

THE FARM EXPORT DEBENTURE PLAN

By

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**PUBLICATIONS OF
THE FOOD RESEARCH INSTITUTE**

WHEAT STUDIES, Vols. I-V, 1924-29

FATS AND OILS STUDIES, Nos. 1-3, 1928-29

MISCELLANEOUS PUBLICATIONS, Nos. 1-5, 1923-29

**No. 5. *The Farm Export Debenture Plan*
[December 1929]**

For Institute publications, address

**FOOD RESEARCH INSTITUTE
STANFORD UNIVERSITY, CALIFORNIA**

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**Great Britain: P. S. King & Son, Ltd., Orchard House, 14, Great Smith Street,
Westminster, S.W. 1, London**

Continental Europe: Martinus Nijhoff, 9 Lange Voorhout, The Hague, Holland

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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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October 12, 1929

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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;¹ 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

¹ 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, 1926,¹ and before the House Committee on Agriculture on April 5, 1926;² 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.³ 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.⁴ A few days later, near the close of the Sixty-ninth Congress, Representative Marvin Jones of Texas introduced his first export debenture bill.⁵

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.⁶ On March 26, 1928, this committee defeated an attempt to substitute

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

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

³ See below, pp. 35, 74-76.

⁴ *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.

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

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

for the Haugen bill a revised Ketcham bill¹ incorporating the debenture plan with many elements of the Haugen bill but not the equalization fee.² Congressman Ketcham presented to the House a minority report favoring his bill.³ 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.⁴

In the spring of 1929, in committee hearings on farm relief legislation, the plan figured among others, but with no special prominence.⁵ 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

¹ H.R. 12892, identical with Jones bill, H.R. 12893.

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

³ Seventieth Congress, 1st Session, *House Report 1141*, Part 3.

⁴ *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.

⁵ 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.¹ 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.² Senator McNary, the chairman of the committee, voted with the minority against the inclusion of the plan.³ 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.⁴ 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 30.⁵

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.⁶ This view did not prevail. After some

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

² 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.

³ For his position, see below, pp. 70-71, 91-92.

⁴ *Congressional Record*, May 8, 1929, pp. 1015-16.

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

⁶ 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.¹ The joint conference committee finally decided on June 5 to report a compromise bill without the debenture features.² The House, on June 7, accepted the conference committee's report and passed the compromise bill.³ The Senate, however, on June 11, rejected the committee report by a vote of 46 to 43,⁴ 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:⁵

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

¹ *Ibid.*, May 17, 1929, pp. 1459-66.

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

³ *Congressional Record*, June 7, 1929, p. 2584.

⁴ *Ibid.*, p. 2756.

⁵ *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.¹ The Senate then surrendered, and on June 14 both houses passed the Agricultural Marketing Act with the export debenture section deleted.²

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.³ On October 19, 1929, by a vote of 42 to 34, the Senate adopted this amendment;⁴ 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

¹ *Congressional Record*, June 13, 1929, pp. 2867-68.

² *Ibid.*, June 14, 1929, pp. 2933, 2942.

³ *Ibid.*, June 17, 1929, p. 3017. Amendment to H.R. 2667.

⁴ *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.

CHAPTER I

ESSENTIAL FEATURES OF THE PLAN

The export debenture plan has undergone various transformations since it was first presented to Congress early in 1926. If the fight for it should be renewed, further modifications will doubtless be made with a view to perfecting the scheme and improving the chances for its adoption. It is unnecessary here to trace the evolution of the plan from its inception to date, or to present detailed analyses of the several bills in which it has appeared,¹ although incidental reference will be made to several points of difference. It is, however, essential at the outset to summarize the salient features of the proposal, and the philosophy underlying it, with special reference to its maturest form in the Ketcham bills of 1928 and the McNary bill of April 23, 1929.

SUMMARY OF THE PLAN

The export debenture plan is avowedly a price-elevation scheme. It is frankly designed to raise farm prices of agricultural products of which the United States produces export surpluses, and to raise domestic prices above export prices of these products. The philosophy underlying the plan is quite similar to that underlying the McNary-Haugen plan with its equalization fee. Both rest upon the conviction that the major cause of persisting agricultural difficulties lies in the low purchasing power of farm products. It is pointed out that, while prices of farm products and prices in general have been higher than they were before the war, the advance has been

¹The bills are as follows: McKinley, S. 2289, January 7, 1926; Adkins, H.R. 7392, January 11, 1926; Jones, H.R. 17247, February 19, 1927; Jones, H.R. 9371 (especially Secs. 4-6), January 16, 1928; Ketcham, H.R. 10568, February 6, 1928; Jones, H.R. 10656 (Secs. 4-6), February 7, 1928; Ketcham, H.R. 12892 (Secs. 5-8), April 11, 1928; Jones, H.R. 12893 (Secs. 5-8), April 11, 1928; McNary, S. 1 (Sec. 10), April 23, 1929.

much less in farm prices than in prices of goods and services that farmers must buy. Evidence of price disparity adverse to farmers is found in index numbers such as the official ones presented below in Tables 1 and 2. From ratios shown in the last two columns of Table 1 it is in-

TABLE 1.—DEPARTMENT OF AGRICULTURE INDEX NUMBERS BEARING ON PRICE DISPARITIES AFFECTING FARMERS ADVERSELY*

Year	Wholesale price		Farm prices of farm products Aug. 1909-July 1914 = 100	Prices paid by farmers for commodities bought 1910-14 = 100	Ratio $\left(\frac{O}{B}\right)$ of farm prices to non-agricultural prices	Ratio $\left(\frac{O}{D}\right)$ of farm prices to prices paid by farmers
	All commodities 1910-14 = 100	Non-agricultural commodities 1910-14 = 100				
	(A)	(B)	(C)	(D)	(E)	(F)
1919..	210	199	209	205	105	102
1920..	230	241	205	206	85	99
1921..	150	167	116	156	69	75
1922..	152	168	124	152	74	81
1923..	156	171	135	153	79	88
1924..	152	162	134	154	83	87
1925..	162	165	147	159	89	92
1926..	154	161	136	156	85	87
1927..	149	152	131	154	86	85
1928..	153	152	139	156	92	90

* *Yearbook of Agriculture, 1928, p. 1055; Crops and Markets, July 1929, VI, 279.*

ferred that the purchasing power of the farmer's dollar has been 8 or 10 per cent below its normal position in even the best of years, 1925 and 1928, since the onset of the agricultural crisis in 1920-21. From such figures as those given in Table 2 (p. 10) it is inferred that earnings of factory laborers have risen much more than wages of farm labor, and that if wages of hired labor and taxes on farm property are taken into account the effective purchasing power of the operating farmer's income dollar is even smaller than is suggested by the ratios in Table 1. Attention is drawn to notable disparities between agricultural and urban incomes, to the calculated decline in the farmers' share in the national income, to a striking

shift of population from the farms to cities and towns, and to increases in tenant operation of farms. It is asserted that agriculture, our basic and most important industry, is declining, and that our farmers not merely are becoming a smaller proportion of the total population, but are tending to be reduced to the status of European peasantry.¹

TABLE 2.—OTHER DEPARTMENT OF AGRICULTURE INDEXES BEARING ON FARMER'S RELATIVE POSITION*

Year	Industrial wage-earnings New York state factories June 1914 = 100	Wages of hired labor on farms 1910-14 = 100	Taxes paid on all farm property 1914 = 100	Prices paid by farmers for commodities used in		
				Living 1910-14 = 100	Production 1910-14 = 100	Both 1910-14 = 100
1919..	(A) 185	(B) 206	(C) 130	(D) 214	(E) 192	(F) 205
1920..	222	239	155	227	175	206
1921..	203	150	217	165	142	156
1922..	197	146	232	160	140	152
1923..	214	166	246	161	142	153
1924..	218	166	249	162	143	154
1925..	223	168	250	165	149	159
1926..	229	171	253	164	144	156
1927..	231	170	...	161	144	154
1928..	232	169	...	162	146	156

* Sources as for Table 1. Column (F) is Column (D) of Table 1.

The price disparity is charged to a dual cause. On the one hand, it is argued that the farmers' buying prices of producers' and consumers' goods and services are held up by the protective tariff and various other forms of protection accorded to industry, commerce, railways, other public utilities, and labor. On the other hand, it is argued that farmers' selling prices of farm products are held down by the necessity of selling surpluses abroad at low

¹ At this point we make no attempt to discuss these data and inferences. For reservations and qualifications see below, pp. 49-53, 113-15; also the present writer's reviews of recent books on the agricultural situation, in *Quarterly Journal of Economics*, May 1929 and November 1929.

world prices, which are reflected back to the entire domestic crop. The correction of the price disparity by reduction or elimination of tariff duties and other types of protection is not seriously urged, for it is held that the nation is firmly committed to the principle and practice of protectionist policies, as necessary to maintain American prosperity and standards of living. Like the McNary-Haugen plan, however, the debenture plan is designed to strike directly at the other root of this price disparity by raising farm prices of these farm products. It seeks to "make the tariff effective" on these products, at least in large part, by establishing domestic farm prices on a level substantially higher, behind the tariff wall, than would be determined under the usual conditions in which our exports compete without favor in the world markets. Thereby it seeks to achieve "equality for agriculture," restore prosperity to farmers, and give them their "fair share" in the national income.

The price-raising mechanism, however, would be different under the debenture plan. It seeks to achieve its objective by a somewhat roundabout process—essentially by offering a premium or bounty on exports of the commodities in question. This would be done in the confident expectation that such bounty would be reflected back to farmers almost in its entirety, and that farmers would be thus enabled to sell the whole of their marketed crop at prices higher than would otherwise obtain, practically to the extent of the export premium; for it is reasoned that farm products would not be sold to domestic purchasers for less than the export price plus the export premium.

The McNary bill—in this respect representing the most mature proposal—provided that exporters of "debenturable products" should be entitled to receive from the Treasury, upon application and satisfactory proof "that the commodity to be exported was produced in the United States and had not previously been exported therefrom,"

bearer certificates called export debentures.¹ Each of these would represent a sum determined by the debenture rate and the quantity exported. The debentures would be receivable at their face value, within a year from the date of issue, in payment of customs duties on any dutiable imports. The expectation is that demands from importers would create a market for these debentures in which they would sell at only such a nominal discount as would induce importers to use them instead of cash for payment of tariff duties.

In the comprehensive plan as embodied in the earlier bills, a considerable list of debenturable products was named. Thus the Ketcham bill of February 6, 1928, listed wheat, corn, rice, fruit, swine, cattle, poultry, and food products thereof; cotton and cotton waste, tobacco, and manufactured products thereof.² It also provided that the President might add to this list any agricultural commodity of which an exportable surplus is produced if he found the cost of its production here to be higher than its cost of production in competing foreign countries, and the domestic price to be unduly depressed by world prices. The McNary bill, however, merely required the Federal Farm Board to call upon the Secretary of the Treasury to issue debentures on a commodity "whenever the board finds it advisable, in order to carry out the policy declared in Section 1 with respect to any agricultural commodity" Under this provision the debenture plan might not have been used at all, or it might have been applied to a long list of commodities. Strangely enough, the McNary bill did not authorize the issue of debentures on non-food

¹ The term "debenture" has long been applied to a customhouse certificate given to an importer indicating that he is entitled to a drawback. The same term was applied to customhouse certificates issued to grain exporters entitled to bounties under the earliest English corn bounty legislation (see below, pp. 210-11).

² The lists in the McKinley-Adkins and earlier Jones bills differed by including oats and cottonseed, and omitting fruit, poultry, and food products thereof.

products of agricultural commodities, such as those of tobacco and cotton; and it made no provision for the removal of a commodity from the debenturable list.¹

The McKinley-Adkins bills fixed the debenture rates generally at the level of existing tariff duties, except for a rate of 5 cents a pound on cotton, which is on the free list. Chiefly in order to improve the prospects of passage, later bills specified normal debenture rates approximately equal to one-half existing tariff rates, except for a rate of 2 cents a pound on cotton and a single rate on tobacco. But provisions for alterations in rates by administrative action were incorporated in the bills, and the proponents of the plan plainly regarded the initial rates as in no sense definitive or final.² The McNary bill designated no specific rates, but required the Secretary of the Treasury to name particular rates in accordance with the following provision:

d) Debenture rates in effect at any time with respect to any agricultural commodity shall be one-half the rate of duty in effect at such time with respect to imports of such commodity, except that so long as no import duty is imposed on cotton the debenture rate thereon shall be 2 cents per pound. The debenture rate in effect at any time with respect to any manufactured food product of any agricultural commodity shall be an amount sufficient, as nearly as may be, to equal the debenture that would be issuable upon the exportation of the quantity of the agricultural commodity consumed in the manufacture of the exported manufactured food product, as prescribed and promulgated from time to time by the board.³

The several 1928 bills particularly made provision for reductions of debenture rates that should be made, either in accordance with a stated schedule or at the discretion of the administering board, in the event of increases in acreage or production beyond stated limits. The Norris

¹ These omissions were remedied in the Norris amendment to the tariff bill.

² See below, pp. 100-01.

³ See further below, pp. 147-49, 177.

amendment to the McNary bill added such a provision, with a scale of reductions copied from the Ketcham bill of February 6, 1928.¹

The theory is that exporters, competing for the opportunity to export debenturable goods and so to obtain the debentures, would force up the domestic prices of these commodities by almost the full amount of the debenture rates; that similar competition in the earlier stages of the marketing process would result in passing back to the grower almost the full amount of the debenture rates; that the resulting enhancement of prices would affect not merely the exported fraction but the entire domestic crop (or at least the merchandised portion of it); and that such price elevation would go far toward putting the great bulk of American farming on a remunerative basis.

THE REAL OBJECTIVE AND OTHERS

Price elevation, then, is the real aim of the debenture plan. Stated in simplest terms, the object is to restore and safeguard farmer prosperity by raising and keeping up farm prices of a great group of agricultural commodities, those of which we produce a surplus (over domestic needs) that finds or could find its way into export. Here is seen the crux of the agricultural problem. It is implied, if not expressed, that if prices of these products were raised, prices of other farm products would tend to rise also, so that the gross and net income of farmers would be enhanced to a substantial degree.

When the objectives of the plan are formally stated, especially in the bills embodying it, this primary purpose is not always frankly and clearly expressed, and other aims are mentioned in such a way as to becloud the fundamental one. The Jones bills of January 16 and February 7, 1928, come closest to it in saying that the bill is "to place agricultural products upon a price equality with

¹ See further below, pp. 164-69.

other commodities." The McKinley bill of January 7, 1926, obscures the real aim by saying that the bill is "to stimulate commerce in agricultural products and provisions with foreign countries, to encourage agriculture in the United States, and for other purposes."¹ There are more hints of the real aim in this bill's declaration of policy—"to make more effective the operation of the tariff upon agricultural products and provisions, so that such commodities will be placed upon an equality under the tariff laws with other commodities, and to advance the market for agricultural products and provisions so as to place producers in the United States on a more equitable basis of competition with producers of similar products exported from other countries." The Ketcham bills of February 6 and April 11, 1928, are both avowedly designed "to foster agriculture and to stabilize the prices obtained for agricultural commodities . . ." Their declarations of policy make more direct reference to price elevation, but only along with other stated objectives.

Stabilization of agricultural prices is not appropriately included among the objectives of the debenture plan proper. It is theoretically possible that debenture rates might be so altered from time to time, by administrative action, as to reduce the degree of fluctuations in prices which would otherwise obtain from year to year. At best not stabilization of prices, but some measure of moderating price instability, is the most that could be achieved. But no form of the debenture plan has contemplated such use of the debenture system; and it appears inconsistent with the primary objective of the plan. The contemplated flexibility of rates would tend to cause more instability of prices than it would cure or prevent. Price stabilization measures might conceivably be used along with the de-

¹ To judge from statements of Professor C. L. Stewart, this language was adapted from language employed in the Tariff Act of 1922. See Senate Committee on Agriculture and Forestry, *Agriculture Relief Hearings*, April 1, 1926, Part 1, p. 63.

benture plan, but the operation of the plan would render the problem not simpler but more complex and difficult.¹

There would seem to be no obvious occasion "to stimulate commerce in agricultural products and provisions with foreign countries," except with the object of encouraging domestic agriculture. We have a huge commerce in agricultural products, both export and import. From year to year and over a period of years, the volume and value of this trade rise and fall with changes in crops and prices here and abroad. In the judgment of careful students, the present trend of our agricultural exports is downward;² but this in itself cannot properly be regarded as an evil *per se* and is regarded with equanimity or satisfaction by some leading advocates of the debenture plan.³ In a particular year a large value of exports of agricultural products may yield a national advantage, or a small value a national disadvantage; but there is no ground for believing that an upward trend of agricultural exports is essential to national prosperity or welfare in other respects, or that a downward trend implies national danger or retrogression.⁴ Indeed, it is a striking fact that the

¹ See further below, pp. 257-60.

² Cf. E. G. Nourse, *American Agriculture and the European Market* (New York, 1924), and the same author's article, "The Trend of Agricultural Exports," *Journal of Political Economy*, June 1928, XXXVI, 330-52.

³ See below, p. 40.

⁴ Professor Stewart, before the Senate Committee on April 1, 1926 (*Agriculture Relief Hearings*, Part 1, pp. 64, 85), quoted with evident approval an excerpt from a statement by Congressman Fort of New Jersey in the House Committee on Agriculture, March 15, 1926, as follows: "there is . . . another reason why an exportable surplus is a national necessity, and that is that upon the maintenance of an export surplus of various commodities depends our advantageous position in our balance of trade with foreign nations. If we eliminate the exportable balance of surplus of farm commodities, we will become a debtor nation within 10 years." It is pertinent to observe, first, that the decline in agricultural exports does not necessarily imply a decline in our total exports, for the ratio of agricultural to total exports has been declining for several years; second, that in view of other factors in our international balance of payments, a decline in our total exports would not necessarily lead to a balance of payments against us; third, that there is no warrant for anticipating any such decline in our total exports as would make us a debtor nation within ten years. Even ignoring the question whether this result would be disastrous, the

decade before the war was at once a decade of declining agricultural exports and of increasing prosperity for agriculture as well as for the nation at large.¹ Even in the minds of vigorous advocates of farm relief measures, the case for stimulating commerce in farm products rests essentially upon the view that such stimulus is incidentally necessary to encourage or "undiscourage" agriculture.

If it is important to "encourage" or "foster" agriculture, one would infer that agriculture is underdeveloped. Certainly there is ample room for improvements in technique, organization, and efficiency of various kinds. But the idea that American agriculture as a whole, or in most of its several branches, is underdeveloped, is patently absurd. The very persistence of large exports of staple commodities, great and small, and of unexported surpluses which contribute to depress farm prices—which is the heart of the complaint on all sides—would seem to reflect a high development of agriculture, not a low one. The fact that the debenture bills deal only with commodities of which we regularly produce export surpluses, mostly of considerable size, implies that it is not underdevelopment, but overdevelopment if anything, that is conceived of as the source of difficulty.

It is sometimes argued that our agricultural output is in danger of declining in such degree as to menace the national welfare, and that the continued production of agricultural surpluses is a national necessity. To quote the National Grange pamphlet² on *The Export Debenture Plan*:

contingency is so remote as to call for no present action to stimulate exports of farm products.

¹ Cf. J. D. Black, *Agricultural Reform in the United States* (New York, 1929), pp. 33-34.

² Published early in 1928 under the title: *The Export Debenture Plan: A Sound Method of Restoring Agricultural Prosperity in the United States. Advocated by the National Grange of the Patrons of Husbandry*. This gives a succinct summary of the case for the plan, and as such is frequently quoted in this work.

A shortage in manufactured products of any sort would be an inconvenience; an actual shortage in food would be a tragedy. A reasonable surplus in agricultural products is our insurance against that most dreaded scourge—hunger and famine; and America must never play too close to the edge of its food supply.

Thus it is apparent that, while an agricultural surplus may be the chief cause of the farmer's troubles, nevertheless it is imperative that to some degree one be maintained. The nation requires a reasonable food surplus and what agriculture needs is to be able to dispose of the surplus without loss. . . .

Serious students of national food problems in the real world of the present day would register emphatic dissent from this view. Under conditions of peace, with so great a variety of foodstuffs produced over so wide an area, with Canada and Cuba at our very doors, with the tropics increasingly furnishing foodstuffs, with ocean transportation cheap and highly developed, with unprecedented resources for purchases abroad, with food requiring so small a proportion of our per capita income, hunger and famine cannot seriously be feared, in this of all countries. If at times individuals or families suffer from deprivation, it is not because of a shortage of available foodstuffs, but because of their restricted purchasing power; and this condition may occur when our barns and warehouses and stores are filled with food supplies. Even under the worst conceivable assumptions, that the United States were at war with the rest of the world, and that our exports of foodstuffs had previously been reduced to nil, the risk of famine in any part of the country would be negligible except under conditions of breakdown of transportation and finance such as would be almost equally effective if we had not ceased to be exporters of food products. There is perhaps no country in so favorable a situation to meet so extreme a test. The possibilities of adaptation in our diet are large, and during the Great War it was clearly demonstrated how rapidly our food production could be increased, even with a reduced labor

supply, under the stimulus of something short of necessity. Recent developments in prosperity, machinery, and technique increase our natural ability to meet such a situation. Under conditions of the present and calculable future, there is no rational foundation for the position expressed in the Grange pamphlet. The specters of serious food shortage and dangerous dependence on foreign countries for supplies of foodstuffs and agricultural raw materials must be regarded not as realities but as figments of the imagination. The maintenance of agricultural export surpluses cannot properly be urged on the ground of insurance of the food supply.¹

There are those who regard it as ominous that we are at a stage when imports of agricultural products equal or exceed our exports of agricultural products.² Under present and prospective conditions there is nothing disturbing in this fact, which is mainly the result of the international division of labor along more or less economical lines. But even if this fact should be viewed with alarm, the appropriate remedy would be to attain a real, not a statistical self-sufficiency, to find means of raising in this country our sugar, rubber, coffee, tea, bananas, and other commodities of which we import heavily, or substitutes for them, provided this policy should be deemed worth its cost.³ No national advantage can be achieved merely by obtaining a statistically favorable balance of trade in agricultural products, particularly by a policy of artificially

¹ Cf. "The Dispensability of a Wheat Surplus in the United States," *Wheat Studies of the Food Research Institute*, March 1925, I, 131-34.

² Cf. Stewart's statements in Senate Committee on Agriculture, *Agriculture Relief Hearings*, March 31, April 1, 1926, Part 1, pp. 44-45, 61-63, 65-66. Here it is unnecessary to inquire specifically whether careful analysis would fully bear out the alleged fact regarding our present balance of trade in agricultural products.

³ Parenthetically it is well to remark that efforts of foreign countries to achieve self-sufficiency in agricultural products, in part with no economic justification, have injured, and might injure much further, our export markets for farm products. In the interests of American farmers, the United States can ill afford to go farther than it has already gone in setting the example of making self-sufficiency its goal.

maintaining or expanding our exports of agricultural commodities that we are capable of producing in greatly increased amounts; for agricultural machinery and automobiles will serve as well as wheat and tobacco to buy our rubber and coffee imports.

It is a striking fact that, even after years of what has been commonly regarded as subnormal prosperity in agriculture, and with what are considered as abnormally low prices of staple farm products, our agricultural production as a whole has been tending up rather than down. If one may judge from official indexes of physical outturns, even the downward trend of agricultural production per head of the entire population has been arrested.¹ With the increasing effectiveness of agricultural operations that has been manifesting itself since the war, farm outputs have increased while the farm population has apparently declined considerably.²

In the main it is the persistence of what are called surpluses, and not a visible tendency toward deficiency, that excites the concern of the advocates of measures such as the equalization fee and debenture plans. Not the decline of agriculture, or the low level of agricultural output, but the financial distress of farmers in the face of large outputs, is the condition envisaged as requiring remedy. Not the fostering of *agriculture*, but encouraging or "undiscouraging" of *farmers*, is what is really sought.³ The ex-

¹ See U.S. Department of Agriculture, *Crops and Markets*, March 1929, VI, 89.

² See especially the valuable paper by O. E. Baker, "Changes in Production and Consumption of Our Farm Products and the Trend of Population," *The Annals*, March 1929, CXLII, 97-146; also E. G. Nourse, "The Outlook for Agriculture," *Journal of Farm Economics*, January 1927, IX, 21-32, and his chapter on "Agriculture" in *Recent Economic Changes in the United States* (New York, 1929), Vol. II, pp. 547-602.

³ Cf. H. C. Taylor, "The New Farm Economics," *Journal of Farm Economics*, July 1929, XI, 357-67. "A fair share of the national income has become the battle-cry of the farmer. . . . Our national policy, as expressed in the action of Congress and expressed by many of our national leaders, points to cheap food and cheap raw material as the goal of agriculture. The welfare of the farmer is overlooked."

pansion of agricultural output is usually viewed, indeed, not as an end to be sought but as a danger to be guarded against. Paradoxical as it may appear, there may be an opposition between fostering agriculture as an industry and improving the financial returns of farmers. To make farmers more prosperous merely by increasing farm prices may indeed foster agriculture for a time, but possibly only to make for increased output, with eventual reactions upon farmer prosperity and agricultural stability. The two groups of problems are intertwined to some extent, but they can and should be distinguished. The debenture plan really seeks to foster agriculture only in the sense of improving farm prices and thereby making farmers more prosperous.

In a manner strangely inconsistent with some of the arguments just mentioned, the debenture plan has also been urged as a measure of surplus control. The Master of the National Grange¹ said recently before the Senate Committee:

It will help eliminate the surplus.

. . . . The reason that I am emphasizing the export debenture is that we believe it is so certain to work, that its simplicity, its dependability make it the step to enable the farm board to deal with the surplus problem.

As a surplus control measure it is plainly of limited scope. It is intended to apply only to farm products of which the surplus is of the exportable variety.² It would have no bearing on price-depressing "economic surpluses" which are not readily susceptible of relief by exportation, as in the cases of hay, potatoes, perishable fruits and vegetables, and many others. These crops would continue

¹ *Farm Relief Legislation Hearings*, April 3, 1929, pp. 514-15.

² For distinctions and clarification of terms, see "Wheat under the Agricultural Marketing Act," *Wheat Studies of the Food Research Institute*, August 1929, V, 355-65, and references therein cited.

to demand surplus control of some sort, and it is a pertinent query whether methods that would serve this purpose might not also be adapted to those products that we export in substantial amounts.

Only in a peculiar sense is the debenture plan a surplus control plan at all. It is designed to prevent exportable surpluses, as they exist at a given time, from exerting their usual influence upon domestic prices. This influence would persist, but it would operate under conditions giving rise to a substantial differential between domestic and export prices, in favor of domestic prices. The action might better be designated as surplus-consequence-influencing, rather than surplus-controlling. Much the same could be said of the equalization fee plan, although this scheme called for more centralized handling of the surplus.

In a larger sense, the debenture plan is definitely not a surplus control measure. It calls for no measures to deal directly with an existing surplus. It would apply alike in years when exportable surpluses were large and when they were small, when they did not lead to price depression as in years when they did. Furthermore, it would set up influences making for increased exportable surpluses of the commodities to which it was applied, such as wheat and cotton, thus tending to enlarge the surplus rather than eliminate it. Consequently, it would intensify, rather than lessen, the need for measures to restrain the tendency to such overproduction as leads to unremunerative prices. Moreover, so far as agricultural surpluses constitute a world problem, the plan would merely relieve our producers of some of the consequences of general overproduction, and this only initially; while it would intensify the world problem, both immediately and through subsequent expansion of our production and exports, even if our policy were not imitated abroad.

Surplus control, properly speaking, should comprise

measures calculated to restrain the emergence of such surpluses as tend to bring prices down to levels unremunerative to producers, and operative procedures designed to dispose of these "economic surpluses" in such ways as could be generally adopted with success, in various products at home and among the agricultural nations. The debenture plan does not represent a measure of this type. Though its adoption would not render impossible other measures of this character, it would render the objects more difficult, not easier, to achieve.

In short, it is erroneous to regard the debenture plan as a measure for surplus control, or for price stabilization; however desirable these objectives may be, the plan would not contribute to their attainment. It is doubtless true that the debenture plan would tend to stimulate exports of agricultural products; but such a stimulus of foreign commerce in these products is not called for by considerations of insurance of the country's food supply or the maintenance of our economic position among the nations. Neither the interests of the farmers nor the interests of the nation at large call for encouraging or fostering agriculture in the sense of promoting expansion of farm production and exports. The true objective of the export debenture plan is to raise the level of farmers' income; and this it seeks to accomplish by substantially raising the prices that farmers can obtain for their produce.

REASONS FOR THE DEBENTURE FORM

The debentures represent an export bounty thinly disguised. Secretary Mellon rightly said in his letter to Senator McNary of April 19, 1929: "The issuance of a Treasury debenture is indistinguishable in principle and in its effect on the Treasury from a cash bounty on exports."¹ Apparently this is what President Hoover meant when he

¹ *Congressional Record*, April 22, 1929, p. 284.

said at the outset of his summary of the weaknesses of the plan: "The issue of debentures to export merchants and their redemption in payment of import duties amounts to a direct subsidy from the United States Treasury. . . ." ¹ The exporter would receive, not indeed a bounty certificate redeemable in cash at the Treasury, but a certificate good at its face value for one kind of payment to the Treasury, namely, import duties. The effect on the Treasury would be the same as with an outright bounty: instead of the Treasury receiving import duties in full and paying the export bounties directly, under the debenture plan the revenues from imports, to the extent to which debentures were so applied, would be diverted to exporters and would not reach the Treasury at all. The effect on the exporters, and on the dealers and farmers from whom the farm products are purchased, would be the same except that the debentures might be expected to sell at a slight discount to offset the inconvenience involved in their use.

Secretary Mellon² even went so far as to add:

Nor is it apparent that payment in debentures rather than in cash offers any advantages. Quite the contrary. If the bounty is paid in cash, the farmer, in whose interests the plan is devised, will more nearly get the full benefit, whereas it is inevitable that he will receive considerably less than the face value of the debenture.

There are several major reasons why the debenture device has been favored over a provision for a cash bounty. There is undoubtedly a certain prejudice in this country against outright bounties, and this prejudice might easily increase the obstacles to the adoption of the plan. The fact that Germany and several other countries have in force a system of export debentures under slightly different names, and that their experience with the system

¹ *Congressional Record*, April 22, 1929, p. 284.

² See his further statement below, p. 122.

can be cited as satisfactory, undoubtedly had weight with the proponents of the debenture scheme.¹ Other reasons are mentioned by Professor Stewart² in a memorandum to the present writer, as follows:

Five reasons are given for preferring a customs-remission type of export premium to a treasury-cash type. In the first place, automatic bounds for the use of such governmental premiums are set when the certificate form is used. To prevent depreciation as a result of overissue during any season of the year the amount issued should need to be kept within 50 or 60 per cent of the total amount of duties levied, and at the present scale of duties this means confining the volume of such premiums to something less than 10 per cent of the total federal revenues from all sources, about 85 per cent of the federal revenues being from other sources than the tariff. In the second place, customs remissions types of export premiums do not require renewal every two years by each succeeding Congress, but may be revised as infrequently as the tariff law and either independently or not as might seem best. In the third place, appropriations for bounties on exportation would have to be sufficiently large each year to allow for failure to use considerable sums most years, a rather disconcerting basis for making appropriations. In the fourth place, customs remissions may serve as a means of premiumizing exports with little likelihood of retaliation on the part of countries having customs remissions systems or other countries. In the fifth place, to remit duties on a replacement article brought back after a debenturable article has gone out³ is a more consistent sequence than that by which a previously entered dutiable would give a financial resource by which to assist the exit of a premiumized export. A treasury cash bounty might even be unconstitutional or at least it ought not to be incautiously assumed to be constitutional.

The first three of these five reasons have not figured much in published discussions of the plan, but the fourth and fifth have undoubtedly had no little influence in de-

¹ See below, pp. 204-14.

² Cf. also his memorandum in House Committee on Agriculture, *Agricultural Relief (Export Debenture Plan) Hearings*, February 10, 1928, Serial E, Part 5, pp. 368-69.

³ This idea of replacement, again mentioned in another quotation below, p. 26, impresses the present writer as far-fetched.

termining upon the debenture form. The fourth we reserve for consideration in connection with the problem of potential foreign retaliation which is discussed in chapter ix.

The constitutional aspect of the matter has especially engaged the attention of proponents of the debenture plan, in part because of opposition to the equalization fee on constitutional grounds, and also because of a decision of the Supreme Court of the District of Columbia in 1895.¹ Spokesmen for the debenture plan have apparently attributed unwarranted significance to this decision. Bounties on the production of sugar had been paid under a provision in the revenue act of October 1, 1890, which was repealed on August 28, 1894. During this period no attack upon the constitutionality of the payments was made. The decision referred to was made by the vote of two out of three justices after the repeal of the bounty provision. When the point of constitutionality was subsequently raised in cases before the United States Supreme Court, that court refused to pass upon it. The constitutionality of bounties on production or on export, open or disguised, must be regarded as undetermined.

Professor Stewart² has summarized his view of the legal principle of the debenture plan, in words intended to indicate its constitutionality, as follows:

The sending of certain farm products out of the United States may justify the Nation in enabling the diminished stock of these products to be replenished by dutiable goods brought in with tariff collection waived.

Tariff-waived replacement of exportables by dutiables is the heart of the debenture. It rests upon the power of Congress to levy and collect duties on imports. That power carries with it the power to refuse either to collect or to levy duties on some goods as in the case of duty-free or free-list goods. It carries with

¹ *U.S. vs. Carlisle* (decided January 5, 1895), 5 App. D.C. 138, especially 146-62.

² *Journal of Farm Economics*, January 1928, X, 29.

it the power to levy and collect and then remit a part or all of the collected duties, as in the case of drawbacks of duties. It carries with it the power to levy and collect duties on a basis of partial waiver, as in the case of duties reduced on goods from reciprocity countries.

Without either endorsing or criticizing this view, we do not propose to enter into the controversial question of constitutionality. If the debenture plan were adopted, the question might never be brought to the Supreme Court. If the question should reach that Court, its decision might be different from what expert students of constitutional law would be disposed to predict. In the absence of clear-cut precedents, and of a strong *prima facie* case against the constitutionality of the plan, we venture to pass over this entire question and to proceed as if the Supreme Court would uphold a debenture law. After all, the practical issue concerns the economic justification for the proposal, and this must be determined, initially at least, by Congress and the Executive. It is with this issue that we are primarily concerned.

The evidence cited shows why the debenture form was preferred, on legal, administrative, and psychological grounds, to a cash bounty form. The fact remains that advocates and opponents of the plan agree that the debenture is substantially equivalent to an export premium or bounty. Indeed, its proponents have repeatedly cited in support of the debenture plan Alexander Hamilton's commendations of export bounties, and interpreted his position—in our view erroneously—as indicating that this illustrious statesman favored, and would now support, if he were living, the policy embodied in the debenture plan.¹

¹ See J. S. Davis, "The Export Debenture Plan for Aid to Agriculture," *Quarterly Journal of Economics*, February 1929, XLIII, 258-63. This matter is not elaborated here because we regard it as merely a "talking point" designed to lend prestige to the plan. Our criticism of the argument, based on careful study of Hamilton's report and the debenture plan, is summarized as follows:

"The similarities between Hamilton's proposals and the debenture plan are three: Hamilton endorsed the principle of bounties; he favored the appli-

IS A SUBSIDY INVOLVED?

It has sometimes been asserted that "The debenture plan . . . is the payment of a subsidy to the American farmer on his exported agricultural products . . ."¹ This is not strictly true. Broadly speaking, a subsidy is a direct payment made by the government to a private individual, group, or corporation, to encourage the recipient to carry on or develop a line of operations that is considered to be in the public interest and to require such a stimulus. The export debenture would not fall clearly within such a definition. A subsidy usually implies a cash payment from the Treasury, and none is involved here, but the debentures might properly be regarded as "pecuniary aid," and so fall within certain definitions of a subsidy.²

Even if the debentures be regarded as a form of subsidy, they would not clearly constitute a subsidy to farmers. The Treasury would not issue debentures to a farmer, unless, as rarely happens in practice, he personally exported his products; but their issuance to farmers' co-operatives might be regarded as an equivalent.

cation of this principle, to a limited extent, to agricultural products; and he contemplated that bounties should be covered out of tariff revenues. Alongside these superficial resemblances, the contrasts are striking and fundamental. Hamilton's limited commendations of bounties on agricultural products related chiefly to bounties on production—not on export; they were designed to stimulate the production of a 'new object of agriculture,' of which we produced too little to supply manufacturers with sufficient raw material of satisfactory quality at moderate price; and he sought to cheapen these materials, not to make them dearer. The export debenture plan, on the other hand, relates solely to export bounties; it concerns the export of 'old objects of agriculture,' of which we already produce a more or less substantial export surplus; and it seeks to raise the price without stimulating the production."

¹J. S. Wannamaker in *Charleston* [South Carolina] *News and Courier*, April 22, 1929, as quoted in *Congressional Record*, April 30, 1929, p. 666.

²The Century Dictionary definition is, in part: "An aid in money; pecuniary aid . . . Especially . . . (c) Any direct pecuniary aid furnished by the state to private industrial undertakings, or to eleemosynary institutions. Such aid includes bounties on exports, those paid to the owners of ships for running them, and donations of land or money to railroad, manufacturing, theatrical, and other enterprises."

Among the questions to be considered are whether the debentures would really prove to be worth approximately their face value to exporters; and how far the producing farmer would actually get the benefit of debentures issued to exporters.¹ As Secretary Mellon asserted, a cash subsidy to farmers might easily yield them much more than a debenture of the same nominal amount. Finally, it must be emphasized that the farmer is expected, in the case of most debenturable products, to gain not so much from the direct reflection of the export debenture rates as from higher prices on his whole marketed output as an indirect result of the stimulated competition between exporters and purchasers of the same or substitutable products for domestic use. It would be more nearly accurate to speak of the debentures as a subsidy to exporters, if it were not for the fact that the exporters are expected, not to keep the proceeds of the debentures to offset special costs of their own, but to pass them back to the growers in the form of higher prices paid for farm products. The debenture indeed bears certain resemblances to a subsidy, but neither in form nor in substance is it a clear example of a subsidy to farmers.

The evident similarity to a subsidy has furnished a basis for opposition to the debenture plan, on the part of the American Farm Bureau Federation and other ardent supporters of the equalization fee. It has been a cardinal point in the position of the Federation that the farmers have not asked for and do not want a subsidy. This point was repeatedly emphasized in support of the equalization fee plan as a self-financing measure, as against the debenture plan; and it was emphatically reiterated in the 1929 hearings on agricultural relief. Thus the Secretary of the Federation, Chester H. Gray, before the House Committee on Agriculture on March 27, 1929, thrice enunciated three

¹ On these questions, see below, especially chapter v.

essentials of any farm relief measure: "First, that the tariff be made effective; second, that the main purpose of farm relief is surplus control; and, third, that agriculture be not subsidized in the operation."¹ Though the representatives of different farmers' organizations have sought to avoid the appearance of attacking one another's programs, the third point is unmistakably directed against the Grange's favorite. Consistency on this point presumably prevented Federation officials from endorsing the debenture plan even after they recognized that the equalization fee plan was politically dead, for the time being at least. And Congressional supporters of the equalization fee plan have found similar difficulty in swallowing their former objections to the debenture plan as a subsidizing device.²

In point of fact, the contrast between the opposing positions on this matter is more superficial than fundamental. The equalization fee plan clearly called for raising domestic prices of farm products to such a level that farmers would gain substantially, even after paying equalization fees of sufficient size to permit losses on exports to be absorbed without cost to the Treasury. The fee plan certainly would not be burdenless, but would involve a substantial burden upon domestic purchasers of farm products—no doubt in a way analogous to certain protective tariff duties. The export debenture plan would presumably entail no greater total burden for the same effect, and possibly a lesser burden. If any such burden is justified, the fact that this burden would be borne in part by the taxpayers, as a result of lessened Treasury receipts, rather than wholly by consumers and intermediate do-

¹ *Agricultural Relief Hearings, Serial A, Part 1, pp. 10-11.* Cf. President Thompson's quotation from recent resolutions of the Federation, before the Senate Committee on Agriculture and Forestry, March 25, 1929 (*Farm Relief Legislation Hearings*, p. 29): "This legislation must be of a nature which does not subsidize agriculture"

² See, however, below, pp. 75-76, 89-91.

mestic purchasers, is not necessarily a point against the debenture plan. Indeed it has been persuasively argued that the burden would be more equitably distributed and more easily borne in this way, because the incidence of supplementary federal taxation would probably be less "regressive" than the larger increase in the price of food-stuffs, clothing, and tobacco.¹

Both plans seek, by different mechanisms, to effect a redistribution of national income in favor of the farmer. The fact that the debenture plan is more nearly a subsidy than the other, in that it involves direct cost to the Treasury, is not a vital ground for preferring the equalization fee plan. There is some real warrant for prejudices against subsidies, but there is a corresponding justification for prejudices against governmental measures designed to redistribute the private income of the nation, favoring one class at the expense of another. In either case, the measure can be justified if a sufficiently clear case is made out. We venture to assert that if the case for farm relief is as strong as its vigorous advocates believe, and if either equalization fee plan or debenture plan would really meet the situation, there is little ground for choosing between them on the ground that one involves a direct cost to the Treasury much larger than the other does.

The supporters of the debenture plan have taken pains to meet the subsidy argument, mainly on other grounds than those above discussed. The favorite answers are based on analogies to elements in our tariff policy. Thus one rejoinder is concisely expressed, as follows, in the Grange leaflet on *The Export Debenture Plan*:

. . . . The plan is no more a subsidy than is the protective tariff. The very purpose of our protective tariff is to prevent foreign low-cost goods from coming into the United States. By this means large quantities of dutiable goods are kept out and

¹C. L. Stewart, in Senate Committee, *Agriculture Relief Hearings*, March 31, 1926, pp. 56-59.

hundreds of millions of dollars in duties are prevented from entering our treasury. . . . This protection results in great benefits to manufacturers and their employees and the cost of this protection is borne by consumers of these articles; that is, by the general public.

Exactly the same thing happens where the export debenture plan is in operation. Less tariff receipts enter the treasury but the producers of farm crops are benefited. Consumers, including farmers, pay slightly more for some of their foods, as their contribution toward making the protective tariff system actually protective for agriculture. Consumers likewise pay for the benefits expected by farmers under the equalization fee plan as proposed in the McNary-Haugen bill.

It is entirely fair to argue that the debenture plan would affect the Treasury in substantially the same way as may protective duties as compared with duties for revenue, i.e., by diminishing customs receipts.¹ It is also fair to argue that the expected effect upon prices to producers and consumers is parallel with the effects sought in protective duties. A confirmed adherent of the protective tariff should therefore be logically predisposed to favor the debenture plan, on this ground at least.²

It does not follow, however, that the debenture plan is no more of a subsidy than the protective tariff. We might have chosen, as a matter of national policy, to adopt subsidies, bounties on production, or bounties on exports, instead of protective tariffs, as measures to promote and maintain manufactures. In many respects they would have been as worthy of support, as effective, and as open to objection as protective tariffs would have been. But the device, the mechanism, would have been different. The alternative measures would have been more vulnerable, more obvious targets of opposition because of the

¹ Examples are given by Mr. Taber in House Committee, *Agricultural Relief Hearings*, January 10, 1927, Serial U, Part 4, p. 135, and *ibid.*, February 8, 1928, pp. 316-19.

² But see below, pp. 245-47.

“subsidy” label. In this, as in our merchant marine policy and many other instances, we have preferred indirect methods to direct ones. The export debenture plan itself reflects this tendency: a cash export bounty would be more direct, and an outright cash subsidy to farmers would be still more so. Neither the protective tariff nor the debenture plan involves an outright subsidy to the object of the protection; but it is fair to say that in form the debenture plan comes nearer to being a subsidy than does the protective tariff, and that, by causing the sale of farm products at a lower price for export than for domestic use, it would be nearer to a subsidy in effect as well.

The Grange pamphlet also avers that “The export debenture plan is not as much a subsidy as the tariff drawback now accorded many American manufacturers, or the tariff reductions given Cuban sugar, greatly to the benefit of American capitalists.” This view appears far-fetched. The drawback is in no sense a subsidy, or analogous to it. It is merely a privilege to receive a rebate, on export of a manufactured product, of 99 per cent of the duty previously paid by the manufacturer on imported materials used in making the export product. It is intended to enable the manufacturer to compete *abroad* with foreign manufacturers using identical materials. It may be admitted that farmers’ costs are enhanced by the existence of our protective system, and that this is a reasonable ground on which to endeavor to give offsetting advantages to farmers. Much the same could be said of many manufacturers. But the drawback system merely seeks to offset, by rebate of duty, certain readily calculable additions to manufacturing costs entailed by duties on imported raw materials. No attempt is made to calculate and offset other additions to costs indirectly attributable to the protective tariff, and indeed, neither for manufacturers nor for farmers is such a calculation possible. Whatever

countervailing measures may be justified on the grounds mentioned, the drawback device cannot be applied.¹

The tariff preference to Cuban sugar over other foreign sugar may yield financial advantages to sugar producers in Cuba, American or Cuban, but it certainly is a very different thing from a subsidy to them. In any event most of our foreign sugar would come from Cuba; and the tariff preference (80 per cent of the full rate is the tariff rate on Cuban sugar) adds strength to this tendency so that very little full-duty sugar is imported. Generally speaking, the effective tariff rate is not the full rate, but the rate on Cuban sugar; this is the one that affects the domestic price. In fixing or changing sugar rates, this is therefore the rate primarily to be considered; the question is largely one of a higher or lower rate on Cuban sugar. If the rate effective for Cuban sugar were left the same, it would not appreciably help the sugar producers there to raise the tariff preference to 50 per cent, or materially injure them to lower it to 10 per cent. If the preference were really a subsidy, this would not be true. It would be easier to argue that the admission of Hawaiian and Philippine sugar free of duty is tantamount to subsidizing Hawaiian and Philippine sugar producers; but this is so only in the sense that any protective tariff duty which really yields higher prices to domestic producers in analogous to a subsidy.

If, as we believe, the proponents of the debenture plan have overreached themselves in these essentially defensive arguments, and overstrained the analogies to our existing tariff policies, it is still safe to assert that the similarity between the debentures and a subsidy affords insufficient basis for rejecting the debenture plan. It must be regarded as unfortunate that mere labels, such as "subsidy," "price-fixing," "government in business," and the

¹ See further below, pp. 244-45.

like, are so frequently used in place of arguments against new proposals. The fact remains, however, that the debenture plan would entail a large and fairly direct cost to the Treasury, that it is urged avowedly to increase farm prices and farmer incomes, and that it would presumably tend, like an open subsidy, to stimulate exports and production of farm products.

