thing that is to be stabilized—the net income per farm worker—that is, total income minus all production expenses. And this net income should be stabilized at long-time equilibrium levels, not above those levels; otherwise we repeat the mistakes, with income, that price raisers make when they boost prices above equilibrium levels.

These per capita farm net income data for agriculture are already available in official BAE statistics running back to 1910. They have been subjected to much criticism, but if the need were great enough they could be improved. These net income data would be a better basis than Norton and Working's gross income minus the cost of feed and livestock purchased, because they would take all expenses into account, not just feed and livestock expenses. And they would be better than Waugh or Schultz' price bases, because they would take expenses as well

as gross income into account, not just prices per unit of products sold, which would not even measure gross income, much less net income.

If net income per farm were adopted as the basis for making direct payments to farmers in periods of low general demand, two questions would need to be answered.

1. *What are the "long-time equilibrium levels" that are to be used as the basis for stabilizing net agricultural income per capita?*

Norton and Working propose using the average or trend relation, over a period of years in the past, using their particular concept of net income. They propose this as the basis for deciding when to make production payments, and how much to pay. In their view, production payments should be made whenever the per capita farm net income falls below its average relation to per capita non-farm net income. And the payments should be made in amounts that will bring the relation up to average.

An average of this sort probably is one of the best rules-of-thumb available, but it still remains only a rule-of-thumb. The average of the past is only an imperfect guide to the needs of the future. In this case, it would provide a form of income parity, subject to some of the same shortcomings that have been pointed out for price parity. We ought to get away from historical bases entirely and use a current base each year, computed by reference to current, not historical, data. This base should be such as would accomplish two things: (1) provide an adequate income for farmers each year, as determined by reference to objective standards of living, and (2) allocate resources properly between agriculture and the rest of the economy, so as to equalize marginal returns, and thus move the proper number of farmers off farms and into other pursuits. Agriculture produces nearly 50 percent more farmers than necessary to maintain a stationary farm population. Thus surplus must keep moving into other lines of production, or the increased numbers of farmers will cut the total farm income pie into smaller and smaller pieces.

Obviously, a base of this sort cannot be worked out by any simple arithmetic formula. Some simple rule-of-thumb, such as the average over a recent period, can be used until a better one can be worked out, but it is at most only a stop-gap. Economists could well make this particular problem a major field for future research.

2. *Basis of payments to individual farmers.*

The second question is this: On what basis are the payments to be made to individual farmers?

In principle, they should be made on the same basis as the basis used for determining the time and amount of the total payment to

agriculture as a whole, as outlined in the preceding section—that is, per capita net income. This would bring each farmer's net income up to its proper relation to per capita non-farm net income.

This principle is easier to enunciate than to put into practice. It would be administratively very difficult, if not impossible, to determine the net income for each farm separately and bring it up to par, farm by farm.

PAYMENTS PROPORTIONAL TO TOTAL SALES. There are two workable alternative bases for these direct payments. Under the first one, the payment would be made proportionate to total sales on each farm. Each farmer then would be paid a uniform percentage of his gross income. Thus in a year when agricultural per capita net income was 20 percent below average, it could be brought up to average by adding, say, 8 percent to the gross income (net income averages about $\frac{2}{3}$ of gross income). So each farmer would receive a production payment equal to 8 percent of his gross income as determined by his records of sales.

With this plan, as with all direct-payment plans, some administrative difficulties would be encountered in the case of livestock feeds. If farmers were to receive direct payments for corn as well as for hogs, it would be difficult to distinguish between bona fide local sales of corn among neighbors, from sales made purely to establish a claim for payments. Local committees to certify the basis of the payments would help to meet this problem.

This plan would help to keep the nation's commercial farmers on an even keel, but it would not be much help to the small, almost non-commercial farmers, who number nearly half of the total agricultural population but produce only about 10 percent of total agricultural production. The plan would concentrate attention on farm business needs. It would make payments proportional to the size of the business, much as the open market does.

UNIFORM FLAT PAYMENT. The other alternative would concentrate attention on the farm family rather than the farm business. It would recognize that a farmer has a family to support as well as a business to operate. Under this plan a uniform flat payment would be made to each farmer, regardless of the size of his business. This would be a standard of living payment, analogous to unemployment compensation.

The shortcomings of this extreme basis are fairly obvious. It would take care of family needs, which would be of a similar order of magnitude from farm to farm, but it would be quite an inadequate means of meeting the needs of the farm business. A flat payment of, say \$200 to each farmer would be more cash income than a good many hill-billies

had ever seen before, yet it would be only a drop in the bucket to meet the needs of large commercial family sized farms. Many of them would be facing business operating losses of hundreds of dollars.

PAYMENTS PROPORTIONAL TO SALES PREFERABLE TO UNIFORM PAYMENTS. On the whole, payments proportional to total sales appear preferable to uniform payments. Individual farmers' incomes differ greatly from farmer to farmer in normal times. The basic purpose is to stabilize these incomes at something like their normal levels, not to alter the income distribution pattern in the direction of greater uniformity. If such an alteration is desirable, it should be done as a separate national plan applied to all groups, industrial, commercial, professional, etc., as well as agricultural.

This program would keep per capita net farm income up to its average relation to non-farm income, and reduce financial losses and human hardship; yet it would leave the relative prices of farm products free to direct production and consumption and avoid the piling up of unsaleable surpluses that resulted from the price control programs of the 1930's and 1940's.

This sort of program may not be able to meet both of the two criteria given above—the equitable allocation of resources and the provision of a decent living. The base that properly allocates resources may well turn out to be too low to provide enough income to many farmers to meet objective living standards. If so, further measures will be required, directed primarily at the farmers concerned, and only indirectly at the other farmers whose incomes are adequate for a decent living. There is really only one workable way to bring those low farm incomes up, over a period of years. Educational and health facilities need to be provided to raise agricultural productivity per man, and keep open the channels out of agriculture into other industries, by reducing handicaps to free movement to those industries. If this movement could be made completely free, incomes for given grades of ability in agriculture would rise to equality or parity with incomes for equal ability in other lines.

A final and essential part of an agricultural price and income policy, therefore, should be a program of general improvement in educational facilities for farm girls and boys at all levels—grade school, high school and college—including technical training as well as general education, so that farm boys and girls can compete on equal terms with boys and girls in town, and move out of agriculture until returns in agriculture rise to equality with those in other lines.

13. A Price Policy for Agriculture, Consistent with Economic Progress, That Will Promote Adequate and More Stable Income from Farming*

By WILLIAM H. NICHOLLS

Department of Economics, Vanderbilt University (at University of Chicago when the article was prepared)

A. THE NECESSITY FOR AN INTEGRATED AGRICULTURAL POLICY

Existing agricultural price policy is the heritage of the sectional isolationism of the 1930's. "Overabundance," not scarcity, was the specter which haunted American agriculture, labor and industry alike. And each group, aided and abetted by government, vainly strove to live unto itself in an inextricably interdependent economy. Even under the unifying pressure of the war, this depression-born restrictionism yielded but slowly to the insatiable demands of Mars. True, a glorious record of unprecedented production ultimately resulted. But, even then, the running battle between agriculture and labor, while inflation control hung in the balance, re-emphasized the hazards of the wholesale transfer of price-making into the political arena. Clearly, if we are to evolve a more stable and productive postwar economy, we must profit by these recent experiences.

The general welfare is much more than the sum total of special interests. Hence, if agricultural (or labor or industrial) policy is to be consistent with economic progress, it must be an integral part of a sound national economic policy, based upon forward-looking political and economic cooperation. The essential objectives of such a national economic policy are:

1. greater economic stability;
2. an expanding aggregate *real* income; and
3. a rising minimum scale of family living.

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No sector of our economy, least of all agriculture, can fail to have a primary interest in the realization of these three goals. Yet they cannot be attained by any one economic group in isolation. This paper explores the means by which agriculture can promote its own stability, aggregate real income and family welfare, consistent with concomitant progress toward these goals by other parts of the economy.

B. TOWARD GREATER ECONOMIC STABILITY

PRICE AND INCOME INSTABILITY

THE PROBLEM. Industrial capitalism is apparently peculiarly subject to progress by fits and starts, reflected in wide fluctuations in the general price level, employment and national income. Agriculture is particularly vulnerable in such an economy, because (1) it maintains production even in the face of ruinously low prices; (2) raw material prices are subject to the greatest amplitude of change; and (3) changes in agricultural income expectations are shortly reflected in land values. Agriculture's fears of a postwar deflation have already found expression in Federal legislation directing government support of agricultural prices at 90-92½ percent of parity 2-3 years after the war's end. A feeling of economic insecurity also probably accounts, in part, for agriculture's insistence on "parity prices" during the war, even though parity embodied in its very definition the potentialities of an upward price spiral.

For proper perspective, however, we must recognize that the ghosts of deflation are likewise real to other economic groups. Labor's drive for maintenance of membership, broader unemployment benefits, barriers to technological progress and its own inflationary counterpart of "parity"—wartime wages tied to the cost of living—reflect its boom-or-bust psychology. Industry too clings to its old maxim, "charge what the traffic will bear," partly as a means of preparing for the "rainy day" of deflation, thereby hastening its coming. Thus, the most important single factor preventing the sublimation of the shortrun special advantages of all our major economic groups to the longrun common interest may be the insecurity of our unstable market economy. During the postwar period, we must give increasing attention to the optimum allocation of our human and material resources (Section C). But, so long as deflations recur, the waste of economic resources is too staggering for popular concern about such niceties as their optimum allocation, most alternative uses having already disappeared.

SUGGESTED SOLUTIONS. Important as it is to agriculture, price and income stability is fundamentally the problem of our entire national

economy. Attempts at solution must, therefore, be general in scope, at least in the first instance. Agricultural price policy can at best do no more than supplement, while avoiding conflict with general monetary-fiscal policy.

If the objectives of economic progress and social welfare are to be realized, the Federal government must underwrite a high level of employment as continuing national policy. It must stand ready to use its taxing, borrowing and spending powers to keep the economy on an even keel, with prevention of general inflation and deflation as a major goal. Agriculture, in its own self-interest, should lend its support now to such a general system of compensatory fiscal policy—including the maintenance of necessary inflation controls during the postwar transition—as its first objective. State and local agricultural leaders should also prepare careful blueprints for rural public works for the double purpose of promoting the social welfare of agriculture (Section D) and stimulation of economic activity when unemployment threatens. Schools, hospitals, highways, river-valley development, soil conservation, reforestation, rural electrification and rural housing—in all these agriculture has a special interest and peculiar need.

Supplementary agricultural price policy should by all means avoid the mistakes of the 1930's: (1) curtailment of food and fiber marketings when consumer needs (if not effective demand) continue unchanged; and (2) price-fixing devices which prevent clearing the market at prices which the nation's consumers can better afford to pay. As a counter-cyclical device, Congress should establish an extensive system of compensatory price payments to farmers, to take effect if an index of employment falls below some specified level. The essence of this plan is (1) that market prices would be left to clear whatever supplies are put on the market (subject to an acceptable storage program¹), so that consumer prices of foods and fibers would likewise fall; and (2) that agricultural purchasing power would be maintained by payments (for continued production) equal to the difference between the going market price of their product and some specified percentage of the predepression price. To minimize erratic price relationships, the predepression price should be defined in terms of (say) a three-year average just prior to the system's taking effect (Appendix B†). However, compensatory payments should be agriculture's second line of defense. Its first line of defense (with other major groups) should be general fiscal policy by which to

¹ Cf. below, p. 168.

† (Editor's note: See original source for appendices to this article.)

avoid that unemployment which will bring its own compensatory system into effect.

PRODUCTION INSTABILITY

THE PROBLEM. Besides the instability stemming from its interrelationships with our market economy, agriculture has certain unique instabilities of its own: (1) fluctuation in yields and total production due to the vagaries of nature; and (2) for certain farm products, production cycles which grow out of the cumulative effect of the false price expectations of millions of independent producers. Reduction of price and income instability strictly due to these production phenomena is a legitimate objective of agricultural policy which, at the same time, would better meet consumer needs.

Storage has been advanced in recent years as the solution to the first of these problems, with ameliorative features for the second problem as well. During the early 1930's, the Secretary of Agriculture—through the Commodity Credit Corporation—had full discretion to establish commodity loan rates, which were initially fixed at such levels as to hold certain farm products in storage in years of large crops and release them in years of small crops. In 1938, however, Congress began to tie minimum loan rates to the 1910-14 price relationship—52-75 percent of parity, later raised to 85 percent, then 90-92½ percent of parity. For cotton, additional limitations were imposed on the price and quantity of sales from government stocks. As a result of this shift in emphasis from stabilization to price-raising, government-owned surpluses reached unprecedented levels which, had not wartime demands intervened, would have forced a showdown by now.

SUGGESTED SOLUTIONS. The concept of an "ever-normal granary" is basically sound. But stocks are bound to become "ever more abnormal" unless stabilization of physical supplies is divorced from the incongruous goal of price-raising. Storage is not an effective means of counteracting cyclical changes in the price level or of avoiding necessary secular adjustments within agriculture. If the limited objective of stabilization of supplies is to be realized, Congress must establish standards of performance in physical rather than price terms.

Thus, Congress should direct the C.C.C. to take, as its standard of storage policy (within certain specified minimum and maximum carry-overs), five year *moving averages*² of the production of storable farm

² The principal argument for a moving rather than a fixed base is that the former reflects upward trends in yields, such as that of corn in recent years.

products (Appendix A). When, in any year, the actual production of (say) cotton exceeds the five-year moving average ending with that year, the Corporation should purchase sufficient cotton so that the aggregate increase in stocks, public and private (including stocks under loan), equals (say) 60 percent of the excess of actual production over the average. Conversely, when actual production falls short of the moving average, the Corporation should sell that amount necessary to decrease total stocks by (say) 60 percent of the production "deficit." Had this plan been applied to cotton beginning in 1929—with the proviso of a 2-million-bale minimum carryover and a maximum of 6 million—stocks would have reached 6.0 million bales in 1937 but would have fallen to 2.9 million bales, instead of the parity-bound actual carryover of 10.7 million, by mid-1944 (Appendix Table I). A similar plan could have been successfully applied to the feed grains during 1930-44 (Appendix Table II). While this storage program would promote somewhat more stable farm prices and incomes (especially if supplemented by a system of crop insurance), its divorcement from parity would prevent additional generations of maladjusted price-raising offspring.

Hogs have shown the most persistent and clearcut tendency toward production (and price) cycles. Beef cattle production may also tend to be subject to longer cyclical swings. Insofar as these cycles are related to changes in the general price level, compensatory devices previously discussed would promote greater stability, while the stabilization of grain supplies by storage would also contribute somewhat toward this end. Finally, the price uncertainty element in these production cycles could be sharply reduced by a system of forward prices (Section C below) for hogs and cattle-on-feed.

C. TOWARD AN EXPANDING AGGREGATE REAL INCOME

RESOURCE ALLOCATION

THE PROBLEM. Whether by compensatory fiscal policy or other means, the attainment of a high level of employment, in a *quantitative* sense, of our economic resources is not enough. Economists must still ask—employment at what? In other words, how may these resources be allocated to *qualitatively* superior uses, so that the aggregate national output of goods and services may be maximized?

The time-tested answer is a sensitive pricing system, in which (1) freely-choosing consumers cast their dollar votes for the allocation of scarce resources among myriad possible uses, establishing relative differences in the remuneration of human or material resources; and (2) re-

sources are sufficiently mobile to level such differences in remuneration whenever and wherever they appear. Fundamentally, the principal barriers to optimum resource allocation are (1) the failure of relative prices to reflect consumer choices and (2) impediments to mobility of resources from less to more remunerative uses. Before 1929, these barriers largely stemmed from the monopolistic price and tariff policies of industry. Government policy of the 1930's, dodging a frontal attack on existing barriers, chose instead the indirect approach of erecting counter-barriers on the agricultural and labor fronts.

Recent agricultural price policy has fostered the efficiency of resource allocation, both within agriculture and between agriculture and the rest of the economy, only to the extent that actual prices have diverged from the historically-based parity-price goals. Price relationships of 1910-14 represent a grossly distorted pattern of current consumer choices, grounded on far different needs and tastes than those of a quarter-century ago. Government payments to farmers and storage programs, insofar as they are tied to parity, insulate agriculture from the socially beneficent effects of a sensitive price system. Furthermore, the immobility of agricultural resources between products and areas is enhanced by the lack of correspondence between commodity and regional cost relationships of 1910-14 and today—a failing buttressed by the use of historically-based production and marketing quotas.

Parity-based agricultural price policy also tends to block necessary reallocation of resources between agriculture and the rest of the economy. Because of the relatively low price and income elasticities of consumer demand for farm products, technological progress in agriculture must, in general, result in relatively lower farm prices. Under these circumstances, adequate farm income should be maintained by a shift of resources (primarily labor) out of agriculture. Instead, the 1910-14 base for both statutory price and income parity puts the emphasis on secular maintenance of the relative agricultural price level rather than on essential shifts in population. The sharp increase in wartime agricultural production—despite the exodus of 7,000,000 people (including those entering the armed forces) and a shortage of farm machinery—has placed this shortcoming of parity, and its portent for the future, in bold relief.

SUGGESTED SOLUTIONS. Agriculture has a fundamental interest in backing measures—such as anti-trust policy directed at industry and labor alike, reciprocal trade agreements, government “yardstick” competition, and lower taxes on risk capital—which will promote private

investment, a freer price system and consumer sovereignty. In such a context, however, agriculture must also be willing to give up its own restrictive price policies which bar optimum resource allocation.

The prime objective of agricultural price policy should, therefore, be the establishment of a system of relative prices which will call forth no more than the quantities of those foods and fibers for which there is an effective demand at full employment. Our wartime experiences have demonstrated both the utter irrelevance of 1910-14 price relationships and the impediments which existing parity formulas impose upon efficient resource allocation for current food requirements. Clearly, then, historical bases must go. Would a system of forward prices or free prices be the better alternative? Under forward pricing, the Department of Agriculture would set production goals for various farm products—based on anticipated consumer demand—and would announce guaranteed minimum prices at the beginning of each production period. Each forward price should be fixed at the level considered necessary to meet the production goal less a margin (say 10 percent) to allow for official errors of estimation of both absolute and relative prices.

The advantages of forward pricing are (1) its orientation toward current consumer requirements rather than anachronistic consumption pattern; and (2) the sharp reduction in price uncertainty, so timed that farmers can plan efficient resource use in meeting these requirements. Analogous³ wartime price supports—though handicapped by parity-inflated prices of less essential farm products—have enjoyed notable success in expanding essential farm production. The shortcomings of forward pricing are primarily political (Appendix C). They can be generally applied—particularly to those products requiring contraction—only given a breadth of administrative discretion which Congress is unlikely to create or, at best, long maintain.

Congress should, therefore, while abandoning historical bases generally, limit forward pricing to livestock and livestock products since (1) the future demand for meat, poultry and dairy products will be relatively favorable; (2) these products, in turn, form the principal demand for the feed grains; (3) they are relatively perishable; and (4) some of them are, because of price uncertainty, subject to uneconomic production cycles. The prices of grains, cotton and other products should be divorced from parity and allowed—within the framework of suggested compensa-

³ These support prices, being tied to parity, are analogous to forward prices only because, during the war, prices were generally above these parity levels. Unlike forward prices, they could not be equally effective in contraction.

tory and storage policies—to seek their own level in a free market. This program would enhance foreign-trade prospects and force resource adjustments for which purpose public price policy is not politically feasible, if indeed appropriate.

This synthesis of forward and free prices can accomplish all that is possible through the instrument of price. Further improvements in resource allocation—particularly between agriculture and nonagriculture—must depend on non-price devices. Thus, no conceivable price policy can solve the cotton problem. But neither is it politic nor humane to wait for freed prices to grind out necessary shifts of labor out of, and capital into, such depressed agricultural areas. Rather, public policy must—apart from transitional “relief” measures (Appendix B)—speed the mobility of excess labor out of agriculture by such positive measures as (1) maintenance of stable and remunerative industrial employment; (2) vigorous promotion of industrialization of disadvantaged regions, accompanied by extensive subsidies to raise human productivity; (3) widespread dissemination of employment information, with financial aid for moving; and (4) elimination of union barriers to entry. On the capital side, such regions should receive more favorable terms for public farm credit, based on realistic, generously supported farm management research. Such a program, by raising labor costs and lowering capital costs in agriculture, would foster adoption of the best technology and would raise the low level of education and health by which labor immobility is perpetuated.

D. TOWARD GREATER SOCIAL WELFARE

Even in a stable, maximum-productivity national economy, problems of social welfare, although less acute, would still be with us. And our society would still choose, as it has so often done, to redistribute aggregate income, according to politically acceptable social values which modify a strict productivity basis of distribution. The raising of family incomes (including public services) which fall below present-day minimum standards of social welfare need not await the attainment of this more desirable economy. But the leveling process should at least be consistent with progress toward the goal of increasing the aggregate product available for redistribution.

Recent agricultural price policy has been primarily oriented toward the problem of unstable and low *aggregate* farm income. It has ignored the resource problem with agriculture, to which the chosen instrument of price, properly applied, could make its principal contribution. And, in limiting attention to aggregate and average (per capita) farm income,

it has bypassed still broader resource problems closely related to rural poverty. One-half of the nation's farms contribute less than one-tenth of total farm-product sales. Price policy cannot, therefore, solve this economic problem. Rather, it is apt to continue to increase the disparity of agricultural income distribution. What then can be done?

Low family incomes within agriculture must be supplemented by means which will promote rather than hinder human mobility. Rural education, health, nutrition and housing—through their contributions to the vigor and productivity of a major part of our next generation—are such means, warranting generous Federal support. Once free of excess labor resources, agriculture will also have a legitimate claim to an *average* level of real family income (including the public services necessary for good living and citizenship) fully equivalent to that of comparable non-agricultural employment. In this broadest sense, "parity for agriculture" must immediately become one of our nation's foremost objectives.

14. Elements of a Price Policy for Agriculture*

By THEODORE W. SCHULTZ

Department of Economics, University of Chicago

Two of the primary problems in agricultural policy have to do with prices; one relates to the general level of prices, the other to the structure of prices.

Farmers are much concerned about both. As debtors, they are exceedingly vulnerable to wide movements in the level of prices; as producers, in a highly competitive field, they have been burdened by the great uncertainty that has characterized specific farm-product prices and the relationships between them.

The general level of prices is identified with the value of money. The ever-changing value of money has brought many difficulties to American farmers. The history of our agrarian movements expresses the concern of farm people about money values, a concern that has become imbedded in farm folklore. They believe that somehow the value of money can be managed by government in a way that will serve the interest of creditors and debtors alike. Farm people are outspoken in protest when the general level of prices drops and they as debtors are hard pressed. To counteract the declining price level after the Civil War, the agrarian movements turned to greenbacks, to monetization of silver, and to many variants of a commodity dollar.

In modern terminology, this concern about the value of money would be expressed as concern about fiscal-monetary policy. The appropriate aim of fiscal-monetary policy is *a stable price level at full employment*. The appropriate measures to this end pertain to money—to the issue and retirement of money, to the raising and also the spending of money by government, to taxation, public borrowing and repayments, and government loans to individuals and corporations. Farmers do not put fiscal-monetary policy in these sophisticated terms. But the fact remains (and it is an important fact, as we move toward a more adequate fiscal-monetary policy) that they have a deep-rooted, traditional con-

* Theodore W. Schultz, *Agriculture in an Unstable Economy*, chapter 12 (New York, McGraw-Hill Book Co., Inc., 1945). Reprinted by permission of the publishers.

cern about money. They have been victims of the caprice of the general price level too often to favor anything but a stable price level at full employment.

In recent years, however, farm leaders have abandoned their grand march for managed money and a stable price level. Fiscal-monetary aims have been put aside as too theoretical, remote, and all-inclusive. Farm leaders today seek more immediate gains and believe they have become more "practical." By turning to specific farm-product prices they can count "benefits." Thus, instead of using the influence of farm organizations to attain much-needed fiscal-monetary reforms, they have broken ranks and turned to lesser objectives in the pricing of farm products.

Behind this shift of emphasis by farm organizations is the belief that they have gained a stronger bargaining position. They can better influence government to make tangible "contributions" to agriculture; they can better demonstrate to their membership the benefits that the organization obtains for them. It is, of course, much more difficult to procure legislation to deal adequately with fiscal-monetary issues, or to demonstrate that the more comprehensive measures are directly beneficial. Parity prices are a peculiarly valuable device for farm leaders—first, for bargaining with Congress and with administrative agencies for specific price advantages, and second, as tangible evidence of the achievements of the farm organization. Parity prices possessing these characteristics, it is extraordinarily difficult to substitute a more defensible price objective; it is extremely hard even to modify the formula appreciably to make it somewhat more workable. In spite of these developments, *there remains among the rank and file of farm people a belief that it is money, and the value thereof, that should be managed by the Government, and not the price of eggs, cattle, butter, or of any particular farm product.* This view may again express itself after the war when farm prices fall and fluctuate. It is a view that has much merit, for it recognizes a significant element in the pricing problem.

AIMS NOT APPROPRIATE IN PRICING FARM PRODUCTS

If price policies were single-purposed, the task of analysis and appraisal would be simplified greatly. Almost always, however, the goal is multipurposed, and some of the purposes are incompatible. This is notably true of price policy in agriculture.

Back of the efforts to price farm products lie these general objectives: (a) to give farmers some element of monopoly gain; (b) to improve the personal distribution of income within agriculture and between farm

and nonfarm persons; (c) to help maintain the aggregate demand for goods and services at a level sufficiently high to induce full employment and high production; and (d) to effect a better allocation of resources.

The first of these aims, which contains elements of monopolistic competition through pricing, is inconsistent with the general interest. Since, by common agreement, the government is vested with the general interest, this is hardly an appropriate price-policy purpose. The government's task is to keep monopoly from becoming established or by control to reduce to a minimum effects adverse to the general interest. A number of farm programs need scrutiny on this score because they serve as instruments for the establishment of some monopolistic competition in behalf of farm groups.

The second set of aims is probably also inappropriate in pricing farm products. To improve income distribution it is necessary to be guided by welfare criteria, while in the allocation of resources to maximize production it is necessary to be guided by the principle of marginal production. It is therefore essential to distinguish, both in analysis and in policy, between the *personal-income distribution problem* and the *resources allocation problem* and to treat each separately.¹ If the pricing of farm products is employed as a means to bring about a more equal distribution of incomes among persons, it is likely to cause inefficiencies in the use of resources, confusion, and waste.² Price policy is not an effective or even a suitable technique to improve the personal distribution of income.

What role agricultural price policy can play in helping a fiscal-monetary authority maintain in the economy as a whole a level of demand that will sustain a high level of production is still to be explored. For this final set of aims, however, there is general agreement that, in the main, the mechanism of relative prices can be both efficient and effective (especially with the type of competition that prevails in agriculture) in inducing farmers to allocate resources so as to maximize output.³

¹ This is not to deny that the two are interdependent, since the solution of the "resource problem" would affect the "income problem," some of the effects being favorable.

² The present writer has developed more fully the basis for the distinction between the income and the resource problems in agriculture. See *Redirecting Farm Policy* (New York, The Macmillan Co., 1943). Also, D. Gale Johnson, "Contribution of Price Policy to the Income and Resources Problems in Agriculture," *Journal of Farm Economics*, November 1944.

³ Other institutional considerations, such as capital rationing, the immobility of labor, etc., qualify this statement, but in itself the mechanism of relative prices is appropriate to this end.

In the brief observations that follow, no further comment is made about the first and second categories of aims since they are not appropriate for price policy. As to the other two categories, there are several mistakes obvious in the experiences of recent years that clearly should be avoided.

PRICES ARE NOT GOALS. The entire weight of economic analysis supports the use of prices as a means to facilitate and guide economic activity, not as goals. Nevertheless, much of the basic agricultural legislation now in force was formulated on the assumption that prices are, in substance, goals to be achieved. This is the real import of parity prices. Congress has made it mandatory that crop control, loan rates, support prices, and other measures be used to achieve parity prices.

PRICES DO NOT NECESSARILY EQUILIBRATE LABOR SUPPLIES. The mechanism of relative prices has not been effective in distributing the labor force between agriculture and other occupations. During the inter-war years the movement of workers to and from farms was, for the most part, wholly contrary to the changes in the relative prices of farm and other products. Migration from farms increased even as farm prices rose, and vice versa. The availability or nonavailability of jobs in industry was the real determinant in the labor flow. The gap in absolute earnings between farm and industrial workers had become so wide that improvement in farm-product prices would not alone correct the imbalance. The situation is not likely to be greatly different in the early years after the war. It is a mistake to expect that either an increase or decrease in farm prices will of itself equilibrate labor supplies, until the present oversupply of labor in agriculture has been corrected by a long period of high employment.

OBSELETE PRICE RELATIONSHIPS BURDEN AGRICULTURE. It would be wholly accidental if the relative prices of any past period, whether the years are 1910-1914 or a more recent period, proved to be appropriate for later years. We begin in error when we try to establish, as is done under the parity-price formula, a relationship among the prices of farm products, and a relationship between farm and nonfarm prices, that happened to prevail during a particular past period. *To guide farmers in their production, prices of farm products must be forward, not backward, in their orientation. They should be based on current and expected supply and demand, not upon some historical situation.*

FARM PRICES ARE LEAST EFFECTIVE WHEN INDUSTRIAL OUTPUT FALLS OR RISES RAPIDLY. The capacity of farm prices to bring about the best use of agricultural resources is at a maximum when income payments and, consequently, aggregate demand in the country are fairly

stable. They lose some of their capacity to shift the use of resources when industrial output is either dropping or rising rapidly, and when the nation's pay roll is likewise decreasing or increasing at a rapid rate. Since farm prices keep company with these abrupt up-and-down swings, farmers respond less to the changes among farm prices, and the mechanism of relative prices can do less to bring about desirable shifts in production.⁴

PRICE POLICY FOR AGRICULTURE AFTER THE WAR

Attention of policy makers in the United States during the inter-war years, and especially after 1932, centered upon the collapse of farm prices and income. Most of the measures taken were of a relief nature.

What stands out is that price policy as such was subordinated and kept in a secondary role; programs affecting production and income were given the right of way. We did not, in fact, have a comprehensive price policy for agriculture. Farm prices were not utilized to induce shifts in the use of resources within agriculture or to bring about a better economic equilibrium generally. This is understandable because of the general collapse; the problem confronting the nation, as far as agriculture was concerned, was not a breakdown in agricultural production but a crisis in farm income. Agricultural production remained large, and its composition was not altered substantially by the price and income collapse. The disparity between farm prices and other product prices became so great, however, that steps had to be taken to remedy the resulting distressed conditions in large numbers of farm families. Thus, out of the depression came the parity prescription. This heritage of the depression, putting prices in the role of goals, meant that the historic function of prices as guides was, in part, set aside.

⁴ This point is well expressed in a more general context by T. de Scitovsky, "Capital Accumulation, Employment and Price Rigidity," *Review of Economic Studies*, vol. 8 (1940-1941), p. 73: "It may be objected at this stage that we are too much concerned about the stability of prices, for—one might say—what does it matter if prices fluctuate, as long as production remains undisturbed and there is no unemployment? Up to a certain point this objection is justified. I do think that economists often take it too much for granted that a stable price-level is the only thing that matters. But the kind of instability described above would rob the pricing system of its function: the allocation of economic resources among different uses. For a short time after instability has set in this would not matter since production would continue in its accustomed grooves. But after a time tastes may change—owing perhaps to the redistribution of income caused by rapidly changing prices, or to any other cause—and then production will fail properly to adjust itself to changed demand conditions, because relative prices are a very poor index of the relative urgency of wants when the price-level as a whole is galloping up or down."

Although the parity formula continued in the forefront of the conflicts that arose in shaping wartime policy for agricultural production and for checking food prices and the cost of living, mobilization for war placed prices once more in a strategic position. The income problem in agriculture receded as the mobilization for war got under way, and less emphasis was placed upon measures to achieve more income. More reliance was given to relative prices of farm products to induce the kind and amounts of production necessary to wartime requirements.

The price technique that has gained ascendancy during the war is a system of support prices,⁵ put into operation to induce farmers to expand the production of certain farm products. It is important to note that most of the support prices were announced by the government in advance of the time when farmers made their production plans. They were also, for the most part, sufficiently specific as to time, place, and type of product to permit farmers to treat them as *given data* in making their crop and livestock plans. These earlier support prices, therefore, were in effect minimum forward prices. They were reasonably successful in inducing additional production and also in bringing about shifts in production. Congress has made it mandatory that these support prices be maintained for at least two years after the war at levels specified in terms of parity.

In view of existing legislation and their fairly adequate performance during the war, support prices are likely to dominate price policy in agriculture after the war. How satisfactory will the program of support prices now in effect be in peacetime? First, what should a positive price policy for agriculture include?

STABILIZE THE GENERAL LEVEL OF PRICES. Any price policy for agriculture worthy of consideration must start with the general level of prices. It is the movement of the price level that either makes or breaks farmers. There isn't much point in laboring for an enlightened policy covering the relationships among farm prices when the center of gravity of all prices is constantly moving either up or down. These broader movements submerge the important gains that otherwise could be attained from a better distribution of resources within agriculture. They distort the claims and counterclaims of debtors and creditors.

As a group, farmers are in the debtor category; they hold title to commodities and to land. When the level of prices falls, they stand to lose much—many of them are liquidated, including many of the most efficient farmers who have extended their debts to obtain modern machinery and

⁵ Support prices are price floors announced by the government and administered by the Department of Agriculture and War Food Administration.

equipment and an effective combination of resources. Contrariwise, when the level of prices rises, farmers are the recipients of unusually large windfalls—the kind of prosperity that breeds land booms and seriously distorts values.

Stability in the general level of prices should therefore stand first among objectives in a nation's price policy. Agriculture may have a larger stake in this goal than any other major group in our society, since farmers are peculiarly vulnerable to price movements. The techniques appropriate to this objective call for major fiscal-monetary reforms.⁶

CLOSE THE GAP SEPARATING INTERNAL AND EXTERNAL PRICES. A second important aim in pricing farm products should be to lessen the divergencies between domestic and foreign prices. The United States has much to gain from foreign trade in food, feed, and fiber. Nevertheless, we are embarked on an agricultural policy that is driving a wedge between the internal and external prices of several important farm products. These resulting price divergencies soon acquire vested interest, and conflicts arise as the inconsistencies between trade policy and agricultural policy grow.⁷

Cotton developments in the past decade illustrate how serious the consequences can be when a major product is divorced from the structure of world prices. In cotton we are in effect pricing ourselves out of the world market. To span the gap in prices between the domestic and foreign markets, we resort to exports, subsidies, and other devices for maintaining a two-price or even a multiprice system. Since the main cause for the gap is the nature of our support prices, the remedy lies in overhauling that system.⁸

FORWARD PRICES ARE REQUIRED IN AGRICULTURE. We have already stressed the fact that farmers are very vulnerable to any fall (or rise) of the general level of prices because they are debtors, short of capital, and unable for the most part to hedge against the contingency of a general price deflation. (An inflation, of course, brings with it windfalls.) Farmers as a class are also subject to a great deal of price uncertainty from unexpected changes within the agricultural price structure. Nearly all production in agriculture requires long-range planning and

⁶ This is so comprehensive and complex a field that it requires special treatment.

⁷ See Theodore W. Schultz, "Which Way Will Farmers Turn?" *Foreign Affairs*, July 1945. It should be noted, also, that on May 26, 1945, when the House of Representatives debated and passed The Extension of Reciprocal Trade Agreements Program, Congressman Pace from the cotton South (Georgia) offered a restricting amendment to protect farm products that have support prices.

⁸ Policy with regard to support prices will be considered below.

commitments since it takes months, even years, to complete a production period. Most crops require at least a year, livestock from one to three years. Fruit-bearing trees take a decade and longer, and farm wood-lots and other forestry undertakings even more time.

The process of transferring resources into or out of agriculture is very sluggish; in contrast, however, the shifting of some resources from one crop to another or the producing of less of one kind of livestock or more of another takes place relatively quickly. The structure of farm prices affects significantly the use to which agricultural resources are put. The price of wheat relative to that of corn affects the use to which the cropland in the overlapping areas of these two crops is put; the price of corn compared to that of hogs, cattle, poultry, and milk affects the amount of corn stored or fed and the choice of animals to which it is fed. Yet the structure of prices on which farmers must rely in making their production decisions has always been highly uncertain, even for one production period ahead.

What we have in agriculture, therefore, is a system of relative prices on which farmers cannot depend as they proceed with their production operations. Farm prices, unlike the prices of industrial products, are always in motion, constantly shifting. Inaccurate price expectations are the rule in agriculture, and the production consequences are plain. There is much misdirection in the uses to which farm land, capital, and labor engaged in farming are put.

The malallocations of resources in farming have been many: the wide periodic swings (often called cycles) in hog, beef, and poultry production; the sharp changes in acreages planted in flaxseed, rye, barley, and potatoes, to cite only a few of the products thus affected; and the failure of farmers to store enough of their crops when yields are large to counteract the adverse effects of subsequent low yields on their livestock operations. Price uncertainty has enlarged very considerably the compass of capital rationing, checking the enlargement of many farms that are inefficient because they are too small, and inducing farmers to keep their resources too flexible both contractually and technically. Because of the large measure of price uncertainty that burdens agriculture (both as to the level of farm prices generally and the structure of farm prices) and the attendant capital rationing (both external and internal for many farms), most farmers are either unable or unwilling to commit themselves to contractual payments, even though the additional resources would improve substantially the efficiency of the farm they operate. Labor inputs on most farms, including that of the family and operator, provide flexibility and thus a kind of "safety" in

dealing with price uncertainty, for labor becomes a residual claimant. As a consequence, throughout most of American agriculture farmers tend to employ too much labor (family labor, the operator, and hired labor), and too few nonhuman resources (machinery, equipment, land, fertilizer, buildings, livestock, feed inventories). This adjustment to uncertainty and the capital rationing associated with it holds down the per capita earnings of farm people and pushes up the rate of returns on capital, with the marginal-value productivity of capital much higher than its money cost.

Price uncertainty affecting farming therefore has its cost, for it reduces the efficiency of agriculture. Can this cost, this inefficiency and waste, be lessened? In a very real sense, yes, because many of the farm product price changes constantly occurring within a given production period can be eliminated without disturbing trade. There are certain kinds of price changes affecting farmers that are not essential to attain a moving equilibrium, to reconcile the forces affecting supply and demand of farm products. More price certainty for farmers is possible for at least one production period ahead. The additional price certainty that would be gained by eliminating these unnecessary price fluctuations would substantially better the capacity of relative prices of farm products to perform their primary economic function of guiding production. To achieve this greater certainty in prices received by farmers, we have proposed elsewhere⁹ a system of forward prices for agriculture.

FORWARD PRICES DEFINED. Four major characteristics distinguish forward prices from the prewar price policies of the government and from indeterminate market prices.¹⁰

1. The prices would be announced far enough in advance to enable farmers to develop their next production program in harmony with the announced prices.

2. The prices would cover a sufficient period of time to permit farmers to complete at least one production period.

3. The price announcements would be sufficiently precise for each farmer readily to interpret the implications of the announced prices for his farming operations.

⁹ "Economic Effects of Agricultural Programs," *American Economic Review*, XXX (1941), pp. 127-154; and Theodore W. Schultz, *Redirecting Farm Policy* (New York, The Macmillan Co., 1943), pp. 43-44, and Geoffrey Shepherd, "Stabilization Operations of the Commodity Credit Corporation," *Journal of Farm Economics*, vol. 24 (1942), pp. 589-610.

¹⁰ This formulation of the major characteristics is essentially the same as that first presented by D. Gale Johnson and Theodore W. Schultz in *Elements of a Price Policy for Agriculture*, Memo. 5 (mimeo.), Iowa Agricultural Experiment Station, Ames, Iowa, 1942.

4. The prices announced should be those prices which will achieve the desired output.

The fundamental principle that should guide the formulation and administration of forward prices in agriculture is this: Price changes that keep farm production in line with demand should be maximized; price changes that do not contribute to production adjustments (price changes that occur within a given production period) but contribute to price uncertainty in farming should be minimized. It is becoming increasingly clear both from analytical work and the experience we have had during the war that it is possible to go a long way in separating these two types of price changes that affect farmers. A price change that is expected and known at the time production plans are made does not necessarily give rise to uncertainty. Price changes that cannot be anticipated by farmers when they plan their operations breed uncertainty. It is these latter price changes that continue to disturb farmers, cause waste and inefficiency, and burden agriculture. These price uncertainties should be lessened as may be done through a system of forward prices for agriculture.¹¹

CONVERT SUPPORT PRICES INTO FORWARD PRICES

We now have an elaborate system of support prices. When they were initiated they were in substance minimum forward prices, certainly for the products that the Government wanted expanded to meet wartime demands. Can these support prices be converted into a workable system of forward prices?

POSTWAR SETTING. As the demand for farm products begins to slacken, farm prices—instead of exerting pressure against OPA ceilings—will fall, and as they fall, the Department of Agriculture support prices will come into play. Some of the support prices became effective even before the war ended as some farm prices dropped to or below the support levels. Hogs, eggs, and potatoes put support prices to a test during the winter and spring of 1944, and it became apparent that the government was ill prepared to make its announced support prices effective even while extraordinary wartime demands for food still prevailed. But the main

¹¹This is not the place to elaborate the theoretical foundations for forward pricing, its implication for markets, storage stocks, and international trade, and the problems that it presents in public administration. D. Gale Johnson of the University of Chicago has completed a comprehensive study of the theory of forward prices as applied to agriculture. This study has been published under the title *Forward Prices for Agriculture*, by the University of Chicago Press, 1947.

test of the economic effects and workability of support prices will come after relief needs have been met and our empty granaries have been refilled. The support prices authorized by Congress are of a type likely to place the government in serious difficulties in making effective the prices it is now obligated to maintain.

WHAT IS THE EXISTING SUPPORT-PRICE PROGRAM? The laws dealing with support-price operations separate agricultural commodities into three groups: (a) the old basic commodities, (b) the new "Steagall" commodities, and (c) other commodities. At the end of 1944, 166 agricultural commodities were included.¹²

The so-called "basic-commodities list" is well known: cotton, wheat, and corn—the big three of American agriculture—and tobacco, rice, and peanuts. Congress has made mandatory the support of the farm prices of these commodities by producer loans at 90 per cent of parity¹³ except for the price of cotton, which has been fixed at 92.5 per cent of parity. The loans must be continued for at least two years after the war.¹⁴

The "Steagall" commodities are hogs, eggs, chickens and turkeys, milk and butterfat, certain dry peas and beans; soybeans, peanuts, and flaxseed used for oil; American-Egyptian cotton, potatoes, and cured sweet potatoes. Whenever the Secretary of Agriculture found it necessary to encourage the expansion of production and announced this fact, a support price became mandatory under the Steagall Amendment. For these commodities, also, price supports at not less than 90 per cent of parity for at least two years after the war are stipulated.

The third group of commodities to which support prices apply has come to include wool, naval stores, American hemp, sugar beets, sugar cane, blackeye peas and beans, certain fruits and vegetables for processing, barley, grain, soybeans, rye, Sea Island cotton, and certain vegetable, hay, and pasture seeds. Congress has declared that the lending and purchasing operations of the U.S. Department of Agriculture shall be so carried out that they will bring the prices and incomes of producers of nonbasic, non-Steagall commodities into a fair parity relationship—in so far as funds available to the U.S. Department of Agriculture permit.

¹² Robert H. Shields, Solicitor, WFA and U.S. Department of Agriculture, in a paper released August 16, 1944, *Federal Statutory Provisions Relating to Price Supports for Agricultural Products*, gives a most useful and clear review of the many Federal statutes bearing on support prices. His statement has been drawn upon heavily in the preparation of this section.

¹³ To prevent feed costs from rising, an 85 per cent minimum loan rate was authorized.

¹⁴ Namely, for two years from January 1 following the date on which the President or the Congress proclaims hostility to have ended.

Continuance of the support prices for this group of commodities after the war is not required.¹⁵

PURPOSE OF SUPPORT PRICES. Two goals have been stressed by the government: protecting farm income and getting produced the crops and livestock that have been most needed. The emphasis was on the latter objective during the war. Accordingly, support prices were used as a guide for farm production. Floors under prices lessen the risk of farmers, and by so doing they have encouraged the production of urgently needed crops.

Many different activities have been employed to maintain particular farm prices, including commodity loans for the durable crops, contracts with processors and handlers, government purchases of farm products (both in their natural and processed states), special payments on certain products, and consumer subsidies. Storage operations, diversion programs, and market agreements have also come in.

POSTWAR SUPPORT-PRICE COMMITMENTS VERY DEFECTIVE. This brief description of support prices¹⁶ does not reveal their effects upon the allocation of resources in agriculture and upon the movement of farm products through markets. The current support prices have been devised within the parity formula,¹⁷ and not necessarily with an eye to the forces reshaping supply and demand for the particular farm product. Since they are set by law for two years after the war, they have an inflexibility that will make it difficult if not impossible to adjust agricultural prices to a changing structure of values as we convert from a wartime to a peace-

¹⁵ *Ibid.*, pp. 15-16.

¹⁶ A ninety-six-page bulletin issued by the War Food Administration, *Food Program for 1944*, contains a nine-page appendix giving the 1944 schedule of support prices as announced by the Food Administrator on March 4, 1944. This list includes hogs, corn, wheat, cotton, rice, tobacco, peas, blackeye peas, blackeye beans, dry edible beans, potatoes, eggs, chickens, milk and butterfat, butter, American Cheddar cheese, skim milk powder, other manufactured dairy products, fruits for processing, vegetables for canning (followed by two pages listing prices for nine vegetables), fresh vegetables, cured sweet potatoes, barley, grain sorghums, rye, vegetable seeds, winter cover-crop seeds, hay and pasture seeds (list includes thirty-nine different seeds), American, Egyptian, and Sea Island cotton, American hemp, wool, and naval stores.

¹⁷ The Steagall Amendment contains the provision that, for the so-called "Steagall commodities," the price should be supported at comparable prices or parity prices, whichever are applicable with respect to the particular commodity. Comparable prices have been established for soybeans, peanuts for oil, and dried peas; and support-price operations based on comparable prices are in effect with respect to these commodities. These recalculations, however, are all in one direction, namely, making the support price higher than it would be if the parity formula were employed.

time economy. The long-period commitment, of course, in no way synchronizes with the different production periods characteristic of agriculture. For most farm products, the effort is to keep the market price from going below the support level, the consequence being a clogging of both internal and external trade whenever the price that would clear the market is less than the support price.

When the wartime demands for farm products have receded, it should be obvious that the present program of support prices will find itself in serious difficulty. Instead of inducing the shifts in production that the postwar period will call for, it is likely to perpetuate much of the production that was consistent with the war effort. Agriculture will not be confronted with a schedule of relative prices that reflects expected changes in both demand and supply. The schedule of support prices will then be historical commitments, essentially backward in their orientation. They can be a considerable factor in delaying adjustments in the use of agricultural resources after the war, and they are likely to disrupt trade.

The principal defects of the support prices to which the government is committed for at least two peacetime years may be summarized as follows: The *purpose* underlying their development was to expand production to meet wartime needs. The general level of the commitments is therefore high relative to nonfarm commodity prices, but what is more serious still, the specific support prices for major farm products are altogether too high for a nonwar economy. During the war, for example, we were very short of fats and oils. We turned to soybeans, flaxseed, and peanuts (among the crops) and paid prices for these products much higher, relative to many other farm commodities, than are necessary to produce an adequate supply to satisfy peacetime demands. The *rules* that were established for the administration of support prices are governed by parity, which means that all the maladjustments in relative prices implicit in the parity formula are perpetuated. It means that the old "basic" crops, certainly wheat and cotton, will be substantially overvalued after the war. The *administrative techniques* for making support prices effective will include commodity loans, not to serve the objectives of well-conceived storage policy, but to keep "basic" farm commodity prices at the support level. In the case of perishable farm products, the technique may become that of purchases by the government in sufficient amount to keep the market price at the support level, to be followed by dumping or disposing of the government purchases at home and abroad outside of regular market channels. Trade will be seriously disrupted by the use of techniques that seek to hold market prices at the support level. Finally, there is the *question of costs*, which are likely to be exceedingly high in terms

of the appropriations required to carry out the support-price commitments, if the approach is to keep the *market price* from dropping below the support levels.

The program of support prices for farm products should be remodeled and made into a system that permits forward pricing in agriculture. To accomplish this, a number of fundamental changes would be required in the Federal statutes on which support prices are based. Since the support prices to which the government is now committed will be substantially higher for many farm products than the proposed forward prices needed to induce the kind and amount of farm production required for our peacetime economy, there will be an obligation on the government to cover the difference between these two prices. The simplest way of making good on this obligation is by means of special payments direct to farmers, in order not to disturb trade. Safeguards will be needed to prevent even these special payments from having undesirable production effects.

Thus we can attain the third of the major objectives of a price policy for agriculture; namely, the lessening of the price uncertainty confronting farmers. It is possible and highly desirable that we leave behind the support price program that emerged during the war and go over to a system of forward prices in agriculture. Such forward prices should present each farmer, as he proceeds with his production operations, with a schedule of relative prices for at least one production period ahead, considerably more dependable than heretofore. As this is accomplished, it would increase the ability of farmers to allocate and use the resources at their disposal much more efficiently. It would also reduce very appreciably the price uncertainty burdening American farmers.¹⁸

¹⁸ Finally, two observations on procedure in administering forward prices. It would be prudent in practice to announce not the true expected price, but a price somewhat below that figure, namely, a minimum forward price that would be some major fraction of the true expected price. The advantage of this procedure to the government—in protecting its operations from errors in its estimates with regard to prospective supply-and-demand forces—is, of course, apparent. But the other side of this coin also needs to be read: The lower the announced minimum forward prices relative to true expected prices, the less significance the whole system of such forward prices will have in reducing the price uncertainty confronting farmers.

The other observation pertains to the handling of various classes of farm products. Products that can be stored appear to offer a ready operational procedure for making a minimum forward price effective, but this is not the case. Storability is in itself not a sufficient criterion for determining whether or not the government should add to stocks in order to make an announced forward price

The immediate postwar years offer a real opportunity to establish effective, necessary, forward-looking policies for agriculture. The bleak years of the depression and the disturbances of World War II have made many willing to reexamine their plans and their purposes. The problems confronting American agriculture will not be resolved quickly. They are too intimately a part of the unstable industrial-urban sector of the economy and, in a larger sense, a part of the evolution of modern society. Much will be gained, however, if we know more clearly what the forces are, what we want to do, and what in fact we are doing.

Certainly the interwoven pattern of city and country should at long last be apparent to us all. The need is great for policies serving American agriculture that are consistent and integrated with our other national policies. But agriculture cannot be expected simply to continue to bear the load placed upon it by our unstable economy. Positive measures are required.

effective, since storage operations are not appropriate when the demand falls off. The test must rest on other grounds. For example, in the case of feed grain (primarily corn) the basic question would be: Will storage operations, at such a juncture, contribute to a steadier output of animal products over the years? In case this criterion is not met, and for perishables whose storage is impractical, the market price should be permitted to seek levels below the minimum forward prices. The farmer will have the assurance, however, that if the market price goes below, he will receive a compensation equal to the difference. Thus there would be no clogging of trade.

15. Objectives and Methods of Government Pricing of Farm Products*

By W. M. DRUMMOND

Department of Agricultural Economics, Ontario Agricultural College

During the last two decades prices of farm products have, to an ever-increasing degree, been the result of government intervention. The trend in this direction has been well-nigh universal and present indications are that it will become even more pronounced in the years immediately ahead. These are simple statements of well-known facts. Another fact which is perhaps not so clearly recognized is that this tendency of governments to participate in the determination of prices is a development of the most fundamental character. It is this basic significance of government pricing¹ and not merely the current interest in and reliance upon it, which justifies special consideration of the concept and its implications by the members of this Society.

For all practical purposes governmental determination of prices must be thought of as an alternative to or substitute for the traditional method whereby prices result from the interplay of supply and demand forces in the so-called open market. In the same way the present emphasis on government pricing may be regarded as a fair measure of the degree of dissatisfaction with the traditional method. The criticism of that method, while somewhat varied in character, is perhaps best indicated by a common comment of farmers and farm organization leaders. That comment is to the effect that "supply and demand" prices are simply not good enough. The inference here, of course, is that some other kind of price would be so much better that it simply must be secured. There is the further implied assumption that the securing of such better prices is quite possible.

The possibility of choosing from two or more pricing methods suggests the need for deciding the function or functions which prices can or should be expected to perform in our economy. It may well be that

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¹ In this paper the term "government pricing" will be understood to include any governmental action which is calculated to influence, in whole or in part, the price at which a farm product is sold.

a pricing system which is ideally suited for one purpose is entirely unsuited for another. In any case it seems entirely unlikely that any pricing system can be found which would prove equally satisfactory for all purposes.² Indeed there would seem to be a very early limit to the number and kinds of things which any pricing system can be expected to do. The present day desertion of the open market system is due primarily to the fact that that system has been held responsible for the failure to achieve certain very desirable results. Conversely it is the hope and belief that these results can be attained through some type of governmental intervention that is mainly responsible for the recent growing support for government pricing. The degree of justification of government pricing programmes would seem to depend on three things. In the first place it will depend on the nature of the pricing objectives. In the second place it will depend on the extent to which the specific means employed to attain the desired objectives can be relied upon to produce results. Finally it must depend on the extent to which pursuance of one set of objectives makes impossible the attainment of others.

From experience to date it would appear that the specific objectives of government pricing programmes may be both numerous and varied. Even a partial listing of the declared objectives will indicate the possibilities. Among the specific aims perhaps the most common has been to secure prices considerably above those that would result from the ordinary operation of competitive market forces. Whether the higher prices are to give farmers a larger share of the national income, purchasing power corresponding to that of some other periods or classes, or compensation for increased costs the central idea has been that prices should be raised in spite of any condition of over supply or lack of demand. During the decade of the thirties price raising was the basic purpose of most government attempts to influence prices. The fact that they were ordinarily referred to as price-raising programmes is clear evidence that such was the case. A second very important and common object has been to provide special price deterrents or inducements and thereby discourage or encourage the use of agricultural resources for particular purposes. There may be a desire to bring about agricultural self-sufficiency as in pre-war Germany. Or it may be part of a plan to conserve foreign exchange as in present-day England. In any case the assumption is that special direction of production is in order and that a government pricing programme can and should be used to this end.

² See, e.g., an article entitled "A Production and Marketing Price Policy" by T. W. Schultz in the April 1948 issue of *Farm Policy Forum*.

Closely related to although somewhat different from the foregoing is the provision of a price situation which is designed to bring about a general expansion of production. It is this aim that is mainly responsible for the creation of guaranteed prices which are usually based on production cost estimates.

Quite different is the objective of those who suggest that governments should engage in forward pricing operations. In this case the central aim is to help insure that the production decisions made by the farmers are in line with the true general supply and demand situation. In the absence of forward price guarantees each individual producer is forced to arrive at his own estimate of future price when making his present decision in regard to production. Because the average producer is not in a position to obtain and use all the latest outlook information, his production decisions are certain to be characterized by a large margin of error. It is felt that, if the calculations regarding the future supply, demand and price situation are made by specialized government investigators, the degree of error can be reduced to the point where the government will be justified in guaranteeing future payment of prices not significantly less than the actual market prices likely to prevail. Since the guaranteed future prices would remove all but a minor part of the producer's price uncertainty, the mistakes in production resulting from this uncertainty would tend to disappear. To the extent that this happened those fluctuations in supply and therefore in price and income which occur because of producer miscalculations would be minimized. The general result should be somewhat greater stability from year to year and greater uniformity of income as between producers. Guaranteed forward pricing does not interfere with the ordinary operation of market forces and therefore does not, on the average, result in prices above the competitive level. On the other hand it should help to insure that a larger number of producers secure the full benefit of whatever market price may happen to exist.

There can be little doubt that many people regard the obtaining of more stable farm prices and incomes as a very important and possibly even the most important objective of government pricing activities. For the most part it is stabilization of income from year to year that is wanted. This is not surprising in view of the tremendous fluctuations that have occurred. One has only to contrast the situation which prevailed during the most of the 1930's with that which preceded it or that which has developed more recently to appreciate the possible degree of instability together with the desirability of getting it reduced. The fluctuations in price from day to day and season to season are much less serious,

the former because they more or less tend to cancel out and the latter because they can be anticipated and therefore adjusted to. What farmers really need and want is elimination of the pronounced price and income variations that occur despite little or no change in their production. When it is suggested that the government or governments should evolve a pricing system in order to remove instability, the implication is that, by this means, farmers can and should be insulated against those ups and downs in prices which characterize the general business cycle. In actual fact most of the interest seems to centre in avoiding the price declines rather than the increases. To that extent one might conclude that it is not so much price stability as price adequacy that is the real concern. In any case the significant thing is the suggestion that, somehow or other, government action should be invoked to provide reasonably stabilized incomes no matter how great the changes in supply and demand may be. It is not always clear whether the advocates of such action are thinking of it as a means of actually preventing a general depression or merely as something which may be used to counteract its price-depressing effects.

Closely related to the last mentioned objective is the idea of using a special government pricing system to improve the nutritional standards of low income consumers wherever they may be and consumers generally in undeveloped areas. Sometimes this is spoken of as a way of basing consumption on need rather than on profit. What it amounts to is a plan whereby the consumption of and income from farm products would be expanded by requiring the financially more able section of the community to subsidize and thereby permit consumption on the part of the less well to do. Subsidization would take place whether part of the price actually received by producers for the extra products consumed was paid out of the public treasury or whether producers agreed to accept a lower price for that part of their products which went to the low income consumers. In either case consumption would be stepped up while the possible existence of price-depressing surpluses would be lessened if not entirely eliminated. It is generally recognized that the world's need or desire for food is virtually unlimited. It is also realized that if anything like full use were made of the most efficient production methods which already exist, the volume of production would be greatly expanded. Before very serious efforts at production expansion can be expected, producers must be assured of the ability to dispose of the extra product at reasonably remunerative prices. This all means that, in order to step up both production and consumption, some method must be found whereby the virtually unlimited need for food can be translated into a truly

effective demand. It is to achieve this end that a special type of government pricing programme is being advocated.

Quite apart, however, from any desire to expand either production or consumption, there is a very general feeling that even with supply and demand conditions as they now are, exporting and importing operations must continue for some time at least to be carried on under government auspices and on a contract basis. To the extent that government trading is to continue, it would seem that arrangements for the governmental determination of prices will be absolutely essential. In other words, government pricing will have to be an integral part of government trading. Under these circumstances it might be said that since competitive buying and selling in the ordinary sense no longer exists, prices will simply have to be the result of government action. One might well ask, for example, how else prices could have been determined when Canadian farm products were sold to the United Kingdom and other European countries in recent years.

Somewhat similar is the claim that governments must step in to arrange prices whenever producer and consumer groups find it impossible to reach mutually satisfactory price terms. The most familiar example of such a situation is found in connection with the disposal of whole milk although other illustrations are provided wherever group selling on a contract basis takes place as is the case with various products in this province. In all such cases it is argued that government price action, either actual or potential, is necessary since satisfactory determination of prices is a matter of public interest and importance. Whether the government agency stands by as an official referee during private price negotiations or undertakes to arbitrate a price in the event that these negotiations break down, the general purpose is to see that price equity is established and that the general welfare is safeguarded.

There is still another objective which is to some extent implied in some of those already mentioned but which is sufficiently distinct to warrant separate mention. This is the idea that a government pricing system, if properly designed, can do much to bring about a world-wide expansion of production and trade. While there is general agreement about the desirability of an expanded economy, there is considerable difference of opinion as to the prerequisites of securing it. It is fairly obvious, however, that there is need for a more speedy shifting of production to areas where the greatest possible efficiency can be secured. Whether this shifting can be most effectively induced by removing all possible impediments to the natural flow of trade and the free play of price-making forces or by establishing a special type of trading and price

arrangements is something about which opinions may differ. Those who favour the latter method claim that the general expanding benefits of a free-trading and pricing system depend on the prior existence of circumstances which unfortunately do not exist to-day and cannot possibly exist for several years at least. It is suggested that before that system can be expected to function satisfactorily there must be a reasonable balance between internal needs and external purchasing power. Since this situation is exactly the opposite of that presently prevailing in the great majority of countries, it is argued that these countries simply must continue to exercise control over the kinds and amounts of goods imported and exported. Failure to do so would mean inability to secure the scarce commodities which are essential for reconstruction. Moreover, if free trading was permitted, the inflationary conditions prevailing would result in importation of those goods which would yield the highest profit rather than the goods which were most urgently needed. Indeed it is suggested that "if an essentially free trade policy had been pursued by the countries of Europe in the paralyzed state that many found themselves in during the closing days of the war, it seems highly probable that a complete breakdown rather than a recovery of trade would have resulted."³ The implication is that the statement would apply equally to the present and future period of reconstruction.

Those who urge state trading on the grounds of current necessity insist that it is entirely consistent with the multilateral trading principle. The mere fact that the trading deals are arranged between governments rather than private firms or individuals is held to have no fundamental significance. And while it is admitted that past government agreements have tended to restrict production and raise prices, it is suggested that such results are not inherent in the agreement concept. On the contrary it is held that, if the proper procedures are followed, these agreements will definitely result in production and trade expansion and in prices that are as satisfactory to consumers as to producers.

In the interest of at least reasonable completeness this list of objectives should include some reference to the role of government pricing on the prevention of inflationary price increases. In view of the emphasis placed on this objective since the start of the recent war it seems unnecessary to do more than mention it here. Canadians generally are thoroughly familiar with the meaning and dangers of inflation and the

³ See article entitled "Trends in International Trade Policy" by Willard W. Cochrane and Erik Mortensen in the January 1948 issue of *Economic Review of Food & Agriculture*.

nature of the anti-inflation drive that has been undertaken by the national government through its agency, the Wartime Prices and Trade Board. There is well-nigh universal agreement that the Board achieved remarkable success in the performance of a most necessary task.

