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ON AGRICULTURAL POLICY 1926-1938

By
JOSEPH S. DAVIS



**FOOD RESEARCH INSTITUTE
STANFORD UNIVERSITY, CALIFORNIA**

FOOD RESEARCH INSTITUTE

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FOREWORD

For twenty years I have been studying economic and political aspects of food and agriculture in their national and international bearings. Amidst this work, I have been called upon to speak and write on agricultural problems, proposals, programs, and policies. The appeals have come from diverse individuals, groups, and associations, usually to deal with specific topics of immediate interest and broad significance. My responses have taken a variety of forms—addresses, brief discussions, book reviews, articles, and portions of books. It is mainly of such products that this book is made up.

Despairing of finding time to write a systematic treatise on agricultural policy, I offer instead this organized selection from my scattered writings. Each chapter (an ill-fitting term used for lack of a better) is dated, and may well be read with the date in mind. The first four are introduced, as their group title indicates, as contributions toward “perspectives” on the whole subject. The others constitute a series of analyses and commentaries, grouped according to successive stages in the evolution of American agricultural policy since the middle 1920’s. Most of the issues dealt with are still of current importance.

The editorial changes consist mostly of deletions to reduce the amount of duplication and the burden of footnotes. I have made no attempt to bring statistics up to date, and have avoided the temptation to cut or revise where my vision or judgment has altered. Readers who may wish to follow ideas through two or more chapters, or to make cross-comparisons, will find the index helpful.

The sources from which hitherto published portions are drawn are indicated at the beginning of each chapter. For permission to reprint copyrighted materials I am indebted

to the following organizations and individuals: American Economic Association, American Farm Economic Association, American Institute of Cooperation, American Statistical Association, Brookings Institution, California Bankers' Association, Canadian Society of Technical Agriculturists, George Allen and Unwin, Ltd., *Harvard Business Review*, Harvard University Press, Institute of Pacific Relations, Pacific Coast Economic Association, Stanford University Press, University of Minnesota Press, University of Southern California, and Victor Gollancz, Ltd.; and Arthur H. Cole, Norman E. Himes, W. L. Holland, and E. G. Nourse.

For devoted, efficient help in preparing most of the original manuscripts, I owe much to my successive secretaries—Katharine Merriam (Greisinger), Ennis C. Blake, and Elizabeth Brand Taylor; and Mrs. Taylor has shared the burdens in connection with the book itself. Two of my colleagues, M. K. Bennett and Karl Brandt, have generously given time and energy to essential decisions on matters of selection, arrangement, and detail. I cannot specify my obligations to scores of others who, through many years, have contributed directly or indirectly to the evolution of the work and thought here represented.

J. S. D.

December 1938

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PERSPECTIVES

THE SPECTER OF DEARTH OF FOOD: HISTORY'S ANSWER TO SIR WILLIAM CROOKES*

[July 1932]

THE PROPHECY AND THE EVENT

The question of food supply "is of urgent importance today, and it is a life and death question for generations to come. . . . England and all civilised nations stand in deadly peril of not having enough to eat." This was the keynote of a stirring presidential address by Sir William Crookes before the British Association for the Advancement of Science, on September 7, 1898.¹ For Europe and its offspring countries, wheat appeared the heart of the food supply; the crucial food problem was the wheat problem; and this, as he read "stubborn facts," was one of averting acute scarcity within a generation.

The details of the impending catastrophe no one can predict, but its general direction is obvious enough. Should all the wheat-growing countries add to their area to the utmost capacity, on the most careful calculation the yield would give us only an addition of some 100,000,000 acres, supplying at the average world-yield of 12.7 bushels to the acre,

* *Facts and Factors in Economic History: Articles by Former Students of Edwin Francis Gay* (Cambridge, Mass., 1932), pp. 733-54. Reprinted, with slight alterations, by permission of Harvard University Press, publishers.

¹ The address as given appears in *Report of the Sixty-eighth Meeting of the British Association . . .* (London, 1899), pp. 2-38. Exclusive of portions unrelated to his main subject, and with some minor modifications, it was published in book form in London, 1899, with the title: *The Wheat Problem, Based on Remarks Made in the Presidential Address to the British Association at Bristol in 1898, Revised with an Answer to Various Critics, by Sir William Crookes, F.R.S., with Two Chapters on the Future Wheat Supply of the United States, by Mr. C. Wood Davis, of Peotone, Kansas, and the Hon. John Hyde, Chief Statistician to the Department of Agriculture, Washington.* Referred to simply as *Crookes*, page references below are to this edition except where otherwise indicated. In 1917 was published a *Third Edition with Preface and Additional Chapter Bringing the Statistical Information Up to Date, and a Chapter on Future Wheat Supplies by Sir R. Henry Rew, with an Introduction by Lord Rhondda.* From this edition the articles of Davis and Hyde were omitted.

1,270,000,000 bushels, just enough to supply the increase of population among the bread-eaters till the year 1931.²

Are we to go hungry, and to know the trial of scarcity? That is the poignant question. Thirty years is but a day in the life of a nation. Those present who may attend the meeting of the British Association thirty years hence will judge how far my forecasts are justified.³

These years have now elapsed. In striking contrast to Sir William's expectations, the wheat problem of 1931 was one of world surplus, not world shortage, actual or impending. The condition of surplus has persisted for four years; hopes of an early adjustment between supplies and requirements have been repeatedly disappointed, and readjustment is not yet (July 1932) in sight.

"A permanently higher price for wheat is, I fear," said Crookes, "a calamity that ere long must be faced."⁴ Actually, in the past year, wheat prices have fallen below the lowest that Sir William knew; in three of the past four years they have been, in relation to the general level of commodity prices, below the lowest level of the 1890's;⁵ indeed, in most of the post-war period, wheat has been generally cheaper in terms of wages than ever before. The "calamity" feared today, by importing and exporting nations alike, is that of a permanently *lowered* price for wheat.

Sir William Crookes (1832–1919) was no irresponsible sensationalist. He was one of the most eminent scientists of his generation, who had done notable work in both physics and chemistry. Because of what he was, what he said commanded high respect. His discussion rested on considerable study and correspondence. He pondered the criticisms it evoked. Though his address was replete with alarmist phrases,

² Crookes, p. 33.

³ *Ibid.*, p. 34.

⁴ *Ibid.*, p. 7.

⁵ *Wheat Studies of the Food Research Institute* [hereafter referred to as *Wheat Studies*], December 1931, VIII, 95–98. Crookes paid no attention to the general price level, or to the level of wages.

he disavowed any intent "to create a sensation, or to indulge in a 'cosmic scare.'" He sought "to treat the matter soberly and without exaggeration."

In the background of the address lay a real wheat stringency, which stood out in sharp contrast to the preceding abundance. In 1897, following reductions in wheat reserves, short crops of both wheat and rye were the rule in Europe and in most of the exporting countries as well. Wheat prices advanced materially, and the spectacular Leiter corner in the spring of 1898 drove them up sharply farther, for a time. Widespread famine was reported in Russia and in parts of India. In Great Britain, the danger of food scarcity in the event of war had already evoked special concern, even in conservative grain and milling circles. Britain was importing some three-fourths of her wheat consumption requirements, and large quantities of other foodstuffs and feedstuffs as well. It is not surprising that Crookes could say, after a review of Britain's position:⁶ "The burning question of today is, What can the United Kingdom do to be reasonably safe from starvation in presence of two successive failures of the world's wheat harvest, or against a hostile combination of European nations?"⁷

The second part of this question was answered, successfully, during the World War. But no nation can today face the prospect of a great war, or even a general economic boycott, without the gravest concern, owing to customary or unavoidable dependence upon foreign countries for supplies of important foodstuffs, raw materials, and manufactures. To the first part of the "burning question" history since 1898 has given a reassuring answer. For various reasons, the maximum world wheat shortage that has occurred under modern peace-time conditions has not entailed a degree of food short-

age involving undernutrition in any part of the world that was definitely part of the widening stream of national and international trade.

Other questions remain. Why was the actual outcome, to 1931, the reverse of Sir William's dismal wheat forecasts? Was his hope justified that "before we are in the grip of actual dearth the Chemist will step in and postpone the day of famine to so distant a period that we, and our sons and grandsons, may legitimately live without undue solicitude for the future?"⁸ Does mankind, as he confidently assumed, face the doom of dearth of food—a dearth which, later if not sooner, will cruelly fix limits to growth of population, demand painful contraction of human satisfactions, or do both?

The facts of economic history yield some answer. In retrospect, it is clear that he overrated the basic importance of wheat and underrated the potential expansion of its production, and that he did not see, or give due weight to, significant tendencies that time has revealed.

SIR WILLIAM'S ARGUMENT

Like many who preceded and followed him, Crookes laid great stress on wheat as the foodstuff par excellence.

Wheat is the most sustaining food grain of the great Caucasian race which includes the peoples of Europe, United States, British America, the white inhabitants of South Africa, Australasia, parts of South America, and the white population of the European colonies.⁹

If bread fails—not only us, but all the bread-eaters of the world—what are we to do? We are born wheat-eaters. Other races, vastly superior to us in numbers, but differing widely in material and intellectual progress, are eaters of Indian corn, rice, millet, and other grains; but none of these grains have the food value, the concentrated, health-sustaining power of wheat, and it is on this account that the accumulated experience of civilised mankind has set wheat apart as the fit and proper food for the development of muscle and brains.¹⁰

Excellent foodstuff though it is, wheat merits no such encomium.¹¹ It has qualities that facilitate shipment, preservation, manufacture, and culinary use, and furnish special appeals to consumers. These, not inherent superiority as food for man, are responsible for the displacement of other cereals by wheat as human food, though it remains the dearest of the cereals except rice.

In turn, however, the aristocrat of the grains itself is gradually taking a lesser position in the diet in countries in which it has long been the mainstay. In some countries, wheat consumption per capita has risen, but by less than per capita consumption of other cereals (chiefly rye and corn) has declined. In many of the great wheat-consuming countries wheat consumption per capita has gone down, in some cases quite materially. The per capita food consumption of bread grains has declined in most of the bread-eating countries to which Sir William referred.

This tendency is due, not to dearth of wheat, but to lessening food requirements per capita, caused by many factors; to larger earning power per capita; and to competition of other foods, such as sugar, dairy products, and vegetables and fruits, which have become available in quantities and at prices that permit them to supply more of the food requirements of man.¹² "Bread is the staff of life" in most countries still, but man leans upon it far less than when this phrase was coined, and less even than thirty years ago. For many decades at least, apart from war, there has been a tendency toward broadening the base of the world's food supply, in respect of geography of production, improvement in transportation, and

¹¹ See Alonzo E. Taylor, "The Place of Wheat in the Diet," *Wheat Studies*, February 1929, V, 147-74, and "Economic Nationalism in Europe as Applied to Wheat," *ibid.*, February 1932, VIII, 271-72.

¹² See Holbrook Working, "The Decline in Per Capita Consumption of Flour in the United States," *ibid.*, July 1926, II, 265-92.

diversification of diet. Increasing actual use of wheat has accompanied decreasing essential dependence upon it or any other staple foodstuff.

The outstanding feature of Crookes's discussion was his emphasis on the "strictly limited" possibilities of expansion of wheat acreage. It seemed to him certain that, unless yields per acre could be radically improved, an era of shortage would soon be at hand.

In discussing wheat potentialities, Crookes limited the "world" of his argument to what he called "contributory areas,"¹³ and "the populations of European lineage inhabiting Asiatic Russia, the United States, Canada, Australasia, Argentina, Chili, Uruguay, Brazil, South Africa, and Europe and its colonies."¹⁴ To the wheat crops of these areas he added imports from "India, Persia, Syria, Anatolia, and North Africa," areas which he otherwise excluded from consideration. Below are given his data and his "prophetic figures" on wheat requirements by decades up to 1941.¹⁵

Year	Number of bread-eaters (in millions)	Requirements		
		Bu. per capita, food and seed ^a	Bushels (in millions)	Acres ^b (in millions)
1871.....	371.0	4.15	1,540	121
1881.....	416.0	4.38	1,822	143
1891.....	472.6	4.50	2,127	167
1898.....	516.5	4.50	2,324	183
1901.....	536.1	4.50	2,412	190
1911.....	603.7	4.50	2,717	214
1921.....	674.0	4.50	3,033	239
1931.....	746.1	4.50	3,357	264
1941.....	819.2	4.50	3,686	290

^a Seed requirement included at 0.6 bushels per capita.

^b Taking "the yield per acre at 12.7 bushels per annum, this being the average of the whole world."

¹³ *Crookes*, p. 10.

¹⁴ *Ibid.*, p. 134. This is quoted from C. Wood Davis' statement.

¹⁵ *Ibid.*, p. 13.

Apparently for the sake of conservatism, he used a constant per capita requirement despite a conviction that the upward trend shown for 1871 to 1891 would continue. He remarked that there had been "a steady increase of unit wheat requirements by reason of the decrease of unit consumption of rye, maslin, spelt, and buckwheat."¹⁶ He pointed with alarm to the relatively slight increase in wheat and rye acreage as compared with population since 1871 and 1884, adding:

The area under *all* the bread-making grains is absolutely 2.2 per cent less than thirteen years ago, notwithstanding an increase of one-fifth in requirements for bread.

It is clear we are confronted with a colossal problem that must tax the wits of the wisest.¹⁷

Crookes was surprisingly fortunate in his population forecast for 1931. No precise checkup of his population figures is possible, but an attempt in this direction yields figures for 1931, and the increase 1891-1931, close to those he gave. Clearly he did not overestimate the rate of population growth. However, he did not reckon upon a large increase of bread-eaters outside his "contributory areas." Shipments of wheat and flour to these outside areas have increased several fold since the latter 1890's, and markedly since the war, and some of these areas have increased their wheat production as well. This expansion of consumption has come largely in response to cheap wheat; it would doubtless have been much less if Crookes's views as to production had proved correct.

It is of interest to compare the actual wheat figures for 1931 with the prophetic figures. A provisional approximation for comparable areas is given below, taking a conservative figure of 850 million bushels for Russia's crop and ignoring

¹⁶ *Ibid.*, p. 13. There is a strong probability that seed requirements *per acre* have decreased appreciably since 1898.

¹⁷ *Ibid.*, p. 15.

the small exports from outside areas. As it happens, 1931 was a year of moderate world production, chiefly because of low yields of spring wheat in North America and Soviet Russia. Even so, production in 1931 exceeded Crookes's forecast of requirements for the "contributory areas" by some 550 million bushels or 16.5 per cent—possibly more.

	Acreage (in millions)	Yield per acre (bu.)	Crop (million bu.)
Forecast of requirements	264	12.7	3,357
Actual	285	13.7	3,910
Difference (per cent)	+7.8	+7.9	+16.5

Sir William was not unaware of defects in the statistics he had to use,¹⁸ but he concluded: "The maximum probable error would make no appreciable difference in my argument." Data even now available do not permit a close check of the acreage, yield, and production figures that he used for the 1890's. It is probable that he underestimated the true figures, and that the actual increase in the 30-odd years has been less than the above comparison shows.¹⁹ There is little question, however, that by 1931 the world's wheat acreage had risen beyond the maximum that Crookes considered possible for all time. Expansion of acreage has been the largest factor responsible for the contrast between his prophetic figures for 1931 and the actual outcome.

Probably there has been, actually as in appearance, some improvement in world average yield per acre, in spite of the increased proportion of acreage in regions where average yields are and may be expected to remain relatively low.

¹⁸ Like his American authority, C. Wood Davis, on whose extended series of articles in the *Northwestern Miller* for 1897 Crookes evidently relied. The editorial note introducing this series stated (XLIII, 13): "Probably no man is in possession of as complete statistics on the world's wheat production as Mr. Davis, who has made it a subject of close study for years." Perusal of Davis' various writings suggests a bias toward underestimation.

¹⁹ A recent examination of the data by M. K. Bennett of the Food Research Institute yields production figures for 1897 about 170 million bushels larger than Crookes gave.

This improvement in yield has not been due, to any important extent, to increased applications of nitrogenous fertilizers, which Crookes thought the most hopeful source of gain. Artificial fixation of atmospheric nitrogen became feasible and is of great actual and potential importance; but in wheat growing it has not yet been of much significance, biological and agronomic science having contributed more than chemistry as such.²⁰

Increased yields, expansion of the area actually sown to wheat, and further expansion of potential wheat acreage, are due to a multiplicity of factors which Crookes largely overlooked and in part failed to foresee. Before summarizing these factors, we may well review his forecasts for several specific areas.

COMPARISONS FOR SPECIFIC AREAS

The United States he naturally discussed first, and with evident confidence. He said in part:

For the last thirty years the United States have been the dominant factor in the foreign supply of wheat, exporting no less than 145,000,000 bushels. This shows how the bread-eating world has depended, and still depends, on the United States for the means of subsistence

Almost yearly, since 1835, additions to the wheat-growing area have diminished, while the requirements of the increasing population of the States have advanced, so that the needed American supplies have been drawn from the acreage hitherto used for exportation. Practically there remains no uncultivated prairie land in the United States suitable for wheat-growing. The virgin land has been rapidly absorbed, until at present there is no land left for wheat without reducing the area for maize, hay, and other necessary crops

It is almost certain that within a generation the ever increasing population of the United States will consume all the wheat grown within its

²⁰ See R. E. Slade, in *Report of the Ninety-eighth Meeting of the British Association* (London, 1931), pp. 434-37; and President F. A. Bower's address, *ibid.*, pp. 12-13. Crookes himself said in 1917 (*third edition*, p. 81), in a passage out of harmony with the general tenor of his discussion: " 'Starvation will be averted through the laboratory,' and the intelligent application of the results obtained by the work of the botanist and chemist will provide an assured future for the millions of bread-eaters in the world."

borders, and will be driven to import, and, like ourselves, will scramble for a lion's share of the wheat crop of the world. This being the outlook, exports of wheat from the United States are only of present interest, and will gradually diminish to a vanishing point²¹

Crookes's figure for the volume of United States exports, 145 million bushels, evidently applied to the decade ending with 1896-97. In the thirty years ending with 1897-98 net exports averaged 119 million bushels, but the average was held down by low exports prior to 1878-79. Contrary to an impression given in the quotation above, the trend of these exports was not generally downward from 1885 to 1898. There were downward drifts from peaks in the early 1880's and the early 1890's, but the record 5-year average of 159 million bushels in the period ending with 1882-83 was exceeded in the five years ending with 1895-96 (172 million) and approached in the five years ending with 1896-97.²²

For six years beginning with 1897-98, United States net exports averaged 218 million bushels a year, and only once fell as low as 191 million bushels. In the eleven years ending with 1913-14, however, net exports averaged only 112 million bushels a year, and only twice exceeded 124 million bushels. The trend in the fifteen years before the World War lent support to the view that before many years the United States would no longer be, on the average, a net exporter of wheat.

The actual position in 1931, however, was in striking contrast with Crookes's forecast at almost every point. Under the stimulus of high prices and appeals to patriotism, wheat acreage expanded remarkably during the war. While the peak of 1919 has not since been approached, subsequent expansion in semiarid areas has offset much of the contraction in general-farming areas. Despite very low prices in 1922-24 and

²¹ Crookes, pp. 16-18.

²² U.S. Department of Agriculture, *Yearbook*, 1931, pp. 582-83.

1928-32, the level of wheat acreage remains much higher than Sir William anticipated, without pressing upon acreage of other grains. Moreover, there has been some improvement in average yields;²³ there has been a notable decrease in per capita food consumption of wheat, according to Holbrook Working, from about 5.4 bushels in the late 1890's to about 4.2 bushels in the 1920's;²⁴ and the rate of population growth continues to decline. The net result was that, in spite of huge additions to stocks, the average annual net exports in the five years ending with June 1931 were 161 million bushels. The average annual surplus over domestic use for all purposes (including in one year very liberal amounts diverted to feed use because wheat was "dirt cheap" and corn was scarce) was 205 million bushels in this period. This is considerably larger than the largest 5-year average up to the time that Sir William wrote.

Crookes's error in appraising the prospects as regards the United States probably rested, in part, on official underestimates of acreage in wheat and other crops in the 1890's, consequent upon serious defects in the census of 1890. The true trend was greatly different from the trend that official estimates then current revealed.²⁵ In larger measure, however, the extreme failure of Crookes's forecast as to the United States was due to limits to his vision, in part quite pardonable ones. He did not foresee the great expansion of wheat acreage in the semiarid regions of the Southwest and Northwest, made possible by new technique of dry farming and new developments in farm equipment; the rise of automotive machinery and improvements in feeding practice; increased yield per acre in grain and hay crops; and decreased per

²³ *Ibid.*, p. 560.

²⁴ *Op. cit.*, p. 273.

²⁵ See Holbrook Working, "Wheat Acreage and Production in the United States since 1866: A Revision of Official Estimates," *Wheat Studies*, June 1296, II, 237-64.

capita consumption of wheat for food. He probably overestimated the growth of population in this country.

The annual average surplus over domestic use in the five years ending with June 1931 (205 million bushels)—which, as in the 1890's, somewhat understates the true surplus—would provide wheat food, at current rates of human consumption, for 49 million additional people. Population analysts now predict, on various assumptions that are subject to change as history unrolls its scroll, that the population of the United States is approaching a peak variously put at 145 to 175 million.²⁶ If the wheat acreage, average yield per acre, and per capita consumption for food should remain practically constant, the wheat requirements of the largest of these "maximum probable" populations could be met without appreciable resort to importation.

What the future holds in store, in these respects, one cannot safely predict. It is clear, however, that the potential wheat land of the United States is by no means all employed; that yields per acre are at least as likely to rise as to decline; and that per capita consumption, particularly in view of the changing age distribution of the population, is more likely to decline than to rise. If the United States ever becomes, on the average, a net importer of wheat, it is likely to be because the cultivation of wheat is not profitable enough to permit raising it on readily available land, and not because we cannot raise enough to supply domestic requirements.

Considering Russia, the next largest exporter, Crookes presented quite different arguments for not counting heavily upon her in future. He asserted:

. . . the yearly consumption of wheat per head during the last ten years has declined 14 per cent, and the consumption of bread is quite

²⁶ The lower figure is a recent (1931) estimate of P. K. Whelpton, of the Scripps Foundation for Research in Population Problems.

30 per cent less than is required to keep the population in health. The grain reserved for seed has likewise decreased—the peasantry limiting their sowing with the rise of taxation. The reduction of 14 per cent in the unit consumption of bread in Russia has added, during the last eighteen years, 1,360,000,000 bushels to the general wheat supply. This factitious excess temporarily staved off scarcity in Europe.

Although Russia at present exports so lavishly, this excess is merely provisional and precarious. The Russian peasant population increases more rapidly than any other in Europe. The yield per acre over European Russia is meagre. . . . The development of the fertile though somewhat overrated “black earth” . . . progresses rapidly. But, as we have indicated, the consumption of bread in Russia has been reduced to danger point. The peasants starve, and fall victims to “hunger typhus,” whilst the wheat growers export grain that ought to be consumed at home.²⁷

In a long footnote added later he quoted a report on famine conditions in Russia in 1898–99. He stressed the climatic limitations on wheat growing in Siberia, and quoted a recent statement by Prince Hilkoﬀ, Russian Minister of Ways and Communications, that “Siberia never had produced, and never would produce, wheat and rye enough to feed the Siberian population.”

There is good evidence that in a year or two following short grain crops, such as those of 1891 and 1897, famine stalked in large regions of Russia; but famine, though recurring every few years, was not continuous. Local shortages were of more frequent occurrence, owing to a variety of factors. But a recent careful study calls in question the oft-expressed view that Russia’s prewar exports, broadly viewed, were made at the cost of keeping the Russian people hungry for bread.²⁸ At all events, rapid growth of population was accompanied, in the twenty-five years before the World War, by more rapid expansion of grain area and production, so that Russia’s contribution to international trade in grain rose, irregularly but surely, until in the five crop years before the

²⁷ *Crookes*, pp. 19–20.

²⁸ V. P. Timoshenko, “Russia as a Producer and Exporter of Wheat,” *Wheat Studies*, March–April 1931, VIII, 336.

war her wheat exports averaged 165 million bushels as compared with an average of 124 million bushels in the five calendar years 1893-97 and the 95-million figure that Crookes used.²⁹

The war cut off Russia's exports. The subsequent revolution, with confiscatory policies that accompanied it, led to striking reductions in wheat acreage and production. These culminated, in a year of low yields, in widespread famine in 1921. Under the New Economic Policy agricultural recovery was rapid, and wheat exports were resumed on a modest scale in 1925-26 and 1926-27. After a check due to changes in Soviet policy and lower yields, the combination of fresh increases in acreage, bread rationing, and a bumper yield led in 1930-31 to the return of Russia to the ranks of major exporters, with wheat exports of 114 million bushels.

Russia is still, as in the 1890's, much of an enigma. Probably expansion of wheat acreage and improvement in yield have gone farther than Crookes expected, though not as far as comparisons of prewar and postwar statistics would indicate.³⁰ Further gradual increases are not improbable. A continuance of Russian exports, varying greatly from year to year, is in prospect. But Timoshenko, on much the same grounds that Sir William stressed, now reckons improbable Russia's return to her prewar level of wheat exports; and the tenor of his reasoning suggests that growth of population will tend materially to restrict Russia's contribution to the world wheat market.³¹ In the world wheat situation as it is, however, this prospect causes no such concern to the rest of the world as Sir William expected.

²⁹ Timoshenko, *op. cit.*, pp. 359-60, 375, and U.S. Department of Agriculture, *Yearbook*, 1931, p. 599.

³⁰ For comparison with current figures, the prewar acreage and yield figures are officially considered substantially too low, but the adjustment made may be excessive. Timoshenko, *op. cit.*, pp. 304-06.

³¹ *Ibid.*, pp. 363-69.

Most of all, Crookes underestimated Canada's promise. Of her potentialities and prospective contributions to the export market he said:

The most trustworthy estimates give Canada a wheat area of not more than 6,000,000 acres in the next twelve years, increasing to a maximum of 12,000,000 acres in twenty-five years. The development of this promising area necessarily must be slow, since prairie land cannot be laid under wheat in advance of a population sufficient to supply the needful labour at seed time and harvest. As population increases so do home demands for wheat.³²

Canada's exports of wheat and flour had not much exceeded 10 million bushels in any year until 1897-98, when they reached nearly 25 million; and her wheat acreage had increased but slowly in the decade before 1898. Then began a strikingly rapid development which far outran Crookes's predictions. By 1910 the wheat area in the three Prairie Provinces had reached about 8 million acres. Under the stimulus of war prices, the suggested maximum of 12 million acres was passed in 1915. In 1921 the acreage exceeded 23 million acres; the figure for 1931 is 26 million, more than double the maximum Crookes postulated. While domestic requirements increased, production grew so much faster that in the twenty years from 1896-97 to 1916-17 the upward trend of wheat and flour exports was at the (geometric) rate of 14.3 per cent a year. Although this rate was not maintained, in the five crop years ending with July 1931 Canada's net exports averaged 295 million bushels a year, and her export surplus averaged at least 315 million bushels.³³ Such figures would have amazed Crookes, who mentioned none for comparison.

Canada's rise to the outstanding position in the world wheat trade was made possible by a combination of factors.

³² *Crookes*, pp. 24-25.

³³ On this paragraph see C. P. Wright and J. S. Davis, "Canada as a Producer and Exporter of Wheat," *Wheat Studies*, July 1925, I, 217-86, esp. pp. 241-42, 261, 280, 284; also *ibid.*, December 1931, VIII, 174-76, 184, 190, 197.

Chief among these were the tide of immigration; the extension of railways; low railway rates and ocean freight rates; successful efforts in wheat breeding and selection to meet the climatic limitations affecting acreage and yield; and developments in agricultural machinery and technique. Crookes did not foresee these developments, and consequently greatly underrated Canada's potentialities.

Undoubtedly there are limits to the expansion of Canada's wheat acreage and production. Now, as in 1898, there is need of discounting fantastic estimates of Canada's potential expansion. Yet "trustworthy estimates" of the present day indicate nearly as much room for increase above present levels as Sir William could see in 1898 from the levels of his day.³⁴ History's teaching is that all such predictions must be accepted with skepticism. Certainly, the principal factors now holding expansion in check are depressed wheat prices, not Canada's inability to make heavier contributions to keep the world from starvation.

Australia Crookes passed by with a brief paragraph. "Climatic conditions," he said, "limit the Australian wheat area to a small portion of the southern littoral belt."³⁵ Strangely enough, he devoted more space to Queensland, which has never become an important wheat state, than to the four states which are now of roughly equal importance. He stressed the crop failures in Victoria and South Australia, and after citing an extremely low yield in the latter, concluded: "In most other districts the yield falls to such an extent as to cause Europeans to wonder why the pursuit of wheat-raising is continued."

³⁴ D. A. McGibbon, of the Board of Grain Commissioners, recently reviewed the evidence and earlier estimates, and concluded that the maximum production of the Prairie Provinces would not exceed 670 to 700 million bushels, as compared with a peak to date of some 545 million in 1928. He expressed doubt as to whether Canada's net exports will ever substantially exceed the 1924-28 average of 262 million bushels. *Northwestern Miller*, Feb. 17, 1932, p. 461.

Yet Australia, which in Crookes's day was indeed a minor, erratic exporter of wheat, rose in the next thirty years to be a major exporter. In the five years ending with July 1931 her net exports averaged about 100 million bushels a year. Wheat breeding and developments in machinery and technique permitted expansion of acreage and improvement in average yield—despite increasing resort to regions of low rainfall—and strikingly reduced the incidence of crop failure. Here too present-day scientists foresee limits to Australia's wheat area, production, and exports,³⁶ but the prospects for further expansion from present levels are greater than they appeared to Sir William from the levels of his day; and the factors now chiefly responsible for retarding further growth are depressed wheat prices.

For other export areas—notably Argentina, Austria-Hungary, Rumania, and India—Crookes was not seriously in error as to 1931. He gravely underestimated the expansion in the first fifteen years after 1898; but the war and postwar developments have in several cases helped his predictions to come true. His 30-year over-all forecast went far astray chiefly because he greatly underestimated the expansion of wheat production in North America, Russia, and Australia.

REASONS FOR CHANGE IN OUTLOOK

The expansion of world wheat acreage in the thirty years after 1898 was greater than Crookes thought possible to the end of time, and the limits of potential increase still appear wide. Average yields per acre increased moderately, without much aid from nitrogenous fertilizers. Wheat production by

³⁶ A recent careful estimate of maximum level of acreage and crop is 20.4 million acres sown for grain, yielding an average crop of 284 million bushels. See A. H. E. McDonald, *The Future Development of the Wheat Growing Industry in Australia* (Institute of Pacific Relations, Honolulu, 1929). The exceptional peak in 1930-31 was 18.2 million acres, yielding 213 million bushels.

1931 had materially exceeded his prophetic estimates. Wheat prices tended upward until 1914, but rose little more than prices in general. Destruction and disorganization during the World War made wheat sharply dearer, for a few years. Subsequently, with peace and economic recovery, wheat prices declined to new low levels, in relation to prices in general. A far greater net increase in wheat output would have occurred under the stimulus of the "permanently higher prices" that Crookes feared. Thus far, at least, there has never been a safe basis for predicting that the world's need for wheat will overstrain the capacity of the world's wheat-producing soils.

The world's wheat-eating population grew faster than he expected, not in the areas he specially considered, but by extension in other areas because cheap wheat and flour were available. In most typical wheat-eating countries per capita consumption of bread grains has declined—and, in several, per capita consumption of wheat as well—not because less wheat was available but because of lessened food requirements and increased variety in the diet. The rate of population increase is declining, in most of the areas Crookes dealt with, not because of pressure on food supplies or because of higher death rates, but mainly because of the influence of higher standards of living in bringing about a great decline in the birth rate. Apparently the most rapid increase in population is occurring in Russia, where pressure on the means of subsistence is much greater than elsewhere in Europe or in America. Prosperity, and the opportunity to achieve higher planes of comfort, now appear to afford checks upon population growth more powerful than scarcity of food.

Wheat breeders have developed varieties with a shorter growing period, thus extending wheat-growing areas into colder regions with shorter summers. They have also developed varieties resistant to various diseases, lodging, and other

handicaps that formerly made yields too unreliable in certain areas. Agronomists have learned the varieties adapted to conditions in different areas, large and small. They have discovered methods of selecting, treating, and testing seed, and the best time and method of seeding. They have developed cultivation practices suited to varied conditions, including rotations, fallowing, methods of preparation of the soil, the use of fertilizer (in Australia, phosphates), and economical methods of harvesting. Through development of the technique of dry farming, agronomic studies have paved the way for expansion of wheat culture into regions previously considered too arid for wheat.

The development of automotive machinery (notably the tractor) and supplementary equipment, facilitated by the vast increase in petroleum output, has helped in expansion onto drier lands, in application of improved methods of cultivation, and in overcoming the handicap of limited labor supply. Indirectly, through displacing horses and mules on farms and in cities, it has also released land formerly required for crops to feed work animals.

Progress has been made in bringing home to farmers information bearing upon all these matters, thus facilitating the application of knowledge. The lowering of costs of production, particularly in harvesting and handling operations, and the lowering of ocean freights have aided in pushing back the "extensive margin" of wheat cultivation. Such developments as these have helped, indeed, to force out of wheat production large areas suitable for growing wheat, with yields well above the world average, but have permitted expansion of total wheat acreage and increase in average wheat yield. There is yet no indication that such developments in knowledge and practice are approaching their limits.

"As mouths multiply, food resources dwindle," Sir Wil-

liam wrote.³⁷ Actually, as mouths have multiplied, available supplies of food, for the world of commerce, have tended to increase so that per capita requirements are on the whole increasingly well satisfied, qualitatively and quantitatively. What Simon N. Patten wrote in 1885 is even truer today:

There never was a time in the world's history when the population was as well supplied with food and at so little outlay of labor as at the present time . . . a smaller proportion of the population is engaged in agriculture than ever before; and this, not the price of food, is the true test.³⁸

THE OUTLOOK

Threat of coming dearth is not the central food problem. Demand, not resources, is the major factor limiting the food supply for the world of commerce. Nature's response to man's increasingly intelligent though still inefficient methods has been generous, not niggardly. An outstanding fact of economic history is that, with liberal opportunity for scientific investigation, the spread of communication and education, and broad scope for business enterprise, mankind has learned to multiply productive power faster than population increases. Political and social factors, not natural or economic limitations, are the principal obstacles to continuous advance in the plane of living.

What has been true in the past century may not, of course, be true indefinitely in centuries to come. Yet analysis of the factors responsible for these historic trends lends no support to the view that they will be reversed. Scientific discovery has proceeded at a quickening pace, not under the threat of general dearth but in the main under the stimulus of scientific curiosity, reinforced by the economic motives of reducing costs and increasing the number and appeal of marketable goods and services. With expansion of opportunities for the

³⁷ *Crookes*, p. 3.

³⁸ *The Premises of Political Economy* (Philadelphia, 1885), p. 87.

emergence and application of scientific talents, it is rash to predict a slackening of this pace. The same is true of specific applications of scientific knowledge to agriculture, manufacture, and transport. Business enterprise shows an increasing tendency not only to utilize scientific knowledge but to aid in expanding it. Governments are increasingly aiding both in widening its bounds and in developing means of bringing it home to individual producers.

There are no definable limits to these processes. The horizon recedes as we progress. Basic discoveries ever run in advance of their refinement, and refinement in advance of actual application. The presumption lies strongly against those who foresee an inevitably rising trend in the human cost of the food supply of nations, and in favor of those who foresee widening margins between available means of sustaining life and the requirements therefor. Mankind may be able, indefinitely, to afford to spend a decreasing fraction of its available energy in getting a bare livelihood, and an increasing proportion in trying to make life more worth living.

For the present at least, and probably for the indefinite future, the doom of general dearth appears neither inevitable nor even probable. The specter of coming dearth of food is a ghost that deserves to be laid.

NOTE.—A substantial complement to this chapter is the present author's section entitled "Food Consumption" (completed November 1928) contributed to Leo Wolman's chapter on "Consumption and the Standard of Living," in *Recent Economic Changes in the United States* (New York, 1929), pp. 24-51.

II

AGRICULTURAL FUNDAMENTALISM*

[September 1934]

THE ORTHODOX DOCTRINE

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

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

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

* *Economics, Sociology, and the Modern World: Essays in Honor of T. N. Carver*, edited by Norman E. Himes (Cambridge, Mass., 1935), pp. 3-22. Reprinted, with slight alterations, by permission of the editor and Harvard University Press, publishers.

. . . . Not only do the farmers make up one-half [*sic*] of the nation, but the well-being of the other half depends upon them. . . . Like her [Rome], we shall destroy our own agriculture and extend our sources of food distantly and precariously, if we do not see to it that our farmers are well and fairly paid for their services. The farm gives the nation men as well as food. Cities derive their vitality and are forever renewed from the country, but an impoverished countryside exports intelligence and retains unintelligence. Only the lower grades of mentality and character will remain on, or seek, the farm unless agriculture is capable of being pursued with contentment and adequate compensation. Hence, to embitter and impoverish the farmer is to dry up and contaminate the vital sources of the nation.

Agriculture is the greatest and fundamentally the most important of our American industries. The cities are but the branches of the tree of national life, the roots of which go deeply into the land. We all flourish or decline with the farmer.¹

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

. . . . From the standpoint of area, or wealth, or population employed, agriculture is by far the most important activity in the Empire. The true wealth of the world, the wealth which determines the standard of living of nations, is limited by the capacity to produce cereals, milk, meat, wool, cotton, hides, and other prime necessities of life of soil origin; without a sufficient supply of these progress in the art of living is impossible. Agriculture is also the one stable industry. Coal seams come to an end, or the discovery of new sources of energy changes the values of coal. Advances in physical science may, while creating new industries, destroy old ones. The wealth of gold and diamond fields depends upon artificial values which might disappear if society were constituted on a new basis with a different monetary system and different culture. But agricultural wealth, the capacity to produce every year the food and clothing without which life ends, is and always has been the one great permanent industry, the one which is the foundation of all national, or indeed, of world wealth.²

Professor T. N. Carver wrote in 1924: “. . . . farming is vastly the most important industry in every large country, as well as in the world at large.”³ While admitting

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

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

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

that "agriculture is losing ground relatively" and "will never again be of such overwhelming importance as it once was," he also said: ". . . the prosperity of the nation depends largely on the work of those who till the soil. The agricultural statesman is one who, through his leadership and lawmaking, gives the utmost encouragement to the workers on the soil." Sir Albert Humphries, the great British milling expert, is reported to have told the World's Grain Conference at Regina in July 1933: "If agriculturists in the widest sense can be made prosperous, then the whole world will very shortly become more prosperous as well."⁴

Such quotations could be multiplied indefinitely, from many countries, ages, and interests. They bear witness to a widespread, deep-seated, persistent conviction that agriculture is par excellence the fundamental industry, and that farmers are, in a peculiar sense and degree, of basic importance in society.

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

⁴ *Milling* (Liverpool), Aug. 26, 1933, p. 220.

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

DECLINING IMPORTANCE OF AGRICULTURE

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

Limitations of space here prevent elaborate presentation and interpretations of the relevant evidence, a large body of which I have critically examined. The declining relative importance of agriculture is imperfectly reflected in declining rates of increase in the rural population as compared with the urban, or even in stationary or declining rural populations while city populations increase. It is more clearly revealed by falling ratios of agricultural populations to the total, and of those engaged in agricultural occupations (particularly male workers) to the totals gainfully occupied; still more by absolute contraction of the numbers engaged in or primarily concerned with farming. It is reflected in available though imperfect indexes of the net output of agriculture as compared with that of industry, in evidence of falling ratios of agricul-

tural wealth to total national wealth, and in falling percentages of agricultural income to national income.

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

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

rate, the rate of population increase in Western countries has fallen and the age structure of the population has changed radically. Partly because of this, and even more because of changes in occupational distribution and in modes of working and living, per capita physiological requirements for food and clothing have diminished.

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

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

to them. Social scientists who do not fear heresy charges have a duty to contribute to clarification of thought in such a field.

ELEMENTS OF TRUTH IN THE DOCTRINE

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

In terms of numbers engaged and even in value of net output, agriculture is the most important industry. This is true in most nations if agriculture is considered as a single industry, and compared with other industries grouped more specifically, though in postwar Britain agriculture has ranked below engineering and mining in respect to numbers employed, and below these and the textile industry in value of net output.⁶ With at least equal propriety, modern agriculture may be regarded as a group of industries, overlapping indeed but more or less distinct and with interests more or less divergent. If, like agriculture, various other industries are considered in major groups as single industries, there are other countries in which agriculture no longer ranks first in respect

⁶ Ministry of Agriculture and Fisheries, *The Agricultural Output and the Food Supplies of Great Britain* (London, 1929), pp. 12-15. In numbers employed in agriculture Great Britain surpasses each of the Dominions, and in value of agricultural output all except Canada.

of number of workers or net value of output. According to the United States census of 1930, agriculture was surpassed by the group of manufacturing and mechanical industries including construction, and equalled by the trade and transportation group, in the number of gainfully employed workers sixteen years of age and older.⁷ Nevertheless, in the world as a whole even today, the primacy of agriculture in numbers engaged is beyond dispute.

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

The great food-exporting countries—whether we measure their greatness as such by the volume of food products that they contribute to international trade, or by the proportion of their exports that consist of farm products in raw or processed form—find their prosperity heavily dependent upon the volume and value of their agricultural output and exports. Such are Canada, Argentina, Australia, Cuba, and Java. A large outturn and large exports of farm products mean great activity in transportation and handling; a large value of farm production makes for liberal purchases by farmers; a large value of agricultural exports gives liberal purchasing power for imports, debt payments, travel abroad, etc. What is true of such countries is true of agricultural-surplus subregions and communities within a nation. Such are the Prairie Prov-

⁷ R. G. Hurlin and M. B. Givens, in *Recent Social Trends in the United States* (New York, 1933), p. 280.

inces of Canada and numerous sections of the United States. There agriculture is truly basic, in the sense that the purchasing power, the tax- and debt-paying ability, and the opportunity to spend for education, amusement, vacations, travel, etc., are heavily dependent upon the volume of agricultural products marketed and the amount of cash farm income. Such regions, however, are by no means typical of the world at large, and even in respect to them the pre-eminence of agriculture is often exaggerated.

LIMITATIONS OF THE DOCTRINE

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

Even in the process of supplying the world's food, farm production of foodstuffs is only one link in a long chain by which food reaches the consumer's table. Transportation,

processing, merchandising, and finance are also necessary links; and, in the short run, transportation is the most immediately critical. Though agriculture appears to be the first link in the chain, it must be said that scientific investigation, communication and education in many forms, and provision of farm machinery and fertilizers, are even more primary than the farmer's efforts in making it possible for modern farmers to produce the quantities of foodstuffs and raw materials that they do.

Moreover, while food is essential to life, by no means all agricultural effort that goes into producing foodstuffs is thus essential. With food as with other forms of consumption,⁸ we often choose to take our comforts, conveniences, and luxuries in a vast variety of forms and services linked with essentials, rather than get them wholly in distinct goods and services. Flavor, appearance, convenience, variety, even prestige, are superadded to calories, minerals, and vitamins. While this tendency is sometimes carried to such extremes that essentials are sacrificed, it is often an eminently rational procedure. If we chose to limit our diet to the minimum essential for life, health, and working efficiency, at minimum cost, the services of a large fraction of the farmers of the world, as well as of industry and commerce, would be dispensed with. To a large extent also, farm products other than foods go extensively into supplying wants for what cannot be called "necessaries of life."

In some countries today, indeed, the farmer's part in producing the food actually consumed is not the largest fraction; as much or more may be contributed by transportation, processing, and merchandising services. Witness the extensive use of delivery and credit services, packaged breakfast foods, loaf

⁸ Even the cheapest automobiles furnish more than mere transportation, which may be regarded as the most essential of their several "utilities."

and packaged sugar, canned fruits and vegetables, wrapped and even sliced bread, and quarter-pound table units of butter. Even where a product, such as fluid milk, reaches consumers apparently unchanged, what the consumer gets is economically different from what the farmer ships. The "farmer's share of the consumer's dollar," as that is actually spent for food, has declined in large part because an increased share of that dollar has been earned by others who have contributed to the more elaborate processes through which foodstuffs reach the consumer.

Furthermore, it is by no means true that all farmers are essential even for producing the foodstuffs and other farm products that the world customarily consumes. The *aggregate* importance of farm products is very great, but their *marginal* importance is modest. The elimination of agriculture and the "vanishing" of the farmer are almost unthinkable,⁹ but the practical questions concern the importance of moderate additions or reductions in the number of farmers and the supply of farm products. With air and water relatively abundant, we properly regard those who provide our water supply and air-conditioning equipment as contributing to our comfort and convenience; but we do not magnify their importance because air and water are vitally necessary. Except in regard to the number of persons involved, the situation is essentially similar with respect to farm products and agriculture as an industry.

Farming has a powerful attraction for large numbers of people, in spite of the risks and hardships associated with it,

⁹ Synthetic production of most essential foodstuffs is technologically possible, as C. L. Alsberg pointed out in "Progress in Chemistry and the Theory of Population," *Industrial and Engineering Chemistry*, May 1, 1924, pp. 524-26. With further progress in the past decade, the time seems almost at hand when all the vitamins can be made available otherwise than through agriculture. It is conceivable that scientific developments may in time render much or most of our present agriculture superfluous, but Alsberg rightly asserts that the basic problem of obtaining the energy necessary for large-scale synthesis of foods remains to be solved.

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

In competitive societies where occupational mobility exists, there is a broad tendency for group rates of remuneration to vary with the marginal importance of the services contributed by each group, the size of the group depending partly on the ease or difficulty of entering it, the appeal or repulsion of the risks it involves, and its all-round attractiveness. Broadly speaking, low financial remuneration of a group implies that its marginal importance is low; from whatever cause, the group is so large that society is unwilling to pay better for the services that it renders. When supplies of farm products are restricted or contracted, whether by war, by Nature, or by farmers' actions, society pays the farmers more, at least per

unit of product. When the restraint or contraction is serious and persistent, the remuneration of the farming group rises, and greater agricultural activity is stimulated. When, however, farm products come forward in abundance, compared with what society cares to use, a low remuneration for the farmers is a competitive society's way of encouraging a shift into other forms of activity.¹⁰

SOME ALARMIST VIEWS CONSIDERED

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

With respect to the dangers of food shortage, modern history affords little basis for such fears. Whatever of truth Malthusian laws contain, the pessimistic interpretation of history which Malthus held has not been borne out by the experience of at least the Western World in the period since he wrote. Increasing population and decreasing emphasis on agriculture have been accompanied by notable increases in the adequacy of food supplies per capita. Under some conditions still, limitations of the food supply may interpose more or less effective checks to population increase; but it is striking that latterly China, India, and the USSR, where the per capita food supply is very limited in relation to physical needs, have shown relatively high rates of population increase. In the greater part of the Western World, at least, other checks are so effective that limitations through the national food supply are inoperative, or of little or no practical importance. Problems of

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

insuring adequate balanced diets for all persist, even in the most advanced countries, but their solution is not dependent upon increased efforts by farmers. The persistence of abnormally heavy stocks of staple foodstuffs during the depression can be attributed only in very limited degree to simple underconsumption of food.