COMPREHENSIVENESS

The National Grange and other advocates of the debenture plan have not made the mistake of regarding it as a panacea, capable alone of solving all the problems of American agriculture. They do regard it, nevertheless, as a major constituent of a reformed agricultural policy. It is one of four "essentials" in the Grange program, second only to tariff revision in aid of agriculture and apparently regarded as of even greater importance.¹ Its claim to pre-eminence was implied by its presentation in a single measure, as in the earlier bills, as an alternative to the equalization fee or co-operative marketing plans. When it was combined with elements of competing plans, as in the identical Ketcham and Jones bills of April 11, 1928, this was obviously done in the hope of insuring its passage in a compromise measure rather than not at all. The

¹ At its convention in Washington in November 1928, the National Grange adopted a resolution proposed by its Joint Committee on Legislation and Agriculture, as follows:

"Resolved, That the National Grange recommends as sound national policy four essentials: First, tariff schedules should be revised in order to give American farmers full benefit of the American market for all agricultural products produced in this country, and for all articles manufactured from such products; second, the export debenture plan is the most efficient and effective means of bringing an end to the depression in the price of products having exportable surpluses; third, a national land policy meeting present conditions requires a cessation of expenditures of public funds in bringing new land into cultivation; fourth, a competent board given adequate power, sufficient funds, and suitable functions should be created to promote co-operative marketing and to aid in protecting the interests of farmers in the development of these policies" (Senate Committee, *Farm Relief Legislation Hearings*, April 3, 1929, p. 510).

inclusion of the plan in the recent McNary bill, as a sort of addendum, did not imply any abandonment of this conviction as to its relative importance, but was simply a concession to improve the prospects of its adoption.

In the same light one must view the provisions in the McNary bill which made the scope and operation of the plan dependent upon the action of the Federal Farm Board. The semi-optional form was clearly designed to make the plan more acceptable to those who were not fully converted to its merits, and to make it less objectionable to the President and to other advocates of different measures. It does not indicate that the strong believers in the plan would really be satisfied to have it actually treated as a last resort in particular cases. They obviously prefer half a loaf to no bread at all, and will accept an entering wedge if they can get no more; but they would earnestly hope that the plan would soon come to be accepted in fairly comprehensive form, and they would certainly exert pressure in this direction.

President Hoover virtually prophesied that, if adopted in the form latest proposed, the plan would soon come to be comprehensively applied. The fifth point¹ in his argument against the provision was as follows:

Although it is proposed that the plan should only be installed at the discretion of the farm board, yet the tendency of all boards is to use the whole of their authority and more certainly in this case in view of the pressure from those who would not understand its possibility of harm and emphatically from the interested dealers in the commodity.

While friends of the measure might resent certain implications of this language, few would question, in the light of the existing situation, the accuracy of its prediction as to the pressure that would be brought to bear. We are constrained to believe that the success of the Farm Board

¹ *Congressional Record*, April 22, 1929, p. 284.

will depend in large measure upon its courage and ability to withstand pressure of this character, and to follow its own judgment as to the wisest course of action. But we recognize the force of President Hoover's concluding statement, that "the introduction of such a plan would also inevitably confuse and minimize the much more far-reaching plan of farm relief" which has now been adopted. While some reference must be made to the possibility that the plan might actually be experimented with on a limited scale, there is ample justification for examining it not as an experimental measure, optional in form and restricted in scope, but as if it were to be applied as comprehensively as proposed in all of the earlier bills, and in accordance with the theory underlying it.

PERMANENCE

We also feel constrained to examine the debenture plan as a proposal for a permanent addition to our national policy. None of the debenture bills was put forward as an emergency measure for temporary application. None was limited in time, or contained provisions for abandonment of the system, automatic or otherwise. Though it has been urged with the special object of lifting the farmers out of financial distress, the plan is also urged as a means of putting agriculture on an equality with industry and *keeping it there*. If its advocates are right, the indefinite continuance of the system would seem to be necessary to maintain farmer prosperity and prevent subsequent relapses, at least so long as we live under a protectionist régime.¹ Practically all of the arguments for the measure, notably the one based on foreign experience and those based upon analogies to the tariff, drawback, and

¹ Professor Stewart recently said in a memorandum to the writer: "I certainly have no notion that there would need to be permanent use of export premiums on any one type of agricultural commodity." It does not appear that he has elaborated this view, or suggested any means by which the plan should be "built down" if and when the need for it should disappear.

import certificate systems, support the debenture plan not as a temporary expedient in a national emergency but as a permanent constituent of our national policy.

Moreover, our whole experience with the protective tariff abundantly demonstrates the difficulty of removing protective duties or even reducing them, once they have been imposed. Certainly, if the debenture plan were once applied to a commodity, the forces tending to prevent its abandonment would be much stronger than those leading to its application, and nearly as strong as the forces which tend to prevent removal of protective tariffs. It may confidently be assumed, moreover, that the tendency would similarly be to raise rates rather than to lower them. There is reason to believe that, unless the debenture system could be convincingly shown to be a failure, or to yield undesirable consequences of unexpected importance, it might be as permanent as the tariff system, although it would be more vulnerable to attack because its cost to the Treasury would be more readily measurable. Any lack of success might be plausibly attributed merely to the rates imposed or emerging defects in the initial measure, and thus lead to remedial action in the direction of tightening the system rather than to its abandonment.

This does not mean that the system would be maintained as initially adopted without change, any more than protective tariffs have been. The advocates of the measure have insisted on the "principle," but have not been disposed to rest their case on any particular list of commodities or any set of debenture rates. Practically all of the bills provided for additions to the list of debenturable commodities by administrative agencies; and if corresponding provision was not made for eliminations from the list, this omission could be rectified. Certain of the bills provided for raising rates, by administrative action, above the stated levels. Several of the bills included provisions for downward adjustments of rates by administra-

tive action, in case of expansion of acreage or production beyond stated limits; and the Norris amendment to the McNary bill incorporated such provisions in the latest draft.¹ Moreover, the system would be subject to modification by Congress; and if rates were established in a fixed relation to tariff duties, as in the McNary bill, alterations in tariff rates, by Congress or the President, would automatically change the debenture rates.

Furthermore, it need not be assumed that the system would be continuously and permanently operative on all of the debenturable commodities, at least to any substantial extent. It is possible that if applied to live cattle it might be virtually inoperative from the outset, because of the fact that exports are insignificant in amount. Mr. Taber, Master of the National Grange, went much farther. Before the House Committee on Agriculture on January 10, 1927, he said: "A compelling argument for the debenture program is that it is a method that will benefit agriculture and at the same time cure itself, or, rather, we should say eliminate itself."² On February 14, 1928, before the same committee, the following interchange³ took place between Mr. Taber and the author of the bill then under discussion:

Mr. Ketcham. Supposing that this bill were passed by the Congress and approved by the President and were put into effect, and that following that agriculture did take its place; and then add the supposition that our population changes will keep on with their draft [drift] toward the cities and naturally, possibly, the need for this special kind of legislation would gradually disappear—what is the effect of this particular bill on that kind of a situation?

Mr. Taber. This bill is self-eliminating.

Mr. Ketcham. "Self-eliminating" describes the situation, and still does not give agriculture a supreme advantage over others;

¹ See above, pp. 13-14, and below, pp. 164-69.

² *Agricultural Relief Hearings*, Serial U, Part 4, pp. 135-36.

³ *Agricultural Relief (Export Debenture Plan) Hearings*, Serial E, Part 5, p. 417.

but simply puts it into the picture, so that we can march down the road side by side, which is all any farmer asks.

Mr. Taber. That is correct; it does exactly that thing. As we approach the import basis on any commodity, the export debenture automatically, without any expense, without any difficulty, eliminates itself, and the system that is then prevailing for the protection of other groups will protect agriculture.

In his earlier testimony Mr. Taber had expressed the view (p. 136) that, with or without the debenture system, in the near future our export surpluses (except of cotton) "are certain to decline to a point where a debenture schedule even raised at [to] the tariff levels would make a very small drain on the Treasury." And further (p. 138):

The great advantage of our plan is that it will in time cease to be a drain on the Treasury because of reducing exports. This program will never cease to be of value to the American farmer. When there is a surplus, the debenture protects him. When there is no surplus, he comes under the American protective system.

Fairly interpreted, Mr. Taber's position is merely that other forces will in time reduce our exportable surpluses, and that the plan would thus be rendered ineffective in the same sense and degree that protective tariffs become ineffective when domestic production of a dutiable article increases to the point that we are no longer importers but exporters of it.

One may properly object, however, to the use of the term "self-eliminating." Even Mr. Taber would seem to ascribe no credit to the debenture plan for bringing about the elimination of export surpluses and causing the plan to be inoperative, in the sense employed. The effective elimination of a debenture rate would be caused not by the working of the debenture plan, but by growth of population and other broad economic forces. Indeed, so far as the plan exerted an influence on exports, it would be self-perpetuating, not self-eliminating. It would clearly tend to promote exports of debenturable products, not to di-

minish them; not to accelerate but to retard a decline in export surpluses due to other influences. Even if our imports of a debenturable commodity should come to exceed our exports of it, the bounties would continue to apply to the exports. In any event, it will be observed that Mr. Taber's argument implies no abandonment of the system, but merely the gradual obsolescence of portions of it.

In short, it seems fair to say that the debenture system must be viewed as a proposal for a permanent complement to our tariff system, an enduring element in a newly-oriented agricultural policy. It would be permanent, not in the sense that it would be unalterable or inevitably of indefinite duration, but in the sense that there would be no natural point of termination and also that forces making for persistence would be set up by the adoption of the plan itself. Conspicuous failure to achieve its objects, or the emergence of untoward consequences of serious import that were not anticipated, in extent at least, might shorten its life. But in the absence of such evidence, its expansion would be much more probable than its contraction, in the calculable future. Though the plan may be regarded as experimental, it is not a simple experiment that can be tried and dropped at will. The very trial would create conditions which would make continuance easier and suspension or elimination difficult.

CHAPTER II

THE CASE FOR THE PLAN

In the course of a few years the proponents of the debenture plan have elaborated in its behalf a well-knit series of arguments. Some of these are essentially defensive, calculated to meet criticisms leveled against it or other major proposals. Some are designed merely to lend it prestige, or to make it appear a highly logical and simple step. Some are definitely constructive. In character and form many of the arguments bear the marks of having been wrought out in the struggle to substitute the debenture plan for the equalization fee plan, or to win the support of devoted adherents of the protective tariff. In order to understand the strength of the support for the plan, as well as to afford a basis for subsequent analysis, it is desirable to present at some length, in orderly fashion, a broad summary of the case for the plan. Special emphasis will be laid upon the constructive arguments, but others merit a passing recapitulation.

DEFENSIVE ARGUMENTS

The defensive arguments¹ run somewhat as follows: The plan is no radical innovation; rather it is in line with approved public policies of long standing, notably the protective tariff and drawback system. No more than these would it involve a subsidy or tend to provoke reprisals abroad. Its costs to the Treasury and the public would be essentially of the same character as the costs imposed by protective tariffs, and would be fully justified by the stimulus given to national prosperity. Its adoption would not threaten the tariff system, but rather strengthen its position. It would involve no special taxation of the farmer. It avoids price fixing, would not foster monopoly,

¹ See especially Stewart memoranda in Senate Committee on Agriculture and Forestry, *Agriculture Relief Hearings*, April 1, 1926, pp. 73-77.

would not put the government into business. Food costs need not be increased appreciably, if at all, by the plan in operation. It would not interfere with business. It would neither restrict, nor make compulsory, co-operation or co-operative marketing by farmers. Tendencies to overstimulate production would be held in check. It would be "consistent with dignity and independence of the farmer," and "humiliating to none of the leaders in the present discussion of the farm surplus problem."

No elaborate comment or criticism of these arguments is required at this point. To several of them, indeed, no exception need be taken. The subsidy question, and related analogies to the protective tariff and drawback systems, have already been considered.¹ The prospects for foreign reprisals are discussed in chapter ix. The justification of the costs to the Treasury and the public, the effect on food costs, the reactions upon business, and the checks upon overproduction, are dealt with in other chapters.² Only two of the arguments seem to demand passing comment here.

The plan would constitute a radical innovation, in spite of all the analogies on which such reliance has been placed.³ Neither the United States nor any other country has ever adopted so broad a system of export bounties, with so far-reaching a purpose or with such important implications and potentialities. Yet the plan should not be condemned on this score. The United States has frequently adopted radical innovations of policy: witness the Federal Reserve Act, the national prohibition amendment, and the Agricultural Marketing Act. Some of the radical innovations have fully justified themselves. Moreover, there has been a widespread disposition to regard our agricultural policy as in need of overhauling, and to

¹ Above, pp. 28-35; also below, pp. 244-47.

² Below, pp. 102-18, 108-09, 125-28, 146-48, 150-51, 164-69.

³ See further below, pp. 243-48.

welcome so radical a departure as the creation of a Federal Farm Board with extremely broad powers. Any such proposal deserves consideration commensurate with its prospective importance, not rejection out of hand because of its novelty and because it would constitute a significant departure from precedents.

The adoption of the debenture plan might well strengthen the grip of the protective tariff on the country, by preventing attacks on the tariff on the part of those who consider, probably quite rightly, that the tariff commonly works to the net injury of farmers. Certainly if agriculture were accorded this kind of special protection, representatives of agricultural states and districts could hardly protest strongly against maintenance or increase of duties on manufactured goods. Tariff increases on farm products and manufactures thereof would probably be required in support of the debenture system. This might strengthen the case of other interests desiring additional protection. So also would any tendency, incidental to the debenture system, to increases in living costs and manufacturing costs. Just how the outcome of the application of the debenture scheme would react upon the tariff system, it is more difficult to say. If it should succeed as its advocates expect, the reaction would doubtless be favorable; if it should prove a disappointment, or to have serious unexpected consequences, the reaction upon the tariff might be unfavorable. In any event, the argument that the adoption of the plan would add new strength to a heavily entrenched protectionist system would seem to make no powerful appeal even to devoted adherents of the protective tariff. It could be an argument against the debenture plan with those, now in the minority, who are convinced that the virtues of protectionism are gravely exaggerated and that our true national interests call for building down, not further strengthening, of the protective system.

It is unnecessary, however, to appraise the defensive arguments in considerable detail. The case must be decided principally on the basis of the constructive arguments. If these are sound, the defensive arguments should smooth the path to the actual application of the scheme; and it would presumably merit adoption even if several of the defensive arguments were subject to criticism. On the other hand, even if all the defensive arguments were entirely well founded, the proposal might still be unworthy of adoption if the basic arguments were seriously in error. To the latter we now turn.

JUSTICE AND APPROPRIATENESS

The positive elements in the case for the debenture plan may be expressed, in highly condensed form, in four words: justice, appropriateness, simplicity, and effectiveness. The first two arguments can best be considered together.

The basic argument of justice or equity is one that is widely accepted, not merely by supporters of the debenture plan but by the supporters of the equalization fee and other plans; indeed, it is accepted by many who stand quite outside the field of agricultural interests. The farmers of the nation, in spite of some recovery from acute distress, are represented as being in a state of chronic financial depression. There is a deepseated conviction that in our present national economy farmers do not get a "square deal," and in consequence are getting a disproportionately, even pitiably, small share of the national income. Their situation is considered especially galling in the face of unprecedented prosperity in the nation at large. Justice demands—and both political parties have repeatedly pledged—"equality for agriculture." Precisely what this means or involves has not been made entirely clear, but it is broadly interpreted to mean that returns from farming should be raised to a level comparable with

those of non-agricultural classes, and that prices of farm products should be raised, or other prices lowered, in substantial amounts so as to permit this consummation to be reached.

This inequality, of which complaint on behalf of farmers is made, is attributed in large measure to the alleged fact that agriculture has not enjoyed its due share in the benefits of a complex system of governmental protection, manifested in many forms. Thus, it is argued, industry enjoys the benefit of protective tariffs; railroad and public utility companies are assured such protection from restraint upon rates as to insure remunerative returns on their investments; and wages are protected not merely by the tariff, but by immigration restrictions, by encouragement of organized labor, and by specific legislation with reference to railway workers, such as the Adamson Act. Other elements of economic discrimination are also mentioned.

This complex system of protection is said to entail a burden upon farmers, in higher cost of goods for production and consumption, in increased charges for transportation and handling which reduce the prices farmers receive for their products, and in higher farm wages. To offset this burden the farmers are said to reap no corresponding benefits. The protective tariff has indeed been applied to many agricultural products; but the average rate of duty is asserted to be much lower than on manufactured goods, and on many farm products the tariff is wholly or largely ineffective in raising prices because we export large quantities of these products. In consequence, the domestic prices of these products are said to be determined by the price of the export surplus, which is alleged to be fixed in world markets, commonly at a level unremunerative to our farmers. Thus the tariff on these products is said to yield little or no real benefit to our farmers.

Under these circumstances, it is argued, justice requires that measures be taken to raise tariff duties on certain farm products and to make existing tariffs on others effective, or else that the whole protective system be profoundly modified so that the farmers, who do not gain from it, will no longer lose by it. It is conceded that the abandonment or substantial modification of the protective system is politically impossible, even if it were desirable. It follows that fairness necessitates the constructive policy of assuring farmers of a full equivalent of the protection accorded to other interests. Hence the slogan, "Make the tariff effective for agriculture." In the words of the Grange pamphlet on *The Export Debenture Plan*:

Equality between agriculture and the industrial and commercial groups could be restored either by pulling down the artificial high-price structure made possible for these latter groups through such legislative devices as protective tariffs, immigration restriction, railroad rate legislation, exclusive patents and tariff rebates, or the readjustment could be made by enabling agriculture to take advantage of similar devices to raise itself to this same price level and thus meet the difference in costs of production here and abroad. The Grange prefers the latter—the constructive method—rather than the destructive and disruptive method.

Further to quote the Grange pamphlet: "Since the inequalities resulting from the tariff system are the chief source of difficulty, the logical and sensible thing to do is to apply the remedy at that point." Since the tariff policy is so firmly established, the appropriate policy is to adopt a natural complement to the tariff in order to raise prices of farm products. The debenture plan is represented as such a complement, which will, at least in considerable measure, make the tariff effective for agriculture. The debenture plan is designed, according to the declaration of policy in the McKinley-Adkins bills, "to make more effective the operation of the tariff upon agricul-

tural products and provisions, so that such commodities will be placed upon an equality under the tariff law with other commodities"; or as stated in the first Ketcham bill, "to afford to those agricultural commodities of which surpluses above domestic requirements are produced in the United States the same degree of protection which is afforded to industry in the United States by the tariff." The debenture rates are closely related to tariff duties. The procedure, it is argued, would involve no more loss to the Treasury than is involved in reductions in customs revenue as a result of raising duties to such a level that imports are reduced in greater measure than the increase in rates, so that greater protection is secured at the expense of customs revenues.

As we have already seen, the procedures are also represented as closely analogous to the drawback principle of long standing, under which manufacturers receive, upon exportation of manufactured products, a rebate of most of the duty paid on imported goods used in the manufacture of these export products. To quote the Grange pamphlet again:

... It is contended that the manufacturer cannot afford to pay the protected domestic price for these imported materials if he is to sell abroad at world price levels. This is exactly the contention of the American farmer; he cannot pay the protected price for labor, supplies, and other production factors and at the same time sell at the foreign price level *not only abroad but at home as well.*

COMMENTS ON THESE ARGUMENTS

There is a good deal of truth in the foregoing arguments—indeed quite enough to justify, in the national interest, vigorous measures on behalf of the farming class, with a view to preventing general agricultural depressions, averting crises among particular groups, reducing or removing handicaps under which farmers labor, and helping gradually to raise the economic status

of farmers. Yet it must be said that the degree of injustice to which farmers have been subject has been materially exaggerated in recent years, and that the reasoning about the tariff and other forms of protection, in particular, is inaccurate and misleading to a considerable extent. A thoroughgoing discussion of these points would take us too far afield; and it is not essential to a decision upon the merits of the debenture plan, if we are right in believing that the vital question concerning the plan is whether it would in fact contribute materially to the benefit of the farming class. It is pertinent, however, to indicate several significant qualifications of the prevalent arguments recited above.

In the first place, it must be emphasized that the plight of the farming class has commonly been painted in quite too gloomy colors. It is clear that the farmers of the nation suffered disaster in the post-war decline in prices of farm products and of land and equipment, which were the more pronounced because of the inflation of prices, land values, and mortgage credit during and just after the war. Broadly speaking, farmers have had a difficult time to raise their plane of living in accordance with rising national standards of comforts and luxuries. Certain developments, notably the rapid introduction of the automobile and automotive equipment, and the boll weevil in the South, have created serious problems of readjustment, especially hard on certain areas and groups of farmers. There exist a multitude of farm problems, more and less urgent. Much can and should be done to raise the economic status of the farmer. But all this does not imply that farmers as a whole are grossly underpaid, and that they are to be regarded as a submerged economic group.

As a class farmers always have received, and probably always will receive, low money incomes. But it is quite misleading to measure their economic position, in contrast

with that of other groups, by their income expressed in money terms.¹ Much of their real income comes from the farm itself, in food, fuel, and housing, and enters into a computed statement of income at valuations greatly inferior to those representing the income of other classes.² So far as the farmer's income dollars are spent for products of his own or his neighbor's farm, they go much farther than the urban resident's dollars spent for the same sort of goods, or the farmer's dollars spent for purchased goods. A recent study in the Department of Agriculture has brought out the fact that perquisites—"other things or privileges of value given in part payment for work done"—constitute a highly important supplement to cash wages of farm labor; and it suggests that when the perquisites of farm labor are taken into account the non-casual hired farm laborers receive a remuneration that compares not unfavorably with earnings of corresponding workers in urban occupations.³ The "perquisites" of the farmer's own family are commonly underrated. Many of these are quite intangible, but they are none the less real as appraised by farmers themselves. Kirkpatrick⁴ goes so far as to say:

The farm family which moves to the city primarily in search of a larger income is likely to meet with disillusionment. The satisfactions of farm life are not all in the pay envelope.

In broad estimates of farm incomes, moreover, it is the common practice to assume that all the produce sold is sold at "farm prices," whereas a quite substantial frac-

¹ Inadequate stress is laid upon this point in the valuable studies of the national income and its distribution, as made by the National Bureau of Economic Research.

² Cf. E. L. Kirkpatrick's recent work on *The Farmer's Standard of Living* (New York, 1929), especially chapters iv, v.

³ "The Perquisites and Wages of Hired Farm Hands" (mimeographed), summarized in *Crops and Markets*, July 1929, VI, 255.

⁴ *Op. cit.*, p. 285.

tion is sold at higher prices; also it is common to take no account of income from work off the farm, by which many farmers supplement their farm income to a very considerable extent. These practices have long existed, but under post-war conditions their extent has apparently increased rather than decreased. Moreover, in arriving at average incomes per farm family, it is implied that all farmers are full-time farmers; whereas a large number farm as a side line, and others in certain areas are only part-time farmers. On the other hand, it should be observed that by no means the entire volume of farm products is produced on what the census counts as farms, by what the census counts as farmers.

Furthermore, the usual estimates of farmers' incomes, including those of the federal Department of Agriculture, contain such large elements of estimate that a considerable margin of error is present. The details have not been published so as to permit critical appraisal of the method and basic data employed; but there is ground for believing that the figures of net returns are unduly conservative. Certainly some of the statistical comparisons made in official publications, between net returns from farming and returns from other occupations, are open to serious question.

It must be added that the position of the farmer and his family is undergoing radical changes for the better in certain respects that cannot be expressed in monetary terms. The more extensive use of automotive equipment and other machinery is lightening the drudgery of farm work. Better livestock and better feeding practices yield larger outturns for less effort. The telephone, the automobile, and the radio have radically reduced the isolation of farm life. Electricity, still utilized by only a small proportion of American farms, is becoming increasingly available, and with manifest benefits in farm operations and even more in the farm home. To a degree uncommon

among other classes of the population, these new facilities serve the farmer jointly in his work and in his home life. The forward strides that have already been made in these respects, during the last twenty years, should not be overlooked in any appraisal of the farmers' economic position.

To go into this whole controversial subject at length is beyond the scope of this work. But it is pertinent to quote statements of two economists who have recently reviewed the evidence, and who both evince deep sympathy with the farmer and with proposals for aid to agriculture. Professor Seligman did not exaggerate when he said, in his recent work on *The Economics of Farm Relief*: "Taking it all in all, the American farmer—at least the typical white farmer—is perhaps the most prosperous representative of the tiller of the soil that has yet been disclosed by history."¹ Professor Black² was equally within the truth when he said:

Although specific data are lacking, there is little doubt that the plane of living of farm families is considerably higher now than in 1910 to 1914. It has risen appreciably even since 1921. More farm families have motor cars now than in 1921, and probably fewer of them have cheap cars. There has been a rapid increase in the last ten years, no doubt halted for a while in 1921 and 1922, in the number of farm homes with telephones, radios, lighting systems, water systems, furnaces, and electricity. Farm people are wearing much more nearly the same sort of clothes as city people than was true ten years ago. There are sections of the country where no doubt these changes have not been very pronounced; but in others they have been little short of revolutionary.

Professor Black's 21-point forecast of developments in farming in the next twenty-five years, even "if no changes are made in our present policy and program with respect to agriculture," is by no means a gloomy one.³ No one

¹ E. R. A. Seligman, *The Economics of Farm Relief* (New York, 1929), p. 14.

² *Agricultural Reform*, p. 11. Cf. also below, pp. 114-15.

³ *Agricultural Reform*, pp. 36-38.

truly conversant with the facts of farm life today can accept the soothing doctrine that all's well with the farmer. But it is beyond question that the position of the farmer has commonly been described in over-pessimistic terms, especially in contrast with that of other classes.¹ To the extent that this is true, arguments resting upon the supposed inequality or injustice are overdone.

Again, there is little reason to doubt that, by and large, our protective tariff policy has served to stimulate manufactures and that it has incidentally imposed burdens upon American farmers. The extent of the stimulus and these burdens cannot be measured, so complex are the problems of analysis involved. Probably also the immigration restriction policy has indirectly been to the disadvantage of farmers, for the time being at least. Quite possibly other elements of national policy have operated in some degree in the same direction. Yet the whole tenor of the arguments on this matter is far more extreme than sound analysis can justify.

In the first place, the implication is that the object, and the normal effect, of protective duties is permanently to raise the prices of the commodities concerned, to the extent of the tariff duty; and that the effectiveness of a duty is to be judged by the extent to which prices are raised by its operation.² But this view misconceives both the object and the consequences of protective duties, on agricultural or on industrial products. The raising of prices of protected goods is merely a proximate aim. The real objective is to stimulate domestic production by rendering foreign competition less effective. The normal expectation is that, as a domestic industry, thus protected, establishes itself firmly, it will be able to produce larger output at lower cost, so that sooner or later it will be able

¹ See below, pp. 63-65.

² See the writer's discussion of this point in *Quarterly Journal of Economics*, February 1929, XLIII, 271-75.

to supply the domestic market at moderate prices, and eventually be able even to export its products in competition with foreign producers. As Alexander Hamilton said in his *Report on Manufactures*: "In a national view, a temporary enhancement of price must always be well compensated by a permanent reduction of it." Permanent increases in domestic prices in consequence of tariff duties indicate not the success of a protectionist policy, but failure to achieve one of its central objects.

In practice, the results of protective duties vary greatly. Many protected industries have come to be largely or wholly independent of protection, and the duties have come to have very limited effect upon production or prices. Indeed, some of our largest and most important industries are subjected to handicaps imposed by the tariff system, in the same way as are numerous branches of agriculture. In other instances protective duties have tended permanently to keep prices above the levels that would obtain if no protection were accorded. Many industries in the latter class are conspicuous laggards in the ranks of American industry. The conspicuously progressive industries are not now, if they ever were, substantial beneficiaries of protective tariffs. Certainly it is by no means the rule that tariff duties on manufactured goods are "100 per cent effective" in the sense of maintaining prices to consumers higher than they would otherwise be, to the extent of the tariff duty. If such were the rule, it would be a weightier condemnation of protective tariffs than any now put forward.

Furthermore, most of the public regulation of railroads has been in the interest of shippers, including farmers, rather than, as the argument cited seems to imply, on behalf of railway shareholders. Nor is it clear that the cost of transportation service has been raised as a result of legislation aimed at protection of capital invested in railways and their equipment. Certainly that was not

the object. There was danger that railway service would deteriorate unless protection against excessive restraints was afforded. There is good reason to believe that the national policy adopted in 1920 has contributed toward bringing about the increased efficiency in railroad transportation which has greatly improved freight service as well as reduced costs and increased earnings. To the farmer good freight service is quite as important as the rates he has to pay; and even the level of rates on farm products does not appear extremely high in the light of pre-war rates and present conditions of freight service.¹

Increased costs of production have not invariably resulted from higher wages. In part higher wages have been accompanied by, and even led to, increased efficiency of labor, increased use of labor-saving equipment, and improvement in management, with the effect that costs have been reduced, not advanced. A high wage scale often accompanies low labor cost. Moreover, in many cases, as with automobiles and certain classes of farm implements, improvement has been made in the quality of a product sold under a given name, so that, if allowance is made for quality, prices have declined even if they remain nominally the same.

Furthermore, farmers have had a far larger share in protection and direct government aid than is commonly admitted, as no one can doubt after perusal of the annual reports of the Secretary of Agriculture.² Certainly on many farm products the tariff makes for higher prices to

¹ Cf. the official index numbers of freight rates on livestock, wheat and cotton, 1913-28, in *Yearbook of Agriculture, 1928*, p. 1084. An unbiased appraisal of rates in the base year, 1913, would probably show that rates then were below rather than above a reasonable level. If this is true, the latest figures, based on rates in effect December 31, 1928, do not appear high in the light of changes in the level of prices. They are as follows: cattle, 157; hogs, 161; sheep, 157; wheat, 148; cotton, 164. Moreover, the rates are not for identical services; in certain respects the present-day carrier services are much superior, and to the farmer more advantageous, than the carrier service before the war.

² Cf. also James E. Boyle, *Farm Relief* (Garden City, New York, 1928), pp. 81-109.

farm producers than would be possible without it. It is far from true that the tariff is wholly ineffective on products of which we are net exporters, or that returns from domestic crops are invariably depressed by reason of exports of part of the crop. Quarantines operate in the same direction as the tariff, by restricting imports of competing products. The research, educational, and informational work of the Department of Agriculture and State Agricultural Colleges is of vast and increasing value to the farmers, and it is probably relatively more important to them than to other interests, or than corresponding work for other interests. The improvement of farm credit facilities, by government action, has been very marked in the past ten years. There is room for further improvement and expansion in these and related lines, but what has been done has been important.

It may still perhaps be true that the net effect of our public policies has been to favor industry more than agriculture.¹ In particular there is reason to believe that our tariff policies have worked to the detriment of the farming class.² But the degree of injustice or inequality has been much less in reality than it has been commonly made to appear.

With respect to higher tariffs as a means of reducing this inequality, there are grounds for pessimism. Conceivably a tariff might be so drafted as to yield farmers somewhat larger benefits from tariff protection than they now obtain. Professor Black's recent analysis³ of this possibility leads him to the following conclusion, which impresses the present writer as far from encouraging:

... additional tariffs still within reason, although so high as to be almost completely prohibitive, might add 2 per cent to the farm

¹ This is Black's conclusion. See *Agricultural Reform*, especially pp. 48-61. No one has made an exhaustive and authoritative study of this matter.

² For a strong statement on this point, see J. E. Boyle, "Tariff Handicaps," *The Annals*, March 1929, CXLII, pp. 89-96.

³ *Agricultural Reform*, chapter vii, especially pp. 219, 231.

values of the protected products and 1 per cent to the average net farm incomes. . . . By so doing, the gross income of the farmers of the United States may be increased by as much as \$30 per farm and the net income by as much as \$15 per farm. If the duties are made too high, they will make prices of farm products erratic and may even reduce net incomes, as well as have some other undesirable effects. . . . Agriculture has nothing to gain and something to lose from higher duties on manufactured products.

In practice, as tariffs are actually made, farmers as a whole are likely to lose rather than gain in a struggle for advantages from higher tariffs. The raising of tariff duties on sugar seems quite likely to injure the mass of farmers, through increase of consumers' prices, far more than it will benefit the few farmers who raise sugar beets or sugar cane. Increased duties on flaxseed are quite likely to make for increases in costs of paint to farmers generally, to an extent inadequately offset by increased returns to the localized flaxseed growers. Similar reasoning applies to several other farm products. Many increases in duties on farm products are likely to be largely or wholly illusory in their effects on farm prices. Moreover, as tariffs are made, increases in duties on agricultural products are almost certain to be accompanied by increases in duties on manufactured goods. Certain farmers can count upon a favorable effect from particular duties; but the general result of efforts to secure higher duties on farm products is altogether likely to increase, to an indeterminate extent, the net burden of the protective tariff to farmers generally.

It does not follow that farmers must needs adopt the slogan of free trade. It does follow that they might well admit disillusionment with the results of a protective tariff policy, and join a movement to restrict its extension and to seek gradual readjustment to a lower tariff basis. They may wisely seek this with discrimination, but with reasonable confidence that they will stand to gain more, both as producers and as consumers, under a less highly

protectionist policy. If adoption of the debenture plan would involve serious delay in such a modification of policy, such gains as it might yield would be subject to a discount on this score.

All in all, considerations of justice or equity may be accepted as an argument for positive measures in aid of agriculture, though accorded considerably less weight than has usually been given them. In particular, the support which they lend to measures designed to make the tariff more effective for agriculture appears to weaken under examination.

Moreover, the equity argument does not directly lead one specifically to support the debenture plan as *the* method for restoring agriculture to equality. The inapplicability of the drawback analogy is discussed elsewhere (pp. 33, 244-45); briefly, there is no means of computing the burden laid upon farmers by the protective system, or of giving them a direct offset by Treasury bounty, as is done in the case of the drawback on dutiable materials converted here into export goods. Other nations have applied something like the debenture system to commodities of which they are net importers and regarded this as an appropriate extension of their protective systems. But this is a very different matter from applying the same device to commodities of which we are net exporters on a considerable scale.¹ Bounties may be a natural form of protection, as an alternative to tariff duties, for industries supplying only part of our domestic requirements; but to apply them to export industries is altogether a different thing.

The argument of appropriateness, indeed, largely depends for its real strength on the argument of effectiveness, which is considered at some length below. If the debenture plan would be notably less effective than its

¹ See below, pp. 204-10.

advocates maintain, the fact that it may appear a logical extension of our tariff policy becomes merely a talking point. This, in fact, has been its chief importance—as a means of inducing adherents of high protectionism to adopt the debenture plan as their own child. As a matter of fact, some academic critics of our protective policy (such as Professor Hibbard of the University of Wisconsin), discouraged at the prospect of tariff reductions, would be happy to see farm export bounties put in operation, if only to give protected industries, in the form of higher costs, a dose of their own medicine, in the hope that they might thus be brought to see the error of their ways or that the farmer might have a larger voice in determining our tariff policies.

THE ARGUMENT OF SIMPLICITY

The simplicity of the debenture plan is one of the most appealing arguments for it. In the leaflet setting forth its virtues, the National Grange said:

One great advantage of the export debenture plan, as compared with the equalization fee plan, is its extreme simplicity of operation. No complicated machinery is required, no elaborate new boards or commissions, in fact no large appropriation is required, although a modest fund for administration would be needed. The Treasury Department would issue these debentures just as it now issues "drawback" certificates, tobacco revenue stamps, and similar instruments having a recognized value that must be protected. Officials already stationed at export ports are capable of certifying to the amounts of the various crops exported and designating the persons entitled to receive the export debentures.

In its simplest form, with a considerable list of debenturable products and fixed debenture rates, the system would probably call for so little administrative action as to require only a slight expansion of Treasury functions. Probably these problems would prove larger in practice

than they appear in advance. Secretary Mellon¹ emphasized two points in this connection:

It is apparently contemplated to apply the plan to products of which we produce a surplus and which are on the free list, notably cotton. This must inevitably give rise to insuperable administrative difficulties in order to avoid wholesale fraud. Again, considerable difficulty is now encountered in the administration of the customs laws in determining the component material of chief value in an imported article. In the light of this experience there would be even greater administrative problems in working out the debenture or bounty rate in the case of articles manufactured from agricultural products.

President Hoover's seventh point² against the plan is relevant here:

The provision of such an export subsidy would necessitate a revision of the import tariffs. For instance, an export subsidy of 2 cents a pound on raw cotton would mean the foreign manufacturers would be receiving cotton at 2 cents a pound less than the American manufacturer and the foreigner could ship his manufactured goods back into the American market with this advantage. As the subsidy in many cases is larger than the freight to foreign ports and back it raises large opportunities of fraud in return shipment activities.

It would be a mistake, however, to attach great weight to these points. Probably it would be found administratively necessary to put a duty on cotton imports, in order to reduce the risk of paying a bounty on the export of Mexican cotton shipped through the United States, or of having bounty-paid American cotton shipped back to the United States. Tariff rates on a number of textile and other products might have to be raised to prevent increased competition in American markets by foreign products manufactured with debenturable products imported from this country. Certainly it would not be

¹ *Congressional Record*, April 22, 1929, p. 285.

² *Ibid.*, p. 284.

an easy task to fix debenture rates on exported products manufactured from debenturable agricultural products on the basis prescribed in the McNary bill.¹ But there is little ground for believing that any such difficulties would be administratively serious or expensive, not to say insuperable.

If it were left to a board to determine when a commodity should be made debenturable, and if changes in the list of debenturable commodities and changes in rates were to be made by such a board, the task could not be lightly undertaken and the burden would be no inconsiderable one. Experience with the Tariff Commission fully bears out this view. Nevertheless, it can safely be asserted that, in contrast with the machinery proposed either under the equalization fee plan or under the present scheme for reorganization of the marketing of farm products, the debenture plan appears relatively simple.

As we shall see, the plan has appealed to certain business interests on the ground that, of all the price-elevating measures that have been put forward, and even in sharp contrast with the marketing reorganization proposal recently enacted, the debenture system would entail the least interference with existing practices. If we must try out some price-raising scheme, this seems to have obvious merits. It does not imply governmental activity in business, or necessitate special favors to co-operative organizations. Indeed, it would be altogether consistent with the continuance of existing merchandising organization and trade practices, and would succeed best if exchange trading were left unaltered. Hence it is that, while these interests have not come out in favor of the plan, they have registered little or no opposition to it, and would presumably either take a neutral attitude toward it or even favor it as an alternative to several other favored measures.

¹ On this point, see further below, pp. 147-48, 150, 177.

As a matter of fact, this complacency is probably not wholly warranted. In the course of further discussion below, it will appear that the establishment of the system, alterations in it, abandonment of it, or even prospects for such changes, would constitute disturbing factors of no mean importance to business interests concerned. Even if the permanence of the system as a whole were assured, alterations in it, and even the prospects of alterations, would create new risks in business circles. The addition of a product to the debenturable list, the striking of one from the debenturable list, or changes in rates, especially downward, would cause business complications. These complications would be superadded to, and not merely substitutions for, the factors which must ordinarily be coped with. It is no adequate defense of the debenture plan to argue that tariff revisions also are disturbing to business; this is a recognized weakness of our tariff system, and the debenture system as proposed would be more subject to change than the tariff itself.

Reference will also be made below to a number of complications that the debenture system would interject into farming operations. But when all due reservations are made, it appears that, relatively at least, the debenture system would be administratively simple, and that the mere complications that it would entail would constitute no decisive argument against it.

THE ARGUMENT FOR EFFECTIVENESS

The argument for effectiveness rests partly on theory, partly on experience. The theory is that the debenture plan in operation would raise farm prices of debenturable commodities by approximately the amount of the debenture rate. The experience of Germany and other nations is cited to show that similar systems have had this effect. The theory we expound at more length below, and subject to examination in chapters v-vii. The foreign experience

we consider in chapter viii, and find that at best it affords no basis for roseate calculations. Here, however, something must be said of the ultimate objective of the plan.

The final step in the chain of reasoning is that the price elevation to be achieved by the debenture plan would put the great bulk of American farming on a remunerative basis, and thereby minister to the national prosperity. The Grange advocates the plan as "a sound method of restoring agricultural prosperity in the United States." "Inexpensive, simple, and effective, it will adapt tariff benefits to the farmer's needs, and will strengthen our entire economic and governmental structure. It will build up prosperity for the farmer and disturb that of no other group."¹ The adequacy of the projected price increases to achieve this result, however, has not been extensively argued.

A number of writers have recently presented calculations to show that if farmers now on farms are to have their fair share of the national income, their aggregate net income should be increased by at least five or six billion dollars a year. To quote Professors Mead and Ostrolenk,² who view the problem with stark pessimism:

Effective farm relief—farm relief which keeps millions of farmers on their farms, which gives them living wages and a reasonable return on their investment, implies an addition to the cost of living amounting to six billion dollars, or about \$50 per capita. . . . This is the amount which must be added to the net income of the farm to bring the industry, as at present organized, into line with other industries. This is the justice which the farmer demands and with less than this he will not be satisfied. Nothing less than this will accomplish the purposes of farm relief, which is to preserve the agricultural industry in its present form

¹ The Grange does not, indeed, regard it as a single panacea, but it does see in it an outstanding essential in a program including increased tariffs on farm products, changes in land policy, and other desired measures. See above, p. 35.

² E. S. Mead and Bernhard Ostrolenk, *Harvey Baum: A Study of the Agricultural Revolution* (Philadelphia, 1928), p. 124. Cf. also their chapter II, "The Plight of the American Farmer."

to keep the farmers—6,500,000 of them—on the farm. This figure of six billion dollars is, in fact, somewhat less than the amount required, since a large part of the increased cost of living would be paid by the farmer as a consumer, and would necessitate a further addition to his gross income to make up for this increase in his living cost. . . .

Mr. Lewis F. Carr, in an equally readable book in an appropriately lurid jacket, presents figures almost as staggering. His profit-and-loss sheet for agriculture in 1924-25, one of the best of recent years, shows a gross return of 12,640 million dollars, costs and charges of 17,679 million, and a net loss of 5,039 million.¹

*Wallace's Farmer*² for October 5, 1928, editorially put the matter as follows, in answer to the question of an Iowa correspondent:

For the five-year period before the war, the six million farmers of the United States had an average gross income of around seven billion dollars. Their business expenses amounted to about one billion dollars, leaving them a net income of around six billion dollars.

As an average of the past five years, the gross income of agriculture has averaged about twelve billion dollars, or almost twice what it was before the war. The expenses, however, have increased to nearly four billion dollars, or more than three times what they were before the war. The net income today is between eight billion and nine billion dollars, or about 40 per cent more than before the war.

Some people at this point may inquire: "What is the farmer kicking about if he has 40 per cent more money than he had before the war?" The difficulty is that the things that farmers buy cost fully 60 per cent more than they did before the war. Moreover, when we look at the problem from the standpoint of a fair share in the national income, the farmer is suffering from a very real disadvantage. Before the war, the total national income was

¹ *America Challenged: A Preface to a Point of View* (New York, 1929), pp. 16-17.

² Apparently the editor relied to a considerable extent upon H. C. Taylor and Jacob Perlman, "The Share of Agriculture in the National Income," *Journal of Land and Public Utility Economics*, May 1927, III, 145-62.

about thirty billion dollars, and the farmer received about 20 per cent of it. Today the total national income is around ninety billion dollars, and the farmer is receiving little less than 10 per cent of it.

If the Herbert Hoover ideal of a square deal for agriculture, as set forth in the Palo Alto speech, is to be realized, it will be necessary for farmers to get every year at least six billion dollars more net income than they have been getting during the past five years. An increase of this sort would restore farmers to about the same share in the national income as they had before the war. Hoover recognizes, however, that the pre-war income was not adequate, and on that account he may perhaps give intellectual assent to a program which would give farmers a net income at least twice what they are receiving today. At any rate, this is what the Palo Alto ideals mean in terms of definite figures.

The advocates of the debenture plan, indeed, have not endorsed, and probably would not endorse, any such computations—which are, we venture to assert, subject to serious reservations.¹ They have not aimed at any such astronomical results, or even presented calculations of their own. Applying their own reasoning, however, to the principal commodities proposed for the debenturable list, taking the average quantities sold by farmers during the three years 1925–26 to 1927–28, and using the proposed debenture rates, the Department of Commerce arrived at a figure of 518 million dollars as the average annual increase in farm values that would theoretically be expected to result from the application of the debenture plan.² As compared with five or six billions, this figure of half a billion looks puny indeed. And in fact, ardent supporters of other vigorous measures of farm relief, such as Senator Brookhart and Congressman Haugen, are disposed to regard the debenture plan as wholly inadequate to yield the additional returns that they consider American farmers must have in order to attain normal

¹ See above, pp. 49–53, and below, pp. 112–15.

² See below, pp. 106–07.

prosperity and secure their due share of the national income.¹ Doubtless it would be argued in reply that other elements in the farm relief program, indirect price enhancement due to the debenture system, and extension of the system after trial, would increase the benefits to farmers. Clearly, however, the case for the debenture plan rests heavily upon the reasoning that it would yield a notably significant addition to farm income. The figure mentioned may be regarded as such, even though it seems painfully small to those who consider the farm "deficit" to be several billions; but if it should appear that the real gain would be much smaller still, the debenture plan will hardly merit its title to be considered a major device for aid to farmers.

PROponents' THEORY AS TO PRICE EFFECTS

Most important of all the contentions, however, and the crucial link in the whole chain of reasoning, is the argument that the plan will really work, promptly, surely, and continuously, to raise farm prices of the debenturable products, by something approximating the amount of the debenture rates; that it would thus affect the entire marketed output of the commodities to which it was applied; and that it would hold prices up until we cease to be exporters of any such product, when the tariff duties would become effective in maintaining prices. In comparison with this argument, even the other constructive points are of secondary importance. If this can be convincingly established, the argument is more than half won; if it is gravely weakened, the whole case tends to crumble.

The price effects of the plan have seemed to its sponsors too nearly obvious to require much elucidation

¹ See, for example, Haugen's speech in *Congressional Record*, May 1, 1929, pp. 758-59.

or argument. They have not carried the exposition very far because the point seemed to them almost axiomatic. Until recently, at least, their theory has not been seriously challenged; and even the recent criticisms have appeared not to shake firmly held convictions or called forth extensive strengthening of the case. It is possible, however, to present with some fullness the affirmative arguments, including a number of significant quotations in which wheat, in particular, is used by way of illustration.

Under the plan, as we have already seen, exporters of debenturable products can count upon receiving export debentures with a face value representing the debenture rate multiplied by the number of units exported. These debentures they can sell to importers, who can use them at their face value in payment of customs duties. If, as is contemplated, the total debentures issued are considerably less than requirements for customs duties, importers will presumably pay the face value less a slight discount sufficient to offset the expense and inconvenience involved in using them instead of cash. Exporters, assured of such a "premium" on exportation, can thus afford to bid higher for the goods to export. The theory is that exporters, competing for the opportunity to export debenturable goods and so to obtain the debentures, will bid up the domestic prices of these commodities by almost the full amount of the debenture rates; that similar competition in the earlier stages of the marketing process will result in passing this increase back to the farmer seller; and that the resulting enhancement of prices will affect not merely the exported fraction but the entire domestic crop.

The advocates of the debenture plan entertained not the slightest doubt that such price elevation would be realized. Says the Grange in its supporting pamphlet:

... Naturally the effect of such an arrangement would be to raise immediately by approximately the amount of the export

debenture, the prices of these farm products now held down to the foreign level. This would follow because any holder of these products could readily sell his supply in the foreign market at the foreign price and get in addition thereto the value of the export debenture or certificate. He would therefore be able and willing to pay a higher price, and the general price level for these crops in this country would ascend rapidly by approximately the amount of the export debenture.