GOVERNMENT PRICING METHODS OR PROCEDURES

The wide variation in the nature of pricing objectives makes it fairly obvious that no one type of programme can be equally satisfactory for all purposes. Indeed it would seem that, to a considerable extent, the method or kind of programme used must depend not only on the objective or objectives desired but also on the particular set of circumstances which happen to exist at the time and place. What might be suitable for general depression periods would probably be quite unsuited to a wartime emergency situation. Or again a compensatory payments plan which would be entirely applicable to United States conditions might not be at all feasible in Canada due to the fact that this country's farm exports make up a much larger percentage of total production. In the same way a programme that might be very desirable when all countries are about equally well supplied with goods and foreign exchange might be positively dangerous under conditions of the opposite sort. This all suggests the need for choosing between several possible objectives plus care in selecting pricing programmes that seem calculated to achieve the chosen ends. A brief consideration of some of the more important methods applied or advocated thus far will show clearly that such is the case.

When primarily concerned with getting increased farm income, governments have used a great variety of plans. Funds collected through processing taxes have been paid to farmers in return for promises to refrain from producing. Marketing schemes have endeavoured to limit the supplies entering market channels. Surplus disposal schemes such as the Stamp and School Lunch Plans have given goods to low income consumers at less than regular market prices. A percentage of commodities already produced has been deliberately destroyed or used for non-food purposes. Protective tariffs, quotas, quantitative restrictions and exchange controls have limited imports. Amounts sold in domestic markets have been restricted by the subsidization of exports. Monetary inflation has been induced to provide additional purchasing power. Efforts have been made to reduce production by direct controls. Public funds have been used to ensure that prices would reach a stipulated level. Direct cash subsidies have been resorted to in emergencies. Gen-

erally speaking all such measures are restrictive in character and therefore entirely inconsistent with the recent emphasis on expansionist economy.

To obtain specific use of resources, chief reliance is placed on guaranteed minimum prices which are raised or lowered in accordance with statistical evidence of market requirements. Such price inducements or deterrents may or may not be accompanied by production directives.

To bring about a definite over-all increase in production, prices are not only guaranteed (sometimes for a period of several years) but are raised by the amount thought necessary to induce the desired degree of producer response. The extent to which this method will prove satisfactory will depend on several things. One is the knowledge which the price-setting authorities have of the price-supply relationships of each product. Another is the financial condition prevailing among producers during the period of response. Farmers who are financially impoverished as the result of several years of depression conditions will be more anxious to expand output than those who have recently enjoyed the economic fruits of several good years. Still another conditioning factor is the technological as distinct from the economic possibility of expanding production. Any expansion programme must assume that the technical capacity for production is not yet fully taxed.

In order that farmers may make correct decisions when planning production, governments undertake to secure the best possible outlook information and disseminate it in every possible way. In addition to this, however, they may engage in forward pricing operations. As already indicated this means that farmers will be guaranteed minimum prices before the start of the production period. While these forward prices would be guaranteed prices, they would also be supply and demand prices. Indeed it is precisely because they would be in line with the actual prices expected to result from the interplay of supply and demand that governments could afford to guarantee them. While primarily intended to make supply coincide more exactly with market requirements, they are incidentally expected to reduce those fluctuations in actual price and income which result from mistaken expectations regarding the future demand and price situation. They may help to eliminate the well-known cycles which have characterized agricultural production in the past. For successful operation of forward pricing plans two requirements must be met. The calculations of future conditions made by the government experts must be more accurate than the guesses of the average producer. In the second place producers must believe that the guaranteed minimum price will be a reasonable index of the market price which will,

in fact, prevail. This second condition will, of course, tend to be fulfilled provided the first one is.

It is in connection with the efforts to achieve stabilization, to improve nutrition and to develop an expanding economy that much of the present controversy regarding pricing methods centres. Speaking summarily the plans thus far suggested involve consummation of a contract and sale at a contract price plus development of a mechanism designed to insure that the terms of the contract can actually be fulfilled. Since it is recognized that instability of price and income reflect instability of supply and/or demand, it is necessary to find ways of either reducing these supply and demand variations or devise means to prevent them from exerting their normal influence on price. For the most part it seems to be assumed that little can be done to actually reduce the supply and demand variations themselves. In any case most of the suggestions have to do with possibilities of offsetting their effects. The most common line of procedure is well illustrated by the recommendations of the F.A.O. Preparatory Commission on World Food Proposals.⁴ According to these recommendations it would be possible to achieve the combined objectives of a more stable farm income, higher nutritional levels and a more expanded economy through the operation of a multilateral international commodity agreement somewhat after the pattern of the recently-negotiated World Wheat Agreement. Such an agreement should stabilize price at a level fair to both producers and consumers; should avoid production restriction and stimulate consumption expansion; and should encourage shifts in production to areas where commodities can be most efficiently produced. The first step would be to get agreement on the level of the stabilized price, or more probably the range within which the price would be maintained. Assuming that were done the next requirement would be the building up of Price Stabilization Reserves. Reserves would be accumulated when the price fell to the stipulated minimum or floor and sold if and when price rose to the maximum or ceiling level. These price stabilization reserves would serve to eliminate price fluctuations arising from variations in either supply or demand. The main supply variations would be those resulting from variations in yield while the really significant variations in demand would signify alternations between general prosperity and depression.

While the above technique might serve to stabilize price so long as supply and demand fluctuated within reasonable limits, it would

⁴ *Report of the F.A.O. Preparatory Commission on World Food Proposals*, February 1947, pp. 21-30.

hardly suffice in the event of pronounced increases in supply or pronounced decline in demand. Should either of these developments occur it would be impossible to sell all the products at a price within the stabilized price range. It is therefore suggested that any product which cannot be disposed of at that price level be sold to needy or low-income groups at a price considerably below the regular or stabilized level. This would be a surplus disposal programme similar in principle to the well-known Stamp Plan but applied internationally. According to this arrangement it is only to the extent that surpluses above ordinary market requirements actually appear that any improvement in nutrition can take place.

Inability to sell the entire supply at the regular or stabilized price and the necessity of disposing of part of it at some lower price or prices dictates the use of a quota plan. No exporting country would enter an agreement unless it was assured of a definite share of the higher-priced market and a definite limit to the disadvantage of having to sell in the lower-priced market. In the same way no importing country would sign an agreement until satisfied that it would not have to buy more than a stipulated amount of its total purchases at the higher price. The real weakness of such a quota plan is that it makes it difficult if not impossible to insure that production will expand where costs are low and contract where costs are high. In practice quotas will naturally tend to be based on past performance. Proponents of agreement programmes suggest, however, that this difficulty can be circumvented at least in part by periodic reallocation of quotas in the light of demonstrated ability or inability to supply previous quotas at the stabilized price level.

The foregoing is merely an outline of the basic ideas involved in the commodity agreement approach. There would obviously be many problems connected with administration and financing which cannot be considered here. Important as these may be the first thing to decide is the extent to which an agreement, if it could be successfully operated, would achieve the desired results. Once that decision is made the actual feasibility of the programme may be considered.

The main alternative, if there still is any real alternative, to the method just mentioned would be to take all possible steps to reduce the supply and demand fluctuations while permitting price to be determined according to the natural play of market forces. Instead of assuming major variations in supply and demand to be inevitable, this method would work towards their removal. It would try to eliminate the main problem by attacking it at the source. The concrete attack might be many-sided in nature. For one thing some reduction of those

supply variations which result from farmers' mistaken judgments regarding market prospects might result from a more thorough-going spread of outlook information. The adoption by each country of the forward pricing technique might be even more effective in this connection. Variations in crop yields might be reduced by more general application of scientific findings in connection with moisture conservation, varietal zoning, plant genetics and plant disease control. In the same way variations in production of livestock and livestock products might be reduced by fuller application of scientific knowledge in the fields of animal genetics, animal nutrition, and animal disease control. In respect to demand stability the main requirement is, of course, the prevention of general depressions. In this connection the recently-developed possibilities of earlier detection plus the various counter-cyclical devices of a financial or fiscal nature that have been attempted or suggested give promise that considerable may be done. Another common cause of variations in both supply and demand is the alternation between imposition and removal of the various artificial impediments to international trade. A general and continuous drive toward greater freedom of trade would have a definitely stabilizing effect. A further stabilizing influence would be the adoption of programmes aimed at making it easier for people to get out of agriculture. Such programmes would help to bring about supply reductions in line with falling demand. Relative fixity of supply despite pronounced declines in demand is a very important cause of wide fluctuations in price.

If, after all these things had been done, prices were still found to fluctuate and fall too much, each country could then consider the supplementary payment plan.⁵ As usually presented this is regarded as something which may be used as a second line of defence in the event of a general depression. While it cannot be expected to take the full impact, it may definitely soften the blow. And while not looked on as a cure for depressions, its prompt application might have considerable counter-cyclical effect. The price-raising and stabilizing benefits would naturally vary with the amount of funds available for making payments. This, in turn, would depend on how large a part of each nation's income was of the non-agricultural sort. In countries like the United States, for example, where farm income, though large, is a relatively small fraction of the total national income, much larger supplementary payments could be made than in a country like Canada where agricultural income forms

⁵For a full explanation of this, see chapter X of *Agriculture in an Unstable Economy*, by T. W. Schultz (McGraw-Hill Book Company, Inc., 1945).

a relatively large percentage of the national income even in the worst of depression years. The size of the revolving fund (\$200,000,000) provided for in connection with the Agricultural Prices Support Act, 1944,⁶ may afford some idea of Canada's present capacity to provide supplementary payments.

POSSIBLE BASES FOR DETERMINING ACTUAL LEVEL OF GOVERNMENT PRICES

Any serious discussion of the general subject of government pricing must include some consideration of the bases on which the prices are actually determined. Whether it be in peace or war, in prosperity or depression; whether it be negotiated, arbitrated, dictated or calculated, the fact remains that an actual price level must somehow be arrived at. The question is what criteria are to be used when determining the price? Within the limits of this paper one can do little more than mention some of the commonest answers to this question. One such answer is that the price should be made equal to the full cost of production. This is the method followed in recent years by New Zealand when establishing minimum guaranteed prices.⁷ The trouble with this is that it is extremely difficult and expensive to make accurate and continuously up-to-date cost calculations and virtually impossible to select a summary figure that will be satisfactory in view of the wide variation of costs as between producers. There is the further fundamental weakness that it is an attempt to determine price from the supply side only. Another suggestion is that the price selected should be one which will give farmers a specified degree of purchasing power. It may be the purchasing power presently existing or that which existed at some time in the past. This is the familiar parity idea, the strong and weak points of which are already well known. A somewhat different plan is to start with prices as they now are and then increase or decrease them by an amount that may be expected to bring about a desired change in income or production. This was the general policy adopted by the Canadian government in its War-time price-fixing efforts. In pre-war Germany the existing market price was at first only slightly changed to achieve certain political ends. Before long, however, the mechanism of the market ceased to exert much influence and the price-fixing authority took its place. Instead of allowing supply and demand to determine price, the price was first established and

⁶ Geo. VI, c. 29, An Act for the Support of the Prices of Agricultural Products during the transition from War to Peace. Assented to August 15, 1944.

⁷ New Zealand Dairy Board, *Twenty-first Annual Report for period end. July, 1945*, p. 10.

then a series of prohibitions and orders were used to ensure that the established price was the right price. Instead of being a determined factor price became a determining one.⁸

Still another plan, which is somewhat similar to the first one mentioned above, involves changing the existing price in accordance with changes that have occurred in the prices of major cost items. Price would be reestablished periodically with the aid of a relatively simple formula. This, however, is not a method that can be used for the initial establishment of a price. It is rather a way of maintaining constant relationship between prices and costs. As such it is subject to the limitation of any plan which fails to reflect the fact that changes in price may be due to changes in demand as well as changes in supply.

A method which attempts to avoid this limitation is that recently recommended by a special committee appointed to "study the problem of how best to establish Class I milk prices in the Boston Market in 1948 and succeeding years."⁹ The method calls for consideration of changes in the milk supply, changes in the demand for milk and changes in the general wholesale price level, as well as changes in costs of production. It recommends use of a formula which would relate the milk price to the general price level, the grain-labor index for New England, and department store sales in New England.

Finally, a word may be said regarding the F.A.O. Preparatory Commission's suggestion that prices should be stabilized at levels fair to producers and consumers alike. Just how this is to be done is not made clear although it is suggested that the governments should aim "At a price which as far as possible is fair to the conditions of living of both producers and consumers."¹⁰ This suggests a price based on producer and consumer income levels. It seems more probable, however, that, in practice, the price would be conditioned by the relative bargaining powers of the various parties concerned. In that case several widely different factors might enter the picture. The degree of urgency for finding a market would be an important factor. The amount of foreign exchange available to purchasers would be another. The relative bargaining skill of the negotiators would play a part. Political influences such as the general attitude of the governments towards self-sufficiency or international interdependence, importance of and protection for the

⁸ Germany's Defence Economy and the Decay of Capitalism," by Frieda Wunderlich, *Quarterly Journal of Economics*, vol. 52, 1937-38, p. 410.

⁹ *A Recommended Basis of Pricing Class I Milk in the Boston Market*. A Report by the Boston Milkshed Price Committee.

¹⁰ *The Report of the Commission*, p. 24.

farm population, the need for preventing inflation, or the need for avoiding consumer unrest would enter in. The net result would be called the negotiated price. In connection with this matter it might also be suggested that a price that would be considered fair or satisfactory in 1948 would not have been so regarded in 1933. The prices named in the recent wheat agreement would have seemed very unfair to consuming countries in the 1930's. In the same way even the lowest prices suggested during negotiations of that agreement would have appeared more than eminently fair to producers in the earlier period.

In the United Kingdom the government has recently undertaken to give farmers guaranteed prices in return for production efficiency.¹³ This may be regarded as a bargain between the two parties and, in a sense, the prices guaranteed may be thought of as fair to producers and consumers alike. In this case, however, there is an implied assumption on the part of consumers, as represented by their government, that fair prices in the future will mean lower prices. In other words unless prices fall as time goes on, irrespective of cost, they will be regarded by consumers as too high and therefore unfair. But unless prices continue high enough to cover estimated costs producers are likely to consider them unfairly low.

¹³ The Agriculture Act of 1947.

16. On the Redefinition of Parity Price and Parity Income^{*1}

I. THE COMMITTEE'S ASSIGNMENT

The assignment given to this Committee was to "study alternative ways of redefining parity prices and parity income to provide a more practicable and more equitable measure of equality for agriculture, and attempt to develop definitions or formulas that are economically sound and that could be put into actual operation."

This is a difficult assignment for a committee to carry out. The topic is one about which differences of opinion cannot be resolved solely by "appeal to facts." Equity, economic soundness, and practicability are objectives which have no precise connotation; nor are they necessarily consistent.

Whether a formula can be made operative depends not only on the technical possibility of computation and on administrative feasibility, but also on the measure of acceptance given by the groups affected and their political leaders. This acceptance will be conditioned by past experiences in the application of the parity concept, and by anticipations as to the nature of the economic situation with which the formula will be expected to cope. Any politically acceptable modification of the parity formula must recognize these conditions, and empirically, will be a compromise between different principles and viewpoints.

II. LIMITATIONS OF THE PARITY-PRICE APPROACH

Members of this association are generally familiar with the weaknesses of the present parity-price formula. So much attention has been given the subject, in the *Journal of Farm Economics* and other publications, that it seems unnecessary to treat it in detail here. A brief statement should suffice.

Parity prices, as now computed, are particularly deficient in two respects: they prevent the adjustment of current consumption of the vari-

* *Journal of Farm Economics*, XXIX, 4 (November 1947), pp. 1358-77. Reprinted by courtesy of the *Journal of Farm Economics* and the author.

¹ Report of a Committee composed of R. J. Eggert, R. K. Froker, L. J. Norton, O. V. Wells, K. T. Wright, and H. R. Wellman (Chairman), presented at the annual meeting of the American Farm Economic Association, Green Lake, Wisconsin, September 8, 1947.

See O. V. Wells' dissenting comment, p. 219.

ous agricultural products to existing supplies; and they hinder the maintenance of a good production balance within agriculture. These deficiencies are inherent in the formula itself. The price relationships that prevailed in the base period are perpetuated in the current parity prices. No account is taken of the changes in the relative costs of producing the different agricultural commodities or of the changes in the relative demands for them which have occurred since the base period. For many commodities the base period is still 1910-1914, a third of a century ago.

Experience suggests that maintenance of market prices of agricultural products at or near their respective parity levels as now computed would sooner or later lead to the following adverse results:

1. Needed adjustments in agricultural production will be impeded; shifts in acreage of crops and number of livestock in accordance with changes in basic cost and demand conditions will be retarded; and production will tend to be maintained in high-cost areas and expansion of production curtailed in low-cost areas.
2. Commercial outlets, both domestic and foreign, will be restricted.
3. Excessive stocks of nonperishable commodities will be accumulated, and perishable commodities will be wasted.
4. Acreage allotments and marketing quotas will be re-established.
5. Substantial government subsidies to agriculture will be required during periods of national prosperity.

These adverse consequences would be lessened only as market prices were permitted to depart from parity.

Various proposals have been advanced for "modernizing" the parity-price formula. These proposals may be resolved into two classifications: (1) those which involve modifications in the parity-price index; and (2) those which would permit a gradual change in the temporal relationship among the parity prices of individual agricultural commodities.²

Modifications in the parity-price index which have been suggested include: (1) adding farm wage rates to the items included in the index; and (2) shifting the base period from 1910-1914 to a more recent date.

Legislation authorizing the inclusion of farm wage rates in the parity-price index has been introduced in Congress on several occasions. The weight proposed for this item was to be based on the imputed value of the labor performed by farm operators and members of their families as well as on the expenditures for hired farm labor. There seems little justification for adding family labor, but the inclusion of hired labor would improve the accuracy of the index in measuring over-all changes in farm

² Two other changes have also been suggested: (1) periodic revision of the weights assigned to the various items in the parity-price index; and (2) adjustment of current parity prices of crops for departures in national yields per acre from the average of the preceding ten years.

expenditures. Nevertheless, if farm wage rates should continue high in relation to the prices of articles farmers buy, as now seems probable, the adverse consequences of maintaining market prices at the resulting higher parities would be accentuated.³

Legislation has also been introduced in Congress providing that the base period for all commodities will be July 1, 1919 to June 30, 1929. One of the effects of this provision would be to lower the parity-price index and hence, the level of the sum total of parity prices by about 10 percent. The available evidence supports the thesis that this reduced level would typically have produced from 1933 to date, full parity income as officially defined.

Another effect of shifting the base period to 1919-1929 would have been an alteration of the relationship among the parity prices of individual agricultural commodities. But this modified relationship would have been inappropriate as a basis for government price supports in the early 1930's. A more suitable basis at that time would have been the 1925-1929 relationships. Today, however, even they are obsolete.

Since any base period tends to become outmoded, the adoption of a moving base period for determining the relative parity prices of individual agricultural commodities has been advocated.⁴ This proposal would base the current parity price of each commodity upon its average price during the preceding five to ten years adjusted by the current parity-price ratio. Thus, the parity price level of combined agricultural products would be governed by the parity-price index, however it might be constructed, while the relationship among the parity prices of individual commodities would be determined by the relationship that prevailed among their actual average prices during the immediately preceding years.

If the moving-average device is to keep current parity-price relationships among individual commodities even roughly in line with differential trends in supply and demand conditions, two prerequisites must be fulfilled: (1) the preceding period during which the actual prices are averaged should be short; (2) and the market prices should be left free, or substantially so.

³ The inclusion of hired farm labor would have lowered somewhat the parity-price index from 1931 to 1940, but would have raised it markedly from 1942 to date.

⁴ Albert S. Goss, Address before the 79th Annual Session of the National Grange, Kansas City, Missouri, November 14, 1945. "Legislative program of the National Grange," *Journal of Farm Economics*, XXIX, 1 (February 1947), pp. 52-63.

The first condition is necessary in order to minimize the lag between changes in supply and demand conditions and their subsequent reflection in current parity prices. Some lag is inevitable, but it will be minimized proportionately as the period is shortened. It is doubtful that the period should be longer than five or six years. Moreover, it should not include any of the war or immediate postwar years.

Free market prices are mandatory if trends in supply and demand conditions are to exert even a delayed influence on parity prices. If market prices of individual commodities were supported at or near their respective parity levels, the relationship among them would tend to become frozen. A moving base for individual commodities would be a substantial advantage over a fixed base only if market prices were free to fall below as well as rise above the computed parity prices. The effectiveness of this proposal, therefore, requires direct payments to producers in lieu of market-price supports as such.

If the only alternatives were retention of the present parity-price formula or modification of it, we would certainly favor the latter. In such modification we would employ not only a moving base period for determining the relationship among parity prices of the respective agricultural commodities, but also a shifting base period for the parity-price index itself. Its base period would be the most recent normal peacetime period in which national production and employment were at high levels. Together with this change we would favor the inclusion in the index of farm wage rates, weighted exclusively on the basis of expenditures for hired farm labor. Periodic revision should be made of the weights assigned to the various items in the index; the current parity prices of crops should reflect departures in national yield per acre from the average of the preceding ten years.

Modification or retention of the parity-price formula are not, however, the only alternatives. The majority of this committee believes that the parity price approach should be abandoned. The basic premises on which it rests are, we think, fallacious. We do not subscribe to the proposition that "economic equality for agriculture" is to be found through manipulation of the prices of individual agricultural products. Nor do we believe that the perpetuation of historical relationships between agricultural and nonagricultural prices, and among agricultural prices themselves, is in the long-run interest of farmers or of the nation.

III. IMPROVING THE COMPETITIVE MARKET

Under conditions of substantially full employment and high levels of national production and income, agricultural price policies should be directed primarily toward improving the operation of the competitive

market. Considerable improvements are possible: increased efficiency in the physical distribution of products; more prompt adjustment of retail prices to wholesale prices; elimination of monopolistic practices of firms purchasing agricultural products; more effective regulation of trade practices; further improvements in grading, standardization, inspection, and in market news; development of a thoroughgoing outlook program, and an expanded program of education to promote good nutrition. All these would help make the prices of the free market serve better both farmers and consumers.⁵

In periods of severe and prolonged depressions farm incomes may need to be supplemented. The remainder of the report is devoted to this topic.

IV. INCOME SUPPORTS IN DEPRESSION

Agricultural economists generally agree that income supports should be provided for agriculture during severe and prolonged depressions. While opinions among them differ regarding the kind of income supports that should be instituted, few question the need for doing something. Moreover, there is general agreement that such income supports as are undertaken should be in the form of direct payments to producers rather than manipulation of market prices.

In the agricultural price policy contest sponsored by this association several of the winners advocated special devices for depression conditions. Even those who made no explicit distinction between depression and nondepression conditions, suggested measures which would be operative mainly in depressions.⁶

The Land-Grant College report on *Postwar Agricultural Policy* contained the following statement:

In the case of a long and severe depression, certain income payments to farmers as well as other groups may be advisable. . . . They should be outright payments designed to keep farms in productive condition, and to speed recovery by injecting additional money into the nation's income stream at a strategic place (page 28).

T. W. Schultz, in his book *Agriculture in an Unstable Economy*, expresses the view that:

⁵The brief space devoted to improving the competitive market does not imply any lack of appreciation on the part of this Committee of the fundamental importance of such improvements. Rather, it implies that neither "parity price" nor "parity income" is a useful concept in achieving them.

⁶See: William H. Nicholls, and D. Gale Johnson, "The Farm Price Policy Awards, 1945: A Topical Digest of the Winning Essays," *Journal of Farm Economics*, XXVIII, 1 (February 1946), pp. 267-293. Also, The eighteen winning essays, *Journal of Farm Economics*, XXVII, 4 (November 1945), pp. 743-902.

Business depressions are the main cause for the periodic drop in the general level of prices of farm products and in the income from farming, and . . . the maintenance of farm income is important, not only to check the deflation associated with a business depression, but to bring about recovery (page 223).

The desirability of providing income supports to farmers in depression was also recognized by the House Special Committee on Postwar Economic Policy and Planning. In its report on *Postwar Agricultural Policies* the committee declared "that in the past agriculture has borne an unequal share of the burden of a depression" (page 34), and recommended that consideration be given to "a system for cushioning declines in prices and income in the event of a business recession, by the use of price or income supports, or other devices" (page 40).

Some businessmen, too, find merit in the proposal for direct payments to alleviate the financial duress of farmers in time of depression. In its report on *Agriculture in an Expanding Economy* the CED's Research Committee of businessmen recommended that "current disagreements notwithstanding, continued study should be given to the use of supplemental payments to farmers . . . to offset a fall in consumer buying power" (page 29).

Two different proposals for supplementing farm incomes during a depression will now be examined: compensatory price payments and an over-all parity income approach.

V. COMPENSATORY PRICE PAYMENTS

T. W. Schultz and his associates have proposed a system of compensatory price payments as a means of supporting farm incomes in depression.⁷ The outlines of this system, in brief, are:

1. During business depressions the government would make commodity price payments directly to farmers.
2. The rate of payment per unit of each commodity would be equal to the difference between the current market price of that commodity and some specified percentage of its predepression price.
3. A depression would be defined in terms of an index of unemployment.

Schultz suggests that an appropriate rate of payment may be the difference between the current market price and 85 percent of the predepression price (page 228). He does not define the predepression price in terms of the number of years to be included. This deficiency, however,

⁷T. W. Schultz, "Two Conditions Necessary for Economic Progress in Agriculture," *Canadian Journal of Economics and Political Science*, X, 3, 1944; and *Agriculture in an Unstable Economy* (McGraw-Hill Book Company, Inc., 1945), pp. 221-235.

is supplied by W. H. Nicholls, who suggests a three-year average price just prior to the depression.⁸

Schultz suggests that "the level of unemployment might . . . be used as an automatic indicator of the need for such payments. For example, whenever unemployment exceeded 5 percent of the total labor force, a depression would be deemed to exist" (page 223).⁹ He recognizes that "unemployment records now available are, unfortunately, far from satisfactory for ascertaining the presence of a depression," and he suggests the possibility of using alternative indicators (page 223).

It seems reasonably clear, however, that if Schultz' proposal had been in effect during the interwar period, payments would have been called for in 1921 and 1922, and again from 1930 to 1941 inclusive. He did not estimate the aggregate amount of payments that would have been required during those years, nor is it possible to supply the data for all years without extensive computations, since compensatory payments on any commodity would be discontinued "when the market price of the farm product equals or exceeds the established percentage of the predepression price," (page 229) regardless of the amount of unemployment. Rough estimates, however, can readily be made for certain years. For example, from 1931 to 1933 inclusive, prices of virtually all farm products were below 85 percent of their predepression averages. Hence, the amount of payments due in those years would have been approximately equal to the difference between the cash receipts from farm marketings and 85 percent of the predepression average cash receipts from farm marketings.

The payments that would have been called for during 1931-1933, using the three years, 1927-1929, as the predepression period, are indicated in the following tabulation:¹⁰

<i>Year</i>	<i>Million Dollars</i>
1931	3,014
1932	4,642
1933	4,071

⁸ W. H. Nicholls, The First Award Paper in the agricultural price policy contest, *Journal of Farm Economics*, XXVII, 4 (November 1945), pp. 743-760.

⁹ The page references in this section, unless otherwise noted, refer to *Agriculture in an Unstable Economy*.

¹⁰ These payments are very much larger than those required under the parity-income approach. (See section VI.) Also they are much larger than would have been the case if the level of price supports had been adjusted for changes in the prices of cost items as proposed by this Association's Committee on Parity Concepts in 1945, *Journal of Farm Economics*, February 1946, p. 396; and by D. Gale Johnson in his Award Paper, *Journal of Farm Economics*, November 1945, p. 767.

Payments to agriculture, as specified above, would not only have prevented any decline in farm income relative to nonfarm income, but would have resulted in a large increase. This is shown in the following comparison:

<i>Year</i>	<i>Parity-income Ratio</i>	
	<i>Without payments</i>	<i>With payments</i>
Average 1927-1929	94	94
1931	68	127
1932	61	182
1933	78	187

Such a marked boost in the relative status of farm incomes does not seem justified from the standpoint of equity. But a more important consideration is the comparative efficiency of such large payments to agriculture in promoting general economic recovery. There is little evidence to support the hypothesis that government payments to agriculture, in excess of the amount needed to maintain the predepression farm-nonfarm income ratio, would be as effective in combating depression as their use in other ways. It may even be that the anti-cyclical effects of government expenditures during a depression would be more pronounced if a part of the payments necessary to achieve farm income parity were allocated elsewhere.

Under Schultz' proposal, the price relationships among individual agricultural products that prevailed in the predepression base period are perpetuated in the returns (prices plus payments) to growers throughout the ensuing depression, except when the price of any individual commodity rises above the support level. If the depression, as defined by an index of unemployment, is a long one, as was the case in the 1930's, the freezing of returns to growers in accordance with the predepression price relationships could create serious maladjustments in the use of agricultural resources. This is recognized by Schultz (page 232), but he does not suggest a remedy.¹¹

The scheme mentioned in Section II, of determining the price relationships among commodities on the basis of a five-to-six year moving

¹¹D. Gale Johnson also recognized that the predepression price relationships could soon be outmoded in a long depression, and states that "provision should be made for adaptation," but he does not elaborate on how the adaptation should be made. The Second Award Paper, *Journal of Farm Economics*, XXVII, 4 (November 1945), p. 767.

average, would, in the event of a long depression, be superior to determining them on the basis of predepression prices alone.

Immediate predepression prices are likely to be as unreliable a guide for compensatory payments during an early postwar period as during the latter part of a long depression. Relationships among individual commodity prices tend to become distorted during and immediately following great wars. The price relationships among individual agricultural commodities that prevailed in 1918-19 and 1919-20 could hardly have served as an appropriate basis for compensatory payments in 1920-21 and 1921-22, nor is it likely that the price relationships of 1944-45 to 1946-47 would be a suitable guide for such payments at any time in the future. During the depression of 1921-22 a more appropriate basis for compensatory payments would have been the 1910-14 prices received by farmers, adjusted for changes in an index of the prices paid by farmers. And, if a post-World War II depression should provide occasion for compensatory payments in the near future, a more suitable guide would be the price relationships prevailing during the immediate prewar period.

The advantages cited by Schultz for compensatory price payments may also be claimed for the parity-income approach outlined in the following section. Both would be counter-cyclical in their effects, and both would leave prices free to clear markets. And, if the depression is short and does not closely follow a war, neither scheme would seriously disturb agricultural production. But if the depression is long or comes soon after a war, the parity-income approach seems preferable to the system of compensatory payments, since it would not produce maladjustments in agricultural production.

VI. AN OVER-ALL PARITY-INCOME APPROACH

Two members of this committee—R. K. Froker and L. J. Norton—had, prior to their appointment to it, developed independently an over-all parity-income approach.¹² While their proposals differed in detail, they had the same fundamental objective, namely to assure a minimum share of the national income to the farm population while leaving the prices of specific agricultural products to be determined by the free play of market forces. This objective was to be accomplished by supplementing farm incomes directly whenever the ratio between farm and nonfarm income dropped below a prescribed level. Thus the level of farm incomes would

¹² *Journal of Farm Economics*, XXVII, 4 (November 1945), pp. 844-851. *Illinois Farm Economics*, No. 127, 128, 131, and 132, December, 1945 and April, 1946. E. J. Working collaborated with L. J. Norton.

be kept in line with total national income. Payments to individual farmers were to be based upon the market value of the products they produce and sell.

Froker suggested the use of the present official parity-income formula,¹³ as a standard for determining the proportion of the national income that should go to agriculture, but pointed out that the periods 1925-1929 and 1935-1938 would give substantially the same results as the period 1910-1914. Norton and Working, on the other hand, proposed as a standard the ratio of per-capita cash receipts from farm marketing less purchases of feed and livestock to the per-capita national income. Since this ratio was close to .44 during each of the three periods 1910-1914, 1925-1929, and 1934-1938, they used it in their calculations.

It is the opinion of the majority of this Committee that an over-all parity-income approach during periods of depression has much to recommend it. We believe that it can be designed to help alleviate the financial distress which a business depression brings to farmers, and also, contribute to general national recovery. For such purposes, however, a redefinition of parity income is needed.

The present official definition is deficient in three important respects: (1) it employs a fixed base period; (2) that base period is far removed from the present; and (3) the income received by individuals on farms from nonagricultural sources is improperly credited to the nonfarm population.

Instead of a fixed base period, we would employ a shifting one; instead of a base period of more than thirty years ago, we would use the most recent normal peacetime period characterized by high-level production and employment in industry and trade; and instead of crediting the income received by farm people from nonagricultural sources to the non-farm population we would allocate it to the farm population.

Following the language of the present definition, our revision would read as follows:

Parity, as applied to income, shall be that per-capita net income of individuals on farms that bears to the per-capita net income of individuals not on farms the same relation as prevailed during the most recent normal peacetime period characterized by high-level production and employment in industry and trade.

In accordance with this definition, each new normal peacetime

¹³ "Parity, as applied to income, shall be that per-capita income of individuals on farms from farming operations that bears to the per-capita net income of individuals not on farms the same relation as prevailed during the period August, 1909 to July 1914," *Agricultural Adjustment Act of 1938*, as amended.

period of high-level industrial production and employment would in turn become the base period for computing parity income. And the level of income supports to agriculture in depression would be based upon the farm-nonfarm income relationship that prevailed in the most recent normal predepression period. This relationship would change from predepression period to predepression period with changes in basic long-run factors influencing it.

In using parity income as a guide in computing the aggregate amount of supplemental income payments due agriculture in depression periods, we propose that the payments not equal the full difference between the computed parity income and the actual income, but rather a somewhat smaller amount, for example, the difference between 90 (or 85) percent of parity income and actual income. This decision rests mainly on the conviction that complete relative stability of the farm-nonfarm income ratio is too ambitious a goal.

The annual income payments due agriculture from 1921 to 1945, based upon 90 percent of parity income, are shown in table 1. The predepression period applicable to 1921-1922 is clearly 1910-1914; and the predepression period applicable to 1931-1932 is clearly 1925-1929.

According to our formula, agricultural payments would have been made from 1921 to 1924 although at a much smaller rate in 1923 and 1924 than in the two previous years. Payments would have been resumed in 1930 and would have continued through 1934, with the peak in 1932. These latter payments would, however, have been based upon the 1925-1929 farm-nonfarm income ratio rather than on that of 1910-1914. Except for small payments in 1939 and 1940, no payments would have been made from 1935 to date.

If another depression should occur before sufficient time has elapsed to establish a peacetime period of high-level production and employment in industry and trade following the current transition period, supplemental income payments would again be based upon the 1925-1929 farm-nonfarm income ratio. But if a depression should be delayed sufficiently long to provide a postwar period of national prosperity which would reasonably be characterized as normal, it would be used in lieu of 1925-1929.

We agree with Schultz that an appropriate criterion for distinguishing between prosperity and depression is the level of unemployment. We would not, however, set that level as low as 5 percent of the total labor force, the figure he suggests. The Twentieth Century Fund survey, *America's Needs and Resources*, correctly, we think, points out: ". . . it seems probable in the light of past experience that an average of 5 percent of

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Table 1

AMOUNT OF PAYMENTS THAT WOULD HAVE BEEN DUE
 AGRICULTURE FROM 1920 TO 1945 IF PROPOSED
 PARITY-INCOME SYSTEM HAD BEEN IN EFFECT*

(Based upon 90 per cent of parity income)

Year	Average 1910-1914 = 100		Average 1925-1929 = 100	
	Parity-income Ratio	Payments	Parity-income Ratio	Payments
		(million dollars)		(million dollars)
1920	109	0		
1921	60	1,893		
1922	77	798		
1923	80	690		
1924	82	508		
1925	100	0		
1926	91	0		
1927	92	0		
1928	97	0		
1929	93	0		
1930			86	260
1931			72	854
1932			64	923
1933			82	260
1934			78	528
1935			102	0
1936			100	0
1937			108	0
1938			93	0
1939			87	164
1940			85	302
1941			107	0
1942			134	0
1943			154	0
1944			152	0
1945			166	0

* Except that the income received by persons on farms from nonagricultural sources is credited to the nonfarm population. Official data on which to make a proper allocation are not yet available for the entire period.

the labor force unemployed is not far from a practical minimum for 'high-level' employment, if not for 'full' employment (such as we have experienced during the immediate postwar boom)." (pages 15-16) Hence, our concept of a "period of national prosperity" would include years in which unemployment was higher than 5 percent, perhaps as high as 10 percent.

The next major consideration, after establishing a method for determining the amount of total payments, is the formulation of a plan for distributing them to individual farmers.

Both Froker and Norton have proposed that such payments be based on individual cash receipts from marketings.‡ This would mean that if the amount to be distributed in any year equaled 10 percent of the total cash receipts from marketings, each farmer would receive a payment equal to 10 percent of his individual sales after certain deductions.

In order to avoid the double counting of income included in inter-farm sales, the Committee suggests that cash payments for feed, livestock, and seed be deducted from gross cash sales. It is recognized that different farmers render varying amounts of marketing services which may affect the relative prices they receive. In each case sales should be calculated on the equivalent wholesale value in the market commonly used by the farmers of the commodity. To simplify administration a minimum payment of, say, \$20, might be made.

To avoid payments at the full scale to very large producers, a sliding scale might be developed. For example, payment might be at the full rate on the first \$5000 of sales and at a progressively lower rate on each succeeding increase of \$5000 of sales. Such a graduated scale of payments departs from one of the principles underlying this proposal, namely, to pay in accordance with production in order to encourage maximum individual effort. Nevertheless, there are valid objections against large government payments to very large producers such as those operating corporation and nonfamily type farms.

Another conditional factor, in addition to scaling down payments to very large producers, could well be the confinement of payments to farmers who maintain certain standards of land use and conservation on their own farms. Admittedly, encouraging conservation and maintaining parity income are two separate aspects of public policy, but there are advantages in linking them together. Instead of receiving payments for specific conservation practices in good times as well as in bad, farmers who adopt genuine conservation plans would be eligible for payments in depressions when the added income is needed.

‡ See Mr. Eggert's comments, p. 218.

The outstanding advantage of making payments to farmers on the basis of cash farm receipts is that additional distortions among prices of individual commodities would not be created. Prices would be set in the market and no specific payments would attach to any commodity.

The chief limitation of the method is that it would afford least income protection to producers whose products have fallen more in price than others. However, it must be recognized that these relatively low prices, which develop in prosperous times as well as in depressions, may merely indicate the need for production adjustments. In such cases the method of payment recommended would stimulate needed adjustments rather than retard them.

Objections sometimes voiced against an over-all parity-income approach largely disappear when it is viewed solely as a device to alleviate the financial distress which a severe business depression inflicts on farmers, to reward farmers for maintaining full production in such periods, and to help speed general business recovery.

The contention that any supplemental income payments should go mainly to the lower-income group rather than to commercial farmers does not seem tenable to this Committee. Virtually all of the decline in per-capita net farm income relative to per-capita net nonfarm income during periods of severe business depressions is occasioned by the drop in the net income of commercial farmers. The incomes of non-commercial farmers are little affected by a collapse in market prices. The nature of their problem differs markedly from that of commercial farms, and its solution requires a different approach.

The kind and amount of payments proposed here would not, we believe, impede the needed transfer of labor resources out of agriculture. We recognize that overpopulation in some agricultural areas is partly responsible for the low average of per-capita farm income. The movement of people out of some agricultural areas needs to be speeded up, not retarded. However, the size and distribution of supplemental income payments which we propose would not have a retarding effect on migration from farm to city. Historically, people have left the farms in good times when employment opportunities in industry and trade were relatively abundant. In such times no payments to farmers would be made.

We do not claim that parity income as redefined by this Committee would in fact give the average farmer a real income identical with that received by urban residents. Real income is compounded of too many intangibles to permit accurate measurement. But even if it should be found that the real incomes of rural people averaged below those of urban people during normal peacetime periods of national prosperity, we would

reject the proposition that income payments to commercial farmers in such times are an appropriate method of correcting the situation.

VII. WIDENING ECONOMIC OPPORTUNITIES

Measures to ease the burden on agriculture of severe business depressions and to aid recovery, while important, should not lead to the neglect of programs designed to raise the general level of farm real incomes, particularly of the lower-income groups. But price maintenance or parity-income programs of the type discussed earlier are not suitable means for accomplishing this purpose. Rather, the basic solution should be sought in measures designed to widen the economic opportunities and horizon of rural people both within agriculture and outside it.

While the Committee realizes that discussion of general measures beyond the parity-price and parity-income approach is not included within its assignment, it feels compelled to call attention to the fact that something more than these must be included in any effective broad-scale agricultural program.

The parity-income and compensatory price payment programs discussed above may be viewed as temporary devices to aid agriculture during severe business depressions. In that respect they are similar to anti-depression measures which have on occasion been adopted in the non-agricultural field. In contrast with such emergency measures, there are others which should be oriented toward raising the level of economic opportunities. Such long-term programs should not, of course, be limited to agriculture. We shall confine our remarks here, however, to certain aspects which seem to warrant emphasis within the agricultural field.

The disparity between the educational facilities and opportunities available in rural and urban areas is a paramount factor in promoting economic inequality between the two groups. The rural youth cannot compete on an equal basis with his city-bred contemporary when seeking employment away from the farm because he has been denied the educational opportunities extended to the latter. If a comparable educational program, including vocational training and guidance, were extended to the farm population, many barriers to the flow of human resources would be removed. Granted that our present elementary and secondary educational program is in need of much improvement, the most imperative need is in the rural areas of our nation.

The fact that rural life in general is conducive to health has led many to the unfounded supposition that there are no deficiencies in rural health conditions. This is an erroneous notion. The fact is that farm people have benefited less from medical and nutritional advances than urban people.

A second long-term objective is clearly indicated: to improve the health and nutrition of farm people. This will be in part, of course, also an educational problem.

The ratio of people to resources, in rural and urban areas, might in some cases be more nearly equalized by the transfer of capital from areas where it is relatively abundant to areas where it is less abundant. Government might well facilitate such a process by encouraging, in some appropriate manner, shifts toward a more decentralized industrial system.

Supplementing these long-term programs are others which should be directed toward strengthening the farm as an economic unit and the farmer as an entrepreneur. It is clear that many farms are too small in the sense that they do not provide an adequate level of living even under the best of price conditions. Farm tenure is another long-term problem which requires attention. Improved credit facilities and the use of modern farm management practices might well aid many farmers in obtaining more adequate economic units, and in improving tenure conditions.

The essence of these several long-term programs is that by widening the economic opportunities for farm people we can get more directly at some of the basic difficulties underlying our farm problem. Providing greater economic opportunities and making it possible for farm people to take advantage of them have the merit of being self-liquidating. By such measures we might approach the day when farm people will not require substantial and recurring financial aid from their government. In contrast, the present parity-price system blocks necessary adjustments and permanently keeps large parts of our agriculture dependent upon government subsidies.

A MODIFYING COMMENT

By R. J. EGGERT

I agree with the Committee's report except with regard to the proposed method of distributing payments to individual farmers.

Distributing payments on the basis of individual cash receipts for marketings, as proposed in the report, would tend to favor those farmers who were in the fortunate position of still having a relatively high price for their product with average or above average yields. This would lead to the damaging charge (politically) that farmers who least needed payments were receiving the highest amounts of payment. It would also lead to the charge that certain commodity groups of our agricultural economy that had shown the least price decline would be collecting the most money, and conversely, those showing the most decline would be collecting the least money. To avoid this weakness, consideration should be given to setting up a plan to distribute payments to farmers on the basis of their contribution in physical production units. These physical units of production would be based upon an approximation of the average amount of land, labor, and capital utilized by each commodity produced. Weighting in the formula should give ade-

quate consideration to the commodities' contribution to proper nutrition as well as to soil conservation and improvement. Under such a proposal, those whose efficiency was below average would be slightly penalized, while those farmers who were able to produce a given amount of product with less land, labor, and capital, would be given a slight advantage. A sliding scale could be set up making certain payment to those having production units between 0 and 10, another payment to those producing units between 11 and 20, etc. It will be recalled that a system such as this was used for draft deferment, but of course, this rough method of measuring labor inputs should be expanded upon to include inputs of land and capital.

This plan would also avoid the inventory problem associated with the distributing of payments on the basis of cash receipts, which might tend to encourage farmers to sell by a specified date so that they would get the payments that were assured them that year. From the standpoint of compliance, this plan would have the merit of requiring only adequate poundage sales, and an inventory statement, avoiding the element of fallacious price that might be associated with distributing payments on the basis of cash receipts. Payments would thus be made on the basis of each individual farmer's physical contribution to the national output, leaving prices to take care of the problem of adjusting production.

I can see no economic justification for penalizing large producers in a depression period just because of their size. There are probably certain areas in our agricultural economy where size is necessary for the most efficient output, and the trend is definitely in the direction of larger sized farm units. Furthermore, it is generally recognized that large scale agricultural enterprises often have a very difficult time riding through a serious depression.

It is my strong conviction that these payments should not only be made contingent upon "wise land use and conservation" but also upon standards of efficiency in production, including livestock production. In this way our entire economy would benefit even more from funds so expended, and consumers, as well as producers, would share in the benefits of more efficient production. This proposal would also have the practical advantage of helping to insure continued public and Congressional support for funds to cover the cost of the program.

As a basis of procedure, and in order to prevent the program from becoming too centralized, consideration should be given to county committees to determine the desirable practices in their respective counties. Agricultural colleges and experiment stations already have developed desirable practices for both production of crops and livestock, and the basing of the above payments contingent with the following of selected practices would provide additional incentive for the individual producers to adopt these practices.

A DISSENTING COMMENT

By O. V. WELLS

The Special Committee to consider the revision or redefinition of parity prices and parity income has concluded that the parity price standard and such support activities as might be associated therewith should be abolished and that direct government payments should be substituted therefor. Such payments would be used as an anti-depression aid and would be distributed among farmers generally on the basis of actual net sales for the current year in an amount sufficient to

bring overall farm income to 80 or 90 per cent of a parity level calculated on the basis of relative farm and non-farm incomes existing during the last period of full employment.

These conclusions have been set forth in an excellent statement on which all members of the Committee except myself are in full agreement. Although agreeing with much that the Committee has said, I still find myself extremely skeptical with respect to their leading recommendation and the central argument on which it is based—i.e., that farmers should endeavor to operate under the simplest possible "free" market scheme in a complex, intricately-organized economic world where wage rates, business prices, and the foreign market are at least "semi-administered."

I recognize that the Committee's conclusions are in accord with those of a great many other economists, as witness the preliminary finding some time ago of a similar Special Committee of the American Economic Association, as well as the leading papers in the recent prize contest sponsored by this Association.

I recognize that there may be conditions under which the use of commodity payments might well be preferable to direct price support. That is, there may be special cases where the use of payments is preferable to allowing commodities to spoil or cases where the use of payments will clearly result in an immediate and substantial increase in marketings or amounts used. I also recognize that payments should tend to minimize government interference in the marketing and processing field.

However, it seems to me that these are all special cases or advantages, "other things being equal." The disadvantages of the payment proposal and equally important, the chances that such an alternative would offer a *stable* and an *acceptable* solution to the difficulties with which commercial farmers may soon be faced, must also be considered.

In many cases, I doubt if the payment proposal would automatically lead to the "clearing" of the market. At the same time, the use of the scheme as suggested would certainly not encourage the carrying of surplus production from high yield into *deficit* years—*deficit* either in terms of low yield or sharply increased demand. I further doubt whether either "free" prices or free price associated with the proposed non-commodity payments would *allocate* resources as between farmers and between commodities in as wise a manner as is sometimes claimed. I see no need for developing these items in detail. All I want to do is to simply emphasize the question as to whether the economic advantages of the payment proposal are not limited indeed.

There is an equally strong question in my mind as to how well farmers themselves might accept the payment solution. We already know of course that farmers and their representatives are generally opposed to direct aid via Government check. It seems to me that these feelings are something more than mere bias, that as a matter of fact there are sound grounds for this opposition, both cultural and operational. Specifically, the solution of all our difficulties through direct government spending is by no means a generally agreed upon remedy, even among agricultural economists; the proposed payment program is frankly designed for only intermittent use as an offset to relatively severe declines, which might well mean that it would have to be planned, debated, and legislated anew each time it was used; and finally, Americans generally simply do not like to feel themselves dependent upon direct subsidies or Government checks except as a last resort.

Altogether, it seems to me that the Committee's assignment needs to be considered in relation to the actual setting in which it appears farmers must operate as we move ahead. It is no accident that we are living in a semi-administered world and here I agree with Dr. T. W. Schultz: Solutions are so much easier both in terms of theory and operation, given either a completely free or a completely administered market. However, it seems to me that actual conditions lie somewhere in between and that the best solution to the agricultural price problem can perhaps be found by endeavoring to build upon the experience which we have gained, often at considerable expense, since the enactment of the Agricultural Marketing Act of 1929 and the Agricultural Adjustment Act of 1933.

This would call for a revision of the current parity price standard, accepting the current average level or something close thereto as a satisfactory overall goal or working standard, revising the commodity relationships within the parity calculation in accord with relative prices prevailing during the decade immediately preceding the year for which the calculations are being made, agreeing upon a moderate support level, and finally, accepting the fact that considerable flexibility must be allowed, preferably at the administrative level. I recognize the difficulties to which such an approach might lead but I do not believe they are any greater than those associated with the Committee's proposal.

17. Long-run Effects of Price-maintenance Policy for Agricultural Products*

Programs which helped to speed and assure victory had the right of way during the war. That some of these programs were unsuitable for long-run use and added to postwar problems was necessarily of secondary importance. Support prices on various farm products were part of the war program. They were instituted to give assurance to the farmer that he could strain every resource to maintain and expand output of essential products without fear of a collapse of the market if the abnormal demand of wartime should suddenly come to an end. Provision was made to continue these supports for two years beyond the time when war is officially declared to be at an end, presumably to provide farmers a period for adjusting their operations to prospective reductions in demand for some farm products.

Now that victory has been won, it is important that consideration be given to government price supports on agricultural products after present commitments are concluded. In this statement we shall be concerned with only one aspect of the problem; namely, the effects which are likely to follow if prices of individual agricultural commodities are maintained at artificial levels. We shall omit considerations of government price supports at stop-loss levels or at levels which would approximate those of the free market over a period of years.

At the outset it should be recognized that the claims of farmers for government price supports at high levels are strengthened by the attitude of business and labor in pressing for increases in prices and wage rates at the expense of continuous large output. So long as business and labor persist in following restrictive practices, farmers may feel justified in seeking similar devices in self-defense. However, before becoming committed to a permanent policy of maintaining farm prices substantially above those warranted by the supply-demand situation, farmers would do well to consider the costs as well as the benefits.

The benefits to farmers of high support prices are immediate and obvious: larger net incomes in the current year. The costs, however, are

* Statement prepared by the Committee on Agricultural Policy of the Association of Land-Grant Colleges and Universities, April 1947. (Committee membership: G. H. Aull, Noble Clark, L. P. Gabbard, F. F. Hill, O. B. Jesness, H. C. Ramsower, R. R. Renne, R. I. Throckmorton, H. R. Wellman.) Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

likely to be delayed and concealed, since the forces responsible for them operate along a circuitous route. Farmers and others are frequently unaware of the losses which follow from price-maintenance policies or are inclined to attribute them to other causes. These losses are sometimes obscured by catastrophes such as droughts or wars.

Adverse effects are more likely to follow from government price supports than from the operation of the market. These include: (1) shrinkage of markets, (2) the creation of surpluses, (3) the growth of subsidies, and (4) the neglect of more promising measures for improving the welfare of farm people.

1. **SHRINKAGE OF MARKETS.** As a rule, higher prices to farmers mean higher prices to consumers. This usually results in a reduction in consumption. Consumers' income is not unlimited. How this income is spent on different commodities depends in part upon relative prices. Numerous analyses have shown that demand tends to shift away from commodities which rise in price and toward those which fall in price. The main exceptions are commodities, such as tobacco, for which there are no close substitutes.

The full effect of an increase in the price of a product may not be felt immediately, but sooner or later a part of the domestic market is likely to be lost to substitutes and a part of any foreign market to competing products and sources of supply. Once established, either large-scale production of substitutes or another source of supply may develop and maintain a position of advantage for a considerable period, if not indefinitely. Markets are lost more easily than they can be recaptured. Indeed, when once gone they may be lost forever.

Numerous examples of shrinking markets for individual agricultural products caused in part by price-maintenance policies could be cited. Only two will be given here.

Under the production-control and loan programs of the Agricultural Adjustment Administration, prices of American cotton were raised above the prices of foreign growths. As a result, buyers in foreign countries began to substitute other cotton for our own. The effect was reduced demand for our cotton exports and increased demand for the foreign growths. The resulting increase in prices of foreign cotton stimulated expansion of production in several countries beyond what would otherwise have occurred. Not only did United States cotton producers lose out in foreign markets, they also found synthetic fibers encroaching on their domestic market. While these two developments would probably have occurred in any case, they would have been less rapid if cotton prices had not been arbitrarily enhanced. The full effect of shrinking cotton markets

upon returns to growers has been delayed by the war, but this postponement is likely to be only temporary.

This situation is not limited to staple crops. It has also occurred in specialty crops. Under government control programs, the packs of California asparagus were limited and prices on both the canned product and the raw product were raised. This improved the demand for asparagus canned in other states. Cannery and growers in those states were quick to seize the opportunity thus afforded for increasing their production. Over 90 per cent of the nation's pack of canned asparagus was produced in California prior to 1933; less than 65 per cent of it has been produced there since 1940. While other factors also contributed to the reduction in California's share of the national market, it seems clear that the speed of the drop was accelerated by the pack-limitation programs.

2. CREATION OF SURPLUSES. High support prices encourage the expansion of production at the same time as they discourage demand. There is thus a tendency to produce more than can be sold at the support prices in regular commercial markets, and surpluses are created. This was the experience of the Federal Farm Board, as well as the A.A.A. Even at times during the war, surpluses occurred in a few commodities, notably eggs and potatoes, and again this year in potatoes.

Thus far no easy solution of the problem of surplus disposal has been found. Opportunities seldom occur for feeding the surplus back into the regular market without reducing prices below the support level. Other means of disposal involve either a lower average return for the supply, as a whole, than was originally contemplated in the price supports, or the use of subsidies to compensate growers.

If artificially high prices are to be maintained, either surpluses must be disposed of outside the main market at lower prices or production controls must be instituted.

The types of production controls thus far undertaken have not proved to be overly effective in preventing surpluses. In the international field the Stevenson scheme for rubber and the Brazilian Coffee Valorization program are cases in point. In both instances an attempt was made to sustain prices by controls of production and marketing; in both, the controls proved impracticable, the advantages accrued to competing producers, and the situation was made worse instead of better.

In this country, despite the rather strenuous effort of the A.A.A. to control acreage, stocks of corn, wheat, and cotton were all at record levels at the outbreak of the war. By the use of better production practices farmers appreciably increased yields per acre. Total output was well maintained despite curtailment in the acreage planted.

Part of the gains which accrued in the producers of basic commodities by reason of acreage curtailment were at the expense of the producers of other commodities. Land withheld from the production of basic commodities did not, as a rule, remain idle. Instead, it was quite generally devoted to the production of other crops. Prices of these other crops were depressed by reason of the increased volume, reducing the incomes of those growers who depended upon them as a main source of revenue. Thus one group of farmers shifted its problems to other groups.

Problems of this sort can be avoided, if at all, only by imposing far stricter controls over individual farming operations than any yet attempted. Acreage allotments and marketing quotas would need to be extended to virtually all products, and production practices would need to be closely regulated. The farmer could no longer be free to manage his farm as he chose. Instead, he would have to adjust his operation to the regulations issued by a central authority, whether or not those regulations applied to his particular conditions.

In so far as price supports lead to improved returns to farmers, even though the gains may be later offset by losses, the improved returns tend to be capitalized into land values on farms which change hands. By this means, present owners who sell their properties early enough secure for themselves not only the gains from current programs, but also a portion of the potential gains from future programs. This is at the expense of new owners, including the young men just entering farming. To the extent this occurs, supports lead to higher costs rather than to more net income for the operator and his family.

3. **GROWTH OF SUBSIDIES.** The original Agricultural Adjustment Act was based on the theory that farm prices could be raised toward parity and that farm incomes could be increased, without drawing directly on the federal treasury. Farm prices and income were to be increased by manipulation of supplies alone. On the one hand, production was to be limited at its sources; and, on the other hand, marketing of the supplies already produced was to be regulated so as to prevent existing surpluses from unduly depressing prices. Under the production-control programs, benefit payments to participating farmers, although paid initially from general funds, were to be recovered from special processing taxes which were to come out of the processor's margin or be shifted by him to consumers in the form of higher prices. Likewise, under marketing agreements, gains to producers were to come out of handlers' margins or from higher prices paid by consumers.

The A.A.A., however, had hardly got under way before nonrecourse loans were made on cotton and corn. Since then this form of loan has

been extended to the other basic commodities and to some nonbasic ones. Over the years the loan rates have been increased substantially. At the present time minimum rates of 92.5 per cent of parity in the case of cotton and 90 per cent of parity in the case of the other basic commodities are mandatory.

In addition to nonrecourse loans other devices involving federal expenditures were early employed to support farm prices and incomes. In the fall of 1933 arrangements were made with the Federal Emergency Relief Administration to use relief funds for the purchase of surplus agricultural products. An amendment to the Agricultural Adjustment Act in August, 1935, authorized the use of 30 per cent of the custom receipts for purchase and diversion operations and for direct payments to farmers. The invalidation of the processing-tax provisions of the original Agricultural Adjustment Act in January, 1936, did not result in termination of benefit payments to farmers for curtailment production. Rather, the entire cost of these payments was shifted to the federal treasury. Two sorts of payment were made: agricultural conservation payments and, after 1938, parity price payments. The conservation payments, about 75 per cent of which were for complying with acreage allotments, ran around \$450,000,000 a year, and the parity price payments, which were limited to basic commodities, averaged about \$180,000,000 a year.

Marketing programs also came to rely heavily on federal funds. In the fiscal year 1939-40, for example, federal expenditures for surplus disposal operations, exclusive of the food-stamp plan, totaled \$175,000,000.

Thus, it is clear that before the war, price-maintenance programs had constituted an increasing drain on the federal treasury. Nonrecourse loans, acreage-adjustment payments, parity price payments, diversion payments, surplus purchases—all these involved government subsidies to agriculture.

Farmers were critical of a widespread use of subsidies to keep prices down to consumers. They should be equally critical of an extensive use of subsidies to keep prices up to producers. While such subsidies may have a place during periods of extreme emergencies, such as wars and severe depressions, continuation of them in more normal times is contrary to the national interest and to the welfare of farmers themselves. Sound financial policy calls for gradual reduction rather than further increase in the huge national debt.

4. **NEGLECT OF MORE PROMISING ALTERNATIVES.** Preoccupation with commodity price supports diverts attention from more promising measures for improving the long-run welfare of farmers.

The low-income problem in agriculture stems from a complex of causes, the most important being severe business depressions, surplus population on farms, and small operating units.

Maintenance of continuous high-level production and employment in industry and trade will go a long way toward assuring farmers good markets for the things they have to sell. This is a necessary condition for a prosperous agriculture. While good markets would not solve all of the economic problems confronting farmers, they would reduce most of them to manageable proportions.

Continuous high-level production and employment throughout the economy can be fostered by appropriate fiscal, credit, and monetary policies. They can also be promoted by such governmental activities as providing information, eliminating monopolistic practices, and reducing various barriers to trade. Farmers and their organizations would do well to support such activities and policies vigorously. They would also do well to attack vigorously all restrictions on production employed by industry and labor. But they cannot do the latter effectively if they themselves adopt similar restrictive practices. The long-run effect of limiting output is detrimental to the nation, however plausible the argument for immediate advantage to the group may be. Moreover, agriculture itself is inherently incapable of competing with industry and labor in a race to restrict output and raise prices. If it undertakes to do so, it is bound to be the loser.

In addition to providing good markets, high-level production and employment in industry and trade benefit farmers in two other ways: by assuring more ample supplies of the things they buy and by offering better job opportunities for the excess farm population.

Farmers are buyers as well as sellers. Their real income depends upon the amounts of goods and services they can acquire in exchange for the commodities they have to sell. Thus, they have a very real interest in abundant supplies of many kinds of goods and services produced by others. These can only be had when the nonagricultural segments of our economy are operating in high gear.

Job opportunities in nonagricultural lines are also of great importance to the welfare of agriculture. The farm population more than perpetuates itself. Many of the rural-born must now find nonfarm jobs, because farm efficiency has increased and many processes and services formerly undertaken on the farm have been transferred to the city. To keep on the land more people than are needed efficiently to produce the feeds and fibers for which there is an adequate market is bound to result in rural poverty.

Government may well assist farm people in finding nonfarm occupations by seeing to it that economic opportunities everywhere are kept open to all, by financial aid to local communities to improve the health and education of rural youth and to help train many of them for jobs in

industry and trade, and by expansion of employment exchanges so that farm people may learn of nonfarm opportunities.

Along with programs designed to provide rural people with wider opportunities in nonfarm occupations there should be measures aimed at assisting many farm operators to enlarge their scale of operations. Numerous farms in this country are too small. They do not produce enough gross income, much less net income, to provide an adequate level of living, even when prices of agricultural products are highly favorable. Modern equipment and machinery cannot be used to advantage on them, and costs per unit of output are therefore higher. In these cases, an increase in size is the first essential for improved farm income. The solution of this problem lies not in high support prices for agricultural products, but in improved credit arrangements, better tenure conditions, and expansion of information services.

Corresponding improvements in marketing should accompany the gains in production efficiency. Efforts to rig the market for individual farm products should give way to efforts to increase the efficiency of physical distribution of products, improve the pricing process, and expand consumption.