So far as the future is concerned, prophecies differ. Some regard the past century as a magnificent exception, and feel confident that, sooner or later, mankind must face painful restraints through limitations of the food supply. After much study, these predictions seem to me ill-founded. Professor Edwin Cannan has well said:

All this emphasis on food is now out of date. We no longer look forward to a future in which an increasing population will be forced by the operation of the law of diminishing returns to devote a larger and ever larger proportion of its whole labour force to the production of food. We know that even in the past, with a rapidly increasing population, the returns to agricultural industry have increased so much that civilised mankind has been able to feed itself better and better, while giving a smaller and ever smaller proportion of its whole labour force to the production of bare subsistence; and we can reasonably expect that the increase in the productiveness of agricultural industry will be at least as great in the future, so that under the combined influence of the "narrow capacity of the individual human stomach" and the stationary number of stomachs, not only a smaller and ever smaller proportion, but a smaller and smaller absolute number of workers will be able to raise food for the whole.¹¹

Whatever the more distant future may bring forth, it seems abundantly clear that the nearer future gives no warrant for subsidizing farmers, directly or indirectly, to avert undue contraction of supplies of farm products. On simple economic grounds, there is no warrant for seeking to maintain or increase the number of farmers, if they are already producing more than society wants and chooses to pay for, in relation to its desires for other goods and services. There is justification

¹¹ In his presidential address before Section F of the British Association, "The Changed Outlook in Regard to Population, 1831-1931," published in *Economic Journal*, December 1931, XLI, 525.

for seeking to make it possible for farmers individually to earn more, especially by rendering desired services at lower costs; but frequently an essential condition of increased average remuneration is a reduction in the size of the agricultural group. The economic adviser to the Secretary of Agriculture said recently:

Even with our present techniques, we have more farmers than we need. Three-quarters of our farmers, that is, 15 per cent of our total working population produce today as much farm products as we are consuming domestically. With even a moderately effective utilization of the methods and machines already known and in use, probably 10 per cent of our workers could produce as much farm products as are now produced, and eventually the proportion will fall even lower. That means that as soon as urban or industrial occupations are ready to employ them, the proportion of farm and industrial workers could be changed from 8 to 2, to 9 to 1, and there would still be ample farm products for everyone. Eventually, the proportion of workers in commercial agriculture may fall to 5 per cent or even lower, and yet we could maintain a stable and well-balanced industry—with far higher general standards of living than any we have yet enjoyed.¹²

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

President Coolidge, in addressing the Association of Land-Grant Colleges on November 13, 1924, said: "It has been attested by all experience, that agriculture tends to discouragement and decadence whenever the predominant interests of the country turn to manufacture and trade. We must pre-

¹² Mordecai Ezekiel, "Which Way, American Farmer?"—an address given before the open Forum, Chicago Sinai Congregation, Oct. 30, 1933.

vent that in America."¹³ The bearing of Rome's experience on this point is still a matter of controversy. In the modern world, however, a declining importance of agriculture in a national economy, or in the world at large, has not implied, and does not imply, decadence of agriculture in respect to efficiency of farming or quality of farm population. On the contrary, improvements in the character of farming and the standard of living of farm workers commonly accompany the declining relative or absolute importance of agriculture. There is no doubt that in England, during the past century when the agricultural population has declined in absolute number almost without interruption, the level of farming efficiency has notably risen and the standard of living in agriculture has improved. The same is true in the United States, where the decline in relative importance of agriculture is old but the decline in the numbers of farmers is relatively recent.

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

If one compares sections of the United States, or different countries of the world, one finds no direct association between a high proportion engaged in farming and high levels

¹³ *Proceedings of the Thirty-eighth Annual Convention of the Association of Land-Grant Colleges* (Burlington, Vt., 1925), p. 56.

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

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

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

Another quite different idea is that special aid to agriculture is necessary to prevent more movement into other occupations than those can absorb. Undoubtedly even the most advanced nations have not satisfactorily solved the problem of smoothly readjusting the utilization of labor and capital so that available resources may be continuously employed. Yet there exist, even in the face of idle plants and unemployed millions, outstanding deficits in the satisfaction of human wants, notably in the fields of housing, transportation, education, recreation, and art in multifarious forms. Even with present standards of desire, these deficits are so large that it is absurd to assert that there is not enough need for products and services to employ all who wish to work, provided their labor is directed to the things that people want and will work or pay for. The danger of overpopulation, in the strange new sense that the work of only part of the people will be needed to satisfy all demands of the whole, is a figment of the imagination. With the miracles that technological advance brings, the only excuse for unemployment is that society has not yet effectively learned to utilize available resources in satisfying human wants.

The oft-mentioned balance between agriculture and indus-

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

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

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

CONCLUSIONS

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

Agriculture has, and probably always will have, an important place in the life of every nation. Measures to protect agricultural resources from needless depletion, to facilitate physical and economic processes of agricultural production and marketing, to mitigate the severity of fluctuations in farm income, and to raise the plane of living among farmers are in the general interest; but they are justified on grounds independent of an allegedly peculiar importance of agriculture or farmers. Efforts to raise the level of attractiveness of farming, financially and otherwise, are desirable as part of a general policy; but most attempts to raise it in relation to the level of attractiveness of other occupations tend to be self-defeating. Efforts to make farming profitable for all who may choose to farm are foredoomed to failure.

The wealth and welfare of nations depend upon many complex conditions. Today, agriculture is not uniquely basic, and the prosperity of a nation depends largely on other factors than the work of those who till the soil.

III

ON ECONOMIC PLANNING*

[May 1934]

We live in a complex world. Nature itself is extraordinarily complicated. The astronomers with their telescopes and mathematics, the biologists and chemists with their microscopes and test tubes, and other natural scientists with all sorts of intricate apparatus and calculations are continually enlarging our view of the infinite complexity of Nature, both in the inconceivably large and the infinitesimally small. Like Nature, human society is highly complex, but unlike Nature, it is steadily growing more so. The natural scientist chiefly discovers complexities that have existed for centuries. The social scientist discovers not merely a complex social and economic world, but its increasing complexity.

It is against this background that I have to speak of economic planning. On this subject I commend to you a recent book by Barbara Wootton.¹ The air is full of talk of planning, but much of the talk is wild or loose. A good deal of the literature on the subject (as on so many others) is poor stuff, or contains more or less "hot air." Mrs. Wootton's book is a refreshing exception.

Her title *Plan or No Plan* merits passing comment. Like others, she uses the phrases "planned economy" and "unplanned economy." This contrast must not be overdone. To speak of a "planless world," as many like to do, is extremely misleading. Everywhere today, society is shot through with planning; individuals, groups, corporations, and local, state,

* Portions of an unpublished lecture on "Economic Planning and the AAA," given in a freshman course on Citizenship, at Stanford University, May 15, 1934.

¹ *Plan or No Plan* (Victor Gollancz, Ltd., London, 1934).

and central governments are all continually making plans and carrying them out. Our banking, taxation, and tariff policies are examples of planning on a national scale; our park policies on a national, regional, state, and local scale. Often such plans are limited and shortsighted, but in many cases they are far-reaching in time and space, and sometimes based on extensive accumulations of sound experience and research. Among corporations, the American Telephone and Telegraph Company affords a notable example of extraordinarily successful development of large-scale planning for the short and long run. It is part of a deliberate plan, not an indication of the absence of planning, that enterprises old and new, like the railways and air transportation, are in many countries privately rather than publicly owned and operated.

By an "unplanned economy" we should therefore mean, not a "planless economy," but one which lacks a well-nigh all-embracing plan, in which are more or less closely coordinated a multitude of plans covering all or most of the multifarious aspects of economic life. In its most extreme form a "planned economy" would be one in which just such plans were made and executed. Actually, however, we have no example of such an economy, even in the USSR with its Gosplan or Central Planning Agency. Indeed, I doubt if the world will ever see a planned economy in this extreme sense, for two reasons: the degree of restriction on individual freedom that it would entail would be found intolerable; and the necessary overhead, to use a business term, would prove too heavy a burden to be borne. Those who envisage such an ideal, in their enthusiasm for economic planning, are visionaries; and those who base on this notion their fear of economic planning, or their hostility to it, are seeing ghosts or attacking a "straw man."

In youth especially we are often inclined to see things as

black or white, right or wrong, true or false. In fact, however, the world is made up of many colors, there are degrees of rightness and wrongness, and most of what we think we know is neither wholly true nor wholly false. Distinctions between such extremes are fundamentally important, but we have constantly to be aware of limitations to the accuracy of our understanding and of the need for sharpening our powers of discrimination. We sometimes hear *laissez faire* contrasted with a planned economy. Actually, neither has ever existed in the full sense of the word, at least in any important society that we know of. The practical issues here concern the *degree* to which we should or should not increase the element of large-scale planning, and whether we should endeavor to make such progress by gradual change or through some grand leap.

It is desirable to recognize that, with all its shortcomings, what is often disparagingly called an unplanned economy has literally done wonders for the world. Mrs. Wootton makes passing reference to

. . . . the commonplace that in the last century and a half this system has provided the mass of the people with an abundance and a variety of forms of consumption never before equalled in the history of mankind. And it has done this while populations have grown faster than they have ever before been known to grow over large areas. Judged by sheer volume of output, by its record of actual physical achievement, the price economy, as operated in Great Britain, Germany and the United States in the later nineteenth and early twentieth century, stands unchallenged. The like has not been done before or since. It is the price economy which has put not only bread and butter, but jam, bananas, oranges, tea and coffee, into the mouths, leather boots on to the feet, carpets on to the floors, glass into the windows, electric light and radio sets into the homes, not of the select few, but of millions; which has mashed up forests in order to provide these millions with newspapers and underwear, and which keeps fleets of fast vehicles in perpetual motion in case they should wish to go from here to there. And it has accomplished all this while on the whole gradually reducing the hours of duty which it exacts from its servants, so that in these latter days the worker's daily life is for the first time divided not into two parts, but into three: work,

physical recuperation and playtime. Indeed, so great have been the achievements of this system that it is almost as fashionable to criticise it to-day for its success as for its failure; to argue that it has lifted us out of a state of poverty and unremitting toil seen (in retrospect) to have been profoundly blessed, only to corrupt our souls with its lavish abundance of meretricious lumber.²

All this is true, as studies of economic history make abundantly clear. Yet the shortcomings of the system are all too glaringly revealed in a great depression like the one which most of the civilized world is now experiencing, and others are easily visible in times of so-called prosperity. There is every reason for considering means by which these defects can be remedied at some cost within reason.

The recent outburst of enthusiasm for economic planning and a "planned economy" represents in part the influence of a depression in a sense unparalleled, marked by unmistakable co-existence of general abundance with individual want, of unused "surpluses" of goods, capital, and labor with striking deficits in individual consumption. "Times that try men's souls," like great wars and great depressions, stimulate all sorts of serious thinking about their prevention and cure. The enthusiasm is also due in part to the dramatic and dramatized Russian experiment with its Five-Year Plan, which, if somewhat more glamorous at a distance, has strongly appealed to imaginations in the outside world.

In my judgment, there is everything to be said for, and nothing against, the extension and improvement of *planning*, in its literal sense, in private and public affairs, for the short run and the long run. There is much to be said for, and little against, more and better *social or economic planning*, in

² Wootton, *op. cit.*, pp. 102-03. She adds in a footnote: "For a typical example of such criticism see *Culture and Environment*, by Leavis and Thompson, especially from p. 57 to the end." She herself continues: "However, these (like successes generally) may be taken for granted. If our concern is rather with the weaknesses of the system than with its achievements, this is due to no desire to minimise the latter. It is simply because success cannot be improved upon: failure possibly can. And the failures of the capitalist price economy are the subject of an enormous literature."

the sense of "deliberate, integrated efforts to improve the guidance and co-ordination of human activities toward objectives conceived as enhancing well-being, on the basis of thorough understanding of conditions, forces, and trends." Much of such planning is desirable, and may have important influence, even if provision for execution of the plans is limited or absent.

When, however, economic planning is held to mean all-embracing, all-co-ordinated centralized planning, reinforced by public control extending to the uttermost details of economic activity, my own reaction is that we are in the realm of theorizing, with but little awareness of the enormous complexity of the problem. It seems to me utterly false to assume that unless one commits himself in advance to such an extreme of "planned economy," no significant progress in economic planning is possible. It is entirely possible that those who are in the best position to promote social planning may even disagree on whether a planned economy, in a more or less extreme sense, should be part of the ultimate goal.

Let me summarize briefly a few points that I have not time to develop.

1. Planning in itself is not necessarily good: it may be good or bad, wise or foolish, farsighted or shortsighted. The great virtues sometimes expected from "economic planning" can be realized only if it is wise and farsighted. It is sobering to realize that many who have most vigorously advocated the idea of economic planning are most critical of the planning by the AAA.

2. Many of the defects of our "unplanned economies" are due not to the "system," but to permanent or transitory limitations of human beings. By and large we are selfish and non-co-operative, readier to knock than to build, to disagree than to agree. I observe this among college students, in uni-

versity circles, and in the government service, as well as in the business world. It is pleasant, but hardly safe, to contrast the imperfections of an existing system with the hypothetical perfections of an imaginary system.

3. The degree of success of "planned economies" will depend heavily upon human beings subject to the same or similar limitations. My experience with planning, among college students, in university faculties, in professional associations, in international matters during and since the war, and in the government service, makes me keenly aware of this limitation.

4. Formulation of the objectives of economic planning is a major problem. It is not enough to couch them in broad terms, such as increasing the welfare of the masses. They require an articulated statement of ultimate and intermediate goals, with priorities among them. The attainment of some one limited objective might be easy, if everything else were subordinate to it. But our ambitions are increasingly high, and our notions of priority change. The authors of the Declaration of Independence put down as inalienable rights of man those to life, liberty, and the pursuit of happiness. Nowadays, many are disposed to hold that liberty, at least, must be greatly restricted in the interest of security in more abundant life, and that catching of happiness must be assured and not merely the right to pursue it.

5. The very scope and complexity of modern life enormously enlarge the task of comprehensive planners. The task is great in times of war or natural catastrophe. It is still greater in times of peace and abundance of the essential goods and services.

6. Whether the choice is made to evolve economic planning gradually within the broad framework of an "unplanned economy," or to jump at once to a "planned economy," the

problems have to be attacked piecemeal, the organizations gradually developed, procedures worked out step by step, co-ordination gradually attempted.

It is partly for these reasons that it is worth while to consider, in a mood at once critical and tolerant, specific attempts at economic planning.

IV

STATISTICS AND SOCIAL ENGINEERING*

[December 1936]

One evening twenty-eight years ago a beloved New England clergyman, rich in humor and wisdom too, put before a Harvard group of scholars what he termed "A Modest Proposal." He urged the founding of a new graduate school "for the retrogressive re-education of Doctors of Philosophy." "At the present rate of advance," he said,

it is possible for our universities to turn out fleets of intellectual Dreadnaughts whose draught does not allow them to navigate in safety the home waters.

In the Retrogressive School there will be the opportunity to make the necessary adjustments to the actual situation which under ordinary conditions are more or less painful The course in Comparative Literature will be supplemented by a half-course in Comparative Illiteracy There will be courses on the Superficial, the Obvious, the Hit-or-Miss, the By-and-Large, the Topsy-turvy, the Go-as-you-please, and the other forms in which Truth appears to the ordinary intelligence [The student] will attend lectures on the Heterogeneity of the Miscellaneous, the Unexpectedness of the Inevitable, and the Historicity of the Contemporaneous.

Through various kindergarten devices he will be taught the great truth embodied in the philosophical maxim, "This is a rum world."¹

These few excerpts will perhaps convey Dr. Crothers' idea. Though humorously put, it had a serious core that was by no means devoid of merit. His plea did not fall upon deaf ears, but it opened no safe-deposit boxes and buttered no professor's parsnips. Long since it has slumbered forgotten in the files of a defunct magazine.

* One of five presidential addresses given at a joint session of the American Economic, Labor Legislation, Political Science, Sociological, and Statistical Associations, at Chicago, Dec. 29, 1936. Reprinted, by permission, from *Journal of the American Statistical Association*, March 1937, XXXII, 1-7.

¹ Samuel McChord Crothers, in *Harvard Graduates' Magazine*, June 1909, XVII, 610-11.

SCHOOLS OF SOCIAL ENGINEERING?

Undeterred by the fate of this former proposal, I venture to make another, perhaps less modest and certainly more serious, for the establishment of what I shall call Schools of Social Engineering.

For decades our universities have had, alongside departments and schools of the natural sciences, other schools or departments of engineering and medicine. Professors of physics, chemistry, and biology are flanked by colleagues who concentrate on applications of natural science to serving men's manifold needs and curing or preventing their diseases, and on training engineers, architects, doctors, and surgeons to practice their professions in transforming a "rum world" into something less "rummy." The progress of pure science, and the contributions of engineering and medicine, have been mutually invaluable. Largely as a result, they are revolutionizing our world at marvelous speed, until today there are many who tremble because society can ill adapt itself to so fast a pace of social change.

J. M. Clark, in his stimulating presidential address last year,² warned that "the world will not give us unlimited time to work out the answer" to the crucial question whether our social system can be refashioned so as "to use the productive powers . . . so plentifully developed, and to give everyone an opportunity to produce and to earn a living." Rightly or wrongly, I interpret him to mean that we social scientists have this pistol at our heads. As a social scientist—for better or worse—I cannot accept this implication, or fully endorse Broadus Mitchell's "blast": "The business depression points an accusing finger at professional economists."³ Individually,

²"Past Accomplishments and Present Prospects of American Economics," *American Economic Review*, March 1936, XXVI, 1-11.

³"A Blast Against Economists," *Virginia Quarterly Review*, April 1931, VII, 186.

and as a profession, we have unmistakable shortcomings; but we cannot accept responsibility for the depression or for setting the world right. We have other fish to fry, as Clark indeed pointed out; and the more-and-better fish that we fry are required to nourish a new profession that we can help to breed and mature.

I submit that our departments of economics, political science, and sociology should be flanked by departments or schools of social engineering, economic medicine, political architecture. There, specialists in solving social problems could be trained and research directed to such practical ends could be carried on. There is room for social engineering workshops to parallel our engineering laboratories. On the educational aspects of my rash proposal, I cannot elaborate here; and if I seem to make bold leaps across yawning voids, it is because I am desperately trying to keep in step with the inexorable march of time.

Let us, however, frankly recognize the distinction between pure science and its applications, in our field as in others. We do not expect a physicist to build a bridge or a biologist to treat cancer. No more should we, if we are primarily economists, political scientists, or sociologists, set out to be social engineers or social doctors. If our social structure creaks and groans and suffers breakdowns, we should find out what is the matter and why, and we should seek to develop sound principles of social structure; but if we take it upon ourselves to lubricate, repair, remodel, or rebuild this structure, we shall only betray our unfitness for the task. If our "acquisitive society" is sick, we should analyze the pathological condition and try to develop therapeutic principles; but we ought not to write prescriptions and make bedside visits. If our civilization, as catastrophists assure us, is tottering to its fall, we shall prove pygmies instead of Samsons if we undertake to carry

lumber to shore it up. If some among us choose to change their profession, let them do so, but do it with their eyes open. The rest of us have indeed a responsibility and an opportunity; but it lies in helping to build up new professions to perform such tasks, instead of amateurishly tackling them ourselves or leaving them to be bungled by quacks outside our ranks.

Already these professions are beginning to emerge. Incidentally and occasionally, our universities are helping train a few vigorous neophytes. But where, in the field of applied social science, are the counterparts of those who have built our lofty skyscrapers, our magnificent highways, our automobiles and airplanes, our Boulder Dam, and of those who have well-nigh won the campaigns against smallpox, typhoid, and tuberculosis? Harnessing the social tides may be more remote than putting Passamaquoddy to work; but surely the arts of building social dikes, bridges, and highways can be mastered no less than the arts of fence-fixing and log-rolling. These are not mere metaphors; they correspond to concrete realities. There is urgent need of well-trained, specialized professionals who will concentrate on specific means of correcting our economic, political, and social defects, thereby transforming this half-crazy world into something less topsyturvy.

In recent years the word "planning" has been dinned into our ears. Social planning, economic planning, national planning—these have been phrases to conjure with. In our midst are devotees, indifferents, and arrant enemies of this new cult, with its amazing conglomeration of doctrines. With applied social science just striving to be born, governments have embarked on large-scale social planning. In effect, they have said: "Go to, let us build a new world. The materials are all here. We have only to set about it with a will." This is not

the spirit of the scientist or the engineer. We do have the requisite basic materials, and our brain power may be as great today as it will be later; but of the requisite techniques and skills, much must be learned before the more ambitious tasks can be successfully performed. Only by degrees have bridges replaced ferryboats of improving type. In the stage that the engineering art had reached fifty years ago, it would have been disastrous to attempt to build the San Francisco Bay Bridge. It is no less disastrous today to attempt to build its social counterparts while the technique of social engineering is in its present stage.

In the quasi-religion of social planning, however, I see indications of cravings for the services of real social engineers, who will not only plan and execute but bring constructive plans to successful execution, and of social doctors, who will not only prescribe and treat but really cure social ills. In the next fifty years, I make bold to prophesy, the profession of social engineering, under some name or other, will come to rank with those of medicine, law, and engineering; and the development of this profession will prove as fruitful to the progress of social science as developments in engineering and medicine have been to the progress of the natural sciences.

To avoid misunderstanding, let me say that by social engineering I do not mean public administration, nor imply that the profession must be or will be practiced only in the government service. On the contrary, I hold that, in democratic societies, its major development will be outside, just as has been true of civil, mechanical, and electrical engineering, medicine, and surgery.

Time limits forbid me to introduce more academic qualifications or to answer your unspoken objections. Let me therefore pass, without further ado, to the question: What is the relation between statistics and social engineering?

STATISTICS AND THE NEW PROFESSION

As we all know, "statistics" is a word of multiple meanings. Sometimes it means "statistical data," in crude, refined, or elaborated forms. Sometimes it means "statistical methods," from the more elementary, which all statisticians are supposed to have mastered, to the more refined, before which many of us are still illiterate.⁴ Sometimes it means the "statistical process" of solving problems with the aid of statistical data and methods.

Statistics may or may not be one of the essentials of modern social science. I think it is, though there is place for social scientists who realize that they know nothing of statistics. At all events, statistics is basic to social engineering. Perhaps nowhere else, even in business and government, is the proper utilization of statistics more truly vital. In emphasizing this point, I do so without claiming priority for statistics, or elevating it to a position of unique importance, in the training and practice of the new professions. I do not mean that one must master all known statistical techniques before he can qualify as social engineer or social doctor, any more than a qualified civil engineer must be a Ph.D. in physics or a reputable physician a Ph.D. in anatomy or physiology. I do mean that a thorough grounding in statistics is no less essential for entrants into these new professions than engineering sciences are for would-be engineers and premedical courses for budding doctors; and that statistics must be constantly called into play in the practice of these newer professions.

To more learned statistical brethren I leave elaborations on the importance of refinements in statistical technique. My

⁴ Compare the presidential address a decade ago by Leonard P. Ayres, "The Dilemma of the New Statistics," *Journal of the American Statistical Association*, March 1927, XXII, 1-8.

silence about these implies no disparagement. In the actual use of statistics, however, the more elementary principles are called into play hundreds of times more often. Simple though these may seem, it is distressing to find how commonly they are violated. I speak of such things as discrimination between good data and bad, the proper use of aggregates, averages, and indexes, construction of tables and charts, and other phases of the "art of statistical exposition"—the everyday tools of one who uses statistics.

One of the grave defects in our elementary and university education is that pupils "cover ground" without really mastering the rudiments. Students emerge with college degrees who cannot add, subtract, multiply, divide, spell, punctuate, and make sentences with a fair approach to accuracy.

In the field of statistics corresponding defects are all too common. Students compile data not worth compiling, manipulate data not worth manipulating. They compute arithmetic means, medians, and modes, but too often without learning where each is appropriate, what care to exercise with respect to the data averaged, and when any sort of average is only misleading. They use adding machines to arrive at huge aggregates, ignoring what Dr. Crothers called the "heterogeneity of the miscellaneous." They apply formulas for computing trends, often blind to the fact that what they have computed utterly fails to indicate a true trend. They work up indexes on the unethical principle of *caveat lector*. They compute coefficients of correlation without realizing what these mean or when they have no meaning. They confuse mere association with causal relationship. They apply methods that produce confusing or misleading results, which they themselves are unable to recognize at their true worthlessness. They learn procedures of meticulous checking, and perhaps apply them assiduously, but remain ignorant of the

higher art of superchecking by which flagrant mistakes can be detected. They calculate standard errors but overlook multitudes of substandard errors. In a word, they "strain at a gnat and swallow a camel."

Unfortunately, this diatribe of mine does not apply to students alone. I doubt if any group of workers has a larger representation of experienced gnat-strainers and camel-swallowers than those who deal with or dabble in statistics. Indeed, the American Statistical Association has its quota of them, and its justification for existence lies partly in trying to overcome such defects. There is increasing need for statistics—for estimates and guesstimates, for forecasts and backcasts, so long as the nature and basis of each are made clear. But we have too much of hit-or-miss-statistics. Statistics are proverbially dry—forgive me if I say they are far better dry than "wet"—but to give them optimum moisture content is simply a matter of mastering fundamentals that no one should hold in contempt.

In purely academic activities such shortcomings as I have noted are serious indeed, but their full seriousness is not readily revealed. In the applications of statistics in social engineering, however, practices are put to acid tests. If the bridge-builder underestimates the strains to which the structure will be subject, overestimates the extent to which foundations, abutments, and cables will stand stresses of various sorts, and fails to provide an adequate margin of safety, the bridge will fall. If he makes the opposite mistakes, the cost will be excessively increased. It is similar with the builder of new social structures, small or great; defects of calculation and estimate lead to waste if not to destruction.

You will see that I am no Pollyanna. Neither am I a prophet of disaster or doom, and I cannot close on a critical or pessimistic note. I envisage the rise of a new profession of

social engineering, with a future truly great. To its development we social scientists have much to contribute, and from its progress social science has much to gain. In the training and practice of that profession, right use of the rudiments of statistics is one of the bedrock essentials. In the constructive work of the American Statistical Association, one of the most worthy objectives is to promote the effective linkage of statistics and social engineering.

NOTE.—M. L. Wilson, Under Secretary of Agriculture, drew heavily on this paper in his address to the American Farm Economic Association on Dec. 30, 1937, on "New Horizons in Agricultural Economics," published in *Journal of Farm Economics*, February 1938, XX, 1-7.

PROBLEMS AND PROPOSALS
1926-1929

THE AGRICULTURAL PROBLEM IN THE UNITED STATES*

[October 1926]

The stimulating volume under this title deals with one of the most important subjects of the day and merits the respectful but critical consideration of students of economic development and national policy. It contains much of real value, is engagingly written, has been given excellent publicity, and has apparently exerted wide influence. Since many of its conclusions rest upon statistical data and analysis, it deserves the special scrutiny of economic statisticians familiar with American agriculture and its history.

The report is frankly presented as authoritative. It "is the result of an investigation conducted by Mr. Virgil Jordan and assistants, of the Conference Board's Research Staff, under the supervision of the Board's Staff Economic Council." Acknowledgment is made to "numerous farm leaders, business executives, economists and others especially familiar with agricultural conditions for their many helpful suggestions and criticisms," and to an Advisory Committee on Agriculture, including such well-known names as Alexander Legge, Frank O. Lowden, Elwood Mead, F. A. Pearson, S. H. Thompson, and Owen D. Young, for its close co-operation.¹ The conclusions are "those of the Conference Board as a body."

* A book review, reprinted by permission, with slight adaptations, from *Journal of the American Statistical Association*, March 1927, XXII, 109-15. The book under review was published by the National Industrial Conference Board, New York, in April 1926.

¹ One member of the Advisory Committee, President W. I. Drummond of the American Farm Congress, has since complained that neither manuscript nor proof sheets had been submitted to him before publication. *The Agricultural Review* (Kansas City, Mo.), August 1926, p. 4.

Moreover, the report is intended to lead to action. It concludes with a recommendation (pp. 149-50):

. . . . it would seem proper and desirable in the national interest for leading representatives of American industry, commerce, transportation and finance, in conjunction with leaders of agriculture, to study jointly and sympathetically, *on the basis of the Conference Board's report,*² the agricultural situation and its causes, to appraise its consequences and to present for the consideration of the public their mature judgment of the possibilities and desirable avenues of remedy and readjustment. In this way it is possible that, apart from the disturbing and transient influence of partisan politics, there may be provided a constructive and practical plan for mutual understanding and full co-operation between agriculture and all other groups in our productive life, as well as a basis upon which may be developed a sound and far-sighted national policy embracing and justly balancing all the interests involved. . . .

An outgrowth of this recommendation is the "Business Men's Commission on Agriculture," created jointly by the Conference Board and the Chamber of Commerce of the United States.

The viewpoint and purpose of the report are expressed in the foreword.

The position of American agriculture is of vital concern to all the people of the United States, not only for today but for the future as well. . . . It involves the national security, the racial character, the economic welfare and the social progress of our people.

The development of sound, far-sighted national policies in respect to agriculture is, therefore, one of the most important problems before the country today. . . . We have as a people to determine deliberately and wisely the rôle which we wish to have agriculture play in our national economic life, in the light of full knowledge as to whether and in what respects its position is weak and why, and on the basis of sound judgment as to how it can best be strengthened.

In the development of such policies and the determination of such questions it is the duty of all groups to take part. . . .

For these reasons the National Industrial Conference Board, as an organization for the study of questions affecting the welfare of American industrial-economic life, has undertaken in this report to examine the main features of the agricultural problem in the United States. Its primary purpose is to clarify the problem as a whole so as to contribute to a better and more general understanding of it not only by American industry, but by the general public, and so to provide a common basis

for such sound policies as may assure the country a prosperous agriculture as a part of a prosperous national economy.

The introductory chapter discusses briefly the economic, political, and social significance of agricultural problems, rightly stresses the importance of considering agricultural policies in relation to our national economic development as a whole, and proceeds to discuss the permanent aspects of this "peculiar, complex, and widely changing industry." The second chapter deals with the economic position of American agriculture before, during, and since the war, with reference to our agricultural plant, international trade, agricultural products in consumption, costs and prices, and the share of agriculture in the national income. The third chapter considers the factors in agricultural income—production, demand, sales and markets, and prices. The fourth chapter deals with factors in agricultural costs. The final chapter presents a general summary and conclusions.

The broad viewpoint and general tone of the report deserve high commendation. It should do much to induce businessmen to give sympathetic consideration to the farmer's difficulties. On the other hand, the present reviewer is convinced that it is inaccurate in its diagnosis of the agricultural situation and its interpretation of our economic history, and therefore affords an unsafe basis for consideration of remedial measures. In his judgment, some of its major propositions are untenable, many of its implications are misleading, and what it regards as symptoms of disease and maladjustment are in part evidences of healthy adjustment to changing conditions. Because of the importance of the subject, the wide publicity of the report, and the implied intention to use it as the basis for a serious conference, the reviewer feels called upon to set forth, in the most friendly spirit, some basis for his criticisms.

The report lays great stress on the interdependence of agriculture and industry. The broad facts none would dispute; but the report throws little light on the nature of the interdependence, and the frontispiece chart, designed to show a controlling influence of agricultural income on the volume of trade, is seriously misleading.³ Four or five years ago farmers' advocates argued that industry could not hope to prosper except as agriculture recovered. Agriculture indeed improved, but industrial prosperity preceded and greatly exceeded agricultural recovery. Latterly, similar spokesmen have urged that our industrial prosperity will rest on weak foundations until radical improvements in agricultural income are achieved. As a matter of fact, we still know far too little, in definite terms, concerning the relations between agriculture and the business cycle, as well as between trends in agriculture and industry, to justify such statements. The subject merits intensive investigation which it has not yet received.

The importance of agriculture to national welfare is unquestionably great, but the report rather overstates the case. Agriculture is not "the basis of our industrial prosperity" (p. 142). That basis, truly viewed, consists in part of our natural resources of many kinds and our accumulation of physical capital in many forms, but more in the quality of our human resources, our breadth of populated area under a single sovereignty, and our intangible capital of ideas, spirit, and economic habits. Cities not less than farms are sources of supply of future citizens, and conditions in both deserve consideration from this standpoint. It is farfetched to say that

³ See the reviewer's criticism of this chart as presented by its original author, and the latter's rejoinder, in *Journal of Farm Economics*, October 1926, VIII, 479-85. In a word, the index of farmers' real income as computed is both unreliable and not comparable with Snyder's index of volume of trade. Curiously enough, the easiest (though erroneous) inference from the chart is that farmers' real income has been above normal since the middle of 1922—an inference quite at variance with the facts as well as with the board's report.

“the strength of our agriculture may have a vital bearing on our national security in the future,” except as the statement might apply to innumerable elements in our national life.

It is well said (pp. 142–43) that agriculture “presents an inseparable intermixture of a way of living, an investment, a business and a gainful occupation or employment”; but the contrast between agriculture and other occupations is overdrawn. The phrase, “the inherent instability of agricultural production” (p. 142), implies too much: ups and downs of crops and prices are important, but as a whole agriculture is relatively stable; indeed its very stability retards the process of readjustment. Diversity of interests is no more characteristic of farming than of industry, transportation, and trade.

The outstanding conclusion (pp. 143, 144, 148–49) is a gloomy interpretation of our agricultural history:

. . . . the available information indicates the strong probability that, for a considerable period before the war, and at least as early as the beginning of the present century, there have been in operation forces which have tended to create a progressive inequity and maladjustment between the position of agriculture and that of other branches of our economic life.

. . . . while the position of agriculture since 1920 reflects chiefly the disturbance and upheaval of the war and post-war period, unfavorable factors in the agricultural situation have been in operation since the beginning of the century, and have been in some way related to the rapid expansion of industry, trade, finance and government during the past twenty-five years.

. . . . fundamentally adverse conditions, making for a general and persistent inequity and maladjustment, not only constitute a serious menace to the progress and prosperity of American industry, commerce and trade, but are equally of great significance for our national welfare, for they deeply affect the future economic development, the social advancement, the political unity and the national security of the United States.

The evidence marshaled in support of this conclusion is far from convincing, and examination of the several points discloses serious misinterpretations.

“The contraction of our agricultural ‘plant’ and its production relative to the growth of our population”—an unquestioned fact—is not ominous evidence of maladjustment. It has been true through most of our national history. In our early days agriculture strongly predominated, commerce was an important second, industry a very poor third. Industry has increased most, commerce next, agriculture least. The causes of these trends are legion. In part they are due to the fact that in new countries agriculture, pastoral occupations, and mineral extraction are necessarily the first sources of wealth, beyond trade with primitive inhabitants; as population increases and as capital is invested, industry can develop. In part the trends are due to the inventive, managerial, and financial genius of Americans, and to the fact that industry, transportation, and trade are better adapted than agriculture to take advantage of advances in invention, organization, and finance. Many other causes could be cited. Whatever the explanation of this shifting position of agriculture in our national economy, it is certainly neither new or catastrophic. In any dynamic society equilibrium is maintained only by a process of continuing readjustment among the component parts. A balanced industry, a balanced agriculture, a balanced national economy in no way implies a stationary condition, or conformity to some ideal proportion of the population engaged in various activities or to some ideal division of the national income. Rather it implies continuous change in these proportions as conditions change.

The decline in crop area per capita reflects not a decay of agriculture, but a wholesome adjustment to changed conditions. According to the Census Bureau, crop acreage increased by 45 million acres between 1909 and 1919, or nearly as rapidly as the population, whereas a continuation of the rate of increase characteristic of 1899-1909 would have

caused an increase of only 23 million acres. Nearly half of the increase in the war decade was due primarily to extraordinary demands for export during the war. Between 1919 and 1924, according to the Census Bureau, crop acreage declined by 19 million acres.⁴ The maintenance of even the 1899-1909 rate of increase would have brought the acreage to 13 million acres more than the recent census showed for 1924. The postwar decline is the result of three major forces: (1) the disappearance of most of the wartime demand for American agricultural products abroad; (2) reductions in domestic demand for agricultural products; and (3) increased efficiency in agricultural production. Reductions in domestic demand are due in large measure to industrial developments, notably the replacement of horses by automobiles, and to reduced per capita consumption of staple foods produced in America.⁵ The reported reduction in horses and mules alone, on farms and in cities between 1920 and 1925, is officially stated by the Department of Agriculture to have released for other uses some 91½ million acres. The influence of this factor is bound to be felt in later years.⁶

Now reduced food consumption per capita, changes in the diet, substitution of the automobile for the horse, increased efficiency, even the return of peace, are in no sense to be deplored; on the contrary, they represent wholesome economic changes. In so far as they reduce the land, capital, and labor requirement in American agriculture, they inevitably involve a decrease in the relative importance of agriculture in the national economy. In itself this is no evil, and it portends no evil destiny; but it does mean that agriculture has latterly

⁴ This is probably an overstatement, for there is reason to believe the recent census appreciably incomplete.

⁵ See Holbrook Working, "The Decline in Per Capita Consumption of Flour in the United States," *Wheat Studies*, July 1926, II, 265-92.

⁶ On this paragraph, see O. E. Baker, *Changes in the Utilization of Land in the United States, 1919-1924* (U.S. Dept. Agr., June 1926).

faced a trying problem of readjustment, the more serious because of synchronous reductions in foreign and domestic demand in the postwar period.

“The downward trend of exports and the rise of imports of agricultural products since 1900”—interrupted temporarily by the war—is a natural and by no means unwholesome consequence of such developments at home and the rise of newer agricultural areas abroad. We could doubtless grow all our sugar, our wool, our vegetable oils at home, and produce a huge export surplus of wheat and beef as well as of cotton and pork; but only at heavy cost. To attempt to do so, however, would create economic maladjustments, not reduce them. Instead we tend to export heavily of the products of large-scale industry in which our economic genius is more effective than in agriculture. Increases in imports of agricultural products are in large part due to higher standards of living and increasing diversification and expansion of industry. Before the war, such changes in the character of our international trade were not inconsistent with prosperity in agriculture. Though the reversal of wartime tendencies was no small factor in causing the postwar depression, the resumption of the prewar trends implies no long-continued depression in agriculture.

“The rapid rise in capital, labor and operating costs relative to the price per unit of product since 1900” is not convincingly shown. The point is made partly by inference from evidence showing declines in farm land, improved land, and crop land acreage, in crop production and exports, per capita, since 1900. The validity of the evidence is open to some question, because of inaccuracies in Census and Department of Agriculture data on acreage and production,⁷ especially in

⁷ See Holbrook Working, “Wheat Acreage and Production in the United States Since 1866,” *Wheat Studies*, June 1926, II, 237-64.

the decade 1889–99; and because the use of 3-year averages centering in census years (apparently choosing the wrong year, e.g., 1880 instead of 1879) gives an inadequate picture of the trend of agricultural production. Even so, Table 9 (p. 32) shows a rising, not a declining, trend of agricultural production per capita throughout the prewar period as well as a substantial rise in product per capita of agricultural working population. When one considers the factors influencing per capita acreage, partially discussed above, and the further fact that agricultural land appreciated substantially in 1900–10 (and presumably also in 1910–14) even in terms of 1913 dollars (p. 40), one cannot accept the inference that agricultural costs, properly considered, were rising before the war in relation to agricultural prices and causing reduced returns to farming; or that they were responsible for declines in acreage per capita.

A serious error in reasoning about costs is introduced by the handling of “capital charges”—including “interest, at prevailing rates for time loans, on operators’ investment.” These costs, which contribute most heavily to the unfavorable conclusion reached, are calculated not on the actual investment by farm operators, for which no data can be had, but on land values presumably containing substantial increments of appreciation over and above actual investment. The result is an inflation of costs, such as would be promptly recognized if the same procedure were applied in the case of public utility companies. On the other hand, the increments in land values are not reckoned as income, though certainly rising land values before the war explain why many farmers were content with a modest rate of current return. In recent years, by contrast, reductions in current return to farmers have been the more serious because they have been accompanied by declining land values. The statistical procedure employed,

therefore, distorts the conclusions about both prewar and post-war periods.

The more detailed statistical evidence on costs, prices, and income—unsatisfactory at best—relates largely to the period 1914-25. This tends to show that during the war years farm prices and incomes expanded more rapidly than costs, and that costs declined less than prices in 1920-21 and have since increased more slowly. The use of 1914 as a base year (as in Charts 13 and 14, pp. 106, 109) probably tends in itself to portray the recent contrast too darkly, since there is reason to believe that farm prices were relatively favorable in the base year; but in view of the land value changes mentioned above, some such conclusion about this period is clearly justified. But the data are significant primarily for their indications of agricultural cycles, not of agricultural trends.

The analysis of costs and incomes is perhaps necessarily superficial, but a bias in interpretation is apparent. The competition of industry for labor and restriction of immigration do not "make farming more costly and harder," but make for increased use of machinery that reduces both cost and toil, as the report only grudgingly admits. In respect to the tax burden on farmers, no consideration is given to the degree to which higher taxes go for improvements, such as better roads, that reduce farm costs, or mean a higher standard of living, such as better roads and schools; or to the advantage the farmer has reaped in paying but a small proportion of the taxes assessed directly for war purposes (e.g., federal income and excess profits taxes). The years 1922, 1923, and 1924, for which costs (including interest on land values) and prices per bushel of wheat, corn, and oats are compared, are erroneously cited as favorable years: at most only 1923 for corn and 1924 for wheat and oats can be called favorable. The influence of foreign demand and supply on prices of Amer-

ican farm products is by no means consistently unfavorable, as the discussion seems to imply: in some years, as in 1924–25, it is distinctly favorable.

“The rapid increase in the rate of farm bankruptcies as compared with that of commercial failures since pre-war years” reflects no basic trend or condition, but rather the severity of the recent agricultural depression. Even so, Chart 11 (p. 62) exaggerates, by its choice of scales, the unfavorable position of the farmer in recent years.

“The disparity between the return for investment and labor in agriculture and that in other activities” is unquestioned if one speaks in monetary terms, deals in broad averages, and ignores non-agricultural incomes of farmers and unemployment of wage earners. It is less impressive if one takes account of increases in land values before and during the war. Furthermore, as a member of the board’s Advisory Committee on Agriculture has pointed out, averages per farmer which include a large number of operators who combine farming with other occupations—either doing outside work in otherwise idle time or farming as a side line—quite understate even the pecuniary returns of the farmer as an individual.⁸ So far as the disparity exists, however, it results in large part from the intangible attractions of agriculture, and the fact that farming is in part a way of living and rarely a business or employment offering large financial returns. No reliable index of real incomes of farmers that is comparable with those of non-farmers of any group has yet been devised. The use of the dollar measure greatly exaggerates the disparity between per capita income of farmers and non-farmers; in so far as the

⁸ See *The Agricultural Review*, July 1926, p. 4, August 1926, pp. 3–4. As Mr. Drummond points out, there is no ground for a broad assertion “that the farmer who works at other employment does so from necessity.” Nor would a further division of the labor of individuals between farming and other occupations, such as Henry Ford has proposed, imply the existence of unwholesome economic conditions in agriculture.

farmer produces what he consumes and his consumption requirements are simpler, his dollar goes much farther than that of an urban worker or businessman. Those who desire large dollar incomes wisely desert agriculture, and if financial returns of farmers could be boosted and kept on a level corresponding to that in other lines, the drift of population into agriculture would be enormous.

In a word, the fundamental weakness of the Conference Board's report is one of interpretation, of reasoning, though errors in statistical procedure are not lacking. The evidence substantiates the undoubted fact that, since the war, American agriculture has suffered severe depression and faced serious problems of adjustment to changed conditions; but the evidence does not support the central thesis that agriculture has long been confronted "with fundamentally adverse conditions, making for a general and persistent inequity and maladjustment." In seeking to establish the thesis of fundamental maladjustment of long standing, the report largely ignores substantial evidence that in prewar years American farmers were prosperous and knew it, despite their low money incomes, the decline in agricultural exports, the increase of agricultural imports, and the rise of foreign competition; at the same time it lays too little stress on the recent agricultural depression and the progress in recovery since 1921. It misinterprets the continuous process of readjustment, within agriculture and between agriculture and industry, which is a necessary condition of sound national development.

If these criticisms are well founded, the report cannot safely be taken as an authoritative basis for recommendations of measures for agricultural relief and advancement.

NOTE.—The present author reviewed the report of the Business Men's Commission on Agriculture, among other works, in *Quarterly Journal of Economics*, May 1929, XLIII, 532-43; others were dealt with in a later review-article in *ibid.*, November 1929, XLIV, 138-59.

VI

AMERICA'S AGRICULTURAL POSITION AND POLICY*

[August 1927]

The reformulation of America's agricultural policy, and particularly the decision upon specific steps to be taken now, should rest upon sound analysis of the present position and its causes, a clear understanding of underlying trends and tendencies, and some broad conclusions about national policy in general.

We have not one agricultural problem, but many. Conditions in different regions, in different commodities, are so diverse that generalized statements are often inaccurate and misleading. Nevertheless, something is to be gained from a broad view, for in discussion of multifarious details it is hard to keep the necessary perspective.

THE DEPRESSION

The central facts are these: American farmers suffered severe depression after the war. Despite considerable improvement, they have not yet emerged from this depression, and they fear prolongation of the period of subnormal incomes. Meanwhile, other classes of the population have enjoyed an unprecedented and sustained accession of prosperity, and the persisting disparity excites agitation for radical measures of farm relief.

The evidence of agricultural depression is so abundant that it need not be marshaled in detail. Farm values have

* Originally presented at Henry A. Wallace's round table on An American Agricultural Policy, at the Institute of Politics, Williamstown, Mass., Aug. 11, 1927. Reprinted, by permission, from *Harvard Business Review*, January 1928, VI, 143-51.

fallen heavily from their peak in 1920. Farm mortgage debt has risen greatly since before the war and represents a much larger proportion of farm values than in 1920 or before the war. Prices of farm products, in general and as a whole, have been for several years below their prewar ratio to the general level of prices. In several years since 1920, farm incomes, as a whole, have been relatively low in terms of purchasing power, whether in comparison with prewar farm incomes or with incomes of other classes. The burden of interest and taxes has been very heavy. Bankruptcies among farmers have run abnormally high and yet represent only a fraction of the losses of farms by operating owners. A terrifically high movement from the farms to the cities has taken place, and a net decline in farm population, estimated at about three million in the seven years 1920-26, has taken place.

There has been manifest a tendency to minimize the recovery that has taken place, to paint too dark a picture of the farmer's present position and outlook, to exaggerate the contrast between the farmers and the rest of the country, and to ignore the real but intangible advantages of the farmer. The decline in land values, for example, is commonly measured from the abnormal peak in January 1920, when prices in general were at a high point. In fact, if allowance is made for the change in the purchasing power of the dollar, gross farm *values* are probably higher today than in 1920, though this is probably not true of farm values less farm indebtedness. The Department of Agriculture indexes of farm prices are calculated upon a base for a 5-year period shortly before the war, when farm prices stood higher in relation to commodity prices in general than perhaps during any previous period of equal length. Comparable statistics of farm income are not available for prewar years, and the tendency is to compare recent figures with the high figures of 1918 and

1919. Some analyses of the available data, indeed, suggest that the purchasing power of current net income of farmers in the past three crop years has averaged as high as it did in the five years before the war; but in the recent period land values have been declining, whereas before the war the farmers counted on increase of land values to supplement their current income.

