

# THE FARM EXPORT DEBENTURE PLAN

By

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## PREFACE

Foodstuffs constitute by all odds the major product of agriculture and animal husbandry. Scarcity or abundance of food supplies, high, low, or very unstable prices for food products, alike call for investigation into causes and consequences, and often into measures for improvement. Such investigation, while it is not solely concerned with the farm stages of food production, necessarily leads back to agriculture. Food problems are thus in considerable part agricultural problems. Moreover, food policies and agricultural policy inevitably overlap. Post-war developments, particularly in agriculture—including revolutionary changes in farm practice—have radically altered the character of the food situation and changed the food outlook. The agricultural depression and the prolonged agitation for farm relief have given rise to proposals of policies which are, in some measure, food policies. For such reasons, the subject of farming conditions and agricultural policies has almost inevitably been forced into the working program of the Food Research Institute.

The present work is an outgrowth of serious but intermittent study of this subject over a period of several years. In the autumn of 1928 the author began a specific examination of the debenture plan. A preliminary paper, published in the *Quarterly Journal of Economics* for February 1929, comprised mainly a critical discussion of some arguments from analogy that seemed likely to be of special interest to economists. With the emergence of the debenture plan into acute controversy in the spring of 1929, a more extended treatment, dealing with the more fundamental aspects of the proposal, seemed to be called for. Accordingly, in *Wheat Studies of the Food Research Institute* for July 1929, the author published an analysis of the proposed measure as it might be expected to work

if applied to wheat and flour. Limitations of scope and space, however, precluded adequate discussion not only of other commodities but of other phases of the case for the debenture plan. The subject still appears of sufficient importance and timeliness to warrant fuller consideration. The present work, in which are incorporated most of the issue of *Wheat Studies* and portions of the *Quarterly Journal* article, is the result.

We feel it proper to say that this study has been made entirely on the author's initiative, without consultation with leaders in Congress or in the administration. We have sought to treat the matter with unmistakable fairness, but also with the thoroughness and insight that standards of research dictate. If the conclusions tend more nearly to coincide with President Hoover's views than with those of the adherents of the proposal, this is merely the end to which our efforts at unbiased economic analysis have led.

Although this work is primarily an exposition and analysis of the export debenture plan, it is not merely this. The discussion necessarily involves some interpretation of the agricultural situation, some appraisal of the grounds for farm relief of various sorts, and a consideration of many arguments that apply to diverse types of proposals. On these subjects there has been a vast amount of confusion. It is hoped that, even though no emphasis is given to positive suggestions, the present treatment may contribute something toward bringing order and clarity into future discussions of such important issues of public policy.

To his colleagues in the Food Research Institute—Dr. Alonzo E. Taylor, Dr. Holbrook Working, Mr. L. B. Zapoleon, and Dr. M. K. Bennett—the author is indebted for valuable criticisms and suggestions, particularly on the paper prepared for *Wheat Studies*. Professor Charles L. Stewart, the principal author of the debenture plan,

read the author's manuscript of the journal article mentioned above and gave, in a most generous and friendly spirit, criticisms and comments that have been useful in this larger work. The editors of the *Quarterly Journal* have kindly given permission for extensive use of portions of the article there published. To his secretary, Miss Katharine Merriam, the author is indebted for expert assistance at all stages in the preparation of the book.

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# THE FARM EXPORT DEBENTURE PLAN

## INTRODUCTION

The post-war agricultural depression in the United States and the persistence of unsatisfactory conditions among farmers have given rise to a multitude of schemes for what is commonly termed "farm relief." The particular proposal known as the export debenture plan came strongly to the fore in the spring of 1929, in the discussion of legislation in aid of agriculture. The Senate insisted, in spite of vigorous opposition from President Hoover, upon incorporating this plan in its farm relief bill. The House of Representatives, more responsive to the President's leadership, finally forced its rejection, by a decisive vote taken without debate. Although excluded from the Agricultural Marketing Act of June 14, 1929, the debenture plan is not necessarily dead. It had gradually won increasing recognition and support. It can hardly be said to have been defeated on its merits. It may be expected to reappear, in one form or another, until it is either adopted or finally adjudged unworthy of adoption—unless, indeed, other measures or developments should prove adequate to allay agrarian agitation. Under these circumstances an analysis of the proposal becomes something more than an academic exercise and may be of more than historical interest.