At the best, high support prices on individual agricultural commodities benefit only particular groups of farmers. Further, the benefits are often temporary and are frequently at the expense of other groups including other farmers. At the worst, high support prices on individual agricultural commodities aggravate the situation they are designed to alleviate, leaving producers in a more disadvantageous position at the end than at the beginning. In addition they may constitute a considerable burden on the economy as a whole. In contrast, the proposals advanced in this statement, while promising less immediate gains to farmers, offer more assurance of correcting the basic difficulties underlying low farm incomes and of promoting the kind of agriculture which will retain its share of the more able and ambitious young people entering productive employment, and which will contribute to an expanding progressive economy.

18. Adjustments in Agricultural Production *

It is to be expected that demand for many farm products will taper off relatively early in the postwar period, and that downward adjustments in the output of some products therefore will be in order.

To view the situation in the proper perspective, it is necessary to bear in mind that World War II came at a time when farm output in the United States was more than ample to fill existing demands. What caused shortages and rationing in some lines were huge military and lend-lease requirements, plus an unprecedented domestic demand resulting from large wartime earnings of consumers.

Farmers, employing improved methods, working long hours, and favored by good weather, were able to increase production to such an extent as to meet all military and Allied demands and still provide as large an over-all supply of food for domestic consumption as in prewar years. *The fact that extra wartime demands to a large extent are temporary, and the fact that expanded food production will tend to persist, point to a need for some readjustments.*

The acuteness of the problem will depend on several factors. If inflation gets out of control, then when deflation sets in farmers will have more difficulty getting their costs in line with prices they receive than if the brakes on inflation hold reasonably well. If extensive industrial unemployment follows the war, the market for farm products will deteriorate greatly.

WHAT ARE THE MARKET PROSPECTS?

There is reasonable assurance of an active foreign market for American farm products for at least a few months after the end of the war in Europe. The United States has a vital interest in getting food to hungry nations, not only for humanitarian reasons but also because of the important role which food can play in restoring order.

Whether shipments to Europe will long continue at a high level is questionable. True enough, it may take some areas on that continent several years to regain their prewar food situation, but much production will be restored in a relatively short time. Also, wartime European food

* *Postwar Agricultural Policy*, report of Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, 1944, pp. 13-20. Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

shortages are caused not so much by lack of food production as by interference with transportation and distribution, and the latter problems will be quickly reduced when peace comes.

Europe's limited ability to pay for imports is likely to hold down the amount of American food it will receive during the postwar period. The lend-lease program, which provides goods to needy nations without specific provisions for repayment, is acceptable to most Americans as long as the war is on and probably for the emergency period thereafter, but is not likely to be favored as a long-run policy. Neither does sale on credit offer anything but a very temporary solution.

Thus some method of payment will have to be established if exports are to continue. In the long run, this country cannot expect to sell unless it is also willing to buy. If we follow a policy of narrow economic isolation, discouraging the importation of foreign goods into the United States, part of the price we shall have to pay is a curtailment of the overseas market for American farm products. An even larger price we might have to pay is another world war.

Full opportunity to engage in export and import trade will be realized only if nations the world over permit it, making possible what is known as "multilateral" trade. When this operates freely it is not necessary for each country to balance its export-import account with each other nation. For example, our large imports from the South Pacific help pay for our exports to Europe.

If other nations resort to highly centralized governmental controls over trade for the sake of furthering military and political ambitions, then our export opportunities will be limited. Hence we have a vital interest in the forms of government established as well as the types of controls adopted. The United States is in a position to exercise leadership in insuring that world trade of the future is reasonably free, and should take advantage of that opportunity.

In the past, obstructions to international trade have hit particularly hard the American producers of cotton, tobacco, wheat, hogs, and certain fruits. But farmers who produce for the domestic market also have been injured. When export outlets are reduced, those who would ordinarily produce for such outlets tend to shift to commodities which are sold at home, thus intensifying competition in those lines.

A two-price system to dispose of surpluses is being advocated. Under this plan products would be offered abroad at lower prices than those prevailing in the domestic market. This proposal has decided limitations. For one thing, it assumes the existence of an active world market ready to absorb any and all products which may be exported. It assumes further that other nations will not oppose a practice of dumping by the United

States. This is unrealistic because most nations, including our own, have restrictions against dumping. Moreover, it is questionable public policy to supply consumers in other lands with products at lower prices than those charged our own people (except as this may be a part of a program of foreign relief). Were such a program to be employed, it would tend to restrict rather than expand foreign trade opportunities because it would lead to demands for additional import barriers to keep the products sold in this manner from returning to our own markets. This program clearly offers little by way of insuring large exports.

Quite aside from the needs for foreign outlets for agricultural products, farmers stand to gain from international trade on two other counts: (1) expanding overseas markets for industrial goods favor a high level of employment in the cities, promoting a good domestic market for farm products; and (2) farmers as consumers benefit from having access to various imported products.

Assuming that we shall be able to hold foreign markets for farm products, we nevertheless need to recognize that our agricultural exports will consist largely of the same kinds of commodities we shipped before the war. Although lend-lease operations have moved abroad American butter, cheese, eggs, and beef, we do not ordinarily export much of these products because we are at a relative disadvantage in producing them, and hence cannot expect to continue exporting them in large quantities.

Trade barriers are not limited to the international type; a host of them exist within the United States in the form of state and local restrictions. They discourage regional specialization based on advantages in physical resources, climate, location, transportation, and other factors, and thus reduce our scale of living as well as limit economic opportunity. Fortunately the bad effects of these barriers have been gaining recognition, and some steps have been taken to eliminate them, but further action is urgently needed if the best interests of farmers and the public generally are to be served.

Freight rates may influence some of the changes needed to bring about production adjustments. The rate structure also is an important factor in the location of industries, and therefore plays a part in the availability of non-agricultural employment for farm people. Farmers and others in many areas feel that existing rates are discriminatory. There is need for further study of the rate structure and for correcting unfair rates which may be revealed.

The postwar domestic market for farm products, as indicated in Chapter I,‡ will exceed in importance all other factors affecting the

‡ *Committee's report.*

farmers' prosperity, with high employment a "must" if serious trouble is to be averted.

Present indications are that although there may be considerable temporary unemployment during reconversion and demobilization, in the main employment should be large while industry is meeting postponed demands. There will, however, be some reduction in the total earnings of workers because they will be doing less overtime work at extra wage rates, because many workers will transfer from war factories to lower-paid jobs in peacetime employment, and because of reduced employment of women, youth, and older people.

It is well to recognize, too, that farm products will have added competition for consumers' dollars as civilian production is restored in other lines. Many families, for example, have a more urgent desire for a new radio or automobile than for more or better food.

Aside from full urban employment, two measures will improve the domestic market for farm products and at the same time enhance the general welfare. One is educational work to promote good nutrition. The other is subsidies, in one or more forms, to promote food consumption by low-income families. Since even in times of high industrial employment there are serious deficiencies in the diets of many low-income consumers, subsidized consumption programs for such families are justified. Any program of this kind, however, should be designed to meet the dietary requirements of the public, rather than merely to attempt to move surplus agricultural products.

The use of farm products as raw material by industry is regarded by some as holding much promise of market expansion. Active research to find new uses for farm products should be continued and expanded. However, it is important to temper enthusiasm by recognizing limitations. Because a given use is possible does not necessarily mean that it is good economy. Only uses which supply a regular outlet at prices which warrant farmers producing for them provide a market on which reliance can be placed.

TECHNOLOGY ALTERS THE PRODUCTION PATTERN

American farmers have made rapid progress toward mechanization. Tractors and efficient machines have taken over much of the work formerly done more slowly with horses or by hand. Milking machines, grain combines, corn pickers, forage harvesters, multiple-row tractor cultivators, mechanical cotton pickers, and a whole line of fast-moving rubber-mounted field implements indicate the trend.

Likewise, improved varieties of crops, more adequate fertilization,

better livestock, feeding based on sound nutritional principles, more effective disease and insect control, and many other developments have made farming more efficient.

Technology thus is increasing the output per man engaged in farming, as well as improving the quality of the products. The changes in general are clearly in the interests of both farmers and consumers, and can be expected to continue. There are, however, some differences in the economic effects of improved farm practices, depending on their nature and circumstances.

An improvement which is adopted quite generally reduces average production costs and increases total output. In such cases, the gains are shared rather quickly with consumers.

Some developments which are adaptable only to certain regions or producers may give them special advantages in production. The effect is a tendency to encourage a shift in production, spelling opportunity for some but involving need for alternative enterprises for others.

Still other agricultural developments may ease the drudgery of farm work and make farm living more attractive, without having any pronounced economic effect.

It is clear that technological advances, although generally beneficial, occasionally throw a heavy burden on certain people, areas, or industries which are placed at a disadvantage in competing under the new methods. The changes will be made—a policy of promoting the general welfare allows no other recourse—but there may be need to soften the impacts on those who are temporarily disadvantaged.

ADJUSTMENTS MUST MEET HUMAN WANTS

Postwar adjustment programs for agriculture need to be designed to deal with the basic conditions which are creating the difficulties.

At times prices fall sharply because of a temporary oversupply or reduction in demand, in which case there is little need for production adjustment programs.

On the other hand, if production actually is overextended—as it may be after the war in the case of cotton, wheat, oil crops, and a few other commodities—then the need will be to shift some of the productive capacity to uses which will satisfy wants.

A high proportion of Americans, of all occupational and sectional interests, could agree on this as the central point of production adjustment policy: public funds should be used primarily to bring needed adjustments about more easily and rapidly than they would otherwise take

place and to cushion the shocks involved. The public interest will not be served by maintaining resources in uses for which they are not needed.

For some it will require considerable revamping of attitudes to accept this objective, since the usual aim of past farm programs has been to raise or maintain prices of specific commodities rather than to adjust the use of resources. The attack has been on effects rather than causes, and too often the result has been to continue or even aggravate maladjustments.

Farmers need to be realistic concerning the superficially attractive plan of propping up prices for particular commodities above the level the market otherwise would pay. They cannot expect to retain the right to produce freely if they insist that the government maintain prices at arbitrarily high levels. When the government props up the prices over a period of time, it becomes necessary for agents of the government in their control of production to determine not only the total production, but also to assign to each farmer his production allotment. This latter procedure is particularly hard to defend and administer when it involves refusing new producers the opportunity to engage in a type of production they are as well or better able to carry on as those already in the enterprise.

There is need for realism, too, on the point that an adjustment program for agriculture alone cannot achieve satisfactory results. If agricultural surpluses accumulate because of inadequate urban purchasing power, the only real cure is an expansion of non-agricultural employment. If there are more people in agriculture than are needed to provide farm products, the remedy is not to support those farmers who are deepest in trouble permanently on the land, but rather to develop useful outlets for their energies in non-agricultural lines.

SOME PRODUCTS OFFER SPECIAL PROBLEMS

Some products which were over-expanded before the war will need special attention. Among these, cotton and wheat are prominent.

In the case of cotton, depression conditions and price supports led to the accumulation of large supplies in the years before the war. While war has stimulated the domestic consumption of cotton, it has reduced exports still further, with the result that stocks remain huge. Supplies outside the United States likewise are large.

Because of the extent to which cotton has been grown for export, the question of whether permanent curtailment will be needed will be answered mainly by what happens to the foreign market. This in turn

depends upon the trade policies of other nations as well as our own, and the price policy which the United States may adopt.

One lesson of the 1930's is that artificially high prices for cotton in this country invite increased competition from other areas, and thus lead to a loss of foreign outlets for the American product.

A sound policy on cotton must provide for an international trade program which will enable the United States to retain as much as possible of the world market. It may also need to include a domestic program to encourage a shift in American cotton production to those areas best able to hold their own in world competition and best able to yield to satisfactory scale of living for cotton producers.

Maintenance of artificial prices on cotton has curtailed exports, increased the use of substitute fibers, tended to keep up production, and encouraged the use of land which otherwise might have been used to grow crops more urgently needed than more cotton. In addition, too little differential in the price support among the grades has resulted in relatively high production of low-grade cotton for which there is little demand, and with which many warehouses now are filled.

Shifts already have begun, and are bound to continue, in the relative importance of cotton in various parts of the South. In areas where costs of production are low, cotton is tending to expand. As mechanization progresses, the pressure for a shift to more level areas can be expected to increase. In areas where other enterprises offer special advantages cotton production tends to be reduced.

Public assistance will be needed in certain areas requiring large-scale shifts out of cotton production. Such aid should be positive in character, temporary in nature, and directed toward the partial replacement of cotton production by other types of activity including the production of food for consumption by the farm family. At the same time new and adaptable types of farming will need to be developed, and in some areas part of the population should be encouraged to engage in part-time farming and non-agricultural employment.

Public funds should not be used to hold up cotton prices after the postwar transition period and to retard adjustments in the cotton belt, but should be directed towards encouraging the development of alternative enterprises. They might better be used for such things as improvement of pastures or the initial investment in livestock or other forms of new production, for the development of new industries and decentralization of industry where possible and desirable, and for expanding vocational educational programs for both children and adults.

Wheat presents a picture similar in some respects to that of cotton.

World wheat production was overexpanded before the war, and it is likely that overproduction again will become evident fairly early in the postwar period.

Again solution of the problem calls for international cooperation, particularly in reducing trade barriers and eliminating artificial price supports.

However, even if this country wins access to world wheat markets, it seems likely that there will be need for some reduction in wheat acreage from the high wartime levels. With wheat as with cotton, public assistance in readjustment can best take the form of facilitating shifts to other systems of farming, or to other lines of activity in high-production-cost areas or where satisfactory alternative crops are possible, rather than of maintaining prices above the competitive world market by such programs as uniform rates of acreage reduction. In the Great Plains region, wheat is the highest and best use for much of the dry land farming areas, even at world wheat price levels.

Physical risks in agricultural production often are more hazardous than market risks. Crop failures caused by drought, insects, and other forces largely beyond the farmer's control periodically bring about acute distress in various sections of the country. For certain crops where the need is evident, it is therefore desirable to provide an adequate crop insurance program financed largely through assessments levied on participating farmers.

19. Improved Nutrition*

The national level of nutrition depends upon the supply of food available, the level of individual incomes, and the dietary habits of the people. The setting of a national goal of nutritional adequacy is complicated by the fact that the optimum amount and kinds of food required for the maintenance of healthy individuals cannot be determined accurately. Certain food elements add to health and longevity up to limits not yet known. It is probable that additional ingestion of these food elements above a certain point give diminishing returns in health as the optimum point is approached, so that the last small gains are costly when compared with the alternative expenditures which contribute to health, such as better medical care, better housing and recreation. For this reason the food and nutrition board of the National Research Council set its goal at the amount of food agreed upon by nutritionists as necessary for a relatively high standard of health, plus a further margin to take care of unusual cases, rather than at the highest level which would still add something to health.

Nor is the level of nutrition, as defined above, the whole story. The committee recognizes that the satisfactions to be derived from "good eating" are an important aspect of the demand for farm products. Hence the market for farm products is not limited by the number of stomachs to fill, since there is a tremendous market for better quality, more attractive and palatable foods.

In any attempt to improve the diet of the Nation, it is clear that raising the diets of the most poorly fed to a moderate level of nutrition is of more immediate importance than raising the diets of fair nutritional merit up to a good level. While freedom of choice should not be interfered with, dynamic educational programs should be organized so that the best information available on nutrition is always before the eyes of the public. For example, the processing and refining of many foods serve to reduce the amount or completely remove vitamins and minerals necessary for health. Thus new eating habits must be formed to compensate for deficiencies caused by changes in foods themselves as well as to correct poor habits. Education can be a powerful force, changing both methods of food preparation as well as consumption patterns, particularly if it is associated with a school-lunch program where new tastes for nutritious foods may be developed.

* "Postwar Economic Policy and Planning," *Tenth Report of the House Special Committee on Postwar Economic Policy and Planning*, 79th Congress, 2nd Session, House Report No. 2728, 1946, pp. 36-38.

1. **EDUCATION.** The committee believes that the educational programs which were pursued by a number of Government agencies before the war and then sharply expanded during the wartime should provide a basis for continued emphasis upon nutrition and health during the postwar period. These educational activities should be focused not only upon the training of children but should reach into adult information services. The committee feels that better nutrition can contribute very importantly to the further improvement in national health levels and that agencies of the Federal Government have an important part to play in providing information and assisting in its dissemination. Actually a movement to improve nutrition through increased consumption of dairy and meat products would do much to utilize the increased productive capacity of agriculture.

2. **SCHOOL LUNCHES.** The program of school lunches supplies a double benefit in that it assists in the building of sound nutritional habits at the same time that it helps provide needed food elements to children during the critical growing age. Money spent in providing school lunches to those too poor to afford good diets and for those accustomed to bad diets will add to the farm income in the long run by building up future demands through establishing good food habits. Supplements to diet through school lunches will mean that countless children have a chance to grow up into healthy and productive citizens instead of being underdeveloped, half-sick citizens with little energy and ambition.

The school-lunch program can be largely self-sustaining or locally supported in normal times with large subsidies provided during depression periods. Such a program would unquestionably be a help in preventing the piling up of surplus commodities. This, however, should be an incidental factor and not an objective of the programs, since improved nutritional standards should be the primary goal.

Frequently coupled with the school-lunch program has been the development of in-plant feeding programs conducted by business organizations. These programs, which provide well-planned subsidized lunches for employees, have not only proved beneficial in a nutritional sense but are generally regarded as profitable undertakings for the employers in terms of both employee morale and productivity. Through such programs private enterprise can make important contributions to the improved health of the Nation.

3. **CONSUMER INCOME SUBSIDIES.** Several plans have been advanced for providing more direct assurance of minimum diets through programs such as a stamp plan which would enable low-income consumers to secure enough of a special "food money" at a cost they could afford to

enable them to purchase an adequate nutritious diet. Many proponents of such programs have suggested them as a means of increasing the demand for farm products and as a substitute for other agricultural control programs. While this aspect of subsidized consumption is undoubtedly of importance, the evidence presented before this committee suggests that primary emphasis should be placed upon nutrition and the freedom of choice among consumers to purchase those foods which their health requires rather than to purchase those commodities that may be in surplus. Such programs should be related not to the income requirements of farmers so much as to the dietary needs of the consumers affected.

While the committee believes that a minimum income sufficient to provide for the elementary subsistence needs should be available to prevent undue distress to our citizens, the committee is not certain that it is wise Government policy to single out food needs alone and to make these needs the subject of special subsidization. The committee recommendation is that proposals along this line should be studied in the light of broader problems of guaranteeing reasonable subsistence requirements through a coordinated program of Government services, including social security and other benefit plans.

A great part of the malnutrition in the United States is undoubtedly associated with incomes inadequate to provide a sufficient or properly balanced diet. The social-security program has been designed to provide a cushion against loss of income, particularly to groups most subject to economic hazards. The committee has recommended in other reports that the extension of social-security benefits to groups not now covered should be accomplished as rapidly as practical programs can be developed.

This, of course, would not guarantee that the money derived from social security benefits or from other income sources would be used by the consumers to improve their diets, although there is a strong presumption that by increasing the amount and the dependability of income there is an almost automatic improvement in the diet adequacy.

20. Postwar Agricultural Policies *

The technological revolution in agriculture has made it possible for the farm family to handle larger farms, increase output per worker greatly, and reduce costs. This trend will continue in the future. For many commodities it has increased supply more rapidly than demand in the United States, and this has resulted in a long-run downward pressure on agricultural prices. An essential need in such cases is to reduce the overpopulation in agricultural areas so that commercial farm families can operate adequate farm units on a profitable basis.

Agricultural income is particularly subject to violent price and income fluctuations due to the business cycle and to the natural hazards which affect yields.

The needed long-run adjustments in American agriculture are not necessarily accomplished by present price-support programs together with systems of production quotas. This may lead in some cases toward encouraging farmers to remain in uneconomic types of production instead of shifting to lines more profitable for them. Moreover, so long as there are considerable numbers of people in our country who do not have satisfactory diets, there remains the need to seek a solution of the producers' problems by means of expansion of both the markets and production.

Our price policies in the past have had a tendency to price our export commodities out of the world market and have led to the use of export subsidies. Such actions have led to retaliation, international friction, and a strangulation of world trade; this is out of harmony with the need to establish international cooperation and an expansion of world trade as part of the broad program for world peace.

In the light of these conditions the committee has recommended that the following specific policies should be considered in working out a solution of the long-run problems of agriculture:

1. The maintenance of a high level of income and employment throughout the Nation is a prerequisite, so that a rising demand for farm products may be maintained and so that alternative jobs are available for those desiring to move out of agriculture.
2. A return to flexibility between the prices of agricultural products

* "Postwar Economic Policy and Planning," (*Summary and conclusions*), Tenth Report of the House Special Committee on Postwar Economic Policy and Planning, 79th Congress, 2nd Session, House Report No. 2728, 1946, pp. 39-41.

so that they reflect changes in costs and demand. This should be coupled with a program of assistance and encouragement to farmers to shift into the production of commodities where the opportunity for higher returns is greatest.

3. The development of a broad program to enable farmers to enlarge their family farm unit, where necessary for efficiency; to adopt modern techniques of farming; and to purchase the necessary equipment.

4. The improvement of rural education so that farm children, moving into other occupations, are better equipped to do skilled work; the improvement of employment services and assistance to families wishing to relocate in new jobs.

5. An educational and assistance program to improve the nutritional standards and food consumption of the American people.

In order to reduce short-run fluctuations in prices and income, the committee has recommended the following additional policies which do not conflict with the long-run adjustment policies.

6. An expansion of crop insurance.

7. A storage program for nonperishable products, with definite quantity limits.

8. A program to improve the efficiency of the marketing process both as respects farmers' procurement and the distribution of their products, with recognition of the important contributions which cooperatives can make in assuring competitive conditions.

9. An expansion of world trade, and international cooperation in developing consumption, price, and production policies for a few problem commodities during periods of necessary readjustment of international resources.

10. The development of a support price system which would establish protective price floors under the market during each production period.

11. A program to improve nutrition in periods of economic stress in order to assure proper diets for low-income consumers.

12. A system for cushioning declines in prices and income in the event of a business recession, by use of price or income supports, or other devices.

The committee has not presented detailed programs but has attempted to outline the fundamental principles which need to be considered in order to achieve the goal of a progressive and prosperous agriculture adjusted to maintain the family farm and make use of modern technology. This will benefit the Nation as a whole through abundant production and a more stable purchasing power in this important sec-

ment of the economy. Except during severe depressions, prices and markets would be largely free and production not restricted.

Most American farm families may logically be considered as falling into one of four groups.

Group I. Those operating commercial farms of moderate to high productivity (comprising nearly 60 percent of our farm families).

Group II. Those operating low-production farms, which do not return a satisfactory income.

Group III. Part-time commercial farmers whose total income is satisfactory when nonfarm employment conditions are normal.

Group IV. Nonfarm workers living on residential farms producing vegetables, fruits, and often meat and milk for the family.

The recommendations listed above show up in clearer perspective when the specific problems of each of these groups are reviewed. The families that fall in group I produce the bulk of the commercial supplies of agricultural products. With a few possible exceptions, such as cotton and perhaps wheat, their operations can be expected to yield a satisfactory level of income over a period of years if severe business depression can be averted. The principal problems of this group, aside from those resulting from variations in consumer buying power, are largely confined to smoothing out the effect of short-time variations in yield and facilitating the prompt shifting of resources to the production of those commodities which offer the best prospects in a free market.

An upward trend of consumer demand for agricultural products will enable this group of farmers to enjoy the benefits of an expanding market and so will the resumption of freer world trade. But these are not the farmers for whom income guaranties or parity prices are necessary as a bulwark against poverty, except in times of severe business depression.

Families in group II are the ones whose situation is not satisfactory at any time and whose lot cannot be improved in the long run except by making fundamental readjustments in their agricultural operations. These are the families who live on farms that are too small, that are under-equipped, that have unproductive soil resources; in other words, that will not, even under the best conditions, provide a satisfactory support for the family. Arrangements should be made to aid some of the families in this group to shift into group I (by making larger farms available, by changing to more profitable crops, by improving agricultural practices, by enabling them to secure proper equipment and stock); others, to move into group III or IV, or into urban occupations.

Groups III and IV present problems that are chiefly related to their nonfarm sources of income. Programs for the decentralization of indus-

try, for the improved training and education of children from these families, and for the more efficient placement of workers in non-agricultural jobs is what is indicated.

With farming made up of such differing units, it is a mistake to consider that sound programs for American agriculture can be developed if our information is limited to over-all statistical figures reflecting the average income per farmer, the average per acre yields of all farms producing a particular commodity, and similar data. The committee has therefore recommended a set of programs which are directed toward the particular kinds of problems that different segments of American agriculture face, to the end that we may attain an efficient agricultural industry providing satisfactory income to those engaged in commercial agriculture and the benefits of rural living to the very numerous families which choose to live in the country but which secure a substantial portion of their income from nonagricultural pursuits.

Part III
INTERNATIONAL TRADE AND
RELATIONS

21. The United States and World Trade*

By FRANK WHITSON FETTER

Professor of Economics, Northwestern University

The present position of the United States in world economic affairs has much in common with the position that Great Britain held at the outbreak of the First World War, and that it had held for many years before that date. In that period world economic affairs centered in London. It was not merely that British foreign trade was the largest in the world, that about 20 per cent of the goods exported from the rest of the world ended up in "the tight little island" off the coast of Europe, or that about 18 per cent of the products imported by other countries originated there. These figures are in themselves impressive, but they do not tell the whole story. Great Britain was the center of a great multilateral trading system, much of the trade between other countries was financed in terms of sterling, and Great Britain was the world's greatest creditor nation. The period before 1914 was one of international monetary stability based on the gold standard, and British policy was an important factor contributing to the successful operation of the gold standard.

In explaining the dominant position that Great Britain held in world political affairs in that period, and in interpreting the unwritten alliances and the community of interest that existed between Great Britain and many other countries, there has been a tendency, in the current stress on the historical significance of the British Navy, to underestimate the importance of this economic factor in Britain's international position. Leadership throughout the ages has been based on a combination of power and the offering to others of the opportunity to benefit by associating themselves with that power. Statesmanship has always involved a skillful combination of these two elements of leadership; but in the years since 1914, marked by so much national and international violence, people have come to place an undue emphasis on sheer power as a quality of international leadership, to the neglect of a situation where power is gracefully blended with an economic interest.

OUR ECONOMIC EMERGENCE

In this world economic organization that centered in London, the

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United States of America was an active participant in the trade; but in the matter of policy we were before 1914 hardly more than an interested onlooker, or an occasional and sometimes irresponsible back-seat driver. Many developments in the United States, such as tariff changes, silver legislation, or panics associated with the rigidity of our banking system, were at times quite disturbing to other countries, but did not appreciably alter the flow of the main stream of world economic development. In the 1920's and early 1930's the United States, without quite realizing what had happened, much less recognizing what it should do in its new position, was brought into a central position as even more than a coequal of Great Britain in world economic affairs. We fell heir to much of the power of Great Britain in the international economic field, without having either the general understanding and sense of international responsibility as to how a country should act in such a position, or the experience and insight that would tell us how to deal with particular problems as they arose.

There is no need to labor this point, or to trace the history of our international economic actions in this period, running all the way from the Emergency Tariff Act of 1921 to the dreary tale of the London Economic Conference of 1933. Our incongruous combination of repeated tariff increases and increased foreign lending, our belief that payment of the war debts was simply a matter of international morality rather than of international economics, and the view generally accepted among reputable people and in large part an unconscious heritage of the Free Silver campaign of 1896, that the successful operation of the international gold standard was a matter of common honesty rather than of international economic stability, are a few high lights in the picture. We were in a position of power without responsibility.

The onslaught of the Great Depression, and even more clearly the developments of the Second World War, made it evident that Great Britain was not in a position to hold the role in world affairs that she had in the 1920's, much less the role she had held before 1914, even if the United States had been willing to step aside and let her attempt to perform her old role. The physical destruction of war, the loss of many of her foreign investments, the huge war debts in the form of blocked sterling balances in London, the weakened competitive position of British shipping, the apparently permanent loss of a major part of her overseas textile markets, and the severe deterioration in her coal position, affecting as it did her export trade both directly through the loss of coal exports and indirectly through its effect on domestic industry, had placed Britain in a critical economic position.

CHANGED WORLD ATTITUDE

To farseeing men in American business and finance and in the Government, it became clear early in the Second World War that the end of hostilities would present a world economic situation very different from that at the end of the First World War. The physical destruction of the productive plant of Europe and of Asia was far greater than anything that had happened between 1914 and 1918. Even more important, although possibly less evident on the surface, was the great difference in most countries, outside of the United States and Canada, in the attitude toward a return to prewar conditions. By and large, the ideal of most countries after 1918 was a return to the international economic policies of the prewar period. After four years of fighting and misery there was a nostalgic longing for a return to the policies that the peoples of most countries associated with peace and prosperity. The pre-1914 period, in retrospect, probably assumed to the peoples of 1919 virtues that it did not really have, just as to persons far from home and facing unfamiliar difficulties, the old home town in the mind's eye often becomes a much lovelier place than it really was. Be that as it may, for better or for worse the ideal of most countries after 1918 was a return to the international economic policies of 1914: a common monetary standard in the form of gold, multilateral trade, the dropping of quotas and exchange controls, and the return to private enterprise in foreign trade.

As World War II progressed, it was evident that there was no such nostalgic longing for a return to an old economic situation of happy memories. Most of the peoples of the world did not associate the pre-1939 years with prosperity. They associated it, not always with complete logic, with depression—a depression whose slackening many believed was due to the rejection of practically all the things to which the world of 1919 had wanted to return. The First World War had led to a series of economic measures that were a sharp break with prewar practice. The Second World War had simply brought an extension and stiffening of the monetary and trade controls that had grown up in the 1930's. As the war progressed it became clear that in large areas of the world the dominant opinion favored the permanent maintenance of a large part of the controls that had been introduced in the 1930's and during the war. There was a strong possibility that the victory of the United Nations would be followed by the consolidation of independent national currency systems, by elaborate systems of trade and exchange controls involving bilateral balancing of international accounts, and by the continuation of the sterling area.

OUR POLICY

If American leadership were lacking, it seemed pretty clear that this would happen. Some Americans felt that this was the wave of the future in international economic relations; that the features of the international economic system as it had thrived before 1914, and as it had struggled along in the 1920's, were simply remnants of a Victorian era. They thought that it was better for the United States to accept the situation, and to play the new game for all it was worth. That the United States was physically equipped to more than hold its own in this type of international economic infighting seemed clear. That we had, or at least could train, people just as smart as the officials of other countries in the technique of international bickerings over lard and prune quotas, manipulation of multiple exchange rates, intergovernmental barter deals in cotton and cameras, and bargaining of copper import quotas against payments on defaulted international debts, few Americans would doubt. But the general adoption of such methods of carrying on business would almost inevitably involve the United States in a permanent system of detailed trade regulation that we are temperamentally unsuited to carry on, and that is certainly out of line with what most Americans believe is desirable in the relation of governmental and private business.

American economic foreign policy, from lend-lease on, has had a pretty consistent philosophy. The handling of war aid and postwar relief as part of the cost of the war, and not as a commercial transaction, was the basis of lend-lease, of the United Nations Relief and Rehabilitation Administration, and of our lend-lease settlements. The International Monetary Fund was an attempt to abolish exchange controls and to restore some semblance of stability in international monetary transaction, while recognizing the almost insuperable opposition of large areas of the world to the fixed exchange rates of the old gold standard. The International Bank, as well as the large increase in the lending authority of the Export-Import Bank of 1945, was a recognition of the need for reconstruction and developmental capital in the years after the end of the war, and of the probability that this capital would not be available immediately through private sources. Our recent financial agreement with Great Britain, providing for a credit of \$3.75 billion, was not only a measure to enable a great trading country and a gallant ally to get its economy going again, but more immediately and directly, a measure to permit Great Britain to resume international trade on a multilateral basis, beginning one year after the credit went into effect. That year expired on July 15, 1947, and from now on, all persons exporting to the

United Kingdom, on receiving sterling payments, can convert their sterling into dollars, francs, kronor, or any other currency needed to pay for current transactions. The capstone in the structure of our international economic policy is the trade agreements program and the program for an International Trade Organization, now under discussion at Geneva.

It is true that American economic foreign policy has not been a completely consistent one. The London *Economist*, apparently forgetful of the fact that the genius of Britain lies in not making a fetish of consistency, seems never to tire of editorials pointing out the logical inconsistency between our support of multilateral trade and the requirement that the proceeds of Export-Import Bank loans be spent in this country. The subsidy on cotton exports is so clearly inconsistent with our professed aims in international economic policy that even veteran State Department officials wince when their foreign opposite numbers bring up the matter; and the recent wool bill, until killed by Presidential veto, gave more than one sleepless night to American officials who were trying to persuade the world of the reality of the American program for a reduction of trade barriers.

TRADE MUST BE STIMULATED

The importance of our trade policy lies in a simple principle of elementary economics, a principle too often neglected in the application of advanced economics. This is that finance has reality only when there is an underlying movement of goods and services; that financial operations in themselves, no matter how ingenious or complicated the machinery that is created for carrying them out, are meaningful only when they are the means of facilitating, rather than serving as a substitute for underlying commodity and service transactions. The International Monetary Fund will be useless if it does not facilitate the movement of trade. The loans of the Export-Import Bank and of the International Bank can be repaid only as there is international trade. The credit to Britain will not accomplish the objectives that the United States has in mind if it simply gives to Britain the current means of paying for goods. It must put the British economy in a position where it can export, and it must be accompanied by measures, particularly in the United States, that will permit these potential exports to be turned into foreign exchange.

RELATIVE IMPORTANCE OF FOREIGN TRADE

The great size of the United States and the varied resources within our borders have made foreign trade a less vital element in our domestic prosperity and in our standard of living than is the case of any other

important country except the Soviet Union, although in absolute terms our trade in the last few years has been the greatest in the world, and for several decades our trade was second only to that of Great Britain. In the later 1930's our exports were around \$3 billion a year, and our imports about \$2.5 billion; in 1946 exports were nearly \$10 billion and imports nearly \$5 billion; to date in 1947 exports have been running at a rate of nearly \$15 billion a year, and imports at a rate of \$5 to \$6 billion.

Why is foreign trade important to the United States, and what should we expect from measures to maintain our present large postwar volume of trade and to put it permanently on an even higher level? It has been a popular pastime in recent years to battle the matter out in terms of statistics. Those who favor tariff reduction and an expanding trade cite the impressive absolute figures of our present trade, and point out the significance for future employment in the United States of an expansion in our export industries. The opponents of tariff reduction point to the tremendous variety of American resources as making a large trade unnecessary, and cite the small ratio of our exports to our national income, or even to the total of movable production in the United States, in support of the proposition that foreign trade is not of major importance in our national economy. Such figures are useful as illuminating certain points, but they do not answer the broad policy question.

The economic importance of foreign trade to a country has an inverse relation to the size of the country and to the diversity of its resources. Small countries, particularly if they are densely populated, as Great Britain and Belgium, are dependent on foreign trade in the basic sense that their peoples would starve to death or would be reduced to a bare minimum of subsistence if all trade were cut off. Countries with richer agricultural resources per capita, such as New Zealand, Argentina, Chile, or even France, would not literally starve if all trade were stopped; but even after a full adjustment of their production to the stoppage of trade, they would be forced to accept a far lower living standard, perhaps not in caloric terms, but in terms of what is currently called a "protective diet," and in terms of the nonfood items that today loom so large in the living standards of many countries.

In this sense of a minimum standard of living, a large foreign trade is important but not vital to the American people. We could stay alive without foreign trade, but many of the things that are thought of as characteristic of the "American way of life" would be impossible without foreign trade. This point is rather obvious in connection with coffee, chocolate, bananas, tin, nickel, and diamonds; and most persons recognize that we should continue, if not expand, our trade in those items that quite

clearly cannot be produced in the United States except at a prohibitive cost. The real issue, however, arises in connection with mineral products such as petroleum, copper, and manganese, of which we have large supplies in the United States, but which may be seriously depleted in a few decades unless we draw on the abundant supplies available abroad; in connection with sugar and wool, which can be produced here but only at substantially higher costs than abroad; and in connection with many foods, textiles, and metal products where mass production methods cannot be used effectively. We want foreign trade so that the American living standard can continue to rise, and one of the important ways to elevate that living standard is to take full advantage of the geographic division of labor.

THE FULL-EMPLOYMENT ARGUMENT

As an economist, I consider this the basic economic reason for an expansion of our foreign trade; but frankness forces me to say that the large part of Americans who favor an expanding foreign trade, and the Washington administration in much of its official literature in favor of tariff reduction, pay little attention to this as a reason for the expansion of our foreign trade. Much of current support of an expanded foreign trade, both in government and in business circles, rests on the ground that this is necessary to maintain full employment in the United States. With many basic industries exporting from 10 to 25 per cent of their output, and with a substantial part of the working force in many communities producing for the foreign market, the plea that production and employment cannot be kept up without foreign markets has a powerful appeal. But it is not the basic reason for an expanded foreign trade, and it is unfortunate that it has been brought so much to the fore, because it is a double-edged sword. It can be an argument either for or against lower tariffs, depending both upon the employment situation at the moment and upon the ingenuity of the public relations experts of the various parties concerned. The amount of foreign trade has little to do with maintaining employment even in the short run, and in the long run it is an insignificant factor.

Trade is a two-sided affair. If we look simply at the export side, we see foreign trade as a means of maintaining employment; if we look at the import side, foreign trade can easily be pictured as a means of taking jobs away from Americans and giving them to foreigners. For generations the great argument in favor of high tariffs in the United States was that it was necessary to maintain employment. The "full dinner pail" was one of the historic slogans of American politics, a nineteenth-century version

of the more recent ideal of "two cars in every garage." It was an article of faith with great numbers of Americans that the only way to keep the dinner pail full was to keep foreign goods out of the country.

This argument was effective because it ignored the export side of foreign trade, and appealed only to workers and industries that faced foreign competition in the American market. In more recent years the people favoring tariff reduction have run off with the clothes of the old high-tariff group, and, playing up the export side of foreign trade, have presented a politically attractive case for reduced tariffs on the ground that this is necessary to maintain employment. If we should run into a period of unemployment in this country, and if perchance the situation were bad in lines that faced foreign competition, particularly if they had well-organized and adroit public relations services, the maintain-employment argument might become a potent weapon in the hands of those who wanted to increase tariffs.

TARIFFS AND WORLD LEADERSHIP

In the present situation of the United States, a liberal tariff policy is desirable for a reason that is related to our over-all international policy and is of even greater importance than the economic argument relating to living standards. The situation that gave Great Britain her leadership throughout the nineteenth and in the early part of the twentieth century involved much that is common to the American position today: industrial progress, great financial strength, large sums available for investment, a strong monetary position. But in addition, as a result of her dense population in relation to agricultural resources, and her limited raw materials, Great Britain was forced to follow a liberal tariff policy as a means of expanding trade. To the British it was evident in a way that it is not to Americans today that to maintain a high living standard it was necessary to have a large foreign trade. The internal economic position of Great Britain forced her to a position that fitted in beautifully with the other bases of world leadership. It contributed to that situation where so much of the world was bound to Britain through an unwritten treaty, based in part on the British Navy but also to a considerable degree on the self-interest of smaller countries in the great international division of labor that centered in London.

I do not suggest that in this power-minded age trade measures are a substitute for military strength; but they are essential if power is to be effective for the long pull, and the problems of international politics become simpler if many other countries feel that they have a real community of economic interest with the United States. Our imports from a number

of countries may be small in absolute terms, yet may be a large portion of the exports of those countries, or even of their total production. Our trade policy alone will not determine whether the countries of northern and western Europe, or Argentina or Czechoslovakia will come into or stay in the Russian orbit, but it will have an influence that might be decisive. The tendency to divide the world automatically into a Russian orbit and a non-Russian orbit is a logically simplifying and thought-saving procedure, but it is unrealistic in its oversimplification of the many considerations that go to formulate any country's foreign policy. There are many countries that would prefer not to be in anyone's orbit. The only way it is possible for them to maintain such a position and at the same time have a basic friendship toward the United States is for the United States to play a role in world trade comparable to the role that Great Britain played before 1914.

THE INTERNATIONAL TRADE ORGANIZATION

At the present moment a large United States delegation, headed by Mr. Clayton, the Under Secretary of State for Economic Affairs, is in Geneva carrying on trade negotiations with seventeen other countries on the final form of a charter for the International Trade Organization, and for trade agreements for tariff reduction among all of the eighteen countries there represented. The American Government is conducting the negotiations for tariff reduction under the authority of the Reciprocal Trade Agreements Act. This act, as originally passed in 1934, authorized the President, as a means of expanding the foreign trade of the United States, to reduce American duties by not more than 50 per cent in connection with appropriate action by foreign countries to reduce the barriers to American trade.

Between 1934 and 1943 agreements under this act were made with twenty-seven countries, but these agreements did not make as large reductions in the high rates of the Hawley-Smoot tariff as is sometimes supposed. This was true because even when the full 50 per cent reduction was granted, rates were still in many cases at a high level; because many reductions were much less than 50 per cent; and because a number of duties were left untouched where a reduction was considered politically too hot for the administration to handle. The wool duty is an example of this last-mentioned situation. The act as renewed in 1945 was amended to permit the President to reduce duties by 50 per cent from the figures in effect in 1945, rather than from the rate in effect in 1934, thus providing a much greater margin for reduction than was possible under the original act.

The International Trade Organization, which is particularly the child of the United States, sets up what might be called a code of fair competition in international trade. A preliminary draft of the charter lays down rules on international trade practices, particularly in the field of import quotas, exchange control, cartel arrangements, direct governmental participation in foreign trade, and intergovernmental commodity agreements. The charter also has provisions in regard to co-operative action to maintain high levels of employment, and for measures to further the economic development of countries in the early stages of industrialization.

A very important reason for the strong American sponsorship of the ITO has been the desire to put a stop to the great mass of trade restrictions, other than tariffs, that have grown up since 1931. We saw little hope for the development of relatively free international commerce, regardless of what tariff rates might be here or elsewhere, if American business had constantly to deal with quotas, exchange controls, and state trading arrangements, and if the American Government were forced to intervene in almost every foreign trade transaction in order to protect American interests.

THE RECIPROCAL ASPECT

Although technically separate, the charter of the International Trade Organization and the trade agreements are closely tied together, both in the negotiations at Geneva and in the field of public opinion here and abroad. Since the idea of tariff reduction is still received very coolly by great sections of the American public, the proposal that we reduce duties is somewhat more palatable politically in the United States if accompanied by foreign agreement to stop trade practices that have been particularly annoying to American exporters. Foreign countries, many of which introduced these trade restrictions under the pressure of great economic necessity, are not anxious to give them up unless they see reasonable prospect of an opening up of the American market to supply them in coming years with a larger amount of much-needed dollar exchange. Hence general foreign acceptance of the International Trade Organization without an assurance of a substantial cut in the American tariff is unlikely.

Both these programs supported by our delegation at Geneva are thoroughly desirable. There is, however, one point in the American approach at Geneva to tariff reduction and the elimination of trade barriers that is unfortunate, and that might well imperil the success of American policy, if not at Geneva, at least at some later time. It has often been said

that in the 1920's the American approach to war debts, foreign investment, tariffs, and export promotion ignored the relation of exports and imports and failed to recognize that the payment of international debts called for an import surplus. We Americans like to think that we profited by the lessons of the 1920's, and that as a nation we have a maturity of outlook on international economic problems that we lacked a quarter of a century ago. Yet despite our greater sophistication in matters economic, much of what the public think and say, and even much of what is said in governmental statements, appears to involve the fallacy of the 1920's as to the separate existence of exports and imports. Both what might be called the popular public view and the official American position are that the reduction of tariffs by the United States is in our interest only if other countries will also reduce tariffs and eliminate other trade restrictions. The American view seems to be that American trade restrictions and foreign trade restrictions are two more or less offsetting barriers to trade, and that, as in a disarmament conference, any reduction in armaments or in tariffs by one side should be contingent upon a comparable reduction by the other.

THE MILITARY COMPARISON

The comparison of trade barriers to armaments has a superficial appeal, and this appeal is increased by the inevitable militarization of civilian speech in a war period. Trade wars, trade aggression, defensive tariffs, and weapons of economic warfare are familiar phrases in the current vernacular. Yet I submit—and I hope that the majority of my fellow economists would agree with me—that the comparison of trade restrictions with military establishments is a seductively fallacious one, and is a serious cause of muddled thinking today regarding the real problem in international trade and the real interest of American policy. In a world of force and international tension, the reason for a relation between the strength of foreign armaments and one's own armaments is apparent. The objective of national military policy is to prevent a movement of foreign forces into one's own territory, and, if necessary, to occupy the territory of a foreign power. The objective of an economic policy is a quite different one. It is to obtain the movement of goods, both domestic and foreign, into the channels of consumption. A successful military movement should be all in the same direction. Trade, to be long continued, must be a two-way movement. Whether the trade barriers are in the United States or abroad, they are obstacles to trade; and no matter on which side the reduction in trade barriers takes place, there is a stimulus to trade in both directions.

THE ECONOMIC FACTS

Nevertheless, for bargaining reasons it may be desirable to link our reduction of trade barriers to similar action abroad; but it is not sound policy to get into a position, as the United States has come dangerously close to doing at Geneva, where we will make no reduction in trade barriers unless other countries do the same. For short-run monetary reasons that have little if any importance in the present situation of the United States, it may be desirable for a country to link an arrangement for the larger purchase of foreign goods to an assurance that the exchange so obtained by another country will be used to buy goods, rather than used to build up bank balances, to speculate in the stock market, or be taken out in the form of gold. But for the United States to take the position that we cannot reduce our tariffs until similar action is taken abroad not only ignores the basic relation of imports and exports; it also ignores the special economic situation of foreign countries in relation to the United States at the present time.

The public, and at times even officials of the State Department, are inclined to look on foreign tariffs, quotas, and exchange controls as barriers that must be broken down before a reduction of tariffs by the United States would open up larger foreign markets for American goods. If foreign countries as a group were draining gold from the United States, piling up bank balances here, or making large investments in the United States, there would be some point to such a view. But today most foreign countries simply do not have the dollars to pay for the American goods that their people would like to buy. If their present restrictions were not in effect, foreign countries would have to curtail imports from the United States by some means, either through the processes of exchange rate adjustment or internal price deflation—the latter step being probably impractical. As Lord Keynes remarked in the Anglo-American financial negotiations, the American dollar is not only a "hard currency" in the technical sense, it is a currency that is hard to get. The availability of more dollar exchange out of current trade would do much to relieve the pressure for the husbanding of dollar exchange that is back of foreign trade restrictions.

At a time when our exports are running at a rate of \$5 to \$8 billion a year in excess of our imports, and at the end of a quarter-century when our commodity exports have been some \$50 billion in excess of imports, it seems rather pointless to take the position that we cannot reduce American trade barriers unless foreign countries take comparable action. The key to trade expansion is what we do, and not what foreign countries do;

and it is to the interest of the United States to move ahead on a reduction of its own tariff barriers, regardless of what other countries do, just as it was to the advantage of Great Britain to do that in the last century. If by any chance the negotiations at Geneva should break down, the next step in American policy should not be to tighten our trade restrictions, but to loosen them. And we should do that in our own interest. We must not become more interested in the battle of negotiation than in the cause of trade expansion.

A BASIC NECESSITY

It is important to keep in mind the relation of our trade policy to our whole international policy. The various measures of a relief and of a financial nature that the United States has taken during and since the war were desirable. Our backing of the Bretton Woods institutions and the leading role that we have played in their operation were desirable. The steps that have been taken to bring about a revival of private foreign investment are desirable. But they are desirable only on the assumption that the United States intends to play an important role in world economic affairs. They are desirable only on the assumption that we will bring about a revival and expansion of the two-way flow of goods and services. An expansion of American foreign trade, import as well as export, is basic to foreign economic recovery, and it is basic to the eventual repayment of the financial assistance that has already been extended by the United States on a loan basis. It is basic if the International Monetary Fund is to be a vital mechanism in world economic life, and not just an elaborate blueprint. It is basic if the International Bank is to be what its sponsors conceived it to be, a means of guaranteeing sound developmental and reconstruction programs; and not what its critics claimed it would be, a sophisticated method of providing international relief out of the United States Treasury.

If there is to be a re-establishment and maintenance of a world trading system that will leave some role for small nations, and if many countries, both large and small, whose economic and political situation is today precarious, are to see a hope of real recovery while maintaining friendly relations with the United States, this Nation must play a leading part in measures to expand trade. And we cannot deal with the problem in the spirit of a petty bargainer. We must approach it from the viewpoint of the larger interests of a great power.

22. Reconciling Agricultural and Foreign Trade Policies

By D. GALE JOHNSON

Department of Economics, University of Chicago

During the past few years the United States has been espousing programs designed to expand the volume of international trade and to maintain friendly economic relations among nations. The Reciprocal Trade Agreements program was admittedly pushed forward very cautiously from 1934 until World War II. Starting with the Atlantic Charter and ending with the present trade negotiations at Geneva, several positive and far-reaching steps have been taken. Included among these were the policies set forth in the master Lend-Lease agreement, the backing given to the International Bank and the Monetary Fund, and the bold proposals for an International Trade Organization, first made in 1944.

Despite the positive elements that now mark our foreign-trade policy, foreign governments and economists must view American trade-policy actions with considerable misgiving. United States trade policy places emphasis upon multilateralism; the Export-Import Bank is a strong force resulting in a significant degree of bilateralism. The United States favors a policy of fair competition among private parties; we refuse to withdraw subsidies to our own ocean shipping and permit it to win or lose on the basis of its relative efficiency. As a matter of policy, the United States has advocated nonsubsidized competition in international air transportation when our competitive possibilities are strong. The United States opposes preferences and discrimination, yet we have no intention of giving up the Cuban preferences.

The most disquieting element in the whole picture, however, is to be found in American agricultural policy and the protective elements implied in that policy. The disrupting influence that may arise because of the basic tenets underlying present agricultural policy was indicated by the recent action in the House of Representatives proposing the imposition of an import quota on wool as a means of increasing the price of wool.¹

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¹This is not the only evidence of a general congressional disregard of the existing foreign economic policy. Numerous attempts have been made to modify

Over the last fifteen years various sections of and amendments to agricultural legislation have contained provisions for the control of international trade. Administrative authority has been granted to permit the use of export subsidies or dumping,² import quotas,³ import fees, and compensating import and processing taxes.^{4,5} In addition, import excise taxes and processing taxes have been added as a part of the Internal Revenue Code to provide additional protection for certain agricultural products, principally fats and oils.⁶

executive authority with respect to reciprocal trade-treaty negotiations. Foreigners must also be conscious of the strong congressional undertone which almost resulted in halting the Geneva trade conference and apparently forced President Truman to issue an executive decree which must have the result of crippling the Reciprocal Trade program. In Executive Order 9832 (12 *Federal Register* 1363), it is ordered that an escape clause be inserted in all future trade agreements. Every new trade agreement must include "a clause providing in effect that if, as a result of unforeseen developments and of the concession granted by the United States . . . [any] article is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or similar articles, the United States shall be free to withdraw the concession. . . ." Other nations will undoubtedly wish to be free to the same extent.

² Section 32 of the *Agricultural Adjustment Act of 1933* authorizes the Secretary of Agriculture to expend funds to encourage the exportation of any agricultural commodity or to cover losses incurred in the export of agricultural commodities. Section 21 of the *Surplus Property Act of 1944* provides for the sale of surplus agricultural products for export at competitive world prices, without regard to domestic prices.

³ Section 22 of the *Agricultural Adjustment Act of 1933* granted the President authority to limit the imports whenever any commodity was being imported in sufficient volume to interfere with the operation of a program authorized by the *Soil Conservation and Domestic Allotment Act* and the *Agricultural Marketing Agreement Act of 1937*. (This particular section, while an amendment to the A.A.A. of 1933, was passed as part of Section 1 of the *Agricultural Marketing Agreements Act of 1937*). The *Sugar Act of 1937* and now the *Sugar Act of 1948* provided for import quotas on sugar and specified the distribution of quotas among nations.

⁴ Section 22 of the *Agricultural Adjustment Act of 1933* permits the President to impose import fees under the conditions required for imposition of import quotas. No import fees have been imposed.

⁵ The *Agricultural Adjustment Act of 1933* permitted the Secretary of Agriculture to impose a compensating tax upon imported goods if such goods competed with a domestic product which was subject to a processing tax. The same Act required the imposition of processing taxes upon any processed article made from a product subject to a domestic processing tax. The *Sugar Act of 1937* imposes a similar tax upon all imported refined sugar.

⁶ Import excise taxes now in effect cover most animal and fish oils. Important vegetable oils are either subject to an import excise tax or a processing tax. Coconut, palm kernel, palm, sesame, and sunflower-seed oils are subject to processing

This country has engaged in export subsidization and dumping in the case of cotton, wheat, corn, tree nuts, fruits, tobacco, and certain dairy and meat products. Most of the export stimulation has been restricted to cotton and wheat. Import quotas have been applied in the case of cotton, wheat, and sugar.

Many people are completely unaware of the extent to which our trade program has been modified as a means of mollifying agricultural interests. Two significant points may be noted. Several trade agreements contain quota limitations upon the volume of imports that may enter at the reduced tariff rates. Though such quota arrangements have been applied to certain nonagricultural products—wood shingles, petroleum, and boots and shoes—the opening wedge seems to have been made in the case of agricultural products.⁷

The second point involves noting the degree to which the presumed protectionistic needs of agriculture are reflected in American proposals for an International Trade Organization. Though our policy generally opposes quantitative restrictions, import restrictions on agricultural products are permitted if there is a domestic production-control program or a domestic surplus-disposal program in operation.⁸ Though many types of subsidies are inimical to the general trade program, the article on subsidies is extremely mild, going so far as to permit export subsidies under certain, not too restrictive, conditions.⁹

Why has American agricultural policy become so closely associated with such extreme protectionistic devices and viewpoints? The answer to this question is complex, yet two fairly simple points seem to explain much of the present situation.

taxes. Import excise taxes are subject to reduction or binding against increase through the *Reciprocal Trade Agreements Act*. However, processing taxes can be bound only against increase in trade agreements. In general, the processing taxes have been imposed on products not produced in this country, while the import excise taxes have been placed on products that are directly comparable to domestic commodities.

⁷ It is difficult to imagine a trade device that is more disrupting to trade than the tariff quota. When a new quota period begins, prices are seriously disturbed in both exporting and importing nations and important windfall gains and losses are insured.

⁸ U.S. Department of State, *Suggested Charter for an International Trade Organization of the United Nations* (September 1946), Art. 19, pp. 12-13.

⁹ *Ibid.*, Art. 25, pp. 18-20. If a commodity is in burdensome world surplus and this surplus cannot be eliminated by joint national action, a nation may resort to export subsidies if it does not increase its share of the world market relative to a past representative period.

There are a limited number of farm areas dependent upon the production of commodities long favored by trade restrictions. Wool, sugar, and beef are the only important commodities in this group. Until 1930 these groups were largely outweighed by the more important segments of agriculture built around cotton, wheat, tobacco, and corn and hogs. The producers of these groups had a vital interest in expanding world trade.

However, the coming of the thirties—with the depression and the breakdown of world trade—led to the development of national and nationalistic programs to handle the economic problems of farmers. Either because of a lack of imagination or because of certain social values, the measures and programs adopted were of such a nature as to require the control of trade. Consequently, farmers in the formerly strong free-trade sectors of agriculture—cotton, wheat, and tobacco—soon came to attach more significance to the operation of the domestic agricultural programs than to the possible gains to be realized from a freer flow of trade.¹⁰

At stake in this change of attitude was the effectiveness of production control programs, commodity loans, and surplus disposal measures. The domestic programs capable of transferring real gains to the farmers were those that acted to increase prices relative to world or export prices. The basis of the inconsistency of the agricultural programs and trade policy was in the inherent tendency of the agricultural programs to drive a wedge between domestic and foreign prices.

It is almost valid to argue that the effectiveness of domestic programs was the greater the larger the differential between domestic and foreign prices. Thus cotton producers, for example, began to place increasing emphasis upon the level of the loan rate, rather than upon the level of the demand for agricultural products, including foreign demand.

It is at once apparent that programs designed to increase domestic prices by restricting supply and increasing demand must be assisted by measures restrictive of trade. A production-control program applied to

¹⁰ Edward O'Neal, president of the American Farm Bureau Federation, stated his position as follows: "Also we favor such additional appropriations as appear necessary under present disturbed conditions to provide the proper governmental agencies an opportunity to regain and maintain the normal percent of the world market for our exportable farm surpluses without, however, affecting adversely domestic markets. Likewise, we favor such additional restrictive measures as may be necessary and workable to reduce imports of competitive farm products to their normal percent of our domestic markets" (*Hearing before the House Committee on Agriculture* [76th Congress, 1st session], p. 290).

an export product cannot increase domestic prices relative to foreign prices and will increase domestic prices only as it influences world prices. The obvious solution is to divorce domestic and foreign prices by import restrictions and resort to export subsidies. The same type of situation is presented by a commodity normally imported. Without raising tariff rates or imposing quotas, domestic programs will increase prices only as the influence of the program spreads to the entire world.

Commodity-loan programs indicate the problem more specifically than other types. If the United States sets a loan on cotton at twelve cents and Brazilian cotton of the same grade is selling at eight cents, the United States is faced with two alternatives. On the one hand, we can make loans on a sufficient volume of cotton to raise market prices throughout the world to twelve cents. On the other hand, we can restrict imports and influence directly only the American price.

Is there any way that agricultural programs and trade policy can be made more compatible? The ways of accomplishing this task, which can only be briefly noted here, are at hand. However, the changes that must be made to achieve consistent agriculture and trade policies are of considerable magnitude and importance and the task of achieving rational policies in both areas is difficult.

Most of the adjustments will have to come in agricultural programs. The reason for this is fairly simple: the structure of trade policy has already been greatly modified to meet the needs of agricultural programs. In fact, trade policy has probably been modified to an extent greater than desirable. Admittedly, most of the modifications in trade policy have been of a negative sort, providing for the use of restrictionist devices under certain conditions.

One positive modification of trade policy is needed. This modification is the tackling of price instability in internationally traded goods. Thus far United States official policy has been strongly against taking direct and positive steps in this field. Numerous proposals have been advanced for achieving international price stability. The proposals that have been made do not seem to have received the consideration that they merit. In any case, the American position can be criticized for taking so definite a negative attitude on this point.

American farm policy has had numerous objectives. The price programs, however, have been restricted to two related objectives, namely, increased farm prices and incomes and greater price stability. Achieving higher and more stable incomes through manipulation of market prices necessitates trade restrictions. Assuming that these two objectives will

continue to be politically significant, can they be achieved without resulting in inconsistencies with trade policy? I believe the answer is in the affirmative.

Production control, commodity loans designed to increase market prices, and surplus disposal operations must be discarded. In their place must be used programs that have relatively modest impacts upon market prices.

In the reformulation of agricultural programs, emphasis should be placed upon transfers of income that take place outside the price system. Current programs attempt to increase farmers' incomes by raising prices. The difficulties this procedure puts in the way of a sound trade policy have been noted above.

In brief, a farm program which would not cause serious difficulties in the international trade sphere might have the following facets:

1. A food and fiber program designed to improve the functioning of the marketing process by reducing monopoly and fostering new technological developments, to increase the breadth of the market by finding new uses for agricultural products, and to maintain consumer purchasing power for farm products by special programs similar to the food stamp plan.

2. A grain-storage program designed to stabilize the available supplies of feed and thus indirectly to contribute toward stability in the prices of livestock and livestock products.

3. A conversion program designed to reduce the supply of resources, particularly labor, in regions subject to chronically low incomes. Emphasis would be placed upon migration of labor and the recombination of the resources remaining in the area in order to make the most efficient use of the resources.

4. A depression program of price and income payments as a means of eliminating the most serious aspects of price and income instability. This program, while secondary to a full-fledged countercyclical program, would guarantee farmers that, in the aggregate, farm income would be maintained at a specified level.

The above program does not involve any income transfers to agriculture during periods of full employment, except as such transfers are a part of a program designed to correct a long-run oversupply of resources in particular areas. The program is predicated on the assumption that positive and effective steps will be taken to provide an outlet, through maintaining high levels of employment, for the excess supply of farm labor. Failing this, farm incomes will fall far below incomes in

other sectors of the economy and it will be politically impossible to avoid income transfers to agriculture as a long-run proposition.

The program most relevant to the present issue is that of price and income payments. In the acceptance or rejection of such payments by farm groups lies the possibility of resolving the inconsistencies in trade and farm programs. The fundamental assumption of this program is that market prices would be permitted to seek their own levels. Any income or price commitment would be made as a direct payment to farmers.

Interestingly enough, the legislative framework now exists for this program in the Price Adjustment Act of 1938 which provided for the so-called parity payments, and in section 32 of the Agricultural Adjustment Act of 1933.¹¹ In 1935-36 an actual price-payment program, designed to permit cotton to move into consumption rather than into storage, was in operation.¹²

Farm groups have looked upon a system of price or income payments with disfavor. Such disfavor seems to be generated by the feeling that all income should be earned and the erroneous assumption that any income received through the market place is earned. Without touching upon the ethical evaluation of incomes received in a purely competitive market, it is obvious that income received from sale of products at prices bolstered by government action are no more earned than if the government made a direct income transfer.

The more important reason for disfavor is that larger income transfers can be achieved by indirect than by direct means. In other words, smaller appropriations are required for a program based on commodity loans, production control, export subsidies, and surplus disposal than for

¹¹ The *Price Adjustment Act of 1938* provided for making up the difference between the average farm price and 75 per cent of parity for wheat, cotton, corn, rice, and tobacco. Certain restrictions, however, were placed upon the allocation of the funds. Section 32 explicitly provides for direct payments on the domestically consumed portion of a product plus payments on exports as well as an omnibus clause permitting funds to be used to encourage greater demands and new outlets. It was this latter clause that was used to justify the cotton-price payments program.