Comparisons of per capita incomes of farmers with those of other classes, indeed, are further misleading because they ignore numerous relevant facts. To mention only a few: many farmers have some income from outside occupations; much of the farmer's real income is not comparably measurable in money terms; farmers do not incur the risks of unemployment; the telephone, the radio, the automobile, and, in many cases, the tractor and electricity, have contributed more to the improvement of conditions of life on the farm than they have to life in the city; farming, in general, is not primarily a money-making activity but predominantly a mode of making a living. At worst, there are substantial advantages enjoyed by the farmer over his city cousin that are in no wise measurable in money terms, and recent developments have moderated many of his previous disadvantages. If farming offered in addition a considerable financial return, the drift into farming would certainly be excessive.

The tendency to exaggerate the unfavorable relative position of the farmer is not unnatural. In part it is due to delays, inexperience, and some bias in gathering and interpreting the basic data. In part it reflects a state of mind—the psychological depression is greater than the facts as a whole really warrant. In part it is due to the belief that a dark picture is necessary to excite the serious attention of complacent businessmen and workers remote from direct contacts with agriculture. It is part of the effort to procure

vigorous measures on behalf of the farmer. This tendency to exaggeration, inevitable and indeed necessary though it may be, has some unfortunate results. It tends to arouse bitterness and to lead to the adoption of inappropriate policies. Emergency measures should be confined to emergencies, not established as persisting policies. Basic improvements in our national agricultural policy can be made only if the facts of the situation and outlook are appraised aright and in due perspective. The farmer, no less than the country at large, stands to lose by the adoption of ill-advised measures, devised to meet conditions which do not really exist.

I cannot accept the view, espoused by the National Industrial Conference Board, that there has been, ever since 1900, a progressive maladjustment unfavorable to the farmer. The true interpretation of the evidence is, I believe, that from the middle 1890's until war broke out in Europe the economic position and social status of the American farmer showed progressive improvement to an unprecedentedly high level; that during part of the war period farmers experienced exceptional prosperity; and that only with the onset of the depression in 1920 did they fall upon hard times. I do not mean to imply that American farmers have ever attained, as a class, a standard of life and work that one can regard as ideal. I am convinced that we should, so far as possible, seek such an agricultural policy as will not merely bring the depression to an end but make for raising farm conditions well above the levels they have ever yet attained. But I submit that one must distinguish between removing the causes of depression, on the one hand, and raising the farmer to parity (whatever this may mean) with urban workers or business and professional men, on the other.

I cannot endorse the view that if nothing is done for the farmer he will relapse into a state of peasantry. Peasantry

is a status marked by relative immobility of occupations, limited access to education, and intensive cultivation of small plots of land. These conditions have never obtained in this country except in limited areas, and there is no reason to expect them to obtain.

Nor can I agree that we shall have to face a serious food shortage if the farm problem is not genuinely tackled. We can well do with much less of a food surplus than we have been producing. Occasional years of relative shortage will not be surprising or even undesirable. I see no reason why we should not continue to import sugar and tropical oils, as well as coffee, cocoa, tea, and bananas, in increasing quantities. With Canada at our doors, with increasing efficiency in food production, with the war experience to convince us of the ready expansibility of our own food production, with our diversity of production, we need have less fear of food shortage than almost any other nation in the temperate zone. Even with the growth of population we shall find in this country, I believe, that it will not be shortage of food supplies, but other factors, that will restrict our increase of population. Let us not be alarmed by any such bogies.

Nevertheless, without distorted analysis, the facts remain that the farmer has lately borne a heavy burden of financial distress and economic readjustment; he is not out of the woods; the agricultural position is not altogether wholesome; the outlook is not satisfying. The agricultural problem is rightly viewed as one of the major economic, social, and political problems of the day. It is true that in the 1870's, and again in the 1890's, the country suffered a similar agricultural depression; the latter, indeed, was probably more severe than the recent one, but the accompanying business depression was so serious and prolonged that the contrast between industry and agriculture was far less striking.

Such recurring depressions are a blot on our economic escutcheon. To prevent their recurrence in serious form; to minimize their unfortunate results; to facilitate prompter recovery; to promote continuous readjustment in agriculture and between agriculture and industry; to mitigate the sufferings from such adjustments; to reduce, if possible, the instability in farm prices and incomes now resulting from year-to-year variations in crops and livestock; to improve the efficiency, raise the economic status, and increase the social soundness of agriculture: these present a challenge to the best thought and effort of the nation.

CAUSES

The wise doctor diagnoses before he prescribes. Before proposing remedies, we must seek causes. What, then, are the major causes of the agricultural depression and the factors prolonging its duration and unsettling the agricultural outlook?

Certainly two fundamental and related groups of causes were the great rise of the general level of prices during the war and after, and the abrupt reversal of this movement in 1920-1921; and the accompanying increased demand for American agricultural products in Europe and its subsequent radical decline. The period of rising prices brought the farmers exceptional prosperity for the time. Rising costs lagged behind rising prices, and large profits were made. Land values rose, and mortgage debts previously incurred became less burdensome. Many farmers sold out and retired. But the farmer's prosperity—real enough as it was, though less in reality than in appearance—carried the seed of depression. It overstimulated farm production, and in agriculture especially it is notoriously easier to expand than to contract. The increased credit margin tempted many to buy farms at high

prices or tempted established farmers to buy more land, and bankers did not properly discourage these tendencies. It encouraged the breaking up of new lands, the planting of orchards and vineyards, the building up of livestock herds and flocks. In part, these were the response to patriotic appeals for greater production; in larger measure, I believe, they were the response to high prospective returns, largely unchecked by expectations of subsequent reaction.

After the war, the decline in the general level of prices was a severe blow to the farmers. Prices declined faster than costs. Farm values declined, but mortgages did not. Moreover, the decline in Europe's need of imports of agricultural products was accompanied by increased output in Canada, Argentina, and Australia, and by recovery in Russia. In wheat, rye, corn, cotton, and hogs, competition from Europe itself or from other exporters revived. Still further, a decline in per capita domestic demand, which had been going on for several years, was intensified. Greater average longevity, shorter hours of labor, mechanization of industry and agriculture, increased transportation facilities, better housing and heating, have reduced per capita food requirements for energy and heat to quite a marked degree. The substitution of the automobile, the truck, and the tractor for the horse reduced the demand for horses, a farm product, and for horse feed. The restriction of immigration, by the war and after, and the higher level of incomes after the war, made for a reduction in per capita use of certain staple food products and an increased use of sugar, fruits, and vegetables, of which some are produced abroad, some on truck farms near cities, and only part by organized agriculture. Prohibition, even though ill enforced, reduced the demand for barley and other agricultural products, though it increased the demand for grapes. The war demands for cotton ended, the poverty of

Europe retarded the recovery of her ordinary textile markets, and the increased use of silk and rayon competed with the humbler cotton. The ravages of the boll weevil, for a time, made for short crops and high prices and thus prolonged the delay in recovery of the cotton trade, while at the same time it stimulated expansion of cotton acreage outside the areas of infestation. Here, in short, we have in part a collapse of abnormal war demands and in part a tendency, present but obscured during the war and continuing since, for a reduced per capita demand at home.

Along with these factors there has been an increase of efficiency on the farm, in crop and livestock raising. This is not a new tendency, nor has it gone anything like so far as it can and must. But it was probably promoted to some extent by the pressure of war demands and by depression conditions later. It has made possible larger production per farmer and thus has tended toward overproduction and depressed prices. One phase of this deserves a word of emphasis. The use of the tractor and the combine, with a knowledge of dry farming, has extended the frontier of wheat growing, notably in Montana and the Southwest, so that wheat grown at low costs in these new areas competes with wheat grown in the older regions where these inventions are not economically applicable. And the extension of cotton growing in Texas, with the development of machine cultivation and picking, has brought lower-cost cotton into competition with higher-cost cotton from other areas of the older South. In a measure not fully appreciated, the farmers in older regions have been hurt by the extension of the farm area with the aid of newer production methods.

The result of such developments has been a state of overproduction, in the sense that farm products as a class have been forthcoming in excess of amounts that the market would

absorb in prices remunerative to a large proportion of the producers. We have produced a surplus in the sense that smaller outputs would have brought the farmer a higher gross and net return. Under such conditions, our cultivated area and our farm population have been redundant; and apparently they remain redundant even after a period in which they have declined while the national population has increased.

Furthermore, variations in crops and livestock count, fluctuations in farm prices of different products in successive years and from week to week, have been pronounced. This is nothing new, but the variations have perhaps been greater than usual; certainly they have contributed to the uncertainties and the difficulties of the farmer and perhaps have increased his losses as well. In some quarters there is a tendency to consider this the root of the farmer's difficulties and the handling of seasonal surpluses the outstanding problem. This, I believe, exaggerates its importance. I recognize here a problem of long standing, which merits serious efforts to solve it, but it is no peculiar element in our postwar difficulties.

Among the complicating factors of the present situation are the "hangover" of old debts and the burden of high local taxes. Those who bought farms or farm land on credit at high prices have been the worst victims of the depression; banks that loaned to them have failed or suffered severe losses, and even solvent farmers and merchants have been embarrassed as lenders, bank depositors, and bank stockholders. This is one reason why the McNary-Haugen plan commands such support from merchants and bankers in the farming states, and why financial recovery of the farmers has seemed to come much more slowly than the recovery in their current income.

ATTITUDES

I have spoken of a trend toward decreasing per capita consumption of domestic farm products, a trend toward increased efficiency per farmer. Another fundamental trend deserves emphasis—the trend toward industrialization. This is far from new, but it has been accelerated in recent years. As we have seen, industrial products like automobiles, gasoline, and rayon compete with agricultural products like horses, oats, and cotton, both in the cities and on the farms. Where such competition exists or arises, the industrial product has frequently an advantage over the agricultural in economy of production. Even roadmaking, formerly a township odd job for the farmers, is now in large measure a specialized business. More fundamentally this tendency to industrialization rests on the fact that agriculture in the main produces food-stuffs, for which the demand is limited or inelastic and declining per capita, while industry's products are of such variety that the demand for them is almost unlimited, quite elastic, and rapidly increasing per capita. The greater our prosperity, the greater our efficiency, the more widespread our technical and geographical specialization, the larger the field for industry and trade and the smaller the relative scope for agriculture.

There are those who deplore these trends and would seek to reverse them. Many businessmen seek to excite, by advertising, an increased demand for this, that, or the other food, to emphasize the danger of the fad for slim figures. Many agricultural spokesmen urge that we have overemphasized productive efficiency on the farm. Many prophesy national disaster if our tendency toward industrialization continues and if the farming population falls below, let us say, 25 per cent of the total.

I cannot subscribe to these views, save in part. I believe

these trends must be recognized as not, on the whole, undesirable and as at least inevitable. The reasons for the trend toward industrialization lie partly in the limited demand for agricultural products as compared with the demand for industrial goods and services of many kinds. They lie also in the fact that our national genius for invention, organization, and finance finds larger scope in industry, transport, and trade than in agriculture. Our increased population, with its ever-rising standards of living, rests largely upon this very industrialization. True, it brings its peculiar problems—greater dependence of employees upon business leaders, congestion of population in cities, and the like. But we are aware of these problems and are gradually approaching their solution. Recent developments, notably the automobile and long-range transmission of electricity, presage, I believe, a lessening centralization of industry and better access of industrial workers to semirural life. We have gained in knowledge of improving physical and psychological conditions of urban and industrial life and work and in coping with forces making for business instability.

That way progress lies, I believe, and not in attempting, like Canute, to turn back the tide, not in subsidizing farmers, directly or indirectly, to stay on the farms to be solid citizens and breeders for the nation. There is, I suspect, no magic in any given proportion of the population in agriculture, no inherent danger in a decline of this proportion, though at any given time there is danger that the decline may go too fast or too far. We need farmers and we shall have them, but we need farmers who are on the farms because they fully pay their way and choose that life, with its mixture of financial and intangible returns, because they prefer it to industry, trade, or the professions. I come of farming stock; I do not love the city; but I see no reason why we cannot contemplate a

wholesome, well-balanced national life even if the proportion on the farms should fall much lower than it is today. A sound national economy and social structure implies no particular occupational distribution, but a changing equilibrium in which each part plays its role in the nation's productive life.

This implies my agreement with the view that we need fewer and better farmers than we have had, and probably still have, and that the net movement from the farms probably has further yet to go before agricultural overproduction will be eliminated. It need not disturb us that agriculture has a declining share in the national income. It is not the total agricultural income, but the income per farmer, that concerns us. We are right in believing that conditions are wrong when the typical or average farmer is chronically unprosperous. In so far as the redundancy of farmers and cultivated areas is a cause of depression, it is sound policy to promote the removal of this cause and to ease the essential process of readjustment. But the improvement of conditions involves more than this apparently simple and inevitably painful treatment.

I believe the McNary-Haugen bill was wisely rejected. I believe it would have tended to prevent wholesome readjustment, not to promote it. In operation its machinery would have encountered intricate difficulties; but even if it had overcome them, its success, I believe, would have made for an increase in our surplus agricultural production, intensifying the problem it was designed to solve, and paving the way for a breakdown that would have been disillusioning and costly to farmers and business alike, but especially to farmers. I believe there is no such emergency as would justify us in saying: "Something must be done; here's a grand experiment; let us try it in desperation." Despite the talk of impassioned orators, agriculture is not prostrate or on the brink of complete collapse.

I do not believe that agricultural co-operation will solve the farmers' difficulties, with or without the aid of government funds. I sympathize with the co-operative movement, but it is a plant that cannot have a healthy growth if it be forced too much. Encouragement, guidance, and indeed a modicum of assistance the government may wisely give it in moderation, but no more. Certain administration proposals not only ignore this fact but rest upon the unwarranted assumption that the farm problem can be solved by improved merchandising, notably in smoothing the flow of products to market within a year and from year to year.

DESIRABLE STEPS

A first step in dealing with the problem is to spread the true knowledge of it. Much agitation for and against the whole policy of relief for agriculture, and particular measures, rests upon misunderstandings, incomplete analysis, unfounded assumptions. The Department of Agriculture is doing valuable work on the economic aspects of agriculture, but its publications still fall short of revealing and interpreting the full nature of the status quo and the course of current developments, especially in individual commodities and particular regions. Fortunately, the recent admirable report of the Business Men's Commission on Agriculture¹ affords quite the most reliable, well-rounded, convincing discussion of the agricultural problem in the United States that has yet appeared, and should contribute greatly to sane progress in dealing with the situation.

But other steps than mere enlightenment are desirable. Some of these, such as state and local economy in expenditures, and redistribution of state and local tax burdens with the

¹ *The Condition of Agriculture in the United States and Measures for Its Improvement* (New York, 1927).

aid of such taxes as the income tax, are largely matters of state and local policy but deserve support from federal agencies. Others, like the effort to confine within moderate limits, if not to eliminate, changes in purchasing power of the dollar, and the reconsideration and gradual modification of our high tariff policy, are important not only for agriculture but for many other interests; but agricultural interests should be enlisted in support of them. Others, like the broadcasting of crop and market information, the analysis of prices, cycles, historical trends and tendencies, are already being cared for in increasing measure by the Department of Agriculture, and should be developed further. Many other particular moves are needed.

But what we especially need, at the moment and for the next few years, is not so much programs as machinery.

We have adequate basis for proceeding actively in certain lines and experimentally in others. The next step in our agricultural policy, I believe, should be to set up an agency competent to take steps, and charged with gradually working out, not in the closet but in practice, a solution that defies all efforts to reach it in advance of experience.

A federal farm board, if wisely chosen and properly constituted, might well perform such a service, provided it were given adequate powers and not saddled with impossible duties. It should not be expected to administer a fully developed plan laid down by Congress, especially one of the proportions proposed in recent bills, but rather, under certain broad powers, to take definite action along several lines, and to supplement this action by bringing forward, from time to time, proposals for action or legislation in line with a maturing policy that would be in the interest not only of farmers but of the nation as a whole. Immediate relief where needed, early improvement where possible, but long-run advancement pre-eminently,

should be the objectives. The board should not confine itself to recurring emergencies. It should work toward removing the causes of severe agricultural depressions; to develop and apply means for alleviating agricultural readjustment, tempering seasonal and season-to-season fluctuations, and promoting progressive agricultural movements, to find means of reducing the handicaps of farming and farm life. Had such a board been in existence since 1920–21, it could have done much that has been done less advantageously by other bodies and more that has not been done at all, and we should, I believe, be much nearer a satisfactory solution of the farm problem than we now are. Such a plan would not mean the final defeat of any favorite device or close the door to any type of action; rather, it would permit the orderly development, adoption, and administration of many elements in different plans.

There is also need, I believe, for a federal agricultural council alongside the board. The best type of federal farm board, as I conceive it, would be a board composed, not of farmers, but of the Secretaries of Agriculture and of Commerce, a member of the Federal Farm Loan Board, and four appointed members of equivalent stature, from whom would be appointed a governor and vice-governor. The federal agricultural council, on the other hand, should be composed largely of leaders of farmer organizations or other chosen representatives of the farmers. The board would have the power and responsibility, but the council would have the right to take counsel with the board—to receive its current appraisals and advices, to hear its periodical reports, to consider its actual and proposed policies, to question its analyses and activities, to suggest or propose new lines of action. These rights would be invaluable though the council possessed no positive powers. The influence of farmers would thus be

brought directly to bear upon the board, rather than upon Congress or Congressional committees.

Such a board and council, with the aid of three or more federal departments, could make headway in dealing with agricultural problems great and small. Together, the board and council could investigate far more effectively than temporary commissions, and focus their studies more effectively than the Department of Agriculture. They could presumably formulate policies better than the Cabinet, a department secretary, a Congressional committee, or a Corn Belt committee. The board could act within prescribed limits and, when, where and as needed, seek Congressional extension of its powers with the council's approval. Such a plan would give the farmers more direct influence upon agricultural policy than they now have, but without putting this policy entirely in their hands.

It is true, of course, that no scheme works ideally. Certainly the outcome of such an agency would depend greatly upon the appointed members and the intelligence and standing of the board. Our experience with federal boards and commissions is not wholly reassuring. I am constrained to believe, however, that here lies our best hope of making substantial progress in dealing with the agricultural situation so far as it calls for national leadership and federal action.

NOTE.—Before this paper was written, the present author had collaborated with his senior colleague, Alonzo E. Taylor, in writing a "projective analysis" of "The McNary-Haugen Plan as Applied to Wheat," published in *Wheat Studies*, February and March 1927, III, 177-264.

Later data, revisions of official indexes, and experience in the Farm Board led the author to modify some of the positions taken in this paper and the following one, as subsequent passages in this book will indicate.

VII

AGRICULTURAL READJUSTMENT OR LEGISLATION?*

[December 1927]

Professors Warren and Wehrwein have given us two illuminating and stimulating papers. In discussing them, however, I wish to keep the attention focused on the question before the Round Table: "Which does agriculture need—readjustment or legislation?" Professor Wehrwein, without denying the need for readjustment, confined his paper largely to the case for legislation, although he touched but lightly upon the most controversial subjects. Professor Warren admits the need for both readjustment and legislation, but he does not clearly make a strong case for either. Indeed, most of his paper is on a different topic. If I understand him aright, legislation is desirable, but it is so long in coming that the farmer had better not count upon it; readjustment by reducing farms, acreage, and production is uncalled for, unwholesome, and even dangerous in threatening a food shortage; the cause of the depression is predominantly a lag in the decline of wages, taxes, handling charges, following deflation; the farmer should modify his farm management—in ways not described—tighten his belt, and grimly, watchfully bide his time until the tide has reached its ebb and gradually turns. According to Professor Warren, it is idle to discuss readjustment until we can predict the duration of the depression, yet he made no forecast and gave us no basis for deriving one.

* Opening the discussion of papers by G. F. Warren and G. S. Wehrwein, on "Which Does Agriculture Need—Readjustment or Legislation?" at the annual meeting of the American Farm Economic Association in Washington, Dec. 28, 1927. Reprinted, by permission, from *Journal of Farm Economics*, January 1928, X, 24-28.

From a recognized master of farm economics, this seems a surprising counsel of despair.

The subject before us is a serious one. I confess to feeling that the principal speakers have not fully come to grips with it. We need a sharper view of the meaning of readjustment and legislation than either speaker has given, and also a clearer notion of the present status of agriculture.

Readjustment and legislation are not mutually exclusive, nor do they exhaust the possibilities of the case. We may have readjustment with or without legislation. There is absolutely no question, I believe, that substantial readjustments in American agriculture have been absolutely essential since the war, and that no legislation could have made them unnecessary. I firmly believe also that the process of readjustment must continue, legislation or no legislation. The question is, what types of readjustment are wise and wholesome, from the standpoint of the individual farmer and of the national interest; further, by what legislation, if any, can certain readjustments be rendered unnecessary, others promoted, and still others mitigated in their painful consequences; and what legislation should be avoided because it would bring about readjustments creating new problems greater than those which are solved? Moreover, as to legislation, we must realize that legislation of itself accomplishes little or nothing; what is vital is the action under the legislation. And in discussing either legislation or action under it, we need to consider not merely the objectives, but machinery, ways, and means, of which Professor Wehrwein has said but little. It is a question not merely of *what* but of *how*.

As to the present status of agriculture, it is at once insufficient and misleading to say simply that "We are in the eighth year of the most serious agricultural depression ever known in the United States." There was in 1920-21 an acute agricul-

tural crisis. It was followed by a period of severe depression, in which considerable progress in recovery was made, partly with the aid of legislation, chiefly by readjustment, including liquidation. This in turn was followed by a period of moderate depression, with acute distress only among certain groups each year. This year acute distress is narrowly limited, but what we think of as normal prosperity is not yet at hand. According to some serious students of the situation, the purchasing power of the farmers' current income has averaged about as high in the past three or four crop years as it did in the five years before the war; but in the recent period, unlike the former one, the farmer has experienced declines in land values instead of appreciation, and industry and commerce have been relatively much more prosperous.

Two analogies are helpful. Agriculture suffered a severe shock which caused serious illness; it has passed out of this stage and made much progress in convalescence; but it remains chronically below par, abnormally sensitive to attacks of fresh illness. Or, one may say, a conflagration occurred; with great loss its ravages were checked; the fire is not entirely out, although its area is very restricted; progress has been made in reconstruction, but the burned area is by no means rebuilt.

What does such a situation call for? In part, indeed, it calls for investigation of the causes of the illness; of the factors responsible for the catastrophic fire. It calls urgently for taking measures, while the calamity is fresh in our minds, to prevent its recurrence. This particular catastrophe is not likely to return soon. But we should take steps to prevent a fresh conjuncture of the causes which brought it about, to limit its sphere of attack if it should break out, and to mitigate such of its consequences as may occur in spite of all measures. We need, in other words, such building regulations and prac-

tices and such fire-control measures as will prevent another conflagration, and insurance for those who will suffer even from limited fires. We need the development of sanitation, preventive medicine, epidemic control, and appropriate treatment for the disease itself. This being the case, one of the important tasks of a federal farm board—for I know of no other agency competent to the task—would be to plan and take such steps for the benefit of the future. It is for this purpose, and chiefly for this purpose, that we need the best analysis possible of the causes of the agricultural crisis and depression.

But there are tasks for the present as well as for the future. So far as these are concerned, we need to consider rather what are the reasons why agriculture remains below par in spite of much readjustment and some legislation, and how far these causes will vanish of themselves or with the mere continuation of the present readjustment process.

I do not believe that we can blame the present situation upon factors of long standing in agriculture—hazards of the weather, alternations of good and bad harvests, cycles of cattle and hog production, recurrence of surpluses, seasonal and season-to-season fluctuations in prices, or the tariff on manufactured goods. It is well to utilize the present interest in agriculture to seek to deal with these problems, but we are wrong in charging them with the responsibility for such depression as persists. It is quite shortsighted, I believe, to blame the situation on price disparities. I have not time to point out the fallacies that creep into this phase of the discussion, but it should be clear that relative lowness of prices of agricultural products is not a primary cause, but a result. To attack it directly is like correcting a symptom without getting at the disease. I agree with Professor Warren that a major cause of the crisis was deflation—following inflation, I would

add with emphasis—using these terms in a very broad sense. I cannot agree with him that the present condition is merely an aftermath of deflation. It is that in part, notably in so far as the burden of debt is concerned, but it is more. The height of wages and handling charges is not a simple case of lag; it represents a shift in level, due to conditions quite independent of deflation that cannot be expected to disappear. Economies in distribution should be urgently sought, but they will be slow in bearing fruit.

I cannot take time here to analyze the reasons why agriculture is still below par. I believe it is much less so in fact than in feeling. The contrast with the prosperity of the war period, and with the prosperity of other classes, accounts for a psychology of distress which exaggerates the reality. If we should have an industrial depression without further improvement in agriculture, much of the seeming distress would cease to be vocal. But I would not deny the persistence of a degree of real depression. The reasons are numerous. There are some lines, such as prunes and grapes, in which overproduction unquestionably exists. There are others in which a reduced demand, as in oats and the dark tobaccos, is a major factor. There are others, as cotton and wheat, in which farmers in older regions are hard hit by competition of newer regions with newer methods of production. There are some in which a pest, as the boll weevil has been and the corn borer may be, is in large part responsible. One simply cannot speak accurately in general terms either about the causes or about the remedies.

On the matter of readjustment, Professor Warren largely hints rather than elucidates, both as to what has been and what should be done. I reluctantly refrain from challenging the somewhat naïve statistical analysis by which he reaches the conclusion that most of the present depression is due to

persistence of high costs of getting farm products from the farm to the consumer. I note, however, that he does not follow this reasoning to its logical conclusion and urge reduction in wages and economies in distribution, as well as lower freight rates, as remedies for existing evils. I gather that he regards the reported notable decline in farm population, and the less notable reduction in crop acreages, as undesirable forms of readjustment which threaten us with food shortage. On this point I cannot agree with him. A food shortage in a significant sense, I am convinced, is a bogey. The statistics as to farm production leave a great deal to be desired, but such decline in production as there may have been is astonishingly small in the face of the decline in farm population. I will not undertake to define overproduction. But I submit that if the farmers find that certain products are produced in such quantities and at such costs—not for a single year but over a series of good and bad years—that they cannot market these products at remunerative prices, their obvious readjustments are to reduce either their costs or their output, or both; and if they cannot even then find enough products to produce at a profit, more of them or their children than usual must forsake farming for other occupations. Some of these readjustments are painful, but to many they are less painful and more possible than passive endurance. It matters not that some index of retail food prices is in line with some index of prices in general; an economic type of overproduction exists if the farmer cannot get by with prices received at the farm.

If national leadership and federal action are really desirable, beyond the good work that the Department of Agriculture is doing and can do, the primary object of legislation should be to set up an agency which can furnish this leadership and this action, give it scope and power, and refrain from saddling it with impossible tasks or expecting it to bring the

millennium in a day or a year. I believe that changes—both destructive and constructive—in our land policy are desirable; but it will take a body with brains, vision, courage, and vigor to bring them about. I believe that changes in our state and local tax systems are called for in the farmer's interest and consistent with the general welfare; but there is needed an agency capable of bringing this point home and leading to action. I believe that we can well afford, under certain conditions, to experiment with control of exceptional surpluses and the moderation of fluctuations in prices of great agricultural staples; but I believe that the experiment should be planned and launched, within narrow limits, in emergency conditions, with due preparation, by a body responsible for carrying it through and profiting by one experience in making a second experiment.

In short, I believe that Congress, in its endeavors to frame a plan for relief of agriculture, has put the cart before the horse. Let a federal farm board and a federal agricultural council, of proper composition, with broad powers, be authorized and wisely constituted. Enough has been learned to enable such bodies to start with an ample program of action, over and above what other agencies are doing. Under pressure from outside and with experience from within they may well be trusted to develop the program further. Personally, I should not object to giving a well-constituted board all the powers of the McNary-Haugen bills, provided full discretion as to their application were permitted. But I believe it would be quite unwise to impose such duties upon them and to give them no other powers than these. The experience of the Shipping Board, I believe, affords striking testimony to the utter un wisdom of creating a board with a hopeless task, and manning it with those who are willing to attempt to discharge the task regardless of consequences. There are other instances.

To conclude: I believe that both readjustment and legislation are needed, but that the two problems must be considered in relation one to the other and in due perspective. I believe that desirable readjustments could be promoted, others rendered unnecessary, and painful consequences of the depression mitigated, by a federal farm board with the co-operation of a federal agricultural council. The board might well consist of seven men of Cabinet-member caliber, including the Secretaries of Agriculture and Commerce and the Federal Farm Loan Commissioner. It should not be a farmers' board, any more than the Federal Reserve Board is a bankers' board or the Interstate Commerce Commission a railroad commission. The council, I believe, should consist of representatives of the farmers, and constitute a means whereby the board and the farmers could take counsel together directly and frequently. Such an organization could both plan and execute, and, if wisely manned, might contribute greatly to the solution of our national agricultural problems.

VIII

THE FARM EXPORT DEBENTURE PLAN*

[September 1929]

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 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 burdenless 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 economist¹ 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

*The concluding chapter (pp. 242-65) of the present author's book under this title, published by the Food Research Institute in December 1929. This was preceded by the author's article, "The Export Debenture Plan for Aid to Agriculture," *Quarterly Journal of Economics*, February 1929, XLIII, 258-63, and "The Export Debenture Plan for Wheat," *Wheat Studies*, July 1929, V, 301-46.

¹ Professor Charles L. Stewart of the University of Illinois.

farmers' organization² 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 measures, 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 tried

on 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 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 consideration 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 assumption 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. But the Treasury burden would be materially larger than initially, and the justification for it 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 re-

sult 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 has been suggested as a rough esti-

mate 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.

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.

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 the 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.

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,³ 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:

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 production—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 grain 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. 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 debenture plan is a proposal for an enduring element in our agricultural policy, a permanent but not an 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.

THE PLAN AS AN OPTIONAL DEVICE

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 shortcom-

ings 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.

UNDER THE FARM BOARD
1929-1930

IX

THE NEW FARM RELIEF LEGISLATION*

[June 1929]

We have had years of agitation, investigation, conferences, hearings, debates, disputes over farm relief. Twice before, in 1927 and 1928, Congress passed a McNary-Haugen bill; but each met a presidential veto that Congress could not override. This deadlock is now broken. We have on the statute books at last a federal act for farm relief. The equalization fee plan was the heart of the former measures, and had gradually accumulated much support. But it was outspokenly opposed by Mr. Hoover in the last presidential campaign, and his rousing majority convinced its sponsors that it would be vain to resurrect it now. Many of its supporters turned to the export debenture plan, an alternative price-raising scheme sponsored by the National Grange. The Senate tried to incorporate this in the new measure, but under President Hoover's vigorous opposition it was eliminated for the present. The Agricultural Marketing Act that was passed on June 14 therefore broadly represents what the President wanted, at least in what it omits and apparently also in what it contains.

The act is not at all what was wanted by the vigorous spokesmen for farm relief, or by the American Farm Bureau Federation and the National Grange. Under their specifications, indeed, it hardly qualifies as a farm relief measure. It does not obviously provide what they regard as effective control of surpluses, or promise to raise farm prices by substantial amounts. It does not seem likely to "make the tariff

* Address to Group III, California Bankers' Association, Los Gatos, Calif., June 22, 1929.

effective" on agricultural products. They see no sign that it will add five or six billions a year to farmers' incomes, or restore agriculture to "equality with industry." Nor has the measure aroused enthusiasm among farmers generally. For good reasons, its strongest appeal is to farmer co-operatives, but even they have not unanimously and enthusiastically supported it.

On all sides, however, the act is accorded some welcome as one kind of a start on a new line of constructive agricultural policy. In Congress and outside, the disposition is to say essentially what Governor Lowden has publicly said: The President, winning the election, earned the right to try his hand. Let us give him full opportunity to do so. If his scheme should prove defective, we can then undertake to remedy defects or turn to something different. Some would add: If the plan fails, the President will have to shoulder the blame.

Frankly I believe the initial disappointment with the measure is auspicious. Better such disappointment early than later. In my judgment, no measure that Congress could pass or a farm board execute could succeed in achieving, within measurable time, the high aims so long and so loudly proclaimed. The inference that a McNary-Haugen bill, or a debenture plan, or any other would do this is founded on illusions and delusions. There was real danger in getting a measure that would attempt too much, only to break down within a few years. There is more hope from one which starts without enthusiasm and has less high hopes to live up to.

PROJECTIVE ANALYSIS OF THE MAJOR PROVISIONS

The central fact of the new measure is the provision for a federal farm board, with remarkably broad powers and wide discretion. It is to consist of the Secretary of Agriculture and eight members appointed at large. The degree of success of

the whole new policy will depend, in great measure, upon the quality of this board. It should not be made up of farmers or farmer spokesmen. It should be a harmonious group of able, industrious men of vision, vigor, courage, and judgment. Each of the members may well be acquainted with certain phases of agricultural problems and sympathetic toward farmers; yet it is by no means essential that they should qualify as experienced farmers or as commodity experts. Most of all we need insight, wisdom, diplomacy, and economic statesmanship, such as Owen D. Young admirably exemplifies in a different field. We need a better board than any of those now in Washington. I have hopes that we shall get a good board, but it will be a miracle if it is as good as the situation calls for.

The measure might well have included provision for a federal farm council. The experience of recent years shows that farmers should have ready opportunity, otherwise than through lobbying organizations, to bring their views to bear on agricultural policies, to exert influence on the formulation and execution of policies, and to have their views threshed out in a group and in conference with such a board as is being established. I believe that an advisory council of some twenty-five persons, representing chiefly the farmers' organizations and co-operative associations with perhaps a sprinkling from other agricultural groups, should be set up; and that it should be called into session at least twice a year to counsel with the farm board on the agricultural situation and agricultural policies, actual and potential. Such a body would help to keep the board "on its toes" and in touch with farmer sentiment, and to insure, on the part of farmers and their leaders, a sympathetic understanding of the board's position, problems, and policies. The commodity advisory committees will not be a suitable substitute for such a council. I hope

that one may be called into being informally, if no formal provision for it is made.

The new act lays primary emphasis upon reorganization of agricultural marketing as the principal means of improving the agricultural situation. For improvement in methods of marketing farm products there is indeed vast scope. It is largest in the lesser crops, notably perishable fruits and vegetables, and probably least in certain major crops such as wheat and corn. Progress in methods of handling California citrus fruit crops gives some indication of what can be accomplished by intelligent organization and wise management. The ill success of several other attempts indicates some of the larger mistakes that must be avoided.

Under the broad plan adopted, the federal farm board is to be the central agency, but in no sense a centralized operating board. The farmers' co-operative associations are to constitute the base of the new marketing structure. Now in spite of all the progress in co-operative enterprise in recent years, the farmers of the country are by no means generally organized on a co-operative plan. It is not essential to the operation of the plan that they should be. Yet one cannot conceive of the plan working out along the lines in contemplation unless there is a striking expansion of co-operative associations. By the responsibility to be reposed in them, by the prospect of federal loans, a notable stimulus to the growth of co-operative associations is given. But in so far as these grow, it will be at the expense of existing types of business organization which now perform many of the same functions.

We cannot expect this transition to be frictionless. There are two real dangers in the process. One is that the co-operative movement may be swelled by new members and new organizations lacking in the spirit of genuine co-operatives, and that the whole tone and temper of the movement may be

altered or even transformed to its detriment; and that some of the new organizations will be mushroom growths, the more liable to fail and thus cast discredit upon the whole movement. The co-operative movement is a plant whose growth cannot be forced too fast without serious injury. There is ground for fear that the pressure for prompt and effective inauguration of the new plan may constitute such a forcing process.

In the second place, there is the danger of undue injury to established business interests. Some will doubtless readily accommodate themselves to the new scheme, while others will be unable or unwilling to do so. No quick transformation of our long-standing organization is possible without considerable loss. The loss will be greater if the process is speeded up, and less if it is gradual. Furthermore, we cannot be certain that the wholesale transformation will prove wise. The experiment may easily work well with some commodities, but be a complete mistake with others and a mediocre success with more. Where it succeeds there will probably be slight difficulty in justifying transitional pains and losses. But where it falls short of success the gains may be totally inadequate to offset the costs to established interests, and a fresh reorganization may be required. Both of these reasons point to the desirability of proceeding with caution and with a readiness to see the plan modified as experience may dictate.

Provision is also made for the board, on application of co-operatives or other producers approved as representative of the commodity, to assist in the formation of producer-controlled clearinghouse associations adapted to effecting the economic distribution of the agricultural commodity among the various markets and to minimizing waste and loss in the marketing of the commodity. This provides a measure of elasticity of which established business interests can take advantage, yet with the co-operatives in a dominant position.

The act provides for a series of commodity advisory committees, to act as intermediaries between the co-operatives and the board. Each is to consist of seven members, of whom at least two shall be experienced handlers of the commodity; all to be chosen by the commodity co-operatives in accordance with regulations established by the board.

Difficulties will be encountered in setting up these committees. Sectional and commodity interests vary. There are interregional competitions and intercommodity competitions. A national organization may indeed be called for in the interests of all; but in determination of policies and practices a great many jealousies and divergences of interests will come to the fore. It will be charged that certain interests are dominating to the detriment of others. Some of these problems were foreshadowed in the discussions of the bill, and efforts were made to exclude certain commodities from its scope. It will take wisdom, diplomacy, and time to resolve these difficulties, but the effort is likely to yield valuable results in inculcating larger views, attracting bigger men, and promoting broad-gauge policies.

These problems will be larger because of the decentralized type of machinery in contemplation. When an industrial merger is effected, there is a centralized type of control heading up into the management. The proposed organization is, on its face, less centralized and more democratic; but as a business organization it will not be strengthened by this condition. In practice it will probably be less democratic than in form, and a great deal will depend on the quality of the leaders who will be selected or who will gradually emerge.

The plan contemplates the organization of a series of commodity stabilization corporations, not more than one for each designated commodity, provided the board finds such organizations advisable "in order effectively to carry out the

policy of the act," either as to the organization of effective corporations under the control of producers to a greater unity of effort in marketing the commodity or as to control of any surplus of the commodity; or if it finds "that the marketing situation with respect to the agricultural commodity requires or may require the establishment of a stabilization corporation" Each corporation is to be set up under state or territorial laws, and to be "farmer owned and farmer controlled" in the sense that its stock will be held by the co-operative associations handling the commodity.

The stabilization corporations, where created, may be empowered to act as central marketing agencies, but they may not all exercise these powers. In the case of wheat and cotton, we may expect such corporations to be set up, probably quite promptly, possibly only when and if the co-operative base can be made broad enough, whereas in many of the fruit crops and others there may be no urgent demand for one, and the advisory councils may prove sufficient. It is not likely that at the outset such corporations will promptly assume functions such as those possessed by the central sales agency of the three Canadian provincial wheat pools. Some of them never will do so. Some may merely undertake to deal with surpluses that the co-operatives cannot readily handle. But there will be a tendency for such corporations, once established, to expand in functions and power. Conceivably their boards of directors may consist of the members of the advisory councils for the commodity in question. A great deal of latitude is accorded, and the development may proceed along different lines for different commodities.

The corporations are designed to operate on such a basis as to permit accumulation of merchandising reserves. Until such a reserve has reached an amount that the board considers

sufficient, at least 75 per cent of the profits must be dedicated to the purpose. Losses are to be borne by this reserve, ultimately if not immediately; but the member co-operatives are not to be subject to assessment to cover such losses. Here lies a large handicap in attempting surplus control of the type envisaged in the McNary-Haugen plans, and even a large possibility for losses and subsequent disorganization owing to unwise or unlucky operations.

The act provides for a revolving fund of \$500,000,000 to be loaned, on terms and under regulations established by the board, either to co-operative associations or to their stabilization corporations. Loans are also to be permitted for several other purposes: acquisition of facilities by purchase, lease, or construction, to be repaid on an amortization plan extending not over twenty years; and to assist in setting up clearinghouse associations.

The obvious intention is to safeguard these loans and yet use them as a means of building up the co-operatives and stabilization corporations. Indeed, it seems probable that these bodies will finance their operations initially from the revolving fund and from commercial loans rather than in any large measure from capital contributed by the co-operatives. The financial structure, like that of many co-operatives, may be very weak, at least at the outset. At best the risk of loss will be considerable. We must not expect the revolving fund to have a rapid turnover, and there are large possibilities that in practice it will become in part a "dissolving fund," or a frozen instead of a liquid asset. It is taken for granted that government funds will be risked; but the hope is that, somewhat as in the experience of the Federal Land Banks, the participation of the government in the risks and advances will gradually decline. The experiment could probably not be tried without heavy financial support from the Treasury,

except by a method designed to make a much heavier drain on consumers.

Provision is also made for insuring co-operatives against price decline, and for aid from the revolving fund in support of this insurance in case of commodities traded on regular exchanges. This provision will presumably be applied only to a few commodities.

SUPPLEMENTARY OBSERVATIONS

The whole theory of the agricultural marketing provisions is that farmers can be substantially aided by a reorganization of the marketing of their products on a co-operative basis. But the plan as a whole is boldly experimental. In some lines grand forward steps may be realized. In others disappointments will doubtless occur. No one dares predict early, demonstrable success. We can afford to make the experiment under wise guidance. Under other conditions the scheme might be a disastrous failure.

The virtue of the measure is that it seeks to increase farmers' incomes, not at the expense of other classes, but by improvements in the marketing process, along with which must almost necessarily be developed, as a condition for success, some control of output. I believe the principle is sound, however imperfect the means may prove to be. I am hopeful that good will come out of it, but I feel that no such measure can fully meet the real requirements of our agricultural situation, to say nothing of farmers' hopes.

The significance of the new measure is not restricted by the considerations just mentioned. Indeed, it will be highly unfortunate if the board allows itself to become so engrossed in its marketing functions that it has no energy left to devote to other matters at least of equal importance. The danger in having the board made up largely of commodity experts lies

chiefly here. The board cannot avoid heavy responsibility for the success of the marketing program, but it should avoid assuming more detailed responsibility than it must. With a board as large as nine, two or three members may well specialize upon other aspects of agricultural problems and help to keep the whole board abreast of them. The board will have a research function supplemental to the research functions of the Department of Agriculture. It should rely upon the department for scientific, historical, and statistical research, additional to what the department has been doing, that will bear upon the problems of the board; but it will need to develop a program of research on policy which has been but slightly developed thus far.

The promotion of co-operative associations will involve a mere extension of the work now under way in the existing Division of Co-operation—but perhaps a more rapid extension than conditions will permit to be wisely made.

Investigation and advice as to overproduction is good so far as it goes, but much more is involved than appears on first glance. Effective means for regulation of acreage and breeding are exceedingly difficult to devise and apply, without resorting to a degree of government interference with individual freedom that would certainly be hostile to the traditional spirit of the farmer. Yet overproduction in the economic sense—production in such quantity as to be unremunerative to producers—is all too common, in individual products; and there is a strong tendency, under our changing methods of farming, toward this sort of overproduction of farm products in general. The extremely low price of potatoes, in this disastrous year for potato growers, is a case in point. The overexpansion of production in many lines during and since the war is another.

We have had entirely too many severe agricultural de-

pressions. We must study their causes, and the means of checking their operation before they reach an advanced stage. The depressing surpluses of particular crops or livestock products are by no means wholly the accident of fate or due to natural causes. Means of prevention must be devised, as well as means of dealing with surpluses after they are created. Fortunately none of the means provided for in the act seem calculated to intensify these problems, as some alternative proposals surely would.

The tariff in its bearing on agriculture needs to be studied carefully and realistically. Broadly speaking, tariff benefits are restricted to limited groups, and the burdens of a protective tariff so widely diffused that they are not appreciated at their true value. So far as farmers in particular are concerned, I believe that they stand not to gain but to lose more or less heavily by striving for their share of tariff protection. A recent article by an able farm editor, Henry A. Wallace of *Wallaces' Farmer*, son of the late Secretary of Agriculture, elaborates this view. I am sure that farmers labor under the delusion that they can profit from our protective policy. Conceivably a tariff bill might be so drafted as to yield them a net gain, but I do not believe such a draft could be passed. Farmers have more to gain by standing for a policy of gradual reduction of protective duties than by seeking—invariably in vain—to get a tariff made in their particular interests.

This is heresy—particularly in Republican California—I express it not at all from an academic free-trade viewpoint, but with full consideration of practical politics. Whatever considerations may have justified our traditional policy of high protection, that policy is at least obsolescent, if not obsolete; and one of our largest national problems is how to scrap it, not by one abrupt move, but by procedures which will bring us into a new position without serious reactions

on business. The Business Men's Commission on Agriculture, in its valuable report, took a surprisingly sane position on this matter. The farm board will be justified in making a thorough study of it.

If time permitted, I should like to discuss several other problems that will call for serious consideration by the farm board, and for action as well as study. I do not share the common view of the "plight" of the American farmer. With full recognition of the severe depression and the persistence of oppressive burdens, this plight has been grossly exaggerated. At the levels of recent years the real incomes of farmers in general have been higher than at any time except in unhealthy boom periods. The plane of living on American farms is higher than before the war, or than in any other country; but farming is still well below attainable standards in efficiency, profitableness, and planes of living. Many important farm problems await solution, and can be solved by the combined efforts of farmers and private and public agencies. I regard the new federal legislation, and particularly the setting up of a farm board, as an important step in the right direction.

NOTE.—This hitherto unpublished paper, delivered between the passage of the Agricultural Marketing Act and the appointment of the Federal Farm Board, is here included in preference to the author's address on "Some Possibilities and Problems of the Federal Farm Board," before the American Farm Economic Association, Dec. 27, 1929. The latter was published in *Journal of Farm Economics*, January 1930, XII, 13-20, along with an address by Chairman Legge of the board and discussions by Professors Dummeier, Falconer, and Grimes. On Dec. 1, 1929, the author had taken up his work as chief economist of the board.

X

WHAT THE COUNTRY EXPECTS OF THE CO-OPERATIVES*

[July 1930]

THE CHALLENGE

The country expects the farmers' co-operatives to play a major part in raising the status of farming and farmers. It looks to them to be a prime agency for the attainment of that coveted objective of agricultural policy, the equality of agriculture with other industry.

The Agricultural Marketing Act is shot through with these expectations. The agricultural marketing system envisaged by the act is one in which effective co-operative marketing associations — farmer-owned, farmer-controlled, and primarily in the farmer's interest—will take the lead in improving the process of marketing farm products, and aid in preventing and controlling surpluses by inducing production adjustments as well as by orderly, efficient marketing. The act invests the co-operatives with the power to name commodity advisory committees, and to establish stabilization corporations with special powers for surplus control. It is to co-operative associations, and not to individual farmers or to outside corporations, that the Federal Farm Board is authorized to make loans for effective merchandising, construction or acquisition of facilities, and other purposes.