Professor Stewart,¹ in an early statement before the Senate Committee, gave an example with wheat:

A debenture rate of 10 cents a bushel on wheat would enable exporters and jobbers to bid for wheat not merely the amount which world-market quotations would permit, after deducting for costs, insurance, and freight to foreign markets, but 10 cents more. If the wheat rate were 20 cents a bushel the bid price in interior American points would be that amount above the price otherwise sure to prevail. As a result, the plan would effect a like increase in the price of wheat actually shipped abroad and in the price of all other wheat in interior American markets.

He said further² in the same testimony:

. . . when an export bounty is paid the exporters are able to compete, bidding prices as much higher than the world market quotations would otherwise permit as the amount of the bounty would indicate, and through their competition with the millers and other purchasers and handlers within the country the higher price is affected not only in the case of that portion of the crop which actually goes abroad, but that same higher price is effected with reference to the total crop.

In later testimony before the House Committee, Professor Stewart quoted, from "a report laid before a House Committee 30 years ago," the answers of Mr. George F. Stone, Secretary of the Chicago Board of Trade, to ques-

¹ *Agriculture Relief Hearings*, March 31, 1926, p. 44. In a supplementary memorandum (*ibid.*, p. 76), he recognized the qualification, discussed in our text below (pp. 135-42), that the price enhancement would not affect all types and grades equally.

² *Agriculture Relief Hearings*, March 31, 1926, p. 47.

tions put by David Lubin.¹ The pertinent paragraphs of this interchange, dated December 20, 1894, as given in the original document,² run as follows:

Q. Mr. Stone, I desire to ask you a few questions in your official capacity as secretary of the Board of Trade of the City of Chicago. What effect would a Government bounty on the exports of wheat have with regard to the general price of wheat throughout the United States?—*A.* It would in my opinion increase the price per bushel.

Q. It is said that the speculators would get the 5 cents bounty, or at least the greater part of the bounty.—*A.* If a bounty of 5 cents a bushel should be given by the Government on all wheat exported from this country, in my opinion, the farmer, or producer, would receive the full benefit of that bounty and not the speculator or exporter. It would simply enable the buyer to pay that much more than he otherwise could pay or would be justified in paying. Competition would force him to pay all he could to the farmer to obtain his wheat. It would be for the interest of the exporter to obtain the wheat. That would be his object. Competition would force him to secure it by every possible means without loss to himself. His great object is to maintain his business, to enlarge his business. Competition would impel him, as it now impels him, to give every cent that he can possibly afford to secure the product which he seeks to export. The fierceness and intensity and volume of competition, by the very force of circumstances, by the very necessities of the case, would drive the 5 cents bounty proposed by the Government into the pockets of the farmer, or producer. There it would land and from there it could never be wrested by speculators or by anybody else.

Q. It is also said that the shipowners would get this 5 cents, or the greater part of it.—*A.* I believe the answer to that is fully expressed in the reply which I have hereinbefore given.

Q. It is also admitted by some that the 5 cents would come in some way to the producer for the quantity that would be exported, but that there would be no advance on the greater quantity remaining for home use.—*A.* It is a mistake, in my opinion, to say that the 5 cents per bushel bounty which it is proposed to give would be confined in its beneficial results to the quantity or volume

¹ *Agricultural Relief (Export Debenture Plan) Hearings, February 10, 1928, Serial E, Part 5, p. 361.*

² *Fifty-third Congress, 3d Session, House Report 1999, March 2, 1895, pp. 59-60.*

of grain exported. It would effect the price of the entire crop, for the reason that grain is a surplus crop in this country, and consequently the price per bushel of this grain is fixed and controlled by the export price of this grain, and this export price, of course, I will here say parenthetically, is made in competition with all the other surplus wheat producing countries in the world. No domestic buyer will pay one single fraction of a cent more for a single bushel of wheat than the buyer for export will pay. The latter makes the price for the entire crop. If no more were raised than was required for home consumption the price would depend upon the domestic demand; but the export demand is a continuous demand, inasmuch as the demand for food can never be interrupted for any length of time, and this continuous demand for wheat, so far as a surplus wheat producing country is concerned, fixes the price of the entire crop of this cereal of that country. No class of domestic buyers, of course, can be made to pay any more than the price offered by the export demand, the domestic and the export demand being ever present in the market.

The argument has not been similarly elaborated with respect to other commodities, but the clear implication has been that what would hold for wheat would hold for others on the debenturable list. The minority report of the House Committee on Agriculture on the Agricultural Surplus Control Bill, submitted by Mr. Ketcham on April 11, 1928, supported the debenture plan as "an extremely simple device which all admit would work and work quickly and positively. . . . It would automatically lift the domestic price and aid the producer of farm products practically to the amount of the debenture." Mr. Taber said before the House Committee on February 8, 1928:

There has been no complaint anywhere, no charge made by anyone that the export debenture idea would not raise price levels. It brings the farmer under the protective system, whether tobacco or wheat, to the extent of the amount of the debenture, and raises general farm price levels. No one denies this.

Senator McNary, who finally voted against the plan for reasons mentioned below (p. 91), said very positively: "... the debenture plan will do the job. It will

make the tariff effective. It will, in my opinion, increase the price level of agricultural products. About that I have not the least doubt. . . .” Senator Norris,¹ in discussing Senator Reed’s debenture amendment to the tax bill, said on May 21, 1928:

I doubt whether it can be worked on some prepared products like meat. I do think it will work as to wheat and corn and such products as that, and that it can be made to work. . . . It is a simple way to handle the matter, and I do not believe there is any doubt about its effect on farm prices.

Senator Caraway² said in the Senate on April 23, 1929:

. . . so far as immediate relief is concerned, there is nothing else that will grant the immediate relief to the farmer that the debenture plan will give. It would be immediately effective. In my judgment, every cent of it, except the mere trifling expense of administration, would go into the pocket of the farmer. He would get it immediately, and it would be reflected in the prices of his products, both those domestically sold and those exported. It would come to him just like a check, and he could go to the bank and realize on it the next morning. It would give him immediate relief. If this bill should be passed with the debenture plan in it, the bankruptcy that hangs over the farmers of this country would be lifted over night, if the board would put it into effect.

Senator Norris³ said in the Senate on October 19, 1929, in discussing his debenture amendment to the tariff bill:

. . . I think students of this economic question are unanimous in the opinion that if this amendment shall become a law, regardless of its merits or otherwise, or what people may think about it, it will have the effect of raising the price of the product upon which the debenture is issued practically the amount named in the debenture, which will be one-half of the tariff, except in the case of cotton where it will be 2 cents a pound. Therefore, Mr. President, regardless of everything else, it is fair to say that this is a provision which will increase the price of all farm products to which the board shall apply it.

¹ *Congressional Record*, May 21, 1928, pp. 9283-84, 9304-05.

² *Ibid.*, April 23, 1929, pp. 362-63.

³ *Ibid.*, October 19, 1929, p. 4900.

As the foregoing quotations show, the emphasis has been laid on the *price-raising* effects, not on the *price-upholding* effects. It is commonly implied that if prices are raised, they will stay up—not necessarily at the same level, for the levels of domestic and foreign prices would both be affected by variations in crops and demand, but on levels higher than they otherwise would be, by the amount of the debenture rate. The possibility that production might be stimulated is recognized, though clearly not taken very seriously by the advocates of the proposal; but this has been generally regarded as a kind of special problem, to be dealt with by reductions in rates if and as production should increase. It has not been generally viewed by the proponents as a possibility that might seriously limit the realization of price advantages.

To the analysis of the probable working of the debenture plan in operation, a large part of the remainder of this work is devoted. Parenthetically, it should be said that our analysis leads to the conclusion that experience with the plan would utterly fail to justify the confident expectations of its advocates. Before discussing this matter at length, however, it is in point to review the sources of support for the plan and to inquire into the prospective costs of its application.

CHAPTER III

SOURCES OF SUPPORT FOR THE PLAN

In the light of the foregoing presentation of the case for the debenture plan, we are in a position to appreciate the significance of the alignment of forces in its favor and the position of the neutral and opposing forces, in the various economic interests, in academic circles, and in Congress.

ECONOMIC INTERESTS

Among the farmers' organizations the National Grange, as we have seen, has been the outstanding supporter of the debenture plan. The Grange has long been concerned over the protective tariff in its effect on the farmers. Ever since 1890 it has insisted on a doctrine embodied in the slogan, "tariff for all, or tariff for none."¹ Recently it has been foremost among those demanding the raising of tariff rates on farm products. It has long recognized that duties on many farm products have but little effect on domestic farm prices. The debenture plan therefore fitted naturally into its philosophy and program.

Moreover, the debenture plan represents a revival, in slightly modified form, of a proposal for export bounties on farm products which the Grange had seriously considered, and eventually endorsed, in the agricultural depression of the 'nineties. The proposal originated apparently in 1894, with David Lubin, an influential member of the California State Grange. The scheme was discussed at the National Grange convention in Springfield, Illinois, in November 1894, and submitted to the state and local Granges with a request that they study it thoroughly. The plan was pressed in hearings before the House Committee

¹ L. J. Taber, in House Committee on Agriculture, *Agricultural Relief Hearings*, January 10, 1927, Serial U, Part 4, p. 134.

on Agriculture December 15 and 17, 1894, and February 16, 1895, at which testimony was given by Lubin and masters of the Pennsylvania and Virginia State Granges, and by Representative-elect G. L. Johnson of California.¹ The plan won the endorsement of the California State Legislature, various Chambers of Commerce, the State Granges of California, Missouri, Oregon, Virginia, Washington, Illinois, West Virginia, and Pennsylvania, and a substantial measure of endorsement by the National Grange at its convention at Worcester, Massachusetts, in November 1895.² A bill embodying the plan (*H.R. 2026*) was introduced in the House on December 3, 1895.³ But the plan failed to make headway against opposition from protectionist interests and general aversion to bounty policies, and the Grange, after Lubin's health broke down, ceased to urge the measure.⁴

The American Farm Bureau Federation, a younger but very powerful farmers' organization, has been equally conspicuous as the advocate of the equalization fee plan. In the long fight for this plan its leaders had sought in vain to win over the leaders of other farm organizations. The endorsement of the debenture plan by the Grange was a blow to the Federation. While each organization tried to avoid open attack upon the other, each developed arguments that were aimed, directly or by implication, at the other's favorite scheme. The Federation objected to

¹ See *House Report 1999*, cited above, p. 69, note 2.

² See David Lubin's pamphlet, *Protection for Agricultural Staples by an Export Bounty*, Sacramento, Calif., 1896. Further communications from David Lubin on agricultural export bounties are to be found in 54th Congress, 2d Session, *Sen. Doc. 157*, February 26, 1897; and 55th Congress, 3d Session, *Sen. Doc. 131*, February 23, 1899.

³ The rates stated in this bill were: 10 cents a bushel on wheat and rye; 50 cents a barrel on wheat and rye flour; 5 cents a bushel on unground corn, and 7 cents a bushel on ground corn; 1 cent a pound on cotton; 2 cents a pound on tobacco and hops. All were subject to an increase of 10 per cent if the exports were shipped in American vessels.

⁴ See also an extended statement by Thomas C. Atkeson, in House Committee on Agriculture, *McNary-Haugen Bill Hearings*, February 25, 1924, Serial E, pp. 343-50.

the debenture primarily as a Treasury subsidy to agriculture, which it maintained farmers did not ask or desire, and which it prophesied would lead to overproduction. Even when the adoption of the equalization fee plan appeared politically hopeless, the Federation did not abandon it in favor of any alternative, and was unwilling openly to endorse the debenture plan as a reasonable substitute.

Nevertheless, it is significant that the president of the Farm Bureau Federation joined the master of the National Grange and the president of the Farmers' Union, in a letter of April 6, 1929, to Chairman Haugen of the House Committee on Agriculture, in which they expressed their joint conclusions¹ in regard to farm relief legislation in part as follows:

It is too evident to need more than mention that legislation, to be of benefit to agriculture, must be of such nature that it will increase the farmer's net income. The American farmer must have an American price for his farm products in order to maintain an American standard of living; any legislation which stops short of attempting to secure this certainly will not suffice.

There are, in our opinions, four requisites which must be met by any legislation to permit it to qualify properly as farm relief. These requisites are:

1. It should make the tariff effective on all farm crops so that surpluses will not be permitted to depress the domestic price to the world level of prices.

2. It should be of such nature that the control and disposition of agricultural surpluses are adequately provided for.

3. It should contain provisions, which are automatic in their operation, to check overproduction.

4. It should provide for farmer ownership and control of marketing organization with due consideration to co-operative associations already established.

We unanimously agree upon these fundamental principles and offer our services to the Senate and House Committees on Agriculture in formulating legislation which will make the above principles operative.

¹ *Congressional Record*, May 1, 1929, p. 757.

The Grange leaders were convinced that the debenture plan would meet the first three of these specifications; but it cannot be inferred that they had brought the Federation leaders around to this view. Clearly, however, the House bill, the Senate bill apart from the debenture provision, and the Agricultural Marketing Act as passed, all failed to embody the first three of these "fundamental principles" as interpreted by the farmer spokesman quoted.

The co-operative organizations have not, in general, favored either the equalization fee or the debenture plan, partly because of fears that they might suffer if any measure were adopted that did not clearly depend upon co-operative enterprise for its success. Their principal ground for opposing the debenture plan as a supplement to such a measure as the recent Agricultural Marketing Act would presumably be that expressed by President Hoover, that it might "confuse and minimize the much more far-reaching plan of farm relief" Some co-operatives, however, were highly critical of the major provisions of the House and Senate bills, as interpreted by the farm leaders, and a few emphatically urged the inclusion of the debenture provisions.

The debenture plan has won little open support from business. The report of the Business Men's Commission on Agriculture,¹ prepared in 1927 before the plan had attracted widespread attention, does not discuss it at length. It covers it, however, in a broad condemnation of price-raising measures (chapter iv); and this is supplemented by reasoning that farmers have more to gain from downward readjustment of tariffs on manufactured products than from any devices designed to make the tariff more effective for agriculture. The United States Cham-

¹ *The Condition of Agriculture in the United States and Measures for its Improvement: A Report by the Business Men's Commission on Agriculture*, Published jointly by National Industrial Conference Board, Inc., and Chamber of Commerce of the United States of America, November 1927.

ber of Commerce has recently gone on record in respect to farm relief measures, without specific mention of the debenture plan, but in such terms as to lead one to suppose that it would essentially endorse President Hoover's general position on agricultural policy.¹

On the other hand, as we have already suggested, the debenture plan has aroused no substantial opposition among business men. In certain business circles which have been vigorously antagonistic to price-fixing measures, and to the McNary-Haugen plan in its various forms, the debenture plan has been at least tacitly regarded as the least objectionable of the several price-raising experiments if political considerations necessitate a choice, on the grounds that it would be administratively simplest and would involve slight interference with trade practices. In his presidential address before the Grain Dealers' National Convention at Boston last September, Mr. C. D. Sturtevant² said in part:

. . . . If the federal government in its wisdom decides that agricultural producers should have a subsidy in order to bring them to an equality with other lines of endeavor, the export debenture plan is a simple, economical, and painless method of taking money out of the pockets of the taxpayer and giving it to the farmer. No expensive machinery or bureaucratic control such as was contemplated in the case of the equalization fee would be necessary. The taxpayers would assume the burden of the agricultural subsidy, the farmer would receive more money for his product, and the consumers would pay more for their food.

He went on to argue, however, that the plan would so stimulate production that the world wheat surplus would be increased, and export values consequently depressed "to a point where the producer would be no better off than he is at present."

¹ Cf. President Butterworth's statement in House Committee on Agriculture, *Agricultural Relief Hearings*, March 30, 1929, Serial A, Part 4, pp. 370-72.

² *Northwestern Miller*, October 3, 1928, CLVI, 31.

Some business interests, indeed, might well prefer the debenture plan to the new measure as passed, which looks toward a reorganization of the marketing of farm products such as may threaten their organization and practices to an unpredictable extent. Moreover, as President Hoover said, if the debenture plan were authorized by Congress in optional form, some business interests would presumably be found to exert pressure for its application in particular cases where they saw prospective benefits to themselves. There may be an undercurrent of opposition by industrial interests that would fear increased costs of living; but many business leaders have become so convinced of the inequality of the farmers' position that they are ready to approve radical measures of farm relief if they seem to be workable. Many business men have interests so closely tied up with the prosperity of the farmer that they would welcome, in their own interests, effective measures to promote that prosperity; and others, out of broad sympathy, would be predisposed in favor of such measures unless they appeared plainly injurious to their own business. Under such conditions, the absence of serious opposition to the debenture plan in business circles is not surprising.

The American Federation of Labor has frankly taken a benevolent attitude toward farm relief proposals, including those which are intended to bring about an advance in prices of farm products. President William Green recently expressed the Federation's position in testimony before the Senate Committee.¹ A few excerpts are illuminating:

I want to assure the committee that the membership of the American Federation of Labor are so deeply interested in the farm problem that we are earnestly hoping that you will find some way by which you can be helpful to the farmers through legislative enactment.

¹ *Farm Relief Legislation Hearings*, April 3, 1929, pp. 530, 532.

We realize, however, that any legislation that might be enacted and might be helpful would, of course, have a tendency to raise the price level, because that has been the ultimate objective. We believe that ought to be done, notwithstanding the fact that perhaps the cost that would follow the raise of the price level would fall somewhat upon the great consuming mass of labor. We think that it is really an economic crime that such a large number of people in our great country should be producing a commodity below the actual cost of production, and we are conscious of the fact that that is going on and that the farmers are suffering very greatly. We believe that it is a menace to the welfare of working men and women, and to a continuation of our national prosperity and well-being.

Now, the position of labor regarding the raising of the price level on agricultural products has been fought through until we think that, even though in the final analysis there may be some increase in the cost of living to the millions of working men and women of America through the raising of that price level, that will be offset through the development of a higher purchasing power among the agricultural population. We feel that great potential purchasing power can be developed to a high active purchasing power, so that they will use more, buy more, consume more, and thus the demand for manufactured products will correspondingly increase.

Then there is a menace to labor through this depressed condition in the agricultural field, by reason of the fact that those who find it unprofitable to continue agricultural pursuits naturally leave the farm and drift into the cities or into the industrial centers and there become competitors with labor. Instead of producing on the farm they are sharing with labor the work that is performed in the industry. When unemployment, local or otherwise, becomes rather acute, the field of labor is affected by that, of course.

The implication is that organized labor would not oppose the debenture plan, but would rather be sympathetic toward it; but that it would hold no brief for this plan as compared with others.

AGRICULTURAL ECONOMISTS

In academic and governmental departments also the debenture plan has had few outspoken critics except

among those who regard all price-raising schemes as objectionable if not vicious.¹ The Wisconsin State Legislature, in a recent joint resolution memorializing the United States Senate on behalf of the farm debenture plan, asserted not only that it "appears to be the most workable and most practicable method now before Congress for the alleviation of our present agricultural ills," but also that it "is indorsed by most leading students of agricultural problems . . ."² The latter is an extreme overstatement, but the plan has won some measure of support among agricultural economists.

As we have seen, an agricultural economist, Professor Charles L. Stewart, has been an outstanding leader in the movement for the plan. Professor B. H. Hibbard of the University of Wisconsin has repeatedly given a sort of endorsement of export bounties on farm products, in such terms as would seem to apply with almost equal force to the debenture plan. Convinced of the iniquity of the protective tariff, and of the burdens it imposes on the farmers, he considers that circumstances justify the use of Treasury funds to improve the farmer's situation, to the extent of half the tariff revenues. He is impressed by the simplicity of the debenture plan, and considers that it would do no more than the equalization fee in stimulating production.³ Dr. W. J. Spillman of the Department of Agriculture has unofficially urged the desirability of another variant which he calls the limited debenture plan.⁴ President J. L. Coulter of the North Dakota Agricultural College, who has recently become chief economist of the

¹ See, for example, the report of the Business Men's Commission on Agriculture, and the books of Boyle, Lippincott, Mead and Ostrolenk, and Seligman, reviewed by the present writer in *Quarterly Journal of Economics*, May 1929, XLIII, 532-43.

² *Congressional Record*, May 22, 1929, p. 1703.

³ Cf. *Wallace's Farmer*, March 19, 1926, p. 431, and *Journal of Farm Economics*, April 1926, VIII, 207.

⁴ *Balancing the Farm Output* (New York, 1927), chapters vi-vii.

Tariff Commission, recently urged upon the Senate and House Committees on Agriculture an export bounty plan that is not strikingly different from the debenture plan.¹

Dr. Eric Englund, a senior agricultural economist in the Department of Agriculture, formerly attached to the Secretary's office, was questioned by the Senate Committee in closed session on April 12, 1929. His testimony, subsequently published,² was accepted in some quarters as an endorsement of the debenture plan. Senator Brookhart went so far as to say, in a radio speech on May 16: "He [the President] referred them [the Senate Committee on Agriculture] to the experts of the Agricultural Department. They said it would work, and the committee then put it into the bill by unanimous vote."³ A careful examination of the record, however, indicates that Dr. Englund's testimony should not properly be interpreted as a broad endorsement of the debenture plan, or of the form that it took in the McNary bill.

Dr. Englund proved a cautious witness, and repeatedly emphasized that he was expressing merely his personal opinion. On the matter of price influence, he said initially:

. . . . I think that it is fair to say this: That it is certain to increase prices of farm products. There is no question about that in my mind, about the debenture plan increasing the price of farm products to the extent of the debenture, except for a discount in the sale of the certificates, and provided that there is effective competition among exporters, so that the amount added to the export price by the debenture will be passed back to the farmer in the form of higher prices for his commodities.

. . . . If it is applied generally to all exporters, we have reason to suppose that the competition among exporters would be as

¹ House Committee on Agriculture, *Agricultural Relief Hearings*, April 2, 1929, Serial A, Part 6, pp. 486-511; Senate Committee on Agriculture, *Farm Relief Legislation Hearings*, April 2, 1929, pp. 460-77.

² *Farm Relief Legislation Hearings*, Part 7, April 12, 1929, pp. 825-36, especially 830-36. Dr. O. C. Stine, in charge of the Division of Statistical and Historical Research, was also questioned briefly on the working of the German import certificate system and the Paterson plan in Australia. *Ibid.*, pp. 836-40.

³ *Congressional Record*, May 22, 1929, p. 1783.

effective as it is in wheat for export at the present time. Now I understand that when the Liverpool price of wheat rises, that increase is, by and large, passed back to the sellers of wheat within the period to which it applied.

Senator Ransdell pressed him for a broader conclusion, asking: "What would be the general effect of this law if we enacted it? Would it or not be beneficial or otherwise to agriculture in your judgment? In other words, would you or not put it into effect if you were in our position?" To this Dr. Englund replied:

To answer the question as to whether it would be beneficial, we can only surmise in advance of any actual experience. I frankly believe that any of these plans would have to be approached in the attitude of experimenting, because we do not know in advance just how it will affect agriculture. If you increased the price by an export debenture, and if that should stimulate production greatly—and opinions differ on that—and if later there should be a repeal of the system, it would leave the farmer with a stimulated surplus and a depressed price. I believe that this is an aspect of the case which should be considered in any consideration of the debenture plan: Will it stimulate production? If so, is there any likelihood of a repeal of the plan, leaving the farmer high and dry, so to speak, with a stimulated surplus and with nothing to support the price? These are dangers incident to the matter, the extent of which I cannot estimate in advance.

He was further pressed for an opinion on the McNary bill, inclusive of the debenture provisions.

Senator Caraway. Do you think that the things included in that bill, if the debenture plan were added to it, would reasonably take care of agriculture?

Mr. Englund. I think that the McNary bill would be helpful and sufficiently safe to make the experiment warranted.

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The Chairman. If the stabilization corporation did not do the job, there is an option that might be exercised by the board to employ the debenture plan. Would the two operating together, in

your opinion, greatly decrease the amount of money which you have estimated would be the cost of the debenture plan?

Mr. Englund. I believe it would, depending upon the board's definition of emergencies and the board's policy in applying it.

The Chairman. I assume this, that if you take the structure of the Federal Farm Board and make the rate of interest 4 per cent and operate through the stabilization corporation, plus the debenture plan that might be used if in the judgment of the board it was thought advisable, it would greatly decrease the estimated losses that you named a while ago.

Mr. Englund. I believe it would. It would decrease it greatly.

Senator Heflin asked: "Even though the debenture plan might uplift the price it might ultimately be the cause of making the price smaller than it was originally for that portion of the crop used at home?" But Dr. Englund, admitting the Senator's chain of reasoning, refused to hazard a guess as to the net outcome. He did express the conviction that the debenture plan, as compared with the equalization fee plan, "would be both more simple and less expensive from the standpoint of administrative cost," and that to raise the farm price to a given extent, the debenture plan would cost consumers less and the Treasury more.

A recent addition to the supporters of the debenture plan, in some form and degree, is Professor John D. Black of Harvard, a recognized leader among the economists who have specialized in agricultural economics. He has gone squarely on record in favor of a policy of elevating farm prices, and for the debenture plan as an important element in that policy. In his testimony before the Senate Committee on March 26, 1929, he answered direct questions as follows (p. 68):

The Chairman. Is it your judgment that the economic situation confronting the farmers of the country is such as to warrant price-fixing legislation at this time?

Mr. Black. Senator McNary, I would rather say "price raising."

The Chairman. Price raising or price influencing. Tempered in such manner as you desire, the principle is there. What is your answer?

Mr. Black. My answer is that the purchasing power of farm products is about 90, now, and it needs to be about 105 in order to establish the agricultural industry on the proper basis, and that the Congress of the United States ought to undertake rather vigorous measures to readjust that situation; and I think the situation warrants undertaking in a conservative sort of fashion some price-raising measures.

With special reference to the debenture plan he said (p. 67):

.... I think you have been told that the export-debenture plan has been derived from the German import-certificate plan, and as it works out in Germany the export debentures are paid out of import duties on other farm products.

I hope to see the time when the German import certificate idea will be adopted in a rather important way in the United States. I think it offers some important advantages.

He summarized his position on various price-raising measures in the following words (pp. 66, 67):

I believe that for products to which a tariff duty can be applied and made effective, that is by all means the simplest and best arrangement. That covers flaxseed, sugar, and wool, and a number of other products.

For wheat and cotton the most satisfactory plan which I have thus far studied is this domestic-allotment plan with transferable rights which I have described in this document.

For pork products, beef, poultry products, and a considerable list of other products I think that the export-debenture plan is the most satisfactory plan which has been presented.

I believe that the income obtained from tariff duties collected on farm products, together with some income which will be received under the domestic-allotment plan which I have outlined here, could be used and should be used to pay export debentures on such products as cannot be reached by any other method than the export-debenture plan. And then there are sources of income involved in the tariff duties received on farm products—wool, sugar, flaxseed, and the rest—to pay the export debentures on

pork products and poultry products and beef which cannot be reached in any other way; that a combination of these three will give us a price-raising arrangement which promises results.

I am not advocating this in the sense that the sponsors of these plans have advocated it. I have studied them, and I have this to say to you: That if you want to raise the prices of farm products relative to the general price level, if you want to do that within the next two or three years by an appreciable amount, some combination of these price-raising plans will be necessary in order to do it.

The stabilization program has much to recommend it, but it is not a price-raising program. It has much to offer to agriculture in the long run but not in the near future.

The position above taken is amplified in Professor Black's book on *Agricultural Reform in the United States*,¹ which was published late in the spring of 1929 after the foregoing testimony was given. In this work Professor Black leaves no doubt as to the positiveness of his convictions that price-raising measures on behalf of farmers are amply warranted, on the ground that the protective tariff and other public policies operate to the net disadvantage of farmers. His precise position on the export debenture plan, however, remains somewhat obscure in spite of a good deal of discussion. He points out defects in certain drafts of the plan, defends it against several criticisms, but avoids a general endorsement of it. Apparently he favors applying the plan (1) as a price-raising scheme, to a few products (pork products, beef, and poultry products) to which neither the tariff nor the domestic allotments plan could be readily applied with much expectation of favorable results; and (2) as a scheme for correcting regional discriminations, in the case of farm products of which we export some types from some regions while importing other types to other regions. He does not discuss specifically the way in which the plan would work if so applied, but apparently be-

¹ Cf. especially chapters ix-xiii.

believes it worthy of limited experimentation. He does not endorse the debenture scheme as a comprehensive plan, and plainly considers it inferior to the allotments plan for the principal crops for which they would represent alternatives; but if the allotments plan should fail to gain support, and it were a question of trying the debenture plan or neither, one may infer that he might support the debenture plan in some form. It is also reasonable to infer that, in the light of the evidence available last May, and with the McNary bill as it then stood, Professor Black might have favored retention of the debenture provisions and a limited use of them by the Federal Farm Board.

We have cited above the views of most economists who have publicly taken a position more or less favorable to the debenture plan. It will be noted that, with one exception, the positions fall short of complete endorsement. It would be possible to cite nearly as many others who, without discussing the debenture plan at length, have gone on record in such a way as to leave little doubt that they would oppose it. Very few economists, however, have attempted to subject it to careful study. While, therefore, the support the plan has attracted among economists is worthy of respect, it is a mistake to infer that the judgment of economists in general would be favorable to the proposal.

POLITICAL SUPPORT AND OPPOSITION

Until 1929 the debenture plan had never been under serious consideration in either chamber of Congress. As we have seen (above, pp. 4-6), the Senate voted 47 to 44, on May 8, 1929, to defeat a motion to eliminate the debenture provisions from the McNary bill, and 46 to 43, on June 11, to reject the compromise bill without the plan; while the House, on June 13, voted 250 to 113 to instruct its conferees to insist on elimination of the plan. An analysis of the first of the Senate votes is instructive.

The party division may be summarized as follows:

	Repub- licans	Democ- rats	Farmer- Labor	Total
For the plan	13	34	..	47
Against the plan	42	2	..	44
Not voting	0	3	1	4
	—	—	—	—
Total	55	39	1	95

Had the non-voters voted according to their known positions, the vote would have been 49 to 46, with only four out of 39 Democrats against the plan. Senator Shipstead (Farmer-Labor) was in the hospital, but was for the plan, and Senator Walsh of Massachusetts, who was against it, abstained from voting at Shipstead's request. Two other Democratic senators who did not vote were paired, King of Utah against the plan and Kendrick of Wyoming for it. The only two Democrats who voted with the minority against the plan were Wagner of New York and Ransdell of Louisiana. The following thirteen Republican senators voted for the plan: Blaine and LaFollette of Wisconsin; Schall of Minnesota (colleague of Shipstead); Brookhart of Iowa (with his Democratic colleague Steck); Howell and Norris of Nebraska; Frazier and Nye of North Dakota; McMaster and Norbeck of South Dakota; Pine of Oklahoma (and his Democratic colleague Thomas); Borah of Idaho; Johnson of California.

The geographic distribution may be summarized as follows, counting the non-voting senators as if they had voted according to their known positions. Against the debenture plan were all the votes, except that of Senator Copeland of New York (Democratic), from the states north of Mason and Dixon's line and east of the Mississippi, except Wisconsin alone. South of Mason and Dixon's line and east of the Mississippi, the votes of Maryland, Kentucky, and Louisiana were divided, West Virginia's votes were against the plan, and all the others

were for it. West of the Mississippi, the votes of Kansas, Colorado, Utah, and Oregon were against the plan; the votes of Missouri, Idaho, Wyoming, Nevada, New Mexico, Washington, and California were divided;¹ all the rest were solidly for the plan. Broadly speaking, therefore, the senators from the agricultural states of the South and West were aligned in favor of the plan, with the outstanding exceptions of Kansas, Colorado, Utah, and Oregon; but the vote was divided in eleven states, six of them in the Rocky Mountain and Pacific regions.

To an extent even larger than usual, the votes in the Senate and House do not represent clear-cut divisions on the merits of the plan at issue. Political cross-currents were especially numerous.

The senatorial supporters of the debenture plan were moved by various and diverse motives. Comparatively few were whole-hearted believers in the measure itself. Some, particularly Democrats hostile to the protective tariff policy, would have preferred downward readjustments of the tariff, but saw no prospect of any such development. Thus, Senator Walsh² of Montana, who had opposed the equalization fee plan on constitutional grounds but did not hold the same objection to the debenture plan, said:

It is because of the hopelessness of securing relief for the farmer by the natural method, the modification of the legislation to which his plight is largely due, that I give my assent to the debenture plan, or, for that matter, to the bill in its other features.

A number of senators, who were strongly committed to the equalization fee plan or some equally vigorous pro-

¹ In a recent vote (October 19) on the debenture amendment to the tariff bill, Senators Thomas of Idaho and Cutting of New Mexico voted for the amendment, as did their colleagues.

² *Congressional Record*, May 7, 1929, p. 989.

posal, regarded the debenture plan as an inferior substitute. But the more favored proposal was recognized as dead for the present, if not beyond hope of resurrection. Mr. Hoover's expressed opposition to the equalization fee plan during the presidential campaign, and the impressive size of his majority, not only afforded convincing evidence that he would veto a bill containing it but were interpreted in some quarters as a national referendum decided against that proposal.¹ The debenture plan was not specifically the subject of discussion during the campaign, and there was less ground for arguing that the election constituted a national referendum upon it. When President Hoover had registered his condemnation of it, he did not go so far as to say that he would veto a bill containing the plan. Accordingly many supporters of the equalization fee plan, despairing of getting what they really wanted, sought to engraft the debenture plan upon the administration measure, as a feature that had much in common with the plan they would prefer but which stood more chance of adoption.

Moreover, the debenture plan won supporters in many quarters because of a fairly widespread conviction that without something of this character the farm relief measure would not yield the promised "equality of agriculture with industry." Senator Wagner of New York rightly said: "To my mind the enthusiasm for the debenture plan is nourished on disappointment with the administration plan. Senators hesitate once again to go back to the farmers empty-handed."² Many who voted for the debenture plan did not wholly like it, either because it could be called a subsidy plan or because they were not convinced that it would work. Senator Copeland³ of New York, a

¹ Cf. the President's own statement on June 11, quoted above, pp. 5-6, and Governor Lowden's statement of April 26, quoted below, p. 92.

² *Congressional Record*, May 2, 1929, p. 769.

³ *Ibid.*, May 3, 1929, p. 813.

staunch supporter of the equalization fee plan, expressed his mixture of sentiments as follows:

At present the debenture plan is embodied in the pending measure. It will not be adopted; nobody believes it is going to become the law. But suppose it did? What is it except a scheme to reach into the Treasury of the United States and take out hundreds of millions of dollars of the taxpayers' money—an indirect raid upon the Treasury? We had better honestly vote a bounty than to provide a plan of this sort. I confess that I am in bitter opposition to the debenture plan.

It has been modified and materially benefited, in my judgment, by the amendment proposed by the Senator from Nebraska [Mr. Norris]. I am going to hold my nose and vote for the debenture plan with that amendment when the time comes. I do not propose to stand here while there is an opportunity to offer even a bounty to the farmers of America and to be one meekly to swallow the bill which comes from the House of Representatives, which is, as I said, not worth \$36 a dozen.

Any measure of this sort, Mr. President, is unsound economically; we have to admit that; but I am not disturbed by the fact that the equalization fee is unsound economically. I am not particularly disturbed by the fact that the debenture plan is unsound economically. . . .

Finally, support for the plan may have come from Democrats or independent Republicans who were willing to embarrass the administration even at the risk of delaying passage of a farm relief bill, and were ready to use their support of it as a trading point.

The Democratic support of the debenture plan in the Senate was made the subject of vigorous attacks from other members of the party. Congressman Ludlow of Indiana, in the House on May 17, condemned it as a subsidy and therefore contrary to Democratic principles from Jefferson down to the last national convention, whose platform he quoted: "The solution of this [agricultural] problem would avoid Government subsidy, to which the Democratic Party has always been opposed." He cited leading Democratic newspapers, the *Louisville Courier-*

Journal (Robert W. Bingham), the *Houston Chronicle* (Jesse Jones), the *Atlanta Constitution* (Clark Howell), and the *New Orleans Picayune* as outspokenly against the plan, and said that "the *Baltimore Sun*, the *New York World*, and many other democratic newspapers of high standing are priming their guns for an attack on the debenture citadel."¹ A few days later a Georgia Congressman submitted a letter from ex-Senator Hardwick of Georgia condemning the plan in unmeasured terms as a subsidy and ineffective for farm relief.² After the first vote in the Senate the Florida legislature passed a joint resolution condemning the debenture plan,³ and the Florida senators therefore reversed their stand in the second vote.

Senator McNary,⁴ the chairman of the Senate Committee on Agriculture and Forestry, took seriously the subsidy aspect of the proposal. In the Senate on April 23, he said:

. . . my objection to the debenture plan was first based upon the proposition—a sentiment which is a principle with me—that good legislation cannot be effected through a subsidy. I opposed as best I could the ship subsidy bill when it was on the floor of the Senate. I do not think a subsidy applied to the farmers would be a permanent legislation.

Indeed, I am afraid that in the long run it would incur so much opposition throughout the country that it would be repealed, and might prevent building a permanent structure through legislation.

But clearly the decisive argument with Senator McNary, which led him finally to vote against the provision, in Committee and in the Senate, was his campaign com-

¹ *Congressional Record*, May 21, 1929, pp. 1690-92.

² *Ibid.*, May 24, 1929, pp. 1928-29.

³ *Journal of Commerce*, June 1, 1929. The legislature declared the plan "detrimental to the interests of Florida."

⁴ *Congressional Record*, April 23, 1929, p. 357.

mitment to support a bill embracing the views of Mr. Hoover. As to this he said on April 23:

. . . . I feel that there is no doubt whatsoever that if a bill carrying a debenture plan should be submitted to the White House, it would instantly meet with the disapproval of President Hoover. I think it is a vain thing for Congress to send a bill there or give our time to the consideration of a bill which we know would meet with executive disapproval. I only state that for whatever it is worth, to show the position the chairman occupies, and which I think is shared by six other members of the committee.

In like manner, the Republican opposition to the plan in the Senate and House cannot be taken as wholly adverse to the plan itself. It reflected in considerable measure a desire to insure the enactment of a farm bill in some form, or to support the President and to shift to him the responsibility for the success or failure of the farm relief measure. Ex-Governor Lowden,¹ in a formal statement on April 26, expressed the position of many of the regular Republicans, as follows:

Mr. Hoover, in the campaign last fall, stated clearly and unequivocally his opposition to the principle of the equalization fee, as well as to the principle of the debenture plan. He was elected by a substantial majority. The country, therefore, authorized him to proceed with his own agriculture program. That program was outlined not only in his speeches but more fully in his recent message to Congress.

It is to be assumed that upon an issue so clearly decided by the election Congress will support the President. It then becomes the duty of all sincere friends of farm relief to co-operate with the administration in giving effect to its program. If it later should appear that this program is inadequate, the President indicated in his message that the way is open for further action.

Undoubtedly many were impelled to vote against the scheme on the ground that, in view of the danger of a presidential veto, the passage of any farm relief bill

¹ *Congressional Record*, April 29, 1929, pp. 611-12.

would be seriously delayed if not actually jeopardized. The vote in the House, where the disposition to support the President was much stronger than in the Senate, was taken under great pressure, without debate. The House leaders earnestly sought to prevent the matter from coming to a vote at all. They realized that many members would be torn between desires to please their farmer constituents, by voting for a device that seemed to have teeth in it, and desires to give the President his way.¹

It is impossible closely to estimate the true strength of the opposing forces on the merits of the debenture plan, in Congress or outside. In comparison with the equalization fee plan, it had attracted less support but aroused less opposition. On the assumption that the more favored plan could not be adopted, the debenture plan might easily have been accepted as an alternative, especially in the form in which it was embodied in the McNary bill. We venture the opinion that Section 10 of that bill would have stood if the President had not opposed it; and that a much larger vote for it would have been secured if his opposition had been milder, or if he had given reason to expect that he would be willing, however reluctant, to sign a bill containing it.

¹ As noted above, p. 4, a question of precedent was also involved.

CHAPTER IV

THE PROSPECTIVE COST OF THE PLAN

The export debenture plan would cost something, to the Treasury, and to domestic purchasers of farm products; but how much it would cost cannot be estimated. Several attempts have been made to gauge these costs, particularly the fairly direct cost to the Treasury, but always on certain assumptions—a given list of debenturable commodities, specific debenture rates, unchanged volume of exports, and rates fully effective in raising domestic prices. It is useful to examine several of these computations, but it must be emphasized that the assumptions are so bold that the resulting figures cannot properly be regarded as true estimates or forecasts.

Under the form of the plan incorporated in the McNary bill the Federal Farm Board was to determine the application of the plan, commodity by commodity. How far the Board would actually put the plan into operation it is impossible to predict. If it applied the plan, more or less experimentally in particular emergencies, to only one commodity or a few commodities, the costs would be restricted. If it responded to pressure to expand the debenturable list, the plan might soon be in operation as comprehensively as proposed in the earlier bills. These, as we have seen, called for its application to a list of farm products (and manufactures thereof) that included most of those which we export in substantial quantities, and provided for its extension to cover other such commodities. It is convenient, and also reasonable, to consider the prospective costs of the plan in this more comprehensive form, with special reference to leading products.

Any calculations or estimates of the prospective cost of the plan require certain assumptions regarding debent-

ture rates. This matter therefore calls for some consideration at this point, before we review the cost computations that have been made.

THE QUESTION OF DEBENTURE RATES

Several different principles, inconsistent one with another, have figured in the discussions as appropriate for use in determining the debenture rates. In the first place, since farm relief is the primary objective of the measure, it would appear that the rates should be set at such figures as to change the growing of the debenturable products from unremunerative to remunerative. Apparently no attempt has been made to calculate how much farm prices of particular farm products would need to be raised, and what debenture rates would be called for, in order to achieve this result. Assuredly such a calculation would present extreme difficulties. If, as several writers have recently averred, "equality for agriculture" calls for enhancing the net income of agriculture by at least 5 or 6 billion dollars a year,¹ it is difficult if not impossible to find a method of calculation by which even very substantial debenture rates, successfully applied, even behind a still higher tariff wall, could be shown likely to achieve such an objective. The advocates of the debenture plan have not regarded it as the sole measure of farm relief, and have made no such extreme claims for its adequacy. The tenor of their arguments is that the plan, comprehensively applied, would tend to yield farmers their promised "equality"; but they have not undertaken to propose debenture rates in accordance with this principle.

Equally inconclusive is the principle that justice demands that the farmers be given a full equivalent of the protection accorded to other interests by the tariff and other elements in our complex protective system, or a full

¹ See above, pp. 63-66.

offset to the burdens laid upon farmers by that system. We simply have no basis for quantitative estimates of any such equivalents, and hence no guide to the fixing of debenture rates even if their effects on the farmers could be stated. Professor Black is less pessimistic and more venturesome on this matter. He argues that "a very rough approximation will serve better than nothing. A fairly safe measure of the amount of offset that the unprotected commodities as a whole should have is the amount which the prices of the protected commodities as a whole are raised."¹ We do not believe that this latter computation could be made accurate within wide limits. Even if this could be done, we do not believe it would afford any approximation to the additional costs that American farmers in general bear as a result of the protective tariff alone, to say nothing of this combined with other phases of our protective policy. Even if the extent of this burden were determinable, further difficult analysis would be necessary to determine what schedule of debenture rates, if any, would actually yield this amount of benefit to farmers. The suggested procedures fairly bristle with difficulties, and it is not rash to predict that results reached by different investigators would be far apart. The burden of proof that the problem is soluble lies with those who propose to solve it. Until it is solved we have here no guiding principle for the setting of debenture rates.

Much more definite in appearance is the principle that the tariff should be made effective on farm products, in the sense of raising prices to the full extent of tariff duties on the several farm products. This principle, logically applied, would seem to call for fixing debenture rates at the level of tariff duties. Such indeed was the policy embodied in the earliest debenture bills. One cannot,

¹ *Agricultural Reform*, p. 270.

however, accept without serious qualifications, if at all, the view that debenture rates equal to the tariff duty would raise prices by this amount, even apart from considerations discussed in subsequent chapters. In the case of wheat, for example, debenture rates equal to the tariff duty certainly would not raise domestic prices by 42 cents a bushel, for Canadian wheat would come in duty-paid before domestic prices rose by anything like the full extent of the tariff.¹ Something comparable would certainly occur with several other products, even if in other respects the debenture rates were as effective as the proponents evidently believe. To raise prices by the extent of existing tariff duties would necessitate, in certain cases, further increases in tariff duties as well as debenture rates equal to the present rates of duty.

Furthermore, it cannot be assumed that existing tariff rates on farm products constitute a proper measure of the extent to which, on any basis of calculation, farm prices should be raised. On this point we may quote Professor Black:²

. . . . As a matter of fact, the tariff duties do not furnish a good basis for debenture rates for the United States, for the reason that they were not made for that purpose. The real basis upon which most agricultural duties are being worked out in the United States is complete exclusion of all foreign products. It takes rather high duties to accomplish this for all types of the product and at all seasons of the year, and particularly at all points, in a country as large as the United States. At the same time, most of the United States is on an export basis for most farm products. Export bounties based on our tariff duties would, therefore, work as a strong stimulus to production and export in most of the United States even though at only one-half the tariff rates. . . . The rates set up in the Ketcham bill represent the following percentages of values of products of the year 1926: cotton, 11.9 per cent; wheat, 13.6 per cent; rice, 10.1 per cent; corn, 10.1 per cent; cattle,

¹ Cf. "The McNary-Haugen Plan as Applied to Wheat," *Wheat Studies of the Food Research Institute*, March 1927, III, 235-64.

² *Agricultural Reform*, pp. 263-64.

10.9 per cent; swine, 2 per cent; tobacco (unstemmed filler), 23.6 per cent.

The rates for the remaining agricultural commodities of which we have an excess of exports are to be made equal to the difference in cost of production between the United States and principal competing countries. This would be in theory the full amount of the tariff duty. The schedule of rates thus set up the different products would be very unequal and would provide greatly varying stimuli to the production of the various commodities. A distribution of production would tend to be set up based on this artificial schedule of debenture rates.

The advocates of the debenture plan have been careful not to commit themselves as to the appropriateness of the existing tariff rates on farm products. No sacredness attaches to the present level of duties on agricultural products. They can be altered by Congress, or by the President under the flexible tariff provisions. If the debenture plan should prove to work reasonably well on a low-rate basis, debenture rates might be raised, either directly, or indirectly by raising the tariff duties on debenturable products. In short, the present rates of duty afford no clear guide for the fixing of debenture rates; they have merely furnished a convenient point of departure.

Mention has also been made, particularly in the Ketcham and Jones bills, of the principle that differences in costs of production between this and competing exporting countries should furnish the basis for altering specified rates or establishing new ones. Congressman Ketcham,¹ indeed, once described the plan in the following concise terms:

It is a plan to provide for the payment upon exportable agricultural commodities, and the products of such commodities, export premiums, by means of export debentures, sufficient to equalize the difference between the cost of producing such commodities in the United States and the cost of producing such commodities in foreign countries.

¹ *Congressional Record*, April 27, 1928, p. 7361.

The fallacies in the theory of "differences in costs of production" as a basis for making tariff rates are not generally admitted, but the experience in attempting to apply the theory has certainly not justified the "principle." Professor Black's blunt remarks¹ are in point here:

It seems clear that setting up differences in cost of production as a method of determining the debenture rates would be a serious mistake. In the first place, we already have one agency trying to determine such differences in costs of production, and our experience with it demonstrates that one of them is enough. Secondly, the rates so determined would not be suited to the purpose.