¹² A loan rate of twelve cents was granted on the 1934 crop of cotton. This increased the American price relative to the world price, and American cotton exports fell off drastically. In 1935 it was decided that a better procedure would be to permit the market price to seek its own level and pay producers the difference between twelve cents a pound and the average level of prices prevailing at ten designated spot-cotton markets on the day the producer made his sale. The program involved payments to 1,200,000 producers for 7,500,000 bales of cotton. Total administrative expenses were about \$3,000,000. Exports from the 1935 crop were considerably larger than from the 1934 crop, as one would expect.

a program requiring all income transfers to come directly from the Treasury.¹⁸

¹⁸ In a Senate hearing, President O'Neal of the American Farm Bureau Federation supported the indirect method. "Under the Farm Bureau plan, the Government aid to farm income would be largely indirect and thereby more comparable to that afforded other groups. The Government Aid would be reflected in higher prices in the market place for farm products. This would be more acceptable to farmers, consumers, and taxpayers" (*Hearings before the Senate Committee on Agriculture and Forestry on S. 935* [77th Congress, 1st session], p. 27). Later O'Neal said that the particular proposal made by the Farm Bureau—an increase in the loan rate to 85 per cent of parity, and the payment of subsidies to give farm price returns equal to 100 per cent of parity—"would be most acceptable to all groups of farmers. . . . in the protection of their prices and income with the minimum drain upon the Treasury" (p. 32). In exhibits to his testimony, O'Neal showed that if farmers were to receive an income equal to parity price on their production by paying subsidies in addition to market price, the cost to the government would be \$1,143,900,000. If loans were set at 85 per cent of parity, the governmental cost would be only \$512,000,000 (p. 34).

23. A Proposed World Trade Board for Expanding International Trade*

By F. F. ELLIOTT

Bureau of Agricultural Economics

There has been a great deal of discussion in recent months of the need for wider international economic collaboration and a greatly expanded world trade. How this possibly might be brought about is the central focus of this discussion.

When the war ends the economies of all the important industrial and trading nations of the world will be in varying degrees of dislocation and maladjustment. The belligerent nations particularly, will find their resources preponderantly geared to war purposes and generally under strict allocation and control. Production will be greatly overextended in some lines, pushed to uneconomic limits in others, and overreduced in still others as a result of the intercommodity distortions and geographic shifts in demand arising out of the war. Stocks of a number of strategic raw materials also will be in excess supply; prices, wages, and rents will be under control; and both producer and consumer subsidies as well as rationing of many commodities will be in effect in most countries.

International trade likewise will be in a strait-jacket with import quotas, export embargoes, and licensed or state trading generally prevailing. Price relationships between nations will be greatly distorted, foreign exchange rates unstable, and inflation, in some countries, proceeding unchecked. All the important belligerents, furthermore, will have increased their internal debt; some both their internal and foreign debt; and others will have shifted in status either from a creditor to a debtor nation or vice versa. Moreover, most of the countries will still be saddled with the same restrictive laws, tariffs, milling restrictions, quotas, embargoes, exchange controls, and other restrictive devices that were in effect in the period just preceding the outbreak of the war. Some countries, however, will be in a position to start virtually with a clean slate as a result of new constitutions or revamped governmental structures.

In addition to this intricate array of controls and maladjustments, practically all nations will be faced with certain special problems. One immediate problem that will confront the United States, for example,

* *Journal of Farm Economics*, XXVII, 3 (August 1945), pp. 571-90. Reprinted by courtesy of the *Journal of Farm Economics* and the author.

is how to make available capital and credit to other member states of the United Nations under such conditions and terms that will contribute most effectively to their recovery and reconstruction and to an expansion in world production and trade. Closely related to this is the additional problem of controlling or guiding the spending in the United States of credit advanced or of large dollar balances already owned by certain nations, without unduly disturbing or upsetting our own internal price and credit structure. An even more important problem is the terms and conditions to be negotiated with other participating nations with respect to the disposition of the whole Lend-Lease question. Other nations will have problems equally intricate and important to them.

Presumably it will be the policy of most nations to relax and eventually remove altogether, those controls which have been induced directly by the war. Such internal wartime devices as supply and allocation control of materials, ceilings on prices, wages, and rents, consumer rationing, etc., undoubtedly will be removed just as rapidly as conditions will permit. There also likely will be a relaxation of shipping and navicert controls, and of war-induced quotas and embargoes, as well as of all of the types of controls exercised by the Joint or Combined Boards during the war.

It is not these types of controls, however, with which there is so much concern when considering the problem of expanding world trade. To be sure, they will influence the international movement and exchange of goods so long as they are in effect; but since, for the most part, they are based on emergency legislation their effects necessarily are likely to be temporary. The problem rather centers in those controls and trends of a more permanent character which had been established and more or less accepted as national policy in the several nations in the years preceding the outbreak of the present conflict.¹

During these years, and even before, the general trend throughout the world, however, had been toward increased management and control not only of the various internal economies, but also of international trade itself. In the United States, for example, this trend toward central management and control historically was first exercised by the business group through the organization of monopolies, holding companies, interlocking directorates, etc. This trend toward collective action and group control in business was followed later in labor and agriculture; in the former by the enactment of state and federal legislation relating to child

¹In this connection it should be remembered that the decade of the 1930's was, in general, a period of depression. Some nations undoubtedly looked upon some of the controls instituted during these years only as temporary expedients to meet the highly abnormal and unstable conditions that prevailed.

labor, minimum wages and hours, and other conditions of employment, as well as by the establishment of strong national labor organizations, craft unions, etc., and in the latter also through organizations and by the enactment of strong facilitating federal legislation. Much of the same type of development took place in other democratic nations. In the dictator nations the developments in these directions were even more pronounced. These internal controls in most all capitalistic countries, furthermore, were accompanied and supplemented by numerous external control devices, tariffs, bilateral trading, international cartels, etc.

Whether or not we have an expanding economy and a greatly accelerated world trade in the postwar era will depend, in major degree, upon what we and the rest of the world do about these things.

WHICH DIRECTION WILL WE GO?

Will the United States and the other nations of the world maintain these various internal controls and resume the extreme nationalistic and autarchic policies followed just preceding the outbreak of the war? Or will we move toward freer trade and wider international economic collaboration? If the move is toward wider economic collaboration will the governments of the respective nations still exercise considerable control and management or will they move in the direction of the type of policies and trading that generally prevailed in the period a quarter of a century or more just preceding World War I?

Much of the discussion of this subject in recent months has been based on the expressed or implied assumption that the world will move in the direction of freer trade and wider international economic collaboration. The evidence that such a development will come about in the immediate postwar years, however, is by no means conclusive. There are some grounds for believing, to be sure, that the world will not go back to the extreme autarchic policies of the period immediately preceding the outbreak of the present war. The declarations and commitments in the Atlantic Charter, and the Master Lend-Lease Agreement, and, more recently, the declarations and proposals of the United Nations made at Hot Springs, Bretton Woods, Dumbarton Oaks and San Francisco all point in this direction.

On the other hand, there have been other developments that point to a continuation of certain of these controls at least in the immediate post-war years. The United States, for example, has made definite commitments to maintain agricultural prices for a number of products for two years after the end of hostilities. Britain also is committed to a definite

program covering production and prices of certain products which carries through 1948, and, in addition, has concluded certain long-term contracts with overseas suppliers. Canada, likewise, has recently established a board with fairly general authority to support agricultural prices in the post-war transition period. Other countries either have state trading as a continuing cornerstone of their national economies or have resorted, or will resort, to it in handling certain commodities.

It may be, of course, that commitments such as these will be withdrawn as soon as the difficult adjustment from war to peace has been made. But regardless of how desirable some may think this to be, there is not much evidence, at least in the United States, that this is likely to happen anytime soon. We, of course, undoubtedly will have to modify and reduce downward some of our extreme agricultural loan and support price rates, or possibly even to modify our method of approach to the agricultural problem, but we are not likely to reverse over night an agricultural policy that has been evolving for the past quarter of a century.

On the industrial and labor fronts the situation appears to be pretty much the same. There certainly is no assurance that we will reverse the trend toward centralization and collective action and return to the type of policies that generally characterized the economy prior to World War I. The trend, in fact, in all of the important industrial nations of the world during the past several decades has been in the opposite direction. That there will be a rapid reversal of this trend in the immediate period ahead seems remote indeed.

If the nations of the world then are not likely to go back either to the extreme autarchic policies of the immediate prewar period or to the relatively free-trade policies of the last century, what policy will they pursue? Obviously it will be a policy that falls somewhere in between these two extremes.

It would appear reasonable to assume, in the light of developments at San Francisco, that the world is definitely headed toward much closer political and economic collaboration among nations than prevailed before the war. This does not mean, however, that the individual nations necessarily will relinquish internal controls or forego making their own decisions on internal policy. It means rather that individual nations will tend increasingly to develop their internal policies and programs in a general framework of international collaboration and in line with mutually agreed-upon international policies and programs.

How, then, can an expansion in world trade be brought about under a system of internal controls of the several national economies? Under what conditions will the several nations be willing to modify and adjust

their tariffs, their quotas and other external and internal controls so that an expansion in production and trade can be achieved?

SOME APPROACHES THAT HAVE BEEN TRIED OR SUGGESTED

Various proposals have been made for expanding international trade. Among the many approaches that have been suggested probably the one that has been most widely discussed and publicized, particularly in the United States and Britain, is the proposal which so long has been accepted and advocated by most economists. This proposal, as is well known, calls for a general lowering or abolishing of tariffs, quotas, embargoes, and other restrictions to trade and a general movement toward free exchange of goods between countries. In theory, under this system, each country would produce those products in which it had either an absolute or comparative advantage and would exchange them for the products most efficiently produced in other countries. Presumably, such an exchange would bring about an increase in trade advantageous to all countries and at the same time promote the most efficient utilization of world resources. Although unilateral action is sometimes implied, the implementation of this approach presumably would be accomplished through international conferences or multilateral conventions in which the several nations would sign a blanket agreement to decrease or abolish tariffs, eliminate trade restrictions and discriminatory trade practices and generally move toward a freer exchange of goods.

A second approach and one that has been used by the United States in recent years, is the reciprocal trade agreement approach. This, unlike the approach just discussed, involved the negotiation of agreements country by country. These agreements in addition to the general provisions with respect to fair trade practices, discriminatory treatment, etc., focus directly upon individual commodities and products and indicate specifically the changes in tariffs, quotas, etc., agreed to with respect to each. Although these agreements are negotiated bilaterally, their benefits are extended multilaterally to all like-minded nations through the most-favored-nation clause.

A third approach is the commodity agreement approach. These agreements are on an individual commodity basis but usually are negotiated multilaterally. They have been traditionally used by groups of producer nations for commodities when the supplies available for export have tended to outrun the quantities the importing nations were willing to import. Through their use the export nations have sought to stabilize or increase the price of such commodities either through control of exports, which were sometimes accompanied by efforts to control production, or

through some buffer-stock arrangement of storing and disposing of the surplus. In more recent years an attempt has been made to broaden this type of agreement to include importing as well as exporting nations. The current international wheat agreement to which we are a party typifies the new approach.²

Other approaches that nations have used to expand their trade are straight bilateral trading, or the establishment of custom unions, or negotiation of empire preferential agreements. Such benefits that derive from these types of arrangements accrue only to the participating nations since they all exclude the most-favored-nation clause.

An additional approach is outright state trading. This approach, of course, is used exclusively by Russia today because of the nature of her state controlled economy. It was used extensively by the Axis Nations during the 1930's and in varying degree by most all nations in time of war. State trading in specific commodities also has been resorted to by many nations on numerous occasions to implement two-price systems by subsidization and dumping and to carry on outright barter schemes.

Of these approaches the first three appear to offer the most promise for bringing about a sustained expansion in trade by the capitalistic countries. The situation with respect to Russia, of course, is different. By the very nature of her economy she necessarily will continue state trading.

Obviously, outright bilateral agreements without the most-favored-nation clause to extend benefits to other nations are not likely to encourage an expansion in the trade of the nations not parties to the agreements. To the extent that such trading results in expanding production in the two countries of commodities that could be produced more advantageously elsewhere, it actually may retard rather than encourage the total trade of the world. Empire preferential and custom union schemes are an extension of the same idea and hence fall into the same category. They obviously may promote trade temporarily among the nations that are parties to the agreement. However, their effect upon the trade of the rest of the world will be negative so long as they fail to extend the lowered tariffs and other concessions multilaterally.

Conceivably under a system of state trading participated in by all nations it theoretically would be possible to bring about an expansion in world trade and do it just as rapidly (or possibly even more so) than under a system of private trading. Or the same thing might be accom-

² Proposals for an international organization to deal with commodity agreements have been under extended discussion between the United States and the United Kingdom and were recognized in the Hot Springs Resolutions and the proposals for Food and Agriculture Organization.

plished by a combination of state and private trading. However, there now is little evidence to indicate that the capitalistic countries have any intention of establishing a state monopoly of foreign trade in all commodities; although such trading in certain commodities in some countries may be carried on. Should the Bretton Woods proposals be turned down or should the international security organization not work out as well as now anticipated, it is possible that we may see a great deal of state trading in some countries. Unless the state trading that is done by the capitalistic countries is conducted in a framework of agreed international collaboration, however, it could easily thwart rather than encourage an expansion in world trade.

If then neither straight bilateralism nor state trading are the direction we want to go, what about the other approaches? What possibilities do they hold for an expansion in world trade?

Multilateral conventions and bilateral reciprocal trade agreements with the most-favored-nation clause, of the character discussed in the first two approaches, obviously, are in the right direction. They both recognize the need for a lowering of tariffs and a general relaxing of restrictions throughout the world if an expansion in trade is to be achieved. They both also recognize the cooperative nature of the undertaking, that is, that their provisions must have multilateral acceptance, and be non-discriminatory in nature.

While there is not much probability that the nations of the world are going suddenly to relax all their tariffs and other controls and go over entirely to a free trade basis, there are many indications that they want to move toward freer trade than prevailed in the inter-war period. However, the lengths to which they possibly will go will depend in considerable degree upon the methods of negotiation that are used. A "One Big International Conference" approach to get all nations to agree to a blanket reduction in all tariffs, and to a discontinuance of all quotas, subsidies and other restrictions simply is not feasible or practicable. All tariffs and other controls obviously are not equally restrictive. Furthermore, few, if any, countries are likely to abolish all tariffs completely. Many will want to retain, and rightfully so, many tariffs for revenue purposes only. Others, particularly those countries which have felt the influence of the Industrial Revolution least and which are now particularly desirous of promoting wide industrial expansion within their own borders, may want to increase some of their tariffs and institute temporarily other controls in order to equalize the competitive advantage now enjoyed by the more industrially advanced nations. Recognizing these elements of the problem, each nation consequently will want to know in specific terms what it is getting in re-

turn for what it gives up. In other words, each nation will be disposed to negotiate on a quid pro quo basis. This clearly is not likely to be accomplished, as it were in one sitting, at a big international conference. It will require negotiation of many specific items and necessarily will extend over a considerable period of time.

This points to a method of negotiation similar to that used in the reciprocal trade agreements, except that it would be on a multilateral rather than a bilateral basis. It should be possible to move in this direction and still keep the negotiations within manageable proportions. The trade liberalizing effects of an agreement negotiated in this way could be extended to countries not participating in the negotiations by the inclusion of the most-favored-nation clause.

Expansion in either total production or trade obviously may involve the redirection and reorientation of production in the different countries as well as either the contraction or expansion of individual commodities. It also will involve measures for handling products or stocks that are in excess supply. The international commodity agreement can be a useful device for these purposes. But such agreements need to be geared into and made an integral part of an over-all multilateral arrangement involving agreement upon imports, exports, (including quotas, if any) tariffs and exchange rates, shipping arrangements, etc. with respect to all goods and services if they are to contribute most effectively to an expansion in total production and trade.

Commodity agreements negotiated in isolation (i.e., without due regard to other related problems of the economy) have tended in the past to restrict rather than expand production and trade. These agreements were negotiated almost exclusively by exporting nations for specific commodities with the primary objective of reducing production and increasing price or of stabilizing and disposing of excess supplies. As such they were restrictive in character and largely ignored the interests of importing nations. By establishing production and export quotas, largely on historical bases, they furthermore tended to freeze existing patterns of production and to retard, if not prevent altogether, desirable shifts in output from high cost to low cost areas.

In the recent past, as previously indicated, an attempt has been made to free such agreements of some of these bad features, particularly to bring consumer as well as producer nations into the negotiations. Our present wheat agreement is a case in point. But if this agreement is to contribute materially to a total expansion in world trade in wheat, it must be accompanied by a redirection of resources away from wheat to lines of production that are more economic in the principal importing

countries and in some of the exporting countries as well. Otherwise it simply may result in the perpetuation of a slightly modified status quo.

Before either importing or exporting nations can be induced to make such shifts, however, they must have assurance that there are profitable outlets for the products to which they would turn. They, likewise, cannot overlook the effect such shifts would have upon their balance of payments and upon their general exchange position. Such questions can be resolved only when agreements are negotiated in a framework that takes all of these related problems into account, hence, the importance of gearing such agreements into wider multilateral and multi-commodity arrangements. Handled in this way, commodity agreements can make a real contribution to a total expansion of production and trade.

AN ALTERNATIVE APPROACH

If the foregoing appraisal of the several proposals for expanding trade is correct in its major essentials, what suggestions does it offer for developing a more effective approach to the problem? The discussion which follows is directed to this question. It attempts to show how elements of several of the approaches which have been discussed in the preceding pages can be integrated to form a unified and consistent program for the expansion of international trade.

BASIC ASSUMPTIONS. Underlying this plan of action are certain basic assumptions. The first is that an effective international political organization to maintain the peace and prevent future aggression will be established, along the lines laid down at the Dumbarton Oaks Conference and at San Francisco; and further that the several nations, relieved of fear of aggression, will be willing to abandon nationalistic policies of self-sufficiency and to cooperate on economic matters.

Along with this assumption of wider political and economic collaboration is a second assumption that the several nations of the world will be reluctant to relax controls until they have reasonable assurance of the effectiveness of the political organization for maintaining the peace. Hence, the lowering of tariffs and other restrictions to trade, both during the transition period and later, at best will be a slow process; and, further, that progress will be more rapid through a quid pro quo bargaining process than by an over-all blanket approach.

Related to this is a third assumption that since every nation must guard continuously its exchange position (ultimately balancing total imports of goods and services with its exports) trade arrangements involving changes in tariffs, quotas, etc. need to be negotiated in a framework in which all of the related problems of the economy are taken into account.

Since agricultural and industrial raw materials make up such a large proportion of the international trade of the world, there is the further assumption that a program which will provide for the orderly handling and disposal of such materials temporarily in excess supply and which will go further and seek to prevent such supplies from accumulating in the first place (through shifts, in production from high-cost to low-cost areas and through promoting the exchange of products most efficiently produced in one country with those produced in other countries) not only will go a long way toward stabilizing the price and increasing the trade and consumption of such materials but will promote, at the same time, total trade and employment throughout the world.

With these assumptions in mind, let us now consider how wider economic collaboration might be achieved among the several nations of the world to bring about an expanded world trade.

SECTION 7 OF THE MASTER LEND-LEASE AGREEMENT THE STARTING POINT. The first hurdle to overcome in achieving an expanded world trade is to get the nations of the world to agree to work together to this end. The basis of such an agreement is to be found in Section 7 of the Master Lend-Lease Agreement. Section 7 read as follows:

In the final determination of the benefits to be provided to the United States of America by the Government of in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the Government of, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, the Atlantic Charter.

At an early convenient date, conversations shall be begun between the two Governments with a view of determining, in the light of governing economic conditions, the best means of attaining the above stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

With the United States and fifteen other leading nations of the world already parties to this agreement, it furnishes at once an acceptable basis for international economic collaboration. The first step, hence, is to get all the United Nations to agree to accept its provisions as the basis of their international economic policy.

INTERNATIONAL TRADE CONFERENCE AND WORLD TRADE BOARD

Probably the most feasible way to get all of the United Nations to adhere to this agreement would be through an international trade conference, which could be called, after suitable preparation,³ by the United States or some other interested nation. Such a conference would attempt to accomplish three things:

1. To get *all* the United Nations to accept as a cardinal principle of their national policy the obligation to adopt and put into effect the measures needed (a) to expand total production, employment, and the exchange and consumption of goods, (b) to eliminate all forms of discriminatory treatment in international commerce, (c) to reduce tariffs and other barriers to trade, and (d) to take such other steps (including the registering and regulation of cartels) as may be needed to the general attainment of the economic objective set forth in the Atlantic Charter and in Section 7 of the Master Lend-Lease Agreement.

2. To explore ways and means, and, if possible, reach agreement upon general methods and procedures for managing and disposing of excessive stocks of agricultural and industrial raw materials that may have accrued and be in existence at the end of the war, or that may thereafter accrue, so as to insure their orderly movement into trade and consumption and to prevent them from becoming a burden to international commerce.

3. To set up a permanent International Trade Council or World Trade Board to implement these purposes.

No attempt would be made at this conference to negotiate specific agreements, to adjust any specific tariff rates or import quotas or even to agree upon blanket adjustments in these and related items. Attention rather would be centered upon reaching agreement upon a broad general basis for economic collaboration and action in the field of international trade.

ORGANIZATION AND MEMBERSHIP OF THE WORLD TRADE BOARD. The accompanying functional chart shows the general organization of the Board and how it would tie into the Economic and Social Council and

³ A great deal of effort has been devoted to the problems of trade and commercial policy after the war. Numerous committees have been set up in the United States (both within and without Government) as well as in some of the other nations to consider and make recommendations on policy with respect to many of the more important issues involved. These materials and recommendations would furnish an excellent point of departure for the discussions at such a conference as is proposed.

with the General Assembly of the United Nations Organization proposed at San Francisco (see chart).

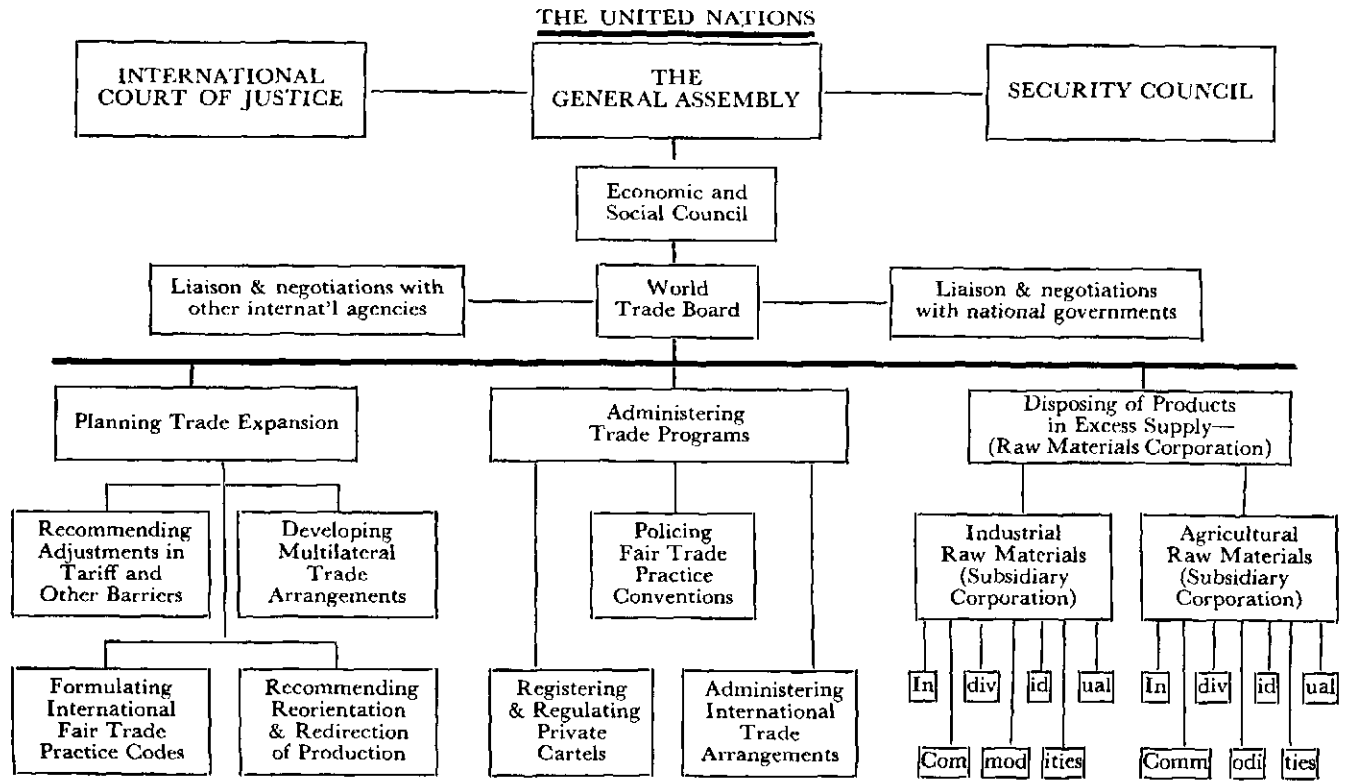
The members of the Board would consist of a selected number of representatives of the participating nations in the United Nations Organization. Possibly the most effective way to select the membership would be on the basis of the relative importance of the different nations in international trade, with a rotating membership provision similar to that proposed for the Supreme Council of the United Nations Organization.

The principal executive officer of the Board would be a Director General with appropriate staff and facilities for efficient operation. Under the Director General would be Deputy-Director Generals in direct charge of the different functions performed by the Board.

FUNCTIONS OF THE BOARD. The World Trade Board would have three primary functions (1) to explore continuously, ways and means for expanding international trade, (2) to register and regulate private international cartels and administer inter-governmental conventions and trade programs, and (3) to manage and dispose of agricultural and industrial raw materials in excess supply. In performing these three functions the Board, of course, would have to maintain very close relations with the governments of the several nations and with other international bodies such as F.A.O., International Investment Bank, Stabilization Fund, and other agencies still to be set up that have direct interest or pertinence to its operations.

TRADE EXPANSION. One of the primary functions of the Board would be to search continuously for possibilities of expanding world production and trade—whether by lowering of tariffs and other barriers to trade—by redirection and reorientation of production in the different countries—or by increasing the exchange of products most efficiently produced in one country with those produced in other countries. It would analyze continuously the pattern of trade and the exchange position of the different countries; prepare and keep current international balance sheets; and consider continuously ways and means of bringing the imports and exports of both goods and services of the different countries into balance. It would point the way toward implementing these trade possibilities by formulating international fair trade practice codes or conventions; by developing and drafting exploratory multilateral trade arrangements among groups of the member nations for ratification by their respective governments; and by suggesting or developing other lines of action and procedures that would expand and coordinate effectively the production, trade and consumption programs of the cooperating nations.

Trade agreements would cover proposed changes in tariff rates,



FUNCTIONAL CHART OF PROPOSED WORLD TRADE BOARD—(SHOWING TIE IN WITH ECONOMIC AND SOCIAL COUNCIL AND GENERAL ASSEMBLY OF UNITED NATIONS ORGANIZATION)

import and export quotas, milling restrictions, sanitary conventions, subsidies, and other matters, including exchange controls and rates, affecting the exchange of goods between or among the different countries. They also should include the most-favored-nation clause, so that their benefits could be extended to other like-minded nations not parties to a particular agreement.

After such exploratory trade agreements had been drafted they would be referred to the Director General and through him to the Board itself. Whereupon the Board, under the authority of the Economic and Social Council and the General Assembly, would if it saw fit invite the interested nations to designate official representatives to a trade conference for negotiating an agreement. Obviously, such arrangements might include several nations or only a few. They might be negotiated between nations in a broad general region such as the Western Hemisphere or Western Europe or they might be negotiated between nations in different regions such as between the important raw material and manufacturing nations. A particular agreement might cover a great many items or only a few. Of course, the greater the number of items covered and the greater the number of nations included, the greater would be the effect of the agreement.

REGULATION OF CARTELS AND ADMINISTRATION OF TRADE PROGRAMS. A second function of the Board would be to register and regulate all private international cartels;⁴ to police all international fair trade codes or conventions; and to administer all inter-governmental trade arrangements and commodity agreements. In order to make its actions effective, the Board should be clothed with authority by the participating nations to impose appropriate penalties against the goods either of private cartels or of governments moving in international commerce for non-compliance with agreed fair trade practices or with provisions of agreed inter-governmental arrangements.

Obviously, if the Board is to regulate private international cartels effectively, there, first of all, must be a definite understanding and agreement among the nations as to the nature and definition of a cartel. There next must be similar understanding and agreement upon what shall constitute fair trade practices—which cartel practices are to be permitted and which are to be outlawed. There finally must be agreement upon lines of action to be taken, including the type of penalties to

⁴A great deal of the discussion in recent months has been strongly in favor of the complete abolition of cartels. Although such action undoubtedly would be desirable in the general interest, it is assumed here cartels will continue and that control will come through some form of regulation.

be imposed, in case of non-compliance with agreed-upon trade practices. Presumably such penalties would be imposed by the participating governments. In extreme cases, all the participating governments might refuse entrance to their countries of the products of non-complying cartels. The several governments should also agree to regulate the domestic operations of any corporations operating as adjuncts of an international cartel. Coordinate machinery thus would have to be set up in the different countries to make such regulation effective.

Operating under such directives, the Board would require all cartels to register with it; to keep it continuously informed on their operations; to report immediately any change in procedures; and to conform to such rules and requirements as the Board might need to impose in discharging its responsibilities. Failure to comply with these requests or to conform to the fair trade practices agreed upon would cause the Board to call upon the individual governments to invoke the penalties indicated above.

Policing of international conventions relating to governmental trade practices and administering inter-governmental trade arrangements presumably would be much less difficult for the Board. The problem would be largely one of seeing that the different governments conformed to the agreement and advising with the Raw Materials Corporation as to developing surpluses and the need for, and timing of, its operations.

MANAGING AND DISPOSING OF PRODUCTS IN EXCESS SUPPLY. A third function of the Board would be the management and disposal of agricultural and industrial raw materials in excess supply. In order to discharge this function in an effective manner the Board would be authorized to set up an International Raw Materials Corporation with authority to enter into agreements or contractual relations with nations, corporations, cooperatives, or private individuals to buy, warehouse, sell or otherwise manage and dispose of such materials that may be in excess supply when the war ends, or that may subsequently accrue, so as to insure their orderly movement into trade and consumption and to prevent them from becoming a burden to international commerce.

OPERATION OF THE RAW MATERIALS CORPORATION. Perhaps this phase of the Board's activities needs to be explained in somewhat greater detail. The Corporation, of course, would have a board of directors and an executive officer or manager. Inasmuch as it would handle both agricultural and industrial raw materials, it would have two subsidiary corporations, one to handle agricultural and the other industrial raw materials with separate programs developed for the individual commodities.

The central function of the Corporation would be to manage and dispose of products in excess supply. It would not attempt to stabilize or maintain prices at any fixed level, *except on a stop-loss basis*. It, hence,

would not come into the market to make purchases and sales until an emergency situation developed. It would operate then to prevent a runaway price situation—to stop a descending price spiral before it reached a disastrously low level. Thus the effort would be to avoid all price stabilization operations except as a final resort to ameliorate hardship caused by extreme depression. The plan of operation for agricultural raw materials would be somewhat as follows:

At the beginning of each year or crop season, the World Trade Board, working through the manager and director of the Corporation and its subsidiaries would determine:

1. The general range within which prices of the different commodities likely would fluctuate in the event that the Corporation stayed out of the market;

2. Whether action by the Corporation was needed with respect to any commodity, and if so, the terms and conditions under which the Corporation would be willing to accept the commodity as well as the amount of the commodity which the Corporation would accept;

3. Ways and means of disposing of excess supplies which would not move in the commercial market, taking into account the stocks that would need to be carried as insurance or as buffer supplies against changes in yields or prospective increases in demand. This would call for consideration of sales of excess supplies at less than the commercial price for special purposes, such as for improving nutrition, relief feeding, or for developing a new market for the commodity.

This procedure, it will be noted, permits considerable flexibility in operation. By giving free rein to market forces, except under conditions of extreme depression, scope would be left for private trade to operate. The Corporation would not buy or sell until an emergency situation began to develop. When stocks began to pile up the Corporation might take action along one of the following lines: (1) A part or all of the excess supplies might be stored for subsequent disposition, (2) the excess supplies might be disposed of at less than market prices by agreement methods, (3) the excess supplies, in part or whole, might be made available to the low income groups of the various nations for use in improving nutrition or levels of living, or (4) the excess supplies might be used for relief feeding.

Concurrently with these disposal operations, which would seek to clear the market of excess stocks as rapidly and on as favorable terms as conditions would permit, other steps would be taken to encourage the different nations to redirect and reorient production and to take such other action as appeared necessary to forestall the reoccurrence of a similar situation. Here the commodity agreement would play its role.

But if such agreements are to be fully effective in bringing about the adjustment in resources that would be required they would need to be geared in with and made a definite part of a wider multilateral and multi-commodity arrangement covering all important goods and services.

The stabilization and disposal operations, of the Corporation, obviously, would involve important problems in financing. Probably the most feasible way to finance such operations would be for the several nations to underwrite a revolving fund—in somewhat the same manner as for the proposed International Monetary Fund, or for the International Bank for Reconstruction and Development agreed to at Bretton Woods. Losses could be met by some agreed-upon formula worked out by the cooperating nations. They might be met, for example, by contributions from the various nations in the same proportion as their share of the fund, or by contributions according to the amount of the losses attributed to the commodities of the particular countries, or by some combination of these or other criteria.

RELATION OF THE WORLD TRADE BOARD TO OTHER INTERNATIONAL AGENCIES. The chart previously referred to indicates how the Board would be an integral part of the over-all United Nations Organization. It also indicates that the Board would have liaison functions to perform. These liaison functions would be particularly important in bringing about an expansion in world trade and in managing the operations of the International Raw Materials Corporation and its subsidiaries.

The Board, obviously, should work very closely with the International Bank for Reconstruction and Development and with F.A.O. in striving to achieve a redirection and reorientation of production in the different countries. It also would need to work very closely with the Stabilization Fund in appraising the effect of changes in trade upon the exchange position of the different countries and in devising ways and means for bringing about a better world balance of supplies available for import and export. It also would need to work very closely with F.A.O. in developing programs for distributing products in excess supply so as to gear them into and make them contribute most to the improvement of nutrition and better living standards in the different countries.

In addition, the Board, of course, would have to work very closely with the governments of the several nations. Since it would be the official international agency for handling trade problems, it necessarily would do a great deal of communicating and negotiating with the governments of the participating nations, particularly in calling trade conferences, in negotiating international fair trade practice codes, multilateral trade arrangements, and commodity agreements, as well as in controlling private

international cartels, policing and administering inter-governmental conventions and trade arrangements.

RECAPITULATION AND CONCLUSIONS

Expansion of international trade requires cooperative action among the nations. When relieved of fear of aggression, nations will desire to cooperate to this end but the lowering of tariffs and the removal of other restrictions to trade will be a slow process and can best be achieved through a quid pro quo bargaining process rather than by an over-all blanket approach. Since every nation must guard continuously its exchange position (ultimately balancing total imports of goods and services with its exports) trade arrangements involving changes in tariffs, quotas, and the like, need to be negotiated in a framework in which all the related problems of the economy are taken into account. This means that they should be on a multilateral and multi-commodity basis.

The proposed World Trade Board as the implementing agency for achieving an expanding trade would be a cooperative international body. It would come into being through the joint efforts of the United Nations and would be the official international agency for handling trade problems. The Board would have three primary functions: (1) to explore ways and means of expanding international trade, (2) to register and regulate international private cartels and to administer inter-governmental conventions and trade programs, and (3) to manage and dispose of agricultural and industrial raw materials in excess supply.

At the outset the Board would not need to exercise all of these functions simultaneously or with all countries. It could confine its efforts in the beginning, for example, to developing suggestions for expanding trade; or it could center its attention on managing and disposing of commodities in excess supply. This latter function undoubtedly would have high priority in case the Board were ready to begin operations at the time or shortly after the fighting stops. In time, however, more or less continuous action in all three fields would be necessary for the Board to become an effective instrument in bringing about a sustained expansion in world trade.

Obviously, many difficult problems would arise in setting up such a Board, to say nothing of the difficulties it would encounter in actual operation. No pretense is made that all such problems and difficulties have been anticipated *nor* that quick and ready answers to them can be found. The purpose rather has been to sketch in broad outline a proposed method or approach to expanding international trade in the hope that it may contribute something toward an ultimate solution of the problem.

24. World Agricultural Policies and the Expansion of Trade^{*1}

By ROBERT B. SCHWENGER

Office of Foreign Agricultural Relations, United States Department of Agriculture

The world market, on the existence of which so much of our thought and policy regarding international trade has been premised, virtually disintegrated during the thirties under the impact of government intervention. The various national markets were separated from one another or diverted into uneconomic combinations to such a degree that international trade fell far behind its normal relation to production, and world production patterns became greatly distorted.

Interventionist policies had a particularly great effect on agricultural production and trade. They resulted in artificial scarcities in the importing countries and were the principal cause of unmanageable surpluses in the exporting countries. The present war, with its enormous temporary changes in demand and its trade interruptions and diversions, has served to accentuate the distortions in the prewar production pattern.

Few governments now appear to contemplate withdrawing after the war from their pre-war policies of agricultural intervention. Many are considering strengthening those policies in order to maintain part of their wartime increases in high-cost production, impelled by their obligations to their farmers and, in importing countries, by a war-strengthened determination to maintain a high degree of agricultural self-sufficiency.

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¹ The views presented in this paper are in no way official. They are based primarily on my experience in the Office of Foreign Agricultural Relations under the stimulating guidance of Mr. Leslie A. Wheeler. I am indebted also to numerous colleagues, particularly in the Departments of Agriculture and State, who have participated in certain work and discussion of which the effort to prepare this analysis has been in a sense a by-product. I would like especially to mention Dr. Oscar Zaglits, who has thought the whole thing through with me and contributed generously to its formation, Leroy D. Stinebower, who has patiently cooperated in a search for the "hair" of judgment that "perhaps divides the False and True" of our opinions, and Drs. Eric Englund and Frederick V. Waugh, who have made many helpful suggestions.

Some important governments have already taken—or publicly announced their intention to take—steps in that direction.

If we are to have a peaceful and prosperous world in the future, it is recognized as imperative that international action be taken to the end that trade—both agricultural and non-agricultural—may be expanded and that production-distribution patterns may be made to conform more nearly with the principle of comparative international advantage. The principal proposals for bringing this about fall into two groups: Those contemplating the withdrawal or substantial relaxation of interventionist policies impeding healthy trade expansion; and those contemplating the coordination of interventionist policies and their use to accomplish trade expansion directly.

At first glance the two approaches appear mutually incompatible, and much current discussion is based on the assumption that such is the case. However, further analysis shows that each is applicable to a different set of conditions met with at different times or in connection with different commodities, and that the two approaches are, therefore, inherently complementary. This leads to the conclusion that, if the nations of the world are to attain a satisfactory post-war pattern of world production and distribution, they must employ both approaches, each in such a way as to facilitate the ultimate success of the other.

I

INTERVENTIONIST POLICIES DISTORTING WORLD TRADE

While the world market as theoretically conceived has probably never existed, there did exist prior to 1914 a very considerable area of the world throughout which it could be said that in a significant degree prices and trade in agricultural commodities were determined by competitive forces. Price differentials were due mainly to differences in transportation and marketing costs and some relatively modest import duties or occasional export subsidies; and, in most cases, there was not enough direct assistance by governments to their farm producers to sustain any large quantity of high-cost production. A transaction in international trade differed from one in domestic trade principally by virtue of involving a few more formalities and nominal charges. There were only a few exceptions, such as the fostering of beet sugar, particularly by Continental European governments, in competition with low-cost cane sugar. This quasi-world market for agricultural products had been growing larger for about a century because of the growth of the world's industrial population, particularly in the United Kingdom, the United States, and Germany. Under these circumstances—a competitive

price in a large world market and a substantial upward trend in demand—the pattern of production of the various commodities tended to conform to the principles of comparative advantage, the expansion in crop production taking place largely in the low-cost areas of such countries as Canada, Argentina, Australia, and the United States.

By 1939, there remained hardly any staple agricultural commodity for which it could be said that prices in all of the important markets were closely related, and in some cases there was no evident relation at all. An international trade transaction had become a complicated politico-economic process. Prices were about as numerous as countries, variations between them were great, and a variety of political permissions were required before one could try to make a profit by moving goods from places of abundance to places of relative dearth. There was often a risk that the costs and conditions of international movement would be altered while a commodity was enroute, and sometimes the only way to gain admission to a market was to make a shipment in the hope that exchange would be made available when it arrived at its destination. Quite a bit of trade was practically intergovernment barter, private traders sometimes acting as agents to carry out transactions for their governments. The parties to a foreign sale of, say, United States wheat, encountered the following more or less new types of elements in the situation by comparison with 1914:

1. Income supplements which, while guaranteeing a high price to domestic wheat producers in some importing countries, enabled them to sell as far below cost as necessary to undersell imports.²
2. Extraordinarily high import duties in some countries.³
3. Foreign import quotas, licensing requirements, milling regulations, and other regulations putting more or less fixed limits on the quantities that might be imported.⁴
4. Foreign government exchange controls under which the importer

² In 1938–39, the United Kingdom government paid farmers income supplements of about 65 cents a bushel on over 60 million bushels of wheat. Income supplements were also paid in some other countries. Importing countries with government trade monopolies (see note 6) in effect made similar "supplementary" payments.

³ In 1914, no importing country of significance had a duty exceeding about 40 cents a bushel. In 1938, the general duty exceeded 75 cents a bushel in Austria, Estonia, France, Germany, Lithuania, Poland, Rumania, Turkey, Yugoslavia, Egypt, and Mexico.

⁴ Countries with such restrictions included Denmark, France, Germany, Greece, Italy, the Netherlands, Brazil, Sweden, Ireland, Belgium, Finland, and Switzerland.

had to obtain dollar exchange from his central bank or treasury before he could go through with an important transaction.⁵

5. Preferential treatment under which importers found import duties lower or government licenses and foreign exchange easier to obtain if they purchased from certain specially favored exporting countries.⁶
6. Government trading monopolies in both importing and exporting countries.⁷
7. Export subsidies under which exporters from competing foreign countries could sell abroad below their domestic prices.⁸
8. The United States loan program which in effect set a domestic price in the United States that tended to be higher than the prices of other exporting countries.
9. The United States export subsidy under which, if the government approved an export transaction, a payment could be obtained sufficient to make the transaction possible in spite of the high United States domestic price.

Some idea of the effect of these measures in distorting the production-distribution pattern may be obtained from the fact that the six countries (the United Kingdom, Germany, the Netherlands, Belgium, Italy, and France) which had been the world's leading importers of wheat (including flour) in the five seasons, 1909-10/13-14, depended on imports for 38 per cent of their total requirements in those years but for only 27 per cent in the five seasons ended in 1938-39.⁹ This is the more striking when one considers that there had been no decrease in their total requirements (although their per capita requirements appeared to have fallen by more than 10 per cent). At the same time production in the United States increased 4 per cent and that in Argentina, Canada, and Australia taken together increased 49 per cent.

⁵ Wheat importing countries with such controls included Germany, Italy, Denmark, and Greece.

⁶ In some cases, the foreign government was operating directly to obtain as much of the country's wheat requirements as possible from the specially favored countries. United States wheat had to compete for what was left of the market.

⁷ Governments having what amounted to monopolies of foreign trade in wheat included those of Argentina, France, Germany, Italy, the Netherlands, Hungary, Rumania, Bulgaria, Yugoslavia, and the Soviet Union.

⁸ In the 1938-39 season, governments subsidizing wheat exports in one way or another included those of Canada, Argentina, Uruguay, and Australia.

⁹ The decline took place in the thirties. For the years 1924-28 the percentage was 42.

The events that led up to this disorganized market situation, not only for wheat but for most agricultural commodities in one way or another, are familiar to students of international trade in agricultural products.¹⁰ During the first World War, there was a very large temporary increase in demand, especially European demand, for most agricultural products and, at the same time, a disruption in supplies from the war areas and from the more distant parts of the world. This forced an expansion of the production of basic agricultural staples in accessible areas, particularly in North America. The Allied governments took direct measures to stimulate such production, although they also controlled consumption in order to keep the demand down somewhat.

At the beginning of the inter-war period, government intervention was substantially relaxed. When restored production in the war areas glutted the world market, however, and much of the wartime expansion in production persisted in spite of the resultant agricultural depression, there was a gradual reintroduction of government aids. Most of the important producing countries tried to support farmers' prices on a maintained or expanded domestic output, regardless of repercussions on the world situation. However necessary and desirable this may have been from a national point of view, it served to aggravate the basic world maladjustment rather than to remedy it. Moreover, one interventionist measure led to another; price supports had to be supplemented with import restrictions and export subsidies, import restrictions had to be supervised and adjusted, export subsidies had to be increased because they forced down foreign prices, and so on. As a consequence, progressively more interventionist techniques were introduced until there was a decided trend toward practically complete state control of trade.

In the importing countries the output of energy foods was stimulated, without much regard to production costs, until it considerably exceeded pre-1914 levels. The desire to protect domestic producers and restore production was strongly reinforced in these countries by a desire for agricultural self-sufficiency as preparation against the possibility of another war. Artificial fiber production also was stimulated. Only secondary attention was given to production of the protective foods in

¹⁰ For a recent statement of the development of agricultural policies affecting international trade, see L. A. Wheeler, "Trends in Foreign Agricultural Policies," *Foreign Agriculture*, September 1944. See also: *Senate Document No. 70*, 73rd Congress, 1st Session, "World Trade Barriers in Relation to American Agriculture." "Foreign Agricultural Policies—A Review and Appraisal," *Foreign Agriculture*, January and February 1938. "Price Control in Foreign Countries," *Foreign Agriculture*, February 1939.

which these countries have a greater comparative advantage than in basic products. The principal techniques at first employed were high tariffs and domestic subsidies. Eventually, however, most of the importing countries turned to more rigid techniques, such as mixing regulations, quotas, licensing, and exchange control. The right to import came to be parcelled out not only from year to year or quarter to quarter, but in many cases almost from day to day on the basis of approval of individual transactions or complicated categories of transactions. A number of governments made the importation of certain products a monopoly of the state.

Meanwhile, in the exporting countries, in spite of relatively low prices, there was relatively little reduction of production from inflated wartime levels. In some cases there was actually an increase. Governments began to adopt measures of price or income support. There has been competition among the exporting countries for the reduced foreign market, and governments aided their producers by various forms of subsidization and currency manipulation. To increase the effectiveness of these measures in the face of short-run fluctuations in prices obtainable abroad, some governments established what in effect were state monopolies of the export of one or more of their principal products. But for many of them, the most effective type of aid in the competition for markets was the negotiation of preferential treatment for their producers in the markets of the importing countries in return for economic or political favors. In some cases, the arrangements amounted to complicated types of barter in which the actual prices obtained and the subsidies involved were almost hopelessly confused.

During the present war, the disruption of supply has been more extensive than in the first World War and the increase in demand has been greater and has extended to more products. Intervention has been correspondingly more complete and far-reaching. Practically all important international trade in agricultural products is directed by governments, and intervention for the control of production has greatly modified the characteristics of enterprise. This intervention has had to be directed toward a further distortion of the maladjusted pre-war production pattern. Production has been expanded with little regard to cost in order to meet the tremendous wartime need.

II

METHODS OF EXPANDING TRADE

In view of this situation, there is fairly wide agreement on the importance of taking effective steps to bring world agricultural production

patterns more nearly in line with comparative advantage and to establish and maintain a high level of world consumption of agricultural products. There is less agreement as to what steps would achieve this objective.

As has been pointed out, the more important proposals can be divided into two groups: Those which contemplate the relaxation of interventionist measures in order to permit world market forces to operate effectively, and those which contemplate intergovernment arrangements for coordinating such measures in order that they may be directed toward the desired objective. The following discussion suggests certain conditions under which each of these approaches can contribute to the improvement of production and consumption patterns. The set of conditions favorable for the one approach is roughly opposite to that favorable for the other, and each characterizes a different portion of the world's economy. Hence, the problem is not to choose between the two, but to determine their spheres of effective operation, their interrelations, and the principles of their successful application.

A. RELAXATION OF INTERVENTIONIST POLICIES

Proposals for the relaxation of intervention are based on the arguments associated with the general equilibrium analysis. It is held that, if international trade is unshackled by eliminating duties and subsidies and abolishing quantitative trade controls (such as quotas, licensing systems, and exchange restrictions), the forces of the market will bring the pattern of world production and distribution very nearly in line with comparative production advantage to the benefit of consumers as a whole.

Proponents of this approach realize the impossibility of obtaining the complete elimination of tariffs and subsidies, at least in the near future, but they believe that substantial reductions can be brought about in the types of intervention that cannot be eliminated. They expect this to result in a very considerable improvement in the production-distribution pattern and they hold that, over any considerable period of time, this improvement will be greater and more balanced than can be achieved by international planning or programming. They contend that the forces of competition in the market place automatically take account of, and weigh against one another, all of the myriad factors relevant to a given production-distribution situation, whereas the human beings managing any type of international arrangement, no matter how well they might be selected, would be unable adequately to appraise all of the factors and would be susceptible to influence and bias.

This approach has been used with a good deal of success in the past. Essentially, it was the British approach to international trade in the latter half of the nineteenth century. It is the approach of the United States Reciprocal Trade Agreements Program. To advance it in the future it is proposed that there be concluded what would in effect be a multilateral (instead of a bilateral reciprocal) trade agreement between all of the countries of the world for the simultaneous relaxation of their trade intervention measures.

The approach has a basic appeal. To many, it seems at first to offer a line of action at the world level analogous to the economic union of our 13 States under the Constitution, although the great differences between the economy of the North American continent of 1789 and the world of 1944 reduces the value of that comparison. To economists, it appeals because of its consistency with the classical assumptions of the static equilibrium analysis on which most of us have been brought up. Certainly, the relative economic freedom offered by this approach is a desirable end in itself. It should be followed aggressively whenever and wherever it can be effective.

But the relaxation approach is not applicable at all times nor to all parts of the world economy. Few of its proponents look upon it as a panacea. Its limitations from an economic point of view are brought out by an examination of some of the assumptions of the *static* equilibrium analysis of economic competition on which it is based and of the implications of those assumptions when applied to a *dynamic* situation. In addition, the approach encounters important political difficulties. In the following discussion of some of those limitations and difficulties, it is not intended to argue against efforts to accomplish the relaxation of intervention where it is applicable.

1. PRODUCTION ADJUSTMENT. It is assumed that production of a commodity responds reasonably well to price change. Hence, in the area of a dynamic economy to which the relaxation approach is applied, quantities produced must vary in response to price change, rising when an increased price is maintained over a reasonable period of time (and falling when a decreased price maintains) so that supplies tend to come into a new equilibrium with demand. Under the relaxation approach, this response is one of the basic mechanisms relied upon to readjust the pattern of world production. It is recognized that a great difference exists between different industries as concerns the rate of this response. Moreover, the response to a rising price may be entirely different in degree from that to a falling price. Neither of these points vitiates the assumption as long as the response is sufficient to bring about substantial ad-

justment within a not too long period. But if the response tends to be slow and inadequate in an important sector of the economy the relaxation approach cannot be relied upon to accomplish the required adjustment.

In many parts of agriculture, while the response to rising prices is generally adequate, there is not enough response to a falling price. For some major crops, there may at times be almost no reduction in total output for several seasons, though prices remain low. Some important factors that contribute to this are of interest in the light of the conclusions of this paper. In most countries, small enterprises predominate in agriculture. Money costs are rigid, consisting in large part of taxes and debt service. Hired labor is relatively unimportant. The farmer and his family are often tied to production on a certain area suitable for a limited choice of products. Capital investment is usually attached to the land. When price falls, the majority of entrepreneurs cannot cut their losses or increase their profits by cutting production. After the present war, it is probable that the great technological improvements of recent years will aggravate this situation, tending to maintain or expand production even if some resources were to be shifted. Finally, the case is made worse by the fact that, for most of the crops in question (and also for most of the readily available alternative crops to which producers might turn), the demand is highly inelastic.

Under such circumstances, market forces increase production when demand is temporarily increased but do not adequately contract it again. Submarginal producers continue producing. Excessive price declines occur. Chronic surpluses develop.¹¹ Agricultural depression tends to be prolonged and to spread to other sectors of the economy. Governments are forced to intervene. The intervention may take many forms, including price supports, income supplements, import restrictions for products on an import basis, and export subsidies; but it is both economically undesirable and politically impracticable to leave farm producers to their plight.

2. PROSPERITY. The relaxation approach further assumes a high

¹¹ Surpluses may be considered to appear only after government intervention has directly or indirectly kept some supplies from being marketed, or they may be recognized as existing as soon as extremely low prices threaten to produce the sequence of events described in this paragraph. The difference may hinge partly on whether the low price is successful in moving the supply into consumption. Largely, however, it is a matter of definition. I tend to use the word, surplus, in the broader sense. An excellent exposition and analysis that uses it in the narrow sense is to be found in Leroy D. Stinebower, "Food as a Facet in International Trade," *Department of State Bulletin*, September 10, 1944.

level of world economic activity. This assumption is the counterpart in a dynamic world of the static equilibrium assumption that the total demand for all products is eternally sufficient to employ all useful resources.

In its application, the relaxation approach depends heavily on this assumption in the sense that it requires a certain stability, at a satisfactory level, in the total quantity of purchasing power available to consumers and reasonable opportunity for alternative employment of human and other resources shifted out of high-cost enterprise. In view of the important rigidities in the cost-price structure, if consumer purchasing power becomes substantially contracted and government does not intervene, there cannot be realized, at least over a considerable period of time, that plane of living which the developed resources of the world economy can support. Moreover, if there are violent fluctuations in the level of consumer purchasing power and price, the guide to entrepreneurs in making production adjustments is not a trustworthy one in that it does not reflect changes in requirements or tastes or capacities to produce so much as it does extraneous elements in the system of distribution. The existence of attractive alternative employment opportunities is essential if productive resources are to be withdrawn from the high-cost portions of an overexpanded industry in which prices have fallen below marginal costs. This latter point is particularly significant for agriculture, where many of the resources not needed in the production of one crop will turn to another crop and some of the resources released from livestock production will be added to those producing crops for market. Moreover, with generally declining demand, labor tends to drift from industrial centers to farms. Hence agricultural production *as a whole* tends to be maintained in depression.

The relaxation approach comes seriously into question, therefore, especially as applied to trade in agricultural products, because of the fact that market forces neither prevent depressions nor cure them quickly. This leads to the conclusion that it must be coupled with an international program for preventing depressions—one, moreover, which does not itself prevent market forces from bringing about production adjustment. It also leads to the secondary conclusion that we must expect a long transition period before the approach can come into full effect in the areas of the economy for which it may be adapted, since it is unrealistic to expect many governments to bank heavily on an anti-depression program until after the program has functioned successfully for some time.

This leads to a discussion of the primarily *political* as opposed to

economic, difficulties that confront programs based on the relaxation approach. There are two in particular that ought to be mentioned, the first being very closely related to the subject of the preceding paragraph.

3. **SELF-SUFFICIENCY.** I refer to the conviction of governments (more general than is often supposed) that in times of peace they must prepare for war and that this requires them to maintain a high degree of self-sufficiency in food supplies. Food shortages suffered in the present war and the use made of food blockade for political or military coercion have greatly strengthened this conviction. It is hard to think that it will not be a potent political force for years to come in such countries as the United Kingdom and Sweden. It has been advanced as a serious consideration as regards some of the foods in which the United States is deficient. It might be argued that self-sufficiency policies are not in fact as effective or as economical for meeting a war situation as would be a combination of stock piling and fertility-conservation policies, perhaps supplemented by other measures such as the subsidization of the use of certain kinds of farm machinery. It would probably require years, however, to get that proposition accepted widely as a basis of government policy.

Again the conclusion is that the relaxation approach must be supplemented, in this case with an aggressive program for assuring world peace. A start has been made and it is to be hoped that history will write Dumbarton Oaks as such a program. Again, however, it is to be feared that no nation will significantly relax its self-sufficiency programs until Dumbarton Oaks has proven itself. This reinforces the conclusion that a long transition period must precede the effective putting into operation of the relaxation approach, at least as concerns commodities in which governments feel they must be self-sufficient.

4. **STATE-ENTERPRISE COUNTRIES.** It is obvious that the relaxation approach cannot be directly applied to the trade of countries like the Soviet Union, where state trading obscures the relation of prices to quantities imported, exported, produced, or consumed. The advantages of monopoly trading would lead to at least quasi-state-trading by others in self defense. The approach must, therefore, be somehow supplemented if it is to apply to commodities in which trade with such countries is important.

The foregoing brief discussion of the principal limitations on a post-war effort to expand trade and rationalize production patterns through a relaxation of the policies that have tended to restrict trade and distort production in the past is not intended to obscure the advantages of such

an approach nor to suggest its abandonment. On the contrary, even within those areas of the world economy where ultra-market means must be found for adjusting production, facilitating distribution, or attaining certain non-economic objectives, it is important to place maximum possible reliance on market mechanisms as a means of registering such things as consumer choice and relative costs. And in other areas of the economy, it would be unfortunate indeed to sacrifice the vitality and flexibility and progressiveness that characterize entrepreneurs operating in a free market. I consider it a basic principle that the relaxation approach should be applied wherever it has a chance of working. It seems clear, however, that there are a number of areas in which it cannot be expected to succeed. Those here discussed may be summarized as follows:

1. As concerns products, probably including most important crops, where market forces do not succeed in achieving an adequate decrease in production when there is a decline in demand;
2. As concerns products in which governments insist upon a substantial degree of self-sufficiency as a measure of national defense;
3. As concerns products which governments wish to protect from unduly steep price declines in the early phases of depression; and
4. As concerns products in whose international trade state-trading plays an important part.

For these areas of the economy, it is suggested that it is desirable to supplement the relaxation approach with some type of trade-expansion, production-improvement program, less long-run in its essential nature.

B. THE COORDINATION OF INTERVENTIONIST POLICIES

Most programs proposed for supplementing the relaxation approach start from the proposition that, since the types of government intervention whose unilateral use has distorted much agricultural trade and production cannot be gotten rid of for some considerable time after the war, the alternative is to coordinate them and to redirect them to the implementation of a program of trade expansion and production adjustment.¹²

That interventionist agricultural policies cannot be gotten rid of for

¹² Proposals for the coordination of existing interventionist policies should be distinguished from proposals for the *establishment* of an interventionist policy to control large-scale private organizations (cartels) capable of themselves "intervening" to circumvent the action of the natural forces of the market in a manner contrary to the general interest. The latter proposals relate primarily to the industrial field and are not dealt with in this paper.

a long time is attested not only by the theoretical shortcomings of the relaxation approach summarized above, but also by the pronouncements and commitments of governments. These indicate that the retreat from agricultural intervention after the present war will not carry us back even as far as the complex 1939 situation. Many of the war measures to expand production have been accompanied by guarantees, some explicit, some implied, that the government would be responsible for the costs of readjusting; this responsibility will surely require the continuation of active intervention for quite a few years, especially if future efforts to adjust are no more successful than pre-war efforts to deal with what was probably a less unbalanced situation. Some commitments with even longer-period implications have been made. Canada recently established a board with power to support the prices of commodities other than wheat, using trading monopolies or income supplements, for a transition period which government declarations indicate may be of considerable length. She also appears to contemplate a continuation of her state-trading monopoly in wheat. The United Kingdom has guaranteed a market until 1948 at present prices to certain of its livestock producers, and in 1943 the Prime Minister publicly declared that the Government must bear the cost of maintaining after the war at a "reasonable" level of prices the great expansion and improvement that has taken place in British agriculture. Moreover, there is strong sentiment for the continuation of preferential trading within the British Commonwealth and even of some form of government food-trading monopoly such as the Ministry of Food. The Ministry is entering into contracts, by their nature discriminatory, guaranteeing the quantities and prices of some major agricultural products that the United Kingdom will take during the next four years from certain competing exporting countries. The Soviet Union, of course, will both control and direct its trade, and a number of adjacent countries may adopt similar systems. Such policies as these will not eliminate, indeed will tend to perpetuate, serious agricultural maladjustment and, therefore, even if temporary in intent, they will again lead to trade wars. They must be coordinated and redirected.

The essential proposals of the coordination approach are (a) that where conflicting national programs threaten trade wars, international agreement on a world program be somehow reached and (b) that means be found to direct these world production-distribution programs along the lines of comparative advantage and consumption expansion.¹³ It is

¹³ For an early presentation of the approach, see L. A. Wheeler, "Agricultural Surpluses in the Post-War World," *Foreign Affairs*, October 1941, p. 87 ff.

hoped to accomplish this through an international organization operating on working rules and principles that would be formulated and accepted internationally. Some tentative suggestions have been made as to the nature of those rules.¹⁴ It is thought that, under the present impetus to collaboration for world security and freedom from want, these suggestions might provide the basis for an international discussion looking to their elaboration as a body of accepted principles and to the establishment of the proposed international organization.¹⁵ The principles would, of course, be improved on the basis of experience in applying them.

It is difficult to assess the possibilities of the coordination approach, since it has never been tried. Past efforts by governments to avoid trade wars have been extremely limited and, in most cases, unsuccessful. In the main, their objectives have been market-allocation and price-maintenance. Nevertheless, they have revealed important difficulties and dangers which some fear may be inherent in the coordination approach. Primarily, these fears relate to (i) the tendency for commodity programs to be "restrictive" because of overemphasis on the short-run producer interest at the expense of the general interest, and (ii) the tendency for government intervention and control to perpetuate and extend itself.¹⁶ In discussing each of these difficulties, it may be useful to review some of the proposals made for dealing with it.