Business corporations never aroused such expectations. In the first two or three decades after the Revolution cor-

* Address before the American Institute of Cooperation at Ohio State University, July 12, 1930; published in much the present form in *American Cooperation*, 1930, I, 33-41, and reprinted by permission of the Institute.

porations were frequently the objects of grave suspicion and virulent attack. Only by special act of the legislature could a business corporation be created, and then usually only for special purposes and subject to special restrictions. As time passed, business corporations came to be regarded with more toleration. It became possible to set them up under general laws, with increasing facility but still subject to numerous restrictions. A few were granted special favors to aid them in attaining objectives that were regarded as peculiarly in the public interest; but corporations as a class were never granted any such encouragement and support from the government as agricultural co-operatives now are offered. The country has never looked to business corporations, as now it looks to the co-operatives, as prime agencies for attaining a high and difficult objective of national policy.

In passing the Agricultural Marketing Act, then, Congress gave an extraordinary vote of confidence to agricultural co-operation. It was not primarily a vote of confidence in existing associations. The language of the act plainly implies that existing co-operatives were inadequate in number and scope, and in many cases in methods and practices as well. First among the special powers and duties of the Federal Farm Board are these:

(1) To promote education in the principles and practices of co-operative marketing of agricultural commodities and food products thereof.

(3) To encourage the organization, improvement in methods, and development of effective cooperative associations.

President Hoover, in welcoming the newly-appointed members on July 15, 1929, emphasized the purpose of the board "to create permanent business institutions for marketing which, owned and controlled by the farmers, shall be so wisely devised and soundly founded and well managed that they, by effecting economies and giving such stability, will grow

in strength over the years to come." "If we are to succeed," he added, "it will be by strengthening the foundations and the initiative which we already have in farm organizations, and building steadily upon them with the constant thought that we are building not for the present only but for next year and the next decade." The vote of confidence was in the theory of agricultural co-operative marketing associations; it was an expression of high faith in the possibilities of co-operative marketing institutions as they might grow to be.

This faith rests upon several basic premises: (1) that, while government efforts can help, the progress of agriculture depends fundamentally upon farmers themselves; (2) that, while individual farmers can do much, organized efforts of farmers are requisite for achieving objectives that are beyond attainment by individual or unorganized efforts; (3) that for solving many of the problems, marketing associations of farmers offer the appropriate and effective form of organization.

These expectations constitute a challenge to farmers and to the co-operatives. They entail peculiar responsibilities upon co-operative leaders, officers, and staff. Business corporations rise and fall; failures are accepted as inevitable. But in the present stage of co-operative enterprise the failure of a co-operative is taken to reflect upon the entire movement, and even upon the theory upon which it is based. Unfair this may be, but it is so. It is especially true now that the Federal Farm Board, in the exercise of powers and duties set forth by Congress, is lending substantial aid, at no mean risk, to agricultural commodity co-operatives. It remains for the co-operatives to show in practice that this aid will be helpful in building up a soundly based producer-controlled system of marketing in competition with the old system of merchant middlemen that has long existed. It would be bitterly disap-

pointing, if not disastrous, if the aid should result in waste of public funds and injury to private business without genuine improvement of our agricultural marketing system or the position of the farmer. On the other hand, every co-operative that achieves a recognized success, like some of the splendid institutions that have developed in the last few years, points the way to others, and justifies increased confidence of farmers and the public in co-operative organizations.

MEETING THE CHALLENGE

What are the important points on which the co-operatives may wisely concentrate if they are to meet this challenge successfully?

In the first place, it cannot be said too emphatically that honest, and efficient business organization and operation are essential. Scrupulous honesty, including the subordination of personal interest to the success of the association, is demanded. Standards of business efficiency, imperfect though they are still, have risen considerably in recent years. In this respect, co-operatives cannot afford to stand anywhere but among the best of our business organizations, size considered. Between the deficiencies of loose, antiquated methods and the excesses of meticulous overorganization they must find a happy mean.

First-rate accounting methods, capable of showing at all times the financial standing, the status and progress of the profit-and-loss account, and the sources of gains and losses: for these there is no substitute. Equally essential are periodic, thoroughgoing audits by reputable and competent firms, to insure continued satisfactory operation of accounting processes and to yield the basis for confidence by members and creditors.

There are two invaluable complements to good accounting.

One is a serviceable system of internal business statistics, by means of which the accounting data are clearly related to the operations. Another is a serviceable system of economic and statistical analyses and forecasts, for use in determining marketing policies from week to week and from day to day. I am well aware that the technique of economic analysis is still in an early stage; that expert forecasts often go wrong; that business statisticians sometimes go off on tangents and give poor return from the overhead they entail; and that at best their work is no substitute for trained, experienced judgment. But I am equally certain that the day of successful operation of businesses by hunch is past or passing, and that the best judgment of marketing officials needs to be supported and supplemented by first-class economic and statistical analysis.

If anything, co-operatives need this the more because, in so far as they seek to raise the average return to farmer-members, they assume certain risks that many merchants often shift by one form or another of hedging. If such risks, on top of the everyday risks of business, are to be successfully borne, it is essential that the business judgment of co-operative officials be aided and supported by well-organized and wisely interpreted facts. While tendencies leading to excessive overhead, in this as in other phases of the co-operative organization, must be watched with diligence, it is false economy to omit or starve this significant though unobtrusive part of the organization. National co-operative organizations will find that they can render an important service by developing such work, as local or regional organizations are frequently in no position to do.

One of the crucial problems of the co-operatives is to find and hold able business leaders for their major positions. Experience in co-operative business has trained a number of men

qualified for larger positions in the developing line of work, but not enough to meet the enlarged requirements. Men so trained should in the long run provide most of the requisite personnel. But for the present, it is essential to draw men of high caliber and experience from outside business, and to give them the opportunity to render the best service of which they are capable.

The co-operative marketing organization faces one problem that, at first sight, seems peculiar to it but is really one that our most successful middlemen have learned to face. The good will and loyalty of the growers must be won and held, through thin as well as thick. The best single means of achieving this end is through straightforward dealing and efficient business operation. But success is seldom achieved by this alone. The spirit that actuates the business organization is felt by those who come in contact with it. The essence of the co-operative spirit, keen interest in the problems of the farmer-members, the concern to do the best possible for them, must be deep-seated, not superficial. It must be evidenced by attitude and methods, not merely by fine words. Farmers in general are too shrewd and intelligent to be deceived by glowing promises that are beyond possibility of fulfilment. They are to be won and held by a spirit and performance that are unmistakably felt through a succession of good and bad seasons. An organization that grows in favor and size through such a policy has the best chances of success and permanence. Those that are launched by promotional campaigns need to give prompt attention to strengthening the foundations upon which alone success and permanence can be based.

STABILIZATION

I was first asked to speak here on "The Co-operative as an Agency for Stabilization." For various reasons I hesitate to

devote myself to this subject, but I cannot feel comfortable in ignoring the suggestion entirely. First, however, let us see what we mean by "stabilization" or "stabilizing."

Stabilization is one of those fine-sounding words that somehow has taken hold of our imaginations without being very clear in our minds. As applied to prices, it is sometimes merely a camouflaged term for price-raising. Sometimes it is thought of as implying leveling out price depressions and letting the humps take care of themselves. Sometimes it is interpreted as a process of eliminating price fluctuations, keeping prices on a dead level. In truth, the word is over-ambitious, like the slogan "equality for agriculture" which almost all would endorse as an ideal but find hard to translate into practical terms.

Analogies are often aids to understanding. Let us try one here. My car is equipped with stabilizers, or stabilators. What are they for? Do they keep my car or me horizontal as I drive up hill and down, on one side or the other of a banked curve? Certainly not. Do they make a drive over rough roads as comfortable as riding on a smooth, level pavement? By no means. If not, are they useless? Not at all. But what purpose do they serve? The answer is simple. They, together with the pneumatic tires, the springs of the chassis, and the springs and cushions of the seat—stabilizers all—absorb a large proportion of the shock transmitted to the tires by all kinds of irregularities in the road, so that only a small fraction of the full force of the jolts and jounces reaches the bolts and fastenings of the chassis and body, the delicate mechanism of the motor, or the still more delicate human bodies inside the car. They do not determine the level or the inclination of the car or its riders. They are no substitute for good driving. The car equipped with the most expensive stabilizing equipment known can be wrecked by an inexperienced,

careless, or drunken driver. But they do greatly reduce the strain, the wear and tear, on the machine and its passengers. They make the going safer and more comfortable for both—up hill and down, though the road may run around curves sloping in or out, over rough places and smooth.

In this analogy, I believe, lies the significant meaning of stabilizing as applied either to agriculture as an industry, or to prices of agricultural products. Properly interpreted, it implies no dead level of monotony, no substitution of static for dynamic conditions. It promises no complete evenness of keel, no horizontalization of prices or incomes. Rather it implies reducing the economic strain and wear and tear that are caused by the economic forces that correspond to the hills, the curves, and the bumps of the highways and byways. We are in need of more stabilizing equipment for our economic machine. How far can co-operative marketing associations supply such stabilizing factors?

No complete answer can be given, and the answer must be different for different types of commodities. In the case of perishable fruits and vegetables, there are three main opportunities for exercising a stabilizing function. One is in distributing shipments of the product among the different markets with accurate reference to current market requirements, in such a way as to prevent gluts and shortages in individual markets. A second opportunity lies in appropriate sorting, grading, and packing, primarily with a view to reducing spoilage and increasing the appeal to consumers, but also with a view to rejecting from shipment products of inferior quality, especially when the crop is large. A third opportunity lies in the utilization of variable portions of the crop in manufactured products made in the producing territory, as a means of avoiding extreme variations in supplies for the fresh market. A few co-operatives have done remarkable things in

those directions, but a great deal more remains to be done even by these, and by many others.

In the case of milk a flexible distribution of the product among various uses is of great promise, aided by price systems that put a premium on lessening the variations in the supply in different parts of the season.

In the less perishable products the opportunities for such stabilizing influences are less, but still considerable. The time will probably come when the price shock occasioned by a large crop of potatoes will be lessened by condemnation of larger portions of the crop to inferior uses in the producing territory, rather than shipping the whole of the harvested crop to market. It is quite possible that even for wheat a similar discrimination, varying in each crop year, between wheat for milling and wheat for feed, could be made to the advantage of the wheat grower.

Something of a stabilizing character can doubtless be accomplished through adjustment of the market flow of non-perishable products, such as cereals and dry beans. But it is easy to exaggerate the possible gains and to underestimate the risks and possible losses from such operations. Recurrent seasonal tendencies, in the case of several of these important products, are far outweighed by other factors bearing upon prices. Even the seasonal tendencies are not the same after years of small crops as after years of large ones, or with different distributions of the crops by types and regions. "Orderly marketing" therefore gives no simple formula, such as selling in fixed monthly instalments, uniform or graduated. It requires constant adjustment of the marketing program in the light of the fullest knowledge obtainable, used with shrewd, trained judgment. There is some danger that co-operatives, able to borrow more easily than heretofore, may be over-inclined toward a holding policy that can easily wreck them.

One of the greatest stabilizing influences that could be exerted is through influence on the amount of acreage sown and the type and quality of seed used. Planting is under the control of the farmer, whereas Nature largely determines variations in yields. Past experience does not give much basis for the hope that co-operatives alone can greatly influence the amount of acreage planted, even by their own members. A much more widespread and far-reaching effort is necessary. But the co-operatives should certainly range themselves among the agencies that seek, by education and otherwise if possible, to influence this important factor in a way to promote essential adjustments of supply to demand. There are also possibilities of far-reaching adjustments in livestock production, in which the co-operatives may have a large part.

When it comes to what are sometimes called "major stabilization operations," undertaken in emergencies and involving special withholding of supplies for periods of months to a year or more, co-operatives are not, as a rule, the appropriate agency. Such experiments—for we must still regard them thus—are authorized by the Agricultural Marketing Act, and special machinery for them is provided. The true objective of such operations is not price-pegging or price-fixing; it is rather a cushioning of extreme price declines, and particularly the prevention of a degree of decline unwarranted by fundamental conditions of supply and demand; it necessarily implies subsequent moderation of extreme fluctuations upward as well. Limitations upon the possible success of such measures, and improvements in their mode of application, will be clearer as experience with them develops; but we cannot expect of them either the horizontalization of prices, or a substantial increase in the level of farm prices, or even a fully satisfactory solution of emergencies. The co-operatives, however, can rarely afford to undertake these experiments; their

responsibility in connection with the formation of stabilization corporations is heavy enough.

The country looks to the co-operatives, as I have said, to be an important and increasing factor in solving our manifold agricultural problems. It has set up the Federal Farm Board with special instructions and powers to aid the co-operatives in living up to these expectations. The board is hard at this task. Co-operative members, leaders, and staffs are facing theirs. But the country does not expect the co-operatives to carry the whole burden of raising the status of farming and farmers. Large problems of land policy, taxation policy, production adjustments, and others, lie either partly or wholly outside the scope of co-operative marketing associations. Their solution by other agencies is no less essential than improvements in marketing. The task is a formidable and challenging one. It is one that calls not only for serious effort and an abundance of wisdom, but for time and patience as well.

XI

SOME PROPOSALS FOR DEALING WITH WHEAT SURPLUSES*

[August 1930]

Careful examination of the present wheat situation, the developments that have led up to it, and the outlook for the next few years, has led the Federal Farm Board to the conclusion that substantial readjustments in wheat acreage in addition to economies in wheat production are necessary if wheat growing is again to be profitable over a period of years.

The suggestion of cost-cutting is not unwelcome; it is only a question of how to do it, and how far it is feasible. Advice to contract acreage as a means of reducing wheat production, however, meets some opposition. American farmers characteristically prefer expansion to contraction. Sensible though it would seem to correct a price-depressing surplus and a persisting tendency to overproduction by taking steps to reduce production, contraction of wheat acreage seems distasteful to many. It is natural that the question should be repeatedly asked: Isn't there another way out that would be easier and better?

Various proposals have been made for dealing with the matter in some other way. Earnest consideration has been given to these alternative proposals. A few have been pressed so vigorously that they deserve brief discussion in connection with present wheat policies.

There are some who ask: "Why bother? Won't the present surplus take care of itself as it always has?"

* Prepared by the author as chief economist of the Federal Farm Board, and issued as Information Release No. 43, Aug. 12, 1930, in the midst of the board's "educational campaign" to persuade farmers to curtail wheat acreage for the crop of 1931.

The first answer is this: The surplus wheat production has not taken care of itself in the past few years. The surplus has kept piling up. A series of charts of visible supplies of wheat—United States visibles, North American visibles, or world visibles—shows plainly that in each of the past five years the totals have risen. The same is true of total carryovers in the United States, including stocks on farms, in country and terminal elevators, and in mills. World carryovers reached huge proportions after the bumper world crop of 1928. Now—even after last year's moderate crops in the United States and Australia, very short crops in Canada and Argentina, and a 1929 world crop over 500 million bushels less than the big crop of 1928—this year's world carryover of old wheat has apparently been reduced by only around 100 million bushels, taking account of estimated reductions in unreported stocks in Argentina and Europe. The surplus wheat production has not taken care of itself yet.

The second answer is this: The surplus will eventually take care of itself, in some way, as it always has, if we let matters alone. So will the farm problem solve itself, in some way, if we simply let natural and economic laws take their course. But are we satisfied with these kinds of solutions? The passage of the Agricultural Marketing Act and the establishment of the Federal Farm Board show that the nation is committed to serious attempts to improve upon this brutal natural solution. Letting the wheat surplus take care of itself means two things: prices depressed to such low levels that large quantities of wheat are diverted to feed uses, and that large numbers of farms and farmers will be forced out of business, at heavy loss. This is the "natural" solution of the wheat surplus, but it is obviously one to be avoided if at all possible.

We might treat diseases in the same way. If we let them

alone, Nature would take its course—killing some victims, exhausting others, sparing some. Somehow we don't believe this is a good way. Instead, we practice preventive and curative medicine; we try to prevent the occurrence of disease, and to check its course when it occurs. The essence of sound medicine is to get at the causes of disease, to seek to prevent their activity, and to hold them under control once they become active. The Farm Board would fail in its duty if it did not look in the same way at the causes of the present surplus condition and of its tendency to persist or grow worse, and if it did not take steps toward holding these causes under control. The cause here is overproduction, in the sense that more has been and is being produced than can be disposed of at prices remunerative to the growers. An obvious major element in the treatment is to get at the source, and reduce production through curtailment of acreage. This is no simple matter. It requires different kinds of adjustments in the different wheat-growing areas. But it seems clearly preferable to make these adjustments than to go through the pains of forced contraction through farm bankruptcies.

Of the numerous proposals for other methods of positive treatment, four merit brief consideration here: (1) that the board get the Grain Stabilization Corporation to buy up 100 million bushels more wheat; (2) that we enlarge our domestic wheat consumption for food; (3) that the surplus be shipped to the starving or undernourished people of China and India; (4) that a general policy of export dumping be adopted, at the expense of the Treasury, the farmers, or the consumers.

The board has not failed to give serious consideration to all of these proposals and more. But it has been unable to escape the conclusion that none of them promises much if any real advantage; none goes to the root of the difficulty; none could afford an adequate remedy.

1. The purchase of 100 million bushels of wheat might raise prices temporarily for those farmers who are now in a position to sell. But it would accelerate the movement from the farms; it would cut down our exports at the very time of the year when our wheat meets the least competition from other exporting countries; it would materially increase the congestion at terminals and the price spread between the farm and the terminal; it would not permanently raise the level of wheat prices, for this wheat would have to be sold sometime; it might even depress wheat prices in world markets through increasing the amount in the visible supply; it would discriminate against those farmers who have already sold and those who are not yet ready to sell. Under conditions as they have recently existed, the adoption of this proposal would intensify some of the effects of the wheat surplus without leading to any real solution.

2. There is no reason to expect any material expansion in domestic consumption of wheat for food. There appears to be little undernourishment in this country that is traceable to absolute insufficiency of food. Even when farm prices of wheat are high, bread is a relatively cheap foodstuff, in spite of high costs of distribution. People eat very much the same amount of bread regardless of the price. We consume for food about 4.2 bushels of wheat per capita annually now as compared with nearly 5 bushels before the war. This decline is due very largely to deep-seated causes—better housing and heating, and reduced manual labor; higher general prosperity, making possible more varied diets; and increased consumption of other foods, notably vegetables, dairy products, and sugar. On the whole, these changes have been beneficial, and it would not be in the national interest, or even in the farmer's interest, to reverse them if we could. There is a sound basis for correcting false propaganda against white bread, which

may have had some influence in reducing wheat consumption. There are other legitimate ways in which efforts to increase consumption of wheat products may be made. Such efforts can best be made by private interests, for it is hardly feasible for the Farm Board to push the consumption of one farm product in competition with other farm products. But there is no ground for expecting such efforts to make any marked difference in the consumption of wheat for food.

3. Those who have urged extensive shipments of wheat to India and China cannot be in touch with the situation in those countries. So far as India is concerned, the main difficulty is that India herself has a crop this year far above her usual domestic requirements and is an exporter of wheat. Prices of wheat in India today are comparable to those in this country. It is true that many of her people are undernourished even in years of abundant crops. This condition is due to low purchasing power, rather than to limitations of food supplies. It is not a condition to be remedied by sporadic or persistent dumping. If we undertook to ship wheat to India this year, of all years, it would be a striking example of "carrying coals to Newcastle." It would also depress prices to Indian wheat growers, and presumably be vigorously resisted there.

There are some areas in China that have suffered severely from famine during the past two years; but they are far in the interior, exceedingly difficult of access from the coast. Even during the past year, the problem has not been a shortage of wheat in China. As usual, it has been a problem of distribution within the country. Internal disturbances, deficient railway transportation, and low purchasing power have been and remain the major obstacles to relief of famine in regions where it exists. The American Red Cross, our national relief organization, has investigated the Chinese famine situation and found it impractical and inadvisable to attempt to cope with it

under existing conditions. Other relief agencies have been able to accomplish exceedingly little even at heavy cost. The Farm Board is neither organized nor empowered to act in this capacity.

Even the famine areas in China are now harvesting crops sufficient for current needs, though probably not for the year as a whole. Eastern China, however, is considered to have the best wheat crop in years. Within recent weeks native wheat has sold in Shanghai, an important milling center of central China, at the equivalent of 80 cents a bushel or less. This is in spite of impaired transportation facilities from the interior. In some wheat-growing sections of northeastern China wheat has been selling as low as in western Kansas. Supplies for the deficit areas could be obtained in these sections at about half what it would cost to buy wheat in our Pacific Northwest and ship it to corresponding railway points. To ship large quantities of wheat to China under present conditions could hardly be regarded as intelligent policy, even as a relief procedure.

4. The export dumping idea has had a tenacious hold on the popular mind. It was strongly urged in the equalization-fee form and again in the export-debenture form. The principal trouble with it is that it would work out in a manner quite different from what its proponents expect. As the chairman of the Farm Board has repeatedly emphasized, such export subsidizing or dumping would presumably be met by countervailing duties or other defensive measures on the part of importing countries, which would largely defeat the price-raising purpose. But there is another important reason. In such conditions as have prevailed during the past year and now prevail, any stimulated pressure of our surplus on the world market would greatly depress world market prices. The market has been narrow and exceedingly sensitive. If an extra 50 or 100 million bushels were pressed upon it, prices could

easily drop 20 cents a bushel, thus defeating the very purpose of such a measure. Even to meet the declines in prices during the past year, several countries have raised their duties to high levels. Countries which have no anti-dumping laws would either enact them, or impose new duties, or increase existing ones to protect their growers against this action on the part of a great wheat-exporting nation.

There is no single solution for the wheat growers' problem. The extraordinary drought this year will undoubtedly divert unusually large quantities of wheat to feed use, and thus reduce the surplus for export; but few wheat growers can afford to grow wheat regularly as a feed crop. The Farm Board will continue to give serious consideration to plausible suggestions for helpful action. But careful study of various proposals reveals how ill-founded or inadequate most of them are, and how disappointing they would prove if they were tried; and it leads back to the view that, for wheat at least, an essential major remedy for a persisting overproduction is adjustment in acreage and production.

XII

THE PROGRAM OF THE FEDERAL FARM BOARD*

[December 1930]

The groundwork of the program of the Federal Farm Board is laid in the Agricultural Marketing Act. The board's position, its policies, and its progress during the first year are set forth pretty comprehensively in its first annual report to Congress. This has been called an "honest, candid document." It embodies the board's critical review of its own early experience and it furnishes the background for what I have to say.

THE BOARD AND ITS TASK

The Federal Farm Board is not set up as a regulatory and supervisory body, like the Interstate Commerce Commission or the Federal Reserve Board. It is not primarily a body for gathering and disseminating facts, which are major functions of the departments of Agriculture and Commerce. It is not an investigatory body, like the Tariff Commission or the Federal Trade Commission. Assembly, analysis, and interpretation of facts; investigations, more or less prolonged; examination of proposed policies with reference to their probable working—all these are essential to the prosecution of the board's task. But it is expected to act, not merely to study or furnish information; experience—even experimentation in a sense—is part of its job; and to a considerable extent its policies must be hammered out on the anvil of experience.

The program of an operating organization is a working

* Address before a joint session of the American Economic and Farm Economic Associations in annual meeting in Chicago, Dec. 29, 1930. Reprinted, by permission, from *American Economic Review*, March 1931, XXI, Supplement, pp. 104-13.

plan of action, definite for the short run, varied with respect to divergent conditions in the field of operations, subject to development with experience and to modification as conditions change. This is the case with the Farm Board's program. It would be too much to expect of the board, even after a year and a half, to have perfected a program that would be adequate to insure the attainment of its objectives. The program is of necessity a developing plan, and we are primarily concerned with the nature of its development.

The goal which Congress set up for the Farm Board was the placing of agriculture "on a basis of economic equality with other industries." Some may find this broad statement adequate and comprehensive, but its precise content is not readily apparent. I shall not undertake to elaborate its meaning, though I wish that some of you would try your hand at this task. But I think it is not going too far to say that Congress really charged the board with taking the lead in working out and applying, with assistance from many other agencies, the solutions for serious problems that American farmers have faced and are facing. The task is no less than to develop and carry into effect, in concrete details, a sound agricultural policy for the United States, looking to Congress for sanction of such elements in this policy, as it develops, as may not be afforded by existing legislation.

Viewed as a goal for prompt achievement, this is an impossible task. Tested by its early experience, particularly in a year of drastic business recession, the board's efforts could not help but disappoint high hopes that many entertained when the Agricultural Marketing Act was passed. The job is far too big at present for the board, or any of its members, or its staff. But there is the hope that the board may grow up to this task, gaining wisdom from within and without, gradually bringing clarity of thought out of confusion and a coherent program

out of a welter of conflicting ideas, mobilizing abundant but hitherto ill-organized forces so as to bring far larger powers to bear upon the agricultural problems that confront the nation. Mistakes, even large and costly ones, may be made. Every successful business corporation has this experience. The important question is whether the board can profit by its mistakes, make fewer and fewer as it proceeds, wring out of its study and experience increasingly wise plans of action, and apply them with increasing effectiveness.

The Agricultural Marketing Act is in general permissive, not mandatory. Congress plainly expected the board to act vigorously, but did not prescribe a fixed and definite program. In addition to the broad objective, certain intermediate objectives are mentioned—minimizing speculation, fostering co-operative marketing by farmers, stabilizing the marketing and prices of farm products, prevention and control of surpluses. The act fixed certain limits within which the board should work. It charged the board with making certain investigations and educating in the principles of co-operative marketing. It authorized appropriations for a revolving fund of half a billion dollars to be loaned to qualified co-operatives on easy terms, in any one of several ways, all at the discretion of the board. It gave authority for doing several other things if in the board's judgment they would help in attaining the major objectives. The responsibility upon the board is far heavier because of the wide leeway given to it under the Agricultural Marketing Act.

Congress did not even incorporate in the act, in mandatory fashion, any measuring stick of achievement, such as the ratio-price provision of an early McNary-Haugen bill. Nor did it prescribe any major device for remedying agricultural ills, such as the equalization fee plan or the export debenture scheme. The nearest approach to this lay in emphasis upon

the development of co-operative marketing associations, not as an end in itself but as a major means to the end. So pronounced was this emphasis that faith in large possibilities of co-operative marketing, as a form of business organization and a medium for organizing farmers for more effective production control, was a virtual prerequisite for membership on the board, and experience in co-operative marketing was an important though not essential qualification for membership. Of necessity, therefore, the board has regarded this responsibility as fundamental. A large part of its energies and those of its staff—in particular of its Loan Division and Division of Co-operative Marketing—has been devoted to this primary task.

The charge has not been interpreted to require heterogeneous support of any and all associations that can claim to be co-operatives, or guileless faith in co-operative marketing as such. The board's efforts have been directed toward building up producer-owned, producer-controlled co-operative marketing organizations, soundly organized, wisely led, that have the promise of becoming business organizations of the highest standing. No uniform plan of organization has been insisted upon. Variations in plan and policy appear in the different associations, either because of divergencies in conditions or because of desires of co-operative groups. For most of the major commodities and some lesser ones, national commodity co-operatives, made up of regional, state, and local regional associations, are now in operation. In other cases, where conditions do not seem to warrant such organization, or where existing co-operatives do not yet see the way clear to such association, no nationals have been formed.

The board has expressed its gratification at the progress made in this respect and its confidence in the ultimate outcome. Yet it is under no illusions that the mere establishment

of such agencies is the end; it is but a beginning. Business organizations gain strength by experience. Co-operative organizations require experience to grow in strength and wisdom as well as in size. The board has a weighty responsibility for aiding in the maturing process, by guidance as well as by financial assistance. The process is not one to be completed in a few months, and no one can expect it to be smooth, easy, or at once completely successful.

Important as the board considers the perfection of machinery for co-operative marketing, it regards as also of outstanding importance radical improvements in the adjustment of agricultural production, in quantity, quality, costs, and balance, to actual and prospective ability of the market to absorb the goods produced. Surplus prevention is fundamental to surplus control. While recognizing possibilities of increasing market outlets, in certain directions, it considers that far more effective adjustments of supply and cost must be made if agricultural operations are to be more profitable and agricultural stability enhanced. Important elements in its program are directed to this end, and it is in this field that the program stands in special need of further development.

The Department of Agriculture has developed a valuable outlook service for farmers. The board has bent its efforts toward strengthening and improving this service. It has effectively thrown its weight on behalf of the enlargement of the foreign agricultural information service and more effective co-ordination of the foreign reporting work done by the departments of Agriculture, State, and Commerce. It is co-operating in the analysis and interpretation of this information, for the available information is already far greater than is being effectively utilized. It is stressing the importance of a longer look ahead—planning not for a few months or a year but for a period of years. Last summer it co-operated in the

preparation of a long-range outlook for wheat. Lately the same has been done in the case of cotton, and the board is just issuing a bulletin of its own which supplements the Department of Agriculture publication. The board is reinforcing the work of the federal and state extension services in bringing the outlook information home to producers. Already a considerable impetus has been given, and it has much farther to go.

Among the grounds for convictions as to the importance of farmer co-operatives is that, through these organizations, scattered individual growers may become keenly aware of the importance of adjusting production to prospective market demand, and be able to act in organized fashion to these ends. Few co-operatives have developed to a point where they are yet serving this purpose effectively, but the board regards it as one of the most important functions that they can hope to perform. Had Mr. Stone¹ been here, he would have elaborated this point and indicated how in his opinion, at least in certain fields, well-organized co-operatives, working in harmony with processors, can be expected to insure adjustments of supplies at reasonably stable prices such as will return profits to the efficient grower, but not so high as to tempt the marginal farmer, the in-and-outer, to enter and disturb a rational production program.

The board does not pretend to have mastered this problem of readjustment. Its ramifications extend almost infinitely. We have not seen all of its implications, and we do not yet know how to deal with all that we do see. Yet already significant progress is being made. In some particulars, notably with respect to land policy, the program is in too early a stage of development to be set forth. The board needs all the ideas

¹ Mr. James C. Stone, vice-chairman of the Farm Board, whose place on the program the author took on short notice.

and assistance that members of these associations, scattered throughout the country, can render in working out the right program and carrying it into effect.

One of the most important points in this connection is that farmers and farm leaders are coming more clearly to realize certain important truths. Farm Board or no Farm Board, co-operatives or no co-operatives, there is no panacea for agricultural ills, no magical device for insuring attractive prices regardless of the volume and costs of production. Too much attention has been directed to prices; far more important are net returns, and not simply in a single year, but over a period of years. The full burden of responsibility for inadequate farm income cannot be laid at the door of middlemen, or speculators, or foreign producers, or the tariff, or railway charges, or costs of distribution, or all of these combined. Only as farmers can see their way clear to making essential readjustments in their own production and production methods—readjustments appropriate to their particular environment—can substantially higher levels of farm incomes per farmer be secured. The Federal Farm Board does not expect to tell each farmer what he must do to be “saved”; indeed, it has come to realize that even the soundest general advice may be misinterpreted, misapplied, or inappropriate in particular cases. It is, however, vigorously seeking to put farmers in a much better position to make readjustments that are essential to their progress.

Another central feature of the policy of Congress, as expressed in the Agricultural Marketing Act, was the emphasis on stabilization. The concept was not explicitly defined, and the means to be employed were not prescribed in detail. I refer you to the board’s first annual report for a discussion of this big subject. It has taken the position that stabilization implies the introduction of numerous stabilizing devices, but

that "major stabilization operations," involving resort to stabilization corporations, are to be regarded as exceptional. It recognizes certain dangers in such operations, and considers that the whole procedure must be tested before final judgment on its scope and limitations can be passed. In my subsequent remarks I shall make a few references to stabilization operations, but I wish now to turn to another topic.

THE BOARD AND THE ECONOMISTS

The board is alive to the fact that it has to deal with large, complex economic problems and that it must take economic forces intelligently into account. It enjoys invaluable co-operation from the Department of Agriculture and other federal agencies. In addition, however, the board felt the need of developing an economic staff of its own—in part to make the most effective use of resources and co-operation from other agencies; in part to make appraisals and forecasts upon which current decisions might be based; in part to study its own experience and aid in the development of its policies; and for various other purposes. On leave of absence from my regular position, I have been trying to develop this work for the board and to build up a staff capable of carrying it on.

Part of our job with the board has been to show by actual performance that economists are not hopelessly theoretical and hypercritical, but can grapple discriminatingly with urgent concrete situations; that economists can work through to certain reasoned conclusions, and not stop with summing up sets of facts and arguments, or get lost in masses of detail; that economists can learn to talk and write, and summarize what they have to say, in such a way as to be intelligible to busy men. In endeavoring to prove these things we have had to change some of our leopard's spots, and are learning much in the process. I have recently taken comfort from the re-

mark that if I stay around long enough I may turn human after all.

I will not pretend that this staff has furnished the basis for all of the board's policies or decisions, many of which were in fact determined upon before the Economics Division was even in embryo, or that we have approved all the measures that have been taken. Obviously this is not the place to go into details of difference. Three things, however, should be said. First, in my university experience I have never found myself in complete harmony with university and departmental policies; it would astonish me if I were in full agreement with all that the Farm Board has said or done or if the board accepted all of our work at our own valuation. Second, it is not safe to infer that the course of developments would have been eminently satisfactory if the board's economic staff had, at all points, determined that course; for economists themselves, inside the board at least, are fallible, do not invariably agree among themselves, and have much to learn from men of other sorts. Third, we are encouraged to exercise initiative, and to deal with the board freely and frankly, in ways that are stimulating to serious efforts. The board is apparently convinced that a selected group of economists, who will concentrate, at once scientifically and realistically, upon the problems with which it has to deal, has much to contribute to its progress. It has gone far in approving the upbuilding of an economic staff, and is increasingly relying upon us for economic counsel as well as assistance in other forms.

There is room for further development of these functions. It is, however, not the policy of the board to magnify its economic staff to the extent of displacing other agencies. On the contrary, it is the aim, in every way possible, to increase the board's reliance upon other agencies, federal and state, public and private, and individuals as well.

The board welcomes the serious consideration of its policies, program, and particular measures by the trained economists of the country. It expects criticism, is not afraid of it, and intends to profit by it. The board values discriminating analyses by outsiders of the basis of its policies, the direction in which they lead, and alternatives that have been or can be suggested. There has been some of this already, but not nearly enough. The board hopes that economists will not content themselves with silence, or with knocks or boosts, in public or in private; but that they will, in good spirit, bear a part of the burden of working on the important problems in hand. Members of these associations can, if they will, exert substantial influence upon the board's course of action.

May I take the liberty, however, of suggesting a few things to you in this connection?

You are sometimes amazed, no doubt, at the way in which members of the board make statements on large matters of fact or policy, apparently without the degree of consideration which you think the matter deserves. May I say that I am likewise amazed at the freedom with which economists of repute, with less excuse, deliver themselves of opinions or judgments for which the foundation is exceedingly flimsy? To save time and avoid controversy, I forbear to cite illustrations. But I wish that more of you might run the gantlet of having to present your criticisms, analyses, and proposals to those who need tests of their accuracy and must take the consequences of decisions based upon them. It is, I assure you, a sobering and wit-sharpening experience.

Further in the interest of a tolerant spirit, let us frankly admit that hindsight is usually wiser than foresight. The board must make its decisions as best it can on the basis of analyses and forecasts. Errors made in analyses and forecasts may render decisions inappropriate and lead to unwelcome con-

sequences. We are seeking to perfect the bases for far-reaching decisions, and to learn from past errors. We welcome your aid in this task, and want to profit by your own progress.

May I ask you further to realize that the board of necessity must grapple with actual situations? It must decide not merely between alternative courses of action; it must decide, often quickly, without the fullest opportunity for study and reflection, between action and inaction. It must face the consequences of such decisions. In viewing its policies, therefore, you do well to put yourself in its place. It is not enough to argue that an action was followed by unsatisfactory results. The results may have occurred not because of but in spite of such action; and economists, of all people, should be the last to fall into the common error of reasoning *post hoc, ergo propter hoc*. Even if results that followed from a course of action were unsatisfactory, it is hardly enough to stop with proving this; it is desirable to show that the results of inaction, or of a different course of action, would have been better. Let me illustrate with a few examples.

In October 1929 certain loan policies were adopted with respect to wheat and cotton that led into major stabilization operations the outcome of which cannot be regarded as satisfactory. Suppose, however, no action had been taken. In our judgment there is no doubt that radical declines in wheat and cotton prices would have taken place then, instead of later; that these declines would have been credited with heavy responsibility for the stock market crash, severe breaks in commodity prices in general, and extreme business depression. The actions taken did not prevent these disasters; but had the board refused to exercise its powers in efforts to meet the situation, it would have suffered even weightier condemnation for merely standing by.

Granting that with truer analysis of the situation and wiser

handling of it, results might have been better, let us recall that the great piling up of world wheat stocks, which so seriously complicated the wheat situation last year, occurred before the Farm Board was ever established, and that the causes of the world-wide business depression are far too numerous to be charged to the board.

Moreover, let us see what might have happened if the Farm Board had had the power to apply the export debenture plan in the fall of 1929. That was a year, like the present, in which the outstanding characteristic was a large excess of exportable surpluses of wheat over what importers were willing to take at any price. The theory of the debenture plan is that domestic prices would be raised by bidding up for export. To enhance the domestic price would have required a very substantial increase in our exports. But any such addition to export pressure as we are seeing in striking fashion this year in wheat would have caused disastrous declines in world wheat prices, and caused the wheat pressed into export to fall to exceptional discounts under other wheats. In the fall of 1929 it did not take huge supplies of Argentine wheat to break the international market, pile up unsold in European ports, and sell at extreme discounts under other wheats. This year Russian wheat has done the same. Had our exports been stimulated by an export debenture scheme in the fall of 1929, Canadians would have been forced to sell freely, and the resulting competition could easily have depressed prices in Liverpool to well below a dollar a bushel. With a special discount on our wheats, Chicago prices might have dropped to ninety cents or less in spite of the differential advantage of the debenture and even if no directly countervailing action had been taken.

I cannot argue the matter here at length, but I wish to express my conviction that the past year would have been much

more disastrous to American farmers, and the present one no less difficult, if the debenture plan had been put in operation; and that not only the plan, but the Agricultural Marketing Act and the Farm Board itself, would have been discredited in the process. The Treasury burden of the plan, moreover, would have been greater than all the losses that may be chargeable to the board's operations in comparable periods.

The board's policy of urging reduction in acreage of wheat and cotton has not received the respectful consideration from economists that it deserves. Suppose the board, like Australia, had urged expansion of acreage, would this have been wiser? Suppose it had failed to take a long look ahead, and to call attention to tendencies which have borne fruit all too soon, would farmers have been better off?

The wheat stabilization measures recently adopted are the most conspicuous in the board's immediate program. They represent an extreme type of action, taken in what was deemed a national emergency. By operations of the Grain Stabilization Corporation in wheat, our wheat prices are being held fairly stable, above export parity, while world market prices have sharply declined. The policy was not adopted until our best export period had passed, until a disastrous drought had increased domestic requirements for wheat, until wheat prices had fallen to levels making extensive feed use certain and not encouraging to expansion of wheat acreage, until the world wheat picture had become clearly defined. Admitting risks in the operation and uncertainties as to the outcome, let us see what refusal to act would have involved. Even with the world market largely relieved of pressure from our exports, Liverpool prices have declined to nearly twenty cents under Chicago, whereas, if we were liberally exporting, Chicago would be ten or fifteen cents below Liverpool. Prices of wheat in this country today would be at least thirty and probably forty cents

lower had the Stabilization Corporation not gone into action. I submit that the consequences would have been far-reaching and serious.

The day of realistic economics is here. This does not mean eschewing theory and becoming slaves to so-called facts. It does not mean abandoning hard, close reasoning, fertile hypotheses, clear-cut concepts. It does not mean becoming devotees of statistical method, to the exclusion of theoretical analysis. It means the concentration of all available resources of fact and technique upon the solution of problems of economic policy, public and private, and making the results available for actual application. Granting that this is not the whole field of the economist's efforts, the opportunities for such work on the part of economists are almost unlimited. So long as we economists are not measuring up to our possibilities in these regards, we must share the responsibility for defects of legislation and administration. Let us not spend so much time in pointing out the shortcomings of others that we make no contribution ourselves.

In conclusion, then, the board does not solicit your casual endorsement of what it is doing. It welcomes your best appraisal of the ideas that it expresses, the measures that it takes, the aims that it avows. It also counts upon your efforts on the outside to supplement what the board and its own staff are striving to do. It desires your understanding and, if possible, sympathetic interest in its efforts, but most particularly the best aid that you can give in guiding its course most effectively toward the ultimate goal. I venture to suggest that you do not sit in the seat of the scornful, adopt a tone of antagonism or condescension, or assume a cocksure attitude that carries its own condemnation. Rather let me urge that you recognize in the board an intelligent, earnest, live body, often misguided but nevertheless capable of learning, admittedly not yet up

to its job, and with a program still in the making; and that in a constructive spirit you will make your own important contributions toward the wise development of its policy and program.

NOTE.—Like the two preceding chapters, this paper was written while the author was serving as chief economist of the Farm Board. Another written from the “inside,” omitted here because more or less overlapping the chapters in the present group, is “The Case for the Agricultural Marketing Act,” *The Annals* of the American Academy of Political and Social Science, May 1931, CLV, 56–64. This, by request of the editor of *The Annals*, was prepared as a contribution to a two-sided discussion. The author presented it “not as a lawyer’s brief but as an economist’s interpretation, a case for an act which is properly the subject of wide public interest and great controversy.”

IN EXTREME DEPRESSION
1931-1933

XIII

INTERNATIONAL FACTORS IN THE AGRICULTURAL DEPRESSION*

[December 1931]

Whether or not American farmers had their fair share of the national income in the "prosperity" years 1925-29, there is no doubt that they have experienced acute depression in 1930-31. This is reflected in drastic declines, to extremely low levels, in prices of almost all farm products, in the wholesale markets and even more at the farms; in marked reductions in farming income and farmer buying power; in frozen assets of country banks; in delinquent taxes and interest payments; and in foreclosures of farm mortgages and bankruptcies among farmers.

Our situation is not unique among the nations. Indeed, severe agricultural depression is practically world-wide. It varies only in degree in different countries, and in different sections and among different agricultural groups in the same country. It exists in free-trade England, Holland, and Denmark; in protectionist Germany, Italy, and the United States. It exists in countries that are net importers of agricultural staples as well as among those that are net exporters. In the United States it is substantial not only among farmers who produce cotton, wheat, and other commodities of which we have a large export surplus, but also among those who produce wool, flaxseed, sugar, and other commodities of which we are net importers and on which we have high tariffs in force.

* Address before the Institute of International Relations, Riverside, Calif., Dec. 14, 1931. Reprinted, by permission, from its *Proceedings* (Copyrighted by the University of Southern California, Los Angeles, 1932), VIII, 159-63.

It is pertinent to ask, What caused this general catastrophe? Certainly no single factor is responsible. As usual, many interacting causes have been at work, and time does not permit me to touch upon all of them.

In the more immediate sense, it is fairly well established that a major cause of this severe agricultural depression, like that of the 1890's, is the great reduction in demand that accompanied and followed in the wake of reductions in employment, shrinkage in buying power, and caution in spending; in other words, the world-wide industrial and commercial recession that began in 1929 and has continued through 1930 and 1931. Even with farm production and many other conditions the same as they have been, the agricultural depression would have been much less severe if no industrial recession had occurred, and if that had not gone so far as to provoke a series of financial crises that have intensified the depression.

All the factors that have helped to bring on the crisis and depression in industry and trade must therefore be regarded as in part responsible for the present agricultural depression, and in major degree for its acuteness. If I pass over these factors here, it is only because it would take us too far afield to discuss widespread industrial maladjustments, overextensions of credit, reparations and intergovernmental debts, errors in national and international monetary and credit policies, and the like.

Most of the more specific factors that have brought on the present agricultural depression may be called "international," at least in a broad sense. A few I shall mention briefly.

1. Recovery from devastation and disorganization in Europe led to remarkable increases in European agricultural outputs. This not only facilitated expansion in per capita consumption of agricultural products there, but lessened Eu-

rope's dependence upon exporting countries for wheat, meat, lard, sugar, and other foodstuffs.

2. Science and enterprise played a major part. There has been a remarkable increase in productivity and a lowering of real costs in agriculture and animal husbandry since the war. Technical developments have made possible expansion of wheat areas, with tractor and combine and dry-land farming. Improvement and cheapening of oil production and the automobile and truck have led to great contraction in numbers of horses and mules, and in feed requirements for work animals. Less feed is required to produce a unit of meat and milk than formerly.

3. Prosperity itself played a part. High wheat prices, particularly in 1924-25 and 1925-26 but even in the next two years, stimulated expansion of wheat acreage in many countries. Greatly increased consumption of dairy products, and of fruits and vegetables, fresh and canned, were made possible by that prosperity, yet drew but little upon acreage devoted to great staple products; and when incomes were reduced, the demand for these products was easily curtailed.

4. Inertia of farmers has played a part. Expansion by wide-awake, thrifty, and enterprising farmers has not been fully offset by contraction of those less able to keep up with the procession. Many farmers have been unable to lower their costs and are driven to the wall, yet many of these have "stuck it out."

5. Population, moreover, in most countries outside of Russia, has been growing at a slower rate in recent years, and per capita food requirements have been declining as work has been increasingly mechanized and housing and clothing standards raised. Man's wants, taken as a whole, may be insatiable, but men's stomachs have a limited capacity. Partly for this reason consumption of farm products has tended to

expand less rapidly than production, for these invisible changes have not been clearly recognized.

6. Finally, Nature herself played an important part. In 1928 the world harvested a huge wheat crop, well beyond consumption requirements. When large amounts were held over from this crop, they proved difficult to dispose of because European importing countries happened to have excellent crops of all sorts in 1929. Excellent yields in 1930 made possible Russia's return to the ranks of major exporters of cereals in the midst of surplus supplies and curtailed demands.

These several interacting forces made inevitable an agricultural depression of some degree, as compared with the levels of 1925-29. It has been intensified, however, not only by industrial and financial crises, but by certain national policies that have gravely affected international trade in farm products.

Tariffs have been an important factor in two ways. As in the case of tariffs on manufactured goods, tariffs here and abroad have both overstimulated production of various farm products and limited the expansion of consumption. Wheat production in free-trade England has declined in the past decade. On the continent of Europe, on the contrary, where protection of wheat growers has been increasingly strong, wheat acreage and production have expanded. Our own tariffs on wool, mohair, beans, sugar beets, flaxseed, and other farm products have been raised for the benefit of our producers, have temporarily given them advantages, but have reacted like a boomerang upon them by accentuating the development of world surpluses of these products. Farmer spokesmen complain bitterly of tariff ineffectiveness because they cannot see the tariff duties reflected in farm prices. It is because tariffs are *effective* on production and consumption that it

is a grave question whether, in the long run, their beneficiaries are really benefited.