Special difficulties in applying the principle to the setting of the debenture rates are easily set forth. Costs differ radically from producer to producer, in a given year, and from year to year. So far as cotton is concerned, our costs of production are characteristically lower, for most grades, than those of most other countries producing significant quantities. As to wheat, the situation is very different with different classes. Costs of producing durum and hard red winter are probably considerably less than costs of producing hard red spring bread wheats. Costs of producing Pacific white wheats are probably considerably less than costs of producing soft red winter wheat in the East and Middle West. The wheat tariff was raised to 42 cents on the basis of limited and by no means wholly defensible comparisons between costs in Canada and the hard spring-wheat belt. Had the comparison been made with Pacific wheats or hard red winter, a much lower differential would have been obtained. The result is that our present wheat tariff is virtually prohibitive, and yet that several groups of producers frequently produce for export at a profit.

Professor Black² has recently suggested still another

¹ *Agricultural Reform*, p. 264.

² *Ibid.*

basis for debenture rates as follows: "Probably the most workable plan would be to base them on their probable effect on volume of production in the principal exporting centers, as determined by analysis of effect of price on subsequent production as explained in chapter iv." We confess that the analysis contained in the chapter referred to seems to us suggestive but quite inconclusive, and in our opinion, necessarily so. Even if the calculation could be made definitive, it would be only a partial guide to the setting of debenture rates. It is further to be doubted whether debenture rates could be scientifically determined with any greater ease than tariff rates, and whether Congress could be prevailed upon to adopt the results of so-called scientific determinations in either case.

In fact, none of the principles mentioned affords a ready basis for determining debenture rates. In practice, as in the case of tariff duties, the rates actually established would be determined not on any principle but merely by a complex of conditions that can be crudely summarized in the word expediency. The Ketcham and Jones bills specified debenture rates at one-half the existing tariff rates, except for cotton, now on the free list, on which the rate was set at 2 cents a pound; and the same policy was embodied in the recent McNary bill. As Mr. L. J. Taber¹ said before the House Committee on February 8, 1928:

We do not want to start on theory; we want to start some place, and we start with 50 per cent of the tariff on certain designated commodities—we include all commodities upon which there is a tariff and one commodity upon which there ought to be a tariff.

The reduction from full-duty rates represents either a timid initiative or a concession to expediency, mainly in

¹ *Agricultural Relief (Export Debenture Plan) Hearings, Serial E, Part 5, p. 310.*

the sense of arousing less opposition to the passage of the measure. The lower rates would involve less drain on the Treasury, and presumably make the scheme less unpalatable to those who are prejudiced against bounties or subsidies. They would be defended on the grounds that half a loaf is better than no bread, and that the scheme can be initiated as well with lower rates as with higher ones. Senator Norris¹ frankly put it as follows:

If I were advocating the thing as an original proposition and the atmosphere were cleared of some of the objections and it were not a matter of policy of getting it into law, I would say, that the farmer ought to have, instead of the 21 cents on wheat, the full 42 cents which the law provides that he should have. . . . But the farmers who are behind the proposition realize fully the immense political and financial forces which are opposed to giving the farmer the benefit of a protective tariff. They themselves have said, "We will accept one-half of the tariff, and try it."

The proponents of the measure, while most eager for the adoption of the plan, are not committed to any particular set of rates. The Ketcham and Jones bills contained elaborate provisions for adjustment of rates by administrative action. The obvious hope of the supporters of the scheme is that, once it is established, the rates would be adjusted by Congress or executive agencies so as to permit it to yield the maximum benefit to the farmers. If the debenture scheme were engrafted upon the tariff system, proposals to raise the rates would be urged with great force. Certainly if the initial measure should succeed as its advocates anticipate, or if, on the contrary, it could be plausibly argued that higher rates would enhance its success, the movement to extend the system and to raise debenture rates would probably be irresistible. These facts, among others, render it impossible to estimate what the plan would actually cost over a period of years.

¹ *Congressional Record*, April 26, 1929, p. 588.

COST TO THE TREASURY

Most of the calculations of the cost to the Treasury have assumed such a list of debenturable commodities as was incorporated in the Ketcham bill, debenture rates of approximately half the existing tariff rates (as in that bill), and a volume of exports representing an average of recent years. Mr. Taber, on February 8, 1928, filed with the House Committee on Agriculture¹ the following schedule showing the "average amount over a 5-year period of debentures under the Ketcham bill," as computed from figures supplied by the Bureau of Agricultural Economics:

Wheat	\$29,431,248
Wheat flour	14,548,264
Corn	5,006,925
Rice (flour, meal, etc., included).....	1,875,185
Leaf tobacco	15,095,240
Cotton	69,042,000
Cattle	157,500
Fresh beef and veal.....	50,520
Swine	36,500
Fresh pork	121,699
Canned pork	35,570
Pickled pork	335,530
Bacon	3,209,650
Hams	2,969,410
Lard	4,268,100
	<hr/>
	\$146,183,341

The Department of Commerce,² in its recent memorandum to President Hoover, made a computation of the hypothetical cost by taking the average exports in the years 1925-27 of seven major products to which the scheme would presumably be applied, using the rates

¹ *Hearings, Serial E, Part 5, p. 314.*

² *Congressional Record, April 22, 1929, p. 287.*

in the Ketcham bill. The result is a total of \$148,860,625, distributed as follows:

Product	Average exports, 1925-27	Debenture rate (cents)	Value of debenture
Pork (1,000 pounds).....	1,100,000	3	\$ 4,070,000
Wheat (1,000 bushels).....	184,724	21	38,792,040
Corn (1,000 bushels).....	18,087	7½	1,356,525
Rice (1,000 pounds).....	164,730	1	1,647,300
Cotton (1,000 pounds).....	4,657,601	2	93,152,020
Tobacco (1,000 pounds).....	492,137	2	9,842,740
Cattle (negligible).....

The Secretary of Agriculture, by a similar calculation applied to the three fiscal years ending June 30, 1928, reached a figure of \$153,000,000, "or 26.2 per cent of the average of all customs receipts for these years."¹ These three calculations, based on similar assumptions, are quite concordant though necessarily different in component items.

It is, however, improper to assume that the volume of exports of these products would be in the future what it has been in the past, if only because there are trends in our exports of various products and considerable variations from year to year. Moreover, the direct effect of a virtual bounty on exports would be to stimulate exports of the debenturable products, even in the initial year, and subsequently if and as acreage and production responded to higher prices. Below this matter is considered more at length. Here it will suffice to say that the operation of the plan would cause exports to be materially increased beyond what they would otherwise be, and that costs to the Treasury would therefore exceed the figures shown by the foregoing calculations, even if debenture rates were maintained at half the existing tariff rates. We should expect these increases in cost to be

¹ *Congressional Record*, April 22, 1929, p. 286.

substantial, but one can only guess at their extent; and after the event it would be impossible to assign to the debenture plan its share in the responsibility for changes in exports. The addition of other articles to the list of debenturable products would also in some measure increase the cost to the Treasury. In view of these facts President Hoover was conservative in saying: "If the plan proposed be generally applied it would cost in excess of \$200,000,000 a year, as it would decrease the Treasury receipts by such an amount."¹ Obviously if the Federal Farm Board, in the exercise of its discretion, should apply the plan only to a few commodities, the cost to the Treasury might be kept within much narrower limits.

Secretary Mellon, in his letter of April 19, 1929, to Senator McNary, envisaged the possibility of much heavier direct cost to the Treasury. This is the implication of his statement that "If issued in large amounts, as they may well be, it is likely that the debentures will sell at a very considerable discount...." This would be possible on the assumption that the amount of debentures issued would approach the amount of customs revenues. So extreme an expansion seems a remote possibility on the basis of *the debenture rates thus far proposed*, even if one assumes the plan to be applied generally to farm products, without reduction of rates, and if one allows for the prospect that the plan would stimulate exports, and the contingency of some reduction in customs revenues through other means than the debenture plan. On the other hand, the contingency cannot be lightly dismissed in the light of our discussion of the "principles" related to the fixing of debenture rates, the policy of setting them low at the outset, and the reasonable prospects for higher debenture rates and further stimulus to exports of debenturable products. While we do not consider it probable,

¹ Letter of April 20, 1929, to Senator McNary, *Congressional Record*, April 22, 1929, p. 284.

it is by no means conjuring up a specter to reason that the cost to the Treasury might, within a few years, approach the amount of customs duties, and that increases in rates might eventually be checked by the tendency of the debentures to fall to substantial discounts in certain seasons or certain years.¹

It must be borne clearly in mind that such a plan is far easier to inaugurate than to abandon, for its abandonment would be vigorously opposed by many, including both farmers and merchants, who have not been outspoken advocates of its adoption. Though in a sense a major experiment, therefore, it is not an experiment in the sense that it can be tried and dropped at will. The results of a period of trial would probably be inconclusive, and an indefinite continuance could be expected unless adverse results of unmistakable proportions were clearly manifest.

In short, a direct cost to the Treasury of at least \$150,000,000 and probably exceeding \$200,000,000 a year should be expected from the general application of the plan, and under conditions easily possible a much higher figure might be reached. In addition, there would be some indirect cost to the Treasury, to an extent that is not readily calculable. As we have already seen, the advocates of the plan lay great stress on its administrative simplicity—and rightly so in contrast with the equalization fee and other plans.² Doubtless in practice, as Mr. Mellon held, the scheme would present more administrative complexities than appear on the surface; but it is to be doubted whether these problems would involve substantial additional expenses of administration.

COST TO THE PUBLIC

For obvious reasons, the proponents of the measure have laid no stress on the increased cost to the public

¹ See further below, pp. 121-25.

² See above, pp. 59-62.

that the plan would entail. On this point, the Department of Commerce memorandum may be quoted.¹

The following statistical analysis is a rough estimate of the increase to producers and cost to public, based on estimates by the United States Department of Agriculture, of the quantity sold of each commodity:

THEORETICAL INCREASED COST OF PRODUCTS TO PUBLIC OF SPECIFIED COMMODITIES

Item	Quantity sold*		Debenture rate (cents)	Increased value (Million dollars)
	Unit	Amount (Millions)		
Hogs	Pounds	12,500	¼	81
Cattle	Pounds	13,500	¾†	118
Corn	Bushels	500	7½	37
Wheat	Bushels	660	21	139
Rice	Pounds	1,109	1	11
Cotton	Pounds	7,800	2	156
Tobacco	Pounds	1,300	2	26
Total	518

* Average total quantity sold by farmers in the production years, 1925-26, 1926-27, 1927-28.

† Average of the rates for cattle weighing less than 1,050 pounds and cattle weighing 1,050 pounds or more.

If the above estimate on cost to the public were calculated on the total crop produced, instead of the portion going to market, the figures would be approximately 20 per cent higher, due mainly to the fact that only 15 per cent of the corn crop is marketed.

In making this calculation it is assumed that the export bonus would be fully effective in raising the price. The total cost to the public would be approximately \$518,000,000, of which \$369,000,000 would be increased cost [or burden] on domestic consumption and \$149,000,000 public revenues spent on paying bonus.

The above calculation, of course, is only an estimate and does not represent actually what would happen. If there was an increase in production, and assuming that all the increase would be put on the export market, it would no doubt result in some

¹ *Congressional Record*, April 22, 1929, pp. 286-87. Debenture rates as given in the Ketcham-Jones bills of April 11, 1928.

depression of world price levels, and the theoretical gain would not be realized by the producers, nor would the theoretical cost be the same to the consumers.

This last point, which we consider at more length below, deserves passing emphasis. The tendency of the plan to increase exports of debenturable products would make *pari passu* for heavier cost to the Treasury; but it would not correspondingly increase the burden upon the domestic public, by reason of the reflex influence of lower world prices as a consequence of increased exports. With cotton, wheat, and other products of which our exports constitute a considerable fraction of international trade, such reflex influence might be important; but with corn, rice, and cattle it would probably be slight.

There is small purpose in discussing the foregoing estimate in detail here, since much of it is indirectly covered in the subsequent chapters from the point of view of financial benefits to farmers. This is especially the case in view of the possibilities of extending the list of debenturable products and raising debenture rates. Suffice it to say that our reasoning leads to the conclusion that the benefit to the farmers and the cost to the public would prove, even at the outset, and still more as time passed, less than the figures given above, if the system were applied to the products named with debenture rates equal to half the tariff duties. But the cost might be much greater, at least for a time, if the list were larger and the rates substantially raised.

Parenthetically it should be remarked that the contemplated redistribution of the national income would be unequal regionally. Of the gains that were realized, the bulk would accrue to the states which produce the bulk of our export-surplus farm products. Of the burdens imposed, relatively heavier shares would be borne by other states. Such states as Oregon, Nebraska, Illinois, and Oklahoma might gain appreciably, at least for a

time. Such states as Massachusetts, Virginia, and California would stand to lose.

It is frequently argued by proponents of price-raising schemes, including the debenture plan, that prices to consumers would not need to rise by the full extent of the increased price to producers—that middlemen's margins would be reduced. To quote the Grange pamphlet:

Food costs need not be increased to any appreciable extent and in many instances not at all. The price paid by the consumer bears so little direct relation to the price received by the farmer that the increase in the wholesale price might be entirely offset by more efficient distribution. For instance, the wheat in the average 8.55 cent loaf of bread costs only 1.15 cents, according to a recent report of the Federal Trade Commission. Allowing the proposed 21 cent increase in the price of a bushel of wheat under the export debenture plan, this would amount to only about .15 part of a cent increase in the cost of the wheat required in the loaf of bread. Since the margin between the baker and the consumer is about 6.5 cents, this added small fraction of a cent in cost could readily be covered through better efficiency in distribution and cause no increase in the retail price of bread.

Such a view, however, represents not a reliable forecast but a hope, and rests upon all too slender a foundation. No prediction of the effects upon consumer's prices can be made with any approach to assurance. But certainly there is nothing in the plan itself to bring about any reduction in middlemen's margins. What Professor Black¹ has recently written of increases in consumers' prices in consequence of tariff duties is equally pertinent here:

The higher domestic prices for farm products resulting from effective tariffs are passed on to the consumers in higher retail prices. How much they raise retail prices is not known, but surely much more than the effective tariff duties amount to. The higher farm and wholesale prices mean higher interest charges on carrying the goods and higher middleman margins generally. Many of the margins or charges for marketing services are figured

¹ *Agricultural Reform*, pp. 195-96.

on a percentage basis, and are compounded and recomputed as the goods pass from one middleman to another. Profits are reckoned on a percentage basis also.

In short the inference must be that, in so far as distributive costs and charges vary directly with prices, the cost to the public would be raised by *more than* prices to producers of the supply domestically consumed. There is admittedly large scope for economies in distribution, but any improvements in practices which lead to such economies will presumably be made, not in consequence of the operation of the debenture system, but independent of it. There is no legitimate ground for expecting that the plan in operation would tend to bring about such economies.

BROAD JUSTIFICATION OF THESE COSTS

The size of the prospective cost to the Treasury, with its potentialities of increase, and the larger burden that the debenture plan in operation would presumably impose upon the consuming public, are by no means conclusive against the adoption of the plan, but they clearly require justification. Secretary Mellon himself said that the "sharp diminution in customs receipts accompanied by increased expenses of administration . . . in itself is by no means a serious objection if the plan could fairly be said to promise substantial benefit to American agricultural producers."¹ Mr. Hoover, in his speech accepting the Republican nomination for the presidency, said: "A nation which is spending ninety billions a year can well afford an expenditure of a few hundred millions for a workable program that will give to one-third of its population their fair share of the nation's prosperity."²

¹ Letter of April 19, 1929, to Senator McNary, *Congressional Record*, April 22, 1929, pp. 284-85.

² *The New Day* (Stanford University Press, 1928), p. 22.

Some economists, like Professor Black, hold the view that our national policies have operated to promote urbanization and industrialization and to depress agriculture, and that the true national interest lies rather in the opposite direction. After summarizing various pros and cons, Black¹ concludes:

There is enough validity to the foregoing arguments to make a nation want to keep itself predominantly rural if it can be accomplished without much sacrifice of the financial well-being of either city people or country people. We can go so far as to say that some measure of pecuniary advantage should be sacrificed in favor of keeping a country rural to a considerable degree. In other words, a nation can afford even to burden the city industries a little and subsidize rural life.

The divergence of opinion, between advocates and critics of the debenture plan, lies here: does the plan hold out reasonable promise of being a "workable program" for yielding "substantial benefit to American agricultural producers?" The full answer cannot be given until the workability of the plan has been examined in subsequent chapters, but a brief consideration of the justification for these costs is pertinent at this point.

Of the Treasury burden, President Hoover² said in his tenth point against the plan:

The plan would require a substantial increase in taxes as no such expenditure or depletion of revenues as this plan implies could be paid from marginal income of the government more particularly in view of the very large increased expenditures imposed by the naval program, flood control, and other branches of farm relief.

The most direct rejoinder to this criticism was thus

¹ *Agricultural Reform*, p. 58. Black puts this passage in italics, and the context shows that it is a mild expression of a view that he holds much more strongly.

² *Congressional Record*, April 22, 1929, p. 284. This point must be interpreted in the light of his conviction that the debenture plan does not offer a "workable program" for aid to agriculture.

expressed in the National Grange leaflet on *The Export Debenture Plan*:

... revenues from import duties would be reduced—just as they are reduced by the Cuban sugar tariff differential, drawback privileges and prohibitive tariffs—and this amount would have to be made up in other ways. Some of it could be secured through tariffs on other food products that compete with American agriculture—tropical fruits, for instance. If instead of reducing corporation taxes the present schedule of tax rates be retained for a time, the receipts would probably be ample to make up for any decline that might result in import revenues. Surely, industry and labor would profit from improved agricultural conditions far more than from the tax cut that is contemplated at the present time.

The advocates of the debenture plan, however, do not rest their case on such an argument. Like farmer spokesmen in general, they disclaim any desire to subsidize the farmer, or to obtain farm relief at the expense of other classes. They urge that their programs, in spite of more or less direct cost to the Treasury and the public, are really in the interest of the persisting prosperity of other groups. It is represented that these burdens will be fully justified by the relief afforded to agriculture, and that in turn all classes, and the Treasury as well, will benefit rather than suffer net loss; that farm prices and farmer incomes are unduly depressed, to the present advantage of urban classes, and that price raising is essential to correct an unjust disparity. It is held further that unless farm prices and farmer incomes are raised, the exodus from the farm will be so great that urban wage standards will be depressed. More broadly still, it is argued that unless farming is made decidedly more profitable, the restricted purchasing power of the farming class will react so seriously upon industrial production that our vaunted prosperity will fade into general depression. All of these views are expressed or implied in the benign

attitude of the American Federation of Labor, which was cited above (pp. 78-79).

The Grange put the matter affirmatively in its pamphlet:

The increased income which would come to farmers with the export debenture plan in operation would act as a stimulus to the various lines of commercial activity. The farmer must of necessity spend nearly all he makes and the manufacturer, distributor, and banker would each get their share of this increased business. But in the process new life would be put into agriculture and the farmer encouraged to go ahead with his program of self-help and improved efficiency in production and marketing. The economic structure would again be in more equitable relationship as between the various groups and all would have benefited through the readjustment.

Mr. Taber was even more specifically optimistic in an earlier statement before the House Committee:¹

Our theory is that it would not cost the Treasury a penny. The farmer has only one place he can spend his money, and this is in the cities and towns; and it would touch prosperity of all the people, improve finance business; and the farmers' improvement would be reflected back on all industry and increase income taxes and excise and would possibly cover the difficulty. So we have a program that would practically cost nothing and bring prosperity generally—I should not say it would cost nothing, but the final result would cost nothing.

COMMENTS ON THESE VIEWS

The issues here mentioned are too large to be given adequate consideration here. There is sufficient measure of truth in them to justify serious efforts to improve the position of farmers even at considerable direct cost. This principle is firmly imbedded in our national consciousness and has been expressed, however imperfectly, in our agricultural policy. It is broad enough to cover new and radical departures in that policy. But it points to no particular scheme with special favor, and the reasoning

¹ *Agricultural Relief Hearings*, January 10, 1927, Serial U, Part 4, p. 148.

rests heavily upon prediction of benefits from the debenture plan which, as subsequent discussion goes to show, must be greatly discounted.

The arguments above, however, cannot be accepted without grave reservations. We have no means of defining or measuring what constitutes economic justice between different classes of the population: neither principles, nor standards, nor measuring devices are available. Such a confession is humiliating, but true beyond question. Even our best statistical comparisons of farmer incomes and incomes of other classes are woefully deficient, and the ones most commonly presented are misleading to a substantial degree. The appealing slogans—"equality for agriculture," "square deal for the farmers," "a fair share in the national income"—suggest a definiteness of ideals which is quite lacking.

Again, most of the discussion of the proper balance between agriculture and industry, or the proportion of farmers to the total population which will best insure national well-being, rests upon the slenderest of foundations, much of it on mere sentiment. Some of the most backward nations today are predominantly rural, agricultural. The most progressive, at least in economic affairs, show a high and rising proportion of urban population. The quality of a people depends on a multitude of factors other than the proportion that lives close to the soil. The advent of the automobile and good roads, the development of the telephone, the radio, and transmission of electricity, and other recent and prospective developments, are tending to decrease the residential concentration of our population and to diminish the traditional disadvantages of both city and country life. We should be prepared to see, in the not distant future, radical changes for the better in our living conditions, with more rural contacts for the city workers and more urban contacts for the farmers, and even more mixture of urban

and rural occupations. Urban and rural conditions of living present different kinds of problems of physical and social well-being. We have slums in the country as well as in the city, as Black rightly remarks.¹ The numerous problems of the present day should be grappled with, as directly as possible, but they cannot be solved by measures designed to stem the tide from farm to city. Higher standards of living, accompanied by increased efficiency in farming, make for decreases, not increases, in the number of farmers needed.

Furthermore, it is pertinent to observe the complete failure to date of the dire predictions, so confidently made a few years since, that our industrial prosperity would shortly be shattered unless something radical was done on behalf of the farmers. One reason for this failure is found in the fact that the condition of farmers was less desperate in reality than it was represented to be. The recovery from the acute depression of 1920-23 was more substantial than has been usually admitted, and the financial status of the farm population since 1925 has been considerably above what it has been commonly pictured. Even a confirmed believer in the wisdom of price-raising measures, such as Professor Black, has concluded that the depression, as such, was largely ended in 1924; and that the real income of farmers, and their plane of living, is above rather than below what it was before the war.² If so, it is higher than ever before except in unhealthy boom periods such as 1918-19, or in occasional other years.³ This view, necessarily based on rather imperfect statistical analysis, is supported by numerous observations and also by the huge expansion in the business of

¹ *Agricultural Reform*, p. 60.

² *Ibid.*, pp. 11-12, 31, 36.

³ Dr. R. J. McFall has recently gone so far as to assert: "the purchasing power of the farmer's personal income is as good as in the post-war boom and materially better than in the best pre-war years." *The Annals*, March 1929, CXLII, 11.

mail-order houses and manufacturers of farm implements. No one familiar with the situation will maintain that the position is what it should be, or deny that there are real grounds for rural disaffection. Professor Black may be right in asserting that the "new level for agriculture . . . is farther below the level in urban industry than was the agricultural level of pre-war days . . . [and] is still conspicuously below the levels of 1918 to 1920 in everything except the scale of living; and the higher scale of living has been maintained in good part out of capital."¹ Granting freely that the purchasing power of the farmers might well be much larger than it is, the fact remains that this power has been large, not small. The widespread assertions that agriculture is prostrate or on the brink of catastrophe, and that American farmers are comparable to Polish immigrants or descending to the level of European peasantry, are grotesque perversions of the facts. The need of overcoming inertia in the face of important farm problems may make some exaggeration excusable; but we must beware of cherishing delusions.

Moreover, one must question the basic assumption that any increase in purchasing power of the farmers will increase to the same extent the purchasing power of the nation. This theory underlies much of the reasoning in support of all price-raising measures, including the debenture plan. It is by no means axiomatic, it is impossible to demonstrate its truth, and there are grounds for believing it erroneous. It is true that variations in farm income constitute important factors in the regional and national demand for particular classes of products; but they do not cause corresponding variations in the purchasing power of the nation as a whole. To a considerable extent they are offset by counter-variations in the purchasing power of other groups, so that the total pur-

¹ *Agricultural Reform*, p. 36.

chasing power varies much less. When we experience a favorable conjuncture of large crops and good export prices, the national income may be increased because farmers gain more than other classes lose. Conversely, when crops are moderate and export demand for farm products is weak, farmers may lose more by low prices than other classes gain, and the national income be adversely affected. If our crops are short and domestic prices of farm products are high, farm incomes may be increased by less than the expenditures of domestic consumers for farm products are increased, leaving a smaller national purchasing power for non-farm products. In brief, national purchasing power does not rise and fall with variations in the purchasing power of farmers, for some of the factors which raise and lower farmers' incomes tend in turn to lower and raise the income available to other classes for purchase of non-farm products. Changes in domestic prices of farm products lead to extensive shifts in purchasing power among regions, among classes of consumers, and among products; but they do not correspondingly alter the aggregate purchasing power of the nation.

The debenture plan, for example, contemplates increasing the incomes of farmers and the expenses of consumers, and reducing the Treasury net receipts; in other words a shift of purchasing power to farmers from consumers and taxpayers. Whatever the justification for such a transfer of income, it is not clear that it would cause any net addition to the national income. Without any such measure, some changes in relative purchasing power of regions, classes, and groups occur. In either case, the result is a shift in the demand for products, some gaining more or less, some losing more or less. The use of this purchasing power would be altered, because farmers would not employ it in the same channels as would the groups from which it was taken. Industries supplying

farm equipment would probably gain a good deal; industries and groups which supply consumer's goods and services to farmers would gain somewhat; lenders on farm mortgages would have more free funds to spend or reinvest. Other industries, supplying taxpayers, urban wage-earners, and other groups which lost thereby in purchasing power, would seem likely to suffer from reduced demand.

The whole question is complicated by the fact that the nation's purchasing power is by no means wholly employed for consumable goods. Part of it is invested, at home or abroad. Invested funds, most obviously in the case of domestic investments, constitute a demand for labor and materials used in the production of capital goods. A larger or smaller part of the nation's purchasing power is continuously employed in these directions. Not only changes in income, but also changes in the cost of consumers' goods, affect the volume of savings and thus the demand for labor and materials used in the making of capital. Increases in farm incomes, if obtained by price-raising measures at the expense of other groups, would presumably reduce the purchasing power available for investment uses.

The whole matter of the national purchasing power and its disposition is exceedingly complex. It is well-nigh impossible to reason confidently and convincingly about it. We can rarely trace back to the springs of prosperity, or allocate to particular causes their due weight in causing recognized events. We have not yet learned how to appraise after the event, or to forecast in advance, the consequences of particular actions. In default of demonstration, there is room for intelligent differences of opinion.

Nevertheless, such reasoning as has been presented leads to the view that the justification of a policy of raising farm prices by political measures, such as the debenture plan, is weaker than their advocates commonly

assert or assume. The view that improvement in the financial position of farmers, if brought about by price-raising measures, would in itself yield such additions to the nation's prosperity that the measures would be essentially burdenless, rests upon optimistic faith rather than upon effective reasoning. It may be granted that it is in the national interest to remove needless handicaps upon the prosperity and progress of the farmers, and to promote these ends even at some cost to the Treasury and to the public at large. Yet the crucial question remains, whether the debenture plan can wisely be employed for this purpose, and whether the gains will in fact justify the direct and indirect costs.

METHOD OF SUBSEQUENT ANALYSIS

The central theory of the debenture plan, as already pointed out, is that farm prices will be raised, and held up, to the extent of the debenture rates. Because of its fundamental importance this theory deserves much more extended consideration than any other part of the subject. It requires attention commodity by commodity, for each presents peculiarities and significant phases. In the chapters below, wheat is given the most space, partly because of its importance, partly because of its prominence in discussions of the plan; but other commodities proposed for the debenturable list must also be given some attention.

In analyzing the theory one must rely mainly upon reasoning in the light of available facts, rather than upon demonstration and proof. No one can predict with certainty and in detail how the plan would actually work. We are forced to consider reasonable probabilities. In so far as our conclusions or inferences differ from those of the supporters of the plan, they must be judged on the relative merits of the reasoning, and on the reliability, adequacy, and pertinence of the facts employed.

As a matter of fact, even if the plan were tried out and a retrospective examination of its working were made, the conclusions would have to rest in considerable measure on the same sort of reasoning process. Certain predictions would be confirmed or refuted by experience; but crucial questions as to price effects and others could not be definitively answered in full by statistical or non-statistical data. The actual movements of prices, of acreage, of production, here and abroad, could be set forth; but it would prove impossible to ascribe to the debenture plan the true extent of its influence among the many factors at work. This has been the experience in attempts at interpretation of the effects of protective tariffs. Throughout the eighteenth century, when England had in force a system of export bounties on grain, a controversy raged over the effects of this system on prices, production, and trade, on the landed interests and the consuming public. Economists and economic historians have not yet agreed in their interpretation on these points.¹ Whether or not the debenture plan is given a trial, it will never be possible to answer with assurance all the manifold questions regarding its actual working. In attempting, therefore, to foresee how it would work, we are at a less disadvantage than might appear at first sight as compared with analysts after the fact.

For convenience and clarity, the analysis is divided into five chapters. The first two deal primarily with the probable operation of the debenture plan if it were applied to wheat and flour. Chapter v considers the probable degree of reflection back to farm prices, on the assumption that production is not stimulated by the system, and that foreign countries maintain an indifferent or benevolent attitude. Chapter vi takes up the possibilities of stimulus to production, and its probable consequences,

¹ See below, pp. 211-14.

again assuming no resistance or retaliation abroad. Chapter vii deals more briefly with corresponding phases of the application of the scheme to other commodities proposed for the debenturable list. In chapter viii, foreign experience with somewhat similar devices is examined for its possible bearings upon the reasoning as to the probable effects of applying the debenture plan in the United States. Finally, in chapter ix, we consider the possible and probable reactions of foreign governments to the adoption of the debenture system here, and their significance for the success of the scheme.

CHAPTER V

REFLECTION BACK TO FARM PRICES: THE CASE OF WHEAT

At the outset, let us inquire how the plan can be expected to work if we ignore the possibilities of expanded production and reprisals abroad. How fully would the debenture rates be reflected back to farm prices? To what extent would farm prices of debenturable products, such as wheat, be raised, uniformly and generally, or on the average, above what they would have been in the absence of the plan? A number of points of varying significance call for examination in this connection, and a few of them can best be considered with reference to the whole group of debenturable products.

THE EXTENT OF THE DISCOUNT

An obvious but seemingly minor question concerns the extent of the discount on the debentures. To the amount of this discount at least, it is recognized that growers could not reap the full benefit of the debenture rate. They could hope at best to gain no more than the net advantage gained by exporters, and this advantage would be no greater than the cash value exporters obtained from the sale of the debentures.

In his letter of April 19, 1929, to Senator McNary, sent at the request of the President after the Senate Committee had solicited the President's opinion, Secretary Mellon¹ said on this point:

... The debentures must inevitably sell at a discount if for no other reason than that they involve a certain inconvenience and will entail a considerable cost in handling and marketing, and since they do not bear interest must inevitably be charged with the cost of carrying them until presentation at a customs house. Ultimately most of them will find their way to New York,

¹ *Congressional Record*, April 22, 1929, pp. 284-85.

where approximately half of our customs receipts are paid, and presumably they will be dealt in there at quotations which may vary widely depending on the amount of debentures issued and the demand therefor, seasonal and otherwise. Machinery will have to be set up for transferring debentures from Galveston, let us say, to New York and for their sale there, which will necessarily involve banking and brokerage charges.

The advocates of the plan readily admit this, and assume that the discount might run as high as 2 or 3 per cent.¹

Secretary Mellon, however, went on to say:

If issued in large amounts, as they may well be, it is likely that the debentures will sell at a very considerable discount, which would not only deprive the farmer of a portion of the benefit arising from the debenture rate but represent a bonus to importers and would seriously dislocate the tariff schedules fixed by the Congress. It is not apparent, even admitting the desirability of paying an export bounty, why machinery should be set up the effect of which might be to permit the importation of, let us say, butter from Denmark or wool from Australia at rates lower than those established by law. Such a method of reducing tariff rates would unquestionably injure some American farmers in order to benefit other farmers, . . .²

Clearly the discount might reach substantial proportions if the total issue of debentures should run above the customs receipts. Indeed, the discount might be much more than nominal if the issue ran above customs receipts only in particular months or seasons, or if it merely approached the volume of customs receipts. The authors of the debenture plan have recognized this danger and have been concerned to guard against the occurrence of this eventuality. It was one of the reasons for setting debenture rates initially at approximately half the tariff

¹ See C. L. Stewart's testimony, in Senate Committee on Agriculture and Forestry, *Agriculture Relief Hearings*, March 31, 1926, Part 1, p. 52.

² The rest of the sentence, which is not germane at this point, is as follows: "whereas if a cash bounty were paid the latter would get the full benefit and there would be no dislocation of tariff schedules such as might prove injurious to our present manufacturing prosperity, which is an important factor in supporting the farmers' domestic market."

rates instead of equal to the tariff rates. It was largely responsible for provisions inserted in the Ketcham bill of February 6, 1928, and in certain other debenture bills, whereby rates could be lowered if the total issue promised to exceed 50 per cent of customs receipts in a given year, instead of 100 per cent as in the McKinley-Adkins bills; and for the provision in the earlier Jones bills setting a maximum for debenture issues at 40 per cent of the customs receipts, and restricting the use of debentures tenderable on any one imported article to 40 per cent of the duty.¹ It has led to calculations of the volume of debentures that would be required, at the rates commonly mentioned, in comparison with customs receipts.²

If the plan were applied to only one, two, or a few commodities, at the rates indicated by the recent bills, there is no basis for a fear that the discount would be substantial. Even if the measure were applied, at one-half the tariff rates, as comprehensively as proposed in the bills of 1926 to 1928, the probability of overissue would be slight at least for some time. On the basis of actual exports of the debenturable products, over a three- or five-year period, it has been calculated (as shown above, pp. 102-03) that the face value of the debentures issued would average around \$150,000,000 a year, or well under 30 per cent of the average customs receipts. If it reached or somewhat exceeded an average figure of \$200,000,000 a year, as suggested by President Hoover, there would still be a wide margin even in years of large exports and low imports of dutiable goods, and probably in all seasons of the year.

¹ The latter provisions would increase the probability that discounts would frequently become more than nominal, and aggravate the danger of the emergence of large discounts; for discounts would increase when the current issue of debentures approached 40 per cent, instead of 100 per cent, of current receipts from customs duties.

² C. L. Stewart's testimony in House Committee on Agriculture, *Agricultural Relief (Export Debenture Plan) Hearings*, February 10, 1928, Serial E, Part 5, pp. 366-68.

Nevertheless, the possibility of considerable or heavy discounts would have to be reckoned with if the plan were generally applied. The number of debenturable products might be enlarged. Exports of these products would almost certainly be stimulated, and in individual years might reach very large aggregates. Debenture rates might well be raised above the levels initially provided for. It is quite probable that if rates were set equal to existing tariff rates, in the effort to make the tariff fully effective for farmers producing the whole group of debenturable products, the discount might come to be substantial. Revenues from import duties may conceivably decline, at least in certain years. Moreover, because seasonal variations in exports are not synchronized with seasonal variations in dutiable imports, seasonal discounts might arise, for example, in the summer and early autumn; but these would be of limited dimensions so long as average customs duties exceeded average debenture issues by a comfortable margin. All told, it requires no great stretch of imagination to envisage a season or a year in which, under such circumstances, debenture issues might be so large as to cause the debentures to fall to substantial discounts.

However, we question whether this difficulty would be experienced. The mere prospect of such a development would almost certainly lead to reductions in rates or to special appropriations in advance of its occurrence. So great a reduction in net customs receipts as it would imply would attract widespread comment and criticism. On the whole, we think it reasonable to anticipate that the plan would not be applied in such a way as to permit discounts on the debentures to become heavy, or even considerable. More probably, it would be applied so that exporters would realize in cash nearly the face value of the debentures. If so, Secretary Mellon's logical point about the bonus to importers, leading to an effective reduction in tariff rates, would have slight significance.

It should be emphasized, however, that to keep discounts within narrow limits (as well as to hold down the burden to the Treasury) implies restraints upon the extension of the debenture system, as to scope and rates. If exports should expand notably under the stimulus afforded by rates initially established, some contraction of the system might even be called for, in scope, rates, or both. Moreover, if reductions in rates were made in an effort to avert such contingency, these might come at a time when they would be serious for farmers and middlemen alike.

The Norris amendment to the current tariff bill met this issue squarely by instructing the Secretary of the Treasury to provide for redemption of debenture certificates in cash at not less than 98 per cent of their face value. Such a provision would automatically limit the discount on the debentures to about 2 per cent.

It is a much more complex matter to determine how fully the discounted value of the debenture would be reflected back to farmers, apart from the possibilities of stimulated production and foreign retaliation.

BONUS TO SPECULATORS AND OTHERS

Even assuming an immediate effect on terminal prices, to the full extent of the discounted debentures, the initial benefits of the price advance would accrue by no means wholly to the growers. President Hoover¹ said in his second point against the proposal:

The first result of the plan, if put into operation, would be a *gigantic gift from the government and the public to the dealers and manufacturers and speculators in these commodities.* For instance, in the principal export commodities the value of the present volume of stocks in possession of these trades would, if

¹ *Congressional Record*, April 22, 1929, p. 284. See below, p. 127, for the rest of the quotation.

the plan worked, rise by from \$200,000,000 to \$400,000,000, according to different calculations, without a cent return to the farmer or consumer. Every speculator for a rise in our public markets would receive enormous profits. . . .

This point had apparently been overlooked in earlier discussions of the plan. Its force is in no way diminished by the rejoinder that precisely the same thing happens when protective tariff duties are raised or imposed anew.

Considered with reference to wheat and flour, it is difficult to appraise accurately the amount of the "bonus" that would accrue to non-farmer interests. If prices of the various wheats were raised over night by the amount of the debenture rate, the gain to others than farmers would be, under the present proposal, 21 cents a bushel on all the wheat (grain or flour) in the country outside of farmers' hands. The total might lie anywhere between 16 and, say, 100 million dollars, depending on the volume of commercial stocks at the time. The calculation is complicated by the fact that prices would rise well in advance of the actual application of the debenture as the market anticipated and discounted the application. The advance would be spread irregularly over a period of several months. The gain to others than farmers would be based on average commercial stocks over a period; it would be greater than the minimum stated above and less than the maximum. If the debenture were subsequently reduced or abandoned, there would similarly be a loss to non-farmer interests.

It is important to observe that the gain by others than farmers on application or increase of a debenture rate, and the loss on reduction or abandonment, would not in practice comprehensively affect mills, elevators, and other handlers of cash wheat. In most regions these uniformly hedge their stocks of wheat (and advance sales of flour), and are little affected by such general wheat price changes. The gains and losses would accrue chiefly to

speculators in wheat futures. The net gain to speculators from the application of the debenture, which may be roughly estimated as likely to be in the neighborhood of 40 or 50 million dollars from a 21-cent rate, would be at the expense of the Treasury and consumers. Because it would be spread over a period, owing to the discounting of the expected price advance, not much could be done to control the amount by applying the debenture at a time when stocks were low. The net loss to speculators, when the debenture rate was lowered or removed, would be balanced by a gain on the part of farmers who had sold their wheat at higher prices than the event justified.

The incidence of such gains or losses by non-farmer interests would be different with different commodities. In this respect cotton would be most nearly similar to wheat; but even for cotton, hedging is less general and less effective than for wheat and flour, and exchange trading is not practiced with several commodities to which the scheme might be applied. At best, farmers could not get the full benefit of the burdens imposed upon the Treasury and the public, at the outset and in case of increases in rates, by reason of deflection of the gain to non-farmers who, actually or in effect, held existing commercial stocks of debenturable products; but this would be only a passing phase.

INCREASED RISKS

As part of his sixth point against the debenture plan, President Hoover averred that "increased risks would absorb a considerable part of its effect. . . ." ¹ In completing his second point he said:

. . . . Conversely, if, after this elevation of prices, the plan were at any time for any reason withdrawn the trades would suffer a like loss and a long line of bankruptcies must ensue. But in

¹ More fully quoted below, p. 131.

the meantime the trades, out of fear of withdrawal or of reduction in the subsidy, would not engage in normal purchase and distribution. Either exorbitant margins would be required or alternatively the farmer would be compelled to himself hold the Nation's stocks until there was a demand for actual consumption.

Obviously if the debenture system were certain to remain unchanged for a period of years, this objection would not hold. But no one could be sure of this. In the light of our subsequent analysis of probable benefits to the grower, the probabilities of expanded production, the possibilities of increased cost to the Treasury, and the risks of retaliation abroad, there would be considerable foundation for apprehensions as to discontinuance of the system, if not from the outset at least within two or three years. The possibility of changes in rates, under a system of flexible rates or otherwise, would increase trading risks, and so require a sort of insurance premium charged by holders of commercial stocks.

This argument is most clearly valid for commodities in which hedging is not generally practiced, though we believe that President Hoover viewed with undue apprehension the consequences of such uncertainties as would exist. It is less clearly valid, however, in the case of wheat. Here, as indicated above, the net loss from abolition of the scheme would fall on speculators, and would not be large in relation to the losses commonly taken in the ordinary course of price fluctuations. The added risk from uncertainty as to the continuance of the debenture would be not unlike many risks upon which grain speculation thrives. It should not be expected to affect margins of dealers in wheat, and would probably not lead to any significant alteration in current practices as to holding or hedging stocks, on the part of farmers, grain dealers, or millers. We therefore question whether the wheat grower's benefit from the debenture system would be appreciably reduced in consequence of this risk factor.

INCREASE OF EXPORTS

Increased exports, even apart from expansion in production, would constitute a minor factor tending to reduce the net gain by farmers to less than the full extent of the debenture rate. The offer of the export bounty, and the raising of domestic prices, would tend to bring about some reduction in domestic consumption and some increase in exports. The increase in exports, indeed, might easily be larger, in the initial year, than the reduction in consumption, for stocks could usually be drawn down. The addition to exports would exert some downward influence on international wheat prices. Hence even if the system maintained a differential, almost equal to the debenture rate, between domestic and export prices, the level of export prices would be somewhat lowered, and the net advance in farm prices would be correspondingly reduced to a slight extent.

As Secretary Hyde said in his letter of April 20 to Senator McNary:¹ "In order to dispose of the surplus the exporter would have to make some price concessions to meet the competition from other countries and this would tend to depress world prices." Wheat exporters are concerned not merely with their margin of profit in particular transactions, but also with their volume of business; and they seek to secure the maximum net profit on their operations in the aggregate. If a premium were offered them to export American wheat, they would naturally seek to retain as much of this premium as possible and to handle a larger volume of this wheat; and they would probably be stimulated to seek out foreign markets for American wheat, particularly of types and grades that are cheapest here. In so far as they were able to increase their volume of export by offering the wheat cheaper than under present conditions, they would certainly tend to do

¹ *Congressional Record*, April 22, 1929, p. 286.

so. The reasonable prospect is that they would succeed in enlarging their volume of exports only by so doing. Competing for additional wheat for export, they would doubtless tend to force up farm prices; but under such conditions, they could not afford to bid up the domestic price by the full extent of the debenture rate. They would be naturally indifferent, in a business sense, to the ulterior consequences of their operations on the farmer, and would make little or no attempt to gauge them.

The initial importance of this factor might be insignificant, but it would assume greater importance if and as production and exports should increase under the stimulus of higher prices. The increased volume of inferior wheats available for export would tend to lower their position in the range of wheat prices in foreign markets. How far this difficulty might be overcome by improved merchandising efforts, such as the Canadian wheat pool has made and as an export corporation would doubtless make, it is impossible to estimate.

IMPERFECT COMPETITION

In the next place, it is rash to assume such perfect competition among exporters, and especially in earlier stages of the merchandising process, that the full amount of the sale value of debentures would be reflected back to farmers, even if there were no complications as to type, grade, quality, and location. Secretary Hyde said in his letter of April 20 to Senator McNary:

....Furthermore, it is possible that exporters may not bid prices up to the full extent of the debenture less the normal exchange discount on the certificate. It is therefore possible that exporters might be in a position to derive an extra profit by not reflecting in prices paid to farmers the real value of the debenture.

In his sixth point against the plan President Hoover said in part:

. . . . it seems certain that a large part of it would not be reflected back to the farmer. It offers opportunity for manipulation in the export market none of which would be of advantage to the farmer. The conditions of competitive marketing at home and abroad and the increased risks would absorb a considerable part of its effect into the distribution and manufacturing trades.

Questions on this point have caused the authors of the plan some concern. In general they have answered that the Federal Trade Commission could be counted upon to help in correcting abuses of this sort that might arise; that co-operatives would develop their export business and help make competition effective; and that if need be export corporations might be set up in the farmers' interest to insure the full and fair operation of the reflection process.¹ Under the Ketcham and Jones bills of April 11, 1928, export corporations were provided for. The co-operatives and stabilization corporations provided for by the recent Agricultural Marketing Act might be regarded as affording equivalent or better machinery. Action by such agencies might be called for, on this ground as well as on others (see below, p. 134).

No one can really appraise the possible extent to which, if at all, collusion or combination among exporters, or manipulation of domestic or export markets, or like efforts would limit the farmer's gains from the debenture system. In view of the growing tendency toward combination and the fact that most of our grain exports are now handled by only a few concerns, conditions would presumably not be unfavorable. Moreover, it would be difficult to detect many types of such practices, or to fix any "guilt" upon parties responsible for impeding or limiting the reflection of the debenture rate back to the grower. There are, under present marketing conditions, numerous complaints that wheat growers fail to get the full value

¹ Cf. House Committee on Agriculture, *Agricultural Relief Hearings*, February 8, 1928, Serial E, Part 5, pp. 311-12 (Taber), 325 (Connally).

of their product. That this is true in individual instances is not open to doubt, but that it is true on the average is difficult to say.

On the whole, we are disposed to regard this sort of possibility, like those mentioned above, as of minor importance, particularly as compared with possibilities lying within the limits of competitive operations. To discuss these requires some reference to current trade conditions.

PERTINENT PHASES OF THE COMPETITIVE SITUATION

Many proponents of the export debenture seem to picture wheat exporters as a considerable group of merchants carrying large stocks in trade, namely, export wheat, with a simple and direct relationship between the buying and the selling prices into which the figure for the export debenture may be inserted after a fashion quite as simple as a bookkeeping entry. The true picture of the circumstances involved in the export of wheat is quite different.¹ Wheat exporters in the United States do not constitute a large group of independent American merchants whose business is confined to the export of United States grain. The great bulk of the business is handled by a few concerns. Some are American concerns with foreign connections; others are American agents of European concerns. Very little export business is now handled by co-operatives, though under the new legislation the export volume handled by wheat co-operatives or their national marketing corporation will presumably grow. Most of the exporters handle Canadian wheat as well as American, and indeed usually find Canadian wheat representing the larger part of their volume. The business of exporting wheat involves intricate transactions of infinite

¹ Cf. T. D. Hammatt, *Methods of Merchandising American Wheat in the Export Trade* (U.S. Bureau of Foreign and Domestic Commerce, Trade Information Bulletins 183 and 185), February 1924.

detail. Wheat price relationships are never simple and persistent, and it is difficult to say when they are most complex—in a year of short world crop with rising prices, or in an ordinary year of relatively easy adjustment, or in a year of plenty when wheat-importing countries can pick and choose with great freedom.