1. RESTRICTIVENESS. The reasons for fearing that commodity discussions will always be dominated by the producer point of view, even when

¹⁴ See John D. Black, and Stanley S. Tsou, "International Commodity Arrangements," *Quarterly Journal of Economics*, August 1944, pp. 521-52.

¹⁵ The Interim Commission on Food and Agriculture, in its First Report to the Governments of the United Nations, Washington, August 1, 1944, did not recommend that this function be lodged with the proposed permanent Food and Agriculture Organization but instead "that international commodity arrangements for both agricultural and non-agricultural products be coordinated under the supervision and direction of a single international authority" and "that principles governing international commodity arrangements for all classes of products should be formulated by a special international conference and that thereafter there should be established an international authority to review in the light of experience the application of the principles so formulated and to coordinate and supervise the administration of individual commodity arrangements." This was on the basis of the need for applying the coordination approach to some non-agricultural commodities. Some basic organizational problems are discussed in F. F. Elliott, "Redirecting World Agricultural Production and Trade Toward Better Nutrition," *Journal of Farm Economics*, February 1944.

¹⁶ For a recent statement of the difficulties, see Joseph S. Davis, "After the War: Free Trade or Control," *British Columbia Financial Times*, September 2, 1944, p. 4.

that point of view conflicts with the general interest, are well known. Governments usually tend to be held more strictly accountable to their producer interests than to the general public; an expert who knows a commodity situation well enough to participate in the preparation of a detailed trade and production program will usually be oriented toward the producer view and will seldom be trained in general distribution problems, such as those of the maintenance of consumer purchasing power and the balancing of international payments; and, finally, the principal measures for the expansion of consumption lie largely outside of the field of any one commodity, although they call for some shift in the production-distribution patterns of most commodities. Hence, it is feared that no program will be drawn up, agreed to, and carried out if it calls for shifting high-cost producers into other lines of activity. There will be concern for both the producers to be shifted and those already in the alternative lines of activity. Resistance will be especially great by the importing countries, in which the bulk of the high-cost production usually is found. These countries will resist to assure their basic agricultural self-sufficiency in case of war as well as to protect the interests of their producers. Neither is a program apt to be agreed to if it calls for price reductions to producers within the participating countries, no matter how necessary this may be in order to expand consumption.

Proponents of the coordination approach admit this difficulty, although they think it is overstated in the case of the agricultural products that would be the proper subject of the coordination approach. Producers of these commodities, as has been pointed out, have no incentive to be restriction-minded. On the contrary, they want to produce, and they do produce—abundantly—even in depressions. Hence, their only important conflict with the general point of view concerns the price of their products.

Past commodity agreements arose out of difficulties being experienced by producers in exporting countries. Prices were low. Quantities purchased, even at the low prices, were substantially below quantities produced.¹⁷ Importing-country governments had cut down on imports. Exporting countries had been unable to cut production very far and they were fighting for what remained of the importing-country markets. When they came together in international discussions, they had little

¹⁷ Quantities not harvested, or allowed to deteriorate, because prices would not cover normal processing, storage, and handling costs are here considered as having been produced.

choice but to allocate the market and agree on price floors. Under the circumstances, they had to try to restrict production also, but they had little significant success with agricultural products.¹⁸

Under the coordination approach, to overcome this tendency to emphasize the producer view, it is suggested (a) that, in the international organization for achieving agreements and keeping their operation under surveillance, there be strong representation of the consumer point of view (at least to the extent that it coincide with the general interest) both through the participation of importing countries and of international civil servants, (b) that tests be worked out of whether a program tends to modify a production-distribution pattern in the direction of the theoretical equilibrium position under economic competition and that these tests be reduced to certain rules and principles of action and accepted at an international conference held for the purpose of establishing the organization. Representation of the importing countries would be particularly effective in the case of commodities such as cotton and certain tropical products not produced in the large importing countries. The participation of civil servants could be very effective if they were well selected and armed with well-formulated rules and principles that had received international acceptance. One proposal envisions the establishment of a small "international commodity commission" of distinguished persons selected on the basis of a reputation for constructive breadth of view more than specific commodity experience. The commission would be responsible to a world economic organization such as the economic commission provided for at Dumbarton Oaks, and would serve as the head of an international secretariat. The international secretariat would include the secretariats of commodity councils, similar to the International Wheat Council, on which would be represented all countries having a substantial interest in the production or consumption of an individual commodity. A member of the commission would sit with each council. He would have no vote but would have the right to be heard. The secretariat would prepare the agenda of meetings of the various councils and would implement agreements reached. Agreements would be published, as would all facts relevant to their operations. Hence, there would

¹⁸ For a history and analysis of past commodity arrangements, together with texts of agreements and other documents, see International Labor Office, *International Commodity Control Agreements*, Montreal, 1943.

For a summarized analysis of the experience under these agreements and their implications for the coordination approach, see John D. Black, and Stanley S. Tsou, "International Commodity Arrangements," *Quarterly Journal of Economics*, August 1944, pp. 521-52.

be ample opportunity for ensuring consideration of the general interest, especially if there were available a set of principles to serve as a guide.

Most of the working rules and principles for testing whether specific programs would tend to improve production-distribution patterns would probably have to be "directional" rather than quantitative, since the equilibrium position (corresponding to the comparative advantage distribution of trade) is probably never measurable in practice and would certainly not be so for commodities subject to government intervention. For example, there could be a set of rules by which to judge whether a program tended to maximize consumption, another to judge whether it was aggravating a surplus situation, and still another as to whether it tended to minimize marginal production costs.¹⁹ Since these objectives were agreed to, at least by implication, at Hot Springs, the principal problem would be one of getting agreement on methods of measuring progress toward them.

The adequacy of consumption might be approached through per capita consumption comparisons, the height of prices to consumers in relation to costs and incomes, and desirable levels of nutrition. The question as to the aggravating of surpluses might be approached through changes in buffer stocks and perhaps also prices for some commodities. Rules as to production costs would be a problem because of the difficulty of measuring costs, their complexity and variability, and the sensitiveness of producers on this question. Some elements to bring in might be the relative profitability of different crops, and willingness to produce and sell at different price levels. There might also be rules relating to types of intervention from the point of view of their effect. The superiority of direct, commensurable types as opposed to concealed types is an example. Methods of making interventionist measures remedy basic situations, such as paying more attractively to shift producers than to keep them overproducing, might be reduced to rules and principles. Whether reducible to rules or not, the practice might develop of granting special international favors, such as increased loans by the International Bank, to compensate countries which shifted out of a particularly great amount of high-cost production. The foregoing may suggest some of the possibilities.

The rules would have to be flexible enough to allow for application to real situations. They would have to be subject to modification

¹⁹ For an analysis of important dangers which the rules would have to provide against, see Joseph S. Davis, "International Commodity Agreements in the Post-War World," *American Economic Review*, March 1942 Supplement, especially pp. 400-03.

by agreement in the light of experience. They would have to envisage gradual progress toward accomplishment of the limited economic job of adjustment and trade expansion that is proper to this type of international agreement.

2. PERPETUATION OF CONTROLS. This brings us back to the fear that controls tend to perpetuate and extend themselves, and that the coordination of controls will accelerate the process. One of the reasons sometimes given for the failure of past commodity agreements to accomplish their objectives (whether or not desirable) was the lack of sufficient control over domestic production and marketing by the governments of some of the member countries. This is probably a characteristic situation. All programs will have to be varied from time to time because of changes in areas of the economy not subject to control and because of other unpredictable circumstances; all administrators of the detailed types of control will be human and will make mistakes. From the purely administrative point of view, the easiest solution in either case may be to extend the area of control. The case for doing so is often very plausible. While agricultural production is probably more difficult to control effectively than is any other part of the economy, there is a real problem of assuring that international agreements for the coordination of intervention will be temporary.

If the shortcomings of the relaxation approach that make such agreements necessary were going to be confined to the period of transition to peace, the case might be easier. But even after economic activity is on a high and dependable level and world security is assured to the point where self-sufficiency policies are relaxed, there would presumably be cases where the failure to adjust to substantial demand shifts would call for application of the coordination approach until adjustment had been accomplished. What one proponent calls a "standby" organization would have to be ready to develop an international program when needed to prevent an exaggerated price decline from continuing over a considerable length of time and resulting in an area of depression.

Hence, there must be working rules and principles, internationally agreed to, that specify tests, as objective as can be devised, embodying the following basic propositions: (a) international programming should be applied only when certain types of maladjusted situations arise; (b) the programs should call for intervention only to the extent required in order to accomplish their basic purpose; (c) the programs should, if possible, be designed to terminate the maladjustment which made them necessary; and (d) they should be withdrawn as soon as that has been done. Only thus can the organization and procedure proposed become

a helpful supplement to, rather than an encroachment upon, a free economy.

III

TOWARD A DYNAMIC SYNTHESIS

The necessity for applying special measures of government intervention to important sectors of an essentially free-enterprise economy in order that the other sectors may continue to function effectively is not a new or unusual concept. In the field of public utility policy, it has long been accepted. The development of the rules of public utility regulation and the exploration of the interrelations between this area of government intervention and the free market economy are fairly well advanced.

Moreover, the analogy with the coordination-relaxation relationship goes farther. In both public utility operation and certain kinds of crop production, an important feature making intervention necessary is the existence of high fixed costs leading to the maintenance of production in spite of declining prices. Thus, among public utilities, the absence of intervention leads to duplication of facilities and cut-throat competition, threatening bankruptcy to the competitors and interruption of necessary services; while in many parts of agriculture, it leads to chronic surpluses, threatening important areas of depression. In the case of the great majority of public utilities, a regional or localized market is involved and there has been no international complication to obscure the nature of the problem. Hence, control measures are usually as wide as the market. In agriculture, on the other hand, the market involved is the world market. Many of the agricultural policies that have distorted trade represent necessarily inadequate efforts by governments to deal with the world-wide problem on a partial, national basis.

International trade economists have tended to overlook this feature of those agricultural policies. They have concentrated on the fact that the policies sheltered certain groups or interests from the full effect of market forces, and they have taken it for granted that this fact was sufficient to condemn the policies—lock, stock, and barrel. Elimination of these policies has been looked upon as a necessary condition for the expansion of trade and the restoration of rational production patterns. We have seen the flaws in this reasoning. Under the conditions of world agriculture after the war, peace and prosperity will not be assured by the elimination of all national efforts to deal with existing maladjustments but by the coordination of these efforts into a world-wide effort.

It will be unfortunate if the basic objective of rationalizing the world economy as far as possible in order to obtain the advantage of maximum efficiency of production and the highest possible planes of living is ob-

secured by an inability to reconcile the existence of interventionist techniques in some areas of the world economy with the existence of relatively free enterprise in others.

Institutions must be developed that will permit the realization of the desired production-distribution patterns through the joint application of both techniques. In the development of such institutions, it is of basic importance that the advantages of the equilibrating mechanism of the free market be secured to every portion of the economy in which that mechanism can be made to operate effectively. The operations of a fairly free market have permitted a revolution in techniques of production to be accompanied by a revolutionary rise in our planes of consumption. The focusing of attention on the problems of coordinating intervention in the areas where it is needed should never be allowed to obscure the need for preserving this basic value of the competitive system. The problem is to permit both the maximum feasible use of competitive forces for the integration of future advances in technology into the world's economy and the use of internationally coordinated intervention to maintain and expand activity in those areas of the economy which otherwise would be sources of disturbance and depression.

25. Intergovernmental Agreements

Approach to the Problem of Agricultural Surpluses*

By EDWARD G. CALE and OSCAR ZAGLITS

B.A., 1928, University of Richmond; M.A., 1932, Ph.D., 1935, University of Virginia. Associate Chief, International Resources Division, United States Department of State

Doctor of Political Science, 1921, University of Vienna. Head, Foreign Agricultural Trade and Policies Division, United States Department of Agriculture

The period since the World Monetary and Economic Conference in London in 1933 has witnessed a very considerable development of thought and action for relieving the problem of surplus agricultural production through international understanding and agreement. Much of this thought and action relates to intergovernmental agreements involving some form of regulation of production, trade, or prices of leading agricultural staples such as wheat, sugar, and coffee. It is the purpose of this paper to suggest briefly the problems which have been responsible for the increased attention given to the commodity agreements approach; to summarize, from the viewpoint of United States' experience, the changes that have occurred in this respect during the past fifteen years; and to indicate, with particular reference to the International Wheat Agreement, some of the difficulties involved in negotiating intergovernmental commodity agreements and in putting them into effect.¹

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¹Some of the principal publications dealing with the subject of intergovernmental commodity agreements are: International Labor Office, *Intergovernmental Commodity Control Agreements (1943)* (general review of the literature on intergovernmental commodity agreements, including text of agreements); Davis, *International Commodity Agreements: Hope, Illusion or Menace?* (1947) (analysis of commodity agreements indicating possibilities and limitations of commodity agreements); Interim Coordinating Committee for International Commodity

I

One of the problems facing United States and world agriculture arises from certain inelasticities in demand and supply.² For many agricultural products, a decrease in price results in a less than proportionate increase in demand. This is to some extent the result of the fact that an individual's needs for food and clothing, at least in quantitative terms, are limited. Unresponsiveness of demand to lower prices prolongs the time required for agricultural surpluses to be eliminated by the free play of normal market forces.

On the supply side, also, agriculture's adjustment difficulties are greater than those of many other industries. The proportion of fixed costs to total costs in agriculture is high. The uses to which agricultural land and equipment can be put are limited. Population shifts away from agricultural occupations take place slowly. In periods of depression the net population movement may even be in reverse because the urban unemployed return to the farms. There is also the fact that the agricultural industry is made up in general of a large number of independent producers, who, in order to defend their individual incomes, sometimes respond to declining prices by increasing production. If this happens in a period of a shrinking market, it results in even more widespread and more prolonged distress among agricultural producers.

Furthermore, many agricultural export commodities are produced in relatively under-developed countries that depend on a few products for a large part of their foreign exchange. These countries are often debtor nations, and the fact that during a depression agricultural prices tend to fall more rapidly than industrial prices may greatly accentuate the effect of depression on such countries. They are likely to see their incomes decline as a result of decreasing prices while the costs of their imports continue relatively high and debt payments remain rigidly fixed.

To prevent, or at least to mitigate, such widespread distress among agricultural producers, governments have intervened in all important

Arrangements, *Review of International Commodity Arrangements* (United Nations 1947) (survey of developments relating to intergovernmental commodity agreements); Yates, *Commodity Control: A Study of Primary Products* (1943) (general treatise on commodity control); Davis, "Experience under Intergovernmental Commodity Agreements, 1902-45," *Journal of Political Economy*, vol. 54, 193 (1946).

² For discussion of problems of post-war adjustment for United States agriculture, see Inter-bureau Committee on Post-war Programs, "Problems of Agriculture" (*U. S. Department of Agriculture* 1945); Schwenger, "World Agricultural Policies and the Expansion of Trade," *Journal of Farm Economics*, vol. 27, 67 (1945).

countries. This intervention has increased in scope during periods of widespread depression, such as those of the early 1920's and 1930's, and in other periods of international disturbance, such as that of the past world war and its aftermath.

Measures designed to improve the market position of agricultural products have been prominent among the means by which governments try to assist vulnerable producer groups. These measures have often involved creating barriers against imports or subsidizing exports. They have in some instances been supplemented by governmental or governmentally-sponsored arrangements limiting acreage, and allocating markets. The measures, whether directly restricting imports, subsidizing exports, or protecting producers by other means, have often been disruptive to international trade, reducing its volume and value, and have become the source of international friction.

There has been a growing appreciation, over the past score or more of years, of the fact that what is needed is a program which will give the necessary degree of protection to the producers and consumers of primary commodities with a minimum disturbance of international trade.

II

Intergovernmental commodity agreements have come to be looked upon as one of the instruments which can be used to ameliorate agricultural problems in instances of burdensome surplus while at the same time avoiding deleterious effects on international trade. Such agreements have been considered not as a complete program in themselves but as an important supplement to a policy aimed at the expansion of multilateral non-discriminatory trade. There has been a strong tendency to establish safeguards against future use of commodity agreements for the promotion of such restriction schemes as were incorporated in the Rubber¹ and Tin² Agreements of the period between the wars,³ and to harmonize the objectives of intergovernmental commodity agreements with our general commercial policy aimed at promoting multilateral non-discriminatory trade.

¹ Agreement for the Regulation of Production and Export of Rubber (May 7, 1934), *League of Nations Treaty Series*, vol. 171, 204 (1936).

² Agreement for the International Tin Control Scheme (October 27, 1933), International Labor Office, *Intergovernmental Commodity Control Agreements*, 75 (1943).

³ For a summary evaluation of the Tin and Rubber Agreements, see Davis, "Experience Under Intergovernmental Commodity Agreements, 1902-45," *Journal of Political Economy*, vol. 54, 193, 194 (1946).

The first two agreements participated in by the United States were the outgrowth of the World Monetary and Economic Conference of 1933; they related to wheat and sugar.

The first multilateral wheat agreement⁶ was signed in London in 1933.⁷ The central feature of the agreement was a schedule of quotas limiting the export of wheat by the exporting countries.⁸ The quotas were so large, however, that the agreement proved ineffective in halting the serious decline in wheat prices that was already in progress. The agreement also encountered other difficulties during its two-year term, after which it was allowed to expire. The Wheat Advisory Committee⁹ created under it was nevertheless continued into the 1940's. In 1939 the task of drafting a comprehensive wheat agreement was assigned by the Wheat Advisory Committee to a preparatory committee consisting of representatives of Argentina, Australia, Canada, France, Germany, Hungary, Rumania, the Union of Soviet Socialist Republics, the United Kingdom, and the United States, but the work of the committee was interrupted by war and never brought to fruition.

In July 1941, however, representatives of Argentina, Australia, Canada, the United Kingdom, and the United States met in Washington in a further attempt to negotiate a wheat agreement. As an outgrowth of these discussions a Memorandum of Agreement¹⁰ on wheat was initiated on April 22, 1942, and went into effect on June 27, 1942. This was not a full-fledged wheat agreement, but it did provide for the calling of an international conference following the termination of the war with a view to negotiating such an agreement. Attached to it was a draft convention on wheat,¹¹ which was to serve as the basis for discussion at the conference.

Wheat is the only commodity on which negotiations looking toward a definite post-war agreement have occurred. Pursuant to a provision of the 1942 Memorandum of Agreement, the United States initiated the calling of an International Wheat Conference which met in London in March 1947. The wheat council established by the 1942 Memorandum of Agreement prepared an annotated agenda for this conference in the

⁶ Final Act of the Conference of Wheat Exporting and Importing Countries (August 25, 1933), *League of Nations Treaty Series*, vol. 141, 72 (1933) (hereafter cited as "*International Wheat Agreement 1933*").

⁷ For fuller discussion of the development of the *International Wheat Agreement* from 1933 to 1943, see Davis, *New International Wheat Agreements* (1943).

⁸ *International Wheat Agreement 1933*, Arts. 2-5.

⁹ *Id.* Art. 7.

¹⁰ *Department of State Bulletin*, vol. 7, 583 (1942).

¹¹ *Id.* at 584.

form of a draft agreement.¹² The general principles of this draft agreement followed largely those of the 1942 draft convention, as well as the commodity agreement principles of the proposed International Trade Organization Charter and the suggestions of the Food and Agriculture Organization Preparatory Commission. The principal problem of the London Conference was that of reaching an understanding on the maximum and minimum prices to be incorporated into the agreement. Most participants in the conference agreed with the suggestion of the wheat council that the maximum prices should be set below the then prevailing market prices to benefit importing countries during the scarcity period, in return for the latter's agreeing to pay minimum prices that might be somewhat above prevailing market prices during a subsequent surplus period. Argentina, however, considered itself unable to undertake the sacrifice involved in accepting a maximum price substantially below its current price. The U.S.S.R., a large grain producer, did not participate in the conference, and Argentina's withdrawal confronted the conference with the problem of making an agreement workable in spite of important outside exporters who, without binding themselves to a low maximum price, might underbid the minimum price in a future surplus period.

The conference found the solution to this problem in the development of a new type of agreement, namely, a multilateral long-term contract.¹³ The obligations of countries subscribing to this contract, as drafted in London, would have differed substantially from those of any previous agreement. In certain respects they were more rigid. In particular, they obligated participating exporting countries to make available guaranteed quantities of wheat at the maximum price to participating importing countries upon the latter's request. Similarly they obligated participating importing countries to buy, upon the exporters' request, guaranteed quantities of wheat at the minimum price from participating exporting countries. Some flexibility was assured by providing for a reduction of exporter obligations in the event of crop failure and a reduction of importer obligations in cases of balance-of-payments difficulties. Furthermore, participating countries were free to make purchases and sales above the guaranteed quantities. Except for obligations to report the transactions, they also remained free to make purchases and sales at prices between the maximum and minimum.

¹² See Linville, "Draft Memorandum of Agreement Prepared for International Wheat Conference," *Department of State Bulletin*, vol. 16, 471 (1947).

¹³ Text of Proposed International Wheat Agreement, *Department of State Bulletin*, vol. 16, 1057 (1947).

This new type of intergovernmental commodity agreement obtained general acceptance at the conference, but differences with respect to the maximum and minimum price provisions to be written into the agreement—although considerably narrowed—could not be finally resolved. The conference therefore decided to refer the matter back to the wheat council for further negotiation at the appropriate time.

Carrying out this mandate, the council held a special session in February—March 1948, which resulted in the signing of an International Wheat Agreement¹⁴ by thirty-six countries. In its principal provisions this Agreement followed the London draft. In view of price developments in the interim, exporting countries requested and importing countries conceded maximum and minimum prices which were actually higher than those that some of the importing countries had found unacceptable at the time of the London draft. The Agreement was subject to formal acceptance by the contracting governments by July 1, 1948, and its substantive provisions were to come into effect on August 1, 1948.

The United States was not able to accept it formally, however, within the period specified because the Senate did not complete action on the Agreement in the period available between its submission (April 30) and the adjournment of Congress (June 20). When it became evident that there was little likelihood of United States' participation in time to put the Agreement into effect on August 1, 1948, Great Britain, Australia, and several other countries withdrew. Following this action Canada and the smaller wheat importers remaining in the Agreement adopted a resolution to consider the Agreement inoperative as among themselves.

On August 6, 1948, during the special session of Congress, the Senate Committee on Foreign Relations unanimously reported the International Wheat Agreement out, but without requesting action on the floor in that brief session.¹⁵ In reporting the Agreement, the Committee recorded its "earnest belief that the principle of surplus marketing by international agreement is sound."¹⁶ It was stated that "In view of its novelty and its complications and its controversies there was no chance to reach a responsible finality"¹⁷ on the Agreement during the brief period available to the Committee during the regular session. While it was felt that the complexities regarding the Agreement had been increased prior to the special session by the action of those countries that had withdrawn, "the con-

¹⁴ *Documents and State Papers*, vol. 1, 102 (U.S. Department of State 1948).

¹⁵ *Senate Executive Report No. 12*, 80th Congress, 2d Session (1948).

¹⁶ *Ibid.*

¹⁷ *Ibid.*

viction" nevertheless had increased "that a useful principle is involved." The Committee therefore expressed its desire to revive the Agreement and "keep it open for ratification or renegotiation."¹⁸

III

The International Sugar Agreement,¹⁹ like the first wheat agreement, was the result of disorganization in the international market growing out of the first world war.²⁰ During the war, European beet sugar production had fallen from eight million tons to less than three million tons. Cuba, which was the only country that could expand its output rapidly to fill the gap, had, by 1920, increased its production by 25 per cent. Notwithstanding the increase in Cuban production, demand continued far in excess of supply. With the end of wartime controls in this country, prices in the United States market rose rapidly to a peak of 26.5 cents per pound in May 1920. The high level of prices prevailing in the early 1920's encouraged the rapid expansion of world production, particularly in the United States and its insular areas. European beet sugar production revived rapidly after the war; and the Caribbean islands, with their war-expanded production, were soon faced with contracting markets.

The Cuban Government, in May 1926, instituted production controls providing for a ten per cent reduction in the crop then being harvested and empowering the president to restrict the crops of 1926 to 1928. These powers were extended to cover the period from 1928 to 1933. They were ineffective in bringing the desired relief, however, since the surplus-sugar problem was in reality a world problem and too large to be solved by a single country. In view of the continued decline in prices, seven²¹ of the principal sugar producing countries combined forces in May 1931 in an effort to restrict production and relieve the pressure on the market. These countries entered into an agreement, known as the "Chadbourne Agreement," to limit their exports to specified annual quotas and gradually to dispose of their excess stocks. The measures taken were not, however, adequate to meet the problem. The effectiveness of the self-imposed production controls was largely nullified by expansion of production

¹⁸ *Ibid.*

¹⁹ Agreement Concerning the Regulation of Production and Marketing of Sugar, May 6, 1937, International Labor Office, *Intergovernmental Commodity Control Agreements* 26 (1943) (hereafter cited as "*International Sugar Agreement 1937*").

²⁰ The discussion in Division III is based largely upon Mulliken, "International Cooperation in Sugar," *Department of State Bulletin*, vol. 16, 43 (1947).

²¹ Belgium, Cuba, Czechoslovakia, Germany, Hungary, Java, and Poland.

elsewhere and by a general contraction of the world market, as consuming countries, including the United States, plagued by a serious world depression and facing unemployment at home, reduced their consumption and attempted to meet their requirements as far as possible from indigenous supplies.

In the United States the rate of duty on imported sugar was increased to 2½ cents per pound.²² However, this duty did not apply to sugar brought into the United States from the territories and insular possessions. With prices in world markets at about ½ cent per pound and the New York price in the neighborhood of 2½ cents per pound, mainland producers soon discovered that the high tariff wall was actually serving to encourage insular production. In the three years following the imposition of the Smoot-Hawley Tariff of 1930,²³ Philippine production rose 75 per cent and Puerto Rican production more than 40 per cent. If the mainland producers were to be given effective protection, some method of regulating production was clearly called for. The device chosen was a system of quotas.

In 1934 the United States passed the Jones-Costigan Sugar Act²⁴ establishing percentage quotas for the United States market and offering "benefit payments" varying from 30 to 60 cents per 100 pounds to growers who would agree to restrict their sugar production. These quotas were established for both foreign and domestic areas which customarily supplied the United States market.

The United States also participated with other sugar producing and consuming countries in negotiating the International Sugar Agreement²⁵ which was signed in London in 1937. Of the twenty-two nations which signed this Agreement, eighteen represented exporter interests and four were importing nations. The voting provisions of this Agreement were such that the importing countries had forty-five of the one hundred votes exercised by the delegations which were represented on the sugar council.²⁶ The Agreement provided for the establishment of export quotas for the world market and for the limitation of stocks of sugar.

When the war broke out in Europe in 1939, the Sugar Agreement had been operating successfully for two years, sugar prices were rising, and an element of stability had returned to the industry. It should be pointed out, however, that the Agreement went into effect at a time when

²² *Tariff Act of 1930*, 46 STAT. 590 (1930), 19 U.S.C. § 1001 (1946).

²³ *Ibid.*

²⁴ *Act of May 9, 1934*, 48 STAT. 670 (1934), 7 U.S.C. § 608(a) (1946).

²⁵ See note 19 *supra*.

²⁶ *International Sugar Agreement 1937*, Art. 37.

the world's level of economic activity was on the upgrade. The extent to which the Agreement itself contributed to this return of stability in the sugar industry is therefore difficult to assess and it cannot be determined if the Agreement could have weathered a serious depression of the type encountered in the early thirties. In any event the world sugar situation soon shifted from surplus to shortage as a result of the outbreak of World War II. Quotas under the Agreement were waived by the council upon individual countries' requests during the early days of the war. When the Agreement was renewed in 1944, a provision suspending all quotas was incorporated in the protocol; this provision has been extended from year to year and consideration has recently been given by the sugar council to revising and reactivating the Agreement. However, with institution of the European Recovery Plan,²⁷ demand improved and the council concluded that immediate action was not required. A committee has been appointed to follow developments and recommend the convening of a conference as soon as there is evidence of over-supply.

IV

The only other intergovernmental commodity agreement in which the United States has participated has been the Inter-American Coffee Agreement.²⁸ Chronic surpluses had characterized coffee production in the Western Hemisphere, which normally supplied around 85 per cent of the world market, for a decade prior to the conclusion of the Agreement. The loss of the European market after 1939 greatly increased the seriousness of the problem. The cumulative effect of these developments was to place the American coffee producing countries in serious financial straits at the time the Agreement was signed. In fact, the only outlet of any substantial size for American-produced coffee at the time was the United States market.

The central feature of the Coffee Agreement was a system of quotas specifying the quantity of coffee which each of the American coffee producing countries might sell in the United States market.²⁹ There was also a schedule of quotas for exports from each of the producing countries for the market outside of the United States³⁰ and an over-all quota

²⁷ *Foreign Assistance Act of 1948*, 62 STAT. 137, 22 U.S.C.A. § 1501 (1948).

²⁸ International Labor Office, *Intergovernmental Commodity Agreements* 50 (1943) (hereafter cited as "*Inter-American Coffee Agreement*"). The agreement was signed November 28, 1940, and became effective April 16, 1941. For fuller discussion of the agreement and the proceedings of the coffee board established thereunder, see annual reports of the Inter-American Coffee Board.

²⁹ *Inter-American Coffee Agreement*, Art. 1.

³⁰ *Id.* Art. 2.

for the United States market for producing countries that were not signatories of the Agreement.³¹ All quotas were to be applied on an annual basis beginning October 1 of each year.³² The quotas were, in toto, larger than total imports of coffee into the United States during any similar previous period and were therefore not intended in any way to limit the total quantity of coffee which might be imported into the United States. Their principal effect was to provide for a sharing of the United States market and to assure each producing country a fixed percentage participation in the market. The quotas could be increased or decreased by the Inter-American Coffee Board, the body which administered the Agreement,³³ but these changes, in accordance with the terms of the Agreement, had to be proportional for all producing countries.³⁴ The United States, the only consuming country represented in the Agreement, exercised one-third of the total vote of the board.³⁵ However, the Agreement contained an emergency provision which permitted the United States representative to increase the quotas to the extent required to satisfy United States requirements if a shortage of coffee in this market appeared imminent.³⁶ The interests of the United States as a consumer were therefore adequately protected.

There can be little doubt that one effect of the Agreement was a substantial increase in coffee prices. Although this increase occurred to a very large extent before the quota provisions of the Agreement were placed in effect on April 16, 1941, it was brought about by the knowledge that the Agreement was soon to be placed in effect. It should be stated, however, that the previous level of coffee prices had been disastrously low.

As a result of changes which had occurred between the time the Agreement was negotiated and the date when it came into effect, the board on May 28, 1941, authorized an increase in the quotas for the United States market. A further increase under the emergency provision referred to above was approved on August 2, 1941, and, after the United States entered the war in December 1941, this provision was used frequently by the board to give effect to its policy of administering the Agreement in such a way as to achieve the maximum flexibility under war conditions. While maritime shipping was short, the board increased the

³¹ *Id.* Art. 7.

³² *Id.* Art. 23.

³³ *Id.* Art. 9.

³⁴ *Id.* Art. 3.

³⁵ *Id.* Art. 15.

³⁶ *Id.* Art. 8.

quotas to the extent necessary to maintain an uninterrupted flow of coffee to the United States from all countries able to supply and ship such coffee.

As of October 1, 1945, the quota provisions of the Agreement, in accordance with a protocol extending the Agreement one year from that date, were made inoperative³⁷ and remained so during subsequent annual extensions. The Agreement was permitted by its signatory governments to expire on September 30, 1948, and provision was made for transferring its remaining consultative, advisory, and statistical functions to a Special Commission on Coffee within the Organization of American States. This action was the result of profound changes in the world coffee situation which had occurred during the period since the Agreement was negotiated. World consumption and production today are virtually in balance, and the excessive stocks which overhung the market in 1940 have largely disappeared. One of the principal factors in this changed situation has been the falling off in Brazilian production resulting from a decline in the number of coffee trees and adverse weather conditions during the early 1940's. Had it not been for the price supporting effects of the Agreement, the decline in production would undoubtedly have gone further.

The need for reviving the Coffee Agreement would seem to be less imperative in the next several years than that for reviving the agreements on wheat and sugar.

V

Although the Wheat Agreement negotiations have been the only postwar negotiations directed toward concluding an agreement on a single commodity that is expected eventually to be faced with surplus problems, a very large amount of consideration, international discussion, and negotiation has been devoted to the general problems of handling food and raw material surpluses that may develop in the future. Many of the provisions of the General Agreement on Tariffs and Trade³⁸ concluded in Geneva in 1947 and of the Havana Charter for an International Trade Organization³⁹ were drafted with a view to this problem.⁴⁰ In

³⁷ See "Protocol for Extension of *Inter-American Coffee Agreement*," *Department of State Bulletin*, vol. 14, 867 (1946).

³⁸ Final Act of the Conference on Trade and Unemployment (United Nations 1947) (hereafter cited as "*General Agreement*").

³⁹ *Com. Pol. Ser.*, No. 114 (*Department of State* 1948) (hereafter cited as "*Havana Charter*").

⁴⁰ *General Agreement*, Arts. 11-19; *Havana Charter*, c. 4, §§ B-C, and c. 6, §§ B-C.

both of these documents the special difficulties of agricultural and other producers of primary commodities are recognized, and account is taken of the facts that most governments, including our own, are committed to support agricultural prices against declines such as might be brought about by another depression, and that carrying out these commitments will involve interference with international trade.

To a considerable extent government protection of domestic agricultural programs remains permissible under the General Agreement on Tariffs and Trade⁴¹ and under the Havana Charter for an International Trade Organization.⁴² In addition, under both instruments countries in balance-of-payments difficulties remain free to apply import restrictions on a rather extensive scale, and to apply them on a discriminatory basis if this helps to alleviate those difficulties.⁴³

Provision has also been made in the Charter for an International Trade Organization for the conclusion of intergovernmental commodity agreements.⁴⁴ Definite safeguards have been incorporated into the Charter to avoid possible misuse of these instruments of international cooperation. Their use in general is confined to primary commodities.⁴⁵ If special difficulties arise with respect to international trade in these commodities, ITO may set up a study group to investigate the situation.⁴⁶ On the basis of that group's report, an international commodity conference may be called to discuss the situation and to negotiate an intergovernmental commodity agreement if the conference considers such an agreement necessary and useful to overcome those difficulties.⁴⁷

The Charter, furthermore, sets up broad objectives for intergovernmental commodity agreements, such as (a) prevention or alleviation of serious economic difficulties which may arise when needed adjustments cannot be effected as readily as circumstances require by normal market forces alone; (b) provision of a framework for promotion of consumption expansion and the shifting of human and other resources out of over-expanded lines of production; (c) prevention or moderation of pro-

⁴¹ *General Agreement*, Arts. 3, 11, 16, 20.

⁴² *Havana Charter*, Art. 20.

⁴³ *General Agreement*, Arts. 12, 14; *Havana Charter*, Arts. 21, 23.

⁴⁴ *Havana Charter*, c. 6.

⁴⁵ *Havana Charter*, Art. 62. "For the purposes of this Charter, the term 'primary commodity' means any product of farm, forest or fishery or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade." *Id.* Art. 56.

⁴⁶ *Id.* Art. 58.

⁴⁷ *Id.* Arts. 59, 62.

nounced price fluctuations with due regard to the desirability of securing long-term equilibrium between the forces of supply and demand; (d) distribution of basic foods at special prices; and (e) equitable distribution of commodities in short supply.⁴⁸

Agreements involving the regulation of production or of exports or imports remain permissible under the Charter if a burdensome surplus, which would tend to cause serious hardship among small producers, and which, because of the inelasticity of supply and demand, could not be readily corrected by even a substantial reduction in prices, has developed or is expected to develop.⁴⁹ This provision, by its very nature, applies mainly to agricultural products; supplementing it is another provision applying chiefly to non-agricultural primary products.⁵⁰

Another safeguard incorporated into the Charter is the requirement that governments themselves assume responsibility for the conclusion of a commodity agreement.⁵¹ Equal representation in the administration of agreements involving the regulation of production or trade is assured to importing and to exporting countries⁵² so that both consuming and producing interests will have an adequate voice in their administrative bodies. This provision for consumer representation is significant not only because of the safeguards which it provides for consumer interests, but also because of the stake which consuming countries have in measures designed to facilitate the maintenance of economic stability in producing countries and because the cooperation of consuming countries is often required if effective intergovernmental action is to be taken. The Charter also provides that the agreements are to be open to participation by any country, importing as well as exporting,⁵³ and that full publicity is to be given to the text of proposed or actual agreements and to any important statements made in connection therewith.⁵⁴

In order to prevent commodity agreements regulating production, trade, or prices from becoming unduly restrictive, the Charter requires that the agreements be designed to assure availability of adequate supplies at all times,⁵⁵ and to afford increasing opportunities for satisfying domestic consumption and world market requirements from sources from which they can be supplied "in the most effective and economic

⁴⁸ *Id.* Art. 57.

⁴⁹ *Id.* Art. 62(a).

⁵⁰ *Id.* Art. 62(b).

⁵¹ *Id.* Art. 57.

⁵² *Id.* Art. 63(b).

⁵³ *Id.* Art. 60.

⁵⁴ *Ibid.*

⁵⁵ *Id.* Art. 63(a).

manner" but with due regard "to the need for preventing serious economic and social dislocation and to the position of producing areas suffering from abnormal disabilities."⁵⁶ The Charter further requires that the countries participating in such agreements adopt programs "adequate to assure as much progress as practical within the duration of the Agreement towards solution of the commodity problems involved."⁵⁷ Such agreements are not to be concluded for more than five years, and any renewal shall also be for not more than five years.⁵⁸

VI

The Food and Agriculture Organization of the United Nations also has given considerable attention to the problem of intergovernmental commodity agreements.⁵⁹ Taking as a basis an earlier draft of the commodity agreements chapter of the ITO Charter, the FAO Preparatory Commission stressed in particular the differences in the surplus problems of various kinds of commodities and the need for attacking the problems of each commodity individually.⁶⁰ The commission favored the solution of surplus problems by the means of expansion of consumption in general. It advocated the inclusion in commodity agreements, in certain circumstances and under adequate safeguards, of provisions for making sales at reduced prices for the improvement of nutritional standards.⁶¹

While advocating production shifts away from surplus commodities, the commission warned that such shifts should be carried out so as to avoid serious economic and social dislocation.⁶² Like the ITO Charter, the commission's report emphasizes the need for achieving a long-term equilibrium between production and consumption.⁶³ The objectives of price stabilization, in the opinion of the commission, ought to be "to smooth out cyclical and seasonal or periodic price fluctuations" but "not to withstand movements of a secular character due to a persistence of excess or deficient production."⁶⁴ "Careful consideration should be given to relationship between the stabilized price and the price of other

⁵⁶ *Id.* Art. 63(c).

⁵⁷ *Id.* Art. 63(d).

⁵⁸ *Id.* Art. 65.

⁵⁹ See *FAO Commission on World Food Proposals Report*, 22 (United Nations 1947). The Commission on World Food Proposals was in session in Washington from October 1946 to January 1947.

⁶⁰ *Id.* at 23.

⁶¹ *Id.* at 24.

⁶² *Id.* at 23.

⁶³ *Ibid.*

⁶⁴ *Id.* at 24.

commodities directly or indirectly related."⁶⁵ The commission further favored a revision of established prices or price ranges, especially if unforeseen difficulties should develop.⁶⁶ It considered price stabilization reserves (buffer stocks) as desirable within limits.⁶⁷

As to the setting of import and export quotas by intergovernmental commodity agreements the commission reported that ". . . when used in the right and proper way, quotas may achieve a common and fair sharing of the burdens of shortage or over-production by all interested countries, both producing and consuming."⁶⁸ But it warned that unless the quotas "constitute only one element in a commodity agreement containing many more positive provisions, they may lead very quickly into programs of production restriction."⁶⁹ And the commission continued: "Weighing up the advantages and disadvantages, it is our view that subject to adequate safeguards quotas can be usefully written into international agreements for certain types of agricultural products."⁷⁰

VII

In addition to the development of thought respecting commodity agreements which took place during and after the war, a number of international study groups, composed of government representatives, have been established for agricultural commodities and other raw materials.⁷¹ Their function is to keep the international supply situation under review, to develop means for solving difficulties which are un-

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

⁶⁷ *Id.* at 25. For an evaluation of the possibilities and limitations of buffer stocks, see Zaglits, "International Price Control Through Buffer Stocks," *Journal of Farm Economics*, vol. 28, 413 (1946).

⁶⁸ *FAO Commission on World Food Proposals Report*, 26 (United Nations 1947).

⁶⁹ *Ibid.*

⁷⁰ *Id.* at 27. Regarding the use of long-term contracts, the commission noted a conflict of opinion among the delegations of the various countries, but concluded that "The chief dangers to avoid are discriminatory and prejudicial effects on countries which are not parties to the contracts." *Ibid.*

⁷¹ Procedure governing the creation and operation of study groups is prescribed in the *Havana Charter*, Art. 58. Under that article, any member of the ITO which considers itself substantially interested in the production or consumption of, or trade in, a particular primary commodity, and considers that international trade in that commodity may be attended by special difficulties, is entitled to request that a study of the commodity be made. Each member is thereupon invited by the Organization to appoint representatives to a study group. Non-members may also be invited. The study group then investigates the production, consumption, and trade situation in regard to the commodity, and reports to the participating govern-

likely to be resolved by the ordinary development of world trade in the commodity, to formulate and transmit recommendations to the participating governments with respect to the commodity, and to collect statistics and make studies necessary for carrying out these functions. The exact functions of these groups may be illustrated by the terms of reference of the International Wool Study Group adopted April 3, 1947:

1. The Wool Study Group shall comprise representatives of the countries which are substantially interested in the production, consumption or trade in wool.
2. The Group shall meet at times and places mutually convenient to the members for the purpose of discussing common problems in connection with the production, consumption and trade in wool.
3. The Group shall be free to make such studies of the world wool position as it sees fit, having regard especially to the desirability of providing continuous accurate information regarding the supply and demand position and its probable development; making use of existing sources so far as practicable.
4. The Group shall take into account, in its investigations regarding the development of the world wool situation, the desirability of measures designed to stimulate the world consumption of wool.
5. It shall be the responsibility of the Group to consider possible solutions to any problems or difficulties which are unlikely to be resolved by the ordinary development of world trade in wool.
6. The Group may formulate and transmit recommendations to the participating Governments.
7. The Group shall arrange for the collation or collection of necessary statistics using for this purpose existing sources so far as practicable and may establish such permanent secretarial assistance as it deems necessary for the proper conduct of its work. Countries being members of the Group shall contribute, on a basis to be mutually agreed to, the necessary expenses.
8. The Group will continue to function during such periods as in the opinion of the participating Governments it continues to serve the purpose for which it is designed.

ments and to the Organization its findings and its recommendations as to how best to deal with any special difficulties which exist or may be expected to arise.

Prior to the *Havana Charter*, study groups were authorized by various international commodity conferences. Among such study groups are the International Rubber Study Group, the International Tin Study Group, the International Cotton Advisory Committee, and the International Wool Study Group.

9. Arrangements will be made for other interested Governments to be kept informed of the studies made and of the results of the discussions as far as practicable.⁷²

VIII

The foregoing discussion indicates that substantial progress has been made since the World Monetary and Economic Conference in 1933 in developing principles to be followed in negotiating intergovernmental commodity agreements. It also calls attention to a number of international commodity study groups, committees, and inactive agreements which might serve as the basis for full-fledged intergovernmental commodity agreements should such agreements be deemed necessary by the participating governments to meet future surplus problems and should the governments be able to negotiate the agreements.

No firm conclusions are advanced as to the chances of reaching international understanding on effective intergovernmental commodity agreements. The Wheat Agreement of 1933 broke down within a few months. This may be attributed, however, to any of a number of factors, including conditions of extreme depression under which it was negotiated and inadequacies of the particular agreement itself. Conditions in the world sugar market improved materially while the Sugar Agreement was in effect between 1937 and 1939, but the extent to which this improvement was attributable to the Agreement cannot be measured. The Coffee Agreement helped to stabilize the economies of the American coffee producing countries by contributing to a restoration of more normal price levels and at the same time prevented world coffee production, especially Brazilian production, from declining further during the early 1940's, and thereby undoubtedly helped to obviate the development of a more stringent post-war world supply situation. This agreement was of a special type, however, in that it was regional in character and undertaken as a part of an inter-American cooperation program at a time when the market for coffee outside the Western Hemisphere threatened virtually to disappear. It is therefore not typical of the multilateral agreement likely to be negotiated in the future.

Past experience is not conclusive, either, as to techniques which are most likely to be successful in obtaining the results toward which commodity agreements are directed. As has been indicated, the principal feature of the Sugar and Coffee Agreements and the Wheat Agreement of 1933 was a system of quotas which involved a sharing of the market

⁷² Ives, "First International Wool Study Group Meeting," *Department of State Bulletin*, vol. 16, 987 (1947).

among the producing countries. On the other hand, the International Wheat Agreement of 1948, being in the nature of a multilateral contract, provided for a sharing of markets of an assured volume by the exporting countries and a sharing of assured supplies by the importing countries, without attempting to regulate the remainder of the market.⁷³ Since this Agreement was not placed into effect, the only practical experience regarding agreements in which the United States has participated has been with the quota system. As has been indicated previously, the quotas set by the Wheat Agreement of 1933 were ineffective in halting the serious decline in wheat prices. On the other hand, neither the International Sugar Agreement nor the Inter-American Coffee Agreement can be said to have failed, although their principal feature, too, was a system of quotas.

Price regulation quite naturally suggests itself as a commodity agreement provision, either as a supplement to or a substitute for a system of quotas, because one of the objectives of a commodity agreement is likely to be the assurance of greater stability to the market. The 1942 understanding on wheat envisaged the setting of a price range,⁷⁴ and the 1948 Wheat Agreement provided for such a price range.⁷⁵ In view of the difficulty of forecasting price movements, establishing a specific price at which transactions are to take place in a commodity agreement, or even a narrow price range within which they are to take place, involves a risk that the price or price range may in the future be seriously out of line with the price at which the commodity would otherwise sell. Such a development would, in general, be strongly resented in the exporting or importing countries adversely affected, and might very well cause the agreement to break down. On the other hand, a very wide price range may be of little use in affording stability. Failure to include a price range at all in the agreement may mean that the members of the council established to administer the agreement will, at most, have only general price criteria to guide them in the administration of any system requiring adjustment of quotas to changes in demand such as was contemplated under the 1942 wheat understanding. In such a situation the views of individual members of the council as to the equitableness of any price at any particular time during the operation of the agreement are likely to vary widely. Compromising differences of opinion in the council under these conditions may require a very large amount of time and patience from all of its members or may not prove possible at all. Such

⁷³ *International Wheat Agreement 1948*, Art. 2.

⁷⁴ *Memorandum of Agreement*, Art. 5, Executive Agreement Series 384.

⁷⁵ *International Wheat Agreement 1948*, Art. 6.

difficulties regarding changes in quotas would not, of course, arise under a multilateral-contract type of agreement providing for a specific price range in respect of a fixed volume of trade as was contemplated in the 1948 Wheat Agreement.

Probably the most serious obstacle to be faced in negotiating inter-governmental commodity agreements of real substance lies in the fact that such agreements limit nations in the exercise of their sovereignty. The existence of such a problem is, however, probably the strongest argument that can be made in the moral defense of such agreements, since it would appear that only by means of international understanding and cooperation can the conflicts arising from antagonistic national economic policies be resolved.

IX

The experience of the United States Government in negotiating and administering intergovernmental commodity agreements, together with the safeguards which have been developed in recent years,⁷⁶ indicate that the fear sometimes expressed that intergovernmental commodity agreements may be put to widespread restrictive use in the near future is not well founded. It is exceedingly difficult to negotiate an intergovernmental commodity agreement, so difficult in fact that serious attempts will probably not be made to do so unless the commodity in question is of major importance from the viewpoint of international trade and unless the distribution difficulty anticipated is one of serious proportions. This suggests that the area in which intergovernmental commodity agreements may be helpful to the producers and consumers of primary products is limited. Such in fact is one of the conclusions of this paper.

The natural inclination of governments to safeguard their sovereignty and the fact that they have to consider the views of many groups with divergent interests before binding themselves, undoubtedly make it more difficult for governments to reach agreement on such questions as quotas and prices than would be the case if negotiations were carried on directly among the members of only one such group. The difficulty is increased by the essentially divergent interests of importing and exporting nations. Furthermore, governments are likely to be reluctant to delegate any broad measure of discretion to the body responsible for the operation of the agreement. Consequently, the principal contractual obligations of the agreement must be specified in considerable detail in the agreement itself and the decisions of the body administering the agreement must be

⁷⁶ See, e.g., *Havana Charter*, c. 6.

confined largely to details. In this connection it may be pointed out that even though the principal contractual obligations were clearly specified in the International Wheat Agreement of 1948,⁷⁷ considerable attention was given in the hearings before the subcommittee of the Senate Foreign Relations Committee to the voting provisions of the Agreement. Much of the criticism of the Agreement was directed to the fact that the International Wheat Council would have had certain limited powers needed for the effective administration of the Agreement and that the Agreement would in certain respects have limited the freedom of action of the participating countries, including the United States.⁷⁸

The resolving of difficulties such as these in negotiating commodity agreements necessarily requires time. Each country participating in the negotiations has to develop a large amount of qualitative and quantitative material, prior to the negotiations, which has a bearing on its interests and on those of other countries, and to refine and revise this material as mutual understanding develops during the course of negotiations. Final agreement is possible only when the representatives of at least all the principal participating countries are convinced that the instrument being developed safeguards their essential interests and that it would make a contribution to their general welfare.

Furthermore, the range of commodities likely to become subject to commodity agreements of the type in which the United States Government has heretofore participated is limited. This point is often overlooked both by the proponents and opponents of such agreements. The central feature of these agreements, as has been indicated previously, is a quota system, a price range, or both. Intergovernmental commodity agreements in which the United States has participated have related to individual commodities that have more or less uniform characteristics and for which there are rather clearly defined types and grades. This will undoubtedly be true of similar agreements which may be negotiated in the future. The factor of homogeneity means that it is infinitely easier to negotiate a wheat agreement, as time-consuming as this has been, than it would be to negotiate an agreement on such a heterogeneous commodity category as fats and oils. This is true both because administering an agreement involving quantities or price controls of such a commodity would be a virtual impossibility in the absence of a delegation of a considerable degree of authority to the administrative body, and because international negotiations regarding such products would have to cover

⁷⁷ Arts. 2, 4-6, 9, 17.

⁷⁸ *Hearings before Subcommittee of the Committee on Foreign Relations on Senate Document Executive F, 80th Congress, 2d Session (1948).*

a much wider range of sub-products than would be true of wheat, which is actually one commodity with a limited number of clearly-defined grades in international usage and only one important end-product, flour.

Another factor imposing limitations upon the variety of commodities to which intergovernmental commodity agreements may be applied is that readily available, world-wide statistical information regarding the commodity is necessary for the enforcement of the obligations of an agreement. This is so because obligations regarding the quantity of a commodity exported or imported, or the prices at which it will be bought or sold, can obviously not be enforced in the absence of exact, up-to-date information from all countries that are of real importance in the international trade of the commodity. The commodities for which such information now exists or could be readily developed are few.

In the light of the foregoing it is obvious that the intergovernmental commodity agreements approach may be limited in usefulness to certain staple commodities which are homogeneous in character and susceptible to statistical analysis on a world-wide basis. There is considerable uncertainty, however, as to the extent to which governments will attempt to negotiate commodity agreements even within this limited range of commodities, during the next several years at least. The ultimate fate of the International Wheat Agreement will undoubtedly have great influence in this regard. This Agreement was negotiated for a five-year period beginning with the 1948-49 crop year on August 1, 1948.⁷⁹ Since it could not be placed in effect for the 1948-49 crop year, some of its most difficult provisions may have to be renegotiated before the Agreement can be again submitted to the contracting governments for formal approval.

If a wheat agreement is not put into effective operation in the near future, the prospect for negotiating commodity agreements for other agricultural commodities is likely to be less favorable. A sugar agreement would appear to have the best chance for successful negotiation in view of the current world situation in regard to sugar, the experience of intergovernmental cooperation in sugar, and the physical characteristics of the commodity.

Should it not be possible to utilize intergovernmental commodity agreements for the range of commodities for which they might be appropriate, some alternative way of meeting the problems of producing and marketing these commodities will have to be sought. In this event the prospect is that the scope of unilateral or bilateral intervention

⁷⁹ *International Wheat Agreement 1948*, Art. 22.

policies will increase, bringing about an inevitable increase in conflict between such policies. Such a development might seriously endanger our own policy of expanding multilateral trade on a non-discriminatory basis.⁸⁰

⁸⁰ Since this article was prepared, new developments have taken place in the field of intergovernmental commodity arrangements.

The Fourth Session of the Conference of the Food and Agriculture Organization met in Washington during the last part of November and agreed that FAO should intensify its study of international commodity problems and arrangements in the field of food and agriculture. The FAO Council met immediately following the Conference and appointed a committee to cooperate with and advise the FAO staff in its study of such problems and arrangements. The committee consisted of representatives of Australia, Belgium, Brazil, Canada, India, the United Kingdom, and the United States.

The United States Government has called an international conference for the purpose of renegotiating the International Wheat Agreement. This conference will convene on January 25, 1949.

For further reference to the subject matter of this article, see Interim Coordinating Committee for International Commodity Arrangements, *Review of International Commodity Problems 1948* (1948).

Part IV
LAND AND RURAL PEOPLE

26. Do We Need a New Land Policy?*

By LEONARD A. SALTER, JR.

Former Associate Professor of Agricultural Economics, University of Wisconsin

If an economist, looking for some ideas for emergent primitive areas of the world, turns his back on the system which he calls "individuality run riot,"¹ that still does not cancel our experiment out as a failure, but it certainly ought to prod us into an assessment of our own land policies. But first, I might call your attention to another conclusion reached by another foreign scholar who also looks not only at American experience, but at world-wide experience in reference to land policies. Karl Polanyi, to whom I have already made previous reference, believes that the attempt in many parts of the world to put land along with everything else onto a completely commercial basis has proved disastrous. He puts it this way:

What we call land is an element of nature inextricably interwoven with man's institutions. To isolate it and form a market out of it was perhaps the weirdest of all undertakings of our ancestors.²

These appraisals sound altogether pessimistic. But what have our own American students of land policy to say? Is there any national interest in assessing the American experiment in land policy? If so, what do they tell us? How does one go about making a judgment of the success or failure of social experiment as gigantic as our experiment in establishing a new land system on this broad continent?

First of all, we may note that there are many voices in this country which tell us that our land system is in an awful mess. For example (and while I most certainly would not want to be accused of quoting him as

* (Editor's note: The introductory part of this paper, presenting some background discussion, has been omitted because of space limitations.) *The Journal of Land and Public Utility Economics*, vol. XXII (November 1946), pp. 309-20. Published posthumously after originally having been presented at the Seventy-sixth Annual Meeting of the Wisconsin Academy of Science, Arts and Letters in April, 1936. Reprinted by courtesy of *Land Economics*.

¹ An expression used by H. M. Leake in an article "Further Studies in Tropical Agriculture," in *Tropical Agriculture*, 1937, from which a quotation was used in the portion omitted (editor).

² Karl Polanyi, *The Great Transformation* (New York, Farrar and Rinehart, 1944).

an authority), Louis Bromfield's most recent book, which deals with agriculture and which has somehow managed to stay on the best seller lists for a considerable period of time, says this:

Our own history of bad agriculture and worn-out soils is almost a record among the peoples of the world. . . . Today a large proportion of our small farmers exist upon an income and living standards below those of the average European peasant. . . . They exist upon lands which should have been left in managed forests, lands which were never suited for agriculture and were worn out and destroyed within a generation or two, or they exist upon rich soils which were destroyed by greed and bad farming within a century or less. The problem is not only an economic one; it is a social one as well for the rural population of the nation is not increasing from the stock of good, healthy farmers established upon good lands but from the wretched "peasant" population settled upon poor and worn-out lands.

We do not, however, have to turn to Bromfield for statements which emphasize the degree to which our land resources have been destroyed. A recent book by the former director of the Harvard Forestry says that we are facing what he calls a "soil crisis." In his words, "Modern man faces the ominous question whether civilization can learn how to conquer soil erosion before soil erosion has destroyed civilization."

I do not know whether it is merely an illustration of professional egocentrism, but it appears almost as though the greater an authority a man is in a natural science field, the more vehement he is in expressing the concern over the wastage of the natural resources which are the object of his attention.

For my own part, I am of the opinion that a good deal of the alarming that has been going on in respect to the physical condition of our resources has been over-done; yet maybe that is necessary to shake some people out of their complacency and utter disregard for a question which is after all of fundamental importance.

But it can still be shown that even those who are not inclined to exaggerate the physical condition of our natural resources are still far from satisfied with the results which our land system experiment has given us. Charles Abrams, for example, in his stimulating book, *Revolution in Land*, has this to say:

America has tremendous resources. Most of them are still undeveloped. Some of them are even unsurveyed. It has more land for every essential purpose than our probable maximum population can ever use. It has almost all the things a modern civilization needs. It has almost all the manifold factors of production required for the fullest functioning of a rich and variegated social system. Here, if anywhere on the earth, one might expect to see the old pattern of individual ex-

ploitation flourish. Yet land in America has become the heritage of the underprivileged.³

Is this the outcome of our vast, brave experiment in trying to work out a new, democratic, non-feudalistic system of land-holding on this continent? Certainly if Thomas Jefferson, who saw in the new American land system the very essence of the new democracy, were to learn that it was now concluded that land in America, far from serving as a foundation stone for a glorious, free rural citizenry, had become only the "heritage of the underprivileged"—surely he would feel that the experiment had failed. Here, after a hundred and fifty years of trying to make our new land system work, Abrams asks the same question that Jefferson was propounding when our republic was born: "What chance is there that someday a consistent and correlated land program will at last be evolved?"

Before proceeding to look into the possible answers to this question you may want to know whether some of these quotations I have given represent a consensus of the students of land policy or whether they are extremist positions, unduly pessimistic views. After all, anyone could make out a case in quite different terms. In terms of production and output, for example, the American record is a hard one to beat. From after World War I until World War II, for example, this country was worried, not over the shortage of its supply of raw materials, but was bothered by such a surplus of food and fibre supplies that we adopted artificial schemes for destroying a part of our output. And during World War II, our farm economy turned out an all-time record of production, our people as a whole ate better than they ever did before, and today, in spite of a few scarcities, we are almost ashamed of the things we have available in comparison with the miserable conditions which prevail in most parts of the world. In short, whatever may be the failures of our land system, failure to produce the goods our people want is not among them.

It can be said further that at least for a considerable proportion of our rural people, they live in decency and comfort and they enjoy a degree of freedom such as farmers in other parts of the world can hardly imagine. Furthermore, in view especially of the incomes that our rural people have earned during the recent years it is difficult perhaps to accept some of the descriptions of rural poverty and suffering which may be given to show the failure of our land experiment.

What, then, is the trouble? Is it that the photographers have given us too many dramatic pictures of horrible gullies on the land and too few

³ Charles Abrams, *Revolution in Land* (New York, Harper and Brothers, 1939).

examples of crop yields higher than ever before? Is it that the abnormal years of the depression have impressed us with pictures of rural poverty and farm foreclosures and have caused us to overlook the existence of thousands of profitable farm units and to discount the good incomes which farmers earn now and in other prosperous years?

Or is it that we are asking too large a question? After all, perhaps it is impossible to say whether or not an experiment as large as our experience with land policy over a century and a half, in a country as large and as diverse as ours, is or is not a success or failure. It would seem to make a very great difference whether one were to appraise our land system in terms of the conditions of negro sharecroppers in the Mississippi delta or of farmers in Dane county, Wisconsin; whether one were to look at the farm factories of California or the dairy farms of Vermont; whether one were to think in terms of the low-price, depression, and drought years of the early 1930's or the war-time boom of the early 1940's.

There is no doubt, I think, but that much of what has been said and written about our land system has been out of perspective because of the concentration of attention on a particular region or a particular time. Carey McWilliams, for example, has rendered good service in bringing to light some of the conditions which exist where factories in the field exist, just as John Steinbeck has done. Whatever can be done to bring about improvement in such situations is to all to the good; we cannot be proud of the conditions which have developed in these monopolized farming areas. But less than one per cent of the nation's farms and only about 6 per cent of its farm land is operated by managers. In other words, the factories in the field are mighty important where they exist, but they do not exist in very many places.

Similarly, the problems of the truly poverty-stricken status of the hill farmers of the Southern Appalachians and the near-serfdom of the colored sharecroppers in the South must be marked down as arising in part out of special regional conditions and as calling for special types of remedial action.

Arthur Moore, who has written the best book on American agriculture that has appeared in the past few years, says that the family farm of the middlewest corn belt represents the American rural norm. As he puts it:

The corn belt was peopled by those who expected a life of freedom, security, and social democracy. It is the common denominator of American rural life. The plantations, the cattle baronies, the wheat industrialists, the California factories in the fields, the Appalachian hill farmers, the sharecroppers black and white—

all these have been given character and clarity. Yet they are merely eccentric to the corn belt norm.⁴

Moore also says that the corn belt farm "is the essence of the American dream." Yet he too finds, as he puts it, that "a shadow lies across" the American "promise of a richer national life in the peace." To find that promise, he suggests that it is necessary to look "beyond food to the farmers and beyond them to the land."