Especially in the past two years, tariffs have been reinforced in Europe by stringent but flexible regulations of imports, milling, or consumption, or all three. These have been most extensive and extreme in connection with wheat and flour. The result has been that outlets for abnormal export surpluses have been restricted and wheat consumption has been held down in a period of unprecedented abundance. The same measures have also involved a notable weakening in an important price-stabilizing force. They have seriously interfered with the more even distribution of world wheat supplies among the various countries, such as normally eases the strain imposed by large aggregate stocks.

Moreover, national measures taken not merely to aid farmers, but to improve the balance of international trade as financial positions became critical, have added to world surpluses or restricted international trade in farm products. In 1930, for example, Australia set out vigorously to increase wheat acreage and production there in the hope of increasing the value of her exports. The result was a bumper crop which not only made the world wheat situation worse but disappointed Australia's real aim, because of the very low price per bushel that her wheat brought.

Few people are aware of the reactions of certain of our national policies upon our agricultural markets, particularly abroad. Our immigration restriction policy has probably had the triple effect of reducing per capita consumption of wheat and other staples within the country, of reducing per capita food requirements through stimulating the mechanization of industry, and of reducing the ability of certain foreign countries to pay debts to us and to buy our products with the aid of remittances from their emigrants to this country. Our

prohibition policy has reduced our purchases of wines and distilled liquors from Europe. The subsidized expansion of our merchant marine has contributed to the world shipping surplus, and reduced our purchases of shipping services which Great Britain and other countries have been rendering to us. Our tariffs have tended to be more and more restrictive and even prohibitive, thus rendering it increasingly difficult for foreign countries to pay for our exports by shipping goods to us. The debt-funding arrangements have made it necessary for European countries to make payments to us on past debts, reducing their ability to buy our present exports. This is not to say that these policies were unwise, all things considered, or to say that they affected our agricultural exports in peculiar degree. In combination, however, they must be counted among the factors that have made for agricultural depression.

A large feature of Soviet Russia's Five-Year Plan is the expansion of wheat production and export and of cotton production for domestic use and export, regardless of the fact that the international markets have been abundantly supplied with these products by other exporting countries. Russia's success in returning to the ranks of major exporters, not only in wheat but in rye, barley, and other farm products, in a period of great surpluses of these products in international trade, has been a major factor in accentuating the agricultural depression.

There is much talk in these days of substituting national and international planning for an unplanned economy. In fact, however, we have had a great deal of planning, public as well as private. In marked degree, the agricultural difficulties the world is experiencing have been intensified by national policies, definitely planned. Unfortunately, many of these policies have not formed appropriate elements in a world economic plan. What is needed is not more planning, to

take the place of lack of planning, but planning that is broader visioned, farther sighted, more comprehensive, and better integrated. The international aspects of national planning deserve far wider attention than they have thus far received, and we may well seek to make progress in that most difficult art, now in its infancy, of international planning itself.

XIV

WHEAT AND THE WORLD DEPRESSION*

[July 1933]

We have been experiencing a most severe and protracted economic depression that has been practically world-wide. In the course of this depression, stocks of wheat have risen to unprecedented levels and have persisted at these high levels for an unprecedented period; wheat prices have fallen drastically, in exporting countries and in open world markets, to levels below the historic lows of the 1890's; in terms of goods in general, wheat has been cheaper than ever before over large areas of the world; and wheat has yielded distressingly low returns to wheat growers, except in a few countries where effectively high protection has been possible. These facts, though striking, are not new. I need not take time, here in the heart of one of the greatest wheat-producing areas of all time, to elaborate or demonstrate them.

The topic assigned to me raises the broad question, What connection, if any, is there between wheat and the world depression? By wheat, of course, I mean not the plant or grain as such, but that ever-changing complex called the world wheat situation, including crops and stocks, exports and imports, and final uses of wheat grain, and the individuals, organizations, and governments concerned with the growing and shipment, storage, financing, trading, milling, consumption, and regulation of this great basic foodstuff. The broad question really has two parts, of which the first is the more important:

* Address at the World's Grain Exhibition and Conference, Regina, Alberta, July 26, 1933. Reprinted with slight alterations, by permission, from the conference *Proceedings* . . . (Canadian Society of Technical Agriculturists, Ottawa, 1934), I, 101-7. Since this address dealt in the main with the onset and early stages of depression, it is here placed ahead of the four chapters that follow.

(1) What has wheat had to do with the depression? (2) What has the depression had to do with wheat? But before taking up these questions I feel it imperative to say a few words, by way of background, about the nature of depressions.

ECONOMIC DEPRESSIONS

Like famine and plague in backward countries, economic depressions are a form of disease characteristic of advanced human societies. The disease varies greatly in its manifestations, its course, and its virulence; but it is so contagious that a serious outbreak spreads to the far corners of the earth. From considerable experience and much recent study we know a good deal about this disease; but we have still far to go before we know fully all the active causes, the factors that render a society susceptible or resistant to it, the means of diagnosing its character in the early stages and forecasting its probable extent and intensity, and the most effective means of prevention, alleviation, or cure.

Now, this disease called a depression is primarily a social product. In ways not clearly understood, Nature plays a part in the complex processes by which depressions come about; but the major responsibility rests on man, individually and collectively. I do not mean to say that depressions are intentionally brought about by man; on the contrary, they are accidental so far as most individuals are concerned. We like to blame some devil for anything that goes wrong—Wall Street, or grain speculators, or the government, or something else. But when we come right down to it we have to admit that some of the very elements in modern society that, when well co-ordinated, are responsible for our real progress lead to depressions when they get out of balance. Discoveries, inventions, enterprise, saving, investment, speculation, organization, education, and technical improvement, faith, hope, and

ambition on the part of multitudes of men, governmental efforts to regulate abuses and advance the public welfare—all these play their part not only in progress and prosperity, but in bringing on depressions. I do not think that history or reason supports the extreme and nervous view that this severe and protracted depression, important as it is, presages the collapse of civilization unless something drastic is done to bring us out of it. But we cannot expect to attain and maintain complete equilibrium without sacrificing progress.

I speak of depressions as characteristic of advanced societies. As capital is used more and more extensively—in buildings, railroads, highways, equipment, even in research—the placing of the finished goods in the hands of the ultimate consumer is the result of a longer, farther reaching, and more intricate process. In consequence, more and more decisions, commitments, and actions are based on forecasts; and the more abundant the supply of goods per capita the longer are the periods of prejudgment, and the more extensive and complex are the conditions that are involved. Unfortunately, often these forecasts go wrong, events prove decisions unsound, commitments turn out badly, and actions expected to be profitable prove costly instead.

To some extent, of course, the disappointment of forecasts is occurring all the time. Consequently, to keep our economic machinery in good working order, minor repairs, replacements, and improvements are continually necessary. These are costly and painful to individuals and groups, but are ordinarily made without general disturbance. When, however, events conspire to disappoint a large number of forecasts, our economic machinery suffers a breakdown that becomes, for a time, cumulative. The strain of readjustment is too severe to permit smooth absorption of the resulting costs and losses. The trouble spreads from the parts that were

initially affected to almost every other part. Extensive overhauling, repair, scrapping, and rebuilding become essential. And while the breakdown and overhauling are under way, the economic machinery functions badly and we have widespread unemployment, reduced income, bankruptcies, and distress that pain the heart and challenge the intelligence.

The severity of depressions, it seems to me, depends very largely upon the number of points in the economic machine at which weakness exists; and this depends, in turn, partly upon the extent to which positions have been built up and commitments made on unsound forecasts and unsound appraisals of current conditions. Widespread acceptance of obsolete or fallacious ideas, erroneous appraisal of current facts, unwarranted confidence that trends of the recent past will continue in the near future: these render particular situations vulnerable under strain and make a society ripe for economic crisis.

Now, more specifically, we are ready to ask what responsibility for the world depression rests upon the wheat situation which preceded and accompanied it. In my opinion, the wheat position in 1929 was one of many weak elements in the whole economic situation. In the next year or two these weaknesses were discovered, numerous errors in ideas and appraisals that underlay the forecasts were laid bare, further steps were taken based on fallacious appraisals or theories, and certain new developments occurred. These contributed, I believe significantly, to bring on the general recession and to intensify and prolong the ensuing depression. In focusing your attention on wheat for the moment, I may seem to make it loom more important than I really believe it to be. Something comparable to what can be said with respect to wheat could be said with respect to a good many other commodities. It was a combination of many such weaknesses,

in different phases of the world picture in 1929, that rendered the situation unexpectedly vulnerable under the strain that came. Yet I strongly suspect that relative strength of the wheat situation in 1907-09 and even in 1921-23 helped materially to shorten the depressions of those years, and that an equally strong wheat position in 1929-32 would have favorably changed the course of our latest depression.

What, then, were the weaknesses in this wheat situation in 1929-32, and how did they arise?

VULNERABILITY OF THE WHEAT SITUATION IN 1929-30

In the middle of 1929 the world wheat carryover was unprecedentedly large—above average by over 300 million bushels. The carryover was in fact much larger than was then generally realized, for a large part of it was in three “invisible” positions: (1) in the Argentine, where the preceding crop had been materially underestimated; (2) in the Danube basin, where a good deal remained for export that was not generally known to be in existence; and (3) in importing European countries, which had on hand liberal supplies of both domestic and imported wheat which never appeared in any statistics of stocks. Moreover, the new crop of 1929, while regarded as very short, was not very small except by comparison with the huge crop of 1928; and with a carryover as large as it proved to be, the actual supplies from carryover and new crop were large, whereas at the time they were generally regarded (at least in the exporting countries) as small.

Furthermore, the assumption was commonly made that the recent upward trends of international trade in wheat, and of world wheat disappearance, would continue. Attention was concentrated on the short crops in the exporting countries,

particularly Canada and eventually Argentina and Australia as well, without due regard for the crop developments in the importing countries of continental Europe. The impending speculative crisis and industrial collapse were not generally anticipated, nor was the resulting tendency of prices of all sorts of commodities, regardless of their specific situations, to decline in that next two or three years. It was the common conviction that wheat was selling below its normal price in 1928-29, after a bumper crop, and that it would sell considerably higher in 1929-30. Private grain traders in North America, the Wheat Pool in Canada, the Department of Agriculture and the Federal Farm Board in the United States, all more or less fully shared these opinions and convictions that were to prove seriously mistaken, and took positions based upon them. Hardly anyone, anywhere, had the insight and information on which to base really sound appraisals and forecasts; and the general failure of these appraisals and forecasts inevitably caused disaster to almost all who were concerned, directly or indirectly, with wheat.

Let us go back for a moment to ask how the huge wheat carryover into the crop year 1929-30 came about. Directly, it was the result of the bumper crop of 1928 in the world outside of Russia. That crop was the more important because it followed a big crop in 1927. Historical study clearly shows that a bumper crop following a big crop is a good deal more significant than a bumper crop following a small crop. Now, Nature played a part in this, for the world average yield per acre was good in 1927 and exceptional in 1928. Back of these, however, lies man's responsibility for much of the striking increase in wheat acreage, amounting for the wheat world exclusive of Russia to some 10 to 12 per cent between 1925 and 1928—an exceptionally rapid increase in a 3-year period.

The factors behind this exceptional acreage increase were

chiefly four; and these illustrate some of the ideas or appraisals which were to prove either unfounded or not fully taken into account. (1) High prices of wheat following a short world crop in 1924, revival of confidence and economic recovery in Europe, and expanding wheat consumption there, stimulated an expansion in wheat acreage. Partly because wheat was quite profitable in these years, a rather shortsighted view was taken that wheat prices would continue to be profitable, even though production be considerably increased. (2) Furthermore, about the same time there was a great extension of the application of improved motor tractors, combines, and trucks (and auxiliary farm equipment) available at reasonable prices. This led to extensive mechanization of wheat growing in the major wheat-exporting regions, thus increasing the area producing wheat at a low cost. (3) The major importing countries of continental Europe undertook to stimulate domestic wheat growing. (4) Finally, the impression very widely prevailed that the higher wheat prices of 1925-27 as contrasted with those of 1922-24 were normal, and that the rapid expansion of wheat disappearance in Europe reflected an upward trend that would continue. Few, during these years, took seriously the danger of substantial overproduction of wheat; and considering the extraordinary abundance of wheat in 1928-29, only a mistaken appraisal of supply and demand and overoptimism regarding the outlook for disposing of the surpluses could have held wheat prices as high as they were in that year. I believe that had prices been lower in that season, more wheat would have been shipped to the Orient and fed to livestock, with the result that the carryover into the 1929-30 season would have been lower. Mistaken appraisal of the situation served for a time to keep wheat prices up; but it was also responsible for making the situation "vulnerable" in turn in 1929-30.

At that point Nature played an unusual trick. The world wheat crop of 1929 turned out to be of moderate size, and radically below that of 1928, but its distribution was peculiar. The importing countries of Europe, and indeed Europe ex-Russia as a whole, had remarkably good crops of practically all the principal cereals, and of potatoes as well; and this happened to follow a year, 1928, in which European crops of most of these products had been large, leaving substantial carryovers. As this experience clearly showed, it is not merely the *size* but the *distribution* of world crops and carryovers, of wheat and other food and feed crops as well, that may be exceedingly important. The most advantageous situation for Canada or the United States is one in which we have an abundant crop when the rest of the world is short. The situation least to the advantage of our countries, from the standpoint of the wheat grower at least, is one in which we have short crops and the rest of the world has plenty. In 1929 the distribution of wheat supplies was not appraised at its true value by those active in the grain trade who had business decisions to make, or even by most professional students of wheat conditions.

As a result of these large crops and carryovers in Europe, several of the European countries found prices of their own cereals falling in their domestic markets; and they undertook to protect their own growers, to raise the price to their own farmers, by various devices—raising their tariffs, introducing quotas, and/or bringing into operation export bounties. The result was a striking decrease in European demand for wheat imports. In Canada and the United States this was erroneously regarded as temporary; wheat holders tried to hold on until Europe was ready to buy. In this they were mistaken, as time proved; they succeeded in retarding the decline in wheat prices, but not in preventing a fairly serious

decline in the first half of 1930. In spite of the reduction in the size of the world crop by some 500 million bushels, to a level well below average, world consumption was so restricted that the carryover was reduced by less than 50 million bushels. Had prices fallen earlier in the year, and had Europe been willing to absorb more wheat, presumably more would have been consumed there and in the Orient, and the outward carryover would have been smaller. The actual developments struck hard blows at the confidence and financial position of speculative holders of wheat, at the wheat growers in exporting countries, at the whole structure of farm prices, and at the purchasing power of farmers in all but a few highly protected wheat-growing countries.

THE WHEAT POSITION IN 1930-31 AND AFTER

In sum, 1929-30 saw the breakdown of a vulnerable position under strain, with serious consequences. The story of the crop year 1930-31 was one of continued severe pressure on a situation not yet cleared of its vulnerability.

In 1930, with a carryover still very heavy and visible supplies much larger than in 1929, came a good yield on a record acreage in the world ex-Russia. The eventual result was a well-distributed crop exceeded only by that of 1928, and total supplies, from carryover and new crop, almost equal to those of 1928-29. Soviet Russia, moreover, was favored by good yield on a high-record acreage, had the biggest crop since the war, and poured into European markets some 114 million bushels of wheat—as much as in the ten preceding years combined. Probably the world crop of 1930, including that of Russia, was nearly as big as that of 1928, and possibly somewhat larger; uncertainty regarding Russian statistics leaves room for doubt on this point. Part of the large crop

of 1930 must be attributed to Australia, whose government, seeking to enlarge the *value* of her wheat exports, succeeded in persuading farmers to expand their wheat acreage about 21 per cent; the result was a record crop of some 214 million bushels, available when the European export market was extremely restricted.

These events, not accurately forecast and recognized only with the greatest reluctance, seriously undermined the wheat price structure, and drove wheat prices down to a very low level at the end of 1930. Nature afforded some relief by cutting down the corn crop of the United States; but neither feed outlets nor liberal exports to the Orient sufficed to offset other factors. In consequence, the carryover in 1931 was above its 1929 peak. The cumulative effects of two years of drastic price decline were serious not only for wheat growers and speculators generally, but for the Canadian Wheat Pool, co-operative marketing agencies in the United States, the country banks, and all the interests that touched wheat. Late in 1930, in an effort to rescue the farmers and the banks, the Federal Farm Board undertook a bold and costly experiment in price pegging. This lessened the year's losses for American wheat growers, and temporarily eased the pressure on banks and various other interests; but it left a huge reserve of wheat concentrated in government hands, and necessitated an abrupt decline in United States wheat prices when the support to prices was withdrawn in the summer of 1931.

Until very recent months wheat prices, at least in terms of gold, have subsequently fluctuated on a level somewhat lower than that which they had reached at the end of 1930; wheat stocks, while varying somewhat, have remained at extraordinarily high levels; wheat consumption for food has tended, if anything, downward rather than upward; and until Nature laid a heavy hand on the North American wheat pros-

pects for 1933, and until there was serious talk of concerted effort toward acreage restriction in the leading wheat-exporting countries, there was little hope for early improvement in the supply, demand, and price conditions.

I must advert to the effect of the wheat price depression on the general economic situation. The actual losses on wheat holdings to growers, to unhedged merchants and millers, to farm creditors, to speculators, to the Canadian Pool, and to the Federal Farm Board were unquestionably heavy. The weakness in wheat prices affected prices of other crops, and thus indirectly led other farmers to extreme reduction in farm income. It not only reduced the farmer's buying power for commodities but caused delinquencies on his debts and taxes, and reduced the rural outlets for goods of many kinds. It weakened the country banks, the insurance companies, and the whole credit structure.

One could elaborate this with respect to a good many different countries, where the situation was not identical but where the indirect and direct results extended far and wide. The repercussions of the wheat crisis and wheat measures on the rest of the national economy were unfortunately serious in a large number of countries. I venture again to say that had the world wheat situation been strong in 1929 instead of weak, the general economic depression would have been materially less severe, and less protracted, than it has been. I also believe that had men better understood the true situation then, and had better forecast the European crops of 1929, the agrarian protective movement in Europe in 1929-32, the early return of Russia as a major exporter for a time—had these things been judged more accurately, and foresight more successfully exercised, the influence upon the depression would have been distinctly one of alleviation as compared with one of intensification.

CONCLUDING OBSERVATIONS

Now, briefly, what is to be said on the second question: How has the world depression itself reacted on the wheat situation, for good or ill? The wheat situation was only one of many elements. Had others been the same, it would have been adversely affected even if it had not been a contributor to the debacle that occurred. I do not know of any way to measure the effects of the general depression on wheat, but I would like to make a few assertions that are clearly subject to challenge.

In the first place, I believe that the general depression increased the effective demand for governmental measures to support wheat prices, which led in different instances to maintenance or expansion of wheat acreage, to contraction of consumption and imports, and to maintenance or increase of surplus stocks. I think Australia's successful campaign to increase her wheat acreage for the 1930 crop, which contributed materially to the world export surplus, was partly induced by the falling off of the value of her exports owing to the depression and to the accompanying crisis in her financial situation. I think that Russia's wheat exports in 1930, and also in 1931 and 1932, were probably larger than they would have been had not the depression reduced the selling price of practically all her exports and required her to strain every resource to obtain funds with which to meet her extensive current obligations abroad. Also I believe that the forces which led to price declines in almost every product, whether or not it was exceptionally abundant in relation to requirements, through causing hand-to-mouth buying and reluctance to buy ahead for use, would have lowered wheat prices had no large surplus existed.

A few concluding observations are in point. Nature played a significant part in causing the wheat surplus condition,

notably by big yields in 1928 after good yields in 1927, in giving Europe excellent grain crops in 1929 following big crops in 1928, and in giving Russia large crops in 1930 and importing Europe record wheat crops in 1932. The sequence of these smiles of Nature was important even though, for the world at large, the last five years as a whole may not have been exceptionally favorable from the standpoint of Nature's smiles and frowns. Yet, as I have indicated, we may easily exaggerate the influence of Nature on the situation.

On the whole, the actions of many national governments, undertaken with the best of motives and with even temporary or local success, have significantly altered the operation of natural forces that would, if not modified, have gone far to solve the world wheat problem. This has been the first time, at least for a century, in which there have been such far-reaching efforts on the part of many countries to modify the operation of economic forces in such a way as to make for the general welfare. On principle, I am not opposed to such efforts; but I think we have to admit that for the past four or five years the efforts have been full of blunders and of moves poorly based, and that governments do not yet know how to do these things advantageously.

The obviously rational way to deal with a world wheat surplus problem is to expand consumption, lessen production, and facilitate wide distribution of stocks. The combined influence of the various national actions in dealing with the situation has been in precisely the opposite direction. And the consequence is not merely to exert severe pressure on wheat growers in wheat-exporting countries, but to create new vulnerable positions which still persist in many countries and in the world at large.

Finally, the experience of recent years shows how fallible have been many appraisals of current facts, many of the basic

ideas that have been relied upon, and many of the forecasts on the basis of which important decisions and commitments—business or governmental—have been made. The correction of these errors, and the provision of better bases for the future, call for and justify extensive and intensive research and publication in the economics of wheat. We cannot expect to attain perfection, but the challenge to see more clearly, to forecast more soundly, is one that must and can be met.

NOTE.—A revision of this paper was later published as "Wheat, Wheat Policies, and the Depression," *Review of Economic Statistics*, April 1934, XVI, 80–88.

XV

POSSIBLE SOLUTIONS OF THE WORLD WHEAT PROBLEM*

[July 1932]

The world wheat problem is one of persisting surplus. More wheat has been produced, is currently available, and is being produced than wheat markets will absorb except at prices unremunerative to large groups of wheat farmers and ruinous to many of them. The existence of the surplus is reflected in wheat prices that not only appear extremely low, but are unprecedentedly low in relation to prices of commodities in general. The surplus is evidenced by abnormally heavy stocks of wheat; and by a continuing excess of supplies above ordinary wheat requirements, either for the world as a whole or for the international market. These conditions have led to substantial diversion of wheat to low-price outlets, such as feed use, heavier consumption in India, and enlarged exports to China, but without eliminating the surplus.

APPROACHES TO A SOLUTION

Unhappily we can bring forward no grand scheme that would readily solve the wheat-surplus problem. Probably there is none that would be at once practical and effective; indeed, the search for such a plan may retard progress toward the solution. Nevertheless, there are various lines of approach to a solution that deserve consideration. Some of these should be rejected, but others hold promise.

* Passages (pp. 437-42) from an extended study, "The World Wheat Problem," *Wheat Studies*, July 1932, VIII, 409-44.

At the outset, let us face a few basic facts. The first is obvious, yet it needs repeated emphasis. The persistence of surplus implies a more than temporary excess of production over consumption. Any remedy to be effective must succeed in contracting production, expanding consumption, or both. Whatever leads, on the whole, in these directions helps toward the solution; whatever leads to expansion of production or contraction of consumption intensifies the problem.

Another fact, not so obvious, also needs emphasis. In a period of abundance, the broader the distribution of the surplus the less is its burden, and the greater are the prospects of its absorption. Whatever leads to concentration of supplies tends to increase both the actual size and the realized burden of the surplus.

Third, wheat can now be produced in large quantities very cheaply. Prices that have been regarded by wheat farmers as merely remunerative are far above levels now required to induce production sufficient for what the world will use for seed and food. To produce more necessitates lowering wheat prices so that millable wheat will compete with cheap feed grains. At best, the normal level of wheat prices nowadays is low, though by no means so low as this. The world can spare for other work wheat growers whose costs are relatively high. Attempts to make all wheat farmers prosperous tend to bring them all to distress.

Finally, national wheat problems are intimately linked with the world wheat problem; and national policies, often far broader than wheat, may significantly affect the wheat situation, adversely or beneficially. The bearings of various national policies on the world wheat problem, and on other pressing world problems, deserve candid consideration.

The intensification of the surplus problem itself is due, in considerable measure, to separate national policies that

have ignored or flouted these facts. Conceivably the solution may be sought by reckoning seriously with such facts. On the other hand, they may continue to be disregarded. Some kind of solution, some new equilibrium, will be reached if present lines of policy are pursued to their logical conclusion. We venture to sketch, in the following paragraph, the possible course that developments may take, though no one is competent to make a reliable prediction.

Serious depression of world wheat prices will persist for some time, now relieved, again intensified. Wheat growing in European importing countries will be maintained or further expanded, under régimes of subsidies, fixed prices, milling quotas, high tariffs, and import prohibitions or restrictions, but on a relatively high cost level. Continental European consumers, in many countries, will continue to pay dearly for poor bread. Russia will maintain or increase her wheat acreage, but only at heavy real costs, and export wheat to an extent involving curtailment of her people's diet, without getting much in return. European exporting countries will secure preferential export conditions within Europe, with disappointing results to exporting and importing countries, and with damage to economical trade. Large numbers of wheat growers in the major overseas exporting countries will gradually lose their farms for debt. Some contraction of wheat acreage will result, but much more extensive "liquidation" of farmers. Other farmers will step into their places with lower costs for land and equipment. Costs of wheat growing will fall farther and world wheat prices tend still lower. Eventually, European nations will be forced by labor, business, and consumer interests to adopt policies of cheaper, better bread. The change in policy will be disastrous for European wheat growers who have expanded their wheat production at high costs, and they in turn will undergo extensive liquidation. Mean-

while, the process will have increased the unbalance and distress that characterize the depression, and operate against recovery of general equilibrium. In some such way, the wheat-surplus problem may actually be solved, by restraint on consumption forcing liquidation of farmers, first in exporting countries and later in others.

ILLUSORY SCHEMES

To state the outlook for solution by this route, in these terms, suffices to stamp it as undesirable. Certain other approaches which at various times have commanded more or less extensive support merit brief dismissal as illusory, futile, or impractical.

1. Schemes for "control of the surplus" as a means of solving the surplus problem are illusory. To be really effective, such control would have to be world-wide, and combined with autocratic control over both production and disposition. Such degree of control is impractical. Within limits that are possible in time of peace, experience shows that it is easier to get control of a surplus than to exercise such control wisely. Holding wheat off the market does not eliminate its burden. Concentrated control of supplies may be appropriate in time of extreme scarcity, when the most economical disposition of limited supplies is in the best interest of all concerned. It is not an effective measure when supplies are so large that the major problem is the distribution of these supplies through all available channels. Attempts in this direction, in many countries, appear to have increased rather than diminished the burden of the surplus if not its actual size.

2. Schemes for international agreement on wheat export quotas are also illusory. With copper, production and export controls have not prevented drastic declines in prices or the increase of surplus stocks. The sugar-quota system has never

been given an effective trial, and the attempt has not prevented further declines in sugar prices. The problem with wheat would be far more difficult, in part because more countries are involved and international agreement is therefore harder to attain; and in part because different wheats are essentially diverse products while sugar and copper, from all sources and regions, are practically identical. An export quota system, if it could be adopted, would almost certainly tend to prevent the most effective disposition of the world's wheats; and it would not necessarily contribute toward either expansion of consumption or contraction of production.

3. Schemes for export dumping, at the expense of national treasuries, domestic consumers, and/or domestic producers, are untested on a large scale, would presumably evoke resistance or retaliation, and are at best inappropriate in a condition of *world* surplus. They would not go to the root of the difficulty, would be disappointing in their benefits to farmers, and might easily increase the forces making for persistence of the surplus.

4. Schemes for diversion of wheat into industrial uses, though representing a form of interior dumping that is freer from objection than international dumping, yield no promise in view of the abundance of still cheaper industrial materials for which wheat might be substituted. Schemes for diversion of wheat to feed uses, by artificial coloring of part of the supply (as Germany has done with rye), probably merit more consideration as temporary measures; but the obstacles are numerous and serious. The same may be said of schemes for destruction of part of the supply (as Brazil has done with coffee).

5. Attacks on speculation or upon the traditional system of grain marketing yield no promise of aid in the solution of the wheat-surplus problem. Evils in the operation of these

systems unquestionably exist. Conceivably these evils can be eliminated or better systems developed. But even the existing systems render important services at low cost to producers and consumers; and even the most perfect system of grain marketing would not contribute appreciably toward solving the surplus problem.

6. Attacks on bread prices, and regulation of bread prices, promise no constructive aid in solving the wheat problem, at least in the United States; for the demand for bread is practically unresponsive to changes in bread prices, within wide limits.

7. Efforts to stimulate increased food consumption by advertising (e.g., "Eat more wheat," "Bread is your best and cheapest food") are futile. Advertising serves its chief function in stimulating consumption of specialties, not of staples; and however effective advertising may be in increasing sales of one company's bakery products, it is probably ineffective in influencing the consumption of bakery products generally.

Perhaps a benevolent world autocrat could solve the wheat-surplus problem without great delay, without going so far as to regulate the acreage planted to wheat, on some such lines as the following:

1. Abolish all measures that affect adversely the quality of wheat products and make them more expensive to consumers.

2. Eliminate measures now restricting operations of private merchants in finding consumer outlets for wheat at home and abroad.

3. Take steps tending to increase export outlets and thus the import-purchasing power of wheat-importing countries that would import and consume more wheat if they could afford to do so.

4. Facilitate or even prescribe retention of low-grade wheat on farms, and the diversion of some millable wheat to feed and/or industrial uses.

5. Eliminate all policies tending to maintain or increase wheat acreage.

6. If the foregoing were insufficient, temporarily impose a charge on breaking in new lands to wheat and give a bonus for contraction of wheat acreage.

Such measures, though not directed toward price raising, could be expected to result in higher prices to producers than they can get in a period of persisting surplus, when prices of good milling wheat fall to levels encouraging its use for feed.

There is, however, no world autocrat, benevolent or otherwise, and no prospect of his appearance. Nor is there any prospect of arriving at much the same result by international agreement among wheat-producing countries. Practically, solutions should be sought which do not depend upon dictatorial powers, within or among nations, and which rest rather upon increasing international understanding than upon formal international agreements. Furthermore, we may well face the fact that extensive control of economic forces imposes undue strains upon human powers. More promise lies in reckoning fully with these powerful forces, and seeking adaptation to them with only moderate attempts to guide them, rather than undertaking major "control" or diversion of them.

REORIENTATION OF NATIONAL POLICIES

A different approach to the solution of the wheat problem lies through a reorientation of the economic policies of nations. Two significant tendencies have been manifested in recent years: to protect producers and stimulate production, rather than to protect consumers and stimulate consumption;

and to enhance national self-sufficiency even at heavy cost, rather than to reap the advantages of international division of labor. These tendencies have been expressed in import prohibitions, rising tariff barriers, quota systems of various kinds, government subsidies to domestic industries and merchant marines, price-stabilization schemes, export bounties, export-promotion efforts, and so on. In one form or another, these have been almost universal, in rich nations and poor, in creditor countries and debtor countries, under democratic, fascist, and communist governments. They have led to over-expansion of agriculture and to extensive overbuilding of the world's physical plant, in all sorts of factories, in land transportation, and in shipping. Huge savings have thus been invested in enterprises that could not be profitable. The outcome has been disastrous to producers and investors, and in turn to consumers through the decline in the income they have to spend.

In a period characterized by scarcity of goods, there is virtue in such policies, for consumption is limited by the extent of productive power. In recent years science, engineering, finance, and communication have vastly increased the world's producing power. The influence of higher attainable standards of living, coupled with wider knowledge of birth control, has led to slowing down the growth of population. The result is that abundance rather than scarcity of goods and productive power characterizes the present situation in most of the civilized world. Under these conditions, measures directed primarily toward expansion of production are inappropriate; measures to improve the functioning of the productive machinery are needed, but measures directed toward facilitating distribution and expansion of consumption are most important.

These general considerations have a bearing on the wheat-

surplus problem. It is not merely that policies applied to wheat have directly caused expansion of wheat production, contraction of ordinary requirements, and restraint upon normal expansion of consumption in the face of a surplus condition. It is not merely that these policies have played a large part in bringing on the general depression, which has be-deviled the wheat situation along with everything else. It is also that national policies of wheat-exporting nations have restricted their markets for imported goods to such an extent that wheat-importing nations encounter grave difficulties in finding export markets for the goods with which they could pay for wheat and other imports. The United States has given potent examples of such broad tendencies, notably through tariff policy and shipping subsidies, and thus made substantial indirect contribution to the creation of the world wheat-surplus problem.

For the time being these tendencies have been rendered more powerful by the depression itself. Plans and programs are directed primarily to national measures for dealing with national problems as such. Very inadequate to the task is the ability to deal with basic problems from a larger standpoint, and to harmonize national policies so as to bring rational solutions for the various nations concerned. While this trend persists, and separate national policies tend to prolong the world surplus condition, little more can be expected than alternation of alleviation and intensification by accidents of Nature.

If, on the other hand, nations should frankly recognize that the solution of problems of idle plant, unemployed labor, and commodity surpluses lies in the direction of facilitating consumption, extensive modification in national policies would ensue. Unquestionably extensive readjustments of production would be required, within and among nations;

but extensive readjustments are inevitable under any policies. If policies of protecting producers lead where we believe they have led, producers themselves stand to gain, in no very long run, by policies directed toward increasing outlets for goods rather than in other directions.

Such a redirection of national policies would have a signal bearing upon the wheat problem. If Germany, for example, could find export markets for goods that her industries are admirably equipped to make, she could afford to buy increasingly heavy wheat imports and enlarge her dairy industry at the expense of food grains. If India, Mexico, and China were able to sell more freely what they can produce advantageously, all would probably absorb larger quantities of the world's wheat, to the better nutrition of their peoples. If Russia were to concentrate upon raising the food standard of living of her people, she would devote more acreage to feed grains and less to bread grains, and press less wheat into export. The United States government could do more for the wheat farmer by modifying its international commercial policies than by direct farm relief.

From one point of view, the world wheat surplus seems astonishingly small. The world surplus carryover, as we have computed it, has been at its peak (1931) no more than 350 million bushels or so. This is about 10 per cent of the average world crop ex-Russia in recent years, and about 8 per cent of the world crop including Russia. The annual surplus of production over ordinary requirements, restrained as they were, has averaged in the past four years less than 200 million bushels a year. This is less than 5 per cent of the average world wheat crop, including Russia. Small as the surplus appears when so viewed, the inelasticity of demand is such, under the restraints that have been imposed upon consumption, that the surplus has been large enough to have disastrous

consequences. It is too large to be dealt with by any one nation.

On one ground disillusionment must be accepted. The view has long been held that during a depression, when purchasing power of individuals is diminished, pressure for economy leads to increased per capita consumption of the cheapest staples of the diet, such as wheat in the United States, Great Britain, and France, rye in Germany and Poland, corn in southeastern Europe. For various reasons this view has not been borne out in the present depression.

The experience of the fifteen years before the war, of rapid expansion of wheat production with no persisting surplus, probably cannot be duplicated now; for the growth of population in general outside of Russia and India is proceeding much more slowly, and displacement of other cereals by wheat for food has not so far to go. But if measures tending to restrain wheat consumption for food were removed, there is good reason to believe that in the next fifteen years, on a moderate level of wheat prices the world over, wheat consumption might expand with sufficient rapidity to absorb the product of increasing acreage even with gradually rising yields per acre. Many policies adopted on behalf of farmers have helped to accentuate, rather than relieve, the world agricultural depression; taken as a whole, in few countries have they served to improve the absolute position of wheat growers, even for the time being. Reoriented national policies, with consumers the world over more directly in view, would probably be more in the interests of farmers themselves than all direct farm relief measures combined. Some "liquidation" of commercial farming is perhaps inevitable, and some contraction of wheat acreage also for a time; but much less is really inevitable than will occur if present trends continue.

A PROPOSED SOLUTION

In the light of these observations, rational lines upon which the solution of the wheat-surplus problem might be sought can be summarized as follows:

Wheat prices would be permitted generally to continue low enough to permit liberal consumption for food and a liberal flow into surplus channels, to discourage acreage expansion and encourage some contraction—so long as carryovers remain excessive and until wheat acreage reaches such a level that average yields provide no current surplus over ordinary wheat requirements. Aid to farmers would be sought in harmony with such policies, and price enhancement through the operation of economic forces, not by price-raising and price-supporting measures which tend on the whole to defeat their own ends.

Efforts would be directed toward permitting and facilitating increase in consumption of wheat products. There is room for considerable expansion for food use in countries where the demand for wheat is elastic. Measures tending to restrict consumption, whether by increasing prices, injuring quality, or otherwise, would be abandoned. International inducements to insure modifications of such policies, where they are in force, would be sought.

Such tariffs and milling regulations as remained would be fixed for a period of years, not subject to frequent change. Any stabilization of returns to farmers would be sought by other measures. Thus stocks of wheat that are now forced to back up in exporting countries would be more widely dispersed, and both the burden of surplus and the impact of shortage lessened.

Constructive efforts would be made to repair and reconstruct the world's economic and financial machinery, within nations with full recognition of their international bearings,

and among nations in respect to outstanding international obstacles in the path. This would not only facilitate recovery from depression generally but aid in solving the world wheat problem.

Efforts would be directed toward facilitating the imports, by wheat-exporting countries generally, of export products of wheat-importing countries, in order that the import purchasing power of wheat-importing countries might be increased. Policies of opening markets to imported products would be substituted for policies of closing markets to imported products.

Measures for agricultural relief and advancement would be sought which would neither restrict cereal consumption nor increase cereal production, nor promote overexpansion of commercial agriculture. The current tendency to abundance of cereals points to the prospect of increased livestock feeding with increased outturn of dairy and other animal products for which the demand is relatively elastic; for dairy products in particular, per capita consumption is generally below the optimum for satisfactory nutrition. While the depression lasts, positive efforts to increase livestock are not promising; but as the world emerges from depression, enlargement of animal husbandry may be expected to afford substantially larger outlets for farming activity. Probably only thus can serious liquidation of commercial farming be averted.

Such a program is complex, not simple; unlike various grand schemes, however, it is simpler than it appears, not more complex. It presents challenging tasks, but not impossible ones. It is far-reaching in its implications, yet it presupposes nothing highly experimental or plainly impractical. It is perhaps along some such lines that a World Planning Board, if one existed, might make recommendations that

national governments would do well to follow in the interests of their several peoples. It diverges so far from current trends of thought that progress in this direction will not be rapid, but it may come in due time.

NOTE.—Some other portions of the study from which this excerpt is taken are more briefly covered in the preceding chapter. Others are more fully dealt with in Helen C. Farnsworth's "Decline and Recovery of Wheat Prices in the 'Nineties," *Wheat Studies*, June-July 1934, X, 289-352, and in another study of hers that is nearing completion.

XVI

SOME ARGUMENTS ON THE ALLOTMENT PLAN

[November 1932]

BALANCE BETWEEN AGRICULTURE AND INDUSTRY

A broad argument used in behalf of the allotment plan and others makes use of an appealing phrase, "balance between industry and agriculture." It is held that there is a normal balance between agriculture and other industries, and that disturbance of this balance means injury to the whole social structure. No doubt there is a sense in which this is true; but no one makes clear in what such balance consists, how its existence or departures from it can be recognized and measured, and how the equilibrium can be restored when it is lacking.

A test question is illuminating: Was agriculture adversely out of balance with other industry in 1924-28? The common answer would be, Yes. Among the evidence cited would be (*a*) that farm income was a much smaller fraction of the national income than in 1909-13; (*b*) that prices of farm products at wholesale averaged lower in relation to the general wholesale index than in 1910-14; (*c*) that an average unit of farm products at farm prices would buy less of what farmers need for farm operation and consumption than in 1910-14; (*d*) that average net returns per farmer had risen far less than wages per industrial worker; (*e*) that farm land values were much lower, in relation to the general price level, in 1924-28 than in 1911; and perhaps

* Excerpts from the author's extended projective analysis of M. L. Wilson's scheme as embodied in the Hope-Norbeck bills of July 1932, "The Voluntary Domestic Allotment Plan for Wheat," *Wheat Studies*, November 1932, IX, 23-62. This plan furnished the groundwork for major portions of the Agricultural Adjustment Act of 1933.

(f) that the farm population constituted a smaller proportion of the total population than before the war. These facts led many to infer that vigorous measures to improve farm prices and farm incomes were essential to restore a normal balance between agriculture and other industry.

Yet another answer can be made that squares with the same facts. The relative appeal of farming (coupled with obstacles to ready movement into other occupations) was such that so many people stayed on farms that, in the face of heightened efficiency of production, reduced per capita demand for some farm products, and diminishing effective demand for American farm products abroad, there were too many farmers, producing too much, to permit them as a class to get better prices and higher average incomes. The inference to be drawn from this answer is that various steps to increase farm prices and per capita farmer income would not have improved the balance, but would have made it worse by stimulating increases in the number of farmers and their volume of output.

The latter view is unpopular but has much in its favor. Reasoning supports the historical evidence that there is a powerful trend toward a declining proportion of farmers in the national population. As standards of living rise, the food and textile materials that farmers supply constitute a declining proportion of the national consumption of goods and services. With increasing opportunity to expand per capita consumption, in this country at least the expansion is almost wholly in ways that do not increase, and may even diminish, the per capita demand for services of farmers in general. The share of farm income in the total, expressed in dollars, tends to decline partly for this reason, and partly because nonfarm income is actually calculated in money to a greater extent than is true of farm income. Paradoxical it

may be, but it appears to be true that measures and factors calculated to make entrance into farming easier, farming itself more efficient, and life on farms more attractive have contributed heavily to make the number of farmers exceed requirements for farmer services and to bring on a condition of agricultural surplus. Regret this as one may, it is necessary to reckon with the fact that deep-seated economic forces are extremely powerful and little understood, and that their operation can be influenced but seldom reversed by social action.

This is not the place to go deeply into this large realm of social philosophy. Yet it is pertinent to remark that here social science does not yet afford much foundation for social engineering. We have no highly reliable indicators of normal or abnormal equilibrium between agricultural industries as a group and other occupations as a group. There is no rational basis for believing that a normal balance implies any particular proportion of farmers to the total population, any given share of farmers in the national income, any specific relationship of agricultural to other prices on some selected base, or any particular index of farmer purchasing power. Moreover, there is good reason to believe that the normal balance, whatever it be, is not something fixed or static but is a moving equilibrium, changing with the interplay of social and economic forces. In default of better indicators, it is unsafe to ignore the harsh economic touchstone, that persistently low remuneration for a group tends to mean that society as it is does not want so many of that kind. The view that farmers are peculiarly important as a class, because they produce necessities of life, does not mean that all who choose to be farmers ought to be supported in that occupation, even if they produce more of particular commodities than society, as now organized, can effectively dispose of.

TRANSFER OF PURCHASING POWER

The allotment plan plainly calls for raising prices to domestic consumers of wheat products in order to provide funds for distribution to wheat growers, in part to relieve their financial distress and in part to induce them to reduce production so that prices of wheat may rise. It is urged that, under the limitations prescribed, the prospective increase in flour prices would not raise them to levels that could rightly be regarded as high, that the resulting increase in bread prices would hardly be noticed, that similar advances in the event of short crops would excite no general complaint, and that most consumers have a stake in a more prosperous agriculture. But it is also true that flour and its products are consumed mainly by classes with low incomes. A substantial transfer of purchasing power from consumers to farmers is contemplated—in the main, from low-income urban consumers to low-income farmers, and from wheat-deficit states to wheat-surplus states. One of the fundamental issues raised by the plan is whether such a transfer is justified. On this point, opinions differ, but no one really knows.

Spokesmen for this and other plans tend to reason that the contemplated addition to the purchasing power of farmers would be a net addition to the purchasing power of the nation. This is to overlook the fact that, at least directly, what farmers gained (and perhaps somewhat more) consumers would lose. Purchasing power has become a phrase to conjure with, but no one knows much about it in its larger significance. Shifts in purchasing power benefit some, injure others; it is partly for this reason that "we cannot squander ourselves into prosperity." The springs of increased total purchasing power are hidden, and it is those we need to tap.

The principal rational basis for assuming that the transfer of purchasing power from consumers to farmers would be

important lies in the seldom expressed notion that farmers have no reserves of unused purchasing power, while consumers as a class have such reserves. It is not desire or potential demand, but effective demand, that influences prices. It is not available purchasing power, but purchasing power put to work, that exerts a pervasive influence. One of the basic problems in the midst of depression is to stimulate the wise use of purchasing power that fear and caution cause to be held in reserve. If this view is sound, the specific question here pertinent is whether wheat consumers as a class have larger reserves of purchasing power than farmers, and whether the tax-bonus scheme would increase the purchasing power put to work.

There are reasons for believing that, to some indeterminate extent, this is the fact; if so, it is not simply "robbing Peter to pay Paul." But there is equal reason to doubt whether the maximum net results that the plan could achieve, in the near future, would be sufficient to give a notable stimulus to economic recovery in general. Such net additions to the purchasing power of farm owners and farm operators as the plan might bring, in the first year or two, would in some substantial degree be offset by net reductions in purchasing power used by consuming classes.

CONTROL OF ECONOMIC FORCES

It is correct to say that the plan undertakes to supplement and modify economic forces by human regulations. It does not go so far as to fix prices, but it does go far beyond tariff policies. The supplementing of wheat prices by a bonus, the raising of prices to consumers by a tax for the benefit of producers, the resort to administrative restraints upon acreage or production, and provisions for directing the use of acreage released from wheat, all reflect notable dissatisfaction

with the results of economic forces and high ambitions to improve the situation by social action.

There is a tendency in some business and academic circles to reason as if it were something worse than sacrilegious for men to attempt to interfere with the "natural" operation of economic forces. This view is irrational. Most human advance has come through intelligent manipulation of natural forces so as to serve human ends. Social and economic forces are likewise inherently susceptible of understanding manipulation. Neither the "law of supply and demand" nor the law of gravitation should be ignored; but the operation of either, if properly taken into account, can be made to serve social requirements. Many instances of legislation and administration affecting the operation of economic forces command general approval.

Yet there is some warrant for the prevalent view. The social sciences are in their infancy compared with the natural sciences. Even the best experts in the field understand but dimly the nature and operation of complex economic forces. In this stage of development well-intentioned efforts often have results quite at variance with expectations, and even lead to "confusion worse confounded." Far-reaching social experiments cannot be conducted like controlled experimentation in the laboratory. For such reasons, there is ample ground for caution in undertaking, in our present state of knowledge, new large schemes of social control. There is a mean between readiness to experiment rashly and unwillingness to experiment at all. Before a social experiment is tried, it should be thought through so far as possible, limited in scope and in time, and so devised as to afford the maximum promise of success with a minimum risk of net disadvantage; and after trial, careful effort should be made to analyze the results.

It is not often frankly stated that the allotment plan definitely implies the contraction of agriculture. If production of wheat, cotton, and perhaps other farm products is to be restricted, without correspondingly increasing opportunities to produce others remuneratively, many farmers will have to quit agriculture or settle down to something like self-contained farming. The plan seeks to bring about this contraction in orderly fashion, by voluntarily accepted means, instead of by the cruel process of economic attrition; it might reduce, but it could not eliminate, the pains that contraction of agriculture inevitably entails. This is no criticism of the plan; other plans have been weak in assuming that contraction is unnecessary and that price-raising devices can be applied without concern over a resulting stimulus to production.