The history of the proposal has been comparatively brief. It was first outlined in preliminary form as early as May 1924, in lectures in Illinois, by Professor Charles L. Stewart of the University of Illinois;<sup>1</sup> and he has since been assiduous in the development of the plan and the case for its adoption. It was first put before Congress in

<sup>1</sup> As stated in a note by Stewart appended to his testimony before the Senate Committee on Agriculture and Forestry, *Agriculture Relief Hearings*, March 31, 1926, Part 1, p. 77.

January 1926, by the late Senator McKinley and Representative Adkins of Illinois, who introduced identical bills framed by Professor Stewart and embodying the plan. These bills were the subject of hearings before the Senate Committee on Agriculture and Forestry on March 31 and April 1, 1926,<sup>1</sup> and before the House Committee on Agriculture on April 5, 1926;<sup>2</sup> but they did not emerge from committee.

The National Grange of the Patrons of Husbandry, the oldest and one of the foremost of the farmers' organizations, endorsed the plan at its Portland (Maine) convention in November 1926. Since then the Grange has been a vigorous, persistent advocate of the plan, which it re-endorsed at two subsequent annual conventions and made a major element in its program for restoring agricultural prosperity in the United States.<sup>3</sup> On January 10, 1927, Mr. L. J. Taber, Master of the National Grange, testified at length upon it before the House Committee on Agriculture at hearings on the Adkins bill.<sup>4</sup> A few days later, near the close of the Sixty-ninth Congress, Representative Marvin Jones of Texas introduced his first export debenture bill.<sup>5</sup>

In 1928, in the Seventieth Congress, the plan was incorporated in a number of bills introduced by Mr. Jones or by Representative John C. Ketcham of Michigan, a former lecturer of the National Grange. These were more fully discussed in House Committee hearings.<sup>6</sup> On March 26, 1928, this committee defeated an attempt to substitute

<sup>1</sup> *Agriculture Relief Hearings*, March 31, April 1, 1926, Part 1, pp. 43-87.

<sup>2</sup> *Agricultural Relief Hearings*, April 5, 1926, Serial C, Part 14, pp. 935-53.

<sup>3</sup> See below, pp. 35, 74-76.

<sup>4</sup> *Agricultural Relief Hearings*, January 10, 1927, Serial U, Part 4, pp. 129-55. See pp. 131-32 for early endorsements by the National Grange and State Granges.

<sup>5</sup> On February 18, 1925, Mr. Jones had introduced H.R. 12346, which embodied what may be regarded as a precursor of the debenture plan.

<sup>6</sup> *Agricultural Relief (Export Debenture Plan) Hearings*, February 8, 9, 10, and 14, 1928, Serial E, Part 5.

for the Haugen bill a revised Ketcham bill<sup>1</sup> incorporating the debenture plan with many elements of the Haugen bill but not the equalization fee.<sup>2</sup> Congressman Ketcham presented to the House a minority report favoring his bill.<sup>3</sup> It figured to some extent in the ensuing debate, but was not permitted to come to a vote as a substitute for the Haugen bill. So the debenture plan failed to gain preference over the equalization fee plan or a place in the second McNary-Haugen bill that was vetoed by President Coolidge in May 1928. On May 21, 1928, the Senate defeated, by a vote of 53 to 23, a debenture plan amendment to the tax-reduction bill, introduced by Senator Reed of Missouri.<sup>4</sup>

In the spring of 1929, in committee hearings on farm relief legislation, the plan figured among others, but with no special prominence.<sup>5</sup> The House bill (H.R. 1), which was drafted in fulfilment of the administration's pledges and passed on April 25, 1929, at no stage included debenture provisions. The Senate Committee on Agriculture and Forestry, however, after considerable discussion, incorporated the debenture plan, in a condensed and semi-optional form, in Section 10 of the McNary bill (S. 1), first presented to the Senate on April 18, 1929.

Meanwhile, on April 12, a subcommittee of the Senate Committee waited upon President Hoover to ask his opinion of the plan. The President asked time to consider the matter, and agreed to reply after consulting the Departments of Agriculture, Treasury, and Commerce. On

<sup>1</sup> H.R. 12892, identical with Jones bill, H.R. 12893.