To what conclusions, then are we forced? On the one hand, the consensus seems overwhelming that somehow, for some reason, our land policies have not given us what we hoped for. On the other hand, they have not completely failed us by any means. Are we to conclude that there is some good and some bad and that no predominant source of difficulty can be found? Do we have to conclude that there are difficulties here and troubles there; that there are hard times and good times; but that these things have to be looked at piecemeal and treated as special cases? Or is there any common denominator of the difficulties which are so obvious everywhere at certain times and in some places at all times? Are these adversities in total so extreme as to warrant an adverse decision as to the experiment in land policy which this great nation has been carrying on? Is the judgment so adverse as to warrant immediate recommendation of some completely new land system such as land nationalization, the collectivization of landed property, the adoption of a widespread system of corporate private ownership? These and other completely new systems of land tenure are being advocated by some; and even some of our most conservative thinkers, I expect, would be willing to embrace some of these alternatives if they felt that the continuation of our land system in the future were to be no different from what it has been in the past.

It seems to me that the evidence does not yet show that the land system we have envisaged for the United States is so completely wrong as to warrant its abandonment. Yet there certainly have been enough weaknesses show up in it that it is fully understandable why other peoples of the earth who are still trying to extricate themselves from the bondage of feudalism might look our system over and decide that, no thank you, they'll look around elsewhere for their ideas. And, regardless of what influence our experience may have on the choices of the millions of foreign peoples who are confronted with the job of setting up their new twentieth-century land systems, the evidence is unquestionably such as to

⁴ Arthur Moore, *The Farmer and the Rest of Us* (Boston, Little, Brown and Co., 1945).

require our own attention to our own land system for our own future peace, prosperity, and national happiness.

I do not think that the Jeffersonian dream of a prosperous rural America—of a countryside of intelligent, progressive farmers, of a productive rural economy that rolls out the foods and fibres our city people need and want, of a land system that assures the tillers of the soil freedom and equality of opportunity through the ownership of the land which each of them tills—I do not believe that that goal is completely out of reach. I do not think that our experiment proves that that ideal is unattainable, although a great many people do. One nationally prominent economist has recently characterized it as a “will-o’-the-wisp” which we had better stop chasing. No, I do not believe that we have to give up this hope. Yet, the evidence does seem to clearly show that we do need some very forthright action if we are going to attain it; and furthermore, if we do not soon take some forthright steps to see to it that we attain it, a worse choice may be thrust upon us.

The mistake we have made has not been that of trying to establish a system of independent land ownership with a high degree of freedom for the owners of land to do what they want with it. The mistake we have made has been rather to assume that the system would work automatically—that, once land had been put into private ownership, all of the potential benefits of such ownership would immediately accrue to our society; and further that the system would perpetuate itself.

What our experiment has shown, and some excellent historians and economists like Hibbard of Wisconsin, Gates of Cornell, and Shannon of Illinois have proven that these tendencies cropped up early in our experiment—what our experiment has shown is that the mere putting of land into private property in and of itself does not assure that such land will remain in the hands of those who use it. If the nineteenth century experiment in establishing new land systems was, as Polanyi says, the “weirdest” of undertakings, what made it weird is not that we tried to give freedom and title to the private individuals who operate our farms, but that we have acted as though those titles to land could be treated just like the rights to any other commercial goods—could be thrown on the commercial market like titles to consumable goods.

What we should learn from our great experiment is that when the ownership of land is made a purely commercial transaction—when people, be they farmers, investors, or idle by-standers, have the right not just to put their land to such physical use as they please, but also the right to encumber the title with debt, to split it up horizontally and vertically, to place whatever price on it they wish, in short to kick it around like any

other scrap of commercial paper—when we interpret private landed property with this sort of thing in mind, then we learn that, far from being a self-perpetuating system, we have a self-destructive system; one in which the tillers of the soil have a decreasing equity in the land they cultivate, one in which the tillers of the soil have increasing insecurity in society, and finally, one in which the very richness of the soil itself is robbed and the soil itself erodes away.

The evidence is piling up faster as we turn up our social science microscopes to a higher power to examine the process, that under what we may call the free-play of private fee simple land ownership, our system runs *cumulatively*, against the sort of a rural economy which has ever been an integral part of the American democratic ideal. It is not self-correcting; it is not self-perpetuating. Rather, there is a persistent treadmill effect. When land is lost out of the hands of the farmer who tills it, there is no offsetting mechanism—rather, that action itself makes it all the more difficult for another bona fide farmer to acquire ownership of it.

It is this mistaken notion of automaticity which seems to be the source of trouble in the American land system experiment. It is this erroneous notion that constitutes an eccentric cog in our experimental machine—it lies deep down inside the works so that we forever overlook it, but even when the machine seems to be ticking nicely as it does during a land value boom period like the present one, even then, that eccentric cog is turning over and shunting the machine into a strained condition which eventually becomes noticeable and finally becomes disastrous.

I cannot take the time here to describe this cog in greater detail, but I might take time to be a little more explicit about its effects, so that you can see its pervasiveness. Its name is a big one—overcapitalization. It sticks out in many forms but it is the common denominator for the difficulties and frustrations that inhere in our land system—in California and in Eastern Kentucky, in Wisconsin and New Mexico, in depression-ridden years and in high-prosperity. All kinds of factors promote its operation—high rural birth rates is one of the most important. But unemployment and low wages in city jobs accentuate the movement of this eccentric cog in our land policy machine, and increases in farm incomes accentuate it; and governmental income guarantees that are tied to land also accentuate it so that many of our otherwise important efforts to aid the farmers' situation are nullified and defeated in the land market.

What our experiment seems to show most clearly is that once private property is established in farm land, if commercial transactions are relied upon automatically to perpetuate the system, then under certain circumstances there will be a cumulative tendency toward land subdivision until

the rural population is pressed into miserably small and inadequate and worn-out farm units such as are found in the Appalachian highlands. Under other circumstances there will be a cumulative tendency towards land monopoly until the rural population is squeezed out of any real rights to land such as is the case in plantation areas of the south and the factory farms of the west; and, under other circumstances, family farmers on family-sized farms will come to own an increasingly smaller part of the value of their land such as has been the case in the corn belt.

The trouble seems to have been that we have assumed the idea of operator ownership of our farm lands to be synonymous with just private ownership. We have interpreted the freedom and opportunity of an individual to be master of his own farm to include not only his right to operate his farm by his own decisions, but to include the right of anyone to have pretty near 100-per cent rights to encumber the property with debt, to sell it in whole or in part, to transmit it to others under all sorts of arrangements, to place whatever value might be set upon it.

In other words, having established the right of the individual farmer to operate his land as he pleased, we find that we also have established the right of money-lenders to write mortgages with terms that can never be met. We have also established the right of all and sundry to transfer lands at prices which can only mean misery and squalor for the family of the farmer who is going to have to pay those prices. We have also established the right of landlords to rent and farmers to lease land under terms which we know can only result in impoverishment both of the soil and of the farm family. We have established the right of people to retire on the value of their farm like they would on the value of a bank-book, drawing not only on its annual income but also if necessary on its capital or asset value, as though the disappearance of a section of land were comparable to the disappearance of a bank-book balance. We have established the right of people to pulverize land titles and to complicate them so that the sheer burden of keeping the records straight becomes an unnecessary expense of our land system. Isn't it obvious that these so-called freedoms of our land system are something other than that freedom of private ownership of our farm land which our American ideal has always encompassed?

The real question is whether or not we can devise ways and means not to weaken but actually to strengthen and give assurance to the people who work our farms their right to find economic opportunity and equality and security in the holding of their land; and at the same time to find and to put into operation devices that will protect our land and the people who work it from these cumulative and self-destructive tendencies which

operate when private ownership of the soil is interpreted to mean the right to use land titles as financial play-things, as though the title to an American farm should be just as much a pawn for commercial manipulation as a share of wildcat stock.

If we have the ingenuity to devise these ways and the courage and the interest to put them into effect, we need not abandon the idea of giving our farm people individual security and freedom in the operation of their farms. Nor will we jeopardize our sources of supplies of food and fibre; nor will we risk the deterioration of our natural resources. To attain the Jeffersonian ideal of rural democracy, we need not give up the whole idea of individual freedom, but we will have to keep individuality from running riot.

27. Our Major Land Use Problems and Suggested Lines of Action*

By L. C. GRAY

Former Assistant Chief, Bureau of Agricultural Economics

(Here is a comprehensive discussion of problems of land use in their broadest setting—the economic and social backgrounds, the desirable objectives, the constitutional framework within which policies must be shaped, the development of land use policy since 1862, and our present land-tenure and submarginal-land problems. The author thus puts one of the major dilemmas of today: "If our industrial economy could be so reshaped as to afford adequate and dependable employment for the surplus rural population, land-settlement policy could be aimed at achieving and maintaining a population balance that would assure a comfortable standard of living from commercial farming. If adequate outlets into industrial employment cannot be provided, a land-settlement program will have to be developed in the direction of a more nearly self-sufficient economy for a larger number of families than could maintain an adequate living standard under commercial farming." Among future needs, he lays special emphasis on an adequate small-holdings program, better landlord-tenant relationships, and closer integration of land use policies.)

ECONOMIC AND SOCIAL SETTING OF NATIONAL LAND PROBLEMS

The land problems and policies of a nation depend partly on the physical characteristics of the land itself, but even more on the stage of economic development, customary or legal institutions, and prevailing national attitudes of the people.

POPULATION DENSITY AND DEGREE OF INDUSTRIALIZATION

A most significant factor in determining the character of the land problems for a nation, or even for a major regional subdivision, is density of population in relation to the degree of industrialization. Where the economy is predominantly industrial a much larger population can be maintained without excessive pressure on agricultural land resources, especially if industrial products are exchanged for foreign agricultural products.

The United States has advanced beyond the stage of population density in which land policies to attract population need be employed.

* *U. S. Department of Agriculture Yearbook 1940*, pp. 398-415.

A high degree of industrial and commercial development has prevented population pressure from becoming as excessive as it is in densely peopled agricultural countries, such as Java, Barbadoes, or Puerto Rico; and at the same time our population density has not reached that of densely peopled industrial countries which must depend largely on importations of agricultural products. In the main we are agriculturally self-contained, except for certain tropical products.

So long as we retain restrictive immigration policies our population does not appear likely to reach the extreme densities that characterize some of the western European countries, for our birth rate has been falling for nearly a century. Indeed, it has recently been estimated that our population may become approximately stationary within a few decades at a level that would mean a density of little more than 50 persons per square mile, or about one-fourteenth that of Belgium, less than one-eighth that of Germany, and about one-fourth that of France. Even if we continue agriculturally self-contained, a density of 50 per square mile will not represent a serious pressure on our agricultural land resources, provided we employ sound policies of land utilization and tenure.

AGRICULTURE AND INDUSTRY ILL-BALANCED

Incongruous as it may appear in the light of the foregoing statements, many of our most serious rural problems emerge from the fact that too large a proportion of our population is endeavoring to make a living in commercial farming. This has come about because of diminution of foreign outlets for our agricultural staples, failure of industry to absorb the annual increase of rural population, and introduction of labor-saving farm equipment. The ill balance of agriculture and industry is especially serious because of its fluctuating character and the instability this introduces into rural life. In times of industrial prosperity rural population is drawn into the cities. In depression large and burdensome numbers return to rural areas for support. These conditions reflect rural overpopulation in the sense that the market will not absorb agricultural products at prices that will return a money income adequate to maintain a suitable standard of living for those whose livelihood depends mainly on the land. This does not mean overpopulation in the absolute sense in which general population density has been discussed. However acute the economic problems of our agriculture, we are really one of the most fortunate nations of the world in the opulent relationship of present and prospective population to available agricultural land. Nevertheless, we cannot afford a wasteful utilization or an uneconomical and socially unjustified distribution of land resources among those who use them.

REGIONAL OVERPOPULATION

Even the superabundant production of our farms comes mainly from only a small proportion of them, for it has been estimated that half the value of the products that reach the market is produced by less than 11 percent of the farms. A large proportion of the remaining farm families are employed primarily in production for family use, with at best the incidental production of small quantities for sale. Such families are most numerous in the southern Appalachians, the Ozarks, northern hill areas, and cut-over areas, and are found sporadically in other parts of the country. In part, their mode of life is a traditional survival of frontier modes of life and work preserved through isolation; in part, it reflects a regionally redundant population in relation to available agricultural land resources, intensified by high birth rates and local inadequacy of industrial employment.

In certain other regions there is redundancy of agricultural population because of the necessity of changing from a relatively intensive to a relatively extensive type of farm economy. In the Great Plains and intermountain regions, for example, ill-advised homestead policies attracted a population unduly large in view of the necessity of shifting from grain growing to livestock or combination farming. In the South serious soil depletion, partial loss of foreign markets for cotton, substitution of machinery for human labor, and the apparent necessity of shifting to types of land use requiring much less labor per unit of land have steadily increased the surplus rural population unable to find adequate employment.

The relative national and regional overpopulation of the countryside, intensified in some areas by protracted drought, has resulted in uprooting large numbers of families from the soil and setting them adrift as migratory tenants and laborers moving hither and yon looking for casual employment. Many farm families who remain on the soil are faced with difficult economic conditions and lowered standards of living.

GENERAL NATIONAL OBJECTIVES IN SHAPING LAND POLICIES

Land policies, as well as other types of policy, must be shaped with reference to the broad ideals and objectives of the Nation. The United States has long been characterized by the concept that the primary purpose of the Nation and its Government is to promote the welfare of its citizens as individuals, in contrast with the prevailing ideology of certain other nations that the welfare of their citizens must be subordinated to the enhancement of the greatness, power, and prestige of the state.

Pursuit of the latter objective may induce a policy of achieving a maximum population, as Italy and Germany have attempted to do in spite of an already overcrowded condition, in the interest of military power. On the other hand, although the United States is far less densely populated, its declining birth rate is generally viewed without serious concern, and even with some satisfaction, because of its significance in the maintenance of high living standards.

The trend of land policies depends also on the political and economic system, which determines whether national objectives are to be achieved by individual enterprise and private property in land and other production goods or by public initiative and the collectivization of goods. Under the assumption of continued private ownership, land-policy problems take the form largely of how to overcome the abuses, from a social point of view, of private landownership while retaining its advantages. Policies concerning regulation of land use, zoning, adjustment of relations of landlords and tenants, regulation of land settlement, and taxation, which emerge for consideration, either would not be required or would take different forms under public ownership.

From the beginning, the people of the United States have emphasized private enterprise and private ownership of land with a minimum of governmental interference. This, then, is our starting point for the consideration of land problems and policies, and we shall consider them within the general framework of our characteristic institutions.

CONSTITUTIONAL ASPECTS OF THE DEVELOPMENT OF LAND POLICY

The student of land policies must always be aware of the constitutional provisions that restrict the extent of interference with individual rights, limit substitution of public ownership for individual ownership, or define the scope of the powers of the various branches of government.¹

NATURE OF PRIVATE OWNERSHIP OF LAND

Landownership is a bundle of rights, including the right to use (or abuse), improve, or dispose of the land owned. The owner may grant or dispose of one or more of his rights, retaining title to the remainder; for instance he may grant an easement, dispose of his subsurface mineral rights, or grant to a tenant the right to use the land for a period.

The rights of ownership by private individuals, however, are limited by certain governmental rights, but in many respects these are ill-defined.

¹ For a fuller discussion, see "The Soil and the Law," *U.S. Department of Agriculture Yearbook 1938*, pp. 298-318.

The principal ones are a limited right of taxation; the right to acquire land by eminent domain for clearly authorized public purposes, paying therefor its fair value; and the police power—that is, the right and obligation of government to provide for and safeguard the health, safety, and morals of its citizens and a still vaguer obligation to provide for the general welfare.

In the frontier stages of national development, land was so abundant that there were few ways in which the interests of the general public appeared to be injured by the use or disposition of privately owned land. Therefore few restrictions were imposed. In popular opinion, in custom, and in the attitudes of legislatures and courts, landownership acquired a degree of absolutism which still puts the burden of proof on the public agency that would seek to restrict the employment of the rights of ownership.

As our economic and social life have become more and more complex the broad public interest has been found to be increasingly affected by the unrestrained exercise of individual or corporate property rights in land. There is a growing opinion that land is vested with a paramount public interest, that private landownership is granted by society rather than being an inherent individual right, and that when it comes into direct conflict with the general welfare either it must be restrained or the land must be converted, with due compensation, into public property.

CERTAIN LIMITATIONS ON THE POWERS OF THE FEDERAL GOVERNMENT AND THE STATES

The Federal Constitution, as interpreted by the courts, defines the jurisdiction of the Federal Government, leaving to the States the remaining jurisdiction. No regulatory power over privately owned land is specifically granted to the Federal Government. Such powers as it may exercise must be derived from the powers to raise and expend revenue and regulate commerce and from other powers incidental to these. The Federal Government enjoys very broad powers over the lands it owns.

Both the Federal Constitution and the constitutions of various States, as interpreted by the courts, impose restrictions on the powers which the respective agencies may exercise over privately owned land. Some of the principal types of restrictions may be summarized as follows:

1. The provision that prohibits depriving persons of "liberty or property without due process of law" has been especially potent in limiting the so-called police power. The latter concept is still ill-defined,

particularly in its application to land, and has been extended but slowly, opposed at every step by the safeguards embodied in the "due process" clause.

2. From the due process concept has been derived the principle that State expenditures must be confined to clearly authorized public purposes. The constitutions of various States also include a number of specific restrictions on State expenditures.

3. Derived from the general philosophy of our system of threefold governmental structure—legislative, executive, and judicial—and specifically embodied in the constitutions of certain States is the doctrine that Congress or a State legislature may not delegate its authority to administrative agencies.

4. The provision in the fourteenth amendment to the Federal Constitution that no State may deny to any person within its jurisdiction the "equal protection of the laws" is interpreted to permit reasonable classification of persons and property provided there is uniformity of treatment within the class.

5. Interstate compacts are subject to approval by the Federal Government.

In summary, it will be apparent that the power of either Federal or State Government to remedy serious social disadvantages in the use, tenure, and disposition of privately owned land is not very explicit and may be extended only by convincing legislatures and courts that the social welfare in particular situations is so paramount that the individual rights protected by a constitution may be justifiably subordinated.

THE DEVELOPMENT OF NATIONAL LAND POLICIES

From the beginning of the Federal Government the conviction prevailed that the progress and prosperity of the Nation would best be promoted by private landownership and therefore that the public domain should be rapidly distributed into private ownership. During the next hundred years this principle predominated in national land policies.

Until 1862 virtually all disposal of the public land to individuals was by sale, except for the limited granting of land as an inducement to or reward for military service. In the sale of land there was no restriction as to the amount that might be acquired except the ability of the purchaser to pay for it. Gradually interest in promoting and facilitating settlement gained headway against the originally predominant concern with making the public lands a source of revenue. Lowered minimum prices and reductions in the minimum size of purchasable units, together, for a time, with credit on the purchase price, made it easier for settlers

to buy land. By a series of temporary and limited acts, and finally by a general act in 1841, squatters were excepted from the auction system and protected from loss of their homes by recognition of a preemption right to purchase for \$1.25 an acre 160 acres on which they had settled and made improvements.

The year 1862 marked the beginning of the second epoch of Federal land policy. It witnessed abandonment of military bounties—hitherto largely a source of benefit to speculators, a decrease in auction sales, and the adoption of the homestead principle of granting land virtually free in limited quantities on condition of occupancy for a certain period and the making of improvements. The principle was gradually modified by shortening the required period of residence, with special exemptions for soldiers or veterans; by increasing the maximum acreage obtainable, in partial recognition of the special agricultural conditions of semiarid areas; and by providing special conditions for acquiring homesteads in national forests, with access to needful timber and stone, and for encouraging protective timber planting. All these provisions were designed in theory to aid or facilitate actual settlement.

Unfortunately the selling of the public domain continued to parallel the homestead system until sale as an important method of disposition was abandoned in 1891, and even the homestead policy was modified to permit commutation of part of the required period of occupancy by money payment. In fact throughout most of the three decades after 1862 it continued to be easy for speculators to acquire choice lands in large blocks, frequently to the exclusion of homesteaders, who were forced to purchase at advanced prices.

Hundreds of millions of acres were transferred to the ownership of States and corporations through the swampland grants, grants in aid of education, and grants to subsidize the construction of wagon roads, canals, and railways. Since such grants were for the most part without condition as to use and subsequent disposition of the land, in effect the Federal Government to this extent resigned its power to direct the course of land use and settlement. Generally the States and corporations concerned sold their land holdings unconditionally, usually at advanced prices, although a number of States in the West have followed a leasing policy.

The year 1891 may be considered the beginning of a third epoch in national land policy, for it marked abandonment not only of sales policies, but also of the general idea that the public lands should be put into private ownership as rapidly as possible. The President was authorized in that year to reserve lands in the public domain covered with timber or brush; and during the next decade and a half nearly 195,000,000 acres

were reserved. This was a significant manifestation of the growing recognition of the social importance of land. Later it was followed by measures providing for Federal purchase of land for forests and wildlife refuges.

Although homestead policies continued to operate for nearly half a century after 1891, they soon ceased to have constructive significance because of virtual exhaustion of public land suitable for arable farming. In fact they came to have a nuisance character, enticing hapless pioneers into the occupancy of lands hopelessly unadapted to arable farming, frequently to the detriment of the range interests.

Recent years have seen the beginning of a fourth epoch in national land policy. In addition to increased emphasis on policies for forest and wildlife conservation, there have been attempts to overcome certain social disadvantages that accompanied private landownership. Since a number of these new attempts are discussed in detail elsewhere in this Yearbook, the remainder of this article is confined to consideration of the elements requisite for a well-rounded land policy.

In the light of the present perspective, the shortcomings of the extreme *laissez faire* policies of the nineteenth century are apparent, though the historical inevitability of these policies must be recognized. Most of the present-day problems of land use and tenure, viewed from the standpoint of agriculture, are traceable to these shortcomings. In considering the various groups of problems one by one, we shall have occasion to take stock of what is being done about them. It will be apparent, moreover, that they are interrelated.

LAND-TENURE PROBLEMS AND POLICIES

There can be little doubt that an essential aim of American land policy in the past has been the establishment of family-size farms owned by those who operate them. Yet the means adopted have fallen far short of realizing this objective.

FREEDOM OF DISPOSITION

In large measure this failure grows out of the almost unlimited freedom of disposition of property in land that developed in this country. After title passed into private ownership, there were no restrictions on the right of the owner to dispose of the land whenever, however, and to whom he might desire, although a body of State law developed to determine the direction of ownership in case the owner died intestate.

Advocates of freedom of disposition argued, with some truth, that

it had the advantages of elasticity and readiness of adjustment to changing conditions, individual and social, and that under it each individual was free to acquire and continue to own the size and type of farm unit he was best adapted to handle. This conclusion rests on the hypothesis that the majority of individuals will act continuously in their own interest and that the individual interest coincides with the social or public interest. In practice this does not always prove to be true. Hence a number of socially undesirable results have followed from complete freedom of disposition of landed property.

LAND SPECULATION. Since a large proportion of the land granted in the prehomestead period and a considerable part of that granted between 1862 and 1891 was not limited by the ability or intention of the grantee to use it, extensive land speculation developed. Land passed from one speculator to another until finally it came into the hands of those willing to put it to use, either directly or through tenants, but usually at an advanced price. Fortunately, failure to limit grants to a size suitable for an operating unit did not result directly, as a general rule, in the creation of large landed estates rented to tenants, such as developed in England and certain continental countries. The preoccupation of the original receivers of large grants with speculation and the predominant concern of large capitalists with investment in the rapidly rising industrial system prevented such a result except in a relatively few instances.

The most serious form of land speculation developed subsequently from the freedom of disposition, which permitted farms and farm land to be bought and sold, or mortgaged, in the open market. This process is not carried on by professional speculators only. To a considerable extent farmers themselves are motivated by the desire for a speculative profit from land. Indeed, purchase has become a principal means whereby farmers may acquire ownership of land whether their primary purpose is farm operation or a subsequent profit from resale.

Thus freedom of disposition has been a principal factor in causing agriculture and interdependent businesses to incur the hazards of fluctuating values of farm real estate, which constitutes about five-sixths of the farm investment. The inflationary influence of the World War resulted in an intense wave of land speculation. Thousands of farmers, amazed by the sudden advance of real estate values, sold their farms and then found it necessary to pay still more to acquire other farms. Many bought far beyond their operating requirements or, encouraged by paper profits, indulged in other forms of extravagance, largely on credit. Mortgage indebtedness increased enormously. Then a long period of decreasing real estate values set in during which much of the security supporting the huge debt structure was gradually washed away. Foreclosures and de-

linquency increased notably, and much farm real estate passed into the ownership of creditor agencies.

The outbreak of another great war carries the possibility of another speculative orgy, and it is well to consider methods of avoiding it and its unhappy consequences.

It may be hoped that rigorous steps will be taken to prevent credit from becoming again a stimulant and vehicle of land speculation. Undoubtedly an important instrument of prevention lies in farm credit and banking policy. It has been suggested that the imposition of heavy State taxes on profits from resale within a limited period would be an effective deterrent and that the Federal stamp tax on legal documents representing the transfer or encumbrance of real estate might be modified to accomplish a similar purpose. It is possible, too, that the capital gains and surtax provisions of the Federal income tax might have a deterrent effect.

A still more unfortunate consequence of the freedom of disposition which characterizes our system of farm ownership is manifested in the instability of farm tenancy, itself largely a result of freedom of disposition by landowners. Even for owner-operators the ever-present possibility of disposition by sale causes management and improvement policies to be of a more transitory character than they otherwise would be.

Some of the land reformers of the 1850's who were urging adoption of the homestead policy foresaw that the granting of land without restrictions on subsequent disposition, even in limited quantities and on condition of 5 years' occupancy, would result in tenancy and speculation instead of realizing their ideal of family-size farms occupied by home-owning farmers. They therefore proposed that homesteads be alienable by neither sale nor foreclosure but only by exchange, as a farmer might trade a work horse for a riding horse.

The proposal was not adopted, but in the light of later developments there may be reason to regret that it was not approved then, or what would have been better yet, put into effect at the very beginning. Some of our most serious farm-land problems, which now must be dealt with by less drastic but also less effective measures, might thereby have been avoided. Such a far-reaching change now would be revolutionary. It is of interest, however, that in certain projects of the Farm Security Administration restrictions on the right of disposition, looking mainly to preventing speculation and unwarranted subdivision, have been included in contracts for purchase of farms from the Federal Government.

TENANCY AND LAND-TENURE POLICIES

In 1935 about three-sevenths of the land in farms was rented either by tenants and croppers or by "owners additional." For better or worse,

therefore, that proportion of our farm land was under the immediate control or management of persons who did not own it, except insofar as landlords supervised the management of the land rented.

Assuming private landownership and freedom of disposition, tenancy of the right type may have certain advantages from the standpoint of the tenant himself. Tenancy may afford a means of obtaining the use of a farm without having to invest in land the funds needed to provide operating capital, and particularly without having to incur the hazards of large mortgage indebtedness. If for any reason the farmer is uncertain how long he will remain in a particular location or if he doubts the desirability of a particular farm, tenancy affords him a temporary arrangement or an opportunity to become thoroughly acquainted with the farm before purchasing it. If he is inexperienced, tenancy may provide a period of apprenticeship under an experienced landlord.

For those who have become owners and who, for one reason or another, do not desire to, or cannot, operate their holdings directly, renting to a tenant may provide a convenient alternative.

Not all the poverty, ignorance, ill-health, poor standards of living, lack of social contacts, and even wasteful use of soil frequently found to characterize tenant families are attributable to tenancy as a form of land tenure. On the contrary, poverty, ignorance, inefficiency, and other disabilities may compel people to be tenants. But tenancy may intensify these conditions and be contributory to their development. Whether this is true depends very largely on the type of tenancy—that is, on the relationship between landlords and tenants. Though there are numerous cases and considerable areas where these relationships are reasonably wholesome, by and large the types of farm tenancy prevailing in the United States are probably the worst in the civilized world.

This is due largely to the character of landownership. For a large proportion of the landlords, ownership or intent of ownership of a particular farm may be quite transitory. The landlord may not be a farmer but one who has acquired a farm through inheritance, for speculative purposes, or by foreclosure of a mortgage and expects to sell at the earliest opportunity. Even with intent to continue as owner he may be compelled through financial reverses to sell the farm. Thus for a large proportion of the landlord class there is no continuity of relationship with particular farms, and there is a disinclination to develop a long-time program for farm improvement or a long contract with tenants.

Consequently, the tenant's outlook is uncertain, and this influences his management plans and his attitude toward making improvements or maintaining existing improvements as well as conserving the soil. The

difficulty is intensified by the fact that relatively few tenant contracts provide for compensation to the tenant, on termination of his period of occupancy, for improvements made by him. Lacking such provisions by contract or by statute, the common law awards the improvements—even those subject to removal, if they are attached to the land—to the landlord. Another serious consequence of uncertain tenure is a natural disinclination on the part of many tenants to identify themselves with the social life or concern themselves with the welfare and progress of the communities in which they live.

Although an improvement in land-tenure policies alone could not be expected fully to stabilize American farm life or to change habits of exploitation into habits of conservation, policies making for security of tenure can contribute largely toward such ends.

There has long been a large body of opinion favorable to measures to facilitate acquisition of farms by tenant families. The objective would have to be achieved by purchase, and safeguards would have to be employed to insure that ownership would continue in the hands of operating farmers; otherwise we should merely repeat the results of the homestead system, which soon produced widespread tenancy.

The most widely prevalent idea has been to make easy credit available to tenants. It is not always a benefit to a farmer, however, to exchange an obligation to pay rent for an obligation to pay interest. Until a substantial part of the principal is paid, permanence of tenure may be no more assured, particularly under private credit, than under a rental arrangement. For reasons already mentioned, many farmers find a favorable tenant contract with a good landlord preferable to assumption of a heavy mortgage indebtedness.

On the other hand, many tenant farmers are capable of responsible ownership and would be benefited by purchasing under suitable conditions. An important segment of a sound land policy, therefore, is a credit system adapted to the needs of this class. After many years of delay, during which atrocious systems of private mortgage credit prevailed, our Government has evolved policies of public credit better adapted to the requirements of tenants endeavoring to become farm owners—first, the farm land banks (see *Agricultural Credit*, p. 740) and more recently the Bankhead-Jones Farm Tenant Act of 1937.

The latter marks a distinct advance, embodying advantages not hitherto available. Among these are (1) a rate of interest as low as 3 percent, (2) a very small down payment, (3) 40 years for repayment, on the amortization plan (not an entirely new policy), (4) local committees of experienced farmers to assist in selecting the farm and the

purchaser, (5) authority for the Government to require proper care of land and improvements, (6) prohibition against a second mortgage, and (7) the withholding of title for 5 years to prevent speculative sale.

Funds have not yet been made available by Congress to permit expanding the policy sufficiently to exert a significant influence on our tenant problems, and adequate safeguards against subsequent speculation and development of tenancy have not been adopted. These defects will probably be removed in time.

Various other measures have been proposed to check the increase of farm tenancy, recently estimated at about 40,000 farms a year. One proposal is partial exemption of owner-operated farms from taxation, favorably considered in a number of States. A wider extension of the credit facilities of the farm-loan system has probably aided some operating owners to avoid slipping back into tenancy. The rehabilitation program of the Farm Security Administration has supplied a combination of credit and technical guidance to numerous tenants too poor and too technically incompetent as yet to look forward to early purchase of a farm, even under the Bankhead-Jones Act. Some of them gradually build up to the stage where they are prepared to climb onto the higher rung of the ladder. Measures to prevent excessive speculation would remove an important cause of the reversion of farmers from ownership to tenancy.

Parallel in importance with policies that seek to convert tenants into owners or prevent reversion from ownership to tenancy are measures aimed at improving the character of the relationship of tenants and landlords.

The British have developed, through many decades, a body of practical legislation and administrative arrangements providing for (1) compensation at the expiration of their contracts for improvements made by tenants, (2) compensation to the tenant for unwarranted and arbitrary termination of the agreement by the landlord or even for refusal to renew it, and (3) compensation to landlords for waste committed by tenants.

In this country, certain constitutional difficulties and established attitudes in public opinion and in the courts tend to impede the fullest development of these lines of policy. Nevertheless, initial legislation pointing in some of these directions is being sympathetically considered in several States.

An important gap in existing land policy is the lack of an adequate small-holdings program, such as has been developed in a number of other countries. A large class of potential tenants and owners of small holdings now drift about aimlessly looking for casual and precarious em-

ployment, who for reasons of general social welfare should be rooted in the soil. In the main they are people of farming experience and background and would prefer country life if they could have a dependable foothold. The credit provisions of the Bankhead-Jones Act could probably be adapted to meet this need, except that in many areas there is need for subdivision of large holdings and the construction of necessary buildings.

RANGE PROBLEMS

The range problems of the West are distinctive, as compared with pasture problems elsewhere, largely because of the extensive areas of public domain and State-owned land involved. Until the passage of the Taylor Grazing Act in 1933, the remaining public domain—about 165,000,000 acres—was a grazing common. Anyone was free to use it with no restrictions except those imposed by customary rights more or less supported by public opinion, legislation, and the courts. Since the public domain was widely interspersed with privately owned and State-owned land and since Federal statutes prohibited fencing Federal land, the greater part of the area was unfenced. Inevitable consequences were a continual scramble to get as much grass as possible, serious impairment of range resources, deterioration of herds, and intensified financial instability due to lack of provision for feed reserves for unusually dry years.

The Taylor Grazing Act was a notable legislative departure from the previous policy—or lack of policy—in that it authorized temporary withdrawal of public domain from homestead entry and provided for the formation of districts within which public domain is leased to stockmen under regulations looking to range conservation, formulated and applied by the stockmen themselves subject to Federal supervision.

In order to achieve greater control, conservation, and stabilization on the extensive areas of privately owned land interspersed with the public domain, stockmen have formed cooperative grazing districts, in some cases under special legislative authorization, to lease the privately owned land and regulate its distribution and use.

SIZE OF HOLDINGS

In many cases holdings are too small for economical operation under the type of farming required. This is especially serious in the western Great Plains. The ill-advised application of homestead policies to this territory divided the land into small units of 320 or 640 acres, where operating units of several sections are requisite. Ownership is in the hands of widely scattered absentee owners, many of whom have a wholly in-

correct idea of the rental or sale value that could be sustained under a range economy. It is therefore extremely difficult for ranchmen to effect a consolidation of these scattered units.

Representatives of the United States Department of Agriculture have been trying to arrange 10-year leases between existing owners and farm operators needing larger holdings; but leases sufficiently long and on suitable rental terms are difficult to obtain, since a large proportion of the land is held for early resale.

Under the so-called submarginal land program, to be discussed, large areas have been repurchased by the Federal Government during the last few years, with a view to creating operating units of adequate size and thereby repairing the damage wrought by homestead policies in that section.

The situation in the Great Plains is paralleled in many parts of the South, not because of the homestead system but because of the necessity of replacing the cotton economy with a more extensive type of farming.

THE SUBMARGINAL LAND PROBLEM

Numerous farm families, estimated at 500,000, are on land so poor that it will not maintain a decent standard of living. The situation is due partly to original mistakes in the selection of land and partly to subsequent deterioration through soil depletion and the cutting of timber. Frequently, also, the operating unit is of insufficient size.

In hilly or mountainous areas, such as the southern Appalachians, moreover, a large proportion of the population is accustomed to a scanty self-sufficing economy, and it is doubtful whether any but the younger people could adjust themselves successfully to a commercial type of farming. The problem is further aggravated by the high rate of natural increase of population and insufficient emigration.

Where the problem presents these characteristics it is probable that solutions will have to take the direction largely of helping these families to improve a self-sufficing economy through the application of intelligence and cooperation. Their labor resources might be employed to achieve better houses and household equipment, a more rational diet, and greater cleanliness and sanitation and to develop forms of recreation that can be accomplished through collaboration of neighbors.

Where natural resources are hopelessly insufficient, even for a self-sufficing economy, resettlement of families should be associated with Government purchase of their land and its employment for forests, parks, wildlife refuges, and other public services. The public purchase of submarginal land on a wider scale is justified in many areas where families

handicapped by inadequate natural resources or holdings of inadequate size are of a type capable of adjusting themselves readily to a new environment. Hitherto, however, the Federal program aimed at these objectives has not been supplemented by an adequate program of resettlement.

An important objective in the public purchase program is an improvement of the general pattern of population distribution in sparsely occupied areas, in the interest of eliminating unnecessary public expenditures for roads, schools, electric power lines, and other public services.

A program of Federal purchase of land aimed primarily at these objectives was carried on for several years following 1934 through the employment of relief funds, and over 9,000,000 acres, mostly of farm land, was acquired and improved for use as forests, recreation areas, game refuges, ranges, and other purposes. Under title III of the Bankhead-Jones Farm Tenant Act, Congress authorized the expenditure of \$50,000,000 over a 3-year period for these purposes, but only about one-third of that amount has been appropriated.

TAX DELINQUENCY

Closely related to the problems just discussed is extensive tax delinquency, a result partly of widespread economic distress in rural areas, especially those characterized by inadequate natural resources and unduly small holdings, and partly of the unwillingness of large timber owners to continue tax payments after cutting the timber. As a consequence of tax delinquency local governments are seriously embarrassed financially, large areas remain unused or underused, and land titles fall into confusion.

In virtually all of the States tax-delinquency legislation has been based on the theory that tax-delinquent land should be resold. A usual practice is to offer tax certificates for sale, subject to redemption by the owner during a period of several years. In case of failure to sell, the county or other unit of government bids in the certificate. In case of failure to redeem, the county, State, or other governmental unit may take title. In many cases, however, existing laws do not permit the public agency to obtain a clear title, and there is no adequate policy for administration of the land even if title is obtained. Yet much of the tax-delinquent land is better adapted to public administration than to private utilization, and there is little private demand for the tax certificates except as a temporary investment or for the purpose of still further wrecking the land by cutting remaining odds and ends of timber.

More realistic procedures, based on adequate land classification, are needed to distinguish the areas adapted to private utilization from those on which public administration would be in the public interest. Tax-delinquency legislation should facilitate the passage of title of the latter class of areas into public ownership, and public purchase should be employed to facilitate the blocking of scattered units of tax-delinquent land reverting to public ownership.

PREVENTION OF SOCIALLY UNDESIRABLE SETTLEMENT

Occupancy of submarginal lands, tax delinquency, and socially costly patterns of occupancy are due to lack of a program of guidance and direction of land settlement in the public interest.

State legislation was long concerned with attracting settlers through the activities of State immigration departments, with little regard to methods or results. In recent years legislation in some States has been aimed at affording settlers a measure of protection against misrepresentation by unscrupulous land salesmen, by establishing State real estate boards and passing of blue-sky laws. One State, Wisconsin, has undertaken to apply zoning laws to prevent scattering occupancy that increases the expense of providing local public services. To some extent it is possible to employ State or Federal subventions for roads or schools to a similar end. Some of the Western States have endeavored to prevent issuance of irrigation bonds for enterprises technically or economically unsound. Administration of public credit could also be so directed as to discourage occupancy of land incapable of yielding a reasonable standard of living.

These various restrictive or preventive measures, however, will be adequate only if they can be based on an effective classification of land, and merely restrictive measures are likely to prove less effective than a positive public program for guiding land settlement and shaping its character from the standpoint of individual and general welfare. Various experiments in this direction have been made by certain States and by the Federal Farm Security Administration. So far, however, no comprehensive program has been established.

Land-settlement policy, as well as other agricultural policies, is at present handicapped by the poor balance between rural and urban population mentioned earlier. If our industrial economy could be so reshaped as to afford adequate and dependable employment for the surplus rural population, land-settlement policy could be aimed at achieving and maintaining a population balance that would assure a comfortable standard of living from commercial farming. If adequate outlets into industrial

employment cannot be provided, a land-settlement program will have to be developed in the direction of a more nearly self-sufficient economy for a larger number of families than could maintain an adequate living standard under commercial farming. An early determination of the outlook and a shaping of settlement policies is accordingly highly desirable.

RECLAMATION

A similar uncertainty affects judgment as to reclamation, through irrigation or drainage, at public expense or by public subsidies. If agriculture is to be predominantly commercial and to suffer from restricted markets, additional reclamation at public expense will present a different problem from that if there is to be a redundant population that must be supported under a self-sufficing economy, with no good land available that can be spared from commercial agriculture.

After trying various expedients to encourage reclamation of public land by private enterprise, the Federal Government embarked in 1902 on a policy of subsidized reclamation. The program has met with certain financial difficulties, but it has not been on a very large scale in relation to the agriculture of the Nation as a whole, and it has created a number of agricultural oases in the midst of extensive arid areas.

Another recently developed phase of irrigation policy has been aimed at facilitating irrigation of small units of land on existing farms and ranches, in order to stabilize the farm economy by providing a supplementary source of feed or by enabling farmers to raise a more diversified supply of food for family use. One such policy is the Water Facilities Act of 1937, under which the Department of Agriculture is authorized to facilitate construction on private lands of inexpensive water facilities, such as wells, pumps, small reservoirs, and diversion dams. Recently funds were appropriated to enable the Department of the Interior to construct small reservoirs.

SOIL CONSERVATION

Abuses under private landownership in the United States have resulted in extensive impairment of soil resources. It has been estimated that over 50,000,000 acres of cropland has been essentially destroyed, that more than three-fourths of the original surface soil has been lost on 282,000,000 acres of all types of land, with considerable losses on other large areas, and that 75 percent of the cropland areas of the United States reported by the 1935 census are in need of conservation practices.

Until the Soil Erosion Service—which later became the Soil Conservation Service—was established in 1933, there were no public policies

for dealing with these menacing problems. A comprehensive program was then inaugurated to determine the most feasible technical methods, to awaken the general public to the seriousness of the problem, and particularly to stimulate farmers to adopt measures to check soil depletion and to repair its ravages.

To the latter end, small watersheds, ranging from 8,000 to 200,000 acres but typically about 25,000 acres, were selected to demonstrate the value of soil conservation practices to farmers and the aggregate results for the watershed as a whole in reducing damage from floods or siltation. The Soil Conservation Service entered into a 5-year cooperative contract with each farmer willing to have the program developed on his farm. Generally, the farmer agreed to supply a considerable part of the requisite man and team labor. The drawbacks of this method are its relative slowness and costliness and a lack of certainty as to the extent and permanence of its influence.

During the last 2 years there has been a shift in the method of attack from action by bureaus of the Government in cooperation with individual farmers to control and direction by groups of farmers themselves organized in specially created conservation districts, with the planning and technical assistance of the Soil Conservation Service. The original individual cooperative projects are being carried out, but the emphasis has changed to the district approach. Soil conservation districts are created under general enabling acts, which have been passed by the legislatures of all but a few States. As an organized governmental unit, the district has wide powers for promotion, education, and cooperation, with the consent of the land occupiers affected, and under the police power can pass ordinances compelling action, subject, however, to a majority referendum vote of the land occupiers. Thus far principal emphasis has been placed on the educational and cooperative, rather than on the compulsory, functions.

To a large degree, however, some of the most serious obstacles to conservation of the soil and timber resources are not overcome by the types of conservation policies thus far described. These obstacles include cost-price relationships, which cause many of the necessary conservation measures to be unprofitable to the individual operator; differences in the individual and the public interest in evaluating goods and income in the remote future; forms of land tenure that prevent the operator from having an economic interest in conservation; sizes of farm units too small to permit the type of husbandry that will promote conservation; and lack of capital.

In recognition of these economic obstacles the Conservation and

Domestic Allotment Act, which succeeded the original Agricultural Adjustment Act, provides a system of subsidies to stimulate the adoption of certain practices considered favorable to soil and range conservation.

FLOOD CONTROL

The problem of soil wastage is intimately bound up with the problem of flood control. Inadequate soil cover, lack of moisture-absorbing soil structure, and the cultivation of steep slopes make for rapid run-off and increase the momentum of water movement, intensifying its destructiveness to the soil itself as well as causing damage in other ways. Accumulations of soil materials in stream channels, resulting from erosion, tend to fill reservoirs with silt and to prevent streams from carrying off abnormal volumes of water.

Until recently flood-control policy has been confined to the engineering work of the War Department in constructing levees, diversion channels, and storage reservoirs, and in channel straightening, mostly on the lower courses of major streams. By the Flood Control Act of 1936 and supplementary legislation the Department of Agriculture was authorized to engage in what has come to be known popularly as "upstream engineering." This takes the form of various land use measures, supplemented by minor engineering works, to retard the flow of water into and through the innumerable small tributary streams and thereby prevent or lessen the aggregation of floodwater in destructive volume.

FARM FORESTRY

About 185,500,000 acres of woodland, nearly 30 percent of the total forest area of the continental United States, is included within the boundaries of farms. In extensive areas these important resources have been very wastefully used, partly through ignorance of methods of forest management and partly because of economic pressure on farmers for the realization of immediate income. In recognition of the important public interest involved, the Cooperative Farm Forestry Act passed in 1937 aims to provide a comprehensive program of assistance to farmers in making more effective use of their woodlands and conserving their timber. The act strengthens and extends arrangements for supplying farmers with technical information and with seedlings and other planting stock and for direct cooperation with farmers. An appropriation of \$2,500,000 annually is authorized for this purpose.

LAND POLICIES OF THE IMMEDIATE FUTURE

The task of the immediate future consists mainly in further development along the main lines of advance already established, with modi-

fication of detail in the light of experience, improvement of machinery and methods of administration, and amplification of the scope of some of the measures. It will be desirable also to fill some of the gaps indicated in this article, such as the lack of an adequate small-holdings program and of suitable arrangements for improving the landlord-tenant relationship. Especially is it important to effect a closer integration of the various policies. This is being accomplished in part through local and regional planning and through various other measures.

28. Current Issues in Federal Land Management in the Western United States*

By M. M. KELSO

Department of Agricultural Economics, Montana State College

The federal ownership of privately used lands and the policies followed by the federal agencies that manage those lands are among the important economic issues in the Western United States and among the more controversial issues in that region. The agriculture of the West—and that means for much of that area its major economy—depends for its very existence to a considerable degree on land in federal ownership; that in itself would make the matter important. But when we add that there is sharp and widespread conflict over the very existence of federal land ownership in the West as well as over the manner of its management, it is apparent that here is a problem that demands attention.

The subject covers a wide range of issues and is exceedingly complex. It goes far beyond what can be covered within the limits of this paper. Federal lands are not a homogeneous category, nor is their management a homogeneous function. Federal lands vary because their character, situation, and use vary widely; their management varies not only because their character varies, but also because they are managed by several federal agencies whose policies and methods are not uniform even though they are all "federal."

Except for land held by the Bureau of Reclamation and for some land held by the Indian Service in trust for the Indians, federal lands in the West do *not* include much, if any, land that is valuable for crop production or other relatively intensive use. But they do embrace lands suitable for a wide range of extensive uses. Federal lands in the West are used for the production of lumber and other wood products; for watershed protection to reduce flood and silt damages below them; for water production for irrigation, municipal water and power; for recreation including both summer and winter cabin sites and including wildlife for

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hunting; for grazing by domestic livestock; for restoration of impaired resources; for Indian welfare; for military training and storage depots; for mining and prospecting for mineral wealth, to name the more important.

The federal agencies responsible for land management in the West are well-nigh, though not quite, as numerous as are the uses to which the land is put. Federal lands in the West are managed by the Forest Service, the Bureau of Land Management, the Park Service, the Indian Service, the Bureau of Reclamation, the Fish and Wildlife Service, the Soil Conservation Service, the Departments of War and Navy, to name the more important ones. If these were merely operating arms of an agency possessing a single management policy, the list would be of only academic interest. But because each agency, within the limits of law and subject only to the most general kind of overhead unification, makes its own management policies and determines its own operating methods, the complexities attendant upon the widely divergent uses to which the lands are put are compounded by the divergencies in management policies.

The volume of resources encompassed by federal management in the 11 western states is huge—both in acres (406,500,000) and in proportion to the total land area of these states (54%). Of course, these federal lands are the lesser productive lands of the West, so that their physical contribution to production is not proportional to their acreage, but because of their vast area, because they constitute a large proportion of all lands, and because they furnish some irreplaceable resources (summer grazing, for example), they are of tremendous importance in the West.

Although this is a session on Land Economics, our concern is primarily that of agricultural economists; and so, rather arbitrarily, I shall confine consideration of this western federal land problem to those of its aspects that are agricultural, including forestry. We will consider it from the standpoint of lumber production, grazing, watershed protection, and water yield, and those aspects of recreation that are inseparable from the other uses named. The federal lands we will be considering in this paper are primarily those administered by the Forest Service, the Bureau of Land Management, and the Soil Conservation Service. These three agencies administer 78% of the 406 million acres of federal land in the eleven western states, or 42% of all the land area of these eleven states.¹

¹ Consideration of the use and management of Indian lands by the Office of Indian Affairs will not be included in this paper because these lands present

THE BASES FOR THE CURRENT ISSUES

Before we take up the issues relating to federal lands in the West, it will be well to review rather cursorily the circumstances out of which the issues grow. Three factors that are basic to the issues relating to western federal land management are (1) the fact that federal managing agencies perform many ordinarily private functions, (2) multiple-use management of federal lands, and (3) administrative allocation of publicly owned resources to private enterprisers. Each of these will receive brief consideration.

THE FEDERAL MANAGING AGENCIES PERFORM MANY ORDINARILY PRIVATE FUNCTIONS. The federal agencies that manage federal lands in the West perform many functions ordinarily associated with private enterprise. Typically the federal agency managing land in the West assumes the cost and responsibility for producing the land's crop; the right to harvest the crop is then sold or leased or permitted or given outright to private enterprise for exploitation for private profit. On federal timber land, the federal agency grows the trees at public cost and decides when and what trees to market; it then sells the trees "on the stump," usually at competitive bid, to a private operator who will harvest and market the crop under specified rules and regulations. On federal grazing land, the federal agency will manage the resource, improve and develop it, and plan its use all at public cost and will "lease" or "permit" its use to a stockman to harvest and market the forage through livestock for a term of years, at a price, and subject to rules and regulations. On watershed lands, and likewise on recreational lands the federal agency produces the water, or the game, or the recreational attributes and facilities; it produces them at public cost but makes the "product" available to the general public without charge, whether the product be water to use in private production, or game, or camping, or other form of recreation.

For some uses the federal agency manages the resource at public expense for use by the general public; for other uses the agency manages the land to create a product that is disposed of for a charge through private enterprisers as a basis for private profit. In some settings the agency functions in a manner and for purposes that the ordinary citizen

problems peculiar to themselves. To include them would seriously complicate the paper; they are, nevertheless, the principal category (11.1 per cent) of federal western land not included here, and they are used primarily for agricultural purposes.

Table 1

RURAL LAND HOLDINGS IN FEDERAL OWNERSHIP, BY PRIMARY ADMINISTERING AGENCIES IN 11 WESTERN STATES, 1945¹

	Arizona	Colorado	Idaho	Montana	Nevada	New Mexico
	(acres)	(acres)	(acres)	(acres)	(acres)	(acres)
Forest Service.....	11,473,127	13,684,788	20,069,831	16,333,259	5,051,372	8,973,756
Grazing Service ²	10,164,275	7,973,254	12,469,654	5,920,299	33,315,790	15,071,681
Office of Indian Affairs.....	19,423,454	730,273	864,532	6,502,866	1,141,170	6,657,738
General Land Office ²	2,501,026	677,530	503,106	1,821,247	12,810,844	524,397
National Park Service.....	1,144,573	518,270	70,581	1,140,924	115,849	230,739
Bureau of Reclamation.....	3,351,813	172,484	356,664	250,600	1,534,829	188,558
Soil Conservation Service.....	46,712	655,042	126,149	1,918,248	3,385	655,950
Fish and Wildlife Service.....	120	2,786	11,265	90,095	2,240,334	76,092
Farm Security Administration.....	6,019	5,037	9,947	73,140	0	92,135
War Department.....	4,968,847	698,094	63,938	719,720	3,463,280	2,077,367
Navy Department.....	0	59,168	22,479	0	175,277	0
Agricultural Research Administration.....	315	66	32,516	73,312	160	0
Other Agencies.....	11,575	1,667	8,308	701	13,562	33,022
Total.....	53,391,856	25,178,459	34,608,970	34,834,411	59,865,852	34,581,435
Land Area of State.....	72,691,200	66,538,880	52,997,120	93,642,240	70,273,280	77,767,040
Percentage of Land Area of State Federally Owned....	73	38	65	37	85	44

¹ Many reservations and withdrawals overlap and large amounts of Federal lands are jointly administered and have multiple uses. In this tabulation overlaps have been eliminated so far as possible and all acreages are reported under the one agency considered to have primary administrative jurisdiction. Consequently, the totals listed in this table are not necessarily all the lands administered by the agency for a particular function or use.

² The Grazing Service and the General Land Office have been combined since this table was prepared and now compose the Bureau of Land Management.

(a) less than .1 of 1%.

Source: L. A. Ruess and O. O. McCracken, *Federal Rural Lands*, U. S. Department of Agriculture, Bureau of Agricultural Economics, June, 1947. Appendix, Table 25.

Table 1—(Continued)

	Utah	Wyoming	California	Oregon	Washington	Total	
	(acres)	(acres)	(acres)	(acres)	(acres)	(acres)	(%)
Forest Service.....	7,838,035	8,564,661	19,552,419	14,434,594	9,605,562	135,581,404	33.4
Grazing Service ²	24,970,216	14,453,545	3,368,194	12,370,503	0	140,077,411	34.5
Office of Indian Affairs.....	2,524,754	2,080,625	674,370	1,735,141	2,722,605	45,057,528	11.1
General Land Office ²	355,851	3,208,102	13,454,942	3,045,157	560,494	39,462,696	9.7
National Park Service.....	285,481	2,317,266	4,154,041	164,863	1,132,837	11,575,424	2.9
Bureau of Reclamation.....	265,159	1,127,663	1,800,554	194,212	577,925	9,810,461	2.4
Soil Conservation Service.....	41,929	538,058	18,043	210,693	232	4,214,441	1.0
Fish and Wildlife Service.....	62,816	32,417	31,534	126,235	59,669	2,733,363	.7
Farm Security Administration.....	1,117	2,318	2,381	812	844	193,750	(a)
War Department.....	1,943,063	93,493	1,855,165	314,832	402,882	16,600,681	4.1
Navy Department.....	92,305	9,641	582,519	3,745	55,768	1,000,902	.2
Agricultural Research Administration.....	0	0	466	461	0	107,296	(a)
Other Agencies.....	5,292	4,795	20,709	2,379	8,186	110,196	(a)
Total.....	38,386,018	32,432,584	45,515,337	32,603,627	15,127,004	406,525,553	100
Land Area of State.....	52,701,440	62,403,840	100,353,920	61,664,000	42,865,280	753,898,240	
Percentage of Land Area of State Federally Owned.....	73	52	45	53	35	54	

associates with public enterprise; in other settings it functions in a manner and for purposes that the ordinary citizen associates with private enterprise. Out of this circumstance alone arises some of the conflict over federal ownership of western lands; it doesn't square some citizens' notions of what is "right."

If we could divide the federal lands of the West into two groups, on one of which functions are performed that are ordinarily thought of as public, and on the other of which functions are performed that are ordinarily thought of as private, then it would only be necessary to decide whether as a nation we wanted those lands on which ordinarily *private* functions are performed to be managed publicly or privately. But unfortunately it cannot be that simple. On a large portion of these federal lands, not only one, but *all* these uses, private *and* public, are practiced simultaneously; or if not all of them, at least more than one of them.

MULTIPLE-USE MANAGEMENT OF FEDERAL LANDS. This is the practice of "multiple use"—the practice that characterizes federal land administration in the West particularly on the National Forests. Under multiple use no one use and no one user is granted exclusive use of any single area, although he may be granted the exclusive practice of one use on an area. Multiple use is simultaneously the chief supporting argument for public ownership and management and the chief source of conflict between users and the managing agency.

When grazing is the only use on federal land, it can be legitimately argued that, in line with long established national policy regarding agricultural land in the United States, it should be privately owned. The whole operation of grazing is in line with what generally is looked upon as private enterprise. Forage is grown, the resource is developed by additions of capital, the forage is harvested by livestock and the livestock sold on the market. There is nothing to distinguish this operation from pasture use on any owner-operated farm in America. But suppose this grazing use is only one of several uses on the same area, the others being watershed protection and water yield which are of equal or, what is frequently true, of greater value than grazing use?

These uses may be and frequently are in conflict. In many instances if the land area were in the exclusive possession of the grazier, removal of the forage cover beyond what is optimum for run-off retardation and water yield would result because to the grazier these latter values represent no return nor any cost, and so he will graze to what he considers to be the limit of long-run returns to *grazing*. Under such circumstances, the land *must* be in public management if there is to be *any* management specifically in the interest of the other multiple values involved.

But out of this very device part of the conflict over western federal land management arises. Grazing is reduced in the interest of watershed protection and water yield, and the grazier understandably objects. Why should we expect him to do otherwise unless he is motivated by a larger fund of "social consciousness" than are most of us? He gets only slight return from the watershed protection and none from the water yield; he loses directly and immediately for every head of livestock he is prevented from grazing. He has everything to lose and nothing or very little to gain.

Look at the same problem from the standpoint of timber production for wood products including lumber. Growing trees fulfill several other ends besides the production of lumber and wood products; something approaching a climax timber stand may add significantly to watershed protection, to retardation of water run-off, to recreation values, as well as to wood production. But the trees on federal lands, once they are grown, are subject to sale by the federal agency for wood purposes. Within the requirements of the other competing uses for the trees, the agency decides upon a harvesting policy, marks the individual trees the removal of which will effectuate that policy, sells them on the stump to the private enterpriser to harvest and market under rules and regulations as to removal methods. By this process the lumberman, who is a profit-motivated businessman, is spared the "ripening costs" of the slowly growing tree crop and will need to pay only its raw material worth when ready for the harvest, a value set usually by competitive bidding at the time. But the lumberman's costs per thousand board feet of lumber sawed go down as the number of thousands of board feet sawed per acre goes up. The lumberman therefore presses on the federal agency "to mark every tree that will make a log"—his costs will be reduced thereby—his net will be increased. But to the administering agency other objectives than maximization of the lumberman's profits enter in to the calculation. Some trees that will make merchantable lumber may be more valuable as watershed protection, as water run-off regularizers, as seed trees for a new crop, as potential saw-logs for an early second harvest which will stabilize dependent village communities. Conflict of interests is inevitable.

ADMINISTRATIVE ALLOCATION OF PUBLICLY-OWNED RESOURCES TO PRIVATE ENTERPRISERS. This brings us to the third and last of the basic circumstances out of which grow the issues related to western federal land management. A large part of these federally-owned resources are and must be allocated among private enterprisers by administrative decision and not by competition.

Allocation of federal grazing land privileges is a complex administrative procedure. Privileges on grazing lands are granted to owners of livestock who own or legally control dependent land and who must have the use of some range types controlled by the public in order to balance their operation; these privileges are granted to a stockman only for such numbers of livestock as he must have to make reasonable use of his private dependent lands. His use of the public range is subject to rules and regulations designed to protect the public range from deterioration but with an eye also to their effect on his use of his own dependent private lands. The federal agency grants exclusive use of certain resources to a private enterpriser in return for a cash payment *and* the right to regulate, in part at least, not only the private enterpriser's use of the public range but his use of his privately-owned dependent range as well.

Under Public Law 273, recently passed by the Congress, the same procedure of administrative allocation of timber resources can be applied on National Forests. A long time exclusive access to government timber on a specified area may be granted to a single enterpriser in return for public regulation of timber production and harvest not only on the public land assigned to his exclusive use, but also on the enterpriser's privately-owned timber land placed by him in the timber pool. This device is designed to broaden the influence of the federal forest administering agency in obtaining improved forestry on private timber lands. But it does so at the expense of engendering potential conflict—exclusive access to a publicly-owned resource is granted by administrative decision for a long term (one hundred years in the one agreement executed so far) to a single private enterpriser. The cry of "monopoly" is raised by the operators who are or who think they are now denied equal access. And, furthermore, the federal administering agency faces the almost certain probability that as its lands move into these long-time agreements, it will meet the same pressures and conflicts from and with its "timber permittees" that it now faces from its grazing permittees.

The holder of an exclusive privilege of private use on public land, whether it be grazing land or timber land, will urge the enlargement of his privilege, will contest the rules and regulations under which he operates, and will argue the unreasonableness of them when they exist to serve other uses than lumbering or grazing. Those who do not hold privileges on the land but would like to do so will argue favoritism, monopoly, "currying favor with the big operators," etc.

Such conflicts as these are inevitable in a system of administrative allocation of resource use to private enterprisers for exploitation for

private profit. *But competitive allocation of federally-owned grazing land resources at least is well-nigh impossible.*

Federally-owned grazing lands in the West almost universally do not lie in blocks that can be organized into successful economic units composed exclusively of federal land. They cannot be "homesteaded" in economic units and thus provide economic opportunities for additional people. If the available *area* of federal land in one block should happen to be large enough for an economic unit, it will not embrace all the essential resources for a successful unit; it will contain no water or no hay lands or its use for grazing will be adapted to only one season of the year. Such lands can *only* be used in conjunction with other lands already privately owned, or with other lands controlled by some other federal agency for other purposes, such as watershed protection, or with other lands owned by a state or a county. The only competition there can possibly be for these federal grazing lands is that between the owners or lessees or controllers or other adjacent lands. It cannot be between these adjacent operators and the citizenry at large. And in many cases there is no competition for their use even with other adjacent property holders; frequently these federal grazing lands are so located relative to other lands that one operator and one operator only can make use of them.

Hence, the debate over the granting of exclusive grazing privileges to established individual stockmen and excluding the general public from grazing access to them is entirely beside the point. The granting of grazing privileges on most of these lands can be competitive only as between adjacent stockmen and frequently can not even be that.