It is therefore important that the voluntary domestic allotment plan, if adopted, should not be given too high a place in our economic policy affecting agriculture. It has attractive features and seems preferable to some alternative schemes; but it involves major experiments, and its probable complications should not be minimized or its promise exaggerated. At best, it would fall far short of providing *the* solution of our complex agricultural problem. It would be most unfortunate if inflated hopes of gains from its application should interfere with adoption of policies that hold more promise of improving the position of American farmers and bringing agriculture into a truly normal equilibrium with other parts of the national economy.

XVII

PRICE DISPARITIES AND PARITIES*

[December 1932]

One of the commonest assertions in discussions of the agricultural problem, now and over the past decade, has been that its root lies in the disparity between prices of farm products and prices of nonagricultural products. This contrast is variously illustrated, less commonly by the relation between group indexes of prices at wholesale, most commonly by comparisons between the index of farm prices and indexes of nonagricultural commodities at wholesale or an index of prices of commodities bought by farmers, often in other ways. As a rule, the disparities are usually thought of in terms of departures from averages for a 5-year period ending with July or December 1914. Underlying is the assumption that the prewar relationship represented "parity" then and since.

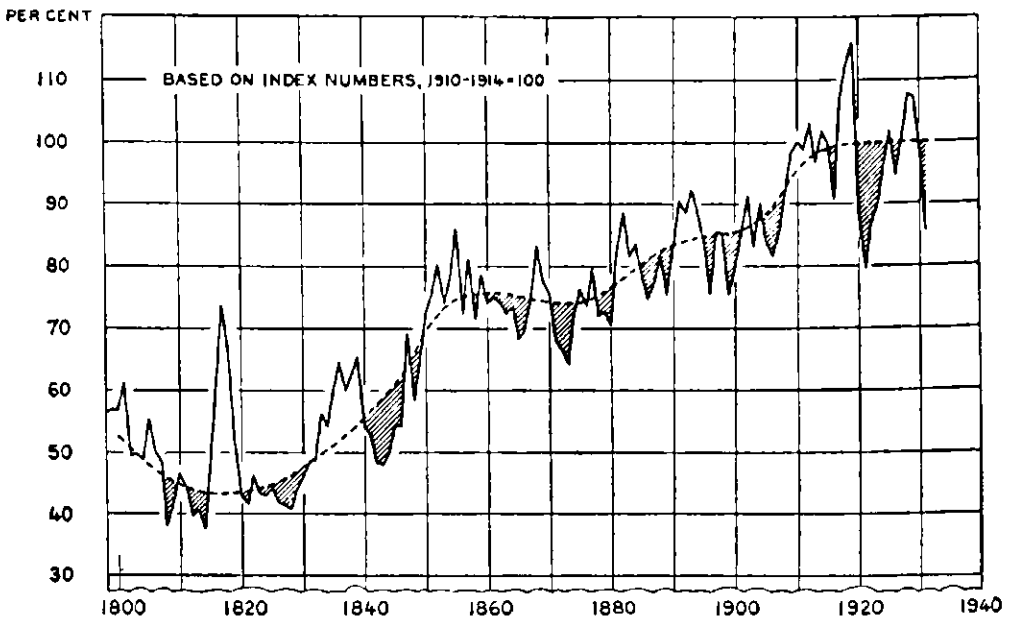
Such convictions and assumptions have figured heavily in demands for farm relief, particularly price-raising measures. The early McNary-Haugen bills embodied the principle of "ratio prices" for farm products. The slogan "equality for agriculture," virtually incorporated in the Agricultural Marketing Act, rests in part on the same ideas. The voluntary domestic allotment plan, as set forth in the Hope-Norbeck bills of July 1932, includes a price-index-ratio feature. The Federal Farm Board says, in its recent recommendations for agricultural legislation: "If the new method raised prices to domestic consumers to the level of prices of other com-

* Portion of a paper read for the author before a joint session of the American Farm Economic and Statistical Associations in annual meeting at Cincinnati, Dec. 29, 1932. Reprinted, by permission, from *Journal of Farm Economics*, April 1933, XV, 251-54. In the discussion that followed, O. C. Stine criticized at length the positions here taken.

modities, that would not be giving farmers an unfair advantage."

I know of no other set of ideas so widely accepted as ground for agitation and basis for action, which supposedly rest on good statistical evidence but do not. I wish to challenge, not the fact that price disparities may and do exist, but the assumptions that a prewar relationship represented "parity," for that period or the present, from which disparities can properly be measured, and the idea that disparities so measured can be accepted as true. If it were appropriate here, I should further challenge the view that price disparities, if accurately ascertained, call for correction by price-raising measures.

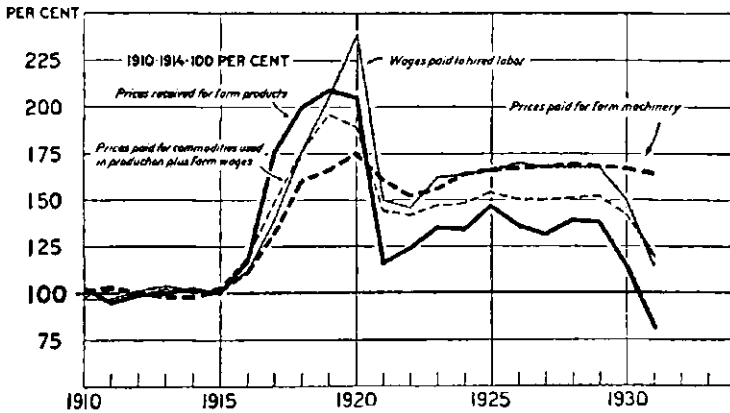
Look first at Mr. Bean's chart of *ratios of prices of farm products to prices of nonagricultural products, both at wholesale*. Observe how far above previous levels were the ratios



for the years 1909-15. Granting that for many purposes the 5-year prewar base was and is suitable for index numbers, does it strike you as statistically warranted that the average

for 1910–14 should be regarded as “par” even for that period, to say nothing of years before and after? Consider the similar (though lower) high level in the decade preceding the Civil War, and how ill that average served as par for the 1860’s and 1870’s. This chart alone raises the presumption that prices of farm products were relatively higher in the years immediately preceding the World War than they could be expected to remain—that they were not at “par” but above it.

Look next at another chart of the Bureau of Agricultural Economics below on this page. Does it not suggest to you that much of the apparent disparity between prices of farm products and what farmers have paid for goods and services,



in recent years, may be due to an abnormally high base value for the farm-price series? While I cannot here go fully into this matter, I believe that careful, extended investigation would confirm the presumptions that these (and other) charts suggest to me. It seems to me quite conceivable that the prewar average was from 5 to 10 per cent above what might be called the true par for that period.

Furthermore, normal relationships among group indexes, and much more among individual series and between each

of these and a group index, do not remain fixed, but change. More or less divergent changes occur in methods and cost of production, in transportation, and in demand; in response, new normal price relationships emerge.¹ Accordingly, the presumption is that even if prewar normals could be accurately ascertained, they would not constitute the normals for the first or second postwar decade. Whether the truly normal relationship of prices of farm products as a group to prices of other commodities as a group is higher or lower than the true prewar normal, I am not ready to say, even tentatively; but I think it highly probable that for several farm products, including wheat, the present normal is below the prewar normal. It is always difficult to define or ascertain what is normal, in equilibrium or in relationships; but let us never forget that the 100 representing an average for a base period is simply that, and implies nothing as to its normality for that period or any other.²

Here is a field of work that has been left largely unexplored. Until it is adequately cultivated, we should apply what I regard as a fundamental principle of statistical exposition. Statisticians owe it to those who use their work to take pains not merely to avoid giving erroneous impressions but to warn against unwarranted inferences that are or may be drawn from their work. On these grounds I suggest that, for example, the common practice of plotting the present index of retail prices paid by farmers on the same chart with national or state indexes of farm prices, or relative prices of individual farm products, should be abandoned as misleading.

¹ Such changes are obscured for many manufactured goods by changes in quality, style, durability, packing, and accompanying services—as with automobiles, electric refrigerators, cigarettes, even the humble crackers. Lack of homogeneity in the series due to such factors causes price indexes to fail to reflect effective changes in the purchasing power of money over finished goods.

² Seriously abnormal periods are usually not chosen for a base period, but it is practically impossible to choose a base period that is normal from every point of view.

I believe that a great deal of what is accepted as statistical evidence of disparity between agriculture and other prices is improperly so interpreted, and that the public has not been effectively warned of this or furnished with adequate corrective material. Far-reaching misconceptions on this point have helped to set up policy goals beyond hope of attainment, and to stimulate search for measures that, founded on false premises, cannot work well. Such misconceptions, once firmly established, are very difficult to correct; but is it not part of our job to correct them?

XVIII

ASPECTS OF THE AGRICULTURAL SITUATION*

[December 1932]

From some standpoints the agricultural situation is excellent. (1) There is an abundance of farm products. There have been, of course, some short crops in some regions—like winter wheat in the United States and the Balkan countries; but outside of Russia and China at least, and in the world at large, there is nothing approaching dearth of food supplies or of other agricultural products. This is an important social fact, and its asset phase should not be overlooked. (2) Country districts, and in a sense agriculture, have absorbed part of the urban unemployed. In general, farmers have food and shelter to share, and many are sharing with returned members of their families. Other unemployed have found it easier to subsist in the country, doing a little farming and odd jobs, than in the city. (3) Though agricultural efficiency, viewed in the large, has never come within striking distance of realizing its potentialities, I suspect that in 1929 it was on a higher plane than ever before. In the past three years it may have declined somewhat, as buildings and equipment have not been replaced or fully kept up; but there is no reason to believe that the decline has been serious. So far as I can learn, farmers generally have kept their heads remarkably well, and are using them.

Usually, however, when one speaks of the agricultural situation, he means the financial position of farmers. From this standpoint, the situation is distressingly bad. Farmers have

* Read before the Pacific Coast Economic Association in annual conference at Stanford University, Calif., Dec. 29, 1932. Reprinted, by permission, from its *Papers and Proceedings*, edited by J. B. Canning (Ann Arbor, 1933), pp. 37-39.

been very hard hit in the great depression. A few indicative figures are worth citing, though conditions vary so greatly that any summary or average figure conveys an impression too simple to be true.

Between June 1929 and June 1932 the index of wholesale prices of farm products dropped about 55 per cent, the index of farm prices of farm products about 65 per cent. In the last six months farm prices of almost all farm products have been lower than at any time since 1908, when monthly data were first gathered. December 1 farm prices will be lower for most grain crops than at their lowest in the 1890's, though not yet quite so low for some other crops or for most livestock and animal products. Farm and market prices of wheat, in terms of gold, are the lowest on record in exporting countries and the lowest for centuries in Great Britain, the chief importing country; in purchasing power over goods in general, wheat is certainly cheaper than ever before in any considerable area. The Department of Agriculture has provisionally estimated gross farm income in the United States for 1932 as $5\frac{1}{4}$ billion dollars, as compared with about 12 billion in 1929. Farm debts and taxes have shrunk somewhat, chiefly through tax sales, foreclosures, and compromises; but they are probably higher than ever before in proportion to gross farm income. Net income of farm operators in 1932 will probably be estimated at less than a third of what it was in 1929 (5,329 million dollars).

These are drastic reductions. They loom larger if one recalls that before the onset of the 1929 recession agriculture was considered a fair claimant for government aid, to bring it out of depression into equality with industry. These shrinkages have serious repercussions on nonfarming interests: farmers' purchases, for production or consumption, have been drastically curtailed; and inability of farmers to meet fixed

charges has impaired the assets of their creditors (including banks and life insurance companies) and the tax revenues of local government units.

Most of this you know, and I will not undertake to elaborate phases that are less familiar to you. I do, however, commend to your thoughtful and critical reading an able brief report on *The Agricultural Situation*, prepared by a Special Committee of the Association of Land-Grant Colleges and Universities and presented to that Association six weeks ago. I say "critical" because, unfortunately, we have not yet reached the stage where even the ablest individual or committee can present a carefully considered statement that commands unreserved acceptance as authoritative. This report is the best of its kind now available, and is for the most part excellent; yet it seems to me to be marred by some erroneous statements or implications and by some significant omissions.

First, I venture to challenge the truth of what I may term "agricultural fundamentalism"—a doctrine in which most agricultural economists acquiesce if they do not wholly accept it or openly express it. Its basic creed is that "agriculture is fundamental"; that on a prosperous, contented agriculture the prosperity, health, and well-being of society depend, if not its very existence. I need not elaborate the many guises in which this creed is expressed and the manifold inferences that are drawn from it, and cannot take time to point out and question all the errors to which it gives rise. Of course food is essential to life, and farmers produce food; but not all food produced is essential, and food as a whole is relatively far less important than it was in former decades and centuries. In modern society, moreover, many other industries and groups are no less essential than agriculture and farmers, and the economic principle of marginal dispensability applies to all. I believe, with regret, that there is no scheme or com-

ination of schemes that will insure sustained prosperity for all who freely choose to farm.

Second, I wish to contest the view that recovery must start in agriculture, or that agricultural recovery is a condition precedent to economic recovery in general. Recovery, like recession, may begin at almost any point in the economic structure, and progress with cumulative effects. In 1897-98, abundant crops here, when Europe had short crops, gave marked impetus to general recovery here. Today, agriculture is relatively less important in the national life, other conditions are radically different, and we cannot hopefully pray that wheat may lead us out of depression. It seems to me that, as farm prices and farmers' incomes have been dragged down by the industrial catastrophe, they are likely to be raised as improvement elsewhere generated takes place. As in the 1920's, agricultural improvement is likely to come mainly in response to improved purchasing power elsewhere. I believe that there is very slender ground, either rational or historical, for the now popular view that a great impetus to the upward spiral of recovery would be given by transferring purchasing power from consumers to farmers by the tax-bonus scheme known as the domestic allotment plan.

Third, I wish to suggest that there is a historical tendency for nations, as they advance in technique and planes of living, to require a smaller proportion of the population in farming. Beyond a certain point, requirements for food and other farm products expand less than demands for other goods and services in general. Indeed, these requirements may even decline per capita, in part because, as with the country's motive power, industry partially replaces agriculture as the source of certain goods. Also, with technical improvements of many kinds, fewer farmers can produce more. With birth rates on the farm above the nation's average, a tendency to greater inertia

or lesser mobility among farmers than among nonfarmers, the attractions of farm life in spite of all its hardships, and the agrarian protectionism of recent years, we have here some underlying factors making for economic surpluses of farm products and of farmers.

Fourth, I want to attack the prevalent notion about price disparities (particularly comparing prices of farm products with other prices) as evidence of persisting agricultural depression in 1925-29, and as an evil to be remedied by governmental action. This idea underlay the slogan "Equality for agriculture," that was virtually embodied in the Agricultural Marketing Act. If you trace this idea back, you find that it generally rests on comparisons of index numbers on a prewar base, 1913, or 1910-14, and on the assumption that the prewar relationships were and have remained *normal*—a sort of par from which disparities can properly be measured. For these assumptions there is no well-established basis. I believe that investigation will show that the 5-year prewar average index of farm prices was well above what could properly be called "par" for the prewar and postwar decades; and that the true disparities, if they could be properly measured, would be substantially less than those usually inferred. It may be that in the perspective of history 1925-29 will appear a period of moderate agricultural prosperity, not of agricultural depression.

I mention these points because I am convinced that illusions regarding them, widely cherished, have bedeviled our agricultural policy. Largely because of them, the Federal Farm Board, which I served for nearly two years, was given an impossible task; and its earnest efforts to accomplish this task with the means put at its disposal, in the midst of world-wide economic disasters, naturally failed. The board's stabilization experiments need careful study, for which detailed reports

of the stabilization corporations are essential; but the assumptions underlying fresh proposals in behalf of agriculture likewise call for serious analysis, lest we court further disappointment and even disaster. I believe that Mr. Hoover was right when he said in accepting the presidential nomination in 1928:

A nation which is spending ninety billions a year can well afford an expenditure of a few hundred million for a workable program that will give to one-third of its population their fair share of the nation's prosperity.

But we do not well know how to measure or recognize the "fair share" of farmers in the national prosperity, and we need to be better satisfied that we have "a workable program" before risking successive hundreds of millions in a series of ill-considered experiments.

Finally, I wish to say that our agricultural depression has been intensified, and I think the world economic depressions as well, by national economic policies in many foreign countries that have been directed, more or less effectively, toward protection of their farmers. These policies have led to reduced consumption and made for increased production in a period of unexampled surplus—most notably in wheat, but not in wheat alone. Our own tariff and farm relief policies have contributed to these ends indirectly, not only by leading to open or disguised retaliation, but perhaps even more through the powerful influence of our example.

I dissent from opinions that economic planning must be viewed as comprehensive or increasing control. I believe that its more elementary sense is more significant. Perhaps its most important phase consists in working toward more soundly based, more wisely considered, more farsighted, and better co-ordinated national policies which in many fields will call for less rather than more ambitious control.

OFFICIAL AGRICULTURAL ADJUSTMENT
1933-1935

XIX

THE NEW ACT AND ITS PHILOSOPHY*

[December 1933]

Seven short months ago the President signed a notable tripartite law. Its first twenty sections constitute the Agricultural Adjustment Act, under which the Agricultural Adjustment Administration was set up. The next twenty-one sections constitute the Emergency Farm Mortgage Act of 1933. The last five sections grant the President extraordinary powers with respect to currency and credit. Although operations under the last two portions of this law are of great interest and importance to agriculture and the nation at large, it is the Agricultural Adjustment Act and Administration that I am here to discuss.

THE APPROACH

The convenient abbreviation AAA invites not only the use of superlatives but also attempts at alliteration. Avowedly adopted as an audacious adventure against adventitious adversity affecting agriculture, ardently acclaimed as an adroit admixture aimed at abridging acreage, averting additional accumulations, and achieving advantageous acceleration; avidly attacked as an absurd, asinine, and abortive abomination: whatever one's views, the language furnishes amply abundant *a*'s in which to couch them.

In a brief hour I cannot discuss the AAA to Z, Zed, Izzard,

* Portions of an address given at the University of Minnesota, Dec. 11, 1933, subsequently issued as "The AAA," *The Day and Hour Series of the University of Minnesota*, No. 7, March 1934, by the University of Minnesota Press, to which acknowledgment is made for permission to reproduce passages published therein. The second paragraph is here restored to its original form, except for the deletion of a final sentence; and a few other minor alterations are made.

through the CCC, the DMC, the FSRC, and all the agencies, commodities, and sections involved. I shall try to explain and illuminate, and to raise some questions that are of interest both to those who are in the midst of the task and to those who are affected by it. There is much more punch to a speech that lauds or damns, but in the present juncture there is less need for heat than for light. The moves of the AAA have been so numerous, and so striking, that even many of us who know more than what we read in the papers are bewildered. To the interested parties the pace has seemed painfully slow, but to the side-line observer it seems terrifically swift. The experimenters are in the saddle, riding boldly and hard. It is easy simply to stand aghast, or to admire the courage and vigor displayed, or to react instinctively with all one's prejudices against upsets to traditional notions. It is hard to get and keep intelligently informed on the developments in program, application, and effects, and to think coolly and rationally about them.

The full program, moreover, is not yet revealed nor even formulated. Secretary Wallace was quoted as saying on November 13:

The things which the Administration has done thus far in 1933 may seem spectacular but they are only a faint foreshadowing of some of the things that must be done before the United States has made for herself her true place in the family of nations.

It is therefore premature to indulge in definitive appraisals or confident prophecies. New moves, as well as altered conditions, are certain to change the basis for forecasts. But it is time for earnest, intelligent citizens to seek to understand what is being done and why, to see whither it is leading, and to observe its actual and prospective effects. It is time for competent students to examine, with open minds and without prejudice, the theories underlying the new ventures and the working tests which they are receiving.

We can wholeheartedly endorse the basic objective of the national recovery program; in Mr. Peek's words, "it is to raise the standard of living of all our people." We may well differ on intermediate objectives and on ways and means. It is a simple fact that the new act and administration represent an extraordinary series of experiments, and others are being made under other recent legislation. In itself, this fact justifies neither pride nor alarm. There is excuse for experiment. The times have been and are out of joint. Even those of us who have not been hard hit since 1929 are often tempted to say: "What a crazy world we live in!" There are those who say that we have made such an utter mess of things that we cannot possibly make them worse, and those who assert that conditions have lately been so desperate as to threaten complete collapse of the national economy, or even the doom of civilization. In my humble opinion this is extreme exaggeration, not only false but foolish. Others feel that all experimentation is dangerous, and that the experiments themselves threaten ruin. I venture to disagree with them also. Civilization is tough. Wise old Adam Smith is reported to have said: "There is a good deal of ruin in a nation." History, even very recent history, shows that this country can take a deal of punishment and stand a large amount of experimentation. Some experiments turn out well, others badly. The Declaration of Independence and the Constitution of the United States were noble experiments; so also were the Eighteenth Amendment, the Agricultural Marketing Act, and the World Economic Conference. Proposed experiments require scrutiny, but it is seldom a question of heaven or hell, or always one of right or wrong; often it is a question of better or worse. So, I think, it is here.

It is not surprising that mental inertia, prejudice, or threat of injury conspire to produce opposition in some quarters

and skepticism in others. It is hard for any group of officials to meet skepticism, resistance, or criticism gracefully. There is a tendency to say, "Those who are not for us are against us." In view of the stress and strain under which they work, it is not surprising that the officials concerned should sometimes call others hard names, and denounce those who do not go along like docile sheep but who buck and butt like obstinate goats. In fact, however, the procedures are so frankly experimental that the experimenters themselves need not merely sympathy and co-operation but rational resistance, good-tempered criticism, and reasoned suggestions. It is reasonable to give our chosen leaders a fair chance to play their hand in the New Deal; but there are a lot of other players, and it is not reasonable to deny them a voice. This is particularly true when it is a question not merely of a new deal, but of a new deck, several new deals, and even new rules, subject to constant change, with exceptional powers of discrimination on the part of the dealer. There is urgent need for understanding reactions to the measures and a right spirit in expressing such reactions; but the maximum benefits from the whole undertaking will be gained only if the evolution of the program is subject to influence from those who are not simply docile or aloof.

THE UNDERLYING PHILOSOPHY

The philosophy underlying the new act involves numerous elements or theories which it is worth while to summarize in brief outline. In certain respects, which I shall mention first, this philosophy is essentially the same as that which underlay the McNary-Haugen bills, the export debenture plans, the Agricultural Marketing Act of 1929, and the operations of the Federal Farm Board. Agriculture is held to be the fundamental industry, and farmers a class of peculiar and para-

mount importance in society. This "agricultural fundamentalism" is a deep-seated doctrine, which few are willing to call in question; yet many of its far-reaching implications rest upon theory rather than upon proved facts. Second, our national policy, in its positive and negative aspects, is held to have operated on the whole to aid other classes more than farmers; consequently, it is held that agriculture has not had a square deal, or farmers a fair share in the national income. Third, for a variety of reasons, farmers are regarded as incapable of organizing to secure their rights as effectively as do industrialists, commercial interests, railways, bankers, and industrial employees; hence in a society shot through with organization it is held that they tend to get "the short end of the stick" unless the government steps in to give them special aid in organizing and otherwise. In addition, it is held that a great depression, accompanied by severe decline in the level of prices, works peculiar hardship upon farmers, since prices of raw materials such as they produce tend to fall farthest, since contraction of output is not readily feasible for them, and since their debts and taxes remain fixed while their net income falls; hence it is argued that agriculture requires extraordinary governmental aid at this juncture.

Foremost among the theories expressed in the new act itself is "that the present acute economic emergency" is partly due to "a severe and increasing disparity between the prices of agricultural and other commodities, which disparity has largely destroyed the purchasing power of farmers for industrial products, has broken down the orderly exchange of commodities, and has seriously impaired the agricultural assets supporting the national credit structure." It is therefore "declared that these conditions in the basic industry of agriculture have affected transactions in agricultural commodities with a national public interest, have burdened and

obstructed the normal currents of commerce in such commodities, and render imperative the immediate enactment of title I of this act." Here is enumerated a group of theories in which price disparity appears as the evil cause of sad results.

"Disparity" suggests that "parity" is definable, and the act defines it. Specifically it is declared to be the policy of Congress:

1. To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefor, as will re-establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period.

For tobacco the base period is fixed as the ten postwar years ending July 1929, for all other agricultural commodities the five prewar years ending July 1914. Thus the old slogan, "Equality for agriculture," is given new precision, in a manner resembling the ratio-price plan of Messrs. Peek and Johnson some ten years ago.

Further, it is declared to be the policy of Congress:

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

How great, by this yardstick, is the disparity that the act seeks to correct? The official indexes show that in the first three months of 1933 farm prices of farm products averaged 50 per cent of the prewar level, whereas retail prices paid by farmers for goods used in living and production averaged 101 per cent of the prewar level. Practically, therefore, the AAA was given the task of doubling farm prices as a group, and then raising them by as much more as the index of prices farmers pay actually rises. Not since 1920 has the index of

prices received reached 100 per cent of the index of prices paid; and only once, in the short crop year 1925, has the percentage averaged over 91. As of November 15, 1933, the indexes showed farm prices averaging about 61 per cent of "parity."

Nor is this all. The act is interpreted to mean that the normal or "parity" price of *each* farm product, its "fair exchange value," is as much above *its* prewar average as the index of prices farmers pay is above its prewar average. How much more this implies is partly indicated by the fact that farm prices of grains as a group were only about 35 per cent of their prewar level in January–March 1933. For some farm products the standard implies trebling or quadrupling the farm prices of early 1933.

Behind these specific declarations in the act lie three major assumptions. First, it is assumed that this statistical procedure really shows what may be called "fair prices" for farm products, though it is well known that *wholesale prices* of farm products in the United States were relatively higher in 1909–14 than in any period of equal length before, at least in more than a century, and though it should be well known that price relationships among various commodities not only fluctuate from year to year but change notably from decade to decade, as changes occur in conditions of production, transportation, and demand. Second, it is assumed that farm prices of farm products *can* be raised, through government action, by the relative amounts indicated. Third, it is assumed that if farm prices are so raised, even by curtailment of farm output at the direct expense of much higher prices to consumers, agricultural prosperity will be restored and general economic recovery enhanced if not insured.

These important assumptions generally pass unquestioned and seem to have been accepted as if they were self-evident.

Actually each rests upon no demonstrated foundation. Taken together, they may be subjected to at least as severe a test as were the theories which underlay the Agricultural Marketing Act. Are the normals normal? Can the task be done? Will success mean success?

Let me elaborate the last of these searching questions. If farm production is sufficiently curtailed to insure farm producers parity prices, will they regard the income from parity prices on the reduced output as satisfactory? Accurately speaking, parity prices are only an intermediate objective; if this should be attained without achieving the larger and more ultimate objective—satisfactory income per farmer—will the success be regarded as success or failure? Another pertinent question is this: If the restoration of parity prices itself is slow in coming, will farmers await with patience the full achievement of a goal so vigorously proclaimed as their due? Leading spokesmen of the AAA have rightly given warning that magic and miracles are too much to expect of them, and have openly appealed for patience as well as co-operation; but the goal set is relatively so high and so definite that comparison of aims and achievements is inevitable.

Other features of the philosophy behind the AAA must be summarized more briefly. The view is rejected that we can safely trust to time and the simple operation of economic forces to restore prosperity. It is held that something *must* be done to accelerate recovery; and not merely something—a vast campaign under government leadership is regarded as essential. It is held that the situation demands a grand extension of economic planning and adjustment, to be worked out by a process of trial and error. This is held to be necessary not merely to accelerate recovery but to prevent future crises and prolonged depressions, and to insure continuously more effective use of our abundant resources. The avowed inten-

tion of the Secretary of Agriculture is to develop out of these emergency measures a comprehensive system of planning for agriculture. Early in October he said: "We are face to face with the necessity for planning our production to fit the needs of all our people, plus what we can reasonably expect to export at a fair price," with "a margin of safety to allow for drought, crop failure, or other disaster." Economic engineering, including currency management and planned agriculture and industry, is held to be essential to temper the cruelty of economic forces and make them serve human ends, just as medicine and engineering have proved invaluable in tempering the cruelty of natural forces and making them serve human ends. And such planning, in view of its proponents, implies not merely plans but execution, "control." It is confidently held that government machinery adequate to the task can be developed, and that the requisite co-operation of individual farmers, private business interests, and technical experts can be enlisted and mobilized.

Overproduction of several commodities is accepted as a stark fact, not a mere illusion. Specifically, it is held that the present emergency calls not merely for diverting surplus foodstuffs and raw materials to those in dire need, into export, and to lower-value uses, but also for positive steps to contract the output of several farm products. The experience of the past three years is held to have shown conclusively that unstimulated contraction of production is too slow and too cruel, and the experience of the Farm Board that merely to advise farmers to reduce production is futile. Moreover, it is held that agriculture is so fundamental, and the prices of agricultural products so depressed, that a huge transfer of purchasing power from consumers to farmers is not only just, but necessary to promote national economic recovery in the interest of consumers themselves. This is the ground on which

processing taxes are levied to provide funds for cash rental and adjustment payments, which in turn are being paid to secure contraction of production so that farm and market prices may be raised.

The larger implications of the contraction programs are beginning to be realized, albeit reluctantly. It is recognized that our productive acreage must be substantially reduced, perhaps by forty million acres; but few spokesmen have yet openly admitted that a reduction in the number of commercial farmers may also be involved. The AAA does not assert that our agriculture must be readjusted to a basis of national self-sufficiency, but it is pessimistic regarding at least the early prospects for notable expansion of our diminished export trade in farm products. Secretary Wallace said on November 14:

By reducing acreage we are trying to get off the international market until such time as we can bring about a real increase of foreign purchasing power by tariff reduction and the negotiation of reciprocal tariffs. . . .

It was not with enthusiasm but as a warning that he said also:

If we finally go all the way toward nationalism, it may be necessary to have compulsory control of marketing, licensing of plowed fields, and base and surplus quotas for every farmer for every product in each month in the year. In other words, it will be necessary to make a public utility out of agriculture. . . .

Secretary Wallace does not shrink from envisaging this logical limit of the process of economic planning in a world obsessed by economic nationalism, but he apparently hopes that the road may have a turning toward another and better goal.

The philosophy I have sketched is worthy of detailed and fair-minded examination. There are some serious gaps in it, even in a fuller statement than I have time to present; it has weaknesses as well as strength; but so far as it goes it is

reasonably coherent, and I think it is more clear-cut and comprehensive than our agricultural philosophy has ever been in the past. It is being set forth so boldly, in deeds as well as in words, that we may fairly expect its testing to bring to light such defects and positive errors as it may contain. It is with such a philosophy in mind that one must view the various programs of the AAA, and their success will depend in part upon the soundness of the underlying theories.

Altogether, an amazing array of ingenious programs is being carried into effect, with promise of more and more to come. We shall learn much from the experience. We shall doubtless do differently hereafter because of it. But it is quite too soon to say where it will end. Whether the outcome will be some system of thoroughgoing control of all agricultural operations, or abandonment of the whole series of procedures, or continuation with new experiments, or something in between, Time will tell; and tonight, at least, I am not prepared to forecast Time's verdict.

NOTE.—Portions of this address were subsequently included in a much lengthier discussion of the developing AAA program, selections from which appear in the following chapter.

Beginning in July 1933, the author was collaborating with E. G. Nourse and J. D. Black in conducting a "concurrent study" of operations under the Agricultural Adjustment Act. This chapter and the two following ones represent a stage in that work in which we restricted ourselves to analysis and exposition while stopping short of critical appraisal.

THE ADJUSTMENT PROCESS TO OCTOBER 1934*

[October 1934]

Under the Agricultural Adjustment Act of May 12, 1933, an amazing adventure in national planning and control of agriculture has been launched in the United States. The new program has not yet been revealed or even formulated in all its fullness, but in a single year many far-reaching moves have been made. The measures represent a bold and vigorous effort to pull American farmers out of the worst agricultural depression the United States has experienced, and to develop machinery and procedures for solving old and baffling problems of American agriculture. In his message of March 16, 1933, referring to the bill which developed into "The Farm Act of 1933," President Roosevelt said to Congress:

Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture. If a fair administrative trial of it is made and it does not produce the hoped-for results, I shall be the first to acknowledge it and advise you.

Without pretence at forecasts or premature appraisal, it is pertinent to summarize the principal operations in the first year of the Adjustment Act, against the background of the conditions which they were designed to correct and the philosophy which underlies them.

* Portions of a much longer discussion, "Planned Agricultural Adjustment in the United States, 1933-1934," forming chapter i of *Commodity Control in the Pacific Area; A Symposium on Recent Experience*, edited by W. L. Holland and issued in 1935 under the auspices of the secretariat of the Institute of Pacific Relations. Reprinted, with slight alterations, by permission of the editor and the publishers, Stanford University Press and George Allen & Unwin, Ltd., London.

THE BACKGROUND OF THE ACT¹

In the five years before the war, American agriculture was fairly prosperous. Though data for adequate comparisons with earlier and later periods are lacking, practically all available evidence supports this generally accepted opinion. The 10-crop index of crop value per acre was about double its depressed level in the middle 1890's, and higher than even in the years of currency inflation following the Civil War. Wholesale prices of farm products stood notably higher in relation to the general index of prices than ever before. Values of farm real estate per acre, which had fallen slightly in the 1890's, rose sharply in the decade 1900-10, and continued upward; this increase was striking, even after allowance is made for the concurrent upward trend of commodity prices. These trends were accompanied by a notable decline in the volume of our agricultural exports from the high peak to which they had risen in the late 1890's.

During the World War, expansion of foreign demands for American farm products led to notable increases in farm prices and farm income, and considerable increases in volume of output and exports (except of cotton). Before the boom broke in 1920, farm land values had risen sharply and many farms had changed hands at high prices. Incidental to this process, accompanying exceptional prosperity, the farm mortgage debt rose from 3,320 million dollars in 1910 to 7,858 million in 1920. Owing to these factors, the postwar deflation crisis was the more severe upon agriculture. In the

¹ Materials for this background are drawn chiefly from a large variety of printed and mimeographed publications of the Department of Agriculture, including the Bureau of Agricultural Economics and the Agricultural Adjustment Administration. Among the most important are the annual *Yearbook of Agriculture*; the monthly *Crops and Markets*; L. H. Bean and A. P. Chew, *Economic Trends Affecting Agriculture*, July 1933; Mordecai Ezekiel and L. H. Bean, *Economic Bases for the Agricultural Adjustment Act*, December 1933; and *Agricultural Adjustment*, the AAA's extensive report on its operations to February 1934, released March 26.

course of the ensuing financial readjustment, the farm mortgage debt rose to over 9,000 million dollars, while total agricultural capital valued at current rates declined from 78,436 million in 1920 to 58,244 million in 1924, as compared with 45,042 million in 1909-13; and the index of farm real estate value per acre (1912-14 average = 100) declined from 170 in 1920 to 130 in 1924.

After substantial recovery from the postwar depression, American agriculture experienced a period of reasonably stable prosperity in 1925-29. The volume of net agricultural production fluctuated within narrow limits, on a considerably higher level than in 1919-22, or presumably than before the war. Production of dairy and poultry products, of wool, truck crops, and some fruits, showed marked up-trends, while production of grains and meat animals declined somewhat from the level of 1923 and 1924. In these five years, gross income from farm production averaged 11,745 million dollars as compared with 6,602 million in 1909-13. The 10-crop index of crop value per acre averaged 19.38 dollars as compared with 15.89 dollars in the late prewar period, and more conspicuous increases in value of output occurred in livestock products and various lesser crops. Annual ratios of index numbers of wholesale prices of farm products to those prices of nonagricultural commodities averaged above the 1910-14 average in this period, though the same did not hold for the index of purchasing power of farm products at the farm. Valued at current rates, agricultural capital averaged 57,070 million dollars in 1925-29 as compared with 45,042 million in 1909-13, when land values were high; and the index of farm real estate value per acre averaged about 23 per cent above its 1910-14 level.²

It may be questioned whether history will bear out the pre-

² Assuming that the 1910-14 average was 98 per cent of the 1912-14 base figure.

vailing view that agriculture was still in a depressed condition in 1925–29, as compared with a reasonably normal level; and it is inherently difficult to test the general opinion that farmers were not then getting their “fair share” of the increasing national income. Indubitably, however, that share was a declining one;³ industrial and commercial expansion far outran expansion in farm output; and in spite of many improvements in the plane of living and business operations on the farm, nonfarm activities were relatively more attractive. According to the latest official estimates, the net movement from farms in most years of the first postwar decade exceeded the natural increase, so that the farm population as of January 1 declined from an interim peak of 31,768,000 in 1922 to 30,169,000 in 1930; this was nearly 2 million less than the estimate for 1910. Land values per acre continued to sag rather than resume the advance that had characterized the prewar period. Taxes on farms kept on rising, and farm mortgage interest charges failed to decline appreciably; the mortgage debt itself even tended slightly upward, and the estimated total for 1928, nearly 9,500 million dollars, was perhaps an all-time peak.

Because of such conditions, pressure for relief and aid for agriculture did not cease with substantial recovery from the postwar depression in 1924–25. Various major and minor measures were adopted; but President Coolidge vetoed, in February 1927 and May 1928, two successive McNary-Haugen bills that embodied a vigorous policy designed to raise agriculture to “equality with industry.” With a device quite

³ According to estimates of the National Bureau of Economic Research and the Department of Agriculture, farm income constituted 18.5 per cent of the national income in 1919, 14.9 per cent in 1920, close to 11 per cent in each year of 1921–25, around 9½ per cent in each year of 1926–28. Preliminary indications for 1931 and 1932 suggest corresponding figures of about 7 per cent (*Economic Trends Affecting Agriculture*, p. 33). For various reasons, including the imputation of low valuations to various items of noncash farm income, any such percentages understate the farmers' share in the nation's *real* income.

different from the equalization-fee feature of these bills, but with the same major price-raising objective, an export debenture plan was strongly urged as an alternative.⁴ With substantially the same objective, the Agricultural Marketing Act of 1929 was passed at a special session early in President Hoover's administration. This provided for a Federal Farm Board with broad powers, and put at its disposal a revolving fund of 500 million dollars to use in aid of co-operative marketing and for commodity "stabilization operations."

With the growing industrialization of the United States, each successive census has showed an increasing proportion of the population in the cities and a declining relative importance of agriculture. About the time of the Civil War, agriculture ceased to be the principal occupation of the majority of those gainfully occupied. During the World War the population first ceased to be predominantly rural.⁵ The decade 1910-20 was probably the first, however, in which the farm population actually decreased, and the decline went considerably farther in 1910-30.⁶ In 1930 slightly under one-fourth of the total population was on farms. The same census showed approximately 10 million persons of 16 years and upwards gainfully occupied in agriculture; this was 21.2 per cent of the total gainfully occupied population of these ages.⁷

In the first three years of the latest depression, however, the gross movement from the farms, which is estimated to have exceeded 2 million persons a year from 1922 to 1929,

⁴ The movement for farm relief, the conditions in which it thrived, and the principal proposals up to early in 1929, are discussed in J. D. Black, *Agricultural Reform in the United States* (New York, 1929), published in April 1929.

⁵ Counting as rural the population outside of incorporated places with a population of 2,500 and over.

⁶ No census data on farm population were collected prior to 1920, but a census estimate was made for 1910.

⁷ *Recent Social Trends in the United States* (New York, 1933), I, 281. For persons 10 years and over the number reported engaged in agriculture was 10,482,000, and the percentage slightly under 21.3 (*Economic Trends Affecting Agriculture*, p. 34).

declined so sharply that the farm population rose to a point on January 1, 1933, above that of 1910. This reflected not the absolute attractions of farming, but the facts that under prevailing industrial conditions few could find jobs in the cities and towns, and food and shelter were less difficult to obtain on the farms. The latest estimate of the farm population, as of January 1, 1934, is $32\frac{1}{2}$ million. The official estimates indicate a net migration from the farms in 1933 for the first year since 1929, but a net increase of 267,000 in the farm population owing to an excess of natural increase in farm population over net migration from the farms.⁸

The world-wide depression of 1930 fell with cruel force upon American agriculture. In the face of this, the bold and costly loan and stabilization operations of the Federal Farm Board alleviated some disasters for a time, but completely failed to prevent drastic declines in prices of farm products, eventually to or below the historic lows of the 1890's. From a level approaching 12,000 million dollars in each year of 1925-29, gross income from agriculture declined in 1929-32—in 1932 to 5,331 millions, well below the prewar average. With taxes, interest charges, rent, wages, and operating expenses declining only moderately, net income from farming shrank even more severely. Exports declined in volume, and much more heavily in value. The estimated farm value of exports of farm products had constituted 15.8 per cent of gross income from farm production in 1919, and averaged 14.1 per cent of it in 1920-24 and 12 per cent of it in 1925-29; in 1929-32 the corresponding percentages fell to 10.2, 7.5, 6.7, and 6.5.

⁸ These estimates take no account of changes in the rural nonfarm population; for these there are no available data, but "it is generally conceded that there have been marked increases since 1930 in the number of persons living on plots of land too small to be classed as 'farms' by the census" (U.S. Department of Agriculture press releases of March 27, 28, 1934).

The index of crop value per acre declined relatively farther from 1929 to 1932 than from 1919 to 1921, and to a point in 1932 lower than any in the record extending back to 1866. Net income from agriculture, which in 1925-29 had yielded operating farmers around 4 per cent on their capital in addition to a computed return for their labor at going rates,⁹ fell increasingly short of rewarding their labor even at reduced rates. From the level at which they had appeared to be settling, farm real estate values per acre declined 36½ per cent in the three years ending March 1933, as compared with a fall of 32½ per cent in the preceding decade from the exceptional peak in 1920. At the end of 1931, the value of agricultural capital was estimated at 43,316 million dollars, reflecting a drop of nearly 25 per cent in two years; and the shrinkage continued for more than a year longer. Whatever the train of causes responsible for it, the severe and protracted disaster to agriculture affected all business interests dependent on farmer purchases; and because of extensive farm indebtedness, it contributed toward undermining the financial structure of the nation.

Prices of farm products were generally at their lowest, and farm distress was at its worst, during the summer, autumn, and winter preceding the change of administration on March 4, 1933. This contributed heavily to the Democratic landslide in the elections of November 1932. Disappointment with the Federal Farm Board led to demands for new and more potent measures of farm relief and agricultural reorganization. During the campaign Mr. Roosevelt had virtually committed himself to the principles of the voluntary domestic allotment plan,¹⁰

⁹ *Yearbook of Agriculture, 1934*, p. 697. Competent students in this field are not yet satisfied with the procedures by which such percentages are derived.

¹⁰ His major utterance on the subject was in his speech at Topeka, Kansas, Sept. 14, 1932. This is quoted in the present author's analysis of the allotment plan, chiefly in the form in which it stood during the presidential campaign, in the study from which the excerpts in chapter xvi are taken.

as a major device to be employed. This contemplated giving farmers cash payments, in return for their agreements to reduce acreage or production by stipulated percentages, the payments to be financed by processing taxes on the farm products consumed within the country but off the farms.

The new administration was elected by such large majorities that it had a relatively free hand in trying out measures breaking sharply with tradition and experience. The Farm Act of 1933 was largely drafted by the incoming administration, in close consultation with representatives of farm organizations, with the aid of several men who were given the task of applying it. Nevertheless, the act as passed represented a compromise between the demands of politicians and farm leaders who mainly sought quickly-operating farm relief, and the desires of a few farsighted students of agriculture who sought to provide for more fundamental adjustments of agriculture to changed conditions in the emergency and beyond it.

THE ACT AND THE ADMINISTRATION

The Agricultural Adjustment Act¹¹ is not elaborate. It is largely permissive rather than mandatory, and leaves wide discretion to the Secretary of Agriculture. Indeed, unlike the Agricultural Marketing Act, it makes no specific provision for the organization that has been set up to administer it. The substantive provisions chiefly confer authority on the Secretary of Agriculture to apply a cotton option plan and voluntary domestic allotment plans for agricultural commodities designated as "basic," to enter into marketing agreements covering any agricultural commodity or product thereof, and to license processors and handlers of these and competing products. The

¹¹ Title I of Seventy-third Congress, *Public No. 10, H. R. 3835*. As amended up to February 1934, it is conveniently accessible in *Agricultural Adjustment*, pp. 361-68. Relevant executive orders are given in *ibid.*, 369-73.

act makes provision for processing taxes to be levied on the specified basic products (and for compensating processing taxes on products competing with these), in order to finance land rental and benefit payments to farmers and costs of disposal of surpluses. It also appropriates 100 million dollars to be used for administrative expenses and rental and benefit payments.¹² The act is to expire when "the President finds and proclaims that the national economic emergency in relation to agriculture has been ended" (Sec. 13). "Emergency" is a term so elastic that only a hardy prophet would predict the date of expiration under this limitation. It will not be surprising if, before that time comes, the act is replaced by another measure ostensibly designed to be permanent.

The act designated as "basic agricultural commodities" wheat, cotton, field corn, hogs, rice, tobacco, and milk and its products.¹³ All of these except rice are of major importance from the standpoint of number of producers and amount of farm value. Various other products of lesser importance had as good claims to inclusion as rice, and most of the rice program actually developed would have been equally feasible if

¹² In practice this appropriation has thus far been drawn upon to only a limited extent, and for administrative expenses only. In addition, the National Industrial Recovery Act of June 16, 1933 (Sec. 220), authorized the President to allocate not more than 100 million dollars (the so-called Bankhead Fund) for carrying out the purposes of the Agricultural Adjustment Act. Of this amount the President allocated 60 millions to be used in adjusting accounts between the Secretary of Agriculture and the Farm Credit Administration in acquiring cotton and cotton options for use in making benefit payments, and 37 millions for the corn-hog program.

¹³ Three reasons for designating these as basic are mentioned in *Agricultural Adjustment*: "One is that changes in their price strongly influence changes in the prices of other agricultural commodities. Another is that the United States produces an exportable surplus of nearly all of them. Export demand and world price of each had fallen sharply before the act was passed, and these commodities were generally in a relatively worse economic situation than others that are produced and consumed on a domestic basis. A third reason is that each of these commodities is put through some manufacturing process before it is ready for human consumption and their production and distribution can be more easily regulated in these processing channels than could the production and distribution of commodities not so processed." These criteria were not strictly applied, and have subsequently been abandoned.

rice had not been called "basic." All those listed except milk and its products have been produced in substantial proportions for export, though corn has been exported mainly in hog products rather than as grain. Beef cattle, sheep and wool, and poultry and eggs are also basic agricultural products from certain standpoints; like dairy products, they are produced almost wholly for domestic use. When the bill was before Congress, however, organizations representing the cattle industry vigorously opposed inclusion of cattle in the list, and sheep and poultry interests preferred that their products too be left out.