The American wheat exporter is really a middleman, working on a self-set margin, with occasional reward for unusual shrewdness. To some extent, exporters carry stocks of wheat in readiness for export business, at least in certain advantageous positions. But for the most part, they purchase the wheat necessary to fill an export order subsequent to having accepted an offer from some foreign country. Since most export wheat is sold c.i.f. port of destination, when the American exporter accepts an offer he must know in what positions wheat is lying, for what the export grades may be purchased, and the momentary situation in ship space. In the customary transaction, the exporter engages his ship space and then purchases his wheat from local intermediaries, commonly termed "fobbers," who expedite the wheat to the port of embarkation. The transactions down the line are protected by hedging. Probably there is more judgment displayed by the exporter in contracting for ship space than there is in contracting for wheat from fobbers; certainly, the handling of the shipping end is quite as important as the dealings in the buying end.

It is incorrect, moreover, to assume that there is a continuous and even merchandising of wheat, and a continuous and even absorption of wheat by mills upon which a continuous and even absorption of wheat by exporters would exert a continuous and even effect on price, approximating the figure of the debenture. The commercial movement of wheat is more or less seasonal and is, in addition, subject to irregular and wide fluctuations. There are times when the mills are buying wheat heavily,

while at other times they are scarcely in the market. The period of heavy seasonal mill buying may coincide with heavy seasonal export buying, but need not. Only where the circumstances justify the use of the trade term "seller's market" does anything exist corresponding with continuous competition between mills and exporters. This is all the more true because, for the most part, the mills and the exporters are bidding on different grades of wheat, since in most years those wheats that pass into export are the culls of the crop. As a specific illustration, witness Duluth. From Duluth are exported the substandard spring wheats which have filtered, so to speak, through Minneapolis. One cannot picture the bidding of exporters for the wheat passing out of the Duluth gateway influencing in a consistent and even manner the purchasers in Minneapolis of the milling wheats from which the wheats available in Duluth have been rejected.

Under the circumstances, a central export agency would probably be necessary to ensure the maximum possible reflection of the debenture rate back to the farmer. Competitive bidding of exporters would not be enough, except in years of world shortage, to drive up terminal prices by anything like the figure of the debenture rate. It would probably be necessary to have an agency with a revolving fund, able at any time to enter the market for the furtherance of the export movement. In the experiences of the United States Grain Corporation, it was necessary for the corporation to buy wheat, at times heavily, in order to maintain the guaranteed price. No action might be necessary in a particular year in respect to certain wheats; but in each year it would probably be necessary in respect to certain wheats, and in some years in respect to all wheats.

If export activities by a central agency were undertaken to promote the success of the system, the operation would presumably be attended by export losses on the

part of such agency. There is, however, no provision in the export debenture plan for the disposition of such export losses. Thus, to make the plan effective, a procedure would be necessary which would occasion the emergence of a subsequent dilemma, for the solution of which the plan was not designed and makes no provision. Such difficulties would not necessarily be insuperable, and the machinery now in process of development under the Agricultural Marketing Act might be utilized in dealing with these problems. But such considerations throw grave doubts upon the reputed simplicity of the operation of the debenture plan.

EFFECTS OF DIVERSITY IN WHEATS

Thus far we have proceeded on the common assumption that wheat is wheat, and flour flour, without distinction of type, grade, quality, and source of production. But in fact our wheats are multifarious, of several types, many varieties, and numerous grades, produced in widespread agricultural regions, and commanding widely divergent prices at any given time. Flours too are of many types, classes, and grades. Not all debenturable commodities are correspondingly heterogeneous, but none is truly homogeneous. While this fact has not been altogether overlooked by spokesmen for the debenture plan,¹ its significance for the central theory has not been generally realized in connection with the plan.

In the case of wheat, for example, the United States produces several distinct types adapted to different phases. The chief types are hard red spring, durum, hard red winter, soft red winter, and (soft) Pacific white. Hard red spring and hard red winter are both primarily bread wheats, and are broadly competitive, although geographical factors limit the effectiveness of this competition.

¹ Cf. C. L. Stewart's testimony before the Senate Committee on Agriculture, March 31, April 1, 1926, pp. 53-54, 59-60, 76.

Durum is used chiefly for making alimentary pastes, and soft red winter largely for pastry and biscuit flour; neither competes with the other or strongly with the bread wheats. Pacific wheats are used for bread or pastry flour, and would compete more extensively in domestic markets with soft and hard red winter (principally soft) if it were not for heavy costs of shipment eastward; as it is, little of this wheat goes east of the Rockies even when, as in 1925-26, 1927-28, and part of 1928-29, soft red winter commands high premiums, though flour made of Pacific wheat competes to some extent on the Atlantic seaboard. There is limited possibility of substitution between durum and hard bread wheats, or between hard wheats and soft wheats, although when large price differences among the groups occur, further adaptations either in manufacture of flour or uses of flour are made. The relation of crops to domestic requirements for these various types is such that the United States is nearly always on an export basis for durum and Pacific wheats, rarely so for hard red spring wheats, and more commonly for hard winter than for soft winter wheat.

Not only does our wheat crop comprise several different types that are (except for hard spring and hard winter) sufficiently distinct in uses of areas of production as to be either almost non-competing or competitive only under considerable disparity of prices; wheats of a single type grown in the same region vary in grade and quality so greatly that different lots command very different prices. Also, different varieties within the same type differ considerably. Within a single grade, on the same day, in a single market, the prices actually paid for different lots frequently vary over a surprisingly wide range.¹ Thus on October 3, 1928, when 624 carloads of hard spring wheat were sold on the Minneapolis market, carlot prices

¹ Cf. "Variations in Wheat Prices," *Wheat Studies of the Food Research Institute*, June 1929, V, 246-52.

ranged from \$0.95 a bushel, for a car of Northern Spring sold on sample, to \$1.39 for one car of Hard Spring and one of No. 1 Dark Northern. Prices of different carloads of No. 1 Northern Spring, the commonest and the standard contract grade, ranged from \$1.09 to \$1.33, whereas the December future varied only between \$1.131 and \$1.142. Differences in protein content are the principal factor responsible for such variations, but there are many other factors. The relations between prices of different wheats within the wheat price range tend not only to vary from year to year with unchanged price level, but also to be different at different levels of wheat prices.

In practice, as a result of such conditions, our exports of wheat grain consist largely of durum and Pacific wheats, moderately low grades and qualities of hard red winter, and in certain years corresponding grades and qualities of soft red winter.¹ Nearly all of the hard red spring and practically all of the better grades and qualities of hard and soft red winter are retained for domestic milling, except in occasional years when crops are so large and good that domestic requirements for these types and qualities are easily satisfied and a surplus remains. Except in the case of durum and soft Pacific wheats, and not always for these, our exports of wheat grain are seldom if ever representative of the crop; they are characteristically much below the average of the crop, and still further below the fairly rigid standard for domestic consumption.

Our exports of flour ground from domestic wheats comprise three fairly distinct groups: limited amounts of high-grade flours ("patents"), from soft or from hard wheat, which go to foreign markets demanding a high

¹ The official statistics of wheat exports by classes and grades are not very satisfactory. See, however, *Wheat Studies*, December 1928, V, 105, Table XXI; or *Yearbook of Agriculture*, 1928, p. 684, Table 18. Statistics of exports by customs districts yield useful supplementary information.

quality product; medium-grade and common flours ("straights"), which result chiefly from the desire of domestic mills to keep costs down by high-capacity operations; and low-grade flours ("clears"), which are essentially a by-product in the production of patent flours, and for which there is little domestic demand in relation to the supply.¹

Our exportable surplus of wheat, then, is not a simple fraction of a homogeneous commodity that is produced in excess of domestic needs. It is much less nearly so than was the case before the war. Primarily for this reason, the opinion of Mr. George F. Stone (quoted above, p. 69), which may have been correct for conditions of the period when he spoke, would not hold good today. The export surplus consists in large measure, though by no means wholly, of particular types, grades, and qualities of wheat and flour that are not readily marketed here, and indeed often abroad, except at substantial discounts. To a considerable extent the surplus is qualitative as well as quantitative. Standards and practices vary so much that certain classes of wheat and flour are esteemed more highly here than in foreign markets, while others find a better market abroad than at home.

All this is familiar to millers, grain and flour merchants, many farmers, and all close students of the wheat situation; but it is largely unappreciated by many of those who have discussed the reform of our agricultural policy. The extent to which wheat is not simply wheat, not a single homogeneous commodity but a group of commodities, constitutes a fact of major importance in any discussion of the position of wheat growers and what can be done to improve their position. Something comparable is true of tobacco, corn, and other commodities to which it is proposed to apply the debenture plan. In the case of

¹ On this paragraph see especially *Wheat Studies*, March 1925, I, 126-31; and further below, pp. 145-50.

corn, as we shall see, the problem is especially complicated by the fact that corn is predominantly a feed crop, and that the largest single fraction of the crop is used to feed hogs, from which a great variety of joint products are obtained.

The bearing of this can perhaps be made clear with reference to wheat as a debenturable commodity. The bills thus far presented prescribe a debenture rate for wheat, without distinction as to type, grade, or quality, just as the tariff rate is 42 cents a bushel on *wheat* of any kind.¹ If, now, a virtual bounty is offered to exporters of our wheat and flour, it will clearly stimulate them to bid higher for these commodities; but it does not follow that the bidding would be equally effective on prices of the various wheats. In the cases of durum and Pacific wheats, lower grades of hard bread wheats, and sometimes of lower grades of soft red winter—wheats that in any case would be moving into export—there is substantial reason to expect the higher prices to be largely reflected back to growers, subject to qualifications elsewhere mentioned. In years of a large crop of hard red winter, of good quality, the price-lifting influence would probably be most general and most pronounced, though premiums would probably then be low.

But in most years, as a result of conditions outlined above, some wheats command substantially higher prices for domestic use than for export. Even with the addition of a full 21 cents to the normal export bidding price, a large volume of these would in ordinary years be beyond the reach of exporters, so great is the premium offered for them in the domestic markets. Another part would

¹ Professor Stewart recognizes the logic of establishing a series of different tariff and debenture rates for different types of wheat. See his testimony before the Senate Committee on Agriculture, March 31, April 1, 1926, pp. 53-54, 59-60, 76. No bill has attempted such a differentiation, and since the relationships among types, grades, and qualities vary considerably from year to year, it may be questioned whether such differentiation could be made flexible enough to serve the purpose. As to flour, see below, pp. 147-50.

be brought within the range of export possibility, as a result of the export bounty. The prices of high-premium wheats might conceivably be unaffected by the operation of the debenture plan. It is by no means certain that millers who buy high-grade wheats at premium prices would be forced to bid 21 cents more for these wheats simply because exporters were bidding 21 cents more for low-grade wheats. They might need to bid only a few cents more. Probably the prices of most contract and premium wheats would be raised to a certain degree, varying with the type, grade, and quality, in any one of several ways: for example, by direct bids which necessitated such increase in premiums as to keep them here; indirectly through raising the price and thus decreasing the economic substitutability of other types, grades, and qualities; or still more indirectly by causing contraction in the acreage and crops of such wheats in consequence of expansion of other types, as in the case of durum in the northwest. If expansion of production should take the course we anticipate, and the production of high-quality hard winter wheat be especially stimulated, premiums on hard red winter and hard red spring wheat might be materially reduced in consequence.

Reasoning on the facts thus described and in the light of trade experience, we can see no adequate justification for accepting the theory of uniform reflection of the debenture rate in farm prices, on these grounds alone. If the exportable surplus could be removed in a block, in the beginning of the season, this would stimulate competition between mills. But the exportable surplus does not appear in the beginning of the crop year; it is filtered out during the course of the crop year. If the assurance of receiving export debentures enabled American exporters to bid up the price of contract-grade wheat 21 cents a bushel, at such times as foreigners found it worth their while to purchase wheat in this country, we see no reason

to believe that domestic mills, selecting their stocks of wheat as the harvesting progresses, would pay 21 cents more for the several premium wheats than would otherwise be the case. The wheats are not all placed on sale at once and the domestic and foreign buyers are not all there to take all the crop at once. The merchandising of a wheat crop is a highly selective process, and we cannot believe that any artificial device for changing the selling price of a subsidiary fraction of the crop will correspondingly affect the price of the entire crop.

A specific reservation deserves emphasis in respect of hard spring wheat. In years of usual crop characteristics, No. 3 Manitoba Northern has the same milling value in the United States as No. 1 Dark Northern. Often the c.i.f. price of duty-paid No. 3 Manitoba Northern wheat, at milling points such as Buffalo on the Great Lakes, is within 10 cents of the c.i.f. price of No. 1 Dark Northern. The advance in price of domestic hard spring wheat under the debenture system would be checked at the point of price parity, in milling values, of duty-paid Canadian wheat. To get from an export debenture any considerable increase in the price of domestic hard spring wheat would necessitate raising the tariff above 42 cents.

The distribution of the advantages yielded by the system, and their secondary effects, also deserve attention. Clearly the wheat growers in the Pacific Northwest would tend to profit. The growers of durum in the interior Northwest would also tend to benefit materially, while their neighbors growing hard red spring would presumably gain less; hence farmers in that region would tend to increase their durum acreage, to some extent shifting from hard red spring wheats to durum, thus tending to increase our already large exportable surplus of durum and our deficiency of high-grade bread wheats. Some such shifting has already been in evidence, in spite of the fact that in most recent years durum wheat has sold at

prices considerably or heavily below those of bread wheats. Growers of soft wheat in the central west, where wheat farmers have apparently suffered much, would probably gain much less in many if not most years. Wheat growers in eastern deficiency regions, for various reasons, would probably be affected but moderately. Growers in the hard red winter-wheat belt would stand to gain relatively more in most years; since it is in this southwestern region that, for several reasons, acreage has tended most to expand rather than contract even in the face of prices generally regarded as unremunerative, further expansion in this area would tend to be stimulated. The geographical distribution of the gains, therefore, would be far from uniform.

Apart from geographical considerations, the producers of less desirable wheats (as domestically appraised) would gain most, while the producers of premium wheats would gain least. Producers of export types would stand to gain most, and producers of deficiency types least—a result tending to increase the size of the export surplus, in both quantitative and qualitative senses. Such results can hardly be regarded as in the interests of agriculture or the national economy.

THE MATTER OF EXPORT PARITY

It is commonly implied, in discussion of the problem of exportable surpluses, that we export routinely and that current prices in this country are continuously determined by or linked with prices in outstanding foreign markets. By export parity we mean a condition, actual or hypothetical, in which prices of wheat in Chicago and other markets, as of grade and quality, are equivalent to prices of wheat in Liverpool and other import markets when proper current allowance is made for transportation charges and other costs of movement. If the exportable wheats of Canada, the United States, Argentina, and

Australia all stood at export parity, this would mean that wheat prices in the exporting and importing countries were so adjusted that a foreign buyer could purchase wheat in any one of the four countries at identical c.i.f. prices, quality considered. Such a condition of universal export parity never obtains, though it often obtains for certain wheats that the four countries have available for export. Wheats cannot be exported routinely from any country if their prices in that country are above export parity, i.e., out of line with the world market.

Now, despite the fact that we have been active exporters of wheat, it is surprising to note how frequently since the war, and how much of the time in the several different years, the *contract prices* of wheat in Minneapolis, Duluth, Chicago, St. Louis, and Kansas City have stood above export parity, as calculated on any reasonable basis. Indeed, on several occasions the prices of wheat futures in Chicago have stood but little below those in Liverpool. Influences have been at work in this country tending to hold wheat futures high relative to other countries; this naturally has favored exports from other countries and not from the United States. The more effective our wheat tariff, high domestic standards for flour, and speculation in American markets are in elevating domestic prices of wheat, the more difficult it becomes to export such surplus as we possess.

One may further adjudge the times when our prices have been at or above export parity by reference to monthly statistics of wheat exports by customs districts. These data suggest, though they do not prove, that hard and soft red winter wheats have been definitively upon an export basis throughout the whole crop year only in four of the past eight years. They were not on an export basis throughout most months of 1923-24, 1925-26, 1927-28, and 1928-29; at least, in the last two-thirds of each of these years, the wheat exports of all varieties of wheat

except Pacific white and durum constituted a mere trickle, even though there seems to have been plenty available for export in each of these years except 1925-26. Even without precise comparisons of price spreads between American and foreign markets, one is probably justified in assuming that United States prices of representative wheats were out of line with, let us say, Liverpool prices in most periods when exports were nil or negligible.

All this has an important bearing on the probable working of the debenture plan. The usual theory of the full reflection of the debenture rate in farm prices assumes that we are regularly on an export parity, for any and all wheats; and that the effect of the plan would be to raise domestic prices by establishing a new export parity approximately 21 cents higher. This assumption, as we have seen, is contrary to the facts. In some years of relative domestic shortage of certain wheats, the domestic price may be above export parity through most of the crop year. But even in some years of relatively free export, domestic prices of certain wheats will be above export parity. The effect of the debenture plan would be to establish a new export parity, 21 cents higher than the previous export parity. But in so far as our prices were, for other reasons, above the old export parity, these prices could not be raised by the full amount of the debenture rate; they could be raised only up to the altered export parity. For illustration, let us assume that it costs 20 cents to move wheat from Chicago to Liverpool; if the Liverpool price is \$1.50, then export parity price in Chicago must be \$1.30. If, instead, Liverpool is \$1.50 and Chicago \$1.40, and an export debenture rate of 21 cents is established, the Chicago price could not be raised above \$1.51, the new export parity; and the advantage from applying the debenture plan, so far as wheat of contract grade is concerned, would be only 11 cents, even neglecting any tendency of increased exports to depress Liverpool prices.

Without wholly endorsing this calculation or the assumptions underlying it, we feel assured that the quantitative reflection of the export debenture back to producer would be different, if the domestic price were at or below export parity, than if it were materially above it, and would tend to be smaller whenever domestic prices would otherwise be out of line with prices in world import markets. In a year of extremely short domestic supplies, such as 1925-26, with practically no representative wheat available for export, domestic prices would stand, through most of the year, above an export basis, with or without the debenture. It cannot be assumed, however, that in such a year, with the debenture in effect, prices would be as far above the new export parity as they would have been, in the absence of the system, above the old export parity. The debenture could not be expected to enhance domestic prices, in such a year, by anything like the same amount as in a year of active exporting. In such a year the tariff on wheat and flour would have its maximum effect in keeping up domestic prices; and even the proponents of the debenture plan do not expect its full influence to be superadded to such influence as the tariff already has.

What is true of such exceptional years as 1925-26 would be true of portions of other years, and indeed almost continuously with one or another type or grade of wheat. For these reasons alone, a varying but more or less substantial part of the promised advance in prices, as a result of applying the debenture scheme, would fail to eventuate.

THE CASE OF FLOUR

The possibilities for imperfect reflection of price advantages back to the grower, under the debenture system, would seem to be larger in the case of joint products. Flour is a serviceable example. Its importance is sug-

gested by the facts that the great bulk of our marketed wheat crop is milled in the United States, and that well over a third of our wheat exported in the past few years has gone abroad in the form of flour. The reflex action upon farm prices of wheat will necessarily depend heavily upon the bidding of millers, and this will be affected by the application of the system to flour exports. Despite their importance, there is no evidence that either proponents or critics of the debenture plan have given particular attention to flour or other joint products such as lard. We do not claim to have thought the matter through; but even cursory consideration reveals a complexity that is inconsistent with the reputed simplicity of the debenture plan, and suggests considerable possibilities for alterations in trade and failure of the anticipated uniform reflection of price increases back to the farmer.

The miller has a raw material cost, somewhat modified by the outcome of his hedging account. He has expenses of manufacture, of management, and of selling. Broadly speaking, if he is making straight flour, he has one principal product, and one class of by-products collectively known as millfeed. As the miller views it, the millfeed is sold for what it will fetch, and the flour must be sold for enough to balance the account and leave a net profit. When the mill makes patent flour, an additional by-product appears, namely, clear flour. Clear flour—like millfeed—must be sold for what it will fetch; or, if the mill chooses to regard clear flour as a principal product, separate expenses and a joint expense must be set up for patent flour and clear flour. The actual situation is much more complicated than this, for there are many more than three homogeneous classes of flour and one of millfeed. A large part of the miller's problem consists in so buying his wheats, and so milling the wheats that he buys, as to yield—in the light of the cost of the wheats, his manufacturing and selling costs, and the price obtainable for

his various products—the most profitable combination of flours and millfeeds.

This problem millers would face under the debenture system; but there would be modifications in the problems with respect to the domestic prices of American wheats, the relative costs of Canadian wheats for grinding in bond duty-free or for domestic flour use duty-paid, and the altered domestic prices of the various flours and millfeeds. There would also be the problem of the export debenture on flour.¹

The tariff rate on flour² is \$1.04 per 100 pounds; this represents a "compensatory" rate of 96.4 cents on the assumption that it takes 4.5 bushels of wheat to make a barrel of flour, plus an additional 7.6 cents as a protective supplement assumed to offset lower milling and marketing costs in Canada. In most of the earlier debenture bills, the debenture rate on flour was set at one-half the tariff rate, or 52 cents per 100 pounds. Under the McNary bill the Secretary of the Treasury would have been charged with fixing the rate at "an amount sufficient, as nearly as may be, to equal the debenture that would be issuable upon the exportation of the quantity of the . . . [wheat] consumed in the manufacture of the exported . . . [flour], as prescribed and promulgated from time to time by the board."³ The obvious aim is to have a schedule of compensatory rates, drawn up and altered from time to time in an endeavor to preserve their compensatory character.

The strict application of this provision would be far from easy. The actual amount of grain used to make the various kinds of flour varies considerably: it is highest in the best grades of patents, lower in straight flours, and

¹ Also the possibility of discriminating retaliation on flour, discussed below, p. 234.

² Also on "semolina, crushed or cracked wheat, and similar wheat products not specially provided for."

³ See above, p. 13.

still lower in semolina. For tariff purposes it has been thought impracticable to apply different rates to the several varieties and grades of flour, utilizing different quantities of wheats—patents, straights, cut straights, etc., by-product clears, and offals. Conceivably the debenture rate on flour would be not a single rate, but a schedule of rates. The administration of such a schedule would be troublesome and costly, and open doors to misrepresentation. Even such a schedule, however, could hardly accomplish its real purpose of keeping the flour rates equivalent to debenture rates on wheat, not merely because of the variety of types and classes of flour, but because milling ratios vary from crop to crop and otherwise. Since our present tariff on flour is virtually prohibitive, its simplicity is of no consequence; but the same would not be true of the debenture rate. The debenture rates and changes therein would interject a new factor into milling problems.

If, however, for reasons such as dictated single tariff rates on wheat and flour, and, as has been commonly assumed prior to the recent McNary bill, a single debenture rate on flour were established, it might have notable effects on our flour exports. These now include a little patent flour, but mostly straights and clears, or mixtures. It would seem obvious that a single debenture rate, based on 4.7 bushels of wheat per barrel of flour,¹ would yield a special bounty on exports of clears and other low-grade flours, for a barrel of these represents much less than the equivalent of 4.7 bushels of wheat. On the other hand, the rate would not be sufficient to promote export of patent flours, for good patent flours require more than the equivalent of 4.7 bushels of wheat. It might be to the advantage of millers in some regions to export as much

¹ This is approximately the average in current American milling experience. See *Wheat Studies of the Food Research Institute*, December 1927, IV, 92-98, 101.

coarse flour as they could, utilizing the minimum quantity of wheat. The low-grade flours, of which the exports would be especially stimulated, have little appeal outside of Oriental, Levantine, and other low-grade markets. The export of more representative flours, patents and straights, would be discouraged. Similar unintended consequences have frequently flowed from the establishment of apparently simple tariff rates.

A related point should not be passed over. If, as no one has proposed, flour were a debenturable commodity but wheat were not, a marked stimulus to the export of flour would be given unless it were nullified by countervailing duties or their equivalent abroad. Also if, as no one has suggested, both wheat and flour were made debenturable, but the debenture rate on wheat were one-half the rate on flour, a considerable though lesser stimulus to flour export would be given. If our previous reasoning is correct, to the effect that somewhat less than the whole of the debenturable rate on wheat would be reflected back to the grower, somewhat the same situation might prevail. The debenture rate on flour would be more than compensatory, for this reason alone, and a portion of the flour debentures would represent an unintended and disguised, but no less real, bounty on flour exports.¹ This would tend to increase our flour exports, and the proportion of wheat exported in the form of flour, provided (and the proviso is important here) no countervailing measures were taken abroad.

We question how fully, under such circumstances, such special bounties on exports of flour, and particularly low-grade flours, would be reflected back to farm prices of wheat. It would seem that the more indirect and round-about the process through which the reflection must operate, the larger would be the prospect that part of the

¹ Cf. the indirect bounties on sugar exports discussed below, pp. 214-17.

bounty would fail to reach the farmer. This fact is highly important also in the case of corn, pork products, and several other commodities discussed in chapter vii.

Clearly the milling business and the export of flour would be greatly affected. Millers could doubtless adapt themselves to the debenture system, with its added complications, but they would seek to do so in such a way as to enhance their profits, and with good prospects of so doing. Extension of export markets for flours especially favored by the scheme could doubtless be found, but usually by concessions in price. Conceivably domestic flour, largely patents, would not rise in price as much as anticipated, because of better returns from clears. With millers, foreign consumers, and domestic consumers as potential participants in the bounty, it requires more than a little faith in the efficacy of competition to assume that the full benefit of the debenture on flour would be reflected back to the wheat grower.

Moreover, there is a large actual and potential foreign trade in other products of wheat, such as macaroni and other alimentary pastes, bread, biscuits, crackers, and other baked articles, dutiable at varying rates. In each of these products there are wide variations in the amount of wheat utilized. Upon what basis would the debenture rate be assessed? To grant too low a rate would seriously injure producers of such products, and might, in fact, partially defeat the purposes of the plan by admitting foreign wheat in the form of these products. If too high a rate were granted, it would constitute a bounty to producers, analogous to the indirect sugar bounties mentioned below, and much more likely to be met by retaliatory action by foreign governments than a like debenture upon wheat.

One could easily mention other puzzling aspects of the problem. What is certain is that the effects of the application of the debenture system to wheat and flour would be highly complex and would exert no little influence on

business interests involved. What is highly uncertain is the precise nature and extent of this influence and the reflex action upon farm prices of wheat.

CONCLUSION

With no pretense to having exhausted this phase of the subject, we refrain from going farther because we do not wish to give an exaggerated view of the complications. Yet we cannot escape the inference that the operation of the scheme would not in fact be simple, direct, and undisturbing, but quite the reverse; and we consider it important that the existence of numerous complications should be realized. Experience, or fuller analysis in advance, might well reveal certain inherently beneficial incidental consequences of the plan; but in the main the probable incidental results appear to us either undesirable or neutral.

It is impossible to predict with any assurance, and would be impossible to measure in retrospect, the extent of any failure to reflect the debenture rate back to the grower or, what is more important, the extent to which domestic farm prices were not raised by the operation of the plan, above what they would otherwise have been, to the extent of the debenture rate. But we see no justification for accepting the optimistic reasoning of proponents of the debenture plan. Even in the absence of production stimulus and/or foreign retaliation, it seems to us improbable that the enhancement of farm prices, on the average, would exceed, let us say, 15 to 16 cents per bushel of wheat. We regard as illusory the expectation that the reflection back to the farmer would be full, uniform, and universal; we should expect it not only to be incomplete, but to vary greatly in extent from region to region, from wheat to wheat, and from year to year.

In short, the actual results of the operation of the plan with respect to wheat can reasonably be expected to be

quite different from the results commonly predicated—even if we disregard possibilities of stimulated production and foreign retaliations. There would, in our opinion, be no uniform raising of prices to growers to the approximate extent of the debenture rate. There is no reason to expect that any growers would gain by more than the debenture rate; there is reason to expect that those who get most will gain no more than 80 to 90 per cent of the debenture rate; there is reason to expect that in the aggregate wheat growers would gain by much less than this amount. Moreover, the system would create regional and local inequalities, benefiting most those regions and farmers that already contribute most of our export wheats. It would interject a factor making for changes in plantings, in uneconomic rather than in economic directions.

Moreover, it must not be forgotten that farmers are consumers as well as producers. Wheat growers consume flour and other products that would be subject to price increases under the debenture plan. There is reason to believe that our sugar tariff yields less financial benefit to growers of sugar cane and sugar beets than it costs American farmers as a whole. As consumers, in consequence of the debenture plan—assuming that it worked as its advocates anticipate—farmers would presumably pay somewhat higher prices for food, clothing, and tobacco, and probably also for other products that would be affected by higher costs (for materials and wages) resulting from application of the plan. To such an extent, the farmers' gain from higher farm prices would be offset.

CHAPTER VI

THE QUESTION OF STIMULUS TO PRODUCTION OF WHEAT

In the preceding chapter no account has been taken of the bearing of the debenture system upon wheat acreage, production, and exports, and in turn upon prices. This important consideration now demands attention. Although it has figured to some extent in discussions of the proposal, it has not been followed through to its logical conclusions.

Bounties, whether on production or on exports, have almost invariably been granted with the primary or proximate purpose of stimulating domestic production—except when (as in the case of the English grain bounties) they have been made to apply only in case prices fell below certain levels. A striking characteristic of the debenture plan is that the bounties are not intended to stimulate production at all; on the contrary, expansion of production is looked upon as a danger to be guarded against. This fact alone differentiates the plan from the protective tariff. It is a highly important question whether the natural consequences of granting export bounties can be prevented from occurring.

THE EFFECT ON ACREAGE AND PRODUCTION

The natural economic effect of the debenture system would be to stimulate planting of the debenturable crops, to retard any existing tendency to contract acreage and to accentuate any existing tendency to expand acreage. The influence would presumably be much more pronounced than that which results, under present conditions, from a year or two of high prices resulting from short crops here or abroad. The mere adoption of an avowedly price-raising policy would constitute an impor-

tant influence: it would be inferred that, once embarked upon the policy, the government would seek to carry it through, raising rates if the initial ones failed to yield the desired results. Apart from this psychological influence, the initial enhancement of domestic prices resulting from the plan, and the prospect of their continued enhancement, would exert an obvious influence in the same direction.

The extent of the effect on planted acreage cannot be predicted with confidence; nor could it be measured in retrospect. It would depend upon a complex of factors. One important factor would be the level of prices before the enhancement. If this were such as to make for reduced plantings and the prospective price improvement appeared moderate, the anticipated benefits might merely offset the tendency to contraction and the stimulus to expansion would be initially slight. On the other hand, if maintenance or expansion of acreage were encouraged by existing prices, the prospect for even a moderate enhancement of price might yield considerable stimulus. From 1924-25 to 1927-28 wheat prices were such as to encourage expansion of planted acreage, and expansion occurred. Wheat prices during the past year or so have tended in the opposite direction. How the acreage would actually change after the application of the plan would be determined in part by prices and acreage conditions existing at that time.¹

Another important factor would be the extent of price enhancement that was expected to result from the scheme in operation. If the theory of advocates of the debenture plan were generally accepted and wheat growers assumed that they could count upon nearly 21 cents a bushel more for their wheat, an addendum now and in future, as a result of the plan as compared with the absence of it, the

¹ Cf. below, p. 171.

stimulus to expansion would be substantial indeed. It would be particularly important in regions in which the tractor and combine are most readily used, with great economies in cost of production. Senator Capper¹ of Kansas said in the Senate on May 4:

If you put this subsidy into effect we will increase our production of wheat in Kansas, through our use of big power on our level fields, in a way that will give the Treasury plenty of work to do.

It might also be important in the case of durum wheat, of which the harvested acreage has tended sharply upward in spite of moderate or low prices, rising from 3,826,000 acres in 1924 to a peak of 6,711,000 acres in 1928.² If we are correct in reasoning that the enhancement of price, apart from expansion of production, would be much less than has been ordinarily assumed, the stimulus might be correspondingly less. But in the first year or two it would not be the actual enhancement, as much as expectations of enhancement, that would exert the major influence; and these expectations would be more likely to be optimistic than skeptical or pessimistic.

A third factor, varying with different debenturable products, would be the possibilities for increase in acreage. So far as wheat is concerned, we consider that these possibilities are large. Our planted acreage increased remarkably during the latter part of the war and shortly after, reaching a peak of nearly 77 million acres for the crop of 1919. Subsequent contraction occurred under the influence of unfavorable prices, but only in one year (for the crop of 1924), when planting conditions constituted an important additional factor, has the planted acreage fallen appreciably below 60 million acres, which compares with a pre-war *maximum* (crop of 1914) of less than 55 million. For the crop of 1928 the planted acreage has

¹ *Congressional Record*, May 4, 1929, p. 874.

² According to the latest estimates, the acreage was sharply reduced in 1929.

been estimated at 69 million. Newly developed machinery makes for expansion of acreage in three ways: by reducing planting, reaping, and threshing costs; by making it feasible to cultivate wheat on semi-arid lands hitherto unbroken because they were below the margin of profitable cultivation; and by favoring larger wheat acreage per farm. Thus it has led to notable increases in acreage in recent years on the western fringe of the Great Plains wheat belt. There are also widespread possibilities of increasing wheat acreage in the older sections in which wheat is commonly raised, among others, especially in the large central area where the returns from barley and oats, to some extent also from rye and corn, have been regarded as unsatisfactory. Given a substantial price stimulus, our wheat area could easily and fairly quickly expand considerably above the peak that it reached in 1919; and even a more moderate stimulus could bring it up to this level and beyond.

Another factor affecting the expansion would be the scope of the debenture plan. If it were applied to wheat alone, and not to products competing for the use of the same land, the stimulus would be especially pronounced. If it were applied generally to all cereals and to other export-surplus crops, and coupled with higher tariffs on flaxseed, sugar, dairy products, and other products, the influence would be less marked. But it seems quite unlikely that either the tariff or the debenture scheme could directly exert any marked influence upon prices and production of hay and oats, which are among the competing crops; and it could hardly affect corn as much as wheat. The net effect of a comprehensive application of the plan would almost certainly be an expansion of the acreage planted to wheat.

Another factor would be the extent to which the Federal Farm Board, or wheat co-operatives, could restrain the tendency to increase acreage. They would unques-

tionably attempt to do so. How far they might succeed no one can tell. It must be admitted that past experience affords no ground for optimism here. The success could hardly be greater than with similar efforts made without resort to the debenture plan. It would probably be less, because the Board's position would be in a sense self-inconsistent: with the debenture plan it would be seeking to raise prices, which tend to stimulate production; and by its advice it would seek to prevent this stimulus from taking effect.

The effect on the volume of wheat produced would be exerted only through increase of planted acreage. Conditions determining abandonment of planted acreage, and yields per acre, would be unaffected. Variations in these conditions from year to year would cause, just as at present, considerable variations in the size of crops. But the variations would occur on a higher level because of the operation of the plan.

We cannot escape the conclusion that a powerful stimulus to acreage and production of wheat would be given by the debenture plan, initially and for a time after. Though hesitating to suggest any figure, we believe that an increase of 10 per cent could easily be reached within three years, and it might be much greater. An increase of 80 to 130 million bushels in the crop, in consequence of the adoption of the debenture plan, is hardly to be regarded as a rash or even liberal forecast. If we do not prophesy as large an expansion as would some critics of the plan,¹ it is because we do not believe that even the early enhancement of prices would be as great as the ad-

¹ The opposition to the export debenture on the part of the American Farm Bureau Federation was based in large part on the view that the export debenture would stimulate production more than the equalization fee plan. Professor J. D. Black, a believer in price-raising measures and a qualified endorser of the debenture plan, believes that of all price-raising devices the debenture plan would tend to stimulate production the most; but he thinks that effective checks on expansion might be devised. Cf. his *Agricultural Reform*, especially pp. 311, 264-66.

vocates of the measure have assumed, and also because we would stress the secondary consequences that would follow from the early expansion of production. To the latter we now turn.

SECONDARY CONSEQUENCES ON PRICES

If production were increased, within a comparatively brief period, above what it would otherwise be, by some 80 to 130 million bushels, exports might well be increased by a corresponding amount, or even, initially, somewhat more. The effect of this increase on world prices would be too powerful to be overlooked. The international trade in wheat has only recently exceeded 900 million bushels, and net exports of exporting countries have averaged much less, in recent years. Prices in international markets are sensitive to the volume offered, in degrees depending upon the level of prices and the size and character of crops in importing countries. An addition of 80 to 130 million bushels to the international market supply would have a materially depressing effect on the world price. Statistical analyses have not yet been perfected so far as to permit close predictions as to price effects. These would certainly vary with the size and distribution of world wheat crops, the volume of export surpluses and the import requirements of major importing countries, and the level of international wheat prices. But a reduction of from 10 to 15 cents a bushel in international market prices, as a result of such an addition to our exports and apart from other influences making prices high or low, would be a not unreasonable expectation.

It could never be proved that such an expansion of production and exports was a response to the debenture stimulus, nor could it be demonstrated that the addition to exports had caused a price difference in world markets of any such extent. The effects would be spread over two or three years, or more, and inextricably mingled with the

effects of other forces. But we feel reasonably confident, in the light of our studies of wheat crops, movements, and prices, that a tendency of some such magnitude would be set up by the application of a debenture plan to wheat.

If this be true, whither does it lead? Clearly to this point, that a reduction in international wheat prices as a result of applying the plan might soon approach, if not actually reach, the price differentials that would be reflected back to farmers by the debenture system, without yielding the growers more than a limited fraction of the anticipated price benefits. What the farmer would really like is higher prices; if the debenture plan failed to yield him this, he could take cold comfort from assurances that the difference between Liverpool prices and his farm price was less than formerly. Quite probably some farmers would retain a net advantage from the operation of the scheme, if it worked as we have suggested; but others might be net losers by it. By and large, the wheat farmers who have found it profitable to expand their operations in recent years would be the ones to gain most, while many of those who have been hard put to it to make ends meet would suffer afresh from the stimulated competition of others, much as they have in recent years; and many who had responded to the stimulus of higher prices would be in serious difficulty.

This result would be disappointing, and otherwise unfortunate. The Treasury receipts would be depleted by larger sums than have been estimated on the basis of past exports, but without substantial benefit to farmers. Efforts to overcome the difficulty by raising debenture rates would lead to repetition of the process, and afford temporary relief, at increased cost to the Treasury, but without yielding any real solution. If the system were continued unchanged, a downward readjustment in acreage (and possibly land values) would tend to ensue. The readjustment would be greater, and more painful, if rates were

reduced, either for fiscal reasons or through application of a schedule calling for rate reductions in relation to expansion of acreage or production. Abandonment of the system would remove the prop to domestic prices, cause sharp declines toward a level more closely related to world prices, and precipitate a heavier task of readjustment. The stimulus would have been temporary, and the readjustment could be made, but not without considerable cost, falling perhaps more heavily on those less able to bear it.

The magnitude of the injury can be exaggerated, as has been done by some who accept the view of the proponents of the measure that, for a few years at least, farm prices would be raised by roughly the amount of the debenture rate. We do not wholly share President Hoover's apprehension that the plan "would bring American agriculture to disaster," or fully agree in the *emphasis* employed in two of his specific points against the plan, which it is pertinent to quote here:

3. If the increased price did reflect to the farmer, the plan would stimulate overproduction and thereby increase world supply which would in turn depreciate world prices and consequently decrease the price which the farmer would receive and thereby defeat the plan. Stimulation of production has been the outstanding experience abroad where export subsidy has been applied. Overproduction will defeat the plan and then, upon its withdrawal, agriculture would be plunged into a catastrophe of deflation from overexpanded production. The farmer's difficulties today are in some part due to this process after the war.

4. The stimulation of production of certain commodities would disturb the whole basis of diversification in American agriculture, particularly in the cotton and wheat sections where great progress is now being made toward a more stable basis of agriculture.

It seems to us probable that the expansion of production and export would not go so far, that it would not cause the plan to be wholly self-defeating, and that the hopes

of price enhancement would not prove wholly illusory. But Secretary Mellon's position, as expressed in the following excerpt, we regard as conservatively true:

. . . . Exports would be stimulated, and, under the pressure of a consequent decreased domestic supply, domestic prices would rise. This would stimulate increased production. In the meanwhile, increased exports dumped on the world market would depress world prices, thus depriving the producer of the full benefit of the contemplated bounty. There is no doubt, I think, but that the effect of this program would be to depress world prices and to increase domestic prices and to give to the American producer a price higher than he would otherwise obtain, the increase, however, not being by the full amount of the cash bounty. But as production increased in this country under the stimulus of higher domestic prices there would be a constant tendency for the bounty benefit to melt away.

Even upon our moderate expectations of early price enhancement, and of expansion of production and export, the results would be notably smaller than the advocates of the scheme confidently promise. Unless (as we gravely doubt) production restraints could be imposed with marked success, the tendency would be for world prices to fall enough so that, even with the differentials that could be secured by American wheat growers in consequence of the scheme, the net gain would be slight.

A LONGER VIEW

Even if the early consequences were such as we are disposed to picture them, one must consider a somewhat longer and broader view. Theoretically it would seem reasonable to expect that such reduction in international prices of wheat and flour as we envisage would have repercussions in foreign countries—and discourage expansion and lead to contraction of wheat production abroad. No prompt reaction of this sort could be anticipated; but if we firmly adhered to the debenture system and it provoked no foreign retaliation, tendencies of this sort would

be set up. If they should work out according to theory, an equilibrium might be reached whereby our net expansion would be largely offset by contraction abroad, to the end that world wheat prices would be reduced by the operation of the system to a net extent of, let us say, 4 or 5 cents a bushel. In such case, our wheat growers would not be subjected to so considerable readjustment, and a larger net gain would eventually accrue to them as a result of persisting with the plan,¹ although part of their gain would be absorbed by higher costs of production on portions of the increased acreage here.

There is unquestionably some validity to this reasoning, but we cannot follow it to the stated conclusions, essentially for realistic reasons.

The great competitors of the United States in the export of wheat are Canada, Argentina, and Australia. Unlike the United States, whose wheat exports have recently been in large part incidental, these countries are in the business of growing wheat for export, and ship overseas the bulk of their crops. They would presumably fear and probably experience injury in consequence of the application of the debenture plan here. Such depression in world wheat prices as resulted from our expanded production, under the stimulus afforded by the earlier operation of the plan, would be reflected back to their wheat growers in lower farm prices and lower income per acre. The reflection would be much more direct and certain than in the case of the United States, because so large and representative a proportion of the wheat produced in these countries goes abroad. But it is not clear that the result would be to check or to reverse agricultural expansion, specifically in wheat culture, in these countries. Still in the expansive, extractive stage of agriculture, they

¹ Dr. Holbrook Working is disposed to lay stress upon this view, and on this ground to think the less unfavorably of the eventual possibilities of the debenture plan for wheat.

would be loath to have this expansion restrained. Further, agricultural expansion in Canada, and in large measure in Argentina and Australia as well, is not directly conditioned by operative returns. It is supported by directly or indirectly subsidized immigration, state policies of homesteading, railway settlement policies, the lure of new land, and the prospect of increases in land value. The new power farming is gaining headway in all three countries. For the next few years at least, perhaps for a decade, the wheat acreage of Canada, Argentina, and Australia will hardly respond, in any notable degree, to changes in the world price of wheat that might theoretically be expected to condition the rate of expansion of wheat culture.

We see no grounds for expecting that wheat culture in Russia, or wheat exports from Russia, will be materially affected by such changes in international prices as we have envisaged. Other factors, mainly domestic ones, are of dominant influence there. Even in Hungary, Roumania, and Jugo-Slavia, where lower levels of wheat prices might exert some repressive influence on acreage or export, domestic and regional factors have been largely influential in bringing about expansion of production and consumption without affecting exports *pari passu*. Without fuller knowledge than we possess concerning the factors that determine acreage, production, and export of wheat in these countries, we are unable to appraise the influence that would be exerted by lower world prices. In any event, these countries are, and seem likely to remain for several years, comparatively minor exporters and never net importers. At most, no large weight can be assigned to changes in acreage that the debenture plan might indirectly occasion there.

So far as most wheat-importing countries are concerned, expansion of consumption in line with existing trends is likely to continue, possibly with some accelera-

tion. Those countries that are large producers of wheat, such as Germany, France, Spain, and Italy, seem likely to continue their policy of agricultural protection, and to raise tariff barriers higher as international wheat prices fall. It seems to us improbable that such countries will, in consequence of depression in world prices that might follow our expansion in wheat output, contract their wheat acreage and production materially.

Without going into all the cases, or into any in detail, we are constrained to believe that if even the eventual success of the debenture plan is to rest upon contraction of foreign acreage, or material restraint upon its expansion, it rests upon hope rather than realistic prospects. We do not question that some influence in the direction suggested by the theory would be exerted, but we believe the influence would be weak at least in the calculable future. Accordingly we cannot reckon this longer view as yielding major qualifications of the inferences already reached, to the effect that, after a period of readjustment to the debenture system, the net price advantage given to the wheat grower by the system would be comparatively small, and far less than the debenture rate.

FLEXIBLE RATE PROVISIONS

We have not yet mentioned in this discussion the provision for a "check upon overproduction," which was incorporated in several 1928 debenture bills and also, by the Norris amendment, in Section 10 of the McNary bill. This device, in its three more prominent forms, merits examination at this point, for it is ostensibly designed to prevent such expansion of production as would largely or wholly nullify the expected price benefits.

The Ketcham bill of February 6, 1928, contained the following provision (Sec. 7, *d*) :

In order to prevent undue stimulation in the production of any debenturable agricultural commodity, whenever the President

finds prior to the beginning of a crop year from the report of the board hereinafter provided for or from any other source, that the probable production of any debenturable agricultural commodity during such crop year will exceed the average annual production of such debenturable agricultural commodity for the preceding five years, he shall by proclamation, prescribe that the export debenture rates for the commodity and the debenturable products of such commodity shall be reduced by the percentage fixed in subdivision (e) for the amount of the increase in production which the President finds will occur during such crop year. Such reductions shall become effective on the date fixed in such proclamation, not less than sixty days from the date of the issuance thereof, and shall remain in effect throughout such crop year. At the end of such crop year the export debenture rates for such debenturable agricultural commodity and the debenturable products of such commodity which were in effect immediately prior to the commencement of such crop year, shall become effective again unless the President under the provisions of this Act prescribes a change in such rates. The term "crop year," as used in this subdivision, means a twelve months' period beginning at a time designated by the President.

The schedule of reductions may be condensed as follows:

Estimated increase in production (Per cent)	Reduction in debenture rates (Per cent)
0-20	0
20-40	20
40-60	50
60-90	75
90 or more	99

To assist the President in determining the necessity for such reductions, the bill required investigation and report by the debenture board, and specified "in the conduct of any such investigation the board shall give reasonable public notice of its hearings and reasonable opportunity to parties interested to be present and to be heard."

Several minor points call for remark. The decision would presumably have to be based upon crop forecasts, made in the case of wheat on the basis of the report as of

June 1. Instead of relying upon the official reports of the Crop Estimating Board in the Department of Agriculture, a special investigation with hearings is required. The proclamation would have to be made before the end of June, to apply to wheat, and could not be made or altered within the crop year, even if the harvest belied the June forecast, as it frequently does. The reduction would cease automatically at the end of the crop year. No reduction would be made unless the crop forecast was at least 20 per cent above the average of the five preceding crops, and the reduction in debenture rates could be only 20 per cent unless the prospective crop was 40 per cent or more above the same five-year average.