Though it is *possible*, granting grazing privileges on federal land to established stockmen by competitive bidding is very undesirable. It is frowned upon by stockmen and these administering agencies alike. Competitive allocation of lumber resources on federal land to private operators is the common practice though Public Law 273 opens the door to a change here in line with that on grazing land. Why is it undesirable to allow competitive bidding to allocate grazing use on federal land? The federal grazing privilege can be used only in conjunction with privately owned lands; privately owned lands and their capital improvements represent a fixed and unremovable investment on the part of the private operator. Stability of operations, desirable to individual and society alike, can only be insured if the federal grazing privilege is tied to the privately owned ranch lands with some degree of permanence. Subjecting them to competitive allocation would keep the pattern of operations in an impossible state of fluidity and instability. Timber, on the other hand, can be satisfactorily allocated competitively because the harvest of the trees does not

involve large unmovable capital investment except in the case of large sawmills. With modern means of transportation the logs can be transported to the mill from over a sufficiently large area to permit steady operation of the mill.

These three basic characteristics of federal land management out of which the issues over western federal lands arise though discussed separately are not separable in fact. Each is in large measure only another way of looking at the others; each is largely an inevitable accompaniment of the others.

Multiple-use management of the lands seems to make public (in this case, federal) management inevitable. Yet multiple-use management creates inter-use conflicts and conflicts between competing users and the federal administering agency. Stockmen want more grass, lumbermen want more trees, recreationists want more timber and game, irrigators want their water in regular flows without floods and shortages. Restriction imposed on each in the interest of others brings the ire of the restricted user down on the federal managing agency.

Multiple-use management means public management of the resource for *all* its uses, many of which will be of a sort ordinarily thought of as *private* in character. This will clash with our cultural belief in private ownership of all such privately exploited assets. Partly, of course, this clash is purely emotional—not, for all of that, any less real nor any less powerful—but not rooted in objective considerations. Partly it is an expression of dissatisfaction with what, at least to date, have been some of the inevitable features of public management of privately exploited resources. Stability of operations is the will-of-the-wisp forever pursued by enterprisers—when natural phenomena are the cause of instability, they occasion the seeking of relief from the larger community. Natural causes of instability are sufficiently distasteful; just add to that, instability brought about by the acts and decisions of public officials, and the enterpriser calls on the larger community to rid him of this impossible burden. Is it possible to have stability of operation of private enterprise—either lumbering or ranching or resort operation—with public management of all or any significant part of their basic resources? Changing fees, changing rules and regulations of use, changing numbers of stock permitted on the grass, changing numbers and kinds of trees marked for cutting, changing areas of land allotted for grazing or lumbering, changing the weights used in resource allocation as between grazing, lumbering watershed management, and recreation—changes coming with changes in the personalities of the managing personnel, with changes in political controls of government, with changes in public thinking, etc., are extremely upsetting

to the managers of enterprise. Demands to get them out of the hands of the "Bureaucrats" are the inevitable outcome.

So we are brought up to a consideration of the issues now extant that relate to western federal lands. We will consider them under three headings—(1) the issue of public vs. private ownership, (2) the issue of federal vs. state ownership, and (3) the issues that arise out of federal management of lands used by private enterprisers.

CURRENT ISSUES IN FEDERAL LAND OWNERSHIP IN THE WEST

THE ISSUE OF PUBLIC VS. PRIVATE OWNERSHIP. This, the first and most crucial issue today, is also the most fundamental of all—should these federal lands in the West be in federal—or in public—ownership at all? Shouldn't they be converted into private lands like practically all lands exploited for private profit elsewhere in America?

As with all such broad questions, the answer to it can be neither "yes" nor "no."

Three characteristics of western federal land prevent the major proportion of it being converted to private land. One characteristic is the multiple-use management of much of it; another is the economic impossibility of much of it paying its own way in private ownership; another is that much of it is not amenable to division into areas for single enterpriser control. We shall look at these one at a time.

First, let us explore multiple-use management. Much of the western federal land is and must be managed in the interest of grazing, timber production, recreation and water run-off regulation, all on the same area and all at the same time. Now, some of these uses, even if they were practiced alone and to the exclusion of all others, would require public—under present conditions—federal management. Recreation or water run-off control, even if practiced alone on an area, are not amenable to private management. If either or both of these uses are important on any area of federal land, it must remain under public management regardless of the amenability of its uses for lumber production or grazing to private control. Furthermore, even if only lumber production and grazing are uses practiced jointly on a given area, and even though such uses, if practiced singly, are amenable to private management, the presence of the two of them together necessitates public management; they are to a degree conflicting uses and private enterprisers do not customarily undertake both enterprises together. Grazing will be one enterprise, lumbering will be another, if ownership of the land vests in one or the other form of private management; one use will take place to the virtual exclusion of the other.

It follows, therefore, that for any and all federal lands on which

multiple-use management to any important degree is practiced or required, private ownership cannot be the answer. Western stockmen's associations that at the moment are in the forefront of the drive to convert these federal lands to private lands recognize this fact. No spokesman for these associations argues that *all* federal lands in the West should be converted to private ownership; they very carefully say that only those lands *chiefly valuable for grazing* should be so converted. Now admittedly that concept of *chiefly valuable* can be a fruitful source for argument, but it is sufficient to demonstrate that the livestock spokesmen recognize the legitimate claim of multiple-use lands to public ownership.

Second, let us look at the economic impossibility of some of these lands carrying the burden of private ownership costs. I doubt if there is any intrinsic or inevitable reason why these lands cannot carry the costs of private ownership. But looking at our cultural beliefs and the institutions they produce, I do not see any early prospect for institutional changes that *will* permit their private ownership at reasonable costs. What are some of the institutional stumbling blocks to private ownership of much of this land? Taxes and investment costs are in the forefront. It is so common as almost to be a maxim that lands of low productivity are overvalued for taxation purposes. Grazing lands as a whole and federal grazing lands in particular are of low productivity, probably the least productive of any lands used for agricultural purposes. It is almost a universal phenomenon that these poor quality grazing lands if privately owned are over-assessed. The only way by which private ownership of these low productive lands can persist at all is by the device of packing into one privately-owned range tract more grazing units, more productivity if you please, than actually exists on it. This act of legerdemain is performed variously by over-grazing (which is but a temporary expedient), by the ownership the tract gives of strategic water or shelter or hay, or by the control it gives over additional forage units that exist on other tracts unowned and unleased by the operator which the taxed tract controls.

It is pretty well demonstrated by experience and experiment that the net economic productivity and hence net capital value of grazing lands in the West falls to zero at some point near a physical productivity of 24 AUM of grazing per section (2.0 cows or 10 sheep per year per section). (This is not a hypothetical, unrealistic figure for the average carrying capacity of Grazing District #5 in Nevada is 2.5 cows or 12.5 sheep per section per year.) Does anyone think the County Assessors would put *any* privately-owned grazing lands on their assessment lists at zero value? Yet if they do not, such lands as these are carrying a higher charge than they are worth and better lands are assessed at proportionately inflated values.

Another and more troublesome angle to this same problem arises because the use of these federal lands has gone on for years without any charge at all being made for their use or with a charge less than private lease rates for comparable land. Now recall that in essentially all cases these federal lands are used only as adjuncts to other privately-owned ranch lands. If you as an enterpriser were able over an extended period of years to acquire an operating unit part of which cost you nothing or less than a full productive value, what would you consider to be the value of your private land? Certainly something more than the productive value intrinsic in your private land—and that's what has happened extensively in the West. The privately-owned grazing lands as an investment and as a tax base carry values that include to a considerable degree the productive worth of the forage values supplied free by associated federal lands. If, now, you as an enterpriser were suddenly faced with the need for owning these formerly "free" forage resources and you were already paying part if not all of the costs for these resources in connection with the lands you already own, what would *your* reaction be? You would know that now these lands would go on the tax rolls, that the lands you already own would not be reduced in taxable value, and that anything you had to pay for those lands beyond a nominal price would result in investment and tax costs that you already were carrying on your present private lands.

All of this, as I have said, is a difficulty that is man-made; our institutions are not fitted to this situation; there is no intrinsic reason why they might not be. But institutional reform of the sort required is awfully slow, and in the meantime those who buy these lands are penalized to the economic competitive advantage of those who do not. So you can see why in spite of the fact that some of these federal lands *might* justifiably be offered for private ownership, many of them will not be accepted even if offered free of charge.

The economic problem of private ownership of western federal lands has been discussed with reference to grazing land. Much of the same thing can be said of lumber producing land. The private lumberman cannot in most situations, certainly not in the western states, afford to own the land on which his lumber grows. Where he does own "timber land," what he *really* owns is a stand of merchantable timber. When he markets the timber, he will be left with land, the ownership of which he will usually be anxious to rid himself. The long time period of waiting and risk required to grow a lumber crop usually causes the land on which it grows to have a less than nothing value to the private enterpriser. So here, too, even though some of this lumber-producing land might have no other use than that and be amenable to private management, it will

not appeal to private ownership *except insofar as it now bears a harvestable crop of trees.*

There is still another characteristic of western federal lands that will prevent some of them moving into private ownership without considerable change in habits of thought and attitudes in the West. Much of this western federal land, even though usable for grazing and for nothing else, is not amenable to ownership and use by a single ranchman. Much of the winter sheep range, particularly, is of such a sort that the sheep bands must be herded over it in wide circles or must be free to move considerable distances as droughts or winter storms may dictate. Single, private allotments are not practicable nor customary; open range herding over a common area with other bands is the long-established pattern. Private ownership under such a pattern of use can arise in case wide areas, huge areas, could be sold to a collective of private enterprisers; this is again not an inherently impossible development but is far from immediate realization entirely because western stockmen generally don't think in these terms. Such an arrangement exists today in the Red Desert of Wyoming and has been in existence for forty years. It's not unknown or impossible—just unfamiliar.

We see, then, three reasons why private ownership of all western federal land is a hopeless goal—the reasons are (1) the importance of multiple-use management, (2) the economic reluctance of private enterprisers to invest in much of it and to be subjected to taxes on it, and (3) the impossibility of some of it being used in independent private allotments. We conclude that private ownership of *all* western federal land is a will-o'-the-wisp: that not all of it can with any practicability whatever be privately owned and managed. Much of it will remain public, federal, even if it were offered gratis to any taker.

But on the other hand, it is equally unrealistic to argue that the federal land of the west must *all* remain federal or even public. For just as it can be pointed out that these federal lands cannot, realistically, be all passed into private ownership, it can be pointed out with equal cogency that not all these federal lands *need* be retained in federal or even in public ownership.

The unquestioned public policy in this nation is for private property in agricultural land. This is true even though much of that private land is subject to varying degrees of variously serious kinds of deterioration under private ownership. But is the institution of private property in farm land under any serious attack for that reason?

Much of western federal grazing land is subject to no more serious, to no more long-run damaging abuse under private ownership than are

vast areas of privately-owned farm lands. It is no wonder, then, that federal grazing lands of such kind should be urged as amenable to private ownership. Of course, the whole institution of private property in agricultural land can be questioned; a good case can be built for public ownership of all farm land; but that is an issue for the public to decide and so long as it is overwhelmingly accepted that farm lands be privately owned, then the burden of proof is upon those who urge otherwise relative to a significant portion of western federal grazing lands. A large part of the federal grazing lands in the Great Plains and in the inter-mountain semi-deserts have no alternative or joint use to grazing, and are not subject to self-accelerating erosion from overuse; such lands are amenable to private ownership as soundly, as unquestionably, as the farm land of the corn belt.

Resolution of this conflict over public vs. private ownership of western federal lands (grazing lands particularly) can only be resolved, even partially, by the creation of an agency for separating the lands into two groups—those amenable to and those not amenable to private ownership. What, then, will be posed will be issues relating to the sale into private ownership. These issues are complex. I will not discuss them in this paper in order to keep it within reasonable length. Here is, however, an important problem for western agricultural economists to be working on to be prepared for the day that I believe to be inevitable when transfer of some western federal lands to private ownership will be instituted.

We conclude, however, that *private ownership of western federal lands is not the answer to the problem except on a small fraction of these lands.*

THE ISSUE OF FEDERAL VS. STATE OWNERSHIP. Just because most of the land must remain public rather than move into private hands does not mean, of course, that it must remain *federal*; it may remain public and be shifted from federal to state ownership. To this issue I will devote little space; it is not amenable to solution by economic argument. It rests in considerations of political science and your philosophy of government. It will suffice to point out that the record of public land management by states and counties in the West shows no example of public land management of a quality comparable to most of that of the federal government. This is not to argue federal perfection, but merely to point out that as between federal and state or county management, federal management on balance surpasses state or county management in quality. Except for the possibility that certain groups of users might more fully dominate management policy if the lands were in state or county hands, there would be little gained and much would probably be lost by a shift from

one kind of public ownership to another. This is the source of much of the stockman pressure in some states for transfer of federal grazing lands to state control.

ISSUES THAT ARISE OUT OF FEDERAL MANAGEMENT OF LANDS USED BY PRIVATE ENTERPRISES. There is not time or space here for a complete consideration of the many elements that go to make up the issue of landlord-tenant relations in private use of federal land in the West. It is clear however, that here lie the issues most in need of solution for it is apparent that most of these western federal lands are going to remain federal and are going to be used by private operators under some kind of tenant agreement with the federal landlord. But we can illustrate what is involved by discussion of a few selected points.

1. SECURITY OF EXPECTATIONS for the private user. The private user of federal land in the West, just like any tenant, seeks earnestly for *security of expectations* with regard to his control over land resources. In its crudest form, this urge expresses itself and is now expressing itself as an urge for private ownership of the land involved. The issue is particularly acute on grazing land. The federal administering agencies have traditionally insisted upon the right of freedom of action to modify use privileges granted. Private users have had considerable real and fancied feelings of insecurity. It is entirely beside the point to argue as do some federal personnel that many use privileges have stood unchanged for long periods; it isn't stability of the past that interests the operator, but the prospect for stability of the future.

Security of expectations in these cases can be enhanced, short of ownership which as we have seen is unattainable in most situations, by either (1) perpetual attachment of granted use privileges on federal land to the private property of the user, or (2) by use privileges granted annually but automatically renewable from year to year with these additional features: notice of change in allotments to be given well in advance, user and administering agency each to have the right of and access to impartial arbitration of differences, provision for reasonable payments for damages by either party to the injured party and provisions for payment of compensation for unexhausted improvements. Perpetual attachment of grazing use privileges to their private base lands has been the solution long urged by stockmen users; annual allotments automatically renewable is comparable to the arrangements urged upon private landlords and tenants by students of land tenure. The latter has not been generally advanced as a solution for the federal land use conflict because it has not been generally recognized that the relation between administering agency and private user on federal land is a relation of landlord and tenant.

2. PROTECTION for the landlord against *damage to his resources*. The administering agency, as is true of any conscientious landlord, seeks earnestly to protect his property against waste and damage by the user. In its crudest form, this urge expresses itself as it now does by insistence on the part of the administering agency for complete freedom of action in all matters relating to when, how, and in what intensity the user shall make use of the federal resource. The private user violently opposes this freedom of action on the part of the administering agency; it runs counter to his desires for security of expectations.

3. The LEVEL OF CHARGES levied for use of the federal land. The private user is interested in securing at the lowest possible cost the use privileges made available to him. The administering agency is under continual pressure to set the fees it charges for use of its land at a level fully comparable with that level at which private competition would set them, were it operative.

At first glance it would appear that this conflict of interests is no different from that between private bargainers, and that there should be room for a meeting of minds at fees reasonably close to what free competition might set. It might seem that insistence by private users of the public land upon a fee considerably below rents charged on comparable private land is pure selfishness. But it is not that simple. As a result of long history of use of these federal resources at costs below comparable private land costs, the capitalized savings have become imbedded in the values of the privately-owned associated lands. Under these conditions, any fee higher than the customarily low fees will be too high for the user but this customary fee is considerably below the charge continually pressed on the administering agency by the public.

4. The decision as to whom among several possible beneficiaries shall be granted the use privileges. Somehow the decision must be made: to whom among several possible users shall a particular privilege on a specific area of federal land be given? The administering agencies have set up various kinds of rules to guide them so that the decision won't be entirely arbitrary: priority of use, degree of dependency, and minimum and maximum limits on privileges extended together with the right to cut at will privileges above the maximum for redistribution to users below the minimum. But administrative decision still is the essence of the process.

Between *private* landlord and private tenant, conflicts over all these points arise but they are settled by competition and negotiation with the judicial process available as an arbiter of disputes growing out of interpretation of the basic contracts. Nothing resembling competition, very little resembling negotiation, and a quasi-judicial process that is not truly

judicial regulate the landlord-tenant relations on western federal lands. *Public political debate* is substituted for private negotiation and adjudication as between private user and administering agency on western federal land.

Casting the problem in this form suggests that the basis for solution of the problem lies in the creation of a new kind of public body on which the interests of both the administering agency and the private user are represented. Before this body, conflicts between administering agency, private user and possible user over privileges of use, fees to be charged, rules and regulations related to use, allocations of privileges, damages for waste and compensations for unexhausted improvements can be brought, argued, and arbitrated. Some kind of a set-up which will establish something as nearly as possible like negotiation and contract in private affairs must be found. Here is the most important place for study by western agricultural economists concerned with this federal land problem. The make-up, organizational setting, and limits to the area of decision open to this agency is a problem to be worked out; the extent to which its actions must be circumscribed by legislative direction must be determined. *This or some other more fruitful device must be constructed.* A means to resolve the conflict between administering agencies and private users of western federal land *must* be found if private use of federal resources in the West is ever to be anything but a ceaseless bickering in a political arena.

29. Objectives of Land Tenure Policy*

By MARSHALL HARRIS

Agricultural Economist, United States Department of Agriculture

The Caribbean Research Council, in outlining its program of work for improvement of the general economy and the level of living of the area, wisely decided to give first consideration to problems relating to land tenure. Conditions under which agricultural producers hold their land influence directly the way in which physical resources are used and the way in which they serve the needs of human beings who work thereon. The system of land tenure is particularly basic to economic and social conditions in this area, since so large a proportion of the population is dependent upon agriculture.

In formulating a program of tenure improvement for the Caribbean area (or in any area, for that matter) it is necessary to take four steps, either consciously or unconsciously. The first essential step is to establish within practical limits the philosophical ideals or objectives that the tenure system should achieve. The second is to inventory existing conditions of tenure. As a third step, the difference or distance between the present situation and the ideal must be measured or visualized. And lastly, a course of action calculated to bring existing conditions up to the ideal must be formulated. These four steps are closely related as integral parts of the analytical process. Adjustments may need to be made in each phase of the process as the work progresses.

The purpose of this paper is to set up a first approximation of desirable objectives of land tenure policy for the Caribbean area. Little or no attention will be given to existing conditions. Consequently, the nature and magnitude of desirable adjustments will not be applied. Broad, general objectives will be presented, and an interpretation will be made of how these objectives may serve research workers and policy makers.

Before we select our objectives, we must come to an understanding as to the meaning of the term "land tenure" and of the word "objectives."

Land tenure is usually described as the "bundle of rights" that make up property in land. The conventional economic definition of land in-

* *Caribbean Land Tenure Symposium*, Caribbean Commission, Trinidad, British West Indies, 1946, pp. 30-48. Reprinted by courtesy of the Caribbean Commission and the author.

cludes not only the soil surface but also air, water, sunlight, minerals, and also the flora and fauna, at least to the extent that they are "free gifts of nature." The legalist thinks in terms of real estate which includes, in addition, whatever is affixed to the earth's surface—the buildings, fences, terraces, tile, fertilizer, fruit trees and the like.

For present purposes, it seems to me, we must add another thought, for the phenomena with which we are dealing are broader than the mere physical things that are free gifts of nature and those that man has affixed to the surface of the earth. Our realm of inquiry is concerned also with all of those other things that make up the whole production unit. To use an economic concept, we are concerned with the tenure of the *firm*—with the live, dynamic, going concern.

The production unit—the firm—may be a family farm or a large industrialized unit. It may be a plantation or a proportional profit farm like the units that are being established here in Puerto Rico by the Land Authority. Or, on the other hand, it may be a Mexican *ejido* or a Russian collective farm. Under most circumstances the term "farm tenure" may be more descriptive than "land tenure." In other words, tenure encompasses relationships established among all parties involving the use and occupancy of the entire production unit, however large or small it may be. Thus, the "bundle of rights" that makes up tenure includes all of the rights in the productive unit—that is to say, the rights retained by society and those granted to private parties; rights held by the owner and those that are granted to the mortgagee, the tenant, the manager, the proportional profit sharer, the cropper, the laborer; and rights held by the *agregados* of Puerto Rico and the *ejidatarios* of Mexico.

This broad concept of land tenure will be used throughout this paper, for we must encompass in our consideration all of the land and all of the people who depend upon it for a livelihood. We must think of public tenure as well as private tenure, and cooperate as well as corporate tenure, and communal as well as individual tenure.

Following this line of reasoning, land tenure (or farm tenure) may be defined briefly as the manner in which and the period for which rights in farm production units are held. Three indispensable dimensions of tenure are: (1) the nature and scope of the rights; (2) the size of the production unit; and (3) the period for which the rights are held, as viewed prospectively and retrospectively.

It is the nature and distribution of these rights that determine the tenorial relationships among individuals and between individuals and society. These include relationships growing out of the use and occupancy of land between the various levels of Government and private

parties, between mortgagors and mortgagees whether public or private, between public and private landlords and their tenants, and between owner or tenant operators and their laborers.

If society does not alienate a majority of the rights in the production unit, we usually speak of public tenure or public ownership. The land is considered public domain, or free domain, or Crown land, or communal land, as the case may be.

On the other hand, if most of the rights are turned over to private parties, we speak of freehold interest or private ownership. Society may, however, turn over only a few rights—chiefly use rights—to private parties, in which case we speak of leasehold interest. There are other kinds of rights, for example, those held by the various participants in a Puerto Rican proportional profit farm. These are not easy to describe in conventional terms, for the relationships are not customary—they are new and unusual. Suffice it to say that the definition herein proposed includes them.

In most instances of freehold tenure, society retains at least three important rights—the right to tax, to police, and to take for public purposes. Of course, society holds a fourth right that it cannot dispose of—the right of reversion, for land abandoned by individuals must always revert to the public.

The rights usually assigned to an individual owner under our system of private property are: (1) to use and abuse as he sees fit; (2) to buy and sell under whatever conditions are acceptable to the purchaser and seller; (3) to bequeath to whomsoever the owner may choose; (4) to subdivide into uneconomic units, to maintain in family farms, or to concentrate into large estates; (5) to mortgage for any proportion of its normal value and under any type of repayment plan that can be agreed upon; (6) to lease for long or short terms, at high or low rates, to whosoever may desire to rent; and (7) to grant in the land numerous other rights and privileges. Such wide control has frequently caused freeholders to feel that their rights are limitless, that everything from the heights of the heavens to the core of the earth is theirs.

The rights assigned by the owner to other parties—creditors, tenants, croppers and laborers—depend rather heavily upon the bargaining power of the two parties, even though, under the police power, society controls to some extent most contractual relations. Thus, private ownership, as we know it, carries with it almost complete freedom of action, and this fosters a high degree of flexibility in the establishment of a wide variety of heterogeneous relations.

With this broad concept of land tenure in mind, we may now con-

sider the meaning of the word "objectives." Our objectives—our goals—are the *ends* that we seek to attain. Of course, care must be taken to distinguish between *means* to an end and the *end* itself. This is not easy, because we are inclined to think of the *means* by which we attain our ideals as if they were the *ends* themselves. For example, we frequently hold up as our objective—as our ideal, as an end in itself—the family farm owned and operated by those who till the soil. Yet, farm-home ownership is not the objective; it is not the end that we have in mind; it is only one of the means by which we hope to attain certain desired objectives. Again, equal inheritance, as contrasted with primogeniture and ultimogeniture, is not an end in itself, but only a means to an end. Farm-home ownership and equal inheritance are "ends-in-view," as John Dewey, the noted American philosopher, would say. They are frequently regarded as goals for the immediate future, but they are really *means* that are used in the long struggle for the attainment of ultimate goals.

But what are these ends? What are these objectives? What conditions have the common man and sagacious political leaders been fighting for over the centuries? What objectives were the Haitians fighting for during the War of Independence, when the large estates and irrigation systems built by the French were destroyed? What ideals were in the minds of the Puerto Rican legislators when they enacted the Land Law in April 1941? What objectives did the Agricultural Policy Committee of Trinidad and Tobago have in mind, either consciously or unconsciously, when it recently recommended leasehold estates that provided for compensation for unexhausted improvements and penalties for dilapidations? Certainly their objectives were not destruction of the French estates, or partition of plantations in excess of 500 acres, or the establishment of proportional profit farms, or improvement of leasing arrangements. These were merely the means employed to reach desirable ends or objectives.

POLICY OBJECTIVES

If we interpret correctly tenure improvement over the centuries, including these and other such events, we find that man has striven consistently for certain more or less well-defined goals. Measured in terms of current requirements, it is clear that much of the struggle was orientated in the right direction. An enduring peace among the nations of the world is partially contingent upon reasonable access to land resources. Maximum national development and well-being are dependent in part upon the land tenure system established within a nation. Today we stand upon the threshold of new and far-reaching adjustments in our systems of land

tenure. Human rights will have as important an influence in the future as property rights have had in the past.

The objectives that should guide us in making these adjustments may be classified as follows:

1. Responsible freedom of personal action.
2. Equality and dignity for all tenure groups.
3. Secure possession of rights in land.
4. Equitable distribution of rights in property.
5. Conservation and development of physical resources.
6. Highly efficient utilization of productive resources.
7. Equitable distribution of income.
8. Well-integrated community life.

Obviously, these eight objectives are not presented in order of importance. Nor can they be so ranked, as we shall see later, for their relative importance is not constant from one situation to another. Furthermore, they could be either recombined into a smaller or segmented into a larger number of objectives. The number of items and their rank are largely incidental.

Of first importance is the philosophy inherent in the derivation of these objectives. These qualities represent the goals to be sought—they are the ultimate ends. It is against them that existing tenure conditions should be measured and tenure improvement programs evaluated. They should be contrasted with ownership of family farms, communal land-ownership, plantations, proportional profit farms, public ownership, or other means-to-end or ends-in-view. Tenure investigation and action can be most effective if researchers and planners follow the line of reasoning outlined here.

RESPONSIBLE FREEDOM OF PERSONAL ACTION

One of the objectives that has been demanded vigorously and continuously over the years is freedom of personal action. It is the strongest and most colorful thread in the warp and woof of our tenure garment. The farmer, whether of British Honduras, the Virgin Islands, or the United States, has always wanted to be independent of the domination of another. He wants to be a "free man"—free from taking orders from anyone. He is the true individualist—self-reliant and self-dependent. Our tenure history is replete with illustrations of the struggle of farm people for free and full rights in the land they till.

It was freedom of action, particularly with regard to his person and

his land, that the feudal tenant passionately wanted. The controversy regarding subinfeudation, primogeniture, entails and wills revolved around freedom of action. The fight against the personal services demanded by the lord of the manor was chiefly to attain personal freedom. The serfs and villeins were willing to pay a reasonable money rent, but they resented attachment to the land and the uncertain demands upon their person growing out of the feudal relationships.

As we moved away from the restrictive tenures of feudalism and Medieval Europe, the pendulum swung far toward complete freedom. Possibly we have gone too far in this direction. Is there too much freedom in the tenure system, or is there too little responsibility? Many of the difficulties seem to indicate that the direction of change should be not away from freedom, but rather toward more responsibility—responsibility in the use and occupancy of productive resources. In other words, as we attained a high degree of freedom, we did not develop sufficiently the idea of self-discipline and self-responsibility.

Society's protection of property rights presupposes individual responsibility, both to other individuals and to society. Freedom is not a license to do as one pleases. Yet the freedom attached to the ownership of land in many instances has become almost a license—a freedom devoid of responsibility. The maintenance of the proper balance between individual freedom of action and responsibility to others is the job of the social planner. This is no mean responsibility. Here we accept a tremendous obligation. Let me illustrate.

It seems clear that, under our system of private property, society should retain the rights to tax and to condemn, and that certain principles well-defined by constitutional law and statutory provisions should govern the exercise of these rights. A major question is: How much should society, for the good of all its members, redefine the degree of freedom inherent in the various rights in land? In other words, how much responsibility should be placed upon the landowner, the tenant, and those who hold lesser estates in land? In addition, should society alienate freehold estates with all the rights and privileges appertaining thereto, or should those who use the land be granted the more restricted estate that we commonly speak of as leasehold? Should private parties be accorded complete freedom in the concentration of agricultural land in one ownership or operating unit, or should certain restrictions be placed upon the amount of land that can be held by one person? Should the landlord and tenant be free to establish any sort of contractual relations, depending upon the relative bargaining power of the two parties, or should society lay down specific rules of the game to control their action?

EQUALITY AND DIGNITY FOR ALL TENURE GROUPS

The whole westward march of civilization and Christianity was predicated upon and accelerated by the concept of individual equality and personal dignity. It was reasoned that equality of economic opportunity would be fostered by a free tenure system under which all men were equally privileged to acquire rights in land. Political equality would be achieved in part by elimination of landownership as a prerequisite to suffrage and participation in public affairs. A landed estate would cease to be a requirement for full citizenship, and men were to be equals before the law regardless of their relation to the land. No tenure group would be made up of second-class citizens, for the caste system would disappear, and every person would go about his daily work with his head held high—with dignity and pride.

This objective has been attained only in part. Social prestige attached to landownership has been especially slow to die. In many areas status is still unduly enhanced by the holding of land. Elimination of the social prestige that attached to the ownership of large landed estates poses one of the crucial problems in tenure improvement.

To eliminate this undue prestige, and at the same time to maintain and even to amplify the pride and drive that go with ownership, will be difficult. This cannot be purchased cheaply.

Regardless of differences in the quantity and quality of rights held by private parties, the tenure system should be designed to foster equality among all members of society. In many areas, we have landowners and laborers, and they are assumed to be equals before the law and to have freedom of economic choice. The doctrine of freedom of contract presupposes this. But here is a major fallacy. They do not always have free choice in economic matters; and they are not legal equals in many cases. These inequalities in our tenure system bring many of its disadvantageous results. So long as the two contracting parties are neither legal nor economic equals, we shall not have attained the goal of equality.

SECURE POSSESSION OF RIGHTS IN LAND

A third objective of land tenure policy is secure possession. Security is concerned with certainty of the future, with the confidence with which rights in land are held. Security is not to be confused with stability. The latter refers to the period of time for which rights have been held, while the former refers to the period of time that it is expected that the rights will be held. The heavily mortgaged owner-operator may remain on his farm for many years, but always with a feeling of insecurity, with a fear

that something might happen to cause him to lose his farm. On the other hand, a heavily mortgaged owner with a variable repayment plan may feel highly secure, since he would be able to skip a payment or two if that unknown something happened. The difference between the two mortgage agreements is not great, although one affords infinitely more security than the other. To illustrate further, a tenant farmer with an annual lease, as is common in the Caribbean area, may remain on the same farm for many years, or even a generation, and never feel assured that he can or will remain for longer than one year. On the other hand, a tenant with a lease that provides for adequate notice of termination and compensation for disturbance may feel quite secure, as is true in England.

The farmer who occupies the land with a high degree of security will be encouraged to improve and conserve the land, to build it up, to farm in a husbandman-like manner, and to take pride in that which he expects to use over the years. He will plan a system of farming and crop rotations that require several years for completion. He will be encouraged to undertake works of irrigation and drainage, clearing and leveling, fertilizing and liming, and other operations that will increase the productivity of the farm. His feeling of security will afford a reasonable opportunity and encouragement to plant fruit trees, to develop a vegetable garden, to expand production of livestock for home consumption, and to landscape and beautify his surroundings.

But what about the farmer who holds his land insecurely, who may move next year or at most the year after, whose expected occupancy is short? He cannot plan and carry out crop rotations and develop herds and flocks. He will invariably engage in the production of an annual cash crop such as sugar cane or tobacco. He does not have a reasonable incentive to follow soil-improving and soil-conserving practices. He cannot afford to increase production through drainage or clearing; he will not take chances on liming or using fertilizers that will last for more than a year or two, for he does not know that he will enjoy the fruits of his labor.

And what will you find on his table, in his home, and around the house? Will there be plenty of fresh fruit and vegetables in season, and home-canned goods at other times; will there be butter and eggs and home-grown meat and poultry; will there be flowers and shrubbery and grass and shade? The obvious answer is in the negative. The insecure agricultural producer, whether he be the owner or tenant or sharecropper or wage laborer, cannot have these things. The handicap of insecure occupancy—of not being assured that he can remain over the years—does not encourage, does not even permit, the development of gardens and orchards and landscaping.

The tenure system must provide a reasonable degree of security for

every farm family. Not deadening security, not complete assurance, not an irrevocable occupancy, but enough confidence in the future to bring forth maximum effort to follow through on sensible long time plans. We in the United States have sought to attain this security through farm-home ownership. In England the tenant farmer has attained a high degree of security through law which provides compensation for disturbance if his occupancy is terminated without good cause. The average length of tenant occupancy in England is about the same as owner occupancy in the United States, and apparently occupancy is just about as secure.

EQUITABLE DISTRIBUTION OF RIGHTS IN PROPERTY

Free action, personal equality and secure occupancy must be buttressed by a wide distribution of rights in land, if these objectives are to be most fully attained. The question is: When are rights in land properly distributed?

The classical scholastics of the Roman era conceived that the individual owner should have complete dominion over his landed estate. Those who lived upon his land were wholly subject to his jurisdiction and really had no rights in the land. The feudalists of England held that all the rights resided in the Crown, and that the king could parcel them out to those under him. The rights were distributed down the feudal hierarchy to the lowest serf. Under this system, rights in land were widely distributed, but the concept of equitable distribution was poorly developed. The rights were uncertain, too; they were little more secure than the moral evaluations of the man who granted them: their stability depended largely upon man and not upon law.

Equitable distribution of rights does not require that the land be physically divided among all those dependent upon it for a livelihood. This is true even though the early ideal in the United States, and in other countries in the Western Hemisphere, held that every farmer should sit under his own vine and fig tree. This was an obvious and ready procedure for attaining certain desirable objectives, yet satisfactory access to the land may be had under other arrangements.

Much of the forest and grazing land in the United States, for example, is now held in public ownership, and private parties obtain use rights in it under stable and secure leases and permits. In our great corn and wheat belts, where capital investment in a family farm is large, the rights are in many cases fairly equitably divided between the owner and the mortgagee, or between the owner and the tenant. But in some other areas, where the land is held in large tracts, resident and migrant workers hold few, if any, rights in the farms on which they labor.

Equitable distribution is concerned as much with the quality of the

right as with the quantity of land over which it may be exercised. The English have proved this in their regulations governing landlords and tenants. It is also being proved in industry, as laborers acquire rights such as job security, minimum wages, maximum hours and improved working conditions. Very little progress has been made in these directions by agricultural laborers. It seems clear that some additional rights must be accorded them, if an equitable distribution of rights in land is to be attained. And the distribution of rights between landlord and tenant, and mortgagor and mortgagee, must be readjusted in many areas of our country.

CONSERVATION AND DEVELOPMENT OF PHYSICAL RESOURCES

A fifth objective of land tenure policy is conservation of resources. No system of land tenure is ideal unless it provides for conservation of the soil, and encourages its improvement and the development of related facilities. It is not sufficient to maintain the farm in a given state of productivity, as desirable as this may be. Works of irrigation, drainage, clearing, terracing or fencing must add to its productivity. Fertilizing, liming, permanent pastures, a never-failing water supply and adequate farm buildings are equally important in most areas. Crop rotation, good management and effective organization are also necessary. These things must be assured, for it is the responsibility of agriculture to provide an adequate supply of food and fiber for all of the people. And, if the country becomes involved in war, an increased supply must be forthcoming if national existence is to be preserved.

We once assumed that if the land were in the possession of those who till the soil, the problems of conservation and development would be solved. Today, we are bound to admit that this has not always proved to be true. I do not accept the old theory that the most profitable private use of the land is necessarily the best use for the general public. We have seen that self-interest of the individual, or of one generation, may result in depletion of the land to satisfy immediate wants, with the consequence that urgent needs of society and of future generations cannot be met.

All of us have seen areas where the buildings are dilapidated and in disrepair, where the fences are down and the gates sag, where the landscape is marred with galled fields and gapping gullies. Too often these things are associated with a faulty system of tenure. Units may be too small to support the farm family, annual charges for taxes, rentals and mortgage debt may be too high, the period of occupancy may be too short, income distribution may be poor, or existing tenures may be held insecurely, and, as a consequence, the land has been exploited.

It seems hardly necessary to do more than mention the absolute necessity of conserving and developing our landed heritage for future

generations. Our rights in the land are only transitory; we are here today and gone tomorrow. Our responsibility is not for today alone, but for the long tomorrow as well. We have a right to use the land and the annual fruits thereof for our own benefit and pleasure, but we have a corresponding responsibility, a duty, to hand it down to future generations not despoiled, but enriched because we of today have lived.

HIGHLY EFFICIENT UTILIZATION OF PRODUCTIVE RESOURCES

We must not only conserve our resources in order that future generations may live well, we must supply food and fiber for the present generation. In a complex society like ours, this demands a highly efficient production machine. Efficiency in production is also necessary to make it possible for farm people to supply their material and non-material wants—a reasonable minimum of nutrition, health, clothing, housing, recreation and education.

This cannot be accomplished on farms that are too small to be economic units. Efficient farms producing for home consumption and the commercial market are not the “jug of wine, loaf of bread, heaven on earth” philosophy of some romantic agrarians. Neither are they the “factories in the field” of the efficiency expert. Our path, doubtless, lies between these two positions.

The feudal system of England was not truly efficient; neither was the slave system in the Caribbean area. Two of the requisites for efficient production were absent in each instance. There was no force from within spurring the laborer to work better, for his extra effort would avail him little, or perhaps nothing. The external force, even though applied in liberal quantities, was rather ineffective. Nor did the system provide for the development of technical skills and managerial competence. In fact, an inefficient utilization of an incompetent labor force was necessary if these systems were to be maintained.

Similar conditions exist in many areas today. Areas of rich land and poor people are symptomatic. Is it not clear when we find the lowest levels of living—malnutrition, disease, illiteracy and poor housing—in the richest land areas of the country, that something must be wrong? Is not much of this situation due to a faulty system of land tenure that dictates low returns to laborers through widespread underemployment and other types of exploitation?

EQUITABLE DISTRIBUTION OF INCOME

These conditions are not due to underemployment alone. They result, in part, from poor distribution of the income from the rich land. An inequitable return to those who work on the land breeds inefficiency.

The vicious circle of inequitable income, inefficiency and exploitation is established, and its effects are cumulative.

In times past, the surest procedure to secure a reasonable distribution of the income from the land in many countries was through farm-home ownership. Little has been accomplished for other tenure groups—tenants, croppers and laborers. The strong appeal of owner-operatorship arose out of this condition; it will continue to persist so long as these tenure groups do not receive an equitable proportion of land income and possess enough land to be fully employed.

We have made more progress in securing equitable income for other groups than for agriculture: witness the general acceptance of the principles of minimum wages, maximum hours and social security for industrial laborers. These have not been extended to agricultural workers in many areas.

Even home-owning farmers do not always receive a fair income for their endeavors. To cure this ill, we have subsidized interest rates in various ways, and we have developed homestead tax exemptions and other devices for the same purpose. An equitable distribution of the national income between agriculture and the rest of the population is the objective of parity prices. Apparently, we are expert at production but amateurish at distribution.

WELL-INTEGRATED COMMUNITY LIFE

The final and very important objective that we must have in mind is a well-integrated community. In the past the productive prowess of the individual has been given major consideration. The family has been given attention chiefly as an earning unit and not as a basic social entity. The community has been largely neglected. Throughout this discussion, the individual has been of primary importance, and the family has been foremost in our mind. It is upon these two foundations that we erect our civilization. The welfare of the rural community has not been overlooked, but its peculiar relationship to the conditions under which farm people occupy their land merits special consideration.

A well-integrated rural community is more than a given number of individuals or farm families, an unorganized mass of humanity. It is characterized by mutual interest, by group participation in common endeavors, by smooth functioning of publicly sponsored facilities and services, and above all by community consciousness. All rural institutions are heavily dependent upon the stability of the community and the delicate balance of relationship among the several institutions—the schools, the churches, farmer cooperatives, farmer organizations, and rural social

and fraternal orders. This is true because good rural institutions cannot grow and flourish in communities where the citizenry is not sufficiently stable in the occupancy of the land to become identified with community life.

We are all familiar with communities made up of insecure and unstable tenants and laborers and heavily mortgaged owner-operators. We find in these communities dilapidated schools and churches; poorly paid preachers and teachers; no playgrounds, no Boy Scouts, no 4-H Clubs; little or no community spirit. Local people do not get together for picnics, church socials and good old-fashioned visiting. There is no pagantry, no ceremony, no group consciousness when a baby joins the community family, when a young couple marries, or when life's burdens are laid down. The people of these decadent communities miss a lot in life. High moral standards are not usually maintained, and community sanctions are not evoked. Personal responsibility is generally low, and neighbors do not help one another when in trouble.

You are familiar with these unstable communities. You know their characteristics and the powerful influence of the shifting, migratory population. On the other hand, you are familiar with the other type of community, where the exact opposite of these conditions exists. These communities are made up of home-loving farmers, stable, secure, with an eye to the future. These are the farmers and the type of communities that we want throughout the Caribbean area. But they cannot be built upon an insecure and unstable pattern of land tenure. The farmers must feel sufficiently secure to give them an interest beyond the bounds of their own acreage, to give them an interest in and a reasonable opportunity of building strong, effective rural institutions and satisfying community life.

THE PRINCIPLE OF PROPORTIONALITY

We now have before us eight objectives of tenure policy. But of what value are they; how can they be used to assist us in improving the present tenure situation, in building toward ideal conditions?

For the researcher, the difference between these objectives and present conditions presents the problematic situations that must be analyzed before purposeful action can be formulated. The standards of measurement are freedom, equality, security, conservation, efficiency, income and stability. The researcher must measure for the policy maker the present situation in terms of these items. He must not only measure the discrepancies between the present situation and these goals, but he must discover, insofar as possible, the underlying causes.

For the policy maker, these goals serve as a governor to control

the speed with which improvement programs should operate, as a gyroscope to add balance among the several lines of action, and as a program to give symmetry to the tenure system. All eight goals must be kept constantly in mind. Security must not be purchased at the price of freedom or equality. Conservation and efficiency must not be sacrificed in favor of well-integrated and stable community institutions and an equitable distribution of income. It is the problem of the policy maker to study each tenure improvement measure to see if it will bridge the gap between the present situation and established objectives. In this evaluation all eight measures must be kept in mind.

On the other hand, the policy maker must have before him these or similar objectives to guide him as to the speed with which an improvement program can and should operate. It has been said by some scholars that, during the recent Mexican land revolution, total agricultural production declined substantially; that the *ejidos* did not and still do not produce efficiently; that it may take several years for production to attain its former level. These questions are pertinent: Were the objectives of freedom, equality and security purchased by the *ejidatarios* at too great a cost in the efficiency with which the land was used? Was the transition too rapid? Would not an evolutionary adjustment have entailed less suffering and exploitation, and at the same time have attained the desired objective? I don't know. I merely throw these questions out for what they are worth.

Similar questions could be raised regarding land tenure reform over the last three-quarters of a century in Ireland. Would not the social cost have been reduced if there had been a more gradual transition from tenancy to home ownership? Or, perhaps, more pertinent, would not the Irish farmer have been better off, would not more desirable conditions of tenure have been attained, if the policy makers responsible for tenure reform had recognized that ownership was not a goal in itself but merely a means to the end, one procedure for attaining the desired conditions—for reaching the ideal? The Irish policy makers assumed, as we in the United States have frequently assumed, that all requirements will be met if those who till the soil have freehold tenure. Time and experience have proved otherwise. Research workers and policy makers must distinguish clearly between intermediate procedures, ends-in-view, and the final objectives, the ends themselves.

A few examples will serve to illustrate. In some parts of the Caribbean area, the pressure of the population upon the land is terrific, production of enough food to prevent serious malnutrition is a problem of paramount importance. When this is the case, efficiency in production and

an equitable distribution of the income from the land are more urgent than security, or freedom, or stable community life. An evaluation of the present tenure system under these conditions must give greater weight to the objectives labeled "efficiency" and "income" than to the others.

Again, during a period of national emergency, such as a war or a severe economic depression, freedom of personal action and equality must be discounted heavily for they are relatively less important than during normal times. In wartime, the maximization of production and security of rights take on added significance.

The relative merits of the plantation and the family farm have been the subject of frequent and heated debate during the last few decades. Those in favor of the plantation organization substantiate their argument with convincing data regarding its superior efficiency in the production of food and fiber and its record for conserving the land and adding capital improvements. Those who favor the family farm cast their arguments in terms of different objectives. To them, agricultural producers have more personal freedom and security, and community life is better integrated, under a tenure pattern made up of family farms than under a plantation system or any type of large scale industrialized farming.

It is the job of the research worker to determine the achievement that can be expected by each tenure system under given conditions. It is the job of the policy maker to determine the relative desirability and timeliness of the various attainments and to lay out programs of action accordingly. But the investigator will go astray if his research is concerned with conservation or efficiency or income, and if he ignores freedom or equality or security. To the extent that he ignores or relegates to a relatively unimportant position any of these objectives, just that much will his results be in error. The policy maker will be handicapped if the researcher makes this error, for he will neither have accurate data nor complete information upon which to build an action program. Even if the research worker analyzes the tenure pattern by measuring the difference between the present situation and each of the eight objectives, the policy maker must still utilize all eight goals in laying down policy and in selecting programs of action.

Many of us play the role of the researcher and the role of the policy maker. This has its advantages and its disadvantages. When both functions are performed by the same person, the hazards of viewing the tenure system from only one or two angles are increased. On the other hand, programs of action are more likely to fit the demands of the situation

when the diagnostician writes the prescription. It is highly probable, however, that the most effective improvement programs can be outlined when the researcher describes the present situation and tentatively outlines ways and means of bringing it up toward the ideals, after which the policy maker evaluates these ways and means in the light of desirable objectives, and then the two workers develop cooperatively the final course of action.

SUMMARY

The above discussion is centered largely around four items—the substance and content of land tenure, the need for establishing objectives of tenure policy, a proposed list of objectives, and how these objectives may be used by the research worker and policy maker. The major points may be summarized as follows:

1. Land tenure is concerned with the manner in which and the period for which all kinds of rights in land are held. These rights, under this broad concept, may be held either by society or individuals, and they may be held as communal property or as private property.

2. Research workers or policy makers must first establish objectives before existing conditions can be evaluated and action programs can be formulated. This is as essential as a ship's rudder to keep us true on our course. Social planners cannot afford to steer by dead reckoning.

3. The eight land tenure policy objectives proposed are: freedom, equality, security, wide distribution of rights, conservation of resources, efficient production, equitable income and well-integrated communities.

4. These objectives indicate the crucial issues on which the research worker must supply comprehensive and accurate information. They are the basic factors that the policy maker must take into consideration in designing a program of action to improve existing tenure conditions.

30. Land Tenure*

Correction of certain major defects in the land tenure situation is basic to the building of a satisfactory long-term program for American agriculture.

The existing pattern of land tenure leaves many farm families periodically uncertain as to their home and employment, and with little incentive or opportunity to establish a stable farm business enterprise.

By way of background for the specific recommendations that follow, it may be well to outline what is held to be a desirable land tenure pattern. On this there is fairly general agreement by those who have studied the situation.

DESIRABLE TENURE PATTERN NEEDED

In the first place, the family-type farm should remain the basis on which American agriculture typically is organized. Although there is no reason to standardize all farms, because of differences in agricultural requirements and in the managerial abilities of farmers, the best interest of the country will be served when a majority of farms are of a type on which the operator, with the help of his family and perhaps a moderate amount of outside labor, can make a satisfactory living and maintain the farm's productivity and assets. About 3,000,000 farms are of this kind at present, compared with about 80,000 larger-scale farms and plantations. The nearly 2,500,000 other farms listed by the census are small units. About half of these, however, are not dependent on agricultural income, for they are part-time farms and rural residences. There remain over a million very small farms, many of which are subsistence farms, on which the families are trying to gain a living by farming.

Second, a large proportion of farms should be owned by those who operate them, and a continuing stream of those who engage in farming should eventually become owners.

Third, landlord-tenant relationships and the status of farm laborers need to be improved, not only to facilitate the advance of laborers and tenants to ownership but also to assure that tenants and laborers have a suitable scale of living, participate in community life, and take good care of the resources with which they are temporarily entrusted.

In looking towards these objectives, it is important to recognize that

* *Postwar Agricultural Policy*, report of the Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, 1944, pp. 30-38. Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

the status of owner-operator, or tenant, or worker must be evaluated in the light of its contribution to the welfare of the people concerned. Owner-operators, for example, burdened with heavy mortgage debts, living on small, uneconomic farms, and lacking adequate capital, may have tenure status much less desirable than tenants who have stable occupancy, and who operate well-equipped farms of economic size. In occasional cases, farm laborers may have a level of living and a degree of security superior to that enjoyed by some tenants and owner-operators. The farmer's security and freedom in the use of land and his share in farm income are of more significance than whether he is called an owner, tenant, or laborer.

LAND VALUES MUST BE KEPT IN LINE

Establishment of a desirable land tenure pattern depends to a considerable extent upon the maintenance of a level of land values which is in keeping with the long-time farm income.

The land boom during and shortly after the first World War, with its resultant huge mortgage debt, burdened American farmers for many years thereafter. *A new land boom is underway during this war. If it continues unchecked, it will again lead to severe and widespread distress. This is one of the most urgent problems which agriculture faces. Strong, positive action must be taken to solve it.*

Wartime land booms are caused by the temporary increase in farm income, which leads to over-optimistic expectations of future earnings. Purchase of land for speculation aggravates the difficulty. Such an inflation of land values comes at a time when it can cause maximum injury—when the transfer of farms is at a peak, and in particular when returning war veterans are attempting to get established in farming.

An intensive educational campaign is needed to warn farmers of the dangers in agreeing to pay more for land than it is likely to be worth. Lending agencies should be urged not to base mortgage loans on values above the levels justified by long-time earning capacity.

In addition, a public appraisal service should be provided so that all prospective buyers and sellers may have knowledge on the basis of which they will be able better to judge the approximate long-time value of farm properties. It is also desirable that a resale gains tax be enacted.

OPERATORS SHOULD OWN MOST FARMS

When people whose interests are not primarily agricultural bid for land, farmers often are forced to pay excessively high prices or be denied an opportunity to become owners.

Particularly undesirable is the practice of investing in farms as a means of reducing the amount of tax that must be paid on incomes obtained in non-farm enterprises. This should be discouraged, and can be discouraged if income tax laws are changed to specify that depreciation and losses on farm properties shall be deductible only from income derived from such properties, rather than from the total income of the taxpayer.

Closely associated with this problem is that of abnormally large-scale ownership, frequently of the absentee sort. One solution is a graduated land tax which imposes a higher rate for additional farms owned by the same taxpayer.

Procedures should be developed to facilitate continuous owner-operation of farms by succeeding generations of the same family. A great deal can be accomplished by business-like agreements providing for joint father-son operation of farms, and for satisfactory living facilities for two families to encourage married young people to remain on the home farm and eventually assume complete responsibility for it. There is also need to discourage the practice of subdividing farms into units too small for economical operation, to provide for prompt settlement of farm estates, to permit purchase by the farm operator at fair income value, and to give protection from undue risks to the one who assumes ownership.

CREDIT SYSTEM MUST PROTECT BORROWER AND LENDER

Farm mortgages, the most important means of financing the purchase or improvement of farms, unfortunately are not always written so as to protect the interests of both borrower and lender.

It is extremely important that mortgages be based on long-time income values, limited to amounts that do not involve undue risk to the farm owner, include provisions for amortization payments of principal and interest, and allow principal to be repaid without penalty.

The farmer should be protected against loss of his farm in the event of severe price declines or other misfortunes beyond his control. As long as he operates his farm well, maintains the property, and pays the lender the usual landlord's share of the farm income, foreclosure should not be instituted.

State laws should be improved to prevent injustices in foreclosures. One essential is receivership or moratorium rights for debt-ridden farm owners during depression emergencies. Another is the establishment by courts of a fair long-time value for foreclosed farms, regardless of the bids of mortgage-holders. Deficiency judgments should be limited

to the difference between this fair value and the amount due on the debt, and should be enforced only against owners who have other property or sources of income, or who have been guilty of bad faith.

Legal costs in the transfer and mortgaging of farms are excessive, particularly as to the preparation and examination of abstracts of title, title insurance and foreclosures. The problem is complicated by wide variation among the states. The situation calls for studies looking toward reduction of these costs through simplification of legal procedures and transfer practices.

Land purchase contracts involve more risk to both buyer and seller than mortgage loans because of the relatively small down payment required. However, they should provide the safeguards of enlightened mortgage practice to insure the owner against loss of his financial and labor investment in the farm because of severe price declines or other causes beyond his control. In many states legislation is needed to prevent abuses.

The making of government loans of substantially 100 per cent of the price of farms is not a sound method of promoting general farm ownership even under normal conditions. With land values at inflated levels the probability of difficulties in the postwar period is especially great. Under such conditions it is very doubtful if the owner of a farm with little or no equity would be as well off as if he were a tenant.

If a government-sponsored farm purchase program is to have a reasonable chance for success, loans to carefully selected borrowers must be based on long-time income values. Also, purchasers should be required to make a cash down payment of at least 15 per cent in addition to having substantial equity in the necessary livestock and machinery, and a fair land purchase contract should be employed until the debt has been reduced to the proportions of the usual first mortgage. During this period the lending agency should have option to buy the farm at the purchase price plus improvements in case the owner wants to sell.

When the purchaser has reduced the debt to the proportion of the usual first mortgage, he should get a deed to the farm, and the mortgage debt should be transferred to another lending agency at a non-subsidized rate of interest. This arrangement enables a maximum number of needy and worthy purchasers to be served by the appropriated government funds.

The agencies of the Farm Credit Administration should continue to provide a source of credit as an alternative to private lenders, and to introduce improvements in credit procedure in order to insure adequate credit on reasonable terms to farmers and cooperatives. The development

of definite plans for the orderly repayment of government capital invested in these credit agencies is important to their continued sound operation as substantially farmer-owned agencies under government supervision. They should extend credit only to those who have reasonable prospects of making repayment, varying the terms of loans as experience in the various localities dictates.

In some areas, prevailing lending practices of both private and public credit agencies need to be altered in order to help farmers finance needed shifts in farm organization, farming systems, and conservation practices.

Sharecroppers and tenants are especially in need of information and help which will enable them to get credit at the lowest possible cost so that they may carry on their operations and improve their status.

Specifically designed to relieve emergency situations are rehabilitation loans, as well as crop and feed loans. Rehabilitation loans involve close supervision of farm operations and family living, being accompanied by assistance in adjusting debts, improving tenure, obtaining medical care, and similar services.

Rehabilitation programs can be used advantageously to help farmers who are on reasonably productive land, or on land which can easily be made productive, but who lack adequate livestock, equipment or other essentials in operating their farms properly. It is a mistake, however, to use rehabilitation loans to keep families on unproductive, uneconomic farms if there are better opportunities elsewhere. Many such families can best be given help in moving to better farms or in finding other work. All governmental lending for rehabilitation purposes should be placed under one agency to avoid overlapping and to reduce costs.

BACK-TO-THE-LAND MOVEMENT NOT NEEDED

A back-to-the-land movement, contemplating the settlement of new lands, is likely to develop after the war, and will pose a problem of critical importance.

Obviously this nation will not need any large amount of additional farm land in the near future. Agricultural production recently has been at record levels, despite wartime shortages of labor, equipment, and materials. When peace returns, fewer people will be needed in full-time farming than before the war, even if the purchasing power of consumers remains high so as to assure a good demand for farm products.

The largest opportunities for veterans or others to return to farming are on existing farms of known productivity from which older operators wish to retire—and many will retire, since the average age of farmers

now is high. So long as land values remain out of line with long-time earning power, however, it will generally be wiser for them to start as renters rather than as buyers.

Because of the special difficulty of satisfactorily adjusting veterans to farm or rural life, it is highly desirable that a staff of rural consultants be made available to confer with and advise returning veterans who desire to farm or to work in rural enterprises. This service, which is particularly needed among disabled men, should be available to veterans before they are actually discharged into civilian life as well as after their discharge. These rural consultants should be attached to the U. S. Department of Agriculture and should work closely with the state agricultural colleges and with regular veterans affairs agencies.

There is need for state and local communities to help returning veterans and industrial war workers who have the necessary training, experience, and ability to establish themselves in agriculture under favorable arrangements. For protection against unwise new settlement which would bring on future burdens, state legislation should permit the zoning of rural areas so as to bar undesirable districts to settlers. Also, state and federal land purchase programs to take submarginal farms out of cultivation should be continued and expanded.

Although clearly it would be a mistake to establish many new commercial farms, that does not necessarily apply to part-time farms and rural residences, which have quite different possibilities and limitations. There is a place for the latter in our countryside, especially in areas close to centers of employment. Shorter hours and more rapid travel facilities have enlarged the opportunities of combining non-farm employment with rural living.

To be successful, part-time farmers or rural residents must have reasonable assurance of substantially full-time non-farm employment or other sources of income. Usually it is not practicable for them to make substantial cash outlays in order to produce for the market—they do well to produce a modest amount primarily for home use. *It is folly to conceive of country living as a substitute for unemployment insurance or relief. But it can offer a means of better living for many people who earn their cash income outside of agriculture, and can contribute to the vitality of rural and suburban areas.*

When part-time farms and rural residences develop in unguided fashion, they can easily become liabilities rather than assets. This holds true where there is no assurance that the breadwinners will have reasonably steady employment within a convenient distance, and where the settlements develop into undesirable communities in which to live. In the

future, rural planning must be broad enough to provide guides for minimizing such problems and to insure a wholesome environment for commercial agriculture, part-time farming, and rural residences.

MILITARY LAND MUST BE DISPOSED OF WISELY

Because the government has acquired extensive acreages of farm land of varying degrees of productivity during the war, the proper and orderly disposal of this land is a matter of considerable concern.

All such lands can best be turned over to an established agricultural agency of the government, preferably the Farm Credit Administration, which is experienced in selling farm land.

The need is to transfer the land directly to farmers in units suitable for family operation, under terms and conditions which will provide reasonable assurance of successful operation and protection of the rights of the public.

TENANCY CAN BE IMPROVED

In the past, too little emphasis has been placed upon improvement of the tenancy system and on the conditions under which tenants live.

Regardless of what is done to promote farm ownership a considerable proportion of farms will continue to be operated by tenants. Many young men need to gain experience as operators in that way until they can accumulate enough resources to buy farms, while others remain tenants indefinitely.

The undesirable aspects of tenancy are not beyond remedy, since for the most part they are not inevitable accompaniments of tenancy as such, but rather are associated with certain common features of landlord-tenant relationships. Much can be accomplished through education, but legislation is needed fully to accomplish the possible improvement.

Every landlord and tenant should be urged to prepare a written lease that is fair to both parties. However, in order to protect the interests of both landlord and tenant, each state in which tenancy is important should establish in its statutes a basic lease which will govern in the absence of such written agreements. An essential feature of such a lease should provide a fair division of income from a system of farming that is profitable to both landlord and tenant.

To encourage good farming practices and to promote desirable tenure conditions, state laws are needed establishing minimum housing standards, providing compensation for disturbance without cause, protecting owners against misuse of their property, and providing reimbursement to the tenants for unexpended improvements made by them. Both

parties should be required to give adequate notice of lease termination. Local arbitration committees can well be employed to handle grievances, adjust differences, and assist in determining equitable rental rates.

Because in many states the sharecropper has no specific legal right either as a tenant or farm laborer, legislation is badly needed to establish his status. Greater security and an improved status would result if such legislation gave tenant rights to all persons sharing a crop with the landlord.

FARM LABORERS REQUIRE CONSIDERATION

As a group, the money wages of farm laborers are generally low, their living conditions are unsatisfactory, and they do not participate generally in the benefits of the social security program.

This situation can be partly remedied if farm laborers in the future are included in the social security program for old age and survivor's insurance, and also receive the benefits now available to workers in industry under the unemployment compensation program.

For migratory workers there should be permanent labor homes and modern labor camps, which can be provided by farm cooperatives as well as by state or federal agencies.

Both laborers and farmers can be aided by a coordinated program of job placement information and service.

31. Action to Improve the Conditions of Farm Laborers and Sharecroppers^{*1}

By COMMITTEE IV†

Rupert B. Vance, Chairman; Russell Smith, Vice-chairman; Marion Clawson, Secretary

Surplus farm population . . . Characteristics and problems of sharecroppers and farm laborers: sharecroppers—farm wage workers . . . Remedial measures: to help them get out of agriculture—to help them become tenants or owners—to improve their status as farm laborers and sharecroppers . . . Summary: action to improve the conditions of farm laborers and sharecroppers

The preceding three committee reports have been concerned with the relation between the farm operator and the landowner and with the relation of both to society. This report will be concerned with a different group—people who are definitely dependent on and interested in the land but who have little or no legal control over the land. Because of this fact, these groups are often called landless.

The committee has chosen to consider farm laborers and sharecroppers as part of our tenure system, though it recognizes that some students would exclude both, or at least farm laborers. There is essentially a continuum in the control over and security on land; and though farm laborers are near the bottom of that continuum, there is no clear-cut line demarking them from other groups.

“Landedness” involves at least the following: (1) opportunity to use productive resources in an amount as large as can be combined effectively with the worker’s skill and managerial ability; (2) security, both in immediate possession of these resources and for old age; (3) material well-being, to at least a tolerable degree, including not only food, shelter, and clothing but also medical care, education, recreation, and the like; and (4) a sense of “belonging,” which comes from having security, friends, and participation in group activities.

* *Family Farm Policy*, edited by Joseph Ackerman and Marshall Harris (The University of Chicago Press, 1947), pp. 447–69. Reprinted by courtesy of The University of Chicago Press.