<sup>2</sup> *New York Times*, March 27, 1928; *United States Daily*, March 27, 1928, p. 217.

<sup>3</sup> Seventieth Congress, 1st Session, *House Report 1141*, Part 3.

<sup>4</sup> *Congressional Record*, May 21, 1928, pp. 9304-11. Page references to the *Congressional Record* are as found in bound volumes to the end of 1928, and in preliminary editions for 1929.

<sup>5</sup> Senate Committee on Agriculture and Forestry, *Farm Relief Legislation Hearings*, March 25 to April 6, 1929; and House Committee on Agriculture, *Agricultural Relief Hearings*, March 27 to April 5, 1929, Serial A, Parts 1-9.

April 20, in a letter to Senator McNary, the President submitted his strongly adverse conclusions, accompanied by letters from the Secretaries of Agriculture and the Treasury and a memorandum from the Department of Commerce.<sup>1</sup> The Senate Committee had previously voted unanimously (Senator Smith being absent) to include the debenture plan in the bill, though four of those present reserved the right to present opposing views on it. On receipt of the President's communication, the committee reconsidered its action, but voted 8 to 6 to retain the debenture provisions; and on April 23 it reported the bill without amendment.<sup>2</sup> Senator McNary, the chairman of the committee, voted with the minority against the inclusion of the plan.<sup>3</sup> After extended debate, the Senate defeated on May 8, by a vote of 47 to 44, a motion of the Republican leader (Senator Watson) to strike out the debenture section of the bill.<sup>4</sup> On May 14, by a vote of 54 to 33, the Senate passed the bill (technically the House bill, with the language of the Senate bill substituted) including the debenture section with an amendment to it proposed by Senator Norris and adopted on April 30.<sup>5</sup>

Some Congressmen urged that the House should refuse to receive the bill, on the ground that the debenture provisions fell within the field of revenue-raising legislation which under the Constitution (Art. I, Sec. 7) must originate in the House.<sup>6</sup> This view did not prevail. After some

<sup>1</sup> *Congressional Record*, April 22, 1929, pp. 284-87; or 71st Congress, 1st Session, *Sen. Doc. No. 5*.

<sup>2</sup> The division was as follows: majority—Norris, Norbeck, Frazier, Heflin, Caraway, Wheeler, Thomas (Oklahoma), Shipstead; minority—McNary, Capper, Gould, Thomas (Idaho), Ransdell, Kendrick. Cf. *Congressional Record*, April 23, 1929, pp. 351, 357.

<sup>3</sup> For his position, see below, pp. 70-71, 91-92.

<sup>4</sup> *Congressional Record*, May 8, 1929, pp. 1015-16.

<sup>5</sup> *Ibid.*, April 30, 1929, pp. 684-88; May 14, 1929, p. 1267.

<sup>6</sup> See adverse speeches of Representative Jones of Texas, Senator Robinson of Arkansas, and Senator Walsh of Montana, in *Congressional Record*, May 10, 1929, pp. 1152-53; May 14, 1929, pp. 1238-39; May 21, 1929, pp. 1629-32.

debate the House agreed, on May 17, by a vote of 249 to 119, to receive the bill and send it to conference without passing on this question, but expressly stating that this action should not be treated as a precedent.<sup>1</sup> The joint conference committee finally decided on June 5 to report a compromise bill without the debenture features.<sup>2</sup> The House, on June 7, accepted the conference committee's report and passed the compromise bill.<sup>3</sup> The Senate, however, on June 11, rejected the committee report by a vote of 46 to 43,<sup>4</sup> but made it known that if the House should formally go on record against the plan, the Senate would no longer insist. President Hoover at once issued a public statement as follows:<sup>5</sup>

The vote in the Senate today at best adds further delay to farm relief and may gravely jeopardize the enactment of legislation.

In rejecting the report of the Senate and House Conferees, which report was agreed to by members of both parties, the Senate has in effect rejected the bill which provides for the creation of the most important agency ever set up in the Government to assist an industry—the proposed Federal Farm Board, endowed with extraordinary authority to reorganize the marketing system in the interest of the farmer; to stabilize his industry and to carry out these arrangements in conjunction with farm co-operatives, with a capital of \$500,000,000 as an earnest of the seriousness of the work.