The last point requires further comment. Even a 20 per cent excess over the average of the five preceding crop years would represent a very substantial increase. In the case of wheat such an increase has been equaled or exceeded only three times in the last 35 years—1898, 1914, and 1915—and then only because of an extraordinary conjuncture of rising trend of acreage, record acreage harvested, and high yields per acre. An increase of as much as 40 per cent has not occurred. The extraordinary price stimulus during the war did not result, either in 1918 or in 1919, in a wheat crop as much as 20 per cent above the average of the preceding five years. The average of the crops of 1924 to 1928 is calculated at 830.6 million bushels. Had the debenture plan been adopted in April 1928, it would have required, under the schedule given, a crop forecast for 1929 of about 1,000 million bushels to bring a reduction of 20 per cent in the debenture rate, and a crop forecast of 1,163 million to bring a reduction of more than 20 per cent in the rate. Moreover, if the stimulus to production should operate gradually, as would presumably be the case, the average on which the percentage was based would also rise. It is reasonably safe to say that a reduction of more than 20 per cent in the debenture

rate would never occur under this form of the scheme, and that it would be an exceptional year in which any reduction was made. It seems fairly obvious that rate reductions made on such a schedule would be ineffective, either directly or indirectly, in preventing or checking substantial expansion of wheat acreage or output. The market response to enlarged outturn would presumably do much more. Certainly increases in acreage such as would call for no change in the debenture rate could lead to increases in exports sufficient to defeat the price-raising objective of the plan.

The same schedule, with the same intent, was incorporated in the Norris amendment to the McNary bill and in the Norris amendment to the current tariff bill; hence the comments in the preceding paragraph are pertinent to the latest forms of the debenture proposal.¹

The Jones bill of February 7, 1928 (Sec. 6), included much more flexible provisions, as follows:

(b) Whenever the board finds that conditions justify such action it may reduce any debenture rate prescribed in subdivision (a) by an amount not exceeding 50 per centum of such rate, and may at any time after such reduction restore any such rate to any point not exceeding the rates set out in subdivision (a).

(c) Whenever the board finds that the acreage planted in the United States during any year of any commodity covered by this Act is materially increased over the average annual acreage planted to such commodity, according to the estimates of the Department of Agriculture, during the five years next preceding such increase, the debenture rates for such commodity for such year shall be reduced by the board, on a percentage basis, in the inverse ratio, as nearly as the board finds practicable, to such acreage increase.

The identical Ketcham and Jones bills of April 11, 1928, also contained flexible rate provisions which, while less flexible than the ones last quoted, were broader in

¹ Cf. Senator Capper's speech in the Senate, *Congressional Record*, May 4, 1929, p. 876.

scope, less cumbersome to put into effect, and more likely to be called into play than those of the earlier Ketcham bill and the McNary bill. To quote from Section 8:

(b) In order to prevent undue stimulation of the production of any debenturable agricultural commodity, whenever the board finds that the average annual production of any debenturable livestock commodity or the average annual acreage of any other debenturable agricultural commodity for the last two preceding years has exceeded the average annual production or acreage, respectively, of such commodity for the period from the seventh to the third preceding year—then the board, after publicly declaring its finding, shall prescribe that the export debenture rates for the commodity and the debenturable products thereof shall be reduced or that the issuance of debentures therefor shall be suspended, as hereinafter prescribed for the amount of increase in production or acreage which the board finds has occurred. Any such reduction or suspension shall become effective at the commencement of the next calendar year and shall continue throughout such calendar year. No such reduction or suspension shall be made unless notice thereof is published at least thirty days before the commencement of such calendar year. At the end of such calendar year the export debenture rates which were in effect immediately prior to the commencement thereof shall again become effective unless the board under the provisions of this Act prescribes a change in such rates.

The schedule, as applicable to wheat, was as follows:

Increase in acreage ^a (Per cent)	Reduction in debenture rates (Per cent)
0-5	0
5-10	25
10-15	50
15 and over	100

^a The language does not make clear whether planted or harvested acreage was meant.

Judging from the past, provisions of this sort would be called into play more frequently and more sharply. The more flexible provisions, however, raise more clearly

certain broader considerations. The fear of reductions in debenture rates could hardly be a sufficient deterrent to expansion. Frequent readjustment of rates, down and up, would in itself have undesired incidental effects by increasing risks of growers, grain dealers, and millers, and by causing special gains or losses to holders of stocks of wheat or flour. Reductions in rates would frequently be made in years of large world production, so that the economic forces making for low prices would be reinforced by the reduction; conversely, rates might be at their maximum when world production was less abundant and the price here, without any enhancement, reasonably satisfactory. In any event the instability of prices, and in most cases also the variation in farm incomes, would presumably be intensified by the application of the flexible provisions.

The dilemma seems impossible to avoid. The less flexible provisions would not be called into play, or if mildly called into play they would exert comparatively little influence in preventing such an expansion of production as would minimize the price-raising effects of the plan. The more flexible provisions would exert somewhat more influence in checking expansion of production, but their application would intensify risks and price fluctuations, with untoward direct consequences; and without entirely eliminating the tendency to stimulate production, with its objectionable consequences, they would tend to eliminate the operation of the plan itself. Conceivably better schedules, varying with different products, could be devised; but we see no prospect that any schedule could be drawn up that would be free from the basic objections just mentioned.

CONCLUSIONS

So far, then, as wheat is concerned, we regard as unpromising the outlook for substantial, sustained improve-

ment in farm prices in consequence of the application of the debenture plan, even if we disregard the possibility of defensive or retaliatory action abroad. A significant initial enhancement of prices is to be anticipated, but this would be considerably less than the amount of the debenture rate. The experienced enhancement, reinforced by the mere fact of the adoption of a price-raising policy, would lead to expansion of acreage and production. In turn, this would lead to heavier exports and reductions in world prices. In consequence, even if the debenture rate were fully reflected back to the growers, the lowering of export prices would reduce the net enhancement of farm prices to a very substantial degree. We see no reasonable probability that the debenture plan would, over a period of years, cause farm prices to stand on a level higher than would otherwise obtain, by more than a modest fraction of the debenture rate, if at all. Even at the outset, it seems highly improbable that the net gain to farmers would exceed three-fourths of the debenture rate. After the initial stages had been passed, the net gain could hardly exceed one-half the debenture rate, and it might be considerably less, even if foreign countries were to ignore the system.

We have already adverted to the impossibility of predicting reliably just how the system would work, and of appraising its actual results. In concluding this chapter we must emphasize the point that the reputation of the plan might be much better or much worse than the facts, if they could be accurately ascertained, would justify. Precisely the same comments could be made about the protective tariff.

Even under ordinary conditions, experts have serious difficulty in ascertaining the relative weight of different forces that combine in determining acreage, production, movements, and prices of wheat. The debenture plan would be, not a distinct factor in an otherwise stable situ-

ation, but another variable in a complex, confused, and changing situation. At various stages in the operation of the plan, it would probably be judged not by what it had actually done for good or ill, for most of this could not be convincingly demonstrated, but by what actually transpired. If it were inaugurated at a time of low wheat prices and there followed a period of rising prices, the debenture system would be given undue credit for the event, or at least would be reasonably safe from attack. The Canadian Wheat Pool was thus most fortunate in being inaugurated in 1924, when wheat prices recovered sharply from extreme depression. On the other hand, if the scheme were initiated early in a period when prices were otherwise tending to decline, it might suffer undeservedly excessive condemnation for causing the decline.

It seems clear that the short-time operation of the debenture plan might be quite different from the long-time operation, if persisted in. Also, it is clear that the plan would work differently with stable crops and uniform year-after-year world wheat prices than under actual circumstances of widely varying crops and prices. Relative wheat shortage and high world price alternate irregularly with relative glut and low world price, despite an upward trend of wheat production in the world. In a year of relative world shortage of wheat with high price, even if the United States had an exaggerated surplus due to the export debenture, the deterrent price influence of this enlarged surplus would be obscured in the rising world wheat price. Under such circumstances the export debenture would seem to be, and in fact might be, reflected in high degree to producers. In a year of relative world glut of wheat with low price, an exaggerated surplus in the United States due to the export debenture would cause a disproportionate depression of price. Under these circumstances the export debenture would not seem, or indeed tend, to be reflected to producers in high degree.

With a series of years of uniformly favorable circumstances, the plan might seem to lead to favorable results; on the other hand, it might be discredited in the first year or two of trial, due to a fortuitous conjuncture of unfavorable circumstances.

In the foregoing analysis we have sought, so far as possible, to envisage the possible and probable consequences of the debenture plan itself. These furnish the principal basis for our inferences as to the outcome. We realize, however, that adoption, continuation, modification, or abandonment of the system might rest largely upon misunderstanding, or upon other and perhaps irrelevant considerations. But the subject is clearly of sufficient importance to warrant serious efforts to think through the relevant considerations in advance.

CHAPTER VII

THE PLAN AS APPLIED TO OTHER COMMODITIES

The case of wheat has been considered at length for several reasons: it is the commodity most frequently referred to in discussions of the debenture plan; it ranks second only to cotton in the list of commodities for which producers are promised greatest benefits from applications of the debenture plan; it is the one to which probably the most study has been devoted. Each of the commodities in contemplation presents peculiarities, and the application of the debenture would vary from commodity to commodity. Too much of the discussion of the debenture plan has run in general terms, with inadequate attention to the bearing of commodity differences upon the workability of the plan. It is desirable, therefore, to consider several other products to which it has been proposed to apply the plan. Even if these are covered more briefly, the discussion yields points of interest and significance.

THE CASE OF COTTON

For several reasons the case of cotton demands first consideration. The forty-five million acres devoted to its production constitute a very large part of the cultivated area in the South. The gross income of around a billion dollars from this crop is by far the major source of income to Southern farmers. Cotton is the only one of our great staple crops that we produce in large measure for export, and export more than we consume. Among the commodities proposed for the debenture list, cotton is the only one now on the free list; although we import a large part of our domestic requirements of long-staple cotton, this is a type that supplements rather than competes with the short-staple types that we produce in abundance, and the imports are very small in proportion to the exports.

The United States produces over half of the world's cotton, in some years as much as two-thirds of the world crop. Our cotton exports ordinarily constitute 60 to 70 per cent of the cotton that enters into international trade. In terms of value, raw cotton easily ranks first among American agricultural exports. Because of the great volume of exports, even a modest debenture rate of 2 cents a pound would entail a heavier reduction in Treasury receipts than would any other commodity at the rates under consideration. On the other hand, the forecast increase in returns to growers, as calculated on the assumption that they would gain by the debenture rate on the whole of their marketed output, is greater in the case of cotton than for any other. As we have seen, the Department of Commerce computed, on the basis of crops and exports in recent years, a gain to cotton producers of 156 million dollars at a cost to the Treasury of 93 million (above, pp. 103, 106).

Because of certain peculiarities just mentioned, the case of cotton is different from that of wheat, or indeed any other commodity for which the debenture scheme is proposed. At first sight it seems incredible that an export bounty should be proposed for a commodity in which we lead the world, and have long shown our ability to produce in increasing amounts for the world market. It appears analogous to offering export bounties on petroleum and copper, or even on automobiles, agricultural machinery, and sewing machines. It also seems astonishing that a device should be proposed for aid to cotton growers which would be intended to raise the cost of the raw material to American cotton manufacturers but not to their foreign competitors—thus in a sense to subsidize the foreign manufacturer—particularly in a period when our cotton textile industry is among our few distinctly less prosperous industries. President Hoover¹

¹ *Congressional Record*, April 22, 1929, p. 284.

said in his seventh point against the plan: "... an export subsidy of 2 cents a pound on raw cotton would mean the foreign manufacturers would be receiving cotton at 2 cents a pound less than the American manufacturer and the foreigner could ship his manufactured goods back into the United States with this advantage."¹ Alexander Hamilton, whose views have been cited on behalf of the debenture plan, would have seen through and stood aghast at such proposals as these, although he might have favored, under such conditions as the present, a *production bounty* on sea-island or long-staple cotton only. There is no doubt that the financial position of cotton growers has not been considered satisfactory in recent years, especially east of the Mississippi, and that unsatisfactory prices have been regarded as a major factor in this situation. The fundamental reason for the inclusion of cotton among the debenturable commodities is, however, that this was deemed requisite if the plan were to attract the support of Southern representatives and senators, most of whom are traditionally opposed, as Democrats, to any measure that can be called a subsidy; and this support was essential, as the analysis of the vote in the Senate (above, pp. 86-88) clearly shows.

Particularly in the case of cotton, certain supplementary measures would presumably be required if the application of the system to cotton is not to work badly. In the first place, Secretary Mellon has asserted that the application of the debenture plan to a commodity on the free list, notably cotton, "must inevitably give rise to insuperable administrative difficulties in order to avoid wholesale fraud."² Two principal opportunities for fraud would be presented. In the first place, American-grown cotton might be exported, subsequently reimported, lose

¹ On this and a related point, see further below, p. 177.

² Letter of April 20, 1929, to Senator McNary, *Congressional Record*, April 22, 1929, p. 285.

its identity, and serve a second time as a basis (contrary to law) for the issue of export debentures. This might even occur in the case of commodities that are not on the free list, since under existing legislation tariff duties do not apply (within certain limits) to reimported goods of American production. On this point President Hoover wrote: "As the subsidy in many cases is larger than the freight to foreign ports and back it raises large opportunities of fraud in return shipment activities."¹ In the second place, some cotton grown abroad, particularly in Mexico, might be imported, lose its identity, and illegally serve as the basis for issue of export debentures. Several of the debenture bills contained elaborate provisions designed to prevent frauds of these kinds. With all deference to Secretary Mellon, we question whether the administrative difficulties involved in the prevention of frauds would be "insuperable," but they might entail material additions to administrative costs and some loss by illegal claims for debentures, and they would presumably call for supplementary measures of various kinds.

There is a strong probability that, in order to eliminate this danger, a tariff duty equal to or greater than the debenture rate would be imposed on imported cotton. Transit under bond, and manufacture in bond, would then alone be possible without payment of the duty. There would be an additional reason for levying such a tariff duty: without it, a price differential would be created here in favor of imported cotton, and in consequence foreign-grown medium- or short-staple cotton might be imported in larger quantities for domestic use, thus releasing more American cotton for export and increasing the Treasury burden. It would probably also be found necessary, or highly desirable, to exempt cotton, and certain other debenturable products such as wheat, tobacco, and

¹ *Congressional Record*, April 22, 1929, p. 284.

rice, from provisions now permitting reimportation of American merchandise without payment of duty, and making such reimported products subject to the general tariff rate.

It is altogether probable, also, that the attempt would be made to offset the disadvantage of relatively¹ higher costs to American cotton manufacturers, by raising tariff duties on imported cotton goods, and issuing other debentures on a long list of exports of cotton goods, at rates calculated to offset the enhancement of their raw material costs; and similar action would presumably be demanded in the cases of a long list of other manufactured products. Such action might be quite effective so far as our exports of cotton goods are concerned, but it would create great difficulties in fixing appropriate rates and add considerably to the Treasury burdens under the debenture plan. In practice it would almost certainly result in rates that would yield more than the precise offset; in other words, the debentures on cotton manufactures would tend to be more than compensating, to become in part genuine bounties on exports and to be regarded as such by foreign producers. Increases in tariff duties on imported cotton goods would probably have but little effect, for many of these duties are already prohibitive, or nearly so, and compensatory additions to most others would probably not greatly alter the competitive situation.

More important to our cotton manufacturers, however, would be the higher cost of producing goods for the home market, if in fact such higher costs eventuated, as they would if growers' prices were enhanced by the scheme. Cotton goods are already very much on the defensive against silk and rayon products. Added burdens in costs would weight the scales further against the cotton manufacturers, and presumably in some measure reduce the

¹ Not necessarily *absolutely*. See below, pp. 181-82.

quantity of cotton that they could afford to use. The effects of higher cotton prices would be felt not only by textile manufacturers, but by manufacturers using cotton fabrics as raw materials. As we shall see, the indications are that such increases in cost would be temporary only.

This brings us to the question whether domestic prices of raw cotton would actually be raised, as has been assumed, and in particular whether the cotton grower would in fact find his price for his crop enhanced by the amount of the debenture rate. If we disregard, for the moment, the question of indirect effect through influence upon acreage and crops, we see strong reason to expect that prices would be raised by a considerable fraction of the debenture rate, if the discount on the debentures were but nominal. Many of the complications that would arise in the case of wheat and flour would not arise, in any significant degree, with cotton. Cotton is exported from practically all of the states in which it is grown, and the great bulk of it is exported raw. While the crop comprises a number of different grades, our cotton exports are commonly fairly representative of the crop, as they are not in the case of wheat. The organization of the trade is such that, even without radical development of marketing co-operatives, exporters could hardly expect to retain any significant portion of the debenture, but would be enabled, and in a sense forced, to bid higher for raw cotton. On the other hand, the cotton growers could not expect to get the full benefit of the application of the system, even at the outset. Initially, holders of commercial stocks, and speculators holding contracts for future delivery, would reap a considerable share of the cost to the Treasury and the public. Our cotton exports would be stimulated, and world prices thereby depressed, so that even with the full differential assured to our cotton growers, the net enhancement of price would be less than the debenture rate. Furthermore, merchandising margins

would presumably be increased by reason of risks that rates would be altered or the system withdrawn. These risks would be greater with cotton than with wheat, partly because hedging is less effective, and partly because the cotton crop varies more widely and flexible rate provisions would be called into play more freely. For these reasons, the price enhancement actually realized by growers in the early stages would be less than the amount anticipated, but they would probably still be substantial.

The effect on acreage and outturns, however, cannot be disregarded. When we consider the effect of higher price on cotton acreage and production, with the consequent reactions upon price, the argument of ultimate ineffectiveness is even stronger than in the case of wheat. Variations in costs among different producers are very large, apart from variations from one season to another for a single producer. The economies available in certain areas—particularly in Oklahoma and parts of Texas, where the boll weevil is not a major pest and cheaper types of planting, cultivation, and picking can be readily employed—are far greater than in others. The prospect of a 2-cent increase in price would signify much to these low-cost producers, much more, indeed, than to higher-cost producers to the eastward whose situation has aroused the most sympathy. It is mainly in low-cost areas that a notable expansion of cotton acreage has taken place, until in recent years nearly half the cotton acreage has been in Texas and Oklahoma. Suitable land is available in those states for further expansion to a substantial extent. An even stronger stimulus would be given to expansion of the small but increasing acreage of cotton grown under irrigation in California, New Mexico, and Arizona, for yields per acre are so much higher there that a 2-cent debenture rate would yield six or seven dollars an acre, as compared with less than four dollars an acre in most other states.

Statistical studies¹ have shown that cotton acreage is highly responsive to price, perhaps more so than is the acreage of any other major crop. Experience has also amply shown that cotton growers are among the least susceptible to advice that they restrict acreage in order to secure higher prices or avert a danger of low prices. This is true in the face of the fact that the net value of the cotton crop tends to vary inversely with the size of the crop.² Furthermore, while yields vary considerably from year to year, this variation is partly in response to the amount of fertilizer employed, which tends to vary with the price received for the preceding cotton crop.³ It would seem to follow that prospects of higher prices, and their realization in an initial year, would promptly exert an influence toward increasing acreage, yield per acre, and production.

Now the demand for cotton, while more variable and less inelastic than the demand for wheat, is by no means sufficiently elastic to keep price variations within moderate limits when, as usual, supplies vary within wide limits. One of the curses of the cotton-grower, and the cotton manufacturer as well, is the extreme variation of cotton prices from year to year. More perhaps with cotton than with any other crop, so-called stabilization measures are called for in the interest of the grower, and the reduction of instability should extend not merely to prices but back to cotton acreage planted, for abandonment is never a large factor as it is in the case of winter wheat. It can hardly be doubted that a scheme which offered the prospect of prices 2 cents a pound (or, say, \$3 an acre) better than otherwise, would stimulate cotton production, and

¹ Cf. Bradford B. Smith, "Factors Affecting the Price of Cotton," U.S. Department of Agriculture, *Technical Bulletin No. 50*, January 1928.

² Cf. G. M. Peterson, "The Relation of Annual Weather Surpluses to Net Farm Incomes," *The Annals*, March 1929, CXLII, 391-401, especially p. 398.

³ Cf. Bureau of Railway Economics, "Commodity Prices in Their Relation to Transportation Costs: Fertilizer," *Bulletin No. 36*, August 1929.

very probably to an extent that would cause the price actually realized for the newly planted crop to be less than if the prospect had not been offered.

When such a price depression was experienced, probably in the second or third year of the operation of the plan, it would provoke restriction of acreage and fertilizer use. Contraction and subsequent expansion of acreage would occur much as they have in recent years, probably with some tendency for net expansion in low-cost areas to be given a special impetus. Just what would be the level of acreage and growers' prices, around which they would fluctuate from year to year, it is impossible to predict. It is pertinent to observe, however, that even after the disastrous financial returns of 1926-27, after a high yield on a record acreage of 47,087,000 acres, the cotton acreage receded only to 40,138,000 acres in 1927, a larger figure than in any year prior to 1924; and that in 1928, after a year in which farm prices of cotton averaged under 20 cents, the acreage increased to 45,326,000, not far below the levels of 1925 and 1926. It is also significant that a recent statistical investigation as to the growers' price for cotton which has latterly tended neither to stimulate nor to contract cotton acreage, has pointed to a price of 18.3 cents,¹ and that only in one year since 1921 has the average farm price fallen appreciably below this. Many growers certainly find such a price unremunerative, but a prospective addition of 2 cents a pound to the average price of recent years would be practically certain to restrain contraction of acreage by many growers and to promote expansion by many others, so that a substantial increase in acreage would occur. The natural result would be a recession of prices from the level to which they had been initially raised.

On the whole, we can see no grounds for believing that

¹ L. H. Bean, "The Farmers' Response to Price," *Journal of Farm Economics*, July 1929, XI, 368-85, especially p. 378.

the level of cotton prices to growers, in a period beginning two or three years after the debenture plan was first applied, would be any higher than they would have been if the plan had not been applied at all. Indeed, the price level might even be lower, if the initial operation of the plan stimulated expansion of low-cost acreage. For a year or two, cotton growers might profit by the scheme, but quite shortly their returns as a group would cease to be enhanced and might even be diminished as a consequence of the operation of the system.

If, however, the growers would reap only a very temporary benefit, the cost to the Treasury would continue. Our cotton production would have been increased; it would command lower prices abroad because of this increase; but the Treasury payments would cause the farm price at best to approximate the price that would have obtained without this form of government intervention. Probably some growers would reap a net advantage, while others would suffer a net disadvantage. But the Treasury would be paying out a hundred million dollars or more a year, and foreign cotton manufacturers (but not our own) would get American cotton this much cheaper than if the scheme had not been applied. Textile interests abroad would certainly not complain, nor would their customers. Probably no serious retaliation would be caused (except probably on debenturable cotton manufactures), for India and Egypt, our principal competitors in cotton-growing, could presumably harm our trade but little if they tried. But it is difficult to conceive how the debenture system as applied to cotton could be defended in Congress if it should have such results. No adjustment of rates could avert the tendencies mentioned; and application of the flexible device, even more clearly than in the case of wheat, would tend to accentuate instability of prices. The abandonment of the system would presumably have consequences as objectionable as in the case of wheat.

In a word, the application of the debenture plan to cotton would be a costly, crude, and ineffective device to "restore prosperity" to cotton growers. It would also be inappropriate, for it would go to the root of none of the factors responsible for the financial difficulties of the cotton growers, and contribute nothing toward removing them. Even the moderate expansion of cotton acreage that it might bring about would not appreciably affect land values or reduce the acreage or output of other crops. Altogether, the unsuitability of cotton for the application of the debenture plan appears so plain that it would probably not have escaped the advocates of the plan itself if they had given as much attention to cotton as they have to wheat, or if it had not seemed an essential condition of obtaining political support from legislators from the cotton states.

CATTLE AND BEEF

The case of cattle may well be considered next and more briefly. Cattle rank next below wheat in the theoretically calculated advantages offered to growers from the application of the debenture scheme, and the cost to the Treasury in this case is calculated as negligible.¹ But the real prospects for advantage to the cattle-grower are exceedingly slight, for reasons quite different from those in the case of cotton.

In cattle we are approximately self-sufficing, and have been for many years. Our foreign trade in live cattle is very small in proportion to our livestock count and domestic movement. It consists chiefly in small exports and imports of breeding stock, and imports of feeder cattle from Canada and Mexico. Quarantines render it virtually impossible to import cattle from other countries, and tariff duties restrict cattle imports from Canada and Mexico. Moreover, our international trade in beef products is rela-

¹ See above, pp. 102, 103, 106.

tively very small. We import and export some fresh, canned, and otherwise preserved beef and veal, but only in small quantities. Our principal export product of cattle is oleo oil. There are large exports of hides, leather, and leather goods, but even larger imports of hides; and the extent to which our exports of these products are produced from foreign materials is difficult to determine. All told, however, there is a growing balance of imports over exports in cattle, beef, and beef products combined, and hides and skins constitute a major class of imports. In spite of conditions which make possible a huge production of beef for domestic use, despite the decline of the public range, for many years (except during the war) we have been unable to compete with Argentina in producing either live cattle or beef for the world market. There is no prospect that the United States will again, except under peculiar and temporary conditions, become a substantial exporter of cattle and beef. Indeed it is not unlikely that we shall in time become substantial importers of cattle, and possibly beef as well.

Under the Tariff Act of 1922, the duty on cattle is 1½ cents a pound on animals weighing less than 1,050 pounds, and 2 cents a pound on animals weighing 1,050 pounds and over—which represent moderate advances over the 30 per cent ad valorem duty imposed by the Emergency Tariff Act of 1921; and the duty on beef and veal is 3 cents a pound, as compared with 2 cents under the Emergency Tariff.¹ How much effect these duties have thus far had on domestic prices of cattle and beef is a question on which experts disagree.² Imports are very small in proportion to

¹ Under the Tariff of 1913, these commodities were on the free list.

² L. R. Edminster, in his study of *The Cattle Industry and the Tariff* (New York, 1926), reached the conclusion that the duties had "thus far had no appreciable effect on domestic prices," and could not be expected to have much influence toward raising domestic prices; but his chief in the Institute of Economics considered these conclusions unduly conservative (cf. especially pp. 240, 264-67).

consumption, and are not, so to speak, representative of that consumption. Shipment costs are such that influences at or near border points are not felt throughout the country. Geographical variations in prices within the country are not only considerable but changing. In view of our position on a net-import basis in cattle and cattle products, and the tendency for domestic production of cattle to fall further below our national requirements, one would naturally look to duties on imports, rather than to debentures on exports, to yield price enhancement, even under the reasoning of confirmed believers in the debenture plan.

Fundamental conditions for the effectiveness of export debenture rates are lacking. It is not and cannot be seriously maintained that American prices of cattle and beef are determined in world markets, even to the extent that is true of wheat, to say nothing of cotton. Prices in this country are not wholly unresponsive to changes in prices in Argentina and Great Britain. Comparisons are not readily made, but the indications are that the price differentials are subject to wide fluctuations. Because of our substantial self-sufficiency in cattle and beef, coupled with our quarantines, the United States constitutes a self-contained market for cattle and for beef, only indirectly and imperfectly subject to foreign influences. Certainly in the last few years, American prices of cattle and fresh beef have been distinctly above and independent of what might be called world prices, if indeed such exist.

Premiums on exports of these products, then, could have but little effect on our exports—under present conditions, almost none at all. They would doubtless tend to increase to some extent the small fraction that could profitably be exported, but transportation costs, price differentials, and other factors are such that growers of the cattle contributing the additional exports could not be expected to gain by anything approaching the full extent of

the debenture rates; a large part of the premium would be absorbed in overcoming economic obstacles to export. The effect on exports and domestic prices of dried, canned, and otherwise prepared beef, and of oleo oil, might be somewhat larger. Here, as in the case of certain pork products discussed below, the main question would be how far such price enhancement would be reflected back to cattle-growers. The case of oleo oil is complicated by the wide range of substitutability among various animal fats and vegetable oils.

At best, however, the exported fraction of our domestic cattle and beef supplies would be so small as to be almost negligible. Under these circumstances, it appears absurd to assume that even the limited price advantage realized by producers of the export fraction would be shared by all cattle-growers. A large volume of beef products come from dairy cows and represent a by-product of the agriculture of dairying. Competitive bidding between exporters and purchasers for domestic use would be largely absent. The influence would be too weak, and the neutralizing influences, in a country so large as this, with costs of transportation no mean factor, would be numerous. It is safe to say that, if the influence of the tariff duties on cattle and beef prices is too slight to be clearly discerned, when we are net importers of cattle and beef to a slight extent in spite of the tariff, the influence of export debenture rates of one-half the amount of tariff duties would be even more difficult to detect. The cost to the Treasury would be small, but there would be no appreciable offset to it, even from the outset. Certainly it is highly erroneous to calculate increased returns to cattle-growers on the usual assumptions of the debenture plan advocates, and a computed gain of 118 million dollars represents an extreme overstatement of possible gains to cattle growers.

As a matter of fact, cattle and beef do not really belong

in the class of farm products to which the advocates of the debenture plan argue that it should be applied—namely, to those of which the United States produces more or less substantial surpluses. Their inclusion of these in the list of debenturable commodities, in most of the debenture bills, must be regarded as a gesture designed to improve the prospects of adoption of the measure, rather than as a serious proposal for aid to the growers. It presumably rested mainly upon the need of attracting support for the plan in certain states, and perhaps in part on feeling that some incidental gains to farmers might accrue from it. Be that as it may, it is necessary to emphasize that the debenture plan if applied to cattle and beef could not be expected to yield appreciable gains to producers.

CORN AND PORK PRODUCTS

The complicated cases of corn and of hogs and pork products must be considered close together. The United States leads the world in the production of corn; indeed we produce from one-half to two-thirds of the estimated world crop. Our exports of corn as grain, however, represent usually less than 1 per cent of our crop, and ordinarily constitute a minor fraction of the international trade in corn, which is dominated by Argentine exports. Argentine corn, because of superior keeping quality and other reasons, is usually preferred by foreign feeders; and American corn is imported mainly when, in occasional years or in certain months of other years, it can be had at a discount under Argentine corn and other feedstuffs.

The great bulk of our corn is fed to livestock, chiefly cattle and hogs. Of the portion that is harvested as grain, usually less than 20 per cent is shipped out of the county where it is grown; most of the 80 per cent is fed to livestock—hogs, cattle, horses, mules, and poultry—on the farms where it is grown. Some 40 to 50 per cent of the harvested grain is fed to hogs, and for these it is the major

feedstuff. Though corn is raised to some extent in almost every state of the Union, the great producing area is in a belt extending from central Ohio through Indiana, Illinois, and Iowa, and into northern Missouri, eastern Nebraska, southeastern South Dakota, and southern Minnesota. This is naturally also the great hog-raising region. Though commonly known as the Corn Belt, it might more appropriately be termed the Corn-Hog Belt, for in most of it corn is only an intermediate product, while hogs, from corn-hog farms, are the principal marketed product.

Our exports of live hogs are negligible, but from our huge volume of the products of hog slaughter we export a considerable fraction, and these exports constitute a large element in our agricultural exports. In this group of export products, though not in every item of the group, the United States outranks all other exporting countries. In a special but significant sense, we export corn heavily in the form of lard, ham, bacon, salt pork, and other hog products. These are sold abroad in competition with domestic production of importing countries and with shipments from a few exporting countries, notably Canada, Denmark, and Holland.

In view of the magnitude of our exports of lard, ham, bacon, and some other hog products, domestic prices of hogs are necessarily influenced by the prices that can be obtained for these products in foreign markets. It is primarily through this relationship that world conditions, including corn crops, are reflected back to prices of hogs and corn in the United States. The reflection is far from perfect. For corn and pork products the terms "world market" and "world prices" have a much less definite and less significant meaning than in the case of cotton and wheat. The conditions affecting the markets are more complex. Moreover, hogs are converted into a great variety of different products, and our exports are made up in considerable part of joint products (mainly lard) which

sell at relatively low prices per pound. The export trade is dominated by a few large packers, who also hold the leading position, though a less dominant one, in the domestic trade. The business is one of variable profits as well as variable prices, and prices obtained for export products are imperfectly reflected back to prices paid for live hogs.

The bearing of prices of hog products and corn exported, on the growers' price of corn, is even less direct. The price of corn in this country is not determined by, or even intimately related to, "world prices of corn," if indeed it is safe to use this term at all. Corn crops, stocks, and crop prospects in Argentina, Roumania, and other exporting countries, and livestock population and feed supplies in importing countries, exert more or less influence, usually indirectly rather than directly, but they are not dominant factors in American cash corn markets. Domestic factors, notably the size of our own crops of corn and other grains, and the number of hogs, cattle, horses, and mules, and conditions influencing feeding practice, largely determine domestic prices of corn.

Moreover, the domestic price of cash corn does not determine the value of the corn crop. In certain areas which both market and feed corn, of which the largest centers in Illinois, the relation between cash corn prices and prospective values if fed to stock determines the proportion that will be sent to market, and an approximate equilibrium between the two values is maintained. If cash corn is high, the zone over which this equilibrium is maintained may be much enlarged, while if cash corn is low, the zone will be restricted. But as a rule, over large areas, in the Corn Belt and outside it, the value of corn is determined primarily if not solely by its value for feed.

It is essential to bear in mind the foregoing considerations, for the usual assumption underlying the debenture plan is that farm prices of debenturable products are now determined by world prices, and that the application of

the debenture plan will raise farm prices of products marketed by farmers, by raising the prices of the fraction exported. With corn and hogs these conditions do not hold.

Under actual conditions, the application of the debenture plan to corn, with the proposed debenture rate of $7\frac{1}{2}$ cents a bushel, would have little effect upon domestic prices of cash corn. We do not routinely export corn overseas, and our corn prices are not closely linked to the prices in importing markets. The export bonus would give some stimulus to exports of corn as grain. At times it might so stimulate exports that prices of cash corn would be raised by the full amount of the debenture rate, less any reduction in the foreign prices occasioned by pressing it upon foreign markets. Most of the time, however, the export bonus would be absorbed, in part or even wholly, in making up the deficiency in attractiveness of the price obtainable abroad, or would be insufficient to do even this. Disregarding any possibilities of foreign retaliation, and any ulterior consequences on acreage and production of corn here, one cannot seriously entertain the idea that cash corn prices would be directly raised in substantial degree, or to anything like the extent of the debenture rate.

Such increase in cash corn prices as might be brought about, at certain periods, would be inadequately reflected in values of the crop as a whole. An increase in the price of cash corn would be felt at its maximum in the limited regions which commonly ship much of their crop of corn to markets (chiefly Chicago) in which exporters would compete. In these areas it would tend to change somewhat the proportion between the amounts marketed as such and the quantities fed, and to raise the costs of producing hogs, cattle, and milk. It would somewhat enlarge this zone, but have less influence in the added areas. It would have negligible influence in large areas of the Corn-Hog Belt and in most of the corn-growing regions outside.

Some indirect influences must be mentioned here. Hog

raisers (and cattle feeders) who buy in the cash corn market, and those who live in the regions affected by increased prices of cash corn, would be put at a competitive disadvantage. In so far as the export bonus promoted the export of corn, and cheapened it—at least relatively—to foreign buyers, it would tend to lower the costs of producing pork in regions, including European corn-importing countries and even Canada, where hog products are produced with which our exports of these products must compete. President Hoover's ninth point¹ against the debenture plan may be pertinently quoted here:

A further serious question arises again (if the plan did have the effect intended) where the foreign producer of animals would be enabled to purchase feed for less than the American farmer producing the same animals. For instance, the swine-growers in Ontario would be able to purchase American corn for less than the American farmers across the border, and it would tend to transfer the production of pork products for export to Europe from the United States to Canada. It would have the same and probably even more disastrous effect in dairy products.²

The greater the effect of the corn debenture on the prices of corn, the stronger would be this tendency. In so far as it was operative, at least part of the effect of the debenture rate on exports of pork products, and thereby on prices of live hogs, would be offset by higher cost of feeding hogs. Certainly any tendency to promote export of corn as grain other than in meat and fats would hardly seem to be in the direction of economical use of our resources. It is a truism in the Corn Belt that selling corn as grain is the least advantageous disposition of the crop.

For benefits to the corn-grower, however, and to the hog-raiser as well, the principal reliance under the debenture plan would be upon its application to exports of

¹ *Congressional Record*, April 22, 1929, p. 284.

² The degree of influence on dairy products is open to question, but we refrain from considering this point at length.

pork products, on the assumption that higher prices for these would be reflected back to producers of hogs and indirectly to producers of corn. Professor Black has put pork products first in the group of products for which he believes the debenture system constitutes the best type of price-raising device. He has not elaborated his reasons for this view. One may infer that it is because of convictions that tariff duties on corn, hogs, or pork products would have negligible effects, that other price-raising schemes would be very difficult to apply, and that the debenture plan for pork products offers an apparently simple price-raising mechanism that would benefit both hog-raisers and corn-growers. How far this would be true will require consideration.

Our principal exports of hog products are lard, hams and shoulders (with Wiltshire sides), and bacon (with Cumberland sides), also salt pork. The export of lard is a staple article of commerce; much of it competes on even or better terms with lard produced in the importing countries, although much of our exported lard is re-processed in importing countries. We export large quantities partly because of two domestic factors; first, our swine are predominantly lard-type rather than bacon-type hogs, and have a high yield of fat that is rendered for lard; second, vegetable fats (notably cottonseed oil) are more and more displacing lard for culinary use in this country. Consequently, even if we had no export surplus of hogs, bacon, and ham, we should still have a surplus of lard, and domestic lard prices ordinarily run very low in proportion to the prices of other hog products. In effect, lard is a by-product, sold for what it will contribute toward the cost of the whole operation; occasionally, indeed, lard sells for less per pound than do live hogs. It is said that packers frequently endeavor, with what success it is difficult to say, to export enough lard to hold up domestic lard prices, shading the price to foreign

buyers in the hope of getting a better return from the sale of the entire output.

If, now, the debenture system were applied to lard, there seems to be no question that it would help the packers to dispose of a relatively unprofitable product. Getting debentures on all lard exported, they would be legally encouraged to maintain a differential between domestic and export prices of lard, to the extent of the debenture rate. By increasing somewhat their gross returns, this would presumably increase their ability to bid higher for live hogs. On the other hand, it is impossible to believe that it would raise the prices of live hogs to a corresponding extent, even in the early stages of the application of the scheme. The increased exports of lard would certainly command lower prices, and hence domestic prices of lard would be raised by less than the amount of the debenture rate; and in part the increased returns for lard might simply swell the packers' gross returns rather than be passed on to the hog producer. As in the case of flour, the farther the enhancement of price is removed from the grower and the greater the element of joint production, the larger are the chances that the grower will fail to get the full benefit of the price enhancement. In recent years at least, packers' profits have not been such that additions of this sort would be unwelcome, and the packers might easily regard it as a partial offset to certain disadvantages under which they labor in the domestic market, in competition with plants not subject to federal inspection. Furthermore, the raising of the price of lard, relative to other pork products, would encourage the marketing of more fat hogs, yielding excess lard and soft or fatty meats, whereas the existing price relationships lead packers (through price differentials) to encourage producers to produce leaner hogs which yield joint products that are more in demand in this country.

What has been said of lard would apply largely also

to mess pork, fatbacks, etc. The situation with respect to ham and bacon is slightly different. These are major products of hog slaughter; in the domestic market they command much higher prices than lard, and the calculated profit margin is larger. On the other hand, these products are not in an advantageous position in foreign markets; for reasons of taste, if not of inherent quality, they command lower prices in leading import markets, such as Great Britain, than do corresponding domestic products and imports from Canada, Denmark, and Holland. Before the war, and again since the period of wartime expansion, our exports of these products showed a downward trend, for such reasons as these. If debenture rates were applied to them, differentials between domestic and export prices would presumably be set up, but the consequent net increase in domestic prices would probably be smaller than in the case of lard because a larger part of the debenture rate would probably be absorbed in overcoming "sales resistance" abroad. In so far as it was effective, it would tend to modify packinghouse practice, to an unforeseeable extent, and presumably not in economic directions.

Altogether effective appraisal of the effects upon producers of corn and hogs, even in the early stages of the operation of the debenture plan if it were applied to these products, is impossible even if one ignores the various products of corn (corn meal, corn starch, corn oil, glucose, corn sugar, etc.).¹ Enough has been said to indicate that nothing like the full amount of debenture rates would be reflected back in increased prices to corn farmers who grow and/or raise hogs. It would somewhat change geographical relationships of markets and prices,

¹ Considerable quantities of corn are used in making these products, and a considerable volume of these products is exported. The complications that would be introduced into this production and trade would be roughly similar to those already discussed in the case of flour, but the relative importance would be much less in the case of corn products.

and price relationships among the various pork products. Such changes, affecting growers, packers, and consumers, would be largely lost among the changes that take place from year to year under present conditions. They would certainly not be measurable, and they probably would not be perceptible. The chances are that they would be reflected most clearly in packinghouse profits.

However this may be, there is no reason to suppose that these applications of the debenture plan would serve to alter the level of profitability of corn farming, hog-raising, or corn-hog farming. In so far as they yielded price advantages to the growers, these would prove temporary through expansion of hog production, just as is the case today when high prices happen to prevail. The plan would reach none of the causes of unsatisfactory conditions among corn-and-hog farmers, and contribute nothing appreciable toward solving the problems involved in the situation. It seems clear that substantially higher hog prices are to be secured only by restricting the supply. Control of breeding, improvement in strains, greater efficiency in feeding to marketing maturity, and better adjustment to market requirements are sounder implements for ensuring higher farm returns on hogs.

TOBACCO

The case of tobacco again presents a number of peculiarities. The United States produces about 35 per cent of the world crop. It "leads the world not only in the total production of tobacco but also in the number and diversity of distinctive types produced. Types of leaf especially adapted to all forms in which tobacco is used are produced in important quantities."¹ It is a characteristic of tobacco culture that the product of each locality is distinctive, and cannot be reproduced elsewhere. Tobacco grown in Ohio from Cuban seed shortly reverts

¹ *Agriculture Yearbook, 1922, pp. 396-97.*

to the Ohio type; Virginia tobacco grown in Mexico soon becomes the Mexican type. Even in the United States the characteristic types (Piedmont, Burley, and others) are confined to limited regions. The variation in type is greater than in the case of wheat, rice, and cotton. The manufactured products—cigars, cigarettes, and pipe tobaccos—are very largely blends. To a large extent different types are non-competitive, and their prices vary more or less independently.

The United States is also by far the leading exporter of unmanufactured tobacco. Our exports consist predominantly of bright flue-cured tobacco, which is produced in largest quantities in North Carolina and to an important extent also in Virginia, South Carolina, and Georgia. Dark-fired tobacco, grown in Kentucky, Tennessee, and Virginia, constitutes the only other important export tobacco. Air-cured Burley, grown mainly in Kentucky, and air-cured Maryland and Ohio tobaccos, are minor elements in the exports. On the other hand, we import Turkish type tobacco from the Levant, mainly for use in blended domestic (Burley and brightleaf) and Turkish cigarettes. From Cuba we import chiefly cigar-filler types, a different class of which is also grown in Pennsylvania and Ohio. From the Dutch East Indies we import a characteristic cigar-wrapper type, while producing other types of cigar-wrapper tobacco chiefly in Connecticut and Georgia-Florida.

The tariff rates on tobacco are among the highest in the tariff acts, partly for protection, partly for revenue. Rates are highest, in fact well-nigh prohibitive, on manufactured tobacco. On wrapper tobacco the rates are \$2.10 a pound on unstemmed leaves, and \$2.75 a pound on stemmed leaves; yet a large part of our domestic requirements of these types are imported. The lowest rate, on filler tobaccos for cigars and cigarettes, is 35 cents a pound. Just as American smokers prefer blends requir-

ing imported types, foreign smokers prize American types for their characteristic qualities, and exports are heavy. The tariff duties are effective in increasing the American prices of imported tobaccos but, chiefly because of differences in quality and complementary uses, they do not serve to raise the prices of domestic leaf of competing or complementary types by anything like the amount of the duty.

If, now, the proposed debenture rate of 2 cents a pound (equivalent to about \$15 an acre) were applied to exports of unmanufactured tobacco, the export bonus would have no effect on many types of tobacco, for it would not suffice to make exports of these types profitable. The benefits would accrue almost exclusively to the export types mentioned above, which, however, constitute well over half of our tobacco production. This would tend to expand the culture of export types, and thus to increase the dependence of growers upon foreign markets, which has been commonly regarded as a major source of their unsatisfactory situation. Even for these types, it is improbable that the domestic farm prices would be raised, at the outset, by the full amount of the debenture rate, for two reasons: in all probability expansion of exports would lower the prices obtainable abroad, so that the export bonus would in effect be shared with the foreign purchaser; and competition among buyers of tobacco could not be counted upon to reflect back to the grower the full net enhancement in the export price plus the debenture rate. It is necessary to observe that in several of the most important foreign markets, including France, Italy, and Japan, tobacco is purchased, manufactured, and sold by a government monopoly, and that elsewhere much of the business is highly concentrated; while in the United States the purchase of tobacco for cigarette manufacture is concentrated in a few large concerns, and the cigar industry is tending to develop a similar concentration. Initially,

however, an increase in the farm price of the export types could be expected, probably in an amount that would represent a significant addition to the price that would otherwise have prevailed. Such an addition would not be measurable, for other factors cause variations in farm prices of tobacco by much more than 2 cents a pound.

The acreage in tobacco, like that of cotton, is highly price-responsive, and varies within considerable limits. Yields per acre also vary from year to year, but variations in acreage are usually of greater importance in determining the size of the crop. Judging by the evidence of recent years, a difference of a cent or two per pound in growers' prices may exert a material influence on acreage. An average price of 20 cents or more tends to stimulate acreage, and an average price of 19 cents or less, tends to restrict it. With reference to response of acreage to price, the case of export tobaccos is roughly similar to the case of cotton, with the exception that expansion outside the present producing regions would be of little consequence. In so far as the debenture system brought higher prices to the grower initially, it would lead to prompt expansion of acreage, output, and exports, with prompt adverse reactions upon prices. The net effect of the operation of the scheme would shortly be the maintenance of a slightly larger acreage, a moderately larger export, no price advantage to the grower (except in the early stages), and a cost to the Treasury exceeding ten million dollars a year, while foreign purchasers of American tobacco would be able to obtain their supplies more cheaply to a corresponding extent.

RICE

Finally we come to a case that differs in several respects from those already discussed. Rice is distinctly a minor crop in this country, not only in acreage but in value of product as well. We produce rice almost exclu-

sively in three limited areas: on the lowlands along the Gulf Coast in Louisiana and Texas, in eastern Arkansas, and in the Sacramento Valley of California.¹ Our rice acreage and production expanded greatly during the Great War, under a stimulus of high prices, and reached its peak with the 1920 crop; California rose to high rank as a producer from a small beginning in 1912. Since 1920 both acreage and production have been reduced, but stand some 40 to 50 per cent higher than before the war. Even so, our annual output seldom exceeds 1 per cent of the estimated world total. Every year we import some rice, export some, and ship some to Alaska, Hawaii, Porto Rico, and other possessions. These cross-currents of trade are due to a variety of factors, including differences in type of rice, differences in national preferences for one type or another, tariff conditions, and advantages in cleaning or milling rice in this country. Prior to the war our imports almost invariably exceeded the aggregate of our re-exports, domestic exports, and shipments to possessions. From 1915-16, however, our outward shipments have annually exceeded our imports, except in 1917-18; and our exports to foreign countries have exceeded our imports in every year since the war except 1925-26. In recent years our exports plus shipments to possessions have represented from a third to a half of our domestic production. Nevertheless, as an exporter we rank far behind British India, French Indo-China, and Siam, and our exports constitute a very small fraction of the international rice trade.