Recent amendments to the act have significantly broadened the scope. Late in March 1934, without a record vote, Congress passed an amending bill, which the President signed on April 7.¹⁴ This added to the list of basic commodities, cattle, rye, flax, barley, grain sorghums, and peanuts. It further appropriated 200 million dollars to enable the Secretary of Agriculture to finance programs of "surplus reductions and production adjustments with respect to the dairy and beef cattle industries . . . and to support and balance the markets for the dairy and beef cattle industries," not more than 120 million of which was to be used for either of these two industries. An additional 50 millions was appropriated to enable the Secretary to make advances to the Federal Emergency Relief Administration for relief purchases of beef and dairy products, and "to eliminate diseased dairy and beef cattle, including cattle suffering from tuberculosis and Bang's disease, and to make payments to owners with respect thereto." The Secretary's power to enter into marketing agreements was broadened by a re-wording in which the italicized words indicate the significant additions:

After due notice and opportunity for hearing, to enter into marketing agreements with processors, *producers*, associations of producers and others engaged in the handling of any agricultural commodity or product thereof, in the current of *or in competition with, or so as to burden, obstruct, or in any way affect*, interstate or foreign commerce.

A separate bill, passed April 27 and signed May 9,¹⁵ designated sugar as a basic commodity, set maximum quotas for domestic beet- and cane-sugar production, and authorized the Secretary of Agriculture to fix quotas for sugar from the island possessions and foreign countries. Under it the President proclaimed a 1/2-cent reduction of the tariff duty, effective June 8, and processing taxes of like amounts have been levied from that date.

The Federal Farm Board formally ceased to exist on May 27, 1933, by virtue of an executive order of March 27, which Congress did not choose to reject or alter. Many of its functions were taken over by the Farm Credit Administration, a new agency simultaneously set up under a single head, independent of the Treasury and Department of Agriculture; this was given far more extensive powers and responsibilities in connection with farm debts, agricultural credits and related matters.¹⁶ The basic task of restoring agriculture to prosperity, however, was mainly consigned to the Agricultural Adjustment Administration, which was organized under the Act of May 12, 1933.¹⁷

Unlike the Farm Board and the FCA, the AAA was set up

¹⁵ Seventy-third Congress, *Public No. 213, H.R. 8861*.

¹⁶ See *First Annual Report of the Farm Credit Administration* (Washington, 1934). Disposal of stabilization holdings of grain was completed by Apr. 29, 1933, and of cotton by June 15 following. The last lot of Brazilian coffee received in exchange for stabilization wheat was sold on May 3, 1934. On Dec. 31, 1933, the Grain Stabilization Corporation held German government notes for \$3,961,827 due in equal instalments, Dec. 31, 1934-1936. After cancellation of portions of loans in connection with donations of wheat and cotton to the American National Red Cross, under Congressional authorization, the balances due the Farm Credit Administration on Dec. 31, 1933 were \$81,817,542 by the Grain Stabilization Corporation and \$16,160,768 by the Cotton Stabilization Corporation.

¹⁷ This section is largely based on *Agricultural Adjustment*, the AAA's own extended report to February 1934.

within the Department of Agriculture. Within a few months it has grown to be one of the largest agencies in Washington, with an important group of experts obtained from the Farm Board, the Bureau of Agricultural Economics, state agricultural colleges, and elsewhere. Early in 1934 the personnel of the commodity and service sections numbered about 1,000, while another 2,700 were divided among the contracts records, comptroller's, and disbursing sections. With the expansion of programs further enlargement of staff is under way—facilitated by the fact that most of the administrative expenses for the work are being met out of revenues from processing taxes imposed under the act.

For its work in Washington and in the states the AAA has drawn heavily upon the BAE and its division of crop and livestock estimates, federal and state extension services, and the state agricultural colleges. Without these well-developed institutions the rapid formulation and application of its various commodity programs would have been impossible. Indeed, the AAA has called the 2,200 county agents the "shock troops" of its production-control campaigns.

In addition, heavy reliance has been placed on organized participation of farmers themselves, especially in the extensive local work involved in allotment programs. Farm Board measures had aroused severe criticism among farmers on the score that they were developed "from the top down" instead of "from the ground up." Proponents of the voluntary domestic allotment plan, notably M. L. Wilson, stressed the importance of applying it only after a thorough educational campaign reaching to the "grass roots" and a subsequent referendum among the growers of the crop concerned had been undertaken, and of having the local responsibility for applying it devolve upon farmer committees elected by participating farmers in each county and community. Except for

omission of the farmer referendum, this has been done; and a large part of the total administrative outlay will be paid to farmer committeemen locally elected, and deducted (on a county or district basis) from the benefit payments made to co-operating producers.

The AAA has been the target of much criticism, particularly from businessmen having dealings with it, for its poor administration, lack of practical sense, dilatoriness, vacillation, and so on. Considering the rapidity of its growth, the magnitude of the tasks it has assumed, and the extent to which it has been ploughing new ground, it would be astounding if such criticisms had not been made and in large measure earned. The organization and its operations have yet to meet severe tests that time will bring, but its first year's achievements—mostly, of course, of an intermediate rather than final character—are none the less amazing.

AAA PROGRAMS

The various measures adopted or in process of adoption under the new adjustment policy are summarized below. With few exceptions they are novel in United States experience.

1. Voluntary domestic allotment plans calling for contractual reduction of acreage or production on individual farms were applied to 1933 crops of cotton and cigar-leaf tobacco, and to 1934 crops of wheat, cotton, corn, hogs, and all six major types of tobacco; and are in contemplation for other products. Under marketing agreements involving types of producer quotas, the pack of cling peaches was restricted in 1933 and the acreage or production of rice was restricted or reduced in 1934. For sugar, a quota scheme for limiting domestic production and imports from various sources, including United States possessions, received Congressional sanction in May.

2. The United States is a party to the international wheat agreement fixing export quotas for 1933-34 and 1934-35, requiring the major exporters to restrict acreage and/or production in 1934 and 1935, and committing signatory importing nations to measures calculated to assist in bringing wheat supplies and consumption into better adjustment.

3. An emergency pig-sow slaughter operation in August-September 1933 was conducted to reduce supplies for market in 1933-34, and resulted in eliminating over 6 million young pigs and over 220,000 sows about to farrow; the edible products were used for relief.

4. Also for relief disposition through the Federal Emergency Relief Administration, market stabilization purchases of hogs and hog products, butter, and a considerable variety of other products have been made, chiefly through an official Federal Surplus Relief Corporation.¹⁸ Such integration of surplus-removal and relief policies (through what are in a double sense "relief purchases") is designed in part to avoid accumulation of stocks such as Farm Board stabilization operations entailed,¹⁹ and partly to forestall or to meet public condemnation of policies of destruction or contraction of supplies when large numbers are in want of food and clothing.

5. A marketing agreement providing for subsidized exports of wheat from the Pacific Northwest was in operation for several months in 1933-34, and two rice marketing agreements permit certain funds contributed by rice millers to be used for facilitation of rice exports.

6. Domestic marketing agreements designed to raise prices to producers and improve marketing conditions were adopted

¹⁸ Its board of directors consists of the Secretaries of Agriculture and the Interior, the Governor of the Farm Credit Administration, and the Federal Emergency Relief Administrator.

¹⁹ Under Congressional authorization, large parts of the surplus stocks of wheat and cotton accumulated by stabilization corporations under the Federal Farm Board were subsequently disposed of for relief in 1931-33.

for fifteen urban milk markets, evaporated milk and dry skim milk; and for 1933 production of cling peaches, flue-cured tobacco, rice, Northwest Pacific tree fruits, California Tokay grapes, citrus fruits in the three chief producing areas, California ripe olives and English walnuts. Additional similar agreements to be effective in 1934 have been adopted for California fresh deciduous tree fruits (except apples) and asparagus, and peanuts; and others are under consideration.

7. By request of the AAA, canners of tomatoes, corn, lima beans, beets, and cabbage for sauerkraut agreed to increase prices paid to growers by 20 to 37½ per cent above those stated in contracts made early in 1933.

8. Riskless loans on generous terms have been made to growers of cotton and corn of the 1933 crop, and to holders of cotton options given in part payment for contractual reduction of that crop.

9. Processing taxes to raise funds to cover benefit payments, costs of surplus removal and administrative expenses, have been levied on wheat, cotton, tobacco, corn, hogs, and sugar. In addition to import-compensating taxes on these products, compensatory processing taxes have been levied on jute yarns, jute fabric, paper bags, paper towels, and gummed paper tape.

10. Codes for grain exchanges, the milling industry, the liquor industry, cotton ginneries, and a few lesser trades and industries directly concerned with agriculture have been put in force, and many others are in process.

No compulsory measures were applied in the first year, except those requiring contract signers to comply with their contracts, and those requiring parties not signing approved marketing agreements to operate under licenses containing similar provisions. Offers of substantial benefit or adjustment payments have served to bring under contract the pro-

ducers of the great bulk of the products for which adjustment programs have been put into effect. Preliminary steps were taken, however, to administer the recent Bankhead Act, designed to restrict cotton ginnings from the 1934 crop to 10 million bales exclusive of certain premium varieties. The enforcement of marketing agreements and accompanying licenses has encountered many difficulties, particularly in the case of milk; and early in 1934 these led to radical revision of the dairy program. The Smith bill (S. 3326) was drafted in part to give the AAA much more power in these respects, but failed to pass in spite of vigorous support from the administration.²⁰

Thus far, decisions upholding the constitutionality of the act on the ground of national emergency have been rendered by a United States District Court in California (cling peach case) and, in three milk cases, by the Supreme Court of the District of Columbia. An adverse decision was rendered on January 30 by a United States District Court in Florida (citrus case), but on April 14 this was reversed by the Fifth Circuit Court of Appeals at New Orleans. The Supreme Court of the United States has not yet rendered any decision under the act, but the AAA has regarded that court's 5 to 4 decision of March 5, 1934, upholding the price provisions of the New York Milk Control Law in the *Nebbia* case,²¹ as foreshadowing favorable decisions under the federal act.

Beyond the co-ordination of relief requirements and surplus-removal objectives, several examples of co-ordination between the AAA and other government agencies deserve passing mention. The Farm Credit Administration has restricted production loans by agencies under its authority in such a way

²⁰ Hearings on this bill, before the Senate Committee on Agriculture and Forestry, May 8-11, 1934, have been published.

²¹ *Nebbia v. People of the State of New York*, 78 U.S. 563.

as to favor producers participating in commodity programs and to avoid financing production by others in excess of what their limits would be if they were participants. The Federal Alcohol Control Administration has assigned import quotas to foreign countries in part in exchange for agreements to admit certain agricultural exports from this country. Under a marketing agreement with the Secretary of Agriculture signed December 9, 1933, manufacturers of distilled spirits agreed to make them solely from cereal grains (except by special permit from the Secretary), and to pay into the Treasury, for use under the Adjustment Act, the difference between "parity prices" and the current average farm price. The Secretary of Agriculture is a leading spokesman for the policy of removing restrictions upon international trade, partly with a view to promoting recovery in the volume of our agricultural exports; and he and the Assistant Secretary are members of an interdepartmental executive committee that is seeking to reformulate American policy in this field.

The whole problem of land-use planning, which has engaged increasing attention in the past decade, is being attacked with fresh vigor by the program planning division of the AAA, which is absorbing most of the division of land economics of the BAE. President Roosevelt announced in August 1933 the policy of retiring from production land equal in productive power to what is henceforth brought into cultivation under federal reclamation projects. The FSRC has since been empowered to buy up submarginal lands, with an initial fund of 40 million dollars allocated for this purpose. The experiments in establishing "subsistence homesteads," for which 25 million dollars was appropriated by the National Industrial Recovery Act (Sec. 208), are conceived of as pointing the way to a method of absorbing those who are no longer "needed" in urban industry or commercial farming into a

type of life in which rural living will be combined with occupations of an industrial, handicraft, or other character.²²

THE FIRST YEAR SUMMARIZED

Celebrating the first anniversary of the passage of the Adjustment Act, Administrator Chester C. Davis reported that in all 3 million adjustment contracts with individual farmers were filed with or on the way to the AAA, representing "more than 90 per cent of this country's cotton and tobacco, 80 per cent of its wheat, and most of the corn and hog production that is significant"; and that in addition about 800,000 producers were favorably affected by marketing agreements. From the standpoint of administrative achievement, this is a remarkable record for this country, surprising even to farm leaders and the AAA itself, as well as to skeptics who had regarded the proposals as administratively unworkable. Of the major programs proposed, only that for control of dairy products has been shelved, because of dissent on the part of an important fraction of the producers. The scope of operations is still undergoing expansion.

The experiments thus far appear to show that it is administratively feasible, by offering liberal benefit payments, to get a substantial proportion of farmers (particularly in terms of volume produced) to agree to reduce their acreage of major crops, and to secure a net reduction in acreage of those crops in spite of maintenance or increase of acreage by nonsigners.

The question of voluntary or enforced compliance with

²² See M. L. Wilson, "The Place of Subsistence Homesteads in our National Economy," *Journal of Farm Economics*, January 1934, XVI, 73-84. Dr. Wilson, who had been a leader in the evolution of the domestic allotment plan and the act itself, was the first chief of the wheat production section of the AAA; but in August 1933 he became Director of the Division of Subsistence Homesteads in the Department of the Interior. In July 1934, after Dr. Tugwell was appointed Under Secretary of Agriculture, Dr. Wilson succeeded him as Assistant Secretary.

these contracts largely remains to be answered. Substantial compliance was secured in the 1933 cotton and tobacco programs, and the AAA anticipates similar success with others. To what extent, if at all, contraction of acreage will be offset by improvement in yields, resulting from the farmers' efforts, remains to be seen. Some tendencies in this direction are in evidence, with various crops; and these have contributed to the introduction of supplementary compulsory restrictions on marketings under the Bankhead Act for cotton, and under the Kerr-Smith Act for tobacco. Also of major importance is the use that farmers make of the "contracted acreage"—the acres taken out of production of crops under contracts. The objective is to prevent contraction in major crops from leading to expansion and resulting surpluses of other crops. Regulations restricting the use of such contracted acres—in the main to fallowing, soil-improvement crops, erosion prevention, and production for home consumption—have given the AAA serious concern, and their enforcement may not be easy. For 1934, drought prevented expansion of acreage in crops not subject to contracts.

To a considerable degree, the new program is "self-financing." Through the Bankhead appropriation of 100 million dollars, the general funds of the Treasury have borne the financial burden of the cotton-option plan, covered the costs of the emergency hog-reduction campaign, and contributed something more to the corn-hog program. Relief operations have also been financed by the general Treasury funds; these have amounted directly to between 50 and 60 million dollars, and indirectly to considerably more. Rental and benefit payments of 186,380,000 dollars made up to May 12, 1934, had been approximately covered by receipts from processing taxes paid in by that date. The Treasury will bear much of the cost of relief measures for the dairy and cattle industries.

The AAA has pointed to increases in estimated farm income in 1933 as compared with 1932, and of estimated cash farm income in the twelve months ending May 1, 1934, as compared with the corresponding year preceding. The one showed an increase of about 1,200 million dollars, or 23 per cent; the other an increase of about 1,560 million, or about 36 per cent. Of the latter figure, benefit payments represented 185 million, most of it for cotton and wheat. The rest represented increased returns due primarily to higher prices per unit of nearly all farm products, in most cases more than offsetting reductions in volume marketed.

It has been occasionally asserted, and frequently implied, that the price increases are the result of adjustment programs and marketing agreements. This view is not warranted, except in limited degree. While no precise allocation of credit can be made, it is safe to say that, thus far, most of the price increases in most farm products have been due to a combination of other factors. Chief among these were (1) short crops in 1933 resulting from adverse weather; (2) currency depreciation and accompanying speculative activity; (3) a substantial measure of increased business activity and consumer purchasing power; (4) corn and cotton loans; and (5) relief purchases, relief expenditures, and public works outlays on a large scale.

The first two of these factors call for a little elaboration. All of the major food and feed crops in 1933, and most of the minor ones, were well below the average for 1926-30.²³ Yields of all the cereals except buckwheat and rice were far below normal. Of other field crops only five—tobacco, dry beans, sugar cane and beets, and hops—had yields above average. Of the fruits and nuts, yields for apricots alone were above average. The 1933 index of the mass of crop production, based

on ten crops that constitute about 96 per cent of the total farm value of crops, combined on the basis of prewar average farm prices as of December 1, was 86 per cent of the average for 1910-14 as compared with 105 in 1932 and averages of 106 for 1928-32 and 105 for 1919-32.²⁴ This represented an unprecedented decline, for which Nature was very largely responsible. In the absence of any other factor, this would unquestionably have led to a substantial increase in crop prices and a material increase in income from crops.

The depreciation of the dollar in terms of gold and the foreign exchanges directly helped to raise prices of crops of which there are substantial exports or imports. It was an important factor in respect to cotton, wheat, rice, tobacco, sugar, and several of the fruit crops. Indirectly, prices of other crops were also affected. Though it is difficult to measure the influence of this factor on farm prices of individual crops, and much more difficult to estimate its influence on total farm income, there is good reason to believe that, in the year under review, its influence on dollar returns to the farmer was second only to that of crop shortage.

The first year's operations of the AAA as a whole contributed substantially to increase farmers' income from cotton, but in much smaller measure to increase their income from corn, wheat, tobacco, rice, dairy products, hogs, and some other products, in addition to benefit payments supplementary to returns from sale of farm products. At least apart from cotton, the chief influence of adjustment programs on farm prices is yet to be exerted; and benefit payments also will be much larger in the second year.

It is impressive that, thus far, contraction of output has received by all odds the major emphasis under AAA programs. The immediate objectives were, in the main, restraint or re-

duction of crop acreage and output, and reduction in livestock and output of animal products, as a means of reducing supplies so as to promote price enhancement. The AAA has not seen its way clear to make significant progress with schemes for promoting increased consumption, except in limited degree through relief purchases, or increased exports, except under the Pacific Northwest wheat subsidy.

In the year ending April 15, 1934, the index of farm prices rose from 53 to 74, the index of prices farmers pay from 101 to 120, and the "parity ratio" from 52 to 62. The index of farm real estate value per acre rose only from 73 to 76 per cent of the 1912-14 average, in the year ending March 1, 1934. Despite undoubted gains by farmers during the first year under the AAA, the goal of "price parity" lies far ahead, and the more important goal of farm prosperity as well. It remains for the future to tell whether the extraordinary measures in hand, as they may be expanded and modified, will prove adequate to the task set.

The declaration of policy in the Adjustment Act includes the following objective:

(3) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the pre-war period, August 1909-July 1914.

Actually, the spread between farm prices and consumers' prices has widened considerably since before the war, with increases in wages, distances, freight rates, and services of many sorts. There is at present no prospect that this declaration will interpose any practical limitation upon the efforts of the AAA to raise prices to producers of farm products, and apparently no effort has been made to calculate what limits this provision might impose. Restriction programs and processing taxes are, however, subject to continuous attack

as contrary to the interest of consumers. Through the Consumers' Counsel and speeches by the Secretary of Agriculture and others, the AAA is alert to discover instances of "unwarranted" increase in consumers' prices, and to persuade consumers that the adjustment programs are reasonable from their standpoint.

DEVELOPMENTS IN JUNE-OCTOBER 1934

To the foregoing discussion of the first year under the AAA, a few paragraphs must be added to summarize outstanding developments since last May.

The dominating, overshadowing fact was the drought—"the most widespread and most devastating . . . ever experienced in this country." "Never before, in the weather history of the United States, has so little rain fallen over so wide a territory throughout the growing season as this year." Per acre yields of thirty-three leading crops averaged only about 79 per cent of the corresponding 1921-30 average, and yields equal to or above average were obtained only on seven crops, including rice, sugar cane, cotton, and tobacco. A new index of production of twelve leading crops, on a 1910-14 base, stood at 89 for 1933, the lowest since 1903, and for 1934 at about 66, the lowest since 1890 or possibly 1894. Available records show no previous case of two years in succession of wheat yields per harvested acre so far below average, or of very short yields of all grains in the same year. In cotton and tobacco AAA measures were important factors in reducing output, but in other crops and on the whole the influence of the drought was overwhelmingly more important. The wheat carryover, though reduced in 1933-34, appears ample to supplement the 1934 crop except in durum; but according to a survey by the BAE published in October, "The nation's total feed and forage supply is only sufficient to provide a little

more than a subsistence ration for livestock in drought areas and rations below normal in other states if the present reduced numbers of animals are maintained.”

Such a catastrophe radically altered the adjustment problem. It presented a peculiar emergency, with which the AAA, the FCA, and the Federal Emergency Relief Administration collaborated in grappling. The AAA drew upon funds appropriated by the amending act of April 7, 1934, for a cattle adjustment program, to buy 7 to 7.5 million head of cattle in drought areas, send most of them to slaughter for relief, and pay for pasturing others where pasture was available. Less extensive purchases of sheep and goats have also been made. The railways were persuaded to grant reduced rates on cattle movements out of deficiency areas and on feed shipments into such areas. Restrictions on use of “contracted acres” under wheat and corn programs were relaxed so as to encourage provision of pasture and feed.

Some features of the AAA policy have risen in favor among farmers, and in other circles, as a result of this experience. Benefit payments, made on the basis of past production, have proved lifesavers in drought-stricken areas. The event seemed to justify the diversion of some wheat and corn acreage into pasture and forage crops under these 1934 control programs. The corn-loan policy, which had grave possibilities of embarrassment, resulted in giving borrowers the advantage of good markets for their corn in the summer and autumn of 1934, or of saving them the expense of buying high-priced feed then. This favorable experience has led to much talk of employing the loan policy much farther in future, so as to maintain an “ever-normal granary.”

Pressure of current domestic surpluses of food and feed crops has been suddenly removed, and forced liquidation of livestock has drastically reduced the animal population. Some

have urged that all restrictions on acreage and output should be removed, now that Nature has crudely done in one year what the AAA sought to do with less disturbance over several years, and that processing taxes added to enhanced prices unduly burden consumers. The AAA, however, is already committed to payments calling for the use of processing-tax revenues; and it holds that dangers of excessive production persist, that the principle of production control and organized adjustments must be adhered to, and that relaxation of restrictions rather than abandonment of "control" is appropriate. In view of experience that increased corn acreage and high corn yields have followed crop failure in the past, plans for restraints on corn acreage for 1935 are being made. Wheat growers under contract are required to restrict their wheat acreage sown for harvest in 1935 to 90 per cent of their base acreage as compared with 85 per cent for the past crop. Other 2-year programs are to be continued with only minor changes. Plans for some form of "unified contract" per farm covering several crops, with a view to simplifying administration and affording greater flexibility in farming operations, are expected to be matured for application in 1935-36.

The second campaign for signers of wheat contracts last spring was not actively prosecuted, and the results were almost negligible. According to preliminary estimates the total acreage seeded for 1934, including increased acreage of nonsigners, was about 11 per cent below the average for 1930-32 and about 10 per cent below the average for 1931-33. The check on compliance was carefully made, though late; except in crop-failure areas, field men made measurements from which office calculations of individual acreages in wheat and "contracted acres" were computed and checked against the contracts. In a few counties in Washington and Oregon, airplane photography was used with excellent re-

sults. Relaxations of restrictions on account of the drought rendered compliance in many areas easy, yet many cases of small amounts of excess acreage were found. Growers were generally allowed to make amends by cutting excess acres for hay, plowing wheat under, or (if harvest had been completed) diverting the excess grain to feed or relief uses. Only in a few cases of flagrant violation were contracts cancelled.

Extremely heavy abandonment in spring-wheat states reduced the harvested wheat acreage to about 44 million acres, apparently the lowest since 1904 and some 18 per cent below the average for 1931-33. The crop, reduced far more by drought than by contractual restrictions on acreage, is now estimated at about 500 million bushels, the smallest since 1890 and about a third less than the average crop of 1931-33. Wheat prices have been close to levels permitting imports of bread wheats from Canada and Argentina duty-paid, and durum is being imported. Exports seem likely to consist almost wholly of flour milled in bond from imported wheat, plus delayed shipments of subsidized sales from the Pacific Northwest.

Sales of wheat and flour under the North Pacific Emergency Export Corporation since its inception have totaled 28,383,600 bushels, including 6,537,307 in the form of flour.²⁵ Of this total about 45 per cent was sold to the Chinese government under its loan. The subsidy cost averaged 22 cents a bushel. Operations were greatly curtailed, and shipments suspended during the port tie-up from May 9 to July 31. After June 30 the only important sales were of flour to China under the loan, and all purchases and sales were suspended on August 9. Pacific Northwest wheat and flour have con-

²⁵ Operations to June 30, 1934 are analysed in J. S. Davis, "Pacific Northwest Wheat Problems and the Export Subsidy," *Wheat Studies*, August 1934, X, 353-426.

tinued above an export basis and have moved east in fair quantities; but this movement has been restrained pending the AAA decision on the proposed purchase of the regional surplus for feed use in deficiency areas east of the Rockies.

The 1934 cotton crop was officially estimated in October at 9,443,000 bales, the smallest since 1922, and well below the aggregate amount of 10.46 million bales on which tax-exemption certificates have been issued. The Bankhead Act is credited with having restrained expansion of acreage by nonsigners and larger use of fertilizer by many growers, but drought radically reduced yields in the western part of the Cotton Belt. Growers with a crop in excess of their quotas may buy pooled certificates of those with deficit crops, at 4 cents per pound, and with these market their excess crop without payment of the tax. Such purchases are serving to augment somewhat the incomes of growers with light yields who have certificates to sell. Very small growers are being issued certificates beyond their quotas or in the absence of any.

The maturity of loans on cotton was extended, and early in September the loan policy was continued and the loan basis raised from 10 to 12 cents a pound. On September 15, loans outstanding on the old basis were 42 million dollars. On November 2, loans outstanding on the old and new bases stood at 136 million dollars, with totals rapidly increasing as cotton prices have fallen below the loan rate. This policy is helping to restrict grower sales and cotton exports, and threatens to cause an embarrassing accumulation such as occurred under Farm Board operations. Serious concern is expressed in business circles lest AAA policies cause enduring losses of cotton export markets. While this problem is receiving consideration in the AAA and crop restrictions will be somewhat relaxed in 1935, continuation of the control program into 1935 is assured; only the degree of restriction to be asked for and the

amount of benefit payments to be paid have not yet been decided.

Great difficulties were experienced in getting finally adjusted contracts in the corn-hog campaign, so greatly did farmers' statements regarding hogs marketed in the base period exceed standing official estimates. Most of these difficulties were eventually ironed out, but not without much dissatisfaction. One result was to delay sending out the first benefit payments until late summer and autumn. The drought cut down the corn crop to the smallest since 1894, and extreme shortage of feed is causing reductions in hogs. Even so, farm prices of corn as well as hogs have not reached "parity" levels; barley and oats, for which no control programs had been adopted, were up to "parity" on September 15. After a referendum among corn-hog growers in September, it was decided to offer growers another 1-year adjustment program in 1935, broadly similar to the one in use this year.

As in the case of cotton, the corn pledged as security for loans to growers by the Commodity Credit Corporation was not taken over at the scheduled maturity. The maturity dates were first extended. Out of total loans made at the rate of 45 cents a bushel on 271 million bushels, loans were outstanding on about 100 million bushels on September 18. On September 22 corn borrowers were offered the option of having part or all of such grain reinspected, resealed, insured (special policies at low rates were made available), and if in suitable cribs used as collateral for new loans at 55 cents per bushel, maturing June 30, 1935, but callable when the price is at or over 85 cents a bushel, Chicago basis. New-crop corn was made eligible for loans on the same terms. A month later farmers were offered outright an additional 20 cents for options on corn suitable for seed, with assurance of a price of \$1.00 a bushel for corn bought under this option.

There was a very high percentage of grower participation in the AAA tobacco programs, and participants have generally viewed the outcome with enthusiasm. With some revisions in details, the programs are to be continued under existing contracts in 1935, but marketing agreements seem unlikely to be renewed. Under the Kerr-Smith Act of June 28, 1934,²⁶ a tax of 25 per cent of the sale price is imposed on sales of most types of tobacco harvested in 1934 in excess of individual growers' production quotas. Nontransferable warrants exempting from the tax are issued to contracting growers in accordance with their allotments; and further warrants to not more than 6 per cent of the aggregate allotments, county by county, are given growers for whom no equitable allotments were possible under the program. Under regulations issued by the Secretary of Agriculture applicable to flue-cured tobacco, of which the crop promised to be less than equal to the demand at satisfactory prices, growers with less tobacco than their allotments are permitted to use their surplus warrants with the sale of tobacco produced by growers who had more than their allotments. The principal effect of the act in operation is to penalize production by eligible nonsigners and excess marketings by contract signers, but in flue-cured areas it is moderating somewhat the variations in fortune among individual growers.

The AAA's efforts in the dairy industry continue to be ill-starred. Experience with the modified licenses under which many fluid-milk markets are operating has been unsatisfactory. State milk-control boards are now in operation in most states. No new broad control program has been formulated, and in view of the drought none is under consideration.

²⁶ Seventy-third Congress, *Public No. 483, H.R. 9690*. The act also authorized the Secretary to fix and readjust import quotas on cigar-leaf tobacco, and to allot these equitably among importers, excess imports to be subject to a special import tax at a rate determined by the Secretary.

The sugar quotas, fixed under the Jones-Costigan Act of May 9, are generous for domestic producers, in the case of beet sugar exceeding the amount marketed even in the year of maximum production, 1933. The various processors have been assigned quotas for the current season. The balance of estimated consumption was distributed according to percentages entering into domestic consumption in 1930-32 for Hawaii and in 1931-33 for Cuba, the Philippines, and Puerto Rico. The tariff on Cuban sugar was reduced by 40 per cent, effective September 4, to 0.9 cent a pound under the reciprocal trade agreement signed August 24. In each island possession the governor has been appointed administrator for a Sugar Control Plan there, with responsibility for submitting plans for a control program to Washington and executing this when approved. Allotment programs with benefit-payment features for growers in domestic sugar-cane and sugar-beet areas were announced on October 2, and growers are virtually guaranteed "parity prices" for their 1934 crop.

Effective October 1, 1934, a processing tax of 1 per cent per pound was imposed on peanuts except on nuts crushed for oil. The rate was set well below the statutory maximum of 2.8 cents, and the exemption made, after evidence indicated that this procedure was necessary to prevent decreases in consumption such as to aggravate the peanut situation. With the exception of peanuts and the sugar crops, no programs have been announced for basic agricultural commodities added to the original list under amendments to the act.

Rates of processing tax have thus far been continued at the rates previously established, though in most instances current farm prices plus the processing tax per unit exceed the computed "parity prices." In June 1934 compensating taxes were removed from some jute and paper products,

including jute grain sacks, and rates were readjusted downward on others. Gross proceeds of flour stocks, processing, and compensating taxes through October 1934 totaled 550 million dollars while, after heavy disbursements of rentals and benefit payments under corn-hog and cotton contracts, payments to all participating growers had reached a total of only 472 millions. The original plan of the AAA was to make benefit payments run well ahead of collections of taxes imposed to meet them, and thereby to stimulate general economic recovery. Unforeseen administrative complications so delayed establishing the contractual basis for benefit payments that this objective was not attained.

The official index of prices farmers receive has been extensively revised. For recent years and months the revised index, published in September 1934, stands several points higher than the older one. When plotted with the index of prices farmers pay, it shows distinctly less "price disparity" or "farmers' disadvantage" than had previously been indicated. The average ratio between the two indexes for 1932 was 53 on the old basis, 61 on the new. Between March 15, 1933, and September 15, 1934, under the combined influence of dollar depreciation, drought, and curtailment measures, the new index of prices farmers receive rose from 55 to 103 per cent of the prewar average, while the index of prices farmers pay rose from 100 to 126, and the ratio between them from 55 to 82. This ratio was the highest in four years, but is lower than any annual average ratio between 1910 and 1930 except that of 1921, which also was 82.

The AAA is doing its utmost to profit by the experience of the Federal Farm Board, to take a realistic view of world conditions, to co-ordinate its various programs, and to proceed with due recognition of powerful economic forces. It is not yet clear whether it can adequately take all those forces

into account. It is clear that several markets have been disturbed by AAA operations. It is clear that horizontal reduction of acreage is not in the interest of economical production. It is not clear how far the processing-tax device can be carried with public approval, or how far Congress will approve drafts upon the Treasury for farm relief and adjustment. Serious and intelligent efforts are under way to make the transition from emergency programs, of a largely restrictive character, to far more comprehensive measures of agricultural planning that will involve expansion as well as contraction; but it remains to be seen whether these can be successfully matured and implemented, and whether the degree of governmental direction that they will entail will be acceptable to the American farmer and the general public.

NOTE.—The subject of this chapter is much more exhaustively covered in the Brookings Institution series of pamphlets and books in which the present author had a hand. These grew out of the extended study mentioned on p. 239; and from them are drawn chapters xxi, xxii, and xxvii below.

XXI

WHEAT PLANS AND POSSIBILITIES*

[April 1935]

The domestic allotment plan, in its various forms, was designed for continuous application. While the Adjustment Act which authorized its use was ostensibly an emergency measure, its limiting features were flexible. The initial wheat adjustment program, however, was frankly an experiment for a specific period. Existing contracts with wheat growers virtually insure continuance of processing taxes and benefit payments in 1935-36, but involve no commitments regarding acreage or production for 1936. Early in the second year of the program, therefore, the question arose: What next? If continued restraint on acreage is to be undertaken, the new scheme should be launched in the spring of 1935, or at least before growers prepare their land for fall sowing.

BACKGROUND OF NEW WHEAT PLANS

The foreword to the growers' *Handbook* of August 1933 mentioned the possibility that it might not be necessary to continue the plan:

During the time that this Wheat Adjustment Plan is in operation, international wheat markets possibly may be restored; normal balance may be developed between world supplies and demand; and the world situation may be improved so that unlimited exports may move freely at prices approaching parity. . . .

Actually, the wheat situation has radically changed since the plan was formulated. Largely because of two short crops in succession, the United States carryover on June 30, 1935

* The major portion of chapter xiii, "Elements in the Outlook," of the author's *Wheat and the AAA* (Washington, D.C., 1935), pp. 388-409. Reprinted by permission of the Brookings Institution, publishers.

will not be radically in excess of what used to be considered a reasonable level—120 to 130 million bushels; farm prices of wheat have risen to about the prewar average; and the 1935 crop bids fair to be moderate to small. Largely because of adverse weather abroad as well as here, the world wheat crop of 1934 was so small that world stocks next summer are expected to be substantially below the high levels of recent years, and the lowest since 1928, though still above the previous “normal.” Nature has effected a far greater readjustment of supplies than was or could have been expected in the summer of 1933. It now (April 15, 1935) seems distinctly possible that the 1935 world crop may be such as to carry the readjustment farther.

Nevertheless, few consider the wheat crisis safely over. Barriers to imports were never higher. Outlets for exports are gravely restricted; and even at prices still extremely low, “world” wheat exports are at the lowest level since the war and below prewar averages. With continued depression and restrictive measures of many kinds, world wheat consumption for food generally remains at levels no higher than seven years ago, if as high. Not only does European acreage remain at or near its peak (though not far above the prewar level), but with ordinary weather and average yields any world crop is likely to yield more wheat than will readily be absorbed. A normal adjustment of the world wheat situation, in anything but a provisional sense, waits on the reduction of extreme protection, the re-expansion of wheat consumption, and/or a more lasting contraction of wheat acreage.

Consequently, in spite of great reductions in surplus wheat stocks, world wheat prices remain surprisingly low even in currencies depreciated in terms of gold. United States prices, temporarily far above Liverpool prices, are liable to decline materially if and when we harvest a crop of average yields or

better. Moreover, the index of prices farmers pay has risen so much (from 100 in March 1933 to 128 two years later) that average farm prices are still only about 80 per cent of "parity" computed on the prewar base. From the standpoint of the wheat farmer the questions appear: Can the price gains be maintained in a year of better crops? What further can be done to insure us the promised "parity"? What shall be done if the 1935 harvest brings a considerable surplus over what the domestic market will absorb?

From the outset, the possibility of a second program has been envisaged. M. L. Wilson closed an early statement thus:

If the world is still in economic turmoil after this three-year experimental period is over, the plan can be adapted, in the light of this experience, for a longer period. In the meantime, farmers will be keeping the essential records so that putting the plan to work in the future will be a fairly simple matter.

In announcing the wheat program on June 16, 1933, moreover, AAA executives spoke of it as "the first major step on 'the new untrod path' of adjusting American agriculture to changed world conditions, and the first large-scale attempt at economic planning for agriculture." The statement first quoted above concluded with the assertions that "the economics of the wheat situation," as there presented, "will convince any one that we are facing no ordinary problem. Its permanent solution requires the building of a new agricultural structure to meet the requirements of a new era. The principles embodied in the Wheat Adjustment Plan usher in the new era of planning for production in agriculture." Secretary Wallace said on November 13, 1933:

We have had to act with the pressure of a desperate situation behind, quite conscious that every move might call forth a chain of consequences extremely difficult to deal with. We are aware that our present machinery for production adjustment, in view of the need for long-time land planning, may not be at all like the machinery we shall have to design and operate for the longer future.

When the AAA was reorganized early in 1934, a program planning division was set up "to correlate the programs for all commodities and to shape the entire program into a coherent whole which will constitute an advance through emergency measures to an established and lasting agricultural industry to the ultimate benefit of the whole nation." This task has been engaging the efforts of an able staff.¹

For the title page of *A Balanced Harvest* (August 1933) Administrator Peek wrote: "The Farm Act is our charter of economic equality." Statements in this and accompanying publicity held out hopes of reaching, with the co-operation of individual farmers, such goals as "planned" or "balanced production," "adjustment of supply to demand," "a raised and stable price of wheat." Reviewing the first year's experience of the AAA, Administrator Davis spoke of "this experiment in agricultural planning," "the greatest cooperative effort ever undertaken by farmers," "the greatest crop-income insurance measure ever undertaken for farmers by any nation anywhere in the world." "Though incomplete," he said, "the experiment marks the beginning of a big-scale transition away from a purely individualistic agriculture." In October 1934, he said:

Unless I mistake the temper of the majority of farmers, they do not want to go back to the days of uncontrolled production and unmanageable surpluses which ruin their markets and wreck their prices. They want to continue the co-operative management they have attained through their own production control associations. I think they will apply this co-operative management sanely to maintain a healthy *balance* which avoids piling up surpluses for export markets that have disappeared and have not yet been regained.²

Altogether, the AAA has not seriously considered letting the contracts expire without replacement. Hence elements

¹ See H. R. Tolley's résumé of its organization and work, *Journal of Farm Economics*, October 1934, XVI, 582-90.

² Address to Institute of American Meat Packers, *AAA Press Release* 762-35, Oct. 16, 1934.

in a continuation program have been under discussion for several months, with a view to getting a plan accepted and new contracts signed in time to affect wheat sowings in the fall of 1935.

OBJECTIVES

The goal of continued adjustment effort is variously expressed. In its more ambitious formulation it is that of "maintaining balanced production," now that the accumulated wheat surplus in the United States has been worked down. One expression runs:

. . . . There is a level of farm production which is best for the nation and best for the farmers, at which consumers will take and use the maximum quantity at prices fair to the producers. The country as a whole, as well as the farmers, will be strengthened when the farmers approximate the productive effort that yields the desired production.³

Sometimes AAA spokesmen talk as if such a goal were readily attainable by methods already tested. In a broadcast on October 5, 1934, dealing primarily with the corn-hog program, Secretary Wallace said in part:

It has not been by chance that hog prices are twice what they were a year ago this summer. It is by design, by the conscious effort of more than a million farmers working in unison on a self-imposed program. They have found in co-operative effort a way to make the law of supply and demand work for them without doing injustice to the rest of the country.

I believe that is a great and a thrilling achievement something much more than a price increase or a boost in income a million corn-belt farmers agreed on a course of action, and stuck to it; and in so doing they developed a method of economic self-government which may stand the whole nation in good stead.

. . . . Supplies have shrunk, prices have climbed a good ways toward parity. The problem is no longer one of getting rid of a surplus; the problem now is the prevention of new surpluses. The choice, therefore, is between controlled and uncontrolled expansion. . . . With a controlled expansion the chances are strongly in favor of a continuing march toward parity prices for corn and hogs. We know now, from personal ex-

³ This and other ideas of "balance" are discussed in the AAA's pamphlet, *Achieving a Balanced Agriculture*, August 1934. See also George E. Farrell, "Let's Keep Wheat Balanced," *Kansas Farmer*, October 1934.

perience, that by controlling supply we can affect price. What to most of us had been no more than a theory has suddenly become as real and practical as an everyday farm chore.

These excerpts exaggerate the responsibility of AAA measures for the changed situation, and correspondingly understate the effects of the drought which in other connections Secretary Wallace clearly has recognized. Discussing wheat in his 1934 annual report, he remarked:

Unfortunately weather conditions in both hemispheres upset all calculations last year, and to a still greater extent this year. Seasonal conditions do not affect the logic of acreage adjustment for the long pull, but they may seriously interfere with immediate action. . . . This tremendous change in the supply position naturally lessens the immediate need for acreage adjustments, and makes world cooperation toward that end more difficult to achieve.

Implied here is recognition that such control of wheat acreage as the AAA has exercised falls far short of conferring power to control production or adjust it to a "desired" level.

Moreover, there has been uncertainty as to what level of production should be aimed at. In his report just quoted, Secretary Wallace said further:

. . . . Continued restriction of the American wheat acreage will be justified if competing countries likewise recognize the need for acreage adjustments, but not otherwise.

Only by putting our wheat industry completely on a domestic basis could farmers get permanent price gains through acreage restrictions alone. Putting it on a domestic basis would be very difficult; for temporary price gains would tempt farmers back into large production for export. Lacking world cooperation, the United States will have to reconsider its whole wheat program, and possibly to contemplate renewed production for export at highly competitive world prices. Within the United States returns to wheat farmers could be maintained above the world level, through making adjustment payments under the Agricultural Adjustment Act. Now that the wheat surplus of the depression period has disappeared, we must adjust the production with an eye to the whole situation, both foreign and domestic, and should not commit ourselves to a program of indefinite restriction, regardless of conditions abroad.

In February 1935 it was officially stated that "with farm prices still substantially below parity, although much im-

proved during the past ten years, the AAA is not considering abandonment of any adjustment program now in effect."⁴ Raising farm prices of wheat to "parity," however, is not taken as the controlling objective of AAA policy. The only means that hold out any hope of attaining this goal would be rigorous restriction of acreage to a level that, with average yields, would keep us on an import basis and make the present tariff (or a higher one) continuously effective so long as world wheat prices remain anywhere near recent levels. This would mean, on the average, less than 50 million sown acres, or at least 25 per cent below the average for several years prior to 1934. To secure so large a reduction by voluntary contract would be very difficult. It might easily reduce the wheat growers' income from wheat, which is more vital even than wheat prices. It would expose the AAA to serious protests from the trade and the consuming public, particularly in years of yields below average when wheat imports would be required. Moreover, the very attainment of "parity prices" would otherwise endanger the continuance of control, for if no processing taxes could be collected and no adjustment payments made, enforcement of continued restraint on acreage would require resort to other methods.⁵

The desire to insure farmers generally, and the wheat growers as a group, their "fair share" of the national income remains an underlying objective, and in occasional statements concrete figures are suggested that are far above levels

⁴ January farm prices of 14 commodities named "basic" in the act averaged 106 per cent of the prewar average, or 84 per cent of computed "parity." On the seven for which adjustment payments were in force, it was calculated that adding in these payments brought the adjusted farm price to 135 per cent of the prewar average, or 107 per cent of "parity."

⁵ Within the AAA, there was some fear lest a very short crop in 1934 should raise wheat prices above "parity," force elimination of benefit payments, and so put co-operators at a disadvantage as compared with those who had not signed up. The advance in world wheat prices was so limited, and the rise in the index of prices farmers pay was so considerable, that this result did not materialize.

now obtained or in prospect. However, no practical scheme has been found for attaining this high goal. In recent months AAA officials have repeatedly asserted that reduction of production has probably contributed its maximum to increase of farm income, and that further enhancement of that income will depend primarily on increased industrial output and higher general purchasing power. This is almost the reverse of the doctrine preached during the formulation of the Adjustment Act and the wheat program, when agricultural recovery through adjustment measures and others was put forward as a necessary and major condition of business recovery.

The more limited objectives actually in view for the new wheat program are indicated in two addresses by Administrator Davis. On November 14, 1934, he told the Millers National Federation:

I believe that the principle of securing for farmers approximately the parity income on the domestic consumption of wheat is here to stay, and that processing taxes to supplement the market price on domestic consumption will be continued to finance such a program unless and until a better method is found.

To the Kansas Agricultural Convention on January 11, 1935, he suggested: "A wheat program for 1936 should be designed to hold our seedings of wheat to a level which with average yields will supply our present domestic and limited export requirements."

No more specific production goal has yet been fixed. One which would leave a surplus for export averaging 75 to 100 million bushels, or perhaps 10 to 20 per cent of the volume of international trade in wheat and flour, has been suggested. This implies an average crop of not over 750 million bushels and perhaps below 700 million. In August 1934, when wheat contract signers were informed that their sown acreage for 1935 should be held down to 90 per cent of their base acreage, it was calculated that with average yields per acre a crop of

775 million bushels could be anticipated; but it was assumed that the 1935 carryover would stand some increase to the higher "normal" that is officially considered appropriate in a regime of regulated acreage. Late in March 1935, when restrictions on spring-wheat sowings were relaxed, yields well below average were in prospect.

CHARACTER OF THE NEW PROGRAM

In the two addresses quoted above Administrator Davis indicated that, while much remained for decision, and suggestion and reactions were desired, the new wheat adjustment program would be broadly like the old. To the millers he said, on behalf of himself and his associates in the AAA: "The present wheat program sets the general limits of what we have in mind as a government effort to benefit wheat producers." He remarked, however, that in this changing world "no human commitment can be given which guarantees as to what lies before us in years to come," and that "this or any other plan must possess sufficient flexibility to meet changing world and domestic conditions." In this connection Mr. Davis sought to assure millers that, under proposed amendments to the act,⁶ the AAA was not contemplating application of quotas and related licensing provisions to "nationally grown commodities like the grain and meat crops."

In general, the path of least resistance is to continue the present form of program, utilizing existing production-control associations, and taking advantage of the contracts now in force and data already accumulated. Plans are being made to meet insistent demands from growers and associations for simplification of the contract and related forms, and for increasing decentralization through giving greater authority to county allotment committees and state or regional represen-

⁶ See his statement before the House Committee on Agriculture concerning *H.R. 5885* and *S. 1807*, Feb. 26, 1935.

tatives of the AAA. By this means it is hoped that delays can be reduced and some measure of flexibility added, without serious risk of departure from sound common principles. But the inertia just mentioned stands in the way of remedying certain defects in the original program.

It is recognized, for example, that continued use of the base periods first chosen, and horizontal cuts in acreage from a previous level, tend to "freeze" wheat production into the general pattern of the base period, modified by changes in the degree of acreage reduction called for. They tend to retard or to prevent normal and desirable readjustments such as have hitherto occurred under the influence of economic forces—some individuals and regions expanding and others reducing as conditions change. Yet attempts to discriminate among regions and individuals threaten to give rise to complaints of unfairness that would be hard to meet; and no simple way has been found to determine bases for discrimination that would clearly be economically justified. With these problems in view, four regional conferences were held in March 1935 to explore the possibilities of formulating regional programs of research integrated with the needs of the AAA.