It is a proposal for steady upbuilding of agriculture on to firm foundations of equality with other industry and would remove the agricultural problem from politics and place it in the realm of business.

The conferees' bill carried out the plan advanced in the campaign in every particular. Every other plan of agricultural relief was rejected in that campaign and this plan was one of the most important issues in the principal agricultural states and was given as a mandate by an impressive majority in these states. Subsidies

<sup>1</sup> *Ibid.*, May 17, 1929, pp. 1459-66.

<sup>2</sup> Senators McNary, Capper, and Ransdell voted with the House members, and Senators Norris and Smith (South Carolina) were overridden.

<sup>3</sup> *Congressional Record*, June 7, 1929, p. 2584.

<sup>4</sup> *Ibid.*, p. 2756.

<sup>5</sup> *United States Daily*, June 12, 1929, p. 3 (877).

were condemned in the course of the campaign and the so-called debenture plan—that is the giving of subsidies on exports—was not raised by either party, nor by its proponents.

No serious attempt has been made to meet the many practical objections I and leaders in Congress have advanced against this proposal. It was not accepted by the House of Representatives and has been overwhelmingly condemned by the press and is opposed by many leading farm organizations.

For no matter what the theory of the export subsidy may be, in the practical world we live in, it will not bring equality but will bring further disparity to agriculture. It will bring immediate profits to some speculators and disaster to the farmer.

I earnestly hope that the Congress will enact the conferees' report and allow us to enter upon the building of a sound agricultural system rather than to longer deprive the farmer of the relief which he sorely needs.

Thereupon the House, on June 13, voted 250 to 113 to instruct its conferees to insist on eliminating the debenture plan from the bill.<sup>1</sup> The Senate then surrendered, and on June 14 both houses passed the Agricultural Marketing Act with the export debenture section deleted.<sup>2</sup>

Experience with other measures shows that a proposal so strongly supported is not usually killed by a particular defeat. The opponents of the scheme have won in a campaign, but the war is not over. Indeed, Senator Norris, on June 17, offered an amendment designed to incorporate the debenture plan in the tariff bill before the Senate.<sup>3</sup> On October 19, 1929, by a vote of 42 to 34, the Senate adopted this amendment;<sup>4</sup> but its ultimate fate is in doubt as this book goes to press. Even if this move should fail, it is entirely possible that further pressure may be brought

<sup>1</sup> *Congressional Record*, June 13, 1929, pp. 2867-68.

<sup>2</sup> *Ibid.*, June 14, 1929, pp. 2933, 2942.

<sup>3</sup> *Ibid.*, June 17, 1929, p. 3017. Amendment to H.R. 2667.

<sup>4</sup> *Ibid.*, October 19, 1929, p. 4914. Two Republican senators, Thomas of Idaho and Cutting of New Mexico, who had voted against Section 10 of the McNary bill, voted for the debenture amendment to the tariff bill. Senator Kendrick of Wyoming (Democratic), who had been paired in favor of the McNary bill section, voted against the recent Norris amendment.

to bear upon Congress and the Federal Farm Board to give the plan at least a trial. The proposal must therefore be regarded as a live issue still.

The export debenture plan is commonly regarded as applicable to any farm product, and manufactures thereof, of which we do or may produce an export surplus. The earlier bills generally specified a considerable list of debenturable products and provided for additions to the list by administrative action. The McNary bill would have required the Federal Farm Board to apply it to "any agricultural commodity" or "any manufactured food product thereof," when in its judgment such application was necessary to the attainment of the stated object of the bill. How the Board would have exercised this discretion it is impossible to say. Since the case for the plan has been built up on the assumption that it would be comprehensively applied, and the modified form which the plan took in the McNary bill may be regarded as an entering wedge for its general application, we shall for the most part consider the plan as if a comprehensive debenture system were to be set up. We shall, however, find it necessary, in examining the way in which it would probably work, to inquire rather carefully into its application to particular commodities. Inasmuch as wheat has figured most prominently in discussions of the plan, we shall give most detailed consideration to the probable working of the scheme as applied to wheat and flour.