In relation to farm prices and wholesale prices, tariff duties on rice are substantial. The weighted average farm prices for the United States, as of December 1, according to official estimates, have been as follows in recent years, in cents per pound:

¹ See map in U.S. Department of Agriculture *Yearbook*, 1922, p. 517, and statistics of acreage and production by states in *ibid.*, 1928, p. 747.

1921-25 ave.	2.63	1925	3.42
1922	2.07	1926	2.44
1923	2.45	1927	2.08
1924	3.08	1928	1.97

The duty on paddy or rough rice is 1 cent per pound; on brown rice (hulls removed), $1\frac{1}{4}$ cents; and on broken rice, rice meal, flour-polish, and bran, $\frac{1}{2}$ cent. The bearing of these duties on rice production, prices, and growers' profits has not been carefully studied. On the types which we regularly produce for export as well as for domestic use, they presumably have no effect, except that in an occasional year, when our crop is exceptionally short, they restrict imports both to the United States and to our possessions, and help to boost prices here. They doubtless restrict imports and raise consumers' prices of certain types of rice that we do not produce, and so enlarge somewhat the domestic market for home-grown types. Possibly they may have helped to check the decline in rice growing here in the post-war period, after its expansion during the war; but we export so much rice that domestic prices of our characteristic types tend to be upon an export basis, and not on the basis of world price plus tariff duty.

If now we put an export bounty on rice, of $\frac{1}{2}$ cent per pound or more, its initial effect would presumably be to stimulate exports to foreign countries, and thereby to raise the level of domestic prices somewhat, nearly to the extent of the debenture rate. The additional exports would probably have little influence on world prices; but since imports come in over the present duty, and tend, other things equal, to rise when our prices rise, imports too would be stimulated. Our shipments to possessions, which have since 1923-24 exceeded our exports to foreign countries, might be reduced somewhat, because of increased prices here and no change in the duty-paid import prices from foreign countries. In short, we should prob-

ably import more rice and export more, but ship less to our possessions, and probably producers would gain by almost the amount of the debenture rate.

This effect, however, could not be expected to be permanent, for the price enhancement of something like $\frac{1}{2}$ cent per pound (equivalent to about \$9 an acre) would constitute an unquestionable stimulus to production. The response would probably be as prompt as in the case of cotton, for, although rice acreage appears to be somewhat less price responsive than cotton acreage is, the ratio of the debenture rate to farm price would be much higher with rice than with cotton. Expansion in rice acreage is the more feasible in this country because machinery can be employed in preparation of the soil and in harvesting. There is no reason for believing that the level around which the farm prices of rice would fluctuate, after two or three years at most, would be appreciably higher than if the plan had not been tried. Acreage, production, and exports would presumably fluctuate on a slightly higher level and the debenture would cost the Treasury something; but the net effect would presumably be of minor consequence.

CONCLUSION

The foregoing consideration of the probable working of the debenture plan, if it were applied to the commodities just discussed, reveals striking differences among the various commodities. The initial advantage accorded to producers would presumably be greatest in the case of rice and cotton, least in the case of cattle and perhaps corn as well. Even the early advantages to farm producers, through increased prices, would be much less in the aggregate than have been commonly calculated, since in no important case (e.g., cotton) would farm prices be raised by the full amount of the debenture rate, and in some important cases (e.g., cattle) the prices would not be

raised appreciably if at all. In general, however, the initial price advantages reaped by producers would be temporary. They would rapidly diminish, and within three or four years would largely or wholly disappear. Acreage, production, and exports might be slightly enlarged as a result of the application of the system, but no appreciable lasting increase in farm prosperity could be traced to the operation of the plan. If the system were continued, the Treasury would be carrying a burden amounting to several hundred million dollars, larger because of increased exports, without benefiting farmers. The system would tend to increase our export dependence on foreign markets, which is charged with much responsibility for unsatisfactory conditions in our agriculture. Incidentally, a relative advantage, often indeed an absolute advantage, would be given to foreign manufacturers, and to foreign users of our feedstuffs, who could get our farm products cheaper because of the operation of the system; and uneconomic adjustments in our converting or manufacturing industries would be fostered. Abandonment of the system, in whole or in part, would be opposed because it would entail at least temporary price recessions and restriction of acreage, as well as losses to holders of stocks; and these consequences would presumably ensue when the pressure to abolish a fruitless burden on the Treasury could no longer be resisted. On the whole, consideration of these commodities inclines one to the view that the case for the debenture plan is materially weaker for other commodities than it is for wheat and flour.

The results of such commodity analysis, therefore, are in striking contradiction to the inferences confidently drawn by supporters of the debenture plan. They indicate that, even on certain assumptions as to minimum discounts on the debentures and absence of manipulation by middlemen, farmers would not, even at the outset, find

that prices of their debenturable products were enhanced by the full debenture rates. They show further that, with a number of commodities, as a natural consequence of early price enhancement—anticipated and realized—planting, production, and exports would be stimulated, with consequent tendencies to wiping out the initial price enhancement to domestic growers. There is no economic justification for expecting that farm prices, however much they might initially be raised, would stay above the levels that would otherwise obtain, by more than a small fraction of the debenture rate, if indeed any net price enhancement were secured.

We cannot, therefore, escape the conclusion that the effectiveness of the debenture plan, upon which the case for it chiefly rests, would prove largely illusory, even if foreign nations should pursue a policy of ignoring the system; and that over against the limited net gains to farmers, the costs to the Treasury and the readjustments entailed upon farmers and business interests would constitute highly important offsets.

CHAPTER VIII

THE BEARING OF FOREIGN EXPERIENCE

Spokesmen for the debenture plan have frequently referred to foreign experience with analogous devices, and have given the impression that such experience directly supports their theory as to price-raising effects and benefits to farmers. They have asserted that the plan is "based upon a lot of world experience in making the tariff effective for agriculture," and can be "regarded as a tried system," with "benefit to agriculture in each case."¹ There have indeed been innumerable instances of export bounties and somewhat analogous devices applied to agricultural products by a large number of nations. Without undertaking extensive original research in this field, we have nevertheless looked into the available literature on this subject² at least as fully as those who cite it in behalf of the debenture plan appear to have done. This examination leads us to believe that the advocates of the plan have seriously misconstrued the foreign experience.

THE GERMAN IMPORT CERTIFICATE SYSTEM

The most prominent parallel has been drawn with Germany's import certificate system,³ which furnished the inspiration for the formulation of the export debenture plan. It was in force in Germany from 1894 to 1914, and was re-established in 1925. A similar system was in vogue

¹ See the Grange pamphlet and C. L. Stewart's testimony before the Senate Committee, *Agriculture Relief Hearings*, April 1, 1926, pp. 73-74.

² A valuable guide to the literature of the subject is given by a recent publication of the U.S. Department of Agriculture: Bureau of Agricultural Economics, *Bounties on Agricultural Products: A Selected Bibliography*, compiled by A. M. Hannay, (mimeographed) July 1927. A convenient summary is given in Josef Grunzel, *Economic Protectionism* (Oxford, 1916), pp. 200-29.

³ For a somewhat fuller discussion, with references, see J. S. Davis, "The Export Debenture Plan for Aid to Agriculture," in *Quarterly Journal of Economics*, February 1929, XLIII, 263-68.

in France, from 1850 for grain, and from 1851 to 1888 for iron. Czechoslovakia adopted the German system in 1926, and in the same year Sweden copied it on a more limited scale.¹ The post-war experience has been too short to be of clear-cut significance, but the re-establishment of the system in Germany and its adoption elsewhere speaks in its favor.

In several respects the German import certificate system is quite like the proposed debenture system. Exporters of specified agricultural products of Germany, chiefly cereals and pulses, and specified manufactures thereof (and since April 15, 1928, live hogs and certain pork products), obtain from the Treasury upon exportation negotiable certificates representing a value corresponding to minimum tariff rates on imports of the same commodity. Within a limited period—formerly 6 months or 3 months, now 9 months—from date of issue, these import certificates (*Einfuhrscheine*) may be tendered at par in payment of customs duties on certain imports. Originally, the import certificates granted on the export of wheat or flour were good only for duties on imported wheat, and so with other products; but from 1906 they were tenderable for duties on any one of the same list of unmanufactured products. For some years prior to 1911, under certain regulations, they could be used alternatively to pay purely revenue duties imposed on certain products such as were not produced in Germany (e.g., coffee, cocoa, petroleum).

In form, then, the German import certificates are essentially equivalent to the proposed export debentures, except in a few particulars. The rates are identical with effective tariff rates, as proposed in the earliest debenture bills, and not lower as proposed in the later bills. They apply to a somewhat smaller list of export products.

¹ See House Committee on Agriculture, *Agricultural Relief (Export Debenture Plan) Hearings*, February 10, 1928, Serial E, Part 5, pp. 386-88.

The certificates are good for a somewhat shorter period. They can be tendered in payment of customs duties on certain products only. In practice the certificates usually sell at only a slight discount, though sometimes it is more than nominal. So far, the similarities between the two systems are more important than the differences.

When, however, we compare the German system and the proposed debenture plan with respect to purpose, conditions of application, and effects, some striking contrasts appear.

The debenture plan is designed to apply here only to products of which the United States produces more or less considerable export surpluses. Germany, however, is a net importer of the products to which the import certificate system is applied. When the plan was adopted she was a net importer of each of these products. During the operation of the system she became a fairly regular net exporter of two (rye and oats), but continued regularly a heavy net importer of the group of products as a whole. This difference, as will become apparent, is fundamental.

The purpose of the debenture plan is to raise farm prices of the debenturable products throughout the United States and thereby to contribute substantially to increase farm returns. The German system had and has no such object, but a far more modest one. German agriculture has recently been suffering acute depression, in part from causes peculiar to Germany, in part from the same causes that have caused grave difficulties here. But a German official, in writing recently of the crisis and the measures that have been taken to meet it, makes no mention of the re-establishment of the import certificate system.¹ The system was intended to correct a regional discrimination that happened to result from the enforce-

¹ Dr. R. E. Bosc, "Aid to German Agriculture," in *The Annals*, March 1929, CXLII, 361-66.

ment of high protective duties on agricultural products; and to prevent certain avoidable and costly disturbances to the grain trade that were caused by the import duties.

A brief explanation should make this clear. As a whole Germany produces less grain, and indeed, of most agricultural products, than she consumes. For military and other reasons, Germany has sought at different times, by various means, to check a tendency to become predominantly an urban, industrial nation, increasingly dependent on imports of foodstuffs. Hence the adoption of an agrarian protective policy in 1879 and its extension and persistence in subsequent years. But northeastern Germany is predominantly agricultural, with a regional surplus of grain and other farm products. For much of this surplus the best markets lay abroad, chiefly in Great Britain and Scandinavian countries. Shipment costs via the Baltic Sea were lower to these markets than to western, central, and southern Germany by rail or water. Furthermore, the wheat of this region was of such a character (low in gluten content) that it was more in demand abroad than in the rest of Germany, which produces somewhat similar soft wheat. To be utilized to best advantage it had to be mixed with hard wheats. The business of mixing this German wheat with Russian wheat, for export, had long been a profitable enterprise in German Baltic ports; today such grain can be mixed with Canadian wheat in British and North European centers. When the tariff duties were imposed, they were effective in raising prices of these farm products in most of Germany, practically to the full amount of the duty. But the east German farmers did not gain nearly as much. Shipped westward within Germany, their surplus had to bear heavy costs of transportation and a special discount for quality. Nevertheless they found it more profitable to accept a moderate increase in price for domestic sale in preference to export prices. Hence the mixing business

and the export trade shrank severely, and protests of merchants and shipping interests reinforced complaints of discrimination from the politically powerful landlords (*Junkers*).

The import certificate system was designed to remove this discrimination and to permit the restoration of trade to its usual course. Baltic exporters, receiving import certificates, could bid higher for the grain in question, and still make normal profits on mixing and export.¹ The farmers of the region could get virtually the equivalent of the export price plus the duty, and thus secure as much benefit from the composite system as farmers elsewhere in Germany obtained simply from the tariff. German milling interests generally preferred to use more of imported hard wheats, and to let much of eastern Germany's surplus go to foreign markets. Broadly speaking, the device worked as anticipated, and met with general approval, not as an independent policy on behalf of German agriculture, but as a minor complement of the tariff system that prevented needless discrimination and disturbance to trade. It cost the Treasury little or nothing, because imports increased by practically the amount of the exports, and the customs revenues were not demonstrably reduced. It has apparently provoked no retaliation abroad.

Now the debenture plan is not here proposed as a correction of regional discriminations or uneconomical disturbances to trade consequent upon existing duties on agricultural products. Indeed, as we have already seen, it would itself introduce certain regional discriminations in agriculture, and these not in economic directions. Whereas the German system is part of an agrarian protective policy designed to stimulate Germany's production of agricultural products, the debenture plan here

¹ Since the war, which cut off imports of Russian wheat, the mixing business has not revived, for lack of wheat supplies from Russia.

is designed to make farmers more prosperous without stimulating production. It is even argued for as a measure of surplus *control*,¹ and increase of production is regarded, not as a good to be desired, but as an evil to be guarded against. In practice, when the German certificates were made interchangeable after 1906, the system operated to stimulate production of rye and oats, somewhat at the expense of wheat and barley, with the result that Germany (in part from other causes) became ordinarily a net exporter of rye and oats and a larger net importer of wheat and barley. This experience tends to strengthen the prospect, already mentioned, that the debenture plan would lead in this country to a readjustment in the relative volume of farm products, not necessarily in the interests of the national economy.

Granting the success of the German scheme in achieving its objects without significant disadvantages, it does not follow that the debenture plan, if adopted here, would achieve its ends. No one claims for the German system the credit for achieving such objects as lie in the minds of proponents of the debenture system. If the means adopted are similar, the differences in aims and conditions of application are of outstanding importance.

It is conceivable that we might adopt the German import certificate system as such, with eventual advantage to our national economy.² In effect, the German grain trade is permitted to bring in a bushel of hard wheat duty-free as a stand-off to the export of a bushel of domestic soft wheat or a larger amount of rye or barley. The United States, as we have seen, is ordinarily an exporter of Pacific wheat, hard winter wheat, durum spring wheat, and of rye. We are practically on a domestic basis for high-grade hard spring wheat, and each year

¹ See above, pp. 21-23.

² Apparently this is what Professor Black had in mind in a statement in his testimony quoted above, p. 84.

witnesses the importation of a small amount of Canadian hard spring wheat for domestic consumption. If we really wish to apply the German system of import certificates here, we should grant to exporters of soft wheat, hard winter wheat, durum wheat, and rye, certificates entitling the bearer to import duty-free a corresponding volume of Canadian hard spring wheat. This would tend to correct an effective discrimination whereby growers of hard spring wheat now get the lion's share of the benefit from the tariff on wheat, while many growers, in many regions, gain nothing from it at all. Such a policy might be expected to simplify milling problems and make possible a more economical disposition of our grain supplies and in time, indeed, a more effective utilization of our national agricultural resources. But in our circumstances as a net exporter it would largely eliminate such benefits as the wheat tariff yields to our farmers, and would involve radical readjustments in the agriculture of our northwestern states. We cannot believe that such a proposal would be acceptable to farmer spokesmen. But we suggest that if this more direct analogy were fully appreciated, Germany's experience with import certificates would be less frequently cited in support of an American export debenture plan.

ENGLISH GRAIN EXPORT BOUNTIES

English experience with export bounties on grain is also cited on behalf of the debenture plan. Though unfortunately too little is authoritatively known concerning its real influence on English agriculture, some discussion of the system is pertinent here.

The first "corn bounty" legislation,¹ long forgotten until its discovery a few years ago, was passed in 1673

¹ See N. S. B. Gras, *The Evolution of the English Corn Market from the Twelfth to the Eighteenth Century* (Cambridge, Mass., 1915), pp. 112-14, 144-47, 245, 253-54, 418-20.

and expired by limitation after having been in force about five years. It provided for payments of specified cash bounties on the export of wheat, rye, barley, and malt, in ground or unground form, whenever port prices should stand at or below stated levels (and not when they stood higher), as follows:

	Wheat	Rye	Barley or malt
Price in port, per quarter of 480 lbs.....	48s.	32s.	24s.
Bounty per quarter.....	5s.	3s. 6d.	2s. 6d.

This provision was inconspicuously inserted near the end of a long statute which granted a large subsidy to the crown. Its object was put thus:

And to the end that all Owners of Land whereupon this Tax [direct tax of £1,238,750 to be raised within 18 months] principally lyeth may be the better enabled to pay the same by rendering the labours of the husbandmen in raising corne and graine more valuable by exportation of the same into forreigne parts which now is already at a very low rate and that the Nation in generall may have her stocke increased by the returns thereof. . . .

It was designed to raise domestic grain prices and enhance farming profits, not as a measure of restoring agricultural prosperity, but in order that the landowners might be better able to meet a new direct tax. It was also intended to expand grain exports, and thereby to attract imports of precious metals, to which the mercantilistic doctrines of the period attached large and unmerited importance. It was intended, like the new tax, to be temporary. It was to be effective only if and when domestic prices stood below certain levels. Moreover, it was engrafted upon an ancient and complex system of regulation of the grain trade, domestic and international, adopted with a view to stimulating production, limiting price fluctuations, and ensuring the nation's food supply. The contrasts with the debenture plan are obvious.

The detailed consequences of the measure are not known, and the historian of the act admits inability to

appraise its full significance. He finds, however, that grain exports, which had long been small, increased greatly, in part because of the stimulus to export and production afforded by the bounty; and that "the drain upon the treasury was considerable and came at an inopportune moment."

The policy lapsed for a decade, but in 1689 virtually the same provisions were enacted afresh, without limitation of time, and the preamble of the new act recited that experience had demonstrated the success of such a measure in achieving stated objectives. The corn bounty policy remained nominally in force until 1814. It was modified from time to time, suspended seventeen times between 1698 and 1773 when dearth was anticipated, and inoperative under its own limitations for most of the last 50 years before its repeal, as England ceased to be a net exporter of grain.

During much of its history the corn bounty system was the subject of much controversy, and neither contemporary nor later writers have agreed in their interpretation of the results. Two great English economists, Adam Smith in his *Wealth of Nations*,¹ and David Ricardo in his *Principles of Political Economy*,² condemned the system with emphasis, but on the basis of different interpretations of its results. Later economists and economic historians have not agreed upon authoritative answers to questions that one would like to ask about it.³ Grain production certainly increased during the bounty régime, but improvements in agriculture and an unusual preponderance of favorable seasons contributed largely to this result, and how much was the result of the bounty stimulus cannot be ascertained. Thorold Rogers, author

¹ Third edition, Book IV, chapters 1-8, especially chapter 5.

² Chapters 22, 23.

³ Cf. J. S. Nicholson, *The History of the English Corn Laws* (London, 1904), *passim*.

of a monumental *History of Agriculture and Prices in England*,¹ says:

The bounty system of the Revolution [1689] was in principle quite as indefensible as the corn law of the Restoration; but it tended to defeat its own ends by extending the area of cultivation, and I have little doubt that much of the plenty which characterised the first half of the eighteenth century was due to the bounty on exported corn [grain], and to gambling for the bounty.

On the other hand W. Cunningham² speaks more favorably of the policy's inauguration in 1689:

The result which followed was twofold; first, the landed interest was so far relieved from loss by low prices, in the case of a plentiful harvest, that there was a distinct inducement to invest capital in the land; and second, by encouraging such extensive production of corn there was some security that the food supply of the people would not be deficient

In any event, England ceased to be a regular net exporter of grain after about 1765, and a net exporter at all some twenty-five years later.

Whether because of or merely in spite of the policy, English grain prices ran low until England's consumption came to exceed her production; indeed, about as low as in France, where export was prohibited. Some careful students have concluded that the system furnished a material stimulus to production, promoted the exports of especially the poorer qualities of grain, and cost the treasury considerable sums; but that it did not cause material injury to consumers because the direct tendency to raise prices was offset by increased output, and when prices rose above a certain point the bounty was withdrawn. Conceivably it may have tended, at it was applied,

¹ The full title includes the words, *From the Year After the Oxford Parliament (1259) to the Commencement of the Continental War (1793)* by James E. Thorold Rogers (7 vols. in 8, Oxford, 1866-1902). The passage quoted is in Vol. V, p. 784.

² *The Growth of English Industry and Commerce in Modern Times* (Cambridge, 1903), I, 541.

to mitigate the extreme variations in prices from year to year which had been an evil characteristic of the English grain trade. Whether grain prices would have averaged lower if the bounty system had not been in force cannot be ascertained; but there is no indication that they were permanently held above what they would otherwise have been, by anything like the extent of the bounty, if at all. How much the English farmers and landowners really gained by it is not clear; but it certainly did not ensure continuous agricultural prosperity or prevent complaints of "ruinous prices" of farm products.

If it is difficult to learn the true significance of the English grain bounties for the national economy, and particularly England's agriculture, it is at least equally difficult to draw reliable inferences concerning the meaning of this experience for the United States in connection with the proposed debenture plan. Certainly the conditions are widely different as to agriculture, grain merchandising, foreign trade, and economic relations in general. The export debenture plan is significantly different in being applicable regardless of price, and in practice it would presumably intensify price instability instead of moderating it.¹ So far as any inferences are warranted, however, they seem to us on the whole to confirm rather than to refute the reasoning we have set forth as to the probable operation of the debenture plan.

SUGAR BOUNTIES

Next to the English corn bounties, much more widespread, and much more recent, the sugar bounties of the second half of the nineteenth century constitute easily the most prominent application of export bounties to any agricultural product.² These first grew up indirectly

¹ See below, pp. 257-60.

² Cf. Josef Grunzel, *Economic Protectionism* (Oxford, 1916), pp. 207-13. For other extensive literature see the bibliography cited above, p. 264. The

in connection with efforts to collect taxes on sugar consumption, coupled with a policy of refunding the tax in case of exportation. Taxes were levied, for reasons of administrative convenience, on the beets or the sap on the basis of an assumed percentage of yield. The refund upon exportation of sugar was made on the same assumption. In consequence, producers who obtained better yields were able to get a concealed export bounty varying with their technical efficiency. Though not established for the benefit of agriculture, the bounty system promoted the expansion of sugar beet cultivation, beet sugar production, and sugar exports. Hence, although it cost national treasuries heavily, it could not easily be abandoned. To simplify the system and prevent discriminations, the refund of duty was supplanted in several countries (e.g. Austria-Hungary, 1888; Germany, 1891; France, 1897) by outright export bounties.

The policy succeeded in maintaining higher prices for sugar in the producing countries than in their foreign markets, but the results were by no means satisfactory. National treasuries suffered net losses. Production was overstimulated and sugar prices fell (partly in consequence of increased production of cane sugar abroad) to what were regarded as levels ruinous to beet growers.

following paragraph in Secretary Mellon's letter of April 19, 1929, to Senator McNary contains some truth but is not altogether accurate:

"The experience of European countries with bounties on sugar may be of interest in connection with this proposal for a bounty on American agricultural products. The original purpose of the foreign bounties was to stimulate production rather than to increase the income of the agricultural population. A cash bounty was paid the producers of sugar and the results desired were obtained. In Germany it was planned to cover the costs of the production bounty on sugar by collections from an internal-revenue tax on the domestic consumption of sugar, but production increased so far out of proportion to the domestic consumption that within a comparatively few years the net effect was not to produce revenue. Some time thereafter the sugar bounties so far exceeded the revenue from the sugar tax that the treasury sustained a considerable loss, while sugar was being sold abroad at considerably less than the domestic price, and somewhat less than the actual cost of production. Consequently, the bounties on such sugar production had to be removed. There were no limits to production in the granting of such bounties."

Foreign manufacturers of products containing sugar were given the advantage of getting the raw material at prices below cost of production. Numerous international complications arose and retaliations were provoked. Only the firm adherence to free-trade principles and to a strict interpretation of its commercial treaties prevented the British government from imposing countervailing duties, as favored by her sugar-producing colonies and as proposed, for example, by a Parliamentary investigating commission that reported in 1880. The United States, by the McKinley Tariff Act of 1890, offered bounties to American sugar producers on the one hand, and on the other imposed special duties on "bounty-fed" sugar produced abroad. The Wilson Tariff Act of 1894, which abolished the bounty and restored tariff duties for revenue purposes, placed a uniform supertax of 1 mill per pound on imported sugar on which the producing country had paid a bounty, either direct or indirect. The Dingley Tariff Act of 1897 imposed a countervailing duty equivalent to the bounty granted, as determined by the Secretary of the Treasury. With respect to sugar imported into India, Great Britain went still farther in 1899. Finally, after repeated negotiations and conferences had failed to bring about the abolition of the system, the Balfour Government of Great Britain announced that it would impose equalizing duties unless an agreement were reached for removal of the bounties and reduction in sugar import duties. This forced the adoption in 1903 of the international Brussels Sugar Convention, drawn up in March 1902. This bound the contracting countries to remove all bounties on sugar production or export, direct or indirect; to reduce import duties on sugar; and to levy countervailing duties on sugar coming from other countries in which such bounties were paid. The agreement was not universally subscribed to, and by subsequent action the Convention was variously modified; but the system has never been re-established.

For reasons that call for no explanation, the sugar bounty experience has been accorded no emphasis by the advocates of the debenture plan, in spite of its obvious pertinence. It is hard to believe that they could point with satisfaction to the cost to national treasuries, the excessive stimulus to production, the subsequent depression of prices to growers, the effective aid to foreign manufacturers, the disturbance to production and international trade, the international complications, the difficulty of abandoning practices once they were firmly established, and the final abolition of the system with inevitably difficult readjustments. We would not exaggerate. Doubtless the sugar bounties were far from being wholly evil, and they may have accomplished some good. The debenture plan is not a precise equivalent. But taken as a whole this group of foreign experiences fairly constitutes a warning, not a favorable example.

AUSTRALIA'S BUTTER EXPORT BOUNTY

The Australian Butter Stabilisation Scheme, which has been in operation only since the beginning of 1926, bears certain resemblances to the debenture plan and also, indeed, to the equalization fee plan. Had it been adopted earlier it would doubtless have figured more extensively in the arguments for these two favorite American proposals. It rests upon a similar philosophy, as will be seen by the following quotations from its author, Hon. T. Paterson,¹ Commonwealth Minister of Markets and Migration :

It is now generally accepted that in a country where *wages* and *the prices of secondary industry products* are removed from the field of intense overseas competition by means of the Arbitration Court and the Customs Tariff respectively, that the dairyman

¹ Statement at Hobart Meeting of Australasian Association for the Advancement of Science, January 16-21, 1928; published in *Economic Record*, February 1928, Vol. IV, Supplement, p. 132. See also J. F. Barry, "The Paterson Scheme for Stabilising the Market for Dairy Produce," *Economic Record*, May 1926, II, 119-21.

is entitled to a fair Australian price, based on Australian living standards for that part of his output which is consumed by Australians, and that he should not be too rigidly governed by conditions ruling at the other end of the world.

It, too, finds its justification in the protection officially accorded to industry and labor; it seeks to improve farmers' incomes by raising the prices they receive for a product of which the surplus goes to export; and it undertakes to do this by maintaining prices to domestic consumers substantially above normal export parity.

The butter scheme was born of an emergency. From July 1, 1918, to March 31, 1921, under successive contracts, the British government bought Australia's entire export surplus of butter at prices that were considered highly remunerative to Australian dairy interests.¹ In large part because of this stimulus, Australia's dairy herd, which had slumped badly in 1915 and had not regained its pre-war level by 1919, increased from 1.91 to 2.34 million head between 1919 and 1921, and the butter production rose from 165.6 to 276.1 million pounds. The higher levels of dairy cattle and production have since been maintained, and in 1924, when pastoral conditions were exceptionally favorable, production made a high record at 314 million pounds, and exports (in 1924-25) at 145 million. The termination of the government purchase contract was almost simultaneous with the world-wide catastrophic decline in prices of products in general. London prices of imported butter had averaged 300s. per cwt. in 1920; in 1922 best-quality Australian butter in London averaged only 183s.; and it was very little higher in the next three years.² Inevitably the Australian dairy industry faced severe readjustment—the more difficult because of the recent stimulus to expansion. The Paterson plan was one outgrowth of efforts to save the industry

¹ See Commonwealth of Australia, *Official Year Book*, 1928, p. 733.

² *Ibid.*

from the worst consequences of the resulting disorganization.

The scheme is not, however, an emergency measure, strictly speaking, for it was intended for continuous operation. It was directly designed to correct the characteristic tendency, under the usual conditions, whereby butter prices in Australia were determined, during most of each year, by London prices less costs of shipment to London. It is therefore tied in with an export control system through which supplies are fed on to the British market in a more orderly manner. The appropriateness of the term "stabilisation scheme" lies primarily in these control measures, set up on July 1, 1925, under the Dairy Produce Export Control Act of 1924.¹ There is no evidence that, apart from the export control upon which it has been engrafted, the bounty plan renders prices of butter less subject to fluctuations than they were before. Such direct appropriateness as the term "stabilisation scheme" may have must rest on its effects in preventing the elimination of some dairymen who could not have survived at the "unimproved" level of butter prices.

The Australian dairy industry is largely dominated by the co-operative creameries and other "butter factories." Under this plan the industry undertook, without legislative support but with official favor and free from legal interference, to pay a bounty of 3*d.* per pound on all butter exported, beginning January 1, 1926. The bounty figure was the amount that Australian producers regarded, in 1925, as necessary to enable them to meet their costs of production. On September 1, 1928, the bounty rate was increased from 3*d.* to 4*d.* per pound. A further increase became effective January 1, 1929, to 4½*d.* per pound.²

¹ For a brief, authoritative statement of this system by its London representative—in which no mention is made of the export bounty—see J. Russell King, "Operation of the Australian Dairy Produce Export Board," *The Annals*, March 1929, CXLII, 466-68.

² *Foreign Crops and Markets*, January 7, 1929, XVIII, 15.

The bounty thus fixed is paid out of a fund controlled by an Australian Stabilisation Committee, with headquarters at Sydney, New South Wales. This fund is derived from a charge collected from the creameries on their entire butter output. In 1926 the levy was $1\frac{1}{2}d.$ per pound; since this was more than sufficient to meet the cost of the bounty, a refund of $7/16d.$ per pound was made, so that the net levy was slightly over $1d.$ per pound. In 1927, when drought reduced the output and exportable surplus, a lighter net levy sufficed. The same general policy has since been followed. The levy adopted early in 1929 was $1\frac{3}{4}d.$

It will be observed that the Paterson plan resembles the debenture plan in that use is made of a bounty on exports, but is unlike the debenture plan in that it is not established by law and that the bounty comes directly from the butter manufacturers instead of from the public treasury. It resembles the equalization fee plan in that domestic consumers are expected to pay sufficiently higher prices to cover the loss (here a fixed bounty) on exports, in that the producers bear the direct burden of the export losses by a levy corresponding to an equalization fee, and in that dairymen are assured domestic prices such as to over-compensate them for this expense. It differs from the equalization fee plan in being a voluntary scheme, with a bounty, rather than one resting on legislative action involving complicated governmental administrative machinery but no bounty. It differs from both American plans in being confined to a single agricultural product, of which the actual and probable exports are yet too small to constitute a major factor in the international market.

The Stabilisation Committee, in reporting on the operation for 1926, said in part:

Considerable opposition was encountered at the outset, and it was only after several months of strenuous work by Members of

the Committee and Producers' Organisations in the various states that the plan was brought into operation on 1st January, 1926. Co-operative companies and proprietary manufacturers realised the imperative necessity of adopting means to increase the returns of dairy farmers. . . .

The results of the first year exceeded expectations. Manufacturers of butter in the five states concerned—Queensland, New South Wales, Victoria, South Australia, and Tasmania—responded almost unanimously by paying the levy of $1\frac{1}{2}d.$ per lb. on production, and in a few instances where opposition was encountered the dairy farmers took prompt action to demonstrate that they were behind the scheme.

Mr. Paterson¹ said, late in 1927, after the plan had been in operation nearly two years:

. . . The raising of export values in this way of $3d.$ per lb. has the automatic effect of improving local prices by a similar amount and preventing their being depressed to the low level of export parity, and this result is obtained without resort to price fixing or compulsion of any kind. It is estimated that dairymen, many of whom would otherwise have gone out of the industry, have been benefited to the extent of approximately £2,000,000 per annum, while the public has obtained its butter requirements at the prices which would have automatically obtained in the absence of an exportable surplus.

It is by no means certain that impartial investigation over a period of years would bear out this favorable testimony from the author of the scheme. It does appear that net returns to Australian butter producers were somewhat improved and that domestic prices were somewhat raised without serious protest from consumers. It also appears that, broadly speaking, Australian butter prices have been maintained at something approaching London export parity plus the bounty. This correspondence has not been perfect, for two reasons.² At times the creameries in one or another state have quoted their butter, at least for inter-

¹ *Economic Record*, *loc. cit.*

² Cf. P. F. Brookens, "The Paterson Plan and Australian Butter Prices," *Journal of Farm Economics*, October 1928, X, 540-42.

state sale, at less than the theoretical all-Australian price; and conferences of State and Commonwealth committees have not altogether succeeded in eliminating inequalities in prices throughout the country. In the second place, New Zealand butter producers found it profitable to export butter to Australia, under the reciprocal tariff arrangements in force. To prevent these imports from defeating the objects of the plan, this tariff was raised, on June 15, 1928, from 2*d.* to 6*d.* per pound.

The maintenance of a lesser differential between London and Australian prices does not, however, show that Australian prices have been raised, above what they otherwise would have been, by the amount of the export bounty or by this amount less the levy on production. As a matter of fact, London prices of Australian butter, which averaged about 185*s.* per cwt. in the years 1922 to 1925, averaged only 169*s.* 6*d.* in 1926 and 1927, the first two years of the operation of the plan. The decline represents about 1*s.* 8*d.* per pound. Hence, even with the differential brought about by the bounty, Australian prices cannot have been raised as far above the levels complained of as was intended and expected when the plan was inaugurated. It does not appear that the drop in London prices was due to increased butter exports from Australia, and it would be unfair to attribute it to the Australian bounty. The fact remains that the desired and expected increase in domestic farm prices was not attained, and that, even if the measure may have contributed to relieve distress in the dairy industry, it cannot be said to have brought prosperity to the industry.

The Paterson plan has naturally met with no opposition in Great Britain, to which the Australian butter exports largely go. New Zealand producers, however, have resented not only the tariff change just mentioned but the effect of the bounty in favoring Australian exports to Great Britain, their own principal export market. The

United States has imposed special countervailing duties on Australian butter, and Canada, which imported considerable quantities of Australian butter in 1925-26, has done likewise.

Australia's experience with the butter export bounty seems, at first sight, to afford material support for the export debenture plan in the United States. It is, in truth, the most favorable case that we have considered. Yet too much reliance cannot be placed upon it, for several reasons.

In the first place, the case is an exceedingly simple one. Only one product is concerned, and it is a relatively minor export product. The Australian butter producers are well organized, and the scheme depends for its continuance upon the existence of organized and continued support from dairymen and butter manufacturers.¹ The political and economic experience and atmosphere have been almost wholly favorable to the scheme. Regional complications have been far fewer than they would be with most debenturable products in the United States.

Furthermore, the experience has been too short for ulterior consequences to manifest themselves at all fully. Particularly is this the case with its effect on the volume of production and export, which vary greatly from year to year in response to pasture conditions and supplies of feedstuffs. It is significant, however, that defensive measures have been already taken by Canada and the United States, and that the system tends to affect the good will and to complicate the tariff arrangements between Australia and two of her sister-commonwealths in the British Empire.² It is also significant that the initial

¹ Lack of corresponding organization in the cheese industry has thus far prevented a proposed extension of the scheme to cheese.

² The *New Zealand Dairymen* of January 19, 1929, after commenting on the compensatory duty established by the United States (imputing to it, indeed, greater significance than it presumably has), went on to say:

"With the advent of a bountiful season and with the doors of all other

bounty rate has already been increased by 50 per cent, and that an increase in the tariff, to a figure considerably in excess of the bounty, has been called for and obtained.

More important still, the experiment is being tried with a product of which Australia's exports constitute a minor factor in the international market supply. The success of the butter experiment to date has not led Australian producers to apply it to wool or wheat and flour, which, from this standpoint, more nearly correspond to cotton, wheat, and hog products as debenturable commodities in the United States. If Australia should extend the plan to her principal agricultural exports, a few years of experience would throw a great deal more light on the possibilities of the debenture plan for the United States.

Australia has also experimented since the war with outright export bounties on a few other farm products or derivatives. In an effort to relieve depression in the beef cattle industry, export bounties on live cattle were paid from 1922 to 1925, and from 1922 to 1924 on standard and canned beef. These were purely temporary relief measures. In order to support campaigns for the development of foreign markets, export bounties were paid on canned fruits between 1923-24 and 1927-28. For the same reason, similar export bounties have been paid since 1924 on "fortified wines." The latter bounties, initially set at 4s. per gallon, contributed materially to expansion in pro-

markets shut against them, Australian producers may find that the prices realized on the London markets will make the Paterson plan a very unprofitable investment. Viewing the results of this interesting experiment after its three years of existence, one must therefore be forced to the conclusion that artificial measures such as the Paterson plan should only be regarded as stimulants to revive or keep alive a languishing industry. In themselves they merely produce a transient increase of vital energy, and, in order to continue effective, must be administered in increasing doses With a heavy increase in the exportable surplus and a corresponding cut in the export bounty, the fate of the Paterson plan may become a very problematical one indeed. In the meantime one can only hope that its adverse influence on the world's markets will not be such as to seriously jeopardize the good will enjoyed by butter from the Southern Hemisphere." (Quoted in *Congressional Record*, April 30, 1929, p. 667.)

duction and export of wine, at considerable cost. As of September 1, 1927, the bounty was reduced to 1s. 9d. per gallon, and it is to expire on August 31, 1930.¹ Although these deserve passing mention, none of them is really comparable in purpose with the debenture plan in the United States, or has the significance, for our experience, of the butter export bounty scheme.

CONCLUSION

In the light of the foregoing discussion, it seems to us reasonably clear that a serious misinterpretation of foreign experience with import certificates, export bounties, and like devices is involved in arguing that such experience shows that the proposed debenture plan would restore and maintain agricultural prosperity in the United States. No country has adopted a plan of such broad scope, with corresponding limitations, under anything like comparable conditions, or with any such far-reaching purpose. The success of several somewhat analogous schemes abroad has been far from unequivocal, even in attaining their particular objectives; and some have given rise to serious undesired complications. None has yielded the desirable results which the debenture plan is proposed securing. It would be too much to assert, on the basis of the instances just considered, that recorded foreign experience demonstrates that the debenture plan would be a mild or disastrous failure here; but it is also improper to reason that it demonstrates the workability of such a plan in this country. In our judgment, the foreign experience here discussed tends to bear out rather than to contradict our reasoning as to the probable outcome of the operation of the debenture plan in the United States.

¹ See Commonwealth Bureau of Census and Statistics, Melbourne, *Production Bulletin No. 20*, p. 186; and *Official Year Book*, 1926, p. 609, and 1928, p. 706.

CHAPTER IX

POTENTIAL REACTIONS OF FOREIGN GOVERNMENTS

The international complications and retaliatory actions aroused by the sugar bounties lead naturally to the question whether the debenture plan, if applied, might not provoke similar reactions. Thus far, in considering how the plan might work, we have assumed that foreign governments would take no notice of it, regard it as a purely domestic concern of ours, raise no objection, or at least take no positive steps of resistance or reprisal. The proponents of the plan commonly assume, and sometimes argue, that this situation would prevail. As we have shown (p. 25), one of the more important reasons why the debenture form has been favored instead of a cash bounty is that it would be less liable to arouse adverse reactions abroad. It does not appear that the German certificate system has evoked significant complaint or any resistance in foreign countries. Would the debenture plan, drafted on the same model, do more? On this point again we cannot prophesy with assurance; but it is essential to consider the possibilities and probabilities, and their bearing upon the success of the scheme.

POSSIBLE FORMS OF REPRISAL

Governmental retaliation might take any one of three principal forms: (1) imposition of countervailing or "equalizing" duties on the "bounty-fed articles"; (2) application of anti-dumping legislation; (3) raising duties or imposing other restrictions upon our exports, including other articles than those subject to the debenture plan.¹

¹ Senator Smoot considered this matter at some length in a speech in the Senate on April 30, 1929, which furnishes part of the basis for the following discussion. See *Congressional Record*, May 1, 1929, pp. 736-43.

The anti-bounty legislation may be illustrated by Section 303 of our Tariff Act of 1922, which embodies a policy first adopted in the McKinley Tariff of 1890 and incorporated essentially in the present form in the Dingley Tariff of 1897 and subsequent tariff acts. It runs as follows:

That whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this Act, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by remanufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by the Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. The net amount of all such bounties or grants shall be from time to time ascertained, determined, and declared by the Secretary of the Treasury, who shall make all needful regulations for the identification of such articles and merchandise and for the assessment and collection of such additional duties.

It will be observed that the Secretary of the Treasury is not merely authorized but required to act in such cases. As we have already noted, such action was taken by the United States in the case of sugar bounties, direct or indirect. Quite recently, a similar countervailing duty was imposed on Australian butter, although the export bounty in this case is paid not by the Commonwealth Treasury, but out of a levy upon producers, and even without any legislative authorization. Even Canada, a sister of Australia in the British Commonwealth of Nations, did likewise. There would seem to be no question that the adoption of the debenture plan by a foreign nation would lead

to prompt action here under existing legislation. We should therefore have no official ground for complaint in case any or all foreign governments met our debenture system in the same way.

The existing tariff laws of several other nations contain provisions more or less similar, though most of them are less explicit, and some do not make administrative action mandatory. Senator Smoot, in a recent speech in the Senate, presented quotations or translations of such provisions in force in Austria, Belgium, Czechoslovakia, France, Portugal, Spain, and Switzerland, and in Japan, Australia, New Zealand, and the Union of South Africa.¹

If countervailing duties were universally imposed on our exports of debenturable products, it is fairly obvious that the plan would fail of its purpose for this reason alone. Exporters would get their debentures on exports of debenturable goods, but they would be unable to sell these goods abroad for as much as if the plan did not exist. In competition abroad with goods from other export sources, our exports would be subject to special import duties equal to the debenture rate. Importers therefore could afford to buy them only at a c.i.f. cost below the cost of competing goods to the extent of the special duty. American exporters could therefore afford to buy these products in this country at no higher price than if the debenture scheme were not in operation. The farmer's selling price would not be raised, for the enhancement of price depends upon the stimulated bidding by exporters. This would not mean, however, that the debenture plan would be of no effect. Our Treasury would lose by the amount of the debenture issues, while foreign treasuries would gain correspondingly. Not only would the plan fail to afford farm relief, but there would be no offset to the Treasury loss. The result would be humiliating and expensive failure. In short, if such policies were generally

¹ *Congressional Record*, May 1, 1929, pp. 739-40.

adopted abroad, the system would have no chance to operate at all to the advantage of the farmer, but would operate to the loss of the taxpayer.

In the second place, either in connection with provisions of the type just mentioned or independent of them, anti-dumping legislation exists under which duties may be raised to prevent the "unfair competition" from imported goods sold for export at prices below those prevailing in the producing country. The Department of Commerce,¹ in its recent memorandum on the debenture plan, stated:

It should be pointed out that practically all countries, with two or three exceptions, have antidumping laws. It is possible the debenture plan would be interpreted as an export bounty and export dumping, since products would be sold in foreign countries at lower prices than in this country.

Examples are given in Senator Smoot's speech already mentioned,² chiefly from British dominions. President Hoover evidently referred to both types of reprisal in his eighth point against the debenture plan:

Export bounties are recognized by many nations as one form of dumping. I am advised that a similar action by another nation would be construed as a violation of our own laws. Such laws are in force in the principal countries of our export markets and to protect their own agriculture would probably lead to action which would nullify the subsidy given by us.

The probabilities of the case we shall shortly consider; but here it must be added that existing legislation and practice abroad do not necessarily set limits to possible action. Extension and strengthening of present statutes and regulations are readily conceivable.

In the third place, there is the possibility that countries which do not import such products as we may classify as

¹ *Congressional Record*, April 22, 1929, p. 287.

² *Ibid.*, May 1, 1929, pp. 740-41.

debenturable, but which export competitive products themselves, would seek to meet our measure in one way or another. In May 1929, when American railroads reduced export rates on wheat and flour, ostensibly in an effort to "assist in effecting a reduction of the surplus through exportation to avert, if possible, a lowering of prices,"¹ the Canadian railways forthwith announced comparable rate reductions. Argentina has vigorously protested against our tariff legislation affecting her exports of corn and meats, and might conceivably meet the adoption of the debenture plan, as tending to affect adversely her exports of grain and meats, by raising duties on products that we export to her. Countries that foresaw or experienced real or apparent injury to their trade or agriculture might undertake to strike back in whatever way seemed most likely to be effective. Our own resistance to foreign government measures designed to raise or hold up prices of coffee and rubber furnishes precedents, as well as illustrations of indirect means of action.

PROBABLE REACTIONS

We are thus led to admit the proposition voiced by Senator Vandenberg, that "as a practical affair . . . the export bounty can work only by the sufferance of foreign governments."² It would be rash to assume, however, that retaliation or reprisal, direct or indirect, would be universal, or even so general as to nullify the intent of the plan. We can hardly follow Secretary Mellon³ in his view of the probable outcome, as expressed in his recent letter to Senator McNary:

Moreover, it is hardly to be assumed that foreign countries with important agricultural interests to protect will permit their

¹ Approved by the Interstate Commerce Commission to be effective from May 29 to September 30, 1929. See *E. B. Boyd's Export Freight Tariff No. 203*, issued by E. B. Boyd, Agent, Chicago, Ill.

² *Congressional Record*, May 1, 1929, p. 742.

³ *Ibid.*, April 22, 1929, p. 285.

producers to be subjected to a price war subsidized from the United States Treasury without adopting protective measures. It is highly probable, therefore, that they will levy countervailing tariff rates equal in amount to our export bounty, thus entirely nullifying the effect of the latter as an aid to our producers and drawing the amount of the bounty funds into their own treasuries. The United States was one of the first nations to place countervailing duties against the bounty-produced sugars of the various European countries.

In the first place, it is quite improbable that operation under the plan would be interpreted as "a price war subsidized from the United States Treasury." This is certainly remote from the intentions of proponents of the plan, who have usually reasoned, indeed, as if export prices would be unaffected by it. Any reductions that might take place in export prices would be quite as contrary to the desires of American farmers, or advocates of the debenture plan, as to the desires of farmers abroad. Probably the fact that the measure does not seek to stimulate production or exports, but merely to improve the position of American farmers, would have some mollifying influence on foreign governments who would be aroused by a bounty imposed with the object of stimulating production.