† Members of the Committee are: John H. Bondurant, Lawrence A. Davis, S. L. Descartes, Francis A. Flood, Everett C. Hughes, O. G. Lloyd, Joe R. Motheral, and Leonard A. Salter, Jr.

¹ The assistance of H. E. Selby, who prepared the first draft of this report, is gratefully acknowledged.

"Landlessness" involves the opposite of these desirable conditions. An ideal classification, based on degrees of landedness or landlessness, would consider each of these factors and group the farming population according to their possession of them. In the absence of such a classification, tenure classes are often used. In a general way, tenure status and landedness are associated, but not completely so. Having statistical and other information on tenure, we use it in lieu of information on landedness as such.

In a recent book, Rupert B. Vance points out that it is possible "to name thirteen separate 'rungs' on the 'agricultural ladder' in the South, all the way from unpaid family labor of a son working on his father's cropper farm to the status of casual wage hand, regular wage hand, cropper, share tenant, standing renter, cash renter, manager, part owner, mortgaged owner, full owner of a small farm, landlord, and large planter."² These various "rungs" in a general way represent degrees of landedness, although there is considerable overlapping in individual cases. A permanently employed farm wage worker, for instance, may have a more secure tenure status for a share of income from the land than a heavily mortgaged owner.

The groups of farm people considered in this report are sharecroppers and farm wage workers. In some states sharecroppers have the legal status of tenants, but their economic position is essentially that of laborers paid with a share of the crop instead of with wages. Thus, these groups constitute "farm labor," as differentiated from "farm operators"—the full-fledged tenants and owners.

SURPLUS FARM POPULATION

Agriculture cannot provide employment on farms for all the present farm population or for the natural increase of the farm population. The birth rate of farm people is nearly twice as high as that of urban people; especially is this true in areas occupied by sharecroppers, farm laborers, and other people having relatively low incomes. Added to this traditionally high birth rate in rural areas is the rather recent tendency to increased length of life-span and the resulting longer working period, which adds to the labor available on farms. These conditions alone mean unemployment and underemployment on farms unless considerable migration from farms to towns and cities continues. Another condition which decreases employment opportunities on farms is that the population needed to produce enough agricultural commodities is continually

² *All These People: The Nation's Human Resources in the South* (Chapel Hill, University of North Carolina Press, 1945), p. 215.

decreasing as a result of increasing efficiency of agricultural production and the transfer from farm to city of many processes and services previously furnished on farms.

During World War II, production per agricultural worker increased by 44 per cent. This was largely due to increased efficiency, more working hours per day, and increased employment per worker. Increased labor efficiency is due to mechanization and technological improvements in farming, such as greater use of tractor power, the combine, and possibly the cotton picker, and has resulted in a greater income per worker. But, at the same time, the decrease in manual labor due to increased efficiency displaces large numbers of farm people, especially farm laborers and sharecroppers. In the past, migration from farm to city has varied with economic conditions, increasing with industrial prosperity and decreasing, or even reversing itself, in time of depression.

Change in rural-farm population of the United States due to migration averaged a net decrease of about 500,000 persons annually, from 1920 to 1940, as estimated by the Bureau of Agricultural Economics.³ The amount of change annually varied from a net increase of 325,000 in 1932 to a net decrease of 1,137,000 in 1922.

The amount of unemployment and underemployment of farm people varies inversely with the rate of movement of people from farms to cities. Unemployed farm people are a potential source of farm labor and are commonly thought of as unemployed farm labor. But if agriculture does not require their services, are they unemployed farm labor or unemployed industrial labor merely living on the farm?

Certainly the general welfare will be served best if all persons who are willing and able to work are fully utilized in producing desired goods and services. There is need for additional farm products of certain kinds, in the production of which some additional workers doubtless should be employed. But the majority of the unemployed people on farms at any given time probably could be better utilized in satisfying human wants by employment in industry rather than in agriculture. "We can raise our standards of living . . . as a higher proportion of our people are put to work providing non-agricultural goods and services, leaving only enough in commercial farming to produce abundant food by efficient methods."⁴

Much of the unemployment in agriculture is seasonal. The biological

³ *Farm Population Estimates, 1910-1942* (mimeographed; U.S. Department of Agriculture, November 1942), p. 3.

⁴ *Postwar Agricultural Policy*, Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities (October 1944), p. 11.

nature of agriculture is such that more workers always will be needed at certain times than at others. By utilizing family workers and others not in the labor force throughout the year, the seasonal labor requirements can be met partially. Industry in the rural area or in near-by towns and cities may provide employment to some farm workers at the seasons when agriculture cannot. But, unavoidably, some farm workers will be idle more of the time than they wish, especially in areas where types of farming are such as to require many workers at some seasons and few at others.

CHARACTERISTICS AND PROBLEMS OF SHARECROPPERS AND FARM LABORERS

A large proportion of this group has long occupied a seriously underprivileged and disadvantaged status. The large surplus farm population has not been needed as workers on farms and most of the time has not been fully absorbed by nonfarm employment. Agriculture also has been one of the occupations to which the unemployed gravitate in periods of depression. The oversupply of workers available for farm employment has resulted in low wage levels and in other exploitation by employers. Workers in agriculture have been in a far less strategic position to improve their status by group action than have industrial workers and have lagged far behind them in doing so. Government has probably extended fewer aids to agricultural workers than to any other equally large class of the population.

During the war most of the surplus farm population was fully utilized by military service and war industries. Consequently, the economic status of farm labor greatly improved. The improvement in its status may continue if full industrial employment absorbs surplus farm population. The statistics presented generally relate to pre-war situations. In part this is because more recent figures are unavailable; partly, however, it is due to the fact that the pre-war situation may more nearly represent "normal" than did wartime. While we do not know what may happen in the years ahead, there certainly will be some tendency for pre-war situations to recur, particularly if nothing is done to secure permanent improvements.

The total number of sharecroppers in the South in 1940, according to the census, was 541,291.⁵ The number of persons working as hired

⁵ Bureau of the Census, *Sixteenth Census of the United States: 1940: Agriculture* (Washington, D. C., Government Printing Office, 1943), III, 146. The census delineation of the South includes Delaware, Maryland, West Virginia, Kentucky, Arkansas, Texas, and all states south of these.

farm labor in the entire United States during the week of September 24-30, 1939, was 3,121,482.⁶ The number working as family labor during that week was 8,128,770, including farm operators. Deducting one operator for each of the 4,905,802 farms reporting family labor gives 3,222,968 as the number of unpaid family workers other than the farm operators.

Seasonal variation in the number of hired and family farm workers is large. In 1945, as estimated by the Bureau of Agricultural Economics, the number of hired workers employed varied from 1,434,000 as of January 1 to 2,813,000 as of September 1, and the number of family workers from 8,005,000 as of January 1 to 11,100,000 as of July 1.⁷ The total number of persons performing some agricultural labor during 1943 is estimated to be 14,500,000.⁸ Not all of either the hired workers or the family workers desire a job throughout the year; many of them want only seasonal work. However, most of them want steadier employment than is available to them.

Comparable statistics are not available for unemployed farm people. They fluctuate widely in number from year to year, with changes in economic conditions. They also fluctuate in number seasonally, complementing the fluctuation in numbers of employed farm workers. In some years, in seasons of peak farm employment, the number unemployed becomes negligible; in other years, in seasons of low farm employment, it exceeds the total number of hired farm workers. The *Census of Unemployment* in November, 1937, a time of year when farm employment is relatively high, found nearly 1,000,000 totally unemployed and over 500,000 partially unemployed living on farms.

The foregoing figures give a general idea of the relative sizes of the groups that we are considering. Their relative importance from the standpoint of problems that are of public concern is different. If the number of "underprivileged" persons is taken as a measure of the size of the public problem involved, the unemployed group as a whole undoubtedly is the largest at times. In the three groups of workers the magnitude and seriousness of problems perhaps is in reverse order to the numerical sizes of the groups—greatest for sharecroppers, next greatest for hired farm labor, and least for family labor.

SHARECROPPERS. Of the 541,291 sharecroppers in the South that

⁶ *Ibid.*, p. 444.

⁷ Bureau of Agricultural Economics, *Farm Labor* (Mimeographed; U.S. Department of Agriculture, July 13, 1945), p. 7.

⁸ Louis J. Ducoff and Margaret Jarman Hagood, *The Working Force in Agriculture in 1943* (mimeographed; Bureau of Agricultural Economics, U.S. Department of Agriculture, 1944).

were enumerated in the 1940 census, 45 per cent were white and 55 per cent nonwhite, predominantly Negro. The nonwhite sharecroppers represented 44 per cent of all nonwhite farmers in the South; the white sharecroppers only 10 per cent of all white farmers.

The sharecroppers averaged thirty-nine years of age, and 43 per cent were under thirty-five years, as compared with an average age of fifty-two years and only 11 per cent under thirty-five years for farm owners.

The problems of the sharecroppers have been well documented in a number of writings.⁹ These problems include underemployment, low incomes and level of living, lack of alternative opportunities and incentive for personal development, high-cost credit, uncertain legal status, and unsatisfactory health and housing conditions.

The sharecropper system is closely associated with the one-crop cotton farming system of the South. The sharecropper, limited to raising cotton on a small acreage of land, is fully employed for only a small proportion of the time. With inadequate capital and usually with poor machinery and undeveloped managerial capacity, the effectiveness with which he works is also low.

Woolfer found that sharecroppers in 1934 received an average annual income of \$312, or \$71 per person.¹⁰ Because of the specialization on cotton production, prevailing attitudes of landlords, and insecurity of tenure, the amount of farm products raised for home consumption is small. With their low incomes, the level of living is unavoidably low.

Opportunities for nonagricultural employment in the South are limited; training and placement programs for employment in other parts of the country are inadequate. In a study of Negro sharecroppers in Alabama, Hoffsommer found that three-fourths never rose above that status and that only one-tenth became farm owners.¹¹ With poor schooling and low incomes and under obvious class discrimination, as well as often suffering from poor health, sharecroppers all too frequently adopt

⁹ E.g., Harold Hoffsommer, *Landlord-Tenant Relations and Relief in Alabama* (mimeographed: Research Bulletin, Series II, No. 9 [Washington, D.C., F.E.R.A., 1935]). T. J. Woolfer, *Landlord and Tenant on the Cotton Plantation* (Research Monograph V [Washington, D.C., W.P.A., Division of Social Research, 1936]). H. A. Turner, *Graphic Survey of Farm Tenure* (Miscellaneous Publication 2612 [Washington, D.C., U.S. Department of Agriculture, 1936]). Arthur F. Raper, *Preface to Peasantry* (Chapel Hill, University of North Carolina Press, 1936). National Resources Committee, *Farm Tenancy: Report of the President's Committee, 1937* (Washington, D.C., Government Printing Office, 1937). Vance, *op. cit.*

¹⁰ *Op. cit.*, chap. vi, pp. xxvi-xxvii.

¹¹ *Op. cit.*, p. 11.

an attitude of despair toward life, which prevents them from taking full advantage of the meager opportunities that do exist.

Inadequate incomes are still further depressed by the furnish and "time-price" systems. The average cost of landlord and merchant credit to tenants and sharecroppers, in six different studies in selected areas, was found to range from 21 to 50 per cent.¹² Hoffsommer found that of 3,000 cropper families, 40 per cent were indebted to their present landlords with a debt of more than one year's standing averaging more than \$80.

In a number of states a sharecropper is classified legally as a laborer rather than as a tenant, and he has no legal possession of the land. Frequently his status is uncertain and subject to varying legal interpretation. Convictions against landlords who practice peonage are still obtained occasionally in the South. The system of paying for the cropper's labor with a share of the crop is an incentive to him to care for the crop in such a way as to maximize his share. But the cropper's lack of stability on the land provides no incentive for long-time conservation or soil improvement. Low incomes and lack of security combine to produce generally substandard housing for sharecroppers. A combination of low incomes, malnutrition, inadequate medical services, and poor housing is responsible for frequent poor health conditions.

In such other aspects of full and satisfactory rural living as education, church facilities, and civil liberties sharecroppers are also often at a disadvantage.

Mechanization and the crop control program caused a considerable decrease in the number of sharecroppers in the years prior to World War II (from 776,278 in 1930 to 541,291 in 1940, in the South). With wartime labor shortages, this trend slowed down because many landowners, in an attempt to stabilize their labor force, offered concessions to wage workers in the form of crop-share agreements. Previously, provisions of the cotton control program had been an inducement to some plantation operators to replace their croppers with hired labor. Although the cropper at best is little more than a hired laborer paid in furnish instead of cash, the change from cropper to hired-hand status represents the loss of at least a degree of security, particularly under the circumstances surrounding agricultural wage labor in the areas where sharecropping is common.

Among the handicaps which have retarded the advancement of sharecroppers have been a lack of capital and a lack of skills. Moreover, those who possessed the minimum aptitudes for more favorable employ-

¹² National Resources Committee, *op. cit.*, p. 46.

ment were confronted by obstacles ranging from the unavailability of credit to racial discrimination.

Historically, as an escape mechanism, the flow of the sharecropper has been away from rural areas into urban centers. This flow was accentuated during the recent war. Thus, for the time being, the problems of the sharecropper, while having lost none of the character of general, national concern, have been substantially reduced as an agricultural responsibility.

Several factors may contribute to the acceleration of this trend: (1) abnormally high wartime wages that drew thousands of people of this farm tenure group away from the plantations permitted a standard of living, of amusement, and of political and social participation that they had never before enjoyed nor will ever again willingly relinquish; (2) not only may potentially full employment absorb those who were drawn away from the farms by wartime employment, but rising postwar industrial activity offers the prospect of renewing the wartime exodus; (3) as labor-saving machinery becomes available and more adaptable to certain types of large-scale commercial farming, a corresponding decline in the demand for a cheap farm labor force is inevitable.

In the decade ahead, therefore, two major aspects assume special significance—the need for an intensified effort to improve the status of those who remain sharecroppers and the assurance of adequate assistance in effecting the transition of many workers from a sharecropper status to industrial employment.

FARM WAGE WORKERS. The total number of hired farm laborers that work on farms at any time during the year has been estimated as 4,000,000. Of these, 1,000,000 to 1,500,000 are rather regularly employed workers, and 2,000,000 to 3,000,000 are seasonal workers. Of the seasonal workers, 500,000 to 1,000,000 are migratory, and 1,500,000 to 2,000,000 nonmigratory.¹³

Of 1,828,164 male farm laborers (including farm foremen), employed on other than emergency work, that were enumerated in the 1940 census, 75.8 per cent were white; 22.6 per cent, Negro; and 1.6 per cent, other races.¹⁴ For the comparable group of farmers and farm managers the distribution was 86.9 per cent, white; 12.4 per cent, Negro; and 0.6

¹³Louis J. Ducoff, *Wages of Agricultural Labor in the United States* (Technical Bulletin 895 [Washington, D.C., U.S. Department of Agriculture, July 1945]).

¹⁴Bureau of the Census, *Sixteenth Census of the United States: 1940: Population*, III, "The Labor Force" (Washington, D.C., Government Printing Office, 1943), 89.

per cent, other races. The median age of the farm wage worker group was 30.3 years as compared with 46.6 years for the farmer group.¹⁵

"It used to be that the farm laborer could expect to rent a little farm, save up his money, and eventually have a place of his own. It used to be that the 'hired hand' was almost part of the farm owner's family, eating his meals with them, entering into their plans."¹⁶ A large and increasing proportion, however, is being faced with unsatisfactory working and living conditions and a hopeless outlook. The problems of this portion of the hired farm labor group have been well described, like those of the sharecropper, in numerous writings.¹⁷

Farm labor problems are most acute in areas in which agriculture has become most "industrialized" and where large numbers of temporary farm wage workers are employed seasonally. The most extreme examples of such areas are in California, but there are many in other parts of the country, particularly along the Pacific, Atlantic, and Gulf coasts.

The problems of the disadvantaged segment of the farm labor group are in general similar to those of the sharecropper. They are the problems associated with poverty. They arise basically, for both groups, from an oversupply of workers relative to the labor requirements of the land and the exploitation of that situation by those who control the land.

Hired farm labor, like the sharecropper, is subject to serious underemployment. Of 2,258,564 male wage or salary workers in agriculture (except persons on emergency work), as enumerated in the 1940 census, 17.3 per cent worked less than six months, and an additional 19.0 per cent less than nine months, during 1939 in all types of work.¹⁸ This underemployment is due largely to the seasonal nature of much of the available farm work.

Farm hired labor, in general, likewise has meager incomes and levels of living. Of the total experienced persons in the farm wage worker labor force in 1939, 72.1 per cent received a total wage or salary from all employment of less than \$400.¹⁹

¹⁵ *Ibid.*, pp. 98-99.

¹⁶ William T. Ham, "Farm Labor in an Era of Change," *Farmers in a Changing World: Yearbook of Agriculture, 1940* (Washington, D.C., U.S. Department of Agriculture, 1940), p. 907.

¹⁷ E.g., the various *Reports of the U.S. Senate Committee on Education and Labor Pursuant to S. Res. 266, 74th Congress* (La Follette Committee); Ham, *op. cit.*; and Interbureau Working Group on Farm Laborers.

¹⁸ Bureau of the Census, *Sixteenth Census of the United States: 1940: Population, III*, 274.

¹⁹ *Ibid.*, p. 152.

In addition to receiving low pay, hired farm labor works long hours. Agriculture has had much less reduction in working hours than has taken place in practically all other industries. Of all male wage or salary workers employed in agriculture during the week of March 24-30, 1940, 34.5 per cent were working sixty hours or more per week, which was by far the largest proportion in any major industry group.²⁰

Because of the seasonality of much of the available employment, many farm laborers become transient or migratory workers who move from area to area as work becomes available. This transient way of life intensifies the problems inherent in low incomes. The transient family has no permanent home and must depend largely on housing provided by farm employers, much of which is inadequate and even unsanitary. Opportunities for education of children, for medical care, and for social participation are very meager.²¹

One of the most serious conditions associated with hired farm workers is that of child labor. Although most of the children who assist with farm work are working for and with their own parents on family-sized farms, there are a great many children who work on farms for wages rather than for their own parents. Many of these are members of the migratory farm labor force and are thus subjected to the poor working and living conditions which prevail for that class of workers. Often there is no place for these children to go except to the fields with their parents. Working conditions for children are not always fully satisfactory on their own farms, particularly where the farms are small or the land poor, so that the family's only chance for subsistence is through very long hours of work.

During the war the economic position of farm wage workers improved to a large but unknown degree. Wage rates increased materially; perhaps more important, but less definitely known, was the increased regularity of employment. With farm labor scarce, farm operators found it greatly to their advantage to plan for relatively full utilization of their labor force in order to have it when needed. Living conditions improved, although improvement in farm housing was hampered by scarcity of materials. Many former farm wage workers left agriculture and obtained nonfarm employment in the same area or elsewhere. With their scarcity came greater solicitude for their living conditions and a greater appreciation of their worth as citizens. The shortage of farm labor made it necessary to utilize prisoners of war and to import citizens of other countries.

²⁰ *Ibid.*, p. 271.

²¹ Walter R. Goldschmidt, *Social Structure of a California Rural Community* (Doctoral dissertation, University of California, 1942).

The necessity of guaranteeing the latter more regular employment and better living conditions than had often been available previously to native farm workers undoubtedly brought some changes in attitudes of farm employers.

The degree to which, in the postwar years, farm laborers can maintain and improve upon their wartime gains is uncertain. If urban employment remains high and wages good, farm laborers will be able to realize large benefits. Farm wages would then stay fairly high, employment would be relatively steady, and many improvements could be made in living conditions. Urban unemployment, if on a large scale, could easily result in a flooding of the farm labor market, with resulting low wages and severe underemployment.

REMEDIAL MEASURES

Programs to improve the status of farm laborers and sharecroppers lead in two opposite directions—out of agriculture and within agriculture. Improvement out of agriculture consists of stimulating non-farm employment opportunities, which depend largely upon the level of total employment in the nation. Within agriculture, two possible aids are found: (1) in facilitating conversion to status of farm operators, either as tenants or as owners; and (2) in improving the present status of farm laborers and sharecroppers.

Other proposals for improvement of the status of these people have been made. Some have advocated birth control as a primary means of improving the position of low-income rural people. Reduction of the rural birth rate by encouragement of birth control and other measures undoubtedly in the long run would assist in improving the competitive position of farm wage workers and sharecroppers. Six southern states (including West Virginia), as well as other states, have incorporated contraception in their public health programs. The purpose of such a program may be as much to improve the health of the mother and children as it is to improve their economic position, but it surely will do the latter also. No one would suggest going so far as Swift's famous satire recommended.²² For the immediate future, reduction of birth rate would have little effect because the rural labor force for the next two decades will be made up of persons now living; reduction in birth rate would affect labor supply only after twenty years.

²² Jonathan Swift, "A Modest Proposal for Preventing the Children of Poor People from Being a Burden to Their Parents or the Country (by Using Them as Food for the Rich)," *Drapier's Miscellany*, 1729.

TO HELP THEM GET OUT OF AGRICULTURE. The greatest opportunity to help people whose labor is not needed in agriculture consists of providing full employment in industry for all persons desiring work. The total farm population varies inversely with the amount of nonfarm employment. Reasonable freedom of entry into various occupations is essential. Public or private organizations may impose barriers to free movement of farm people or to their employment after reaching the city and thus largely nullify the favorable influence of high nonfarm employment. A program of training farm people for nonfarm employment is also an essential part of this adjustment.

A recent report issued by the United States Department of Agriculture states:

What peace can mean to American farmers depends more upon the level of business activity and nonfarm employment that can be maintained after the war than upon anything else. Although all the problems of post-war agriculture would not be solved by a full-employment economy, there can be little question that the country generally would be better off if productive jobs are available for all who are able and willing to work, than if millions of workers are walking the streets looking for jobs, or are forced "back to the land" in an attempt to dig their living out of the soil. Farmers can be assured that an economy characterized by high levels of employment, as contrasted with high levels of unemployment, would bring them (1) substantially larger market outlets for most farm products, (2) greater opportunities for some of their sons and daughters to find nonfarm jobs, and (3) a better chance for themselves to shift to more productive farms or out of agriculture entirely if they want to do so.²³

This is an excellent, concise statement of the benefits that would flow from continued full industrial employment, and there is substantial agreement on the part of all persons interested in agriculture on the basic importance to agriculture of these conditions. Differences begin when specific actions are proposed in the light of the statement.

Whether such continuous full employment in industry obtains or not, however, certain measures are important because they would facilitate the transfer out of agriculture of those whose labor is not needed in agriculture. The first such requirement is the establishment of a comprehensive system of training farm people, particularly farm youth, for non-farm vocations. In part, this is simply a phase of the problem of inadequate educational opportunity in rural areas in that provision of such general opportunities equal to those in cities would inevitably broaden both the capacity and the opportunity of farm youth to enter other oc-

²³ U.S. Department of Agriculture, *What Peace Can Mean to American Farmers: Maintenance of Full Employment* (Miscellaneous Publication 570 [Washington, D.C., July 1945]), p. 1.

cupations. The committee, therefore, supports the general principle of a large-scale program of federal aid to education designed to rectify inequalities of educational opportunity as between states, as between localities within states, and as between racial and other groups.

If the provision of general educational opportunity is not in itself sufficient, it should be supplemented where feasible by specific training for nonfarm vocations. In order that the needs of farm labor and sharecroppers may be met, such a system must aim to include all rural youth and such adults as may desire it, since pressure of population affects all farm groups. It will improve the condition of sharecroppers and farm labor if sons of tenants and owners also are enabled to move freely out of agriculture when that is desirable. The present agricultural educational system, including the extension services, the land-grant colleges, and the vocational agricultural system, should be modified so as to put additional emphasis upon and funds into this type of training, a type of training which, incidentally, appears to have been included in the original plan of the land-grant colleges, as witness the Morrill Act's repeated emphasis upon the "mechanical," as well as upon the "agricultural," and "arts." Such training could be more effective and more economically performed if there were a general revision and integration of these three phases of the agricultural educational framework.

A second important measure that must be undertaken if the transition of workers from agriculture is to be satisfactorily accomplished is the provision of additional nonagricultural employment opportunities in regions now overly dependent upon agriculture. This measure, in fact, includes a wide variety of implementing steps.

One step often proposed is the development of rural industries and the location in rural areas of industrial plants.²⁴ The results, however, that have flowed from past emphasis upon this kind of industrial decentralization have not been impressive. Usually, such location of industrial plants has been stimulated by the prospect of cheap labor and by tax and other concessions. Moreover, the development of rural industries, such as handicraft establishments, all too often has been upon a romantic rather than an economic base. In some instances, these enterprises can yield beneficial results, but only when they are established to meet real economic needs, when they have a substantial prospect of profitable markets for their products, when they pay good wages, and when they accept the tax and other social responsibilities of other members of the economic body.

²⁴ Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, *op. cit.*, p. 11.

Maintenance of full employment outside agriculture is becoming increasingly dependent upon the expansion of job opportunities in service industries and trades.²⁵ These opportunities do not exist in rural areas in more than a fractional proportion of their volume in cities. It should be pointed out, therefore, that the present social and legislative trend toward federal and state government stimulation of such things as better rural housing, improved health, and better highways and other means of transportation and communication has a direct bearing on the movement of manpower out of agriculture. Provision of such facilities in themselves will help to ease population pressure but, more than that, will inevitably attract other small service enterprises of the kind that are increasingly numerous in cities and, hence, will have a real bearing upon the condition of the people with whom this report deals. Needless to say, all such measures should be encouraged and supported.

Another means of working toward solution of this problem lies in the elaboration and application of rural conservation works to provide off-farm employment both to underemployed farm laborers and to operators. Such a program could well be a part of agricultural programs related to income, with a view to raising the present meager minimum income of depressed groups in agriculture and should be a continuing project that would offer unemployed or underemployed farm people socially useful work in their own communities. There are almost no rural communities where soil conservation is not a problem. Part of the problem arises from the divergence between the individual interest and society's interest. Such a program would tend to make them coincide. Moreover, it would assist greatly in the adjustment of population to land resources and to the hard facts of economic trends that point toward large-scale displacement of people in agriculture in coming years.

TO HELP THEM BECOME TENANTS OR OWNERS. Another type of solution to the problems of low-income farm people would put greater rather than less reliance upon agriculture. There are advocates of a type of farming and rural life embodying smaller farms and thus providing occupations for more farm people. This school of thought asserts that values inherent in farm life warrant the maintaining of a larger population engaged in agriculture, even if this must be attained at the expense of less efficient production and of the material level of living of those on the land. Others, however, think that a rural economy of family-sized farms large enough to use the more efficient techniques and practices and utilization in nonfarm occupations of the surplus rural population not

²⁵ *Ibid.*, p. 8.

needed on such farms will afford the optimum of both cultural advantages and material welfare.

Farm laborers and sharecroppers can be aided in becoming tenants or owners in two ways: (1) by assisting them to acquire and hold the farms that become available through death, retirement or withdrawal from agriculture, or failure of present operators; and (2) by providing additional farms.

Measures to help them compete for the present supply of farms include education in agricultural techniques, supervised credit, and legal provisions and policies favoring family type farms.

The agricultural educational opportunities of the nation that are now provided by high-school vocational training, the agricultural colleges, and the agricultural extension service probably are adequate to train as many people as there will be opportunities for as farm tenants or owners. The greatest difficulty is that many of the farm people most in need of such training do not get it for one reason or another—perhaps because it is not available in their community, because they must work whenever work is to be had and hence cannot go to school, because their basic schooling is inadequate, because they do not appreciate the advantages of such training, or because their lack of opportunity to secure a farm discourages their participation. The provision for veterans' education allows only stipends for G.I.'s who apprentice themselves to farmers under the supervision of vocational agricultural teachers. To meet these situations, the educational program for agriculture should be improved. Those for whom farms will not be available, and who are adaptable to non-farm work, should not be trained to become farm operators but to enter nonagricultural occupations.

The rural rehabilitation and farm purchase programs of the United States Department of Agriculture provide assistance to sharecroppers for acquiring and operating farms as tenants or owners. Assistance is also extended to selected qualified farm laborers, but the proportion of the labor group that can be helped to acquire farms is limited by the supply of farms.

These two programs provide a direct approach to the problem of assisting disadvantaged groups to establish and operate family farms. Under these programs, management assistance has been a special feature. In addition, real estate loans are made on a long-term basis at low interest rates, and repayments vary with available income.

The rural rehabilitation and farm purchase programs of the federal government should be expanded greatly in order that they may be made available to a larger number of sharecroppers and laborers than they can

now possibly reach because of limited funds. In addition, these programs should be freed from rigid legal restrictions so that every effort may be made to adapt them to the needs and abilities of the qualified persons who are helped and to the variations in physical conditions and types of farming where they operate. Further, there should be sufficient freedom of operation so that judicious experiments may be tried in respect to various tenure, credit, and management systems in order that the entire country may benefit from actual experience with attempts to correct complex land tenure problems for which no general solutions are yet known.

The United States, through legislation and administrative policies, has traditionally favored the establishment and maintenance of family farms. Examples of such policy have been the disposition of most of the public domain in family-sized units, the acreage-limitation provisions of federal reclamation law, and acreage limitations in federal payments for soil conservation. These measures tend to provide more opportunities for landless people to acquire and hold land instead of working as hired hands on large farms. Increased use of these various measures would provide additional opportunities for landless people and still would provide farm units that are large enough for use of efficient production methods.

Measures pointed more directly at the problem include a land tax graduated upward by size of holding. A prohibition against any corporation owning in excess of 500 acres in Puerto Rico has been upheld by the United States Supreme Court. Graduated land taxes have not met with favor in any of the states except as a means of forcing unused lands onto the market. It has been estimated that 50,000 or more openings for new farm operators could be provided in the United States by improvement and division of land in some of the suitable and very large farms as they become available for sale or rent to new farm operators over the next several years.²⁶ The committee recommends that such action be taken to the extent feasible and that it be directed to the assistance of farm laborers and sharecroppers.

A certain number of additional farm opportunities can still be provided by development of additional farm land. It has been estimated that 40,000 to 50,000 farms could be developed in the first five years after the war by irrigation, drainage, and flood control.²⁷ Veterans have a preferred position for some of these, and established farmers take others, so that by no means all the new farms are available to laborers and sharecroppers.

²⁶ Interbureau Committee on Postwar Agricultural Programs, *Farm Opportunities in the United States* (multilithographed; U.S. Department of Agriculture, July 1945), p. 34.

²⁷ *Ibid.*, p. 6.

Many present farm laborers, however, have more inherent ability to operate a farm successfully and efficiently than many operators of sub-marginal farms. On the other hand, many present farm operators doubtless would be more successful in nonfarm occupations. It is to the advantage of the individual and of society for everyone to be located where he can make the best possible use of his talents and thus make his best contribution to the total welfare. Hence, programs for assisting farm people to obtain either farms or nonfarm employment should give consideration to the entire farm population and seek to assist individuals either to remain in or get out of agriculture according to their individual abilities.

TO IMPROVE THEIR STATUS AS FARM LABORERS AND SHARECROPPERS. Action to improve the working and living conditions of landless farm people in their present status of farm labor must be designed to meet their various problems—low incomes; long hours; lack of security; unsatisfactory housing, health, and sanitation facilities; low school attendance; lack of social participation; exploitation of women and children; low productivity as farm workers; and low participation as citizens. These are in general the same problems with which industrial workers have been struggling, and the means of meeting them are in general the same as those that have been used by industrial workers.

A first requisite is that, while agriculture has the responsibility of providing adequate incomes and living conditions for the workers that it needs, it does not need to supply them for those who should be employed in other occupations. Adequate unemployment compensation and other programs will go far toward protecting agriculture from the burden of the urban unemployed.

Some students advocate a labor approach to this whole problem. A frank admission of labor status along with the use of measures developed by organized labor may help to improve conditions. The labor group in agriculture shares few of the benefits and rights of its counterpart in industry. These benefits can be divided into three types: (1) the advantages of labor organization, (2) the protection of legal standards, and (3) the adoption of social security. All are related to the political process and can be obtained only under the full protection of civil rights and the exercise of a free ballot.

It is often said that no one can help farm laborers unless they help themselves. Zealous observance of the rights of free speech and free assembly will enable them to organize for improving their condition in the same manner that industrial laborers have improved their conditions and wages.

Legal standards of wages and hours, workmen's compensation, and child labor laws have not been applied in agriculture. Often, small farm

owners have opposed such legislation and thus have prevented its extension to the rural field. Compulsory education laws are often the only means of preventing child labor in the field, and these laws are not always enforced.

Application of social security measures in agriculture admittedly is more difficult than in industry, because of the indefiniteness and instability of the farm labor group and because agriculture consists of many small enterprises employing few workers, instead of relatively few enterprises employing many workers. The Social Security Board, however, has worked out and proposed administrative procedures by which the old age and survivors' benefits of social security can be extended to farm workers.²⁸

By and large, housing and sanitary conditions are unusually poor for farm laborers and for a large proportion of sharecroppers. This is the case whether or not they live on the farm where they work—and a large proportion of them do not. Slum conditions are just as prevalent in rural villages and the open country as in cities; therefore, a rural housing program should include ways and means by which farm laborers and sharecroppers may, where opportunities for working are available on many farms in the community, acquire adequate homes through long-term amortization payments.

Attention should be given to legal steps for improving housing conditions through establishment of minimum standards of housing and sanitary conditions in the interest of improving health and living conditions of the labor or cropper family.

Rural medical and health services are far from adequate to maintain an acceptable standard of health among farm people. In the thousand most rural and isolated counties in the United States just before the war there were 1,700 people per doctor, as compared with 650 in big city areas.²⁹ There was only 1 dentist to every 4,200 persons in the rural sections: 1 to every 1,400 in the cities. Over 1,250 of the 3,070 counties in the nation do not have a satisfactory general hospital. In view of this actual shortage it has been suggested that society should subsidize the training of doctors who will go into rural areas.

Health of rural people, including farm laborers and sharecroppers,

²⁸ See A. J. Altmeyer, *Social Security for Farm People* (Social Security Bulletin, Vol. VII, No. 4, April 1944); and statement issued by U.S. Department of Agriculture, Office of Information, *Social Security for Farmers and Farm Workers* (multilithographed; February 1945).

²⁹ Interbureau Committee on Postwar Programs, *Better Health for Rural America* (Washington, D.C., U.S. Department of Agriculture, October 1945), p. 3.

is of general public interest and concern, because from the rural areas come the people who maintain the population of the urban areas. The farms of the country raise the children that maintain the population of the nation. For a more healthy nation better rural health facilities are essential. The best answer appears to be a national health insurance plan, either as a part of the social security program or as a separate program.

The relation of the farm to maintenance of the population of the nation is an equally important reason for an adequate educational program for rural people that will prepare them for the responsibilities of citizenship and social participation. Society as a whole would be well justified in bearing the expense of such education. There is need not only for adequate educational facilities, including opportunity for schooling of migratory farm workers, but also for adequate enforcement of school attendance and extension of modern child labor laws to agriculture.

Policies that will bring about a more stable production pattern in American agriculture—that will be flexible enough to permit adjustment to economic changes but will minimize violent fluctuations in crop acres from year to year—will do much to improve the stability of employment of farm workers. Programs for needed agricultural conservation work should be so planned as to provide work for unemployed farm workers in periods of low farm employment.

In addition to the measures that have been mentioned that are applicable to the farm labor group as a whole, certain measures are applicable to the special groups.

For the most skilled farm laborers, those with genuine ability and interest in agriculture, it is possible to develop a contract that will serve both parties. One example is the Farm Laborer-Employer Working Agreement as developed in Indiana. This is known as the Income-sharing Contract with a Guaranteed Wage.

The farm laborer, either nonfamily or family, is advanced each month something less than the going wage which, if more than the percentage share of the net income, he has the right to retain. This guaranty against the loss of wages according to Indiana law makes this working agreement a nonpartnership.

The incentive to industry and to keeping operating expenses at a minimum and farm receipts at a maximum gives the laborer approximately the same interest in the farm business as the employer. In these cases the owner is the financier in that he advances all operating expenses and working capital.

The farm laborer or operator, as he is called in this contract, shares in the repairs and depreciation of the farm machinery and in the appre-

ciation, if any, of inventories in livestock, feed, and supplies. In other words, settlement is made by subtracting the sum of the beginning inventory and joint operating expenses from the sum of the closing inventory and the joint farm receipts. The difference is called net income; and if the division agreed upon is one-third to the laborer, he is paid this amount after deducting the advanced wages he has received during the year.

It should be apparent that by requiring the operator to furnish all man-labor and to share the operating expenses at the same fraction as that at which he shares the farm receipts, his interest in the farm business closely approximates that of the landowner and also the interest of an owner-operator.

In a number of states the status of sharecroppers is so unclearly defined that they may have neither the legal rights of a tenant nor the right to collect the wages of a farm laborer. Their status should be improved by legislation establishing definite tenancy rights.

Perhaps the greatest need, however, is to provide the sharecropper with sufficient land and to assist him in developing a diversified type of farm organization that will utilize his labor more fully, if only in raising a larger part of his living. Means of accomplishing this are education and supervised credit such as that provided by the rural rehabilitation program. In general, the amount of capital used per farm by sharecroppers is disproportionately low in comparison with the land and labor used and should be greatly increased. With improved farm machinery the sharecropper might handle larger acreage and then realize a better income. In some instances the cropper's need for additional income is being met by the work he does for wages on the landlord's home farm. Improved tenancy legislation to protect soil improvement and other investments by either sharecropper or landlord is also needed.

Many of the unsatisfactory conditions of the farm wage worker group arise from specialized crop production and the need for large numbers of additional workers for only short periods. Wage rates paid for such work are relatively high compared with farm wages in general, but a large proportion of the workers are employed only a small part of the time, and their annual earnings are low. Farm operators can do much to diversify and adjust their farming operations so as to provide more continuous employment and to minimize labor peaks. Such adjustments will become necessary as opportunities for better employment increase and as the number of farm workers who are willing to accept only part-time work and a migratory life decreases. One of the most promising of recent developments in this regard has been the formation of farm-employer co-operatives, which permit several farms to pool their employment of labor

in such a way as to provide much more nearly steady work to a group of laborers.

At best, however, a considerable amount of seasonal labor will be needed in agriculture. The requirements in different areas will vary from year to year with crop conditions. A public farm employment service can do much to facilitate the movement of workers to areas where and when they are needed and thus help to utilize this type of worker fully. Adequate migratory labor camps and housing are needed. Private farm labor recruitment activities by employers and by labor contractors and brokers should be subject to public regulation to prevent the offering of unwarranted and misleading inducements to prospective employees and other exploitation of them that has frequently occurred in the past. Improvement of the working conditions and wages of seasonal farm labor will make it possible to attract to agriculture local labor that is interested only in seasonal work and thus reduce somewhat the amount of migration required.

It has been pointed out in the preceding discussion that the disadvantaged unpaid family workers, so far as working and living conditions are concerned, are chiefly the families of low-income farm people. The basic action to improve their status is the action needed to improve the status of the groups to which they belong, as discussed above. To prevent exploitation of women and children under the urge of poverty, adequate laws and effective enforcement are needed to regulate hours of employment, type of work, and school attendance.

SUMMARY

ACTION TO IMPROVE THE CONDITIONS OF FARM LABORERS AND SHARECROPPERS

- I. To help them get out of agriculture
 1. Full employment in industry with reasonable freedom of entry into various occupations
 2. Increased rural program of training for nonagricultural employment
 3. Job guidance and nonfarm employment service for rural people
 4. Establishing of nonfarm industries in rural areas
- II. To help them become tenants or owners
 1. Agricultural education
 2. Supervised credit (rural rehabilitation program)
 3. Legislation and administrative policies favoring family-sized farms

4. Purchase and subdivision of large landholdings
 5. New land development
- III. To improve their status as landless farm people
- A. The group in general
 1. Full employment in nonfarm occupations for workers not needed in agriculture
 2. Education to improve their productivity as farm workers and their participation as citizens
 3. Legal standards, effectively enforced, of wages, hours, housing, sanitation, and child labor
 4. Full protection of civil liberties
 5. Agricultural labor unions and collective bargaining
 6. Social security for farm people providing old age and survivors' insurance, health insurance, disability insurance, and unemployment compensation
 7. Stabilized agricultural production with complementary agricultural conservation works program
 - B. Sharecroppers
 1. Legislation establishing tenancy rights
 2. Supervised credit at reasonable rates
 3. Assistance in obtaining sufficient land and developing satisfactory farm organization
 - C. Wage workers
 1. Public farm employment service
 2. Registration and regulation of labor contractors and brokers
 3. Adjustment of farming operations to provide more continuous employment
 4. Adequate migratory labor camps and housing
 5. Adequate laws, effectively enforced, to regulate hours of employment, type of work, and school attendance

32. Southern Farms Need More Employment*

By GEORGE H. AULL

Department of Agricultural Economics and Rural Sociology, Clemson College

Per acre and per dollar of invested capital, southern agriculture still gives more "employment" to its farm people than other sections of the United States.

This record, however, is not a particularly desirable one. *Employment* has usually meant underemployment, with low incomes and poor living for the farm workers involved.

In 1940 almost one-half of all farm workers in the United States lived on our southern farms—yet they worked but a third of the nation's farm land and owned only a fourth of our nation's livestock. Just for "standing room" the average farm worker in the South had an average of 24 acres of cropland and 11 acres of pasture; farmers in the north central states enjoyed an average of 64 acres of cropland and 22 acres of pasture.

What is true of land is also true for machinery and other resources. The average southern worker, while he may have a "job," is seriously handicapped by a lack of things to work with. We can hardly say that his employment is productive.

Income figures show the painful truth: Cash receipts from farm marketings averaged only \$711 per farm and \$130 per person in the South in 1940; these were \$1600 per farm and \$360 per person in the north central states.

The picture is much the same when expressed in other terms. No matter how you figure it—our southern agriculture is *overpopulated* and *undercapitalized* in comparison to other parts of the country. And it has been for many years.

Yet, in spite of these inequities, it is from the Midwest rather than from the South that we hear such warnings as these:

1. Public policies affecting agriculture should not be based on the concept that farming is a refuge for city unemployed.

* *Farm Policy Forum*, I, 4, pp. 16-18, October 1948. (Condensed from article in *Southern Economic Journal*, April 1947.) Reprinted by courtesy of The Iowa State College Press and the author.

2. Wartime agriculture demonstrated increased agricultural production with fewer farm workers.

3. Agriculture can produce all the food and fiber demanded by a fully employed domestic labor force and can meet all demands for exports after the war with our present acreage of cropland.

Probably the prospects for getting *some sort of a job* will continue to be better in southern agriculture than in other parts of the country. But this kind of employment is nearly always *underemployment*. Workers just haven't as many hours of productive work on southern farms as in other areas.

MUST HOLD GAINS

We made some gains during the war. The total number of farm workers has gone down. And output has gone up because of improved farm practices.

Non-farm employment, now at a fairly high level in the South, must be kept high if these gains are to be preserved. Then fewer southern-born farm boys and girls will be forced to migrate to other areas; fewer people will be dammed up on our southern farms.

If on the other hand, non-farm employment drops off, the number of workers (so-called) on farms will increase. And output per worker will fall. Farm incomes will drop until only those who are without ambition will accept them willingly.

The South has always been a producer and seller of raw materials rather than a processor and distributor of finished goods. And primary producers (farmers) are seldom able to specialize as are those engaged in secondary production—marketing and distribution.

This makes a continued drift out of agriculture necessary. We need fewer farmers, with more workers engaged in secondary production. Every change in this direction brings us closer to a balanced economy in the South—an economy based largely upon agriculture and upon the enterprises and services that depend on it.

If past trends continue, 1960 will still find about 17 per cent of all southern workers engaged in farming. This compares to a 1940 average for the rest of the country of just 13 per cent. This means non-farm jobs must be found for some 2½ million people in the South between 1940 and 1960.

Southern agriculture will be no less productive if the number of farm workers goes down a third over the next 20 years. If a decrease in farm workers can be offset by an increase in the number of people employed in industry, the trades, and professions—then agriculture is doubly benefited.

There is an important distinction here. Let's not confuse *statistical*

employment and *productive employment*. It may be technically correct, for example, to list as the census does, 4,300,000 "employed" on southern farms in 1940. Four years later, however, a larger farm output was being turned out by about 1,000,000 fewer farm workers. It may be that farm workers *were* extremely busy during 1944; but it's more likely that the employment figures for 1940 included a large number of "statistical loafers."

Farm management studies in all parts of the South bear this out. They have shown that on many farms the average "work units per man" is less than 100. Even on relatively efficient, full-time southern farms the average is hardly more than 200. (250-275 is considered desirable.)

The income to labor on our southern farms is not so much a matter of statistical employment as of labor efficiency. Statistically, there are no unemployed farm workers; they are merely idle, waiting for the next job.

The development of southern industry—preferably in rural areas—may result in fewer farms in the South. But they will be better farms—with more intelligent operators. They will use more machinery, produce more, and they will need more services—services which they can better afford.

The output of our southern agriculture will then flow in a larger stream from the hands of fewer workers with better incomes. But this output will flow through the hands of more processors, refiners, and distributors, and into the hands of more consumers.

GREATER OUTPUT

The great roadblocks to mechanization in the South have been cheap labor and low income. These blocks will disappear when non-farm employment opportunities provide jobs and markets for southern farmers. Farmers in the South are not looking for the return of large numbers of underemployed workers who left the farms for high paid jobs in war industries. They look forward to the time when non-farm jobs will be available for those not needed to farm efficiently.

33. The South's Great Export—People*

By MARGARET JARMAN HAGOOD

Bureau of Agricultural Statistics

Thousands of Southerners have left the South since World War II began. Yet, the South has more people today than in 1940.

The explanation lies in the fact that the birth rate is much higher than the death rate in our Southern States. In an average year between 1940 and 1946, 800 thousand more people were born than died in these States. The birth rate in the South is approximately 40 per cent higher than in the rest of the country. So every year some Southern people have to leave home.

Heaviest movement out of the South is from the farms. This movement from farms caused southern farm population to drop more than total population in that area. For example, farm population in the West South Central States was down about 18 per cent from 1940. Yet, total civilian population in those same States actually went up by about 3 per cent during the same years.

The South has been exporting people to other regions of the country for a long time. The war merely speeded up this process. What will happen now that the war is over?

We have no legal barriers to migration from one part of our country to another. All people have to do to move is put their things in a truck—and go. So migration will continue as a process tending to equalize the different rates of growth in the population and in industry of given areas.

Migration out of the South in the next 10 years will be affected by the following things:

1. Difference between the North and South in rate of population growth due to higher birth rates in the South;
2. Continuation of job openings outside the South due to high levels of industrial activity;
3. Rate of industrial development in the South to give more employment;
4. Rate of further mechanization of agriculture in the South, along with reduction in farm job opportunities.

No one can tell just what the net effect of these four things will be;

* *Farm Policy Forum*, I, 4, pp. 19-20, October 1948. (Condensed from article in *Southern Agriculturist*, February 1948.) Reprinted by courtesy of The Iowa State College Press and the author.

judging by the past, birth rates probably will continue higher in the South than in other parts of the country. This will continue to make people available to move from the South to other regions.

On the other hand, a long and severe depression could reverse the trend. If job opportunities were to fall off in the cities, many Southerners would be forced back to their native States.

Even more of a question: How rapidly can the South develop industries and how rapidly will she develop them? Young men who reach working age in the 13 Southern States outnumber other workers who die or retire. Can the South's business, industry, and services expand enough to give jobs to around 3 million more men in the next 10 years?

The final factor mentioned is one of the biggest question marks in the prospects for the South's population. What will the employment balance be in the next decade or so? The Pace Subcommittee of the Agricultural Committee of the House of Representatives has made a study of the possible displacement of workers in the South through greater use of tractors and machines for growing cotton.

If these developments should occur on a widespread scale, the job of providing employment for all the South's workers would be even greater.

Summing up, it seems doubtful that the long pattern of exporting population from the South to other regions will be halted in the near future. But there is a wide range of possibilities as to the rate and amount of migration out of the Southern States in the next 10 years or so.

34. Rural Living and Social Facilities*

Better farm family living encompasses so much that it might well be described as the crowning social objective of farm life.

The quality of family living affects the physical, mental, spiritual, and social development of all rural people, young and old. It determines whether able, enterprising youth make up the ranks of those who will be the farmers of the next generation, and whether rural people who go to the city make their greatest possible contribution there.

In many families the income simply is too small to provide an adequate level of living. Yet it is equally true that it is not only the size of the income as such, but rather what people want and are able to get for it, which determines the quality of their living.

Clearly, not only do farm families need adequate incomes, but they also need to use their income wisely and to have available the facilities which make for good living. Many farms, however, are located in sparsely-settled areas which are not adequately supplied with shopping centers, good roads, libraries, medical facilities, schools, churches, and recreational facilities.

RURAL SCHOOLS SHOULD BE IMPROVED

The educational resources to which rural people have access are of singular importance, both because of the influence of education in the rural communities themselves and because youth from the farms help maintain the urban population. Although more than one-half the children in the United States attend rural schools, many of these schools are not capable of providing the kind of training young people need for lives of maximum richness and usefulness under modern conditions.

Part of the difficulty is that rural elementary teachers as a class receive low incomes. Many of them are poorly trained and are not rural-minded. Often they have unpleasant living quarters, and frequently they are subjected to excessive local criticism. These conditions, when they occur, do not attract people adequately prepared to be teachers and leaders.

* *Postwar Agricultural Policy*, report of the Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, 1944, pp. 50-58. Reprinted by courtesy of the Association of Land-Grant Colleges and Universities.

Nor are the surroundings in which rural teachers work such as to bring out their best efforts. The school buildings in general are poorly constructed and poorly equipped. Many are unattractive and dirty, lack recreational equipment, and are provided with the most meager of sanitary facilities.

Rural high schools in many cases are similarly inadequate. There are some high schools with only one teacher, and many more are too small to offer curricula diversified enough to meet the varied needs of youth. Many offer little or no vocational training. It is also unfortunately true that too few rural children attend high school.

Lack of financial support clearly is one of the most serious problems of rural education. Where the sparseness of population results in a high per-student cost even for the facilities now provided, and where local taxpayers are handicapped by low incomes, it is not strange that rural schools are sub-standard. For these reasons, the major solution for the financial problems of rural schools is greater state and federal aid.

Rural people must recognize, however, that more liberal educational budgets will not automatically solve the basic problem of giving their children the best possible training. A change is needed in the type of education offered and in the size of administrative units for the development of school programs and policies if the additional funds are to be economically and effectively utilized. While minimum educational standards must be maintained, it is essential that administrative controls be retained by state and local governments.

All rural children should have as good a basic education as is available to non-farm children. Materials used in the curriculum should be adapted to the environment with which farm children are familiar. Beyond that, rural schools need to offer guidance programs and vocational training facilities for those who plan to remain in agriculture as well as those who will go into other employment, and must offer further academic work for students preparing to enter college. To further these changes in the quality as well as the kind of education, the pre-service and in-service training of rural teachers should be focused upon the varied needs of children.

There is need also for educational opportunities other than those provided in regular school courses. In all communities the schools and extension service must offer training for adults as well as youth in vocational, family life, civic, and cultural fields for the purpose of improving the social and economic life of rural people. Such a program can include class work, consultation services, library facilities, lectures, and an expanded use of education by radio.

BETTER HEALTH AND NUTRITION NEEDED

Although farm people have essentially the same health problems as urban dwellers, they are not so adequately served by facilities for sanitation, preventive medicine, surgery, and other health services.

For some time there have been too few doctors, dentists, and nurses in rural communities, largely because people in these professions have an opportunity to earn larger incomes and obtain better facilities for their work in the cities. During the war there has been a further exodus of these trained health workers from the country. The sparseness of farm population in many areas makes it difficult to provide adequate health services and facilities. In this situation, it would seem that society has a definite responsibility to help bring about the improvements which rural people need and public interest dictates.

There is no reason to believe that health can best be promoted by adopting one all-embracing panacea. Rather, national health policy needs to be flexible enough to permit several different kinds of solutions, and to utilize the thinking of local communities.

State health committees should be organized in each state. They should be composed of representative people, lay as well as medical, and rural as well as urban. Their work can be facilitated by state educational institutions in studying the adequacy of present health, medical, and dental services and facilities, and by cooperating with health committees in working out ways and means of putting a thorough program into effect.

Adequate medical care must be made available to all groups, regardless of individual incomes. Local people in cooperation with the state health committee should determine the program best suited to their situation. A number of plans to achieve this goal already have been tried with more or less success in various localities. Among the devices which may be used to meet the rural health problem are voluntary health associations, health insurance, guaranteed minimum income for doctors, scholarships for medical students who will go into the rural field, and outright public provision for medical care.

Whatever other means are adopted, it is essential to expand public health work in rural areas. Full-time public health units, jointly supported by federal, state, and local funds, must be equipped to serve rural people throughout the nation. The services called for include maternity and child hygiene, school health supervision, health instruction, communicable disease control, sanitation, vital statistics, and health laboratories.

There are other urgent needs. For example, public facilities for medical diagnosis and care must be improved, with medical centers or cottage

hospitals provided where needed in localities not able to support regular hospitals. The heads of such units might well be county directors of public health. Public health nurses also must be provided for county health departments and for rural schools. Ambulance service, needed to transport special cases to larger centers, could be fostered by distributing army vehicles to the areas of greatest need at the close of the war.

The evidence is that only one-fourth of farm families at present are using diets which meet nutritional standards. Moreover, since these standards do not take into account food waste and loss of nutritive value in the processing and preparation of food, the estimate is somewhat optimistic.

All children must have good diets if the coming generation is to enjoy that degree of vigor and health which science has shown how to attain. Because most children in rural areas must eat one meal a day away from home, the school lunch is highly important, making it imperative to serve an adequate one to all children who do not go home at noon.

One of the greatest opportunities lies in expanding and improving education in health and nutrition. Elementary schools as well as high schools, colleges, and adult education programs need to emphasize the basic principles of medical and dental care, sanitation, and nutrition, as well as the place and function of public health services, group health activities, and hospitalization plans.

Many problems relating to diet and health remain to be studied. Much more information is needed on optimum nutritional requirements, especially of infants, children, and the aged. There are possibilities of producing foods by methods which will increase their nutritive value. Further research is needed on methods and equipment used in processing, handling, and preparing foods to conserve maximum nutritive value, good flavor, and attractive appearance.

EXTEND SOCIAL SECURITY TO RURAL PEOPLE

At the present time, farmers and rural people generally do not share in the benefits of the large social security program which has been established in this country.

Rural people do, however, help pay for this program. All contribute through the increased cost of the things they buy that were made by persons enrolled in the security program. Also, farmers who work for short periods in covered industries contribute directly to the security funds, but may not work long enough to become eligible for benefit payments.

Obviously residents of rural areas in general have as great a need for protection as do those in the cities. Therefore the survivors' and old age

insurance features of the national social security program should be extended to include all farmers and agricultural workers.

In addition, farm wage laborers need to be included in the unemployment compensation program, and simple, suitable procedures should be developed for its administration in respect to farming.

BETTER HOUSING IS DESIRABLE

Many rural families live in dwellings that cannot be considered acceptable by any standard. A large number of houses are beyond repair, while a high proportion of the others need major repairs and are seriously lacking in comforts. Only 18 per cent of the farm dwellings have running water, and only 12 per cent have bathrooms. Many homes are overcrowded. Although housing varies greatly in different sections of the nation, poor homes can be found in every region.

The long-run welfare of farm people will not be served by spending money for luxurious homes in preference to items which will increase the productive efficiency of the farm, and certainly not by going into debt for homes beyond the ability of the farm to retire the loan, but the fact remains that millions of farmers must acquire better homes to attain even a very modest plane of modern living.

It would seem a reasonable goal to seek farm houses which are substantial in construction, attractive in appearance, suited to the climate, large enough to meet the needs of the family, and equipped with such facilities for light, heat, water, sewage disposal, and care of food as are adequate for the protection of health.

The most feasible means of expediting the improvement of farm homes lies in developing and making known the kinds of houses and the methods of construction and repair which will afford maximum satisfaction for the money spent. In many instances the farm woodlot may serve as a cheap and ready source of lumber for farm construction. The need is for efficient plans for new houses and for rebuilding old ones, as well as information on types of materials and construction methods suitable for farm family needs in all parts of the country. An adequate program of this sort will require the cooperation of farm people, business, and state and national agencies.

Since the home is an integral part of the farm business, household equipment and inexpensive repairs may be financed as part of the farm credit program. Funds to pay for remodelling, or for new homes, should be obtainable at a moderate rate of interest on a farm mortgage, provided the amount required in addition to existing indebtedness does not exceed safe mortgage limits, and that the annual payments are not too large for the farm business to carry.

For farm tenants and laborers, it would be desirable, as pointed out in Chapter IV,‡ to establish minimum housing standards by state legislation.

Cooperative associations of farmers can render a distinct service by assisting owners in obtaining plans, materials and supervision necessary for proper and economic construction and repair of farm buildings, and for the installation and maintenance of modern equipment.

ELECTRIFICATION IS URGENT

In the country electricity is not merely a convenience, but actually a necessity for efficient farming and living. Electricity on the farm does more than furnish light, pump water, and operate household equipment. It brings machine-age efficiency to many farm tasks which have been done by hand, and it makes possible temperature-controlled storage or cooling of farm products. By aiding rural industrialization and encouraging the development of vacation homes and rural residences, it can bring increased employment opportunities to rural people.

More than half of the nation's farms are still without electric power. While many of these are no doubt in areas which it is not feasible to reach, it should be an immediate concern in the postwar period to extend this service as rapidly as possible. In doing this, however, it is important that the systems be designed to meet the needs of all potential consumers in the areas to be served. In other words, systems should not be authorized that serve only a part of the farms without responsibility for later extending the service.

Farmers can be helped by a program of education on the operation and maintenance of electrical equipment. Also, research and development work on the farm applications of electricity need to be expanded, particularly as to refrigeration, food storage and processing, and to labor-saving equipment generally.

TELEPHONE SERVICE NEEDS EXPANSION

Telephones have multiplied in the United States until virtually all urban businesses and a very high proportion of city homes are equipped with them.

Yet paradoxically the telephone has made no such record on farms, which combine both homes and businesses, and which have great need for telephones because of their comparative isolation. The fact is that the number of telephones on farms has declined, only 25 per cent of farms being equipped with them in 1940 compared with 39 per cent in 1920.

‡ Committee's report.

Rural telephone history indicates the greatest difficulty is that the service tends to be poor, and is subject to frequent interruption. Many local telephone systems of the past have been small cooperatives, some unable to provide connections through the larger companies. A considerable number of local systems have found costs too high to remain in business, and larger companies usually have not replaced the service.

Indisputably there is great need for telephones on farms, for business, for social purposes, and for safety in crises brought on by illness, accident, or fire. Public policy therefore should foster the expansion of rural telephone service.

ALL-WEATHER ROADS ARE ESSENTIAL

These days when it is possible to travel in any section of the country on concrete or black-top roads, to many it is a surprising revelation that less than one-half the farms of the United States are located on all-weather roads.

The fact is that although much highway improvement work has been done during the past two decades, a large proportion of it has been expended on through routes and other heavily-travelled roads, leaving a great deal more to be done if farmers are to be adequately served. Local roads are so important to both the economic and social life of farm people that in many instances they are limiting factors in agricultural production and farm living.

An expanded program of constructing gravel and other types of local all-weather roads needs to be launched as soon as labor, material, and equipment are available after the war. Likewise a more adequate program of continuous road repair is needed.

Local initiative, authority, and funds need to be used liberally in this work, with local people having voice in handling the problem. National and state aid also are justified in the improvement of any road that may affect the production or marketing of farm products, so long as the area involved is not of marginal or submarginal type. In all cases, expert technical advice and supervision of methods and materials are needed to assure economy and durability.

RURAL PEOPLE WANT RECREATION

Every recent study of the problems of rural young people has shown one of their most urgent wants is for better recreational facilities.

Some groups, including certain church and farm organizations, have been notably successful in filling this universal need, but the fact remains that the great majority of rural young people simply do not have

any suitable place to get together for recreation under a wholesome environment.

Farm communities need to recognize that what they do, or fail to do, in making the locality socially satisfying to both youth and adults, will influence markedly the kind of agriculture they will have in the years ahead. Adequate recreational facilities are a requirement of real importance, and cannot be safely neglected or indefinitely postponed.

RELIGIOUS ACTIVITIES SHOULD BE DEVELOPED

A nation's greatness cannot be measured entirely by its material resources, nor does the well-being of a people depend alone upon the abundance of things they possess. Any plans for building a better agriculture must include provision for the full development of religious institutions that serve rural people.

The church promotes religious worship and spiritual development, leads people to recognize the dignity and importance of the individual, and gives them the desire to live up to their highest possibilities. The church ties people to the community, giving men and women a feeling of happiness and satisfaction in what they are doing and where they are living. It invites townspeople and farmers to closer fellowship and to share in group efforts in behalf of those who live in the community. The church has a great opportunity and responsibility for leadership in getting people to work together for the community welfare.

Although some community activities can well be undertaken by individual churches, many can best be carried on in cooperation with other churches and with social agencies. Community action and unity need not be acquired by uniformity, however, nor yet by a merging of religious agencies. Every religion has its own unique character, and can make significant contributions to community life if its adherents are motivated by unselfishness and by concern for the general welfare.

As examples of useful community work the rural churches can do, it may be mentioned that they are in an excellent position to develop organizations and programs for youth; they can cooperate in citizens' surveys of social and economic problems in the community; help organize local study groups for both youth and adults to consider such issues as farm tenancy, rural health, recreation, education, cooperatives, and soil conservation; and can promote by participation on community councils such civic enterprises as festivals, fairs, health and educational programs, and other welfare activities.

The colleges can do a great deal to help rural pastors become better acquainted with the social and economic problems of rural areas.

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