But the intent would not wholly determine the issue. Fears might be as influential as more tangible facts. Sentiment would play a large rôle. The results would count also, and we have good reason to believe that the tendency of the measure would be to stimulate production and exports, and to lower world prices of the debenturable products. The course of actual developments would be important, whether or not the plan was properly chargeable with what proved to happen. Reprisals would be far more likely if our exports did expand materially, than if no noticeable change occurred. If world prices of the products concerned should move up, retaliation would be less likely than if they should decline, whatever the cause of

the shift in level. The greater the early success of the plan in raising prices and stimulating production here, the greater would be the tendency to defensive action abroad.

Many countries that import considerable quantities of our wheat, flour, and other agricultural products, indeed, would find insufficient motive for retaliation.¹ A few, like Great Britain (in the past, if not so clearly in the present), are so deeply committed to free-trade policies, which they are most reluctant to modify, that they would avoid retaliatory action even under great pressure. Others, like Great Britain again, welcome cheap food, even if it appears to injure their own farmers. Many would doubtless hope, with good reason, to share with American farmers the benefit of the policy, by obtaining agricultural imports at lower prices as a result of the operation of the plan. European cities would not resent lower prices for wheat, and countries with large industrial populations would be loath to take measures to prevent reduction in costs of living. Industrial interests and organized labor abroad might well oppose a reprisal policy on the ground that, in so far as the debenture system was effective, it would favor their interests in industrial competition with the United States, by raising American costs of living and production costs, while lowering corresponding costs abroad. Some countries, moreover, would deem the measure no threat to any domestic interest, agrarian or industrial. It is quite possible that the larger part of our flour exports, in particular those which go to ex-European countries with inconsiderable cereal and milling industries, would be unaffected by retaliatory measures. Broadly speaking, anti-bounty and anti-dumping measures have not been extensively applied,² even under considerable provoca-

¹ Cf. Senator Simmons' remarks in *Congressional Record*, April 30, 1929, pp. 667-68.

² Cf. Jacob Viner, *A Memorandum on Dumping* (Submitted to the Preparatory Committee for the International Economic Conference), League of Nations, Geneva, 1926.

tion, except in the special case of imposition of depreciated-currency surtaxes since the Great War; but two reasons for this have been the difficulty of ascertaining the existence of dumping, and the limited resort to production and export bounties in recent years.

It is highly probable, however, that there would be some retaliatory action, not only by importing countries but by competing exporting countries. It might easily reach considerable dimensions. Germany, France, and Italy are earnestly pursuing policies of agrarian protection, and regard domestic wheat growing with notable solicitude, partly for reasons of national defense. Their wheat and flour tariffs are now very high. If our debenture plan were appraised as a measure tending to lower their domestic wheat prices, it might appear to them natural and appropriate to levy countervailing duties.

The prospect of similar action by Great Britain is by no means to be dismissed. British policy in such matters is subject to notable influence from her leading dominions, which have already secured certain preferences in the British import trade. Canada and Australia are heavily interested in growing and milling wheat, and in exporting wheat and flour. It seems probable that they would see in our debenture policy a government-stimulated competition with their wheat and flour (and other farm products also) in world markets, with consequent injury to their agricultural and export industries. If so, they might well seek to have Great Britain impose countervailing duties, as the form of pressure most likely to limit their injury from the plan in operation. Any British Government would take such a step with reluctance, both for reasons of tradition and for fear of injuring Anglo-American relations. But it would find it more difficult to refuse to act than in the case of sugar bounties; and British agrarian circles could be counted on to support it.

One possible eventuality deserves special mention.

Several countries that are net importers of wheat and flour have domestic milling industries of considerable importance. It is the prevailing practice of such countries to impose relatively higher duties on flour than on wheat grain. Some such countries might not yield to agrarian pressure to impose countervailing duties on American wheat, but might impose such duties on American flour. This policy would be disastrous to such flour trade as we have with these countries. Our millers would find the higher domestic price on their wheat offset by debentures on the export of flour, possibly more, but only to meet a special barrier at the customhouses of the importing country. Flour importers would demand price concessions corresponding roughly to the amount of the special duty; and American millers would be hard put to it to grant them. The volume of trade thus affected might not be large in the aggregate, for most of our flour exports go to countries which have no important milling industries; but it is by no means a negligible trade from the standpoint of volume or profits.

Limited or sporadic retaliation could significantly and disadvantageously alter the course of our trade. If Germany should retaliate on flour and pork products but not on cotton, and France and Italy on wheat and flour but not on tobacco and cotton; if Argentina should raise duties on American machinery; and if similar selective discrimination should be put in practice elsewhere, the debenture plan might not be wholly nullified but the limited gains would be bought at appreciable real cost. Our international relations, commercial and otherwise, would almost certainly be affected adversely.

Even if no direct reprisal resulted, it might happen that lowering of international prices, under the operation and in consequence of the plan, would lead to higher import duties in certain foreign markets. It is worthy of remark that recently Italy, France, and Germany raised

their import tariffs on wheat and flour, almost simultaneously with the reduction in export freight rates here and in Canada. Such a reaction, however, would affect us no more than other exporting countries.

With respect to the probability of foreign reprisals, it is well to observe a change in the attitude of the world toward artificial devices affecting international trade. Before the war, when one country proposed an action calculated to influence the trade with another, the diplomatic and legislative reactions were largely in response to the influence of parties directly interested. Since the war, however, the subject of trade barriers has been raised from a strictly commercial position to one with larger bearings. It is not too much to say that the movement in the direction of lowering trade barriers has assumed almost the position of a political religion in Europe, and efforts in the direction of increasing trade barriers or disturbing trade relations are regarded as menaces to international amity. Under these circumstances, it is more than possible that political action of other countries against such a procedure as the export debenture, while instigated by the parties directly interested, would be supported by classes not directly interested, on broad grounds of economic and political convictions. Under such circumstances, reprisals might be provoked even if they were ill-advised on narrowly economic grounds.

In advance of experience with the debenture plan it is impossible to make accurate predictions as to the extent of foreign retaliation and its reflex influence. Conceivably the reaction would be less than in the case of outright bounties, but it is hard to believe that the thin disguise that the debenture plan would wear would seriously modify such reactions as undisguised bounties would provoke. The reaction could be expected to be much more pronounced than in the case of the dumping of manufactured products, which is difficult to detect and measure.

It is quite improbable that the reactions would be so general as independently to defeat the aims of the debenture plan. But it is well-nigh certain that there would be sufficient retaliation to reduce the real benefits below, and probably substantially below, those calculable on the assumption of a benevolent attitude on the part of foreign nations, and to modify the course of trade in ways adverse to American exporters of agricultural and other commodities. It is also hard to believe that the plan would not injure our good will abroad in ways less tangible but no less important. It would almost unquestionably affect our own international policies. To be consistent, we should have to repeal Section 303 of our tariff law, and modify our expressed attitude toward measures taken abroad in the interests of producers, that have been construed as contrary to our national interests.

SENATOR SMOOT'S ANALYSIS

At the risk of some duplication of the foregoing discussion, it is pertinent to quote from Senator Smoot's speech¹ on April 30, 1929, in which he summed up the matter in reasonable language as follows:

I do not think I need to repeat that in order to shorten up the domestic supplies so as to advance the market price in the United States to any desired level considerably larger quantities than the normal of wheat, corn, meats, or other agricultural commodities would presumably have to be thrown upon the world markets. If the quantity is substantial enough, some depression of world market prices for the particular commodity might be expected, with this depression reaching back even to the farmers in those countries which are not the direct recipients of our export surpluses.

Generally speaking, the answer would depend upon whether or not there is severe enough conflict of interests. If our shipments abroad of quantities of staple agricultural products at prices below those prevailing in the United States do not conflict with the interest of a particular country, those shipments will probably be welcomed. On the other hand, if they do conflict there is

¹ *Congressional Record*, May 1, 1929, pp. 738-39.

likely to be either invocation of existing antidumping or anti-bounty laws or agitation for the adoption of increased duties against these or other importations from the United States or retaliatory measures of other forms.

Practically regarded, the answer to this question varies with particular products. At the one extreme stands raw cotton, a desired raw material in most of the consuming countries rather than a competitive product, and the opportunity to get supplies from the United States at lower prices will probably be generally welcomed. In between stand those products that might be typified by rice, where the small export surplus that the United States might have would hardly be sufficient, compared with world production, to depress general prices, and in this type of product little reaction might be expected from the foreign countries. The real problem arises in connection with those products that are more largely competitive with similar products produced in other countries, and of which the United States has a substantial export surplus, the weight of which it can bring to bear upon world markets. This type is probably best illustrated by wheat and pork, or, to put it generally, cereals and meats. A judgment of the probable reaction of foreign countries to any measure that contemplates selling large quantities abroad at lower prices than at home, with or without the aid of a bounty or premium, calls for closer analysis.

PRESENT EUROPEAN PROTECTIVE ATTITUDE ON CEREALS AND MEATS

The big buying markets for cereals and meats are the countries of Europe, particularly western Europe. The period when the European countries were particularly eager to obtain foodstuffs for their peoples at low prices, to the point of waiving duties and similar measures, has pretty much passed. The pre-war agrarian tariff policy has been revived in most countries, who are now trying seriously to protect their home markets for their own agricultural producers.

Thus, after a considerable period of duty-free admission of certain staple foodstuffs, Germany, Italy, and Portugal have restored their import duties on wheat and other cereals during the last five years, and France and Germany have restored their duties on meats. Spain and Portugal have been alternately prohibiting and permitting the importation of wheat, in accordance with the adequacy of the particular year's crop. France, Italy, Sweden, Poland, Austria, Yugoslavia, and Greece all maintain sizable protective duties against imported cereals, and in some cases also against meats, and the majority of these countries have, within

the last few years, increased the amount of tariff protection to their domestic producers of these products. Rumania and Bulgaria, large producers of cereals beyond their own needs, have recently reduced or suspended certain of their export duties, in the effort to facilitate the disposal of their surpluses abroad.

It is reasonable to expect that since the agrarian elements in these countries have had the strength to bring about the present tariffs and restrictions on the importation of foreign competitive products, they would probably bring heavy pressure to bear upon their governments to make effective the tariff protection accorded them, namely, by advancing the duties, or in some other way meeting the depressing effects on domestic prices of the increased volume of American grain or meat offered at cut prices.

POSSIBLE REACTION OF COMPETITIVE SUPPLIERS

The possibility should also be considered of the competing supplier of cereals and meats, such as Canada, Australia, Argentina, and Rumania—resenting our export-promotion methods as unfair competition in common markets. While they could not retaliate directly against these dumped products, they might impose additional duties on our manufactured goods shipped to them. There is even the possibility that there would be stimulated a movement for increased preferential tariffs within the British Empire, with the protests from Canada and Australia perhaps hastening the adoption by England of a duty on foreign foodstuffs—to offset the American price cutting—which would then be rebated to empire foodstuffs.

ENCOURAGEMENT TO SIMILAR PRACTICES BY OTHER NATIONS

If the United States adopts the export debenture plan, consistency would call for the repeal of provisions now in our tariff law penalizing goods dumped in the American market, or sold here with benefit of bounty. There would thus be removed the protection that our industries have had for years against the destructive competition of foreign goods dumped into this market for less than home prices, or under the stimulation of export subsidies or subventions. One need but recall the alarm in the American industry only a few years ago over the threatened dumping of Indian pig iron, or the products of the German iron and steel cartel, to visualize the important protective safeguard that would thus be removed from many industries in the United States.

Moreover, the strong position that the United States has taken against artificial controls of international trade in essential materials on the part of foreign countries—as in the case of the

British export restrictions on rubber; the Brazilian control of coffee; the Franco-German export sales arrangement for potash; the Mexican monopoly control of the sale of sisal for binder twine—are obviously likely to be very much weakened by the adoption of a plan for governmentally subsidized and sponsored forced selling abroad of our agricultural surpluses, irrespective of the home or previous world market prices for the particular commodities.

The American change of position on this important matter of artificial trade controls would not only undo the work of years on the part of the United States and others in trying to develop a world sentiment against such practices, but might even encourage other foreign countries struggling with problems of profitable disposal of their surplus products to follow the example of the greatest commercial country of the world in the adoption of similar methods of stimulating the sales of their products in foreign countries. The injury that can be inflicted not only upon our industries but upon our agricultural producers through the revival and possible extension of artificial trade-control methods on the part of foreign countries may not only offset but far exceed the benefits that the export debenture plan is expected to bring to the American producers of surplus agricultural products.

CONCLUSION

It may well be that in actual practice nations may go on enduring unfair practices on the part of other nations for a long time before resorting to reprisals. Moreover, the general condemnation by world opinion that might follow the American adoption and operation of the export debenture plan, which will doubtless be regarded by foreign countries as governmentally recognized export dumping under bounty, may possibly not have the result foreshadowed of encouraging the revival or adoption of similar practices by other countries by the very deterrent effect of the opposition to the American example. However, if the export debenture plan is to operate with sufficient strength to afford any appreciable relief or advantage to any large number of producers in the United States, there would be inevitable pressure upon producers in other countries, which is bound to result in widespread ill will and protest in foreign countries against the United States, if not actual retaliation. These possibilities, joined with the likelihood of the benefit sought by the export debenture plan being nullified by the offsetting measures taken by foreign countries, suggest the advisability of giving careful consideration to the international implications and possible reactions in the drafting of agricultural relief measures.

POSSIBLE IMITATION ABROAD

One point briefly mentioned by Senator Smoot deserves some elaboration at this point. Agricultural difficulties and agrarian discontent are by no means confined to the United States; they prevail in a great many countries. If the debenture plan is a sound measure of national policy for the United States to adopt, it should be extensively copied abroad. Even if the debenture plan were not really well-advised in our own interest, if we adopted it and continued to prosper under it there would be a tendency to adopt it elsewhere. Unquestionably our example in maintaining highly protectionist tariffs, and our prosperity under them—regardless of whether the prosperity is or is not really due to the tariffs—has been a potent influence toward higher tariffs generally.

Now it is impossible to conceive of the extended adoption of the system without some such results as were experienced with sugar bounties—general overproduction of the products directly concerned, serious disturbances to industry and trade, heavy costs to national treasuries, and eventual injury to agriculture itself. Whatever advantages the plan might yield to our farmers if we alone tried it, these benefits would certainly be reduced or nullified if it were extensively imitated abroad. Under our present laws our Treasury would have no choice but to impose countervailing duties on foreign products exported under the system, and governments otherwise disinterested would be pressed to meet reprisal with reprisal. An international agreement to end the system would probably be called for.

Here the contrast with Germany's import certificate system is important. It has created no serious complications, at home or abroad, because Germany exports no large volume of any of the products affected, and is a net importer of the group of products to which the system applies. Under it Germany exports more of certain types of grain, from certain regions, than she would otherwise

do; and imports from abroad, to other regions of Germany, more of other types. The system tends to remove obstacles to the economic flow and utilization of goods, not to set up new currents uneconomic in character. If we really undertook to apply the German system to farm products of which we are net importers, Germany's satisfactory experience with it might be duplicated here. But in the proposed conditions of its application, the debenture plan is a horse of entirely different color.

It may well be that we can afford, far more easily than most nations, to make costly experiments in the effort to improve the status of farmers. Surely, however, it is sounder policy to make such experiments as would promise, if they succeed, to be applicable elsewhere without reacting adversely upon us. We are entering upon such an experiment with our Federal Farm Board under the Agricultural Marketing Act. Reasonably applied, it should injure none but ourselves if it fails; and if it succeeds it should be constructively helpful abroad as well, without creating international complications or becoming self-defeating by the operation of economic and political forces.

CHAPTER X

CONCLUDING CONSIDERATIONS

The export debenture plan is highly ingenious, and the case for its adoption is exceedingly plausible. It is frankly designed to raise farm prices of important agricultural products: simply give exporters bounties (not in cash but in debentures tenderable for customs duties) on exports of farm products and their derivatives, and, it is held, commercial competition will cause a corresponding enhancement in the farm prices of all of these farm products that are marketed either for export or for domestic use. It is reasoned (though rarely argued) that this price enhancement will persist, that farmers will therefore reap much larger financial returns, and that in such manner prosperity will be restored to farmers generally. The plan appears to be exceedingly simple, requiring very little administrative machinery. It is even represented as a burdensome scheme, in that higher costs to domestic consumers and a material drain upon the Treasury would be fully offset by the added support given to the prosperity of the community in general.

The debenture plan has gained a worthy body of adherents. An agricultural economist originated it and has been active in developing the plan and the case in its behalf. Several other agricultural economists of high standing have gone on record with some measure of endorsement. A leading farmers' organization has been its most powerful advocate. It has aroused little opposition, though it has secured little specific support, from business and labor interests. In both houses of Congress it has won respectable support, including that of several outstanding senators. On these grounds alone the debenture plan would merit serious consideration. Until recently, indeed, most of the avowed opposition to the plan, in Congress and outside, has been due to preference for other meas-

ures, or to other factors more or less unrelated to the merits of the plan itself.

It is unnecessary here to summarize the body of argument that is brought forward to justify radical measures on behalf of the farmer. The condition of farming in the United States, though by no means so desperate as it has often been pictured, affords ample justification for serious and even costly efforts to improve the agricultural situation in the interests of the nation as a whole. The question here at issue is not whether farmers have been unjustly dealt with, or whether, in the interests of justice, something substantial should be done for them; it is merely whether the debenture plan would prove in fact a wise measure of farm relief or for aid to agriculture.

The plan has not hitherto received from serious students the careful examination that it deserves. Too much of the discussion has consisted of comparisons with other proposals, arguments from analogy, and talking points of various kinds. Too largely have basic assumptions as to its actual working been taken for granted, without due analysis of the prospective operation with various commodities. We would cast no aspersions upon the sincerity and intelligence of its supporters; but we have to conclude, after painstaking study, that on a number of fundamental points they have not reasoned through to sound conclusions, and that experience would quite fail to bear out their prophecies as to the beneficial results that the debenture system would yield.

A RADICAL INNOVATION IN POLICY

Contrary to assertions made in its behalf, the plan would represent a radical innovation in our national policy. The United States has had no experience with export bounties, and only a brief, limited, and apparently unsatisfactory experience with production bounties (on sugar). Despite multifarious instances of export bounties

and import certificates in foreign countries, past and present, no country has ever attempted so extensive an application of export bounties on agricultural products. British experience with grain export bounties, ended more than a century ago, was with fewer commodities, under totally different conditions, with a plan significantly different; its results cannot be appraised with confidence, but the best judgment of competent students is that, whatever its merits or demerits, it did not achieve such objects as the debenture plan seeks. The most extensive pre-war experience, with sugar bounties in Europe, was unsatisfactory, to speak very mildly; not only was the bounty system costly, but it created serious international complications and friction, and was eventually abandoned by international agreement. Germany has been satisfied with a system superficially similar to the debenture plan, but it is applied with wholly different objects, under essentially unlike conditions; no one contends that it has achieved in Germany the objects now sought by the debenture plan here, and it is not regarded as a factor of importance in maintaining agrarian prosperity there. Australia's recent experiment with butter export bounties, paid by the industry rather than by the Commonwealth Government, cannot yet be adjudged; but it has been applied to a single product which is not one of Australia's major exports, and of which Australian exports constitute a minor factor in international trade. Foreign experience with these and similar measures has brought to light a number of unintended and undesired consequences. On the whole, it is conservative to say that a serious misconstruction of the available evidence is involved in the assertion that foreign experience supports the high expectations from the debenture plan; and much of that experience is not directly pertinent.

Nor is it correct to argue that the debenture plan is a simple extension of the protective tariff system or the

drawback system. The latter provides for offsetting *measurable costs* imposed, by import duties, on manufacturers who convert dutiable imports into export manufactures. This is essentially different from attempting to offset, by debenture rates of which the effects cannot be predicted, *unmeasurable costs* incidental to the protective system. There is real merit in several elements in the analogy between the protective tariff and the debenture plan, and many arguments for and against the one are almost equally appropriate in the case of the other. *The New Republic* of May 1, 1929, in a striking editorial entitled "Hoover's Debenture Decalogue," presented in parallel columns the President's ten points against the debenture plan and corresponding applications to the tariff, in support of its assertion that "every argument against the debenture is equally good against all protective tariffs." Although at some points the parallel is obviously forced, in many respects it holds good. Persistent supporters of protective tariffs are, often quite unconsciously, in a vulnerable position when they argue or vote against the debenture plan. The recorded opposition of most regular Republican Senators to the debenture plan lends color to the charge that the Republican party, in its protectionist position, is more friendly to industrial interests than to farmers. But we cannot accept the argument that, given the existence of the protective tariff, friends and foes of the tariff are logically bound to join in support of the adoption of the export debenture system.

In several fundamental respects, the debenture plan and protective tariff are significantly different. The debenture plan employs a bounty mechanism, which the United States, with rare exceptions, has heretofore avoided, either for industrial or for agricultural products. The protective tariff has been regarded as a means of fostering undeveloped industries, or of maintaining those which are unable to supply the domestic market in the

face of foreign competition; whereas the debenture plan is addressed to well-developed agricultural *export industries* only. Protective duties are designed to stimulate domestic production, whereas such stimulus not only is not a primary object of the debenture plan, but is viewed as a danger to be guarded against. Under the protective system the raising of prices is properly regarded as only a proximate, not the ultimate, objective; whereas under the debenture plan the permanent raising and sustaining of prices is the end sought. In the main, the protective system was not designed to make its proximate beneficiaries more prosperous, but to promote the establishment and growth of industries that would otherwise be unable to exist or persist; whereas the debenture plan is designed primarily to increase the prosperity of its beneficiaries, the farmers. We make no brief for the protective tariff, in principle or in practice; but we feel bound to say that its reputation would be far worse if it could fairly be characterized as the advocates of the debenture plan generally represent it to be, namely, a system of insuring prosperity to certain beneficiaries by raising prices to domestic consumers permanently above what they otherwise would be, to the extent of tariff duties. The idea that tariff effectiveness is to be judged, not by the limitation of imports and the maintenance of the protected industries, but by the degree to which domestic prices of their products are raised above foreign prices or above what they would otherwise be, we regard as erroneous and misleading. In so far as the case for the debenture plan rests upon these distorted views of what the tariff was intended to do and actually does, it is ill founded.

In short, the debenture plan is no mere extension of the protective system, but a new departure requiring its own justification. The issue is hardly less important than would be the question of abandoning forthwith our long-established protective system, or of adopting a highly pro-

protective tariff if we had none. Even if the probabilities of a gradual lowering of our high tariff wall are by no means large, it is a serious matter to embark upon a policy which, in the view of its own advocates, would buttress the protective system still more firmly and superadd further interference with economic forces determining the international movement of goods.

The debenture plan, in its comprehensive form, with rates as recently proposed, contemplates a direct cost to the Treasury, through diversion of customs revenues, of some 150 million dollars a year, and a cost to the American public, including farmers as consumers, of between 300 and 400 million dollars a year. The prospects are that the drain upon the Treasury would become substantially heavier, in consequence of the stimulus given to exports under the plan; and if debenture rates were raised or the list of debenturable commodities extended, the cost to the Treasury would be still further increased. On the other hand, the cost to the consuming public would tend to diminish, on any given schedule of rates and commodities, as increased exports caused export prices to decline. The figures cited are by no means staggering, considering all the circumstances; but they are much too large to be regarded lightly. These considerations strengthen the view that such a proposal must be regarded as a notable innovation.

To say this is not to condemn the proposal forthwith. Radical innovations are not necessarily objectionable. Neither the foreign experience with export bounties and analogous devices, nor American experience with the protective tariff and drawback systems, nor the prospective costs to the Treasury and American consumers, constitute conclusive evidence either for or against the debenture plan; but they show that it cannot wisely be adopted without careful inquiry in advance into the probable working of the proposed system, and serious con-

sideration of whether the probable gains will be worth the prospective costs plus the attendant risks.

THEORETICAL WEAKNESSES

From the standpoint of economic theory, two major weaknesses appear in the case for the plan. In the first place, it rests upon the most optimistic assumptions as to the incidence of burdens and benefits of the system. The basic conviction of its advocates is that farmers will get, now and in future, on all the debenturable products that they sell, higher prices, to the extent of the debenture or bounty rates save for a negligible discount; and further that the gain to farmers will yield an access of prosperity to the nation at large, more than offsetting the costs of the scheme. Such hopeful assumptions find little justification in economic reasoning or economic experience. They ignore the complexities involved in what economists term "shifting and incidence." When a tax is imposed, its burden is rarely if ever borne—even immediately, and much less with the passage of time—by those who pay it; the burden is shifted through multifarious channels, in varying degrees, to others who ultimately bear it, often without realizing that they do. The burdens and benefits from protective tariffs are also shifted, so that it is impossible to measure their effects on protected industries and the public. A bounty may go directly to certain interests, but this does not mean that those who engage in bountiable enterprises are made, to this extent, more prosperous than they would otherwise be. Among the most baffling problems with which economists have to grapple are those concerned with the ultimate distribution of burdens imposed and benefits conferred by governmental acts, technical changes, and business innovations. The process is always complex, never simple; and the ultimate effects are very different from what a superficial examination would lead one to infer. One cannot, therefore, naïvely

accept the prophecies as to the reflection of debenture rates back to farm prices, the access of prosperity to farmers under the plan, and the bearing of this prosperity on other interests. It is necessary carefully to inquire into the basis for these favorable expectations.

In the second place, the debenture plan is theoretically weak in that it seeks to employ for its purpose a device normally employed for a very different purpose, inconsistent with the first. The normal object, and the natural effect, of a bounty on production is an increase of production. A bounty on exports is normally employed to foster exports, and incidentally production, of the bountiable product; and this is the effect to be expected from its application. Now the debenture plan advocates, in spite of occasional references to the fostering of agriculture and the maintenance of our agricultural output and exports, do not seek to stimulate either exports or production. They are disposed to minimize the prospects that such stimulus would result from the payment of the export bounty. They rightly regard expansion as a factor tending to defeat the real object of the plan, though they take this danger somewhat lightly. It is necessary to inquire how serious this danger really is, and whether export bounties can be made to serve a purpose inconsistent with their natural aim.

PROBABLE WORKING OF THE PLAN

While such theoretical considerations give one pause, the value of the debenture plan must be judged not by its theoretical justice or defects, but by its practical virtues, gross and net. The crucial question is, How will it work? In particular, will it work as its advocates assert, or in a manner significantly different?

In summarizing the results of our analysis of the probable working of the export debenture plan, we repeat that it represents an attempt to predict the unpredictable;

but so, of course, does the reasoning of proponents of the plan. Even a retrospective examination of the workings of the system would encounter insuperable difficulties in disentangling, from the facts as they appeared, the effects properly to be ascribed to the debenture policy. We have considered a number of debenturable commodities one by one. We have tried to take into account all the theory, reasoning, and evidence brought forward on behalf of the plan, and a good deal more equally worthy of attention, as regards its probable operation. We have sought to interpret the whole with fairness and insight. We have not been content to point out possibilities, for good or ill, but have endeavored to weigh the probabilities without bias. But at best our prediction remains a prediction. It deserves to be judged on the basis of the character of the evidence adduced and the soundness of the reasoning employed.

The initial effect of the application of the scheme would most nearly correspond to the expectations of its proponents, provided retaliatory measures were not generally adopted abroad. Farm prices of debenturable products would be raised above those that would otherwise prevail, to a substantial extent. In the case of a few commodities, farm prices might conceivably be raised, at the outset, by a large fraction of the debenture rate. With most commodities, much less could be expected. In the case of cattle and beef products, little if any price-raising effect could be anticipated even in the early stages. In the case of tobacco, the effect would be limited to export tobaccos. In the cases of tobacco and cotton, lower export prices consequent upon increased exports, and heavier merchandising risks in view of possible alterations in the system, would tend to limit even the early price enhancement. In the case of joint products such as flour and lard, the full debenture rate could not be expected to be reflected back to farmers. In the case of

wheat, which we have considered most at length, the extent of price increase properly attributable to the plan would vary with different wheats, in different regions, and from year to year. There are strong reasons for rejecting, even as respects the first year or two, the view that farm prices would be promptly, uniformly, and generally raised by the amount of the debenture rate. The price benefits actually realized by wheat growers would be much less than this, though still substantial in amount; but they would be very unequally distributed, geographically and in particular localities.

Accompanying the gains to farmers in the first year of the operation of the plan, substantial gains would also be realized, at the expense of the Treasury and the public, by speculators and holders of unhedged commercial stocks of the debenturable products. Similar gains would be realized in the event of increases in debenture rates. The long-run benefits of the debenture plan would have to be sufficiently large to justify this unavoidable bestowal of favors on a class which is not regarded as in need of public assistance in pecuniary form.

The major test of the operation of the plan would come, however, after the first year of its application, when the adoption of the price-raising policy and the enhanced farm prices would have time to exert influence on acreage, production, and exports of the debenturable products. Except in the case of cattle and beef, and tobaccos of types that are not exported, there is every reason to expect fairly prompt, definite, and substantial increases under the natural stimulus afforded by the measure. The result of increased output and exports would be to cause recessions in prices abroad and export prices here, so that, even though domestic prices were kept above normal export parity, the net increase in prices would be greatly reduced if not eliminated. In the case of most debenturable products, the probability is that for this reason

alone, the level of farm prices of these debenturable products, after two or three years or more, would not materially differ from what it would otherwise have been. So far as farmers were concerned, the benefits would have vanished, in large part or entirely, and with them the burdens upon the consuming public. On the other hand, the Treasury burden would be materially larger than initially, in consequence of the enlarged exports, and the justification for this burden, in genuine benefits to farmers, would have largely disappeared.

The case of wheat appears to be somewhat less unfavorable, indeed the least unfavorable from the standpoint of the working of the plan. The tendency of continued operation would be to stimulate production and export, particularly of those wheats which otherwise tend to be on an export basis because least in demand here. There is ample scope for response to such stimulus, if the plan were applied generally, and even more if it were limited to wheat, or to wheat and a few products that did not compete for the same land. The result of our increased exports would be to depress world wheat prices below what they would otherwise have been. It is likely that this process would go so far, within three or four years, as largely to wipe out the initial price advantage to farmers. These results would not be equally distributed: some farmers would continue net gainers; others would probably be net losers; but the aggregate net gain would probably be slight.

If the plan were continued unaltered, these early results would lead to recessions in acreage, here and abroad. A new equilibrium would then be reached in which, perhaps in the second half of a decade, our wheat growers might reap a somewhat larger net gain than in the intermediate stage, though considerably less than at the outset. If foreign acreage were highly price-responsive, less readjustment would be required here and the eventual

net gain to American wheat growers would be larger than we are disposed to expect; but we question whether restraint upon acreage abroad, in the countries most significant in determining world prices, would be of sufficient magnitude to affect the outcome substantially.

Efforts to thwart the tendency of the price benefits to melt away would certainly be called for, chiefly by increases of debenture rates plus increases in tariff rates. These could be expected to have a temporary and limited success, but the repetition of the process of expansion of production and export would shortly nullify, wholly or in large part, the gains thus secured. The mere existence of schedules for lowering debenture rates in case of expansion of acreage and production could not be expected to deter expansion. Their application would not prevent the consequences we have mentioned, though it might help to keep them from going to extremes.

The gains to farmers from price increases, even in the early stages of the operation of the plan, would fall far short of the half-billion dollars that have been suggested as a rough estimate of these gains. Little of the contemplated enhancement would occur in the case of cattle and beef prices, and on other commodities the price enhancement would be, in varying degrees, less than the full debenture rate. Moreover, farmers would lose somewhat as purchasers of farm products, and some other products as well. Whatever lasting increase in farm incomes might be properly attributable to the continued operation of the plan, we see no grounds for believing that it would amount to more than a small fraction of the figure suggested. It is by no means clear that the gains prophesied by the plan's proponents would be sufficient to restore prosperity to agriculture, or to lift agriculture to the coveted equality with industry. Certainly there is no prospect that the *realizable* gains would make any marked contribution to these objectives. The plan would doubtless succeed in

maintaining substantial differentials between domestic and foreign prices of debenturable products, but this would be a barren achievement if the plan failed of its larger purpose.

The possibilities of retaliatory action by foreign governments are large, and our own law and practice would require such resistance on the part of the United States to foreign measures of the type of debenture plan. While we should not expect these possibilities to be realized at all completely, we see good reason to expect sufficient resistance and retaliation to cause further substantial diminution in the anticipated benefits to American farmers, as well as appreciable alterations in the course of trade and significant international complications.

On the other hand, the Treasury burden of the plan would rise with increased exports, and even more rapidly if debenture rates were increased. It seems highly probable that within a few years any net gain that farmers might secure would be fully offset, or more than counterbalanced, by the drain on the Treasury; and that the gain by farmers would be materially less than the cost to consumers and taxpayers. We therefore regard as illusory the view that higher prosperity of farmers brought about by the plan would render it essentially burdenless.

So far as foreign experience is really pertinent, it seems to us to confirm such an analysis, rather than to support the theory of advocates of the plan. The experience of Germany and other nations with import certificates, a device similar to the proposed export debentures, is not truly applicable because that system has been and is applied under radically different conditions and with quite different objectives. England's experience with grain export bounties was had under quite dissimilar conditions and is obscured in the mists of history; but so far as we can discern from the literature, it yields nothing materially inconsistent with our view of the working of

the proposed debenture plan. The more recent experience with sugar bounties in continental Europe tends to bear out our reasoning more emphatically, and particularly reveals the possibility of international complications and grave disturbances to industry and trade without corresponding long-run benefit to agriculture.

As a matter of fact, the enhancement of farm returns properly attributable to the debenture system could not be ascertained; but severe disappointment over its failure to bring substantial, enduring advantages to farmers could not be avoided. Eventually, but probably not for several years, this disappointment, coupled with emphasis on the obvious burden to the Treasury, would presumably bring about the abandonment of the system. When this occurred, it would remove the artificial differential set up between domestic and export prices, and cause a decline in farm prices comparable with the advance secured by the initial application of the plan. The new differential would be maintained, other things equal; but the price depression would not be permanent, for it would lead to readjustments in acreage and production, followed presumably by price recovery. But the readjustment would be painful to agriculture, and the disturbance to business incident to the abandonment of the system would not be unimportant.

Senator Smith of South Carolina,¹ in the Senate on April 25, asked a pertinent question, *apropos* of the President's argument "that if the debenture plan worked it would increase the price, and an increased price would stimulate production." "Is not the logic of that, that anything that would raise the price would likewise stimulate production? And is not the logic of that to leave the situation as it is or to lower prices in order that there may not be overproduction, and thus leave the farmer in his present condition or worse?" He continued:

¹ *Congressional Record*, April 25, 1929, p. 516.

I submit that neither members of this body nor parties elsewhere should attempt to force us into any such illogical position as that. If farm relief means anything, it means raising the price of farm products. If raising the price of farm products is going to cause overproduction, then we are doing a futile and an unpatriotic thing to stand here and talk about a problem which in its essence is, in one word, the unprofitableness of the present prices of farm products. They are too low. If we raise the prices, it is said that we stimulate overproduction, and the farmers' last condition is as bad as or worse than the one he is in now. We admit that the one he is in now is tragic and disastrous, and we propose to tell him that we are going to increase his price by a legerdemain and a subtlety that will not invite increased production, and the method by which it is proposed to do that is not apparent. It is not written anywhere.

I wish the Senate would just face this issue as it is. Do we want to raise the price of farm products, or do we not? If we do, and if we are sincerely earnest, it will not take us long to find some means by which to do it. We have found means to raise the price of our industrial products, and have established a supremacy in the world as to their prosperity, their vast volume of wealth, and their power to control their business even though the Government were to withdraw its support. If we are in earnest, we can do this thing. If we are not, let us quit.

Unquestionably this view is widely shared, and is often regarded as unanswerable. As a matter of fact, it is a mistake to assume that industrial prosperity rests upon high prices. Broadly speaking, industries that have most conspicuously prospered in recent years have not made their profits from high prices but have found means of reducing costs, and prices, quality considered, in turn. Many individual farmers have succeeded in similar ways. Farm relief is misconceived when it is comprehended in the raising of the prices of farm products. In all frankness, moreover, one must admit that the major obstacle to the durable success of price-raising measures lies in the probability of self-defeat by stimulated production. If this obstacle can be removed, no one has yet convincingly shown how; much earnestness has not availed. Clearly, increase of prices brought about by restraint of produc-

tion—if a practical way of effecting this can be found—is a very different thing from raising prices without reference to production and hoping that production will then be held down. But to reject price-raising schemes on reasoned grounds as illusory is not to admit that nothing can be done to improve the farmer's position. There has been overmuch vain search for some grand remedy. The hope lies not in one but in many lines of effort to promote the prosperity of agriculture.

RELATION TO PRICE STABILIZATION

The instability of farm prices, within a year and from year to year, is one of the evils which certain measures of farm relief are designed to alleviate if not to cure. The debenture plan is not designed to contribute to this end, but it is not generally realized that in practice it could be expected to accentuate the evil.

Upon the reasoning most commonly employed, the debenture system would not affect the instability of prices; it would merely elevate prices; differentials between domestic and export prices would be attained and maintained, but intraseasonal and interseasonal variations in prices would be unaffected. If the system were applied to a large group of commodities, which was neither expanded nor contracted; if rates were held constant; if it failed to stimulate production—this reasoning would probably apply, and the system would neither increase nor decrease the instability of prices, after it had been fully put in force.

In fact, however, these conditions would not obtain. Even the ardent supporters of the plan realize that it contains possibilities of stimulating production, and they have, as we have seen, accepted one or another scheme of flexible rates as a means of restraint upon this tendency. Even the earlier bills contained provisions for expansion of the list of debenturable products, and for changes in

rates by administrative action, while the latest bills vested still greater responsibilities in the directing agency. The probability of numerous changes is heightened by the facts that the plan as proposed is construed as an entering wedge for its more extended application, and that the probable effects would lead to tinkering with the system.

It is quite clear that the initial effect of putting a commodity on the debenturable list, or of increasing a debenture rate, would introduce a special element of instability in prices, affecting not merely the commodity itself but others that were more or less closely related to it. The same would be true, in a different direction, of reductions in rates or removal of a commodity from the list. One can conceive of the adjustment of rates as being applied with the purpose of minimizing price variations from year to year. But no one has proposed that this be done, and it would almost certainly run counter to the real objective of the plan, price elevation. Moreover, the mere prospect of changes in the list or in rates would introduce a special element making for price instability.

It is no defense of the plan to argue that the same point can be made against changes in tariff duties. Admittedly this is one of the inescapable evils connected with tariff alterations. But the application of the debenture plan to commodities of which we produce huge surpluses, on an annual basis, might easily be more far-reaching in this respect, because of the relatively large volume of stocks held and the more widespread operation of dealing in futures. The disturbance to business frequently associated with tariff revision might well be exceeded by the disturbance caused to the business interests directly concerned in such frequent alterations of the debenture system as are in contemplation, to say nothing of even more frequent alterations adopted in the hope of restraining shifts in the level of prices of the products concerned.

Furthermore, the provision for adjustments of debenture rates according to schedules of output would operate, if the schedule were so constructed as to be effective in checking a stimulus to production, in a manner conducive to price instability. Consider a bumper crop harvested as the result of good yields on a large acreage. A substantial reduction in the debenture rate would be made at the very time when the surplus was largest, the world price presumably low, and the farmers presumably in special need of protection against price decline. If the schedule were allowed to operate, against the protests from farmers that in their direst need their protection was reduced, the price would fall farther than if the system had not been applied. Perhaps in the very next year production might fall so that the normal debenture rate would apply. Then there would be an added factor making for price advances.

It is true that other measures might be attempted, with no opposition from devotees of the debenture plan, to moderate fluctuations in prices. It is not inconceivable that by such measures the instability in prices might be lessened even if the debenture system were also in effect. But it is very difficult to escape the inference that the debenture plan itself would heighten, not lessen, the variations in prices, and that it would intensify the difficulties that any stabilization program must inevitably encounter.

It is conceivable that a restricted form of the debenture plan might possibly be found helpful in limiting extreme depressions of prices, and thus of some utility in lessening price variations. Here the analogy of the British corn bounties is most directly in point. It will be recalled that these were payable only when prices of the grains in question fell below stated levels. Perhaps some similar scheme, or a sliding scale of debenture rates varying inversely with Chicago futures prices, might be found

useful in checking extreme price depressions, and thus tend in the direction of restricting price variations. Whether such a device would be superior or inferior to alternative means for accomplishing the same result need not be considered here; but it would certainly be a very different scheme from the proposed debenture plan.

ADDITIONAL COMPLICATIONS

Furthermore, the simplicity of the debenture scheme has been greatly overestimated. Administratively it would indeed be relatively simple, as compared with several alternative plans for farm relief, in spite of some knotty problems in determining appropriate rates on derived products, the measures necessary to prevent frauds, and the inevitable machinery required for handling the necessary documents. But it could not be regarded as a comprehensive, unalterable system. There would be continuous pressure to bring additional commodities under the scheme, to raise or otherwise readjust debenture rates, to alter tariff rates to supplement it to better advantage, to revise the regulations concerning its operation, and to advise or control farmers so as to foster its effectiveness. No routine administrative machinery could cope with these tasks; they would inevitably engage the serious attention of departments, boards, committees, Congress, and the Executive.

Administrative simplicity, however, is by no means the whole story. The application of the plan would complicate merchandising, manufacturing, and exporting operations to a large but unforeseeable extent. Numerous changes in tariff rates would be demanded and obtained. Foreign producers would probably enjoy competitive advantages over American producers in export markets, by reason of differentials in costs of our debenturable products. Changes in debenture rates, or in the list of debenturable products, would certainly be called for and presumably

obtained, thus multiplying the risks of business and helping to widen the spread between farm prices and consumers' prices. Reductions in debenture rates, or the abandonment of the scheme, for one or all commodities, would cause losses and further readjustments to business interests as well as to farmers.

THE PLAN AS AN OPTIONAL DEVICE

The debenture plan is a proposal for an enduring element in our agricultural policy, a permanent but not unchanging complement of the protective tariff. Its proponents have been willing to concede a great deal in the effort to get the system into operation. Both the list of commodities and the debenture rates are admittedly provisional, and an optional form of the plan, such as was incorporated in the McNary bill, was acceptable as an entering wedge for a more comprehensive application. The plan might become practically inoperative on a debenturable product if and when the country ceased to export that product; but even in this respect the plan would be self-perpetuating, not self-eliminating, for it would tend to cause the continuance of exports. No abandonment of the system after its adoption is provided for. As in our experience with protective tariffs, pressure would continually be exerted to extend and strengthen the system, by applying it to other commodities and increasing rates. Forces making for the persistence of the system would be set up by the mere adoption of the plan.

Nevertheless, it is pertinent to ask whether, even if the adoption of the plan in comprehensive form would be inadvisable, it might not be desirable, as proposed in the McNary bill and the Norris amendment to the current tariff bill, to give the Farm Board the right to put the plan into operation with one or another specific commodity when it should deem such a price-raising measure helpful in carrying out the stated policy of Congress. It may be

taken for granted that if such a provision were enacted into law, the Board would be forced to give the plan a trial. It is a reasonable inference that if Section 10 of the McNary bill had not been rejected last June, the debenture plan would now be in force for wheat and probably for cotton, and possibly for several other commodities as well. A good many reasonable persons who feel skeptical regarding the practical virtues of the plan would nevertheless like to see it tried out. If an experiment is to be made with the scheme, on some grounds it seems reasonable to make it with a limited number of commodities, for limited periods, so chosen as to yield the best evidence of its success or failure.

There are, however, several reasons for rejecting this appealing proposal. In the first place, it is entirely impossible to conduct such an experiment as a scientific experiment is made, under controlled conditions, with observations designed to bring clearly to light the particular effects of the new device. Even the most unbiased experts could not demonstrate, with anything like completeness and conviction, what results were really attributable to the operation of the scheme. A very recent experience is in point. In May 1929, export rates on wheat were reduced on various routes with the object of expediting exports, reducing stocks that were embarrassingly heavy, and helping to raise farm prices of wheat. What actually followed was so highly disappointing that some have argued that the move had effects the reverse of the intended ones. But exhaustive analysis would fail to show just what part the rate reduction actually played in the developments that occurred. Similar difficulties, and even greater ones, would be encountered in appraising the consequences attributable to the operation of the debenture plan.

In the second place, the initial results would be inconclusive. We have shown that the price-raising effects

would ordinarily be at their maximum in the first year of application of the scheme. It would be entirely false to reason that, if the first year's results were as favorable as had been anticipated, the results in subsequent years would be equally so. It would almost certainly prove impossible to drop the experiment after a brief trial. If it succeeded at the outset, a presumption would be set up in favor of continuance and extension. If it proved disappointing in the first year, efforts to strengthen it would be called for. Only after a period of several years, and probably after its application to numerous commodities, would it prove politically feasible to abandon the experiment.

In the third place, the debenture plan is properly regarded as a contrasting alternative, not a harmonious supplement, to the Agricultural Marketing Act, whether that be viewed as a measure for effecting reorganization of agricultural marketing, or as an opportunity for the Farm Board to adopt remedial and constructive measures of various sorts. There is a real danger that if the debenture plan were adopted in an optional form, it would, as President Hoover thought inevitable, "confuse and minimize the much more far-reaching plan for farm relief . . ."

After all, it would seem the part of normal prudence not to embark upon such an experiment except after adequate consideration of what it would probably involve and how it would probably work. We feel convinced, after careful study, with all deference to the intelligence and sincerity of supporters of the plan, that the conclusions that they have reached are in large degree erroneous. However subject to criticism our analysis may be, we believe that its reasoning and conclusions deserve to be reckoned with. We venture the opinion that many of those who have been disposed to support the plan, in Congress and outside, will modify their views with fuller knowledge and upon maturer consideration.

It is possible, of course, that the debenture plan, or

some variant of it, may have more genuine merit than our analysis has disclosed. There may perhaps be devised some method of experimentation with it that would yield fruitful results. But it seems evident, now that the Federal Farm Board has been established, that it should lie within the scope of the Board's functions fairly to consider plausible suggestions for developments in our agricultural policy. If, after due investigation, the Board should propose such an addition to its powers and duties, its recommendation would deserve great weight; or if Congress should, on its own initiative, adopt the debenture plan in some form bearing the endorsement of the Board after such study, the situation would be altered. But for Congress to put the debenture plan into law, in advance of such procedure, would be a serious mistake.

A FINAL WORD

In short, our investigation of the probable operation of the debenture plan leads to the conclusion that its shortcomings have been largely overlooked, and that its practical virtues have been gravely, however unintentionally, misrepresented. In our considered judgment, the plan would fail in practice to yield the promised advantages. No one can foretell how well or how badly it would work, but it seems safe to assert that at best it could not be expected to yield more than a portion, and probably only a small fraction, of the gross benefits that are claimed for it, and this at a heavy cost to the Treasury and at the risk of numerous complications, both domestic and international, as well.

It may be too much to assert, with President Hoover, that the plan "contains elements which would bring American agriculture to disaster." We are not disposed to couch our prediction in these words. On the other hand, and in part for the same reasons that lead us to a more moderate view of its dangers, we see no possibility that

it would yield "equality for agriculture." Perhaps its largest fruit would be bitter disappointment. The direct and indirect costs of the plan itself, particularly in view of the difficulty of retracing the step, would be important; but the delay caused by moving along the wrong road might be even more serious in reality. The probabilities of success should be much more clearly demonstrated before it would be wise to embark upon the plan either in comprehensive or limited form.

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