Much study has been given to the possibility of devising a practical form of "single," "unified," or "consolidated" contract per farm, under which two or more commodities might be comprehended. Some of the advantages, as seen by leaders in the program planning division, are summarized as follows by Elliott:

By considering the whole farm as a unit and the various enterprises as fitting into an integrated whole the complementary, supplementary, and competing nature of enterprises can be utilized in developing a program which will permit more relaxation in restrictions and more flexibility in operation by the farmer than is possible when separate commodity programs are followed. Because of less restriction and more flexibility in its operation, the co-ordinated approach would tend to promote rather than disrupt established cropping systems and rotation prac-

tice, which on many farms were thrown out of alignment in the operation of the commodity programs, in order to qualify for participation.

Where more than one basic commodity is grown on an individual farm, furthermore, there necessarily is a great deal of overlapping in effort when commodity programs are used. . . . A great deal of co-ordination and unification of administrative effort could be brought about through the adoption of one contract per farm.

Such a co-ordinated procedure likewise would offer a means of minimizing chiseling, which results from shifting acreage totals for the same crop on different contracts.⁷

The advantages lie mainly in the field of farm management; the difficulties lie in administration, financing, and securing the degree of adjustment sought.

For another recognized defect in the existing program no practical remedy has been found. With around 25 per cent of wheat acreage and production in 1930-32 not signed up, the possibility of expansion of production by nonsigners is ever present. Prices in 1935 are such as to encourage such outside production. There is no good prospect that the sign-up under a new voluntary program will be materially increased, particularly if crop and price developments here and abroad are such as to lead to reduction, rather than increase, in rates of processing tax and benefit payment. Growers who have been under contract are inclined to oppose shifts in the base period and other modifications that might attract new signers but lessen the advantages of the new contract to those who signed the old. The alternative of compelling participation on much the old terms finds some favor among existing signers, who look upon nonsigners much as trade unions look on nonunionists; but the AAA is reluctant to attempt such extensive regimentation of wheat growers. The alternative of assigning marketing quotas to signers and levying a tax on nonquota sales has not been seriously urged for wheat, though it has something in common with the Farmers Union

⁷ F. F. Elliott, "Some Problems Relating to a Continuing Agricultural Adjustment Program," *AAA Press Release 1401-35*, Jan. 17, 1935.

plan; and unless liberal exemptions were granted, it would presumably encounter hostility from small growers.

Early in 1935, wheat growers were officially assured that before a new program is put into effect they would "be given an opportunity to express their wishes concerning it."⁸ On April 11 it was announced that in a nation-wide referendum on May 25, wheat growers "will vote on whether they favor continuing wheat production adjustment measures . . . after 1935."⁹

POSSIBLE SUPPLEMENTS TO THE PROGRAM

Two of the possible adjuncts of the wheat adjustment program merit brief discussion here—subsidized surplus disposal and storage financed by government loans.

As we have seen, the AAA subsidized a limited amount of wheat exports from the Pacific Northwest in 1933-34 and may subsidize a smaller amount of shipments from the same area for domestic feed use in the spring of 1935; and the Federal Surplus Relief Corporation bore the cost of purchasing and distributing limited quantities of wheat for feed and food in 1933-34. Various farm leaders, in wheat-surplus areas especially, are urging that a larger and more definite place in the wheat program be given to some such measures, particularly for exportation. Many wish less, little, or no

⁸ Administrator Davis in his Kansas address on Jan. 11, 1935. The first referendum of a similar kind, and the only one as yet voluntarily taken by the AAA, was among corn-hog growers in October 1934, mainly to ascertain their sentiment toward a second 1-year program. On this point a substantial majority voted "yes." Since then, referendums have been taken among cotton growers and tobacco growers, as required by the Bankhead and Kerr-Smith Acts, to ascertain whether growers favored continuing the application of those measures in 1935. On these two, the vote was overwhelmingly in the affirmative.

⁹ The preliminary proposals outlined provide for a 4-year contract (1936-39) very similar to the 1933-35 contract (even in respect to the base periods), except that the maximum acreage curtailment that may be called for is 25 per cent, instead of 20. Regional conferences to discuss the referendum technique are to be followed by community conferences and "educational" meetings before it is held. With benefit payments looming larger than production adjustment in growers' minds, and efforts likely to be concentrated in the major wheat sections, a strong affirmative vote may be expected if this referendum is held.

restraint of wheat production and more export subsidization. For over a decade, all three of the leading farm organizations have pressed these views, and they are backing certain amendments to the Adjustment Act that would give them greater opportunity to urge the AAA to apply such policies.

In the grain trade and milling industry, moreover, there are some indications of a growing disposition to favor such a move. Grain dealers hurt by reductions in volume handled, and grain exporters and exporting millers, hurt by loss of export markets, generally attribute to AAA programs more influence in this direction than they have exerted. They are disposed to urge that, if production restraints are continued, these should be supplemented by export promotion on a broader front and larger scale, in the light of the experience in the Pacific Northwest.

Thus far, however, AAA leaders have given little or no encouragement to those who press these demands, and Secretary Wallace, on various occasions, has stressed the disadvantages of removing production restraints and falling back on export promotion. It is reasonable to infer that, if the 1935 wheat crop should be around 600 million bushels or less, the door to export subsidy on any considerable scale will remain closed for the present.

On broader grounds, but perhaps partly to meet one argument for removal of production restraints, Secretary Wallace has taken the initiative in advocating the general policy of government loans to supplement production-control efforts, and the AAA stands committed to this in principle. The corn and cotton loans of 1933-34 were adopted under great political and social pressure. Thanks to the drought in 1934 in the Corn Belt, the first of these turned out well; and the first year of the cotton loan gave rise to no serious embarrassment. This experience, coupled with two years of drastic reduction

of wheat production by drought, helped to determine the commitment; and threatening embarrassment from the cotton-loan policy in 1934-35 has not led to a reversal.

Secretary Wallace broached the idea thus in an address at Bismarck, South Dakota, on June 6, 1934:

Opponents of the Adjustment Administration point to the drought as a demonstration of the futility of agricultural planning. Farmers who have co-operated with the adjustment programs, and whose crops are stricken, can point to this drought as the final convincing argument for the necessity of such planning as the Agricultural Adjustment Act makes possible.

. . . I have never believed that our present program in the Agricultural Adjustment Administration could or should continue permanently in precisely its present form. And our experience thus far, plus the impact of this drought, suggest the direction in which we may have to move.

We launched the adjustment programs . . . in an effort to raise prices which had been abnormally depressed by the largest carryovers and the smallest dribble of exports in our history. We have been attempting, therefore, in the case of wheat to get production more nearly in line with domestic requirements. But any program for reducing production nearer to domestic requirements we knew would need to be coupled with adequate protection against crop failure. Because of our enormous carryover, we have not had to worry about that thus far. Even the present drought does not give rise to fear of food shortage. It does, however, suggest the necessity of future protection against crop failures in a continuous program of production control. It suggests also the need for systematic methods of absorbing the shock to the markets should severe drought be followed in the next year or two with bumper crops. Nature has often gone from niggardliness to abundance in the span of one season.

We shall have to think, therefore, about a program of adequate farm reserves to be maintained from season to season. Such reserves will need to be in larger volume than the so-called normal carryovers of pre-depression days. In years when we produced heavily for export, normal carryovers did not need to be excessive because exportable surpluses could be diverted to domestic use; but with adjustment programs geared to domestic requirements, reserves in excess of previous normal carryovers may need to be provided for. Ordinarily we think of 120 million bushels of wheat as the normal carryover; but if our foreign market [for] wheat does not come back, and production control continues to be necessary, the carryover will have to be sufficient to insure us against crop failure.

Perhaps it would be possible to set up a mechanism whereby growers could maintain these necessary reserves by means of loans, similar to the present corn and cotton loans. Stored commodities owned by producers and held in the country might be part of the system of benefit payments

in an adjustment program, the commodities stored in years of surplus to become available to farmers in lieu of benefit payments in subsequent years of production curtailment. But whatever the mechanism, it would of course have to be so designed and operated as to fit smoothly, without disturbing effect, on market price, into the commercial marketing system.

In the same vein Under Secretary Tugwell said at Brookings, South Dakota, on June 29:

There is no contradiction between the AAA's program and unforeseen calamity. As a matter of fact, the present one is emphasizing to us that even a greater need exists for agricultural planning. The adjustment program, it is being discovered, has the nucleus for a balancing of feed and food supplies between good and bad seasons. More than 270 million bushels of corn are sealed on the farms. It was accumulated during a period of surplus and is now being used in a season of short feed supplies. The profit which accrues from price increases will go to the farmer this time and not the grain gamblers who ordinarily would profit from a short crop. That method of storage has interesting possibilities that can be extended to other crops. It may be that the next logical development of adjustment efforts will be some plan whereby a constant supply of our basic agricultural commodities may be assured from year to year, with ample reserves to be used in case of some unexpected natural calamity, but sure to be kept off the market unless needed and therefore not affecting prices. Certainly such a plan would have as its fundamental purpose the assurance of stability not only for supply, but also stability in prices and security for the farmer and his family on the farm.

In his *New Frontiers*, published in the autumn of 1934, Secretary Wallace discussed the subject in his chapter entitled "Untrod Paths." He envisaged serious world-wide food shortage beginning within ten or fifteen years and continuing for a number of years. Against this danger, and that of protraction of the cycle of dry years 1930-34, he thought national measures should be taken. After recalling the warning of Farm Board experience, he referred to the Confucians in ancient China, Joseph in ancient Egypt, and the Federal Farm Board, the AAA, and the Commodity Credit Corporation in recent years in support of a plan for "an ever-normal granary," on a basis that could command general support and be carried on without influence from "regional or occupational politics."

In subsequent utterances, Secretary Wallace and other AAA spokesmen discussed the idea with increasing confidence. Director Tolley of the program planning division of the AAA included it in suggestions for "the adjustment program to follow 1935," to the Association of Land-Grant Colleges on November 19, 1934. In part he said:

. . . . The plan must of course go hand in hand with an adjustment program to make it economically sound. And only those farmers who agreed to participate in next year's adjustment would be eligible for the loans. In case the government for some unforeseen reason came into possession of a large quantity of a given commodity through these loans without recourse, the quantity could be used in lieu of cash for benefit payments to co-operating farmers.

The ever-normal granary plan would thus prevent commodity supplies from accumulating to a burdensome degree, by using the surplus in years of large crops to reduce the acreage the following year. It would protect farmers from deep price breaks, and give to them, instead of to speculators, the advantage of a possible rise in price. It would also protect consumers by insuring an adequate supply from year to year at more even prices. I hope you will think and talk about this plan, because I believe it holds the possibility of stabilizing certain important commodity supplies and thus increasing the sense of security for everyone.

The *Consumers' Guide* of December 3, 1934, contained an article on "Can Consumers Make Sure of Adequate Food Supplies with Fair Prices to Farmers?" One paragraph ran:

Supporters of the principle of the "ever-normal granary" point out several advantages. First, they hold it would protect consumers against possible shortages. Second, it would help to stabilize production and therefore prices. Third, it would help to give farmers a fairer share of the national income. Fourth, it would make it possible to adjust food supplies to improving national standards in food and health and to increasing consumer purchasing power.

Secretary Wallace devoted several pages of his annual report, dated December 12, 1934, to "An Ever-Normal Granary." Noting that pioneer farmers "stored feed and hay against lean years as a matter of course" and that the practice declined in years of moderately heavy rainfall and fairly good prices, he said:

. . . . But the situation now is different. Against the combination of weather hazards and low prices, farmers need the protection of an adequate reserve with safeguards against any possible depressing influence on prices. Here, in conjunction with the crop-adjustment program, is an obvious responsibility of the Agricultural Adjustment Administration. Means should be developed to conjoin the adjustment of plantings with protection equally against crop failure and against the tendency of large stocks to depress prices.

Observing that foreign outlets for farm products, except fruits, remain sharply curtailed, and that adjustment programs "must be shaped toward reduced production for export," he said:

But reduced production for export raises certain new questions. Adjustments nearer to domestic requirements need to be coupled with protection against crop failure. Farm reserves must be larger than the so-called normal "carry-overs" of predepression days. Formerly, when we produced heavily for export, carry-overs did not have to be large. It was simply necessary, in seasons of small production, to reduce the exports. In proportion as this automatic safeguard disappears, it becomes more important to maintain reserves from season to season. Such reserves tend to stabilize both production and prices. Our emergency experiments have revealed more clearly the requirements of controlled production. One requirement is a method of absorbing the shock to markets which occurs when seasonal conditions violently disrupt the intended adjustment.

When production varies greatly, either through weather conditions or the action of farmers, prices fluctuate correspondingly, but not usually in a manner permitting farmers to break even. They lose more on the declines than they get back on the advances. This is largely because speculators intervene between the producers and the consumers. Speculation depresses prices excessively to farmers in seasons of surplus production, and keeps from them the full benefit of rising prices in seasons of low production. Too much of the consumers' dollar goes to nonproducers. Hence producers and consumers have a common interest in the control of both production and marketing.

In general, the idea has taken well with the farmers addressed. The corn and cotton loans were naturally popular with the beneficiaries, for the AAA took the risk of loss and the borrowers not only stood to gain but did gain, at least on corn in 1933-34. The farm organizations evidently favor the scheme. The opposition of the grain trade is suggested by three of the resolutions adopted by the Grain and Feed Deal-

ers National Association in convention at Memphis, October 15-17, 1934:

The suggestion of a permanent program for the storage of grains upon the farm, financed by the federal government, does not commend itself to practical students of markets and prices. In effect, it is a renewal of the Farm Board program of surplus control, a program which not only cost taxpayers hundreds of millions by direct loss, but indirectly cost wheat growers a billion or more and was a potent factor in the industrial and financial collapse that plunged America into an yet unended depression.

Experience with the Farm Board effort, and parallel experience with the corn loan program, demonstrate that the theory of surplus control as a means of price lifting is thoroughly unsound. In a period of large production, the Farm Board experiment was a continued price depressant during its whole existence. The corn loan program, carried on during a period of acute scarcity, was effective in preventing a full market response to the pressure of consumptive demand. The two experiences demonstrate clearly that a surplus held over the market, however accumulated and however financed, is a price depressant, severe in times of plenty, but also similarly effective in periods of scarcity.

Finally, we sincerely urge a moratorium upon new plans, programs and legislation at this time in the belief that producer, consumer and distributor alike will be better served by reliance upon the tried and tested experience of the past than they will be by additional novel experimentation.¹⁰

On January 30, 1935, Administrator Davis definitely announced, as foreshadowed several months earlier, "that provision for corn loans will be an essential part of our corn-hog program for 1935." The Secretary and Administrator support the amendment to the act giving authority to tender commodities thus stored on farms back to farmers for benefit payments. Some efforts are being made to study the problems involved in storing wheat on farms and in providing adequate farm storage facilities where they do not exist. It is reasonable to expect that the new wheat program, when it appears, will contain some reference to loans on wheat. If the wheat harvest of 1935 should be small, the question may not become urgent until later, except possibly in particular regions.

¹⁰ *Who Is Who in Grain and Feed*, Nov. 5, 1934, pp. 26-27. Other resolutions were distinctly friendly to Secretary Wallace and his ideas.

APPRAISAL OF AMERICAN PROGRAMS
1934-1936

TOWARD APPRAISAL OF WHEAT ADJUSTMENT*

[April 1935]

GENERAL CONSIDERATIONS

Political and social pressures in 1932-33 were such that a fresh major experiment in governmental aid to wheat farmers was probably inevitable. Among the various proposals that might conceivably have been adopted, the ingenious and flexible Adjustment Act had various points of superiority for application to wheat. Given the act and the philosophy underlying it,¹ I consider that the wheat program as it was worked out was on the whole a reasonable one for testing the authorized procedures in the situation that was faced in the middle of 1933.

The skillful and herculean efforts by which the wheat program was carried through its first two years, with a high degree of administrative success in spite of irritating delays, command my admiration. Mistakes were made; hopes were held out that could not be fulfilled; and, perhaps inevitably, the AAA sometimes claims credit for more than it has accomplished or glosses over its shortcomings and failures. Yet considering the magnitude and complexity of the task involved in the wheat program, I think the job has been done better than could reasonably have been expected. I marvel

* The major portion of the concluding chapter, "Contributions toward an Appraisal," of the author's *Wheat and the AAA* (Washington, D.C., 1935), pp. 411-41. Reprinted by permission of the Brookings Institution, publishers.

¹ Later in this chapter I shall give my reservations on some of these points, but I cannot here go into other aspects on which my views are somewhat at variance with the prevailing interpretations, philosophy, and trend of policy.

that so many mistakes that could easily have been made, in both policy and procedure, were not made. I think it reflects high credit on the administration that it resisted the temptation to plunge into large-scale stabilization operations, even though fortune might have made them work out well; that various surplus-removal measures were restricted to a small scale and handled so as to have no serious repercussions; and that, in the main, the AAA has succeeded in gaining the co-operation of the trades as well as of wheat farmers in important wheat sections.

Control of wheat production through voluntary contracts, the future possibilities of which I shall shortly discuss, has not yet been a demonstrated success. One goal of the wheat program—the elimination of our carryover surplus—has virtually been attained; but to this result the expensive and extremely laborious procedure has contributed very little. Had Nature chosen to smile instead of to frown in 1933 and 1934, I do not believe that the wheat adjustment efforts would have led to important reductions in the 1935 carryover from what it was on July 1, 1933. More probably, shrinkage of exports would have largely or wholly offset crop curtailment by the AAA and the carryover might even have increased.

Nor has the program demonstrated its ability to raise farm prices of wheat materially. Nearly all of the striking net advance, in cents per bushel, I cannot help attributing to the droughts in combination with the tariff, with some influence from dollar depreciation especially in 1933-34. In the absence of the droughts, the program would have had more influence on wheat prices than it did, but could not possibly have raised them nearly so far. I consider it significant that, under conditions that might have been expected to raise farm prices of wheat well above a "normal" level, those prices have not yet risen above about 80 per cent of the computed "parity."

I see no prospect that, by measures yet applied or proposed (as contrasted with accidents of Nature), the program can attain what first appeared its "parity price" objective.² Indeed, I believe that goal is virtually unattainable, save by accident in an exceptional year, and that the AAA has rightly chosen not to make this its controlling aim.

Substantial success in reaching a less ambitious goal was almost a foregone conclusion: for contract signers, the artificial sum of national average farm price per bushel sold, plus gross benefit payments accrued per bushel of allotment, has practically equaled the computed "parity." In 1933-34 and 1934-35, as it happens, this yielded wheat growers as a group more income than if they had received "parity prices" on all wheat they sold but no benefit payments in addition.

The major achievement of the wheat program in its first two years, as I see it, lies in having increased the income of wheat growers as a group (chiefly by adjustment payments to those who signed wheat contracts) by probably over 200 million dollars above what they otherwise would have received. This involved little burden on the public Treasury and apparently no large net burden on the milling and baking industries. It was done mainly at the expense of consumers of wheat, including farmers other than those who had their own wheat milled tax-free for home use. In this redistribution of the national income, consumers as a class paid more money than wheat growers gained. Congress deliberately authorized the procedure that led to this result, on the ground

² In his initial statement on the farm bill, Mar. 18, 1933, Secretary Wallace said: "The goal of the bill, in terms of price, is pre-war parity between the things the farmer sells and the things the farmer buys." C. C. Conser (*Yearbook of Agriculture, 1934*, p. 371) listed among the fundamental principles of the wheat program: "The purchasing power of the United States wheat growers' wheat must be restored to where it was in a pre-war period." As compared with the principal alternative "yardsticks" offered, I consider that "parity price" was preferable to "tariff effectiveness" or "cost of production."

that it was in the national interest. How far it proved so, I know of no certain means of judging. It may be that, on the whole, this redistribution of money income somewhat increased the real income of the nation in terms of satisfactions, but I cannot be sure of this. Some consider that this and closely related measures averted a social revolution, but I strongly doubt if the wheat program was essential for such a purpose. It certainly modified the course of recovery from the depths of depression, and still more the regional and industrial distribution of recovery; but I do not think that it contributed appreciably, if at all, to promoting *general* business recovery or to increasing the total national money income, as Congress and the public had been led to expect.

Thus far the wheat program in operation has not justified fears that it would seriously depress flour consumption, lead to extensive "bootlegging" of flour, radically alter the flow of wheat to market, and stimulate expansion of wheat production. Instead, its influence in these directions has been slight. In 1934 at least it caused some net contraction of wheat production, and in the absence of droughts in 1933, 1934, and 1935 it presumably would have caused more contraction than it did, though much less than Nature brought. Nor has the program been responsible to date for the drastic reductions in our wheat and flour exports that have occurred, and I think it has helped only slightly in making ordinary commercial exports well-nigh impossible in 1933-34 and 1934-35.

Certain tendencies that seem to me inherent in the AAA wheat program have thus far been submerged by other influences, which include two successive years of severe drought followed by a third in which drought again bids fair to be important. Here I will mention briefly five such tendencies: (1) to keep poorer lands and less efficient farmers in wheat

production, and in these and other ways to raise our average production costs per bushel; (2) to give millers a somewhat poorer selection of wheats—a result which in Europe in recent years has tended to reduce wheat consumption; (3) to interfere, on occasions and in various ways, with the ordinary course of marketing, and to keep the wheat market more or less continuously in fear of such intervention—though to a lesser extent than various alternative programs would have entailed; (4) to restrict commercial exports of wheat and flour; (5) to accentuate the current drift toward economic nationalism, which in turn seems to me to be having manifold adverse results. Most of these tendencies are contrary to the aims and principles of AAA leaders, but they seem to me almost inevitable concomitants of its policies, as these must be framed and carried out under the influence of group pressures.

Harmonious correction of world wheat maladjustments, through international understandings bearing on national actions, seems to me a worthy objective. With production restriction a central feature of the domestic wheat program, it was logical to seek corresponding action by other countries. I consider farsighted the securing of even conditional commitments from importing countries in the direction of removing influences that tend to reduce or restrict their wheat consumption, lowering their barriers to wheat imports, and ending efforts to expand their wheat acreage and production. Such commitments can do little or no harm, and in time they may bear good fruit. On the other hand, the experience of the past two years has not diminished my skepticism regarding the practical possibilities of wise regulation of wheat exports and restriction of wheat acreage or production under international agreement. I believe that efforts to achieve tighter controls than were achieved in 1933–34, whether they fail or

seem to succeed, will be disappointing in their net outcome. International planning merely in a literal sense has much to commend it; but international controls in the sphere of wheat, however necessary to meet wartime scarcity, seem to me ill-advised under the very different conditions of peace. For solving a world problem of "surplus" wheat, I feel certain that freer play of economic forces would accomplish more than the best controls that can be devised; and I believe that efforts to impose international controls are more likely to hinder than to strengthen efforts toward increased freedom.

Experience with the Pacific Northwest export subsidy suggests to me several significant facts. Handled cautiously on a limited scale as it was, such a subsidy leads to no serious adverse consequences but has very limited favorable results. Its influence is chiefly to raise prices and thereby to benefit producers of those kinds of wheat which are most accessible to export, least in demand domestically, or both. Even on these wheats, the price advantage realized tends to be much less than the subsidy cost per bushel, particularly when for other reasons our wheat prices are above a liberal export basis. Under such conditions, contrary to some theories of the export debenture plan, such operations do not tend to raise the entire wheat price structure of the country, or even of the region most directly affected, by anything approaching the amount of the subsidy per bushel.³

I believe the AAA has done well, and will continue to do

³ See J. S. Davis, *The Farm Export Debenture Plan*, 1929, chap. v. If an export debenture system, as earlier proposed, had been in effect in 1933-34 with a virtual bounty of 21 cents a bushel on exports, I believe that our exports of wheat and flour would have been smaller than they actually were under the measures employed, not larger; and that wheat prices outside the Pacific Northwest would have been affected to only a negligible extent. Had this system been in effect in 1934-35, I think that very little wheat would have moved out, with negligible effects on our wheat prices. With domestic wheat prices far above export parity for other reasons, such an export bounty would have proved inadequate.

well, to resist the growing pressure for large-scale subsidizing of wheat exports. I regard as wholly illusory the notion that, under prospective conditions in world wheat markets, prices for American wheat growers could be significantly improved by subsidizing the export of 100 million bushels of wheat. Though some plausible arguments for it can be formulated, it seems to me that in practice such an attempt would work badly.

It would prove in fact, I believe, a form of unfair international competition.⁴ Increasing resort to this practice with wheat in recent years, by a few nations, has contributed to the erection of extraordinary barriers to international trade which have intensified and protracted the wheat crisis and, indeed, the world economic depression. I should expect resort to it on a considerable scale to evoke extensive resistance by importing and other exporting countries. If it did, the result would be humiliating failure, inordinate expense, or both. If such resistance were absent, the reaction on competing countries such as Canada, Argentina, and Australia would be economically serious, presumably with adverse political and economic consequences to this country. Competition in subsidized exports by the great exporters would be exceedingly costly to all of them, and to their wheat growers as well. I think that we, as a nation, can ill afford to experiment with using our great economic power so stupidly and so ruthlessly. We cannot wisely seek to solve our national wheat problem by methods that would make the world wheat situation worse, or that if generally adopted would make it really chaotic.

⁴ Until 1933 the United States had not only refrained from openly indulging in the practice, but had condemned it in other nations. We still have on the statute books legislation designed to prevent subsidized imports. If export dumping by private concerns is objectionable, export dumping by public policy seems to me worse.

THE EVER-NORMAL GRANARY SCHEME

This leads to the AAA proposal which, though officially linked with production control, is viewed by some farm spokesmen as a supplement to liberal export facilitation. In the preceding chapter I have set forth the case for the "ever-normal granary" as its sponsors have presented it. If they have formulated a more concrete plan for applying it to wheat, or set forth an adequate economic analysis of such a plan and its net advantages, I have been unable to learn of it. The scheme might take any one of several widely different forms. I will therefore not undertake to predict how, under pressure from farmers and the trades, and the influence of politics and the press, some such wheat-loan scheme would actually work. Nevertheless, since AAA spokesmen have urged public discussion of the idea and have virtually committed themselves to the principle, I venture to consider a few of the points urged in its behalf, merely in their relation to wheat.

As an insurance against national food scarcity such "planned wheat reserves" seem to me superfluous. Unless years of study of food problems in the large have misled me, the prospect of world food shortage is only a specter to conjure with, not a doom to prepare for. Those who see nightmares of universal warfare or a general breakdown of civilization can conceive of it; but any national food reserves yet thought of would be pitifully inadequate to cope with such imagined catastrophes. We do not live in the China of Confucius' day, or the Egypt of Joseph's eminence; of their actual experiments we know little, but that little has less current significance for us. Famines—as distinct from regional shortages that are readily mitigated—recur even today, but only where transportation is lacking, purchasing power low, private trade limited, and government weak or ruthless. Of all

countries the United States runs perhaps the least risk of anything approaching famine. Great Britain, most heavily dependent on food imports, has repeatedly rejected proposals for national wheat stores, and the strain of a great war did not lead her to adopt this policy for a period of peace.

In peace (as to a lesser degree in war) the world today is fed on foodstuffs of many kinds, produced in widely scattered regions under varied conditions, maturing at different season, and shipped more cheaply than ever before. Under these circumstances, persistent shortage of any one kind, such as bread grains, is rare; occasional shortage of one kind is seldom widespread or prolonged; and such is the balancing and flow of food production in the aggregate that general food scarcity is almost unknown. We are accustomed to changing diets, and agricultural output of cereals and pork soon responds to high prices. There are invisible margins of safety in world food supplies. Foodstuffs commonly fed to livestock can be eaten, products ordinarily wasted can be used, more attention can be given to choosing what the body needs instead of what fancy dictates, and efforts can be diverted to produce more food. Both the World War and the recent droughts have revealed greater possibilities of adaptations than could readily have been forecast.

War brings scarcity and dearth of food to many, regardless of Nature or national food reserves. Even in time of peace many individuals, sometimes large groups, go undernourished. They did so when the world had the largest surplus of stocks of wheat in history, and they presumably would if we had wheat reserves equal to two years' supply. No cure for this evil is to be found in an ever-normal granary.

Apart from national or world food shortage, planned reserves of wheat seem to me unnecessary as a mode of protecting American consumers. Only twice in our history has

our wheat crop failed to cover the next year's domestic utilization—in 1933 and 1934; and for these crop deficits the AAA bore almost no responsibility. Even with AAA restriction programs in effect, we are not likely soon again to raise less wheat than we really need to use before the next harvest. Even if we should, carryovers would probably be ample, under the influence of ordinary commercial motives, to supplement the short crop until another could be harvested. If, perchance, commercial reserves should be inadequate to make up a deficit, we should not face wheat scarcity. Although spokesmen for the ever-normal granary are strangely silent on this point—doubtless for tactical reasons—there is no prospect that wheat will be unavailable for import into the United States. Three great surplus producers are at our doors, in an economic sense, and eager to sell wheat to us. Were it not for an almost prohibitive tariff duty, Americans could this year buy flour milled from Canadian, Argentine, or Australian wheat for much less than they are paying for flour milled from American wheat.

So far as wheat is concerned, I can see no element in the ever-normal granary that would improve the national diet or enhance consumer purchasing power, as was suggested in the *Consumers' Guide*. The scheme is designed to be grafted onto an adjustment plan, one successful object of which is to force consumers to pay "parity prices" for domestic wheat, regardless of its abundance or scarcity. If the AAA sticks to this policy and actually adjusts the rate of processing tax from year to year, prices of flour and bread may indeed be more stable than before the AAA existed, but at a higher level than they would be in the absence of production restraints, processing taxes, and benefit payments. If real protection to consumers in the event of domestic scarcity is desired, other

obvious means are at hand—lowering of the processing tax and/or the tariff duty on wheat.

What the cost of the scheme might be, or how its burden would be distributed, we have no clear basis for estimating in the absence of a concrete proposal. Including carrying charges and loss in storage, the direct cost might easily be heavy and indirect costs possibly larger still. Under present leadership, every effort would be made to keep that cost from falling on wheat producers. If recent policy should be followed, the tendency would be to load it onto consumers; but the general taxpayer might have to carry the burden of any severe loss and also the public debt incurred to supply farm storage facilities on a grand scale, if that suggestion should be accepted.

Under the circumstances, I can understand the appeal to consumers' sensibilities only on an unstated ground: that the proponents fear that materially higher prices of flour and bread behind the tariff wall, or wheat imports on any considerable scale, might ring the death knell of the processing tax, benefit payments, and even the AAA. The primary objectives, I think it fair to infer, are to protect and strengthen the wheat program and to meet desires of wheat producers.

I can see no public justification for offering farmers wheat loans on which the government takes all the risk while the growers appear to take all the chance of gain.⁵ I can, of course, see the appeal of such loans to prospective borrowers in a year of big wheat crop, when these would presumably increase their cash income. I believe that this advantage would be short-lived, as it was in the Farm Board's experience. Few realize what an extraordinary coincidence it was to have the

⁵ In some quarters, it is believed that farmers and consumers bear the cost of maintaining the speculative system under which risks of wheat price changes are now borne. I believe it reasonably clear that the cost of maintaining that system, regardless of imperfections in its operation, is borne by speculators as a class.

shortest corn crop in four decades in the year following the initial corn-loan experiment. What in reality involved grave risks turned out a lucky gamble—such as tempts to further tests of fortune. Had this experiment been inaugurated after a big corn crop and followed by big yields in 1934, the AAA might have had as troublesome a problem of liquidation as the Farm Board had. Had the short yields of wheat in 1933 and 1934 come two or three years earlier, the Farm Board stabilization experiment might have been hailed as a great success. The board learned that all were eager to have the Stabilization Corporation buy, but almost all opposed its selling. It won little applause for arresting price declines, was roundly condemned for being unable to keep them from falling when it ceased buying, and was blamed for low prices attributed to “the weight of its holdings overhanging the market.” After years of less publicized stabilization operations, the Canadian government finds itself with large stocks of wheat to liquidate, even after two short crops. The AAA, I believe, will face similar dangers if it embarks on the plan with wheat. When the grain trade handles his grain, the wheat grower can blame his troubles on the trade; when the government takes a powerful hand, the growers and the grain trade together can and do blame their troubles on it.

For reasons to be mentioned shortly, I believe that the supposed safeguard of coupling national wheat reserves with “production control” is grossly exaggerated. The experiment of enforcing a really radical cut in production has not yet been tried on wheat. I doubt if public opinion would stand for plowing up wheat as the cotton growers plowed up cotton. Moreover, large changes in wheat acreage requirements of contract signers, conceivably rising at times to cuts of 30 per cent or more, would drastically affect farming practices. If such proved too severe to be carried out by voluntary methods,

compulsion would be the alternative to breakdowns. Even with rigorous restrictions on cotton production, the AAA finds itself embarrassed by the consequences of its 12-cent cotton loan in 1934-35.

I see no prospect that the scheme would do much toward stabilizing wheat prices to growers, except to the extent that it might hold them up somewhat in the initial year and perhaps keep them later on a lower level than they otherwise would be. I cannot believe that Secretary Wallace relies upon competent wheat experts on his own staff when he says: "Speculation depresses prices excessively to farmers in seasons of surplus production, and keeps from them the full benefit of rising prices in seasons of low production." In any event, it is not clear that substitution of government speculation for private speculation would work better. At least after the initial year, the scheme in operation might even de-stabilize wheat growers' income from sale of wheat, by interfering with a broad tendency for prices to be higher when growers have less to sell and lower when they have more to sell.

At best the scheme would involve continued disturbance of the operations of the grain trade, contrary to the broad policy of the AAA and also, I believe, to the interests of wheat growers. However much Secretary Wallace and Administrator Davis command the respect of the trade, men have learned from long experience that a governmental agency is subject to peculiar pressures, and that individual officials and policies change. To the ordinary risks of trade, under such circumstances, large unpredictable influences would be added.

The ever-normal granary plan has many complex economic, commercial, financial, and engineering aspects. I believe that these should have been expertly examined before any commitment to the principle was made. If this has not yet been done, I believe that all further intimations that it

may be used for wheat should be deferred until such analysis yields convincing indications that some workable form of the plan will yield net advantages sufficient to offset its dangers. Otherwise the AAA may drift into an operation that could easily jeopardize its own existence.

PRODUCTION CONTROL OR ADJUSTMENT

We have seen that "reduction," "adjustment," or "control" of production has been a cardinal feature of AAA wheat plans. Conser put first among the "principles accepted as fundamental and therefore essential" in the formulation of the program: "The total volume of wheat production in the United States must be reduced to and kept within effective demand."⁶ Passing over the baffling phrase "effective demand," let us consider some major issues raised by the principle. First, was reduction of wheat production a rational objective in 1933, and is it still desirable for wheat production in the United States to be kept down well below the level of 1928-32? Second, can the wheat program, as thus far tested or envisaged, furnish a desired production control? Third, can a government agency bring about better readjustments of wheat production than economic forces will?

The wheat program has been attacked on the grounds that we cannot get richer by producing less; that contraction of food production is wrong, anti-social; that it is obviously idiotic to curtail wheat production when millions are hungry; that so long as there are unsatisfied wants there can be no overproduction. I agree that overproduction has been too commonly blamed for our economic difficulties; there is no prospect of our producing "too much" of things in general, provided we produce different things in suitable proportions

and keep our machinery of distribution of products and reward for service in good working order. The persistence of the world wheat "surplus" problem is heavily traceable to measures in many countries that are uneconomic from a larger viewpoint, in that they restrict wheat consumption, interfere with the flow of wheat, and stimulate wheat production in these countries in the face of abundant world supplies. I believe facilitating consumption a more basic principle than protecting producers, and that it is shortsighted to concentrate on the latter objective in respect to wheat.

Nevertheless, on these main issues, so far as they concern wheat, I believe the AAA is more nearly right than its critics. Of any one product there may be excessive supplies—relatively if not absolutely. It is clearly possible to produce more in total by producing less of some things. There is important truth behind the idea of "balanced production," however elusive the definition of balance may be. Individual want is now, as often, a problem distinct from that of national scarcity. In recent years, at least, no one has lacked bread in this country because national wheat supplies have been short; and merely maintaining or increasing our wheat production would not relieve destitution. I believe that the AAA was right in its conviction that reduction in our wheat acreage and production was warranted in 1933, and that the situation and outlook continue such as to make economically desirable a smaller wheat acreage here than was sown in 1930–32. If wheat growers had voluntarily cut down their acreage and output in response to low prices, it would have been rightly regarded as an appropriate economic readjustment. Merely from this standpoint, therefore, I see no sound basis for attacking the wheat program because it sought reduction of our wheat production.

Experience to date throws some light on the practical pos-

sibilities of exercising wheat-production control. Early in the 1933 wheat campaign, growers were officially told:

The Farm Act offers the American wheat farmer a chance to fit his individual wheat production into a sound production schedule for the country as a whole. It offers him a chance to adjust his output to demand, as other business men do, and to obtain a fair share of the national income.

. . . . If enough farmers will join with their neighbors and take hold of the new economic machinery which the Farm Act offers, they can make that machinery their own, and make it work.⁷

The wheat adjustment plan seeks organized production control. With production uncontrolled, no government can assure farmers a permanently higher and more stable wheat price. . . . The Farm Act offers American farmers the chance to get together to plan their harvests, and to adjust production year by year to accord with actual, profitable demand.

. . . . Far greater cash gains [than from adjustment payments] will come, in the long run, from a raised and stable price for wheat.⁸

Such exuberant statements, in my opinion, grossly exaggerate the possibilities of "agricultural planning" toward "achieving a balanced agriculture," and of the wheat program in particular. Contrary to their implications, nothing approaching the control exercised by a manufacturer over his volume of output is possible by methods thus far applied or seriously considered for wheat.

Within wide limits the AAA cannot determine the volume of the wheat crop in a single year, and even over a period of years its powers of controlling the outturn are limited. Weather exerts important influence on the acreage sown, and remains the dominant factor determining abandonment, harvested acreage, and yields per harvested acre. By methods applied thus far, the AAA can at most merely influence the acreage sown or the acreage kept for harvest as grain. It can exert this limited influence only on the farms under contract, except in so far as it may prevent contraction on these from

being offset by increases on other farms owned by the same landlord or operated by the same tenant. Much acreage in wheat, and much more that is suitable for wheat growing, is not under contract and is not likely to be.

The extent of even this influence on acreage depends on how effectually the contract terms can be enforced. The compliance machinery was given no severe test in 1934 and probably will be less severely tested in 1935. In 1934, much land which Nature took out of wheat was allowed to count as "contracted acreage." Under the relaxations already announced for 1935, contract signers who planted winter wheat considerably beyond the regularly authorized 90 per cent of their base acreage will be allowed to harvest this wheat. With the 1935 crop outlook as it was in the early spring, these relaxations were doubtless well advised, but they will tempt contract signers next year to plant all they hope to harvest. A major test of the limited degree of acreage control will come only when, in 1936 or later, sown acreage substantially exceeds the approved limits, winter abandonment is light, and the crop promises to be large. Then only can we learn whether wheat growers, on demand for contract performance, will plow up a fine growing crop or cut it for hay; and whether public opinion, rightly or wrongly, will commend or condemn this. Unless the requirements are rigidly enforced, under such conditions, enforcement will break down generally; yet public prejudice against crop destruction will probably run higher the more rigid the enforcement efforts. If the Secretary of Agriculture should call for a reduction of 30 per cent or more, this in itself would present a severe test of enforceability.

Over any considerable period, moreover, there are possibilities that acreage restraints may be offset. The requirement that *average* acreage be taken out is difficult to enforce; in

line with good farm management, individual farmers tend to take out their lower-yielding or higher-cost acres. In some areas, higher yields will in time result from increased fallowing or planting of soil-building crops as a result of the program. Some farmers, restricted to smaller wheat acreage per farm, can and will handle that acreage better, and put in effect other known practices to give better yields per acre. Expansion of acreage by nonsigners may go farther toward offsetting contraction by contract signers. I do not know how to appraise the importance of these possibilities, but they suggest major limitations on the power of the AAA to control or regulate wheat production by specified restrictions on acreage of those who voluntarily sign wheat contracts.

A closer approach to real "control" of wheat production, in the downward direction, is conceivable if resort were had to some such measures as are being applied to cotton and tobacco under the Bankhead and Kerr-Smith Acts. The AAA has never proposed these for wheat. Secretary Wallace has indicated his fundamental dislike of such compulsory measures, while sometimes asserting that we may be driven to even more thoroughgoing regimentation than they imply. Conditions may arise in which Congress might force such a plan upon the AAA, as it did with cotton; and a year or two of big wheat yields and low wheat prices might lead wheat growers (in terms of acreage if not by number) to approve this experiment. For the near future, however, there is no prospect that rigorous production-control measures will be applied to wheat. Lacking these, the power of the AAA to regulate wheat production remains limited.

A deeper question is whether the AAA can, under any such conditions as we face in the United States, bring about a better "adjustment" of wheat production than economic forces will bring. The choice, of course, is not between

complete *laissez faire* and complete regimentation. No one will question that economic forces often operate slowly and cruelly. I see logical justification for attempts to make them serve human ends better, just as I do for using natural forces to human advantage. The bridge builder does not break or defy the laws of physics; having learned to understand them, he uses them. The skillful physician works in harmony with, not against, the best-known principles of physiology and chemistry. I endorse the basic view that there is an important field for what may be called social therapy, social sanitation, social engineering. We can wisely devote energy to perfecting our technique of social and economic planning, and there is warrant for social and economic experimentation. Yet we must, I think, reckon with the facts that available techniques of social planning, experimentation, and control are ill developed, and that crude economic experimentation on a wide front and a large scale increases the risks of failure with consequent disillusionment and reaction.

The AAA has been taking pains to develop its planning technique. It recognizes that appropriate economic readjustments will vary among regions and among farmers in each region, under the influence of many factors; and that essentially uniform regulations, such as were embodied in the 1933-35 wheat program, may not only fail to bring about advantageous internal readjustment but to some extent interfere with it. The program planning division has been seeking to develop rational bases for wise adjustments in wheat production, not only in total but by regions, types of wheat, and individual farmers.⁹ It is enlisting the aid of state agricultural colleges in developing needed regional information. It is hoping to introduce into the 1936-39 wheat program several features under which effect can be given to the results

of such investigations, even though departures from a uniform plan are admittedly difficult to formulate and to justify to farmers and to regional groups.

Such research efforts command my hearty approval, even if I cannot fully share the faith that inspires them. At the stage which they have reached, I consider it premature to pass judgment on their ultimate potentialities for practical application in a control program. From what I have been able to learn, however, I see no early prospect that the AAA will see its way clear to make major modifications in its wheat program in the direction of discriminating regulation of regional and individual production of wheat. Various minor experiments may be made; but for farsighted "agricultural planning" and successfully controlled readjustments in wheat, the required technique seems to me not at hand.

I believe it appropriate to raise the question whether the AAA should now launch its proposed second wheat program. Even without it, the present contracts extend through the crop year 1935-36 in respect to benefit payments and control associations.¹⁰ Even if acreage restrictions should be announced for 1936, we can reasonably expect them to have little influence on wheat sowings in the fall of 1935. The wheat situation here and in the world at large is radically different from what it was when the first program was announced two years ago; and within the next ten months it may have changed still more—possibly distinctly for the better. Even if acreage for the 1936 harvest should be left free of restrictions, the crop is not likely to present problems much more difficult than if restraints should be announced in the summer of 1935. If signal improvements in the program can be made, the lapse of a year would give opportunity to perfect them and incor-

porate them in a new contract. It seems to me questionable policy to adopt now, for four years ahead, a program very much like that experimentally adopted two years ago to cope with a quite different situation. There is time to pause, and the insidious temptation to keep going for the sake of keeping going might well be resisted.

THE "PARITY PRICE" PHILOSOPHY

A fundamental element in the philosophy underlying the Adjustment Act and the AAA wheat program is that growers are "entitled" to "parity prices" for the wheat they sell; and that if market conditions yield less than this, it is just and expedient to tax wheat consumers to pay wheat growers who co-operate in acreage adjustments a cash supplement that will make up the difference, in the aggregate, on roughly the amount of wheat consumed for food in the United States. Congress has laid down a formula for determining what it has called "fair exchange value"; but this is a statutory phrase, not necessarily an economic fact.

Two distinct ideas are involved, and often confused, in considering these alternative terms "parity prices" and "fair exchange value." One is that the computed "parity" represents a sort of economic "normal" price of wheat—a level around which price fluctuations occur from year to year, but from which any departures tend to be corrected by economic forces; and it is commonly assumed that this "normal" remains constant over long periods in relation to commodity prices in general. The other idea is that, regardless of actual wheat prices or any economic "normal" level, "parity price" represents what is socially just—what American wheat consumers can reasonably be asked to insure that farmers get for the wheat that consumers eat.

It is no easy task for economic experts to ascertain what

the economic "normal" price of wheat has been, is, or will be. My own study leads me to think that it is well below the "parity price" computed by the formula embodied in the original Adjustment Act; and that the calculated difference between "parity price" and current average farm price materially overstates the extent to which current prices are below current economic "normal" prices.

There are several steps in my reasoning. First, I believe that the prewar average price, 88.4 cents a bushel, was above the economic "normal" for that period. The base period 1909-14 yielded not only a higher average farm price than any 5-year average since the late 1870's, except perhaps 1907-12; but also a price that was high enough to stimulate expansion of sown and harvested acreage between 1909 and 1914, in contrast to the downward trend of harvested acreage when prices ruled much lower from 1898 to 1907. Second, because of important shifts in wheat acreage and production since the prewar period, the method of weighting state average prices by production tends to give a lower national average farm price in postwar years than if constant weights were used; for this reason, the prewar national average farm price is higher than is properly comparable with corresponding current figures. Third, the index of prices farmers pay for commodities bought is biased upward over a period of years, chiefly because it ignores considerable improvement in quality, economy, and serviceability of important items in it (especially farm machinery, tractors, and automobiles); if adjustment for such things could be made, the current index of prices farmers pay would be materially lower for comparison with wheat prices.

All this implies no criticism of the base period or the indexes as such. They were not devised for the purpose for which they are now used. So used, however, I think that they

must yield a larger current deficit from the "parity price" of wheat than would be shown by investigations designed for the purpose of showing deviations from an economic "normal" price. Merely for illustration, let us contrast the results of the actual and a hypothetical calculation for March 15, 1935:

	Actual	Hypothetical
a) Base price	\$0.884	\$0.800 ^a
b) Index of prices farmers pay... 1.28		1.15
	<hr/>	<hr/>
c) Parity price ($a \times b$)	\$1.132	\$.920
d) Current price	\$.855	\$.855
	<hr/>	<hr/>
e) Difference ($c-d$)	\$.277	\$.065

^a Allowing for two factors mentioned in the preceding paragraph.

The assumptions implied in these merely illustrative figures are inexact but on the whole, I think, not unreasonable; and the net results are in striking contrast.

Furthermore, it is a mistake to assume that the present-day "normal" price of wheat, relative to prices of anything else or the price index for "all" commodities, is the same as it was before the war.¹¹ Changes in such "normals" are small in comparison with price fluctuations within a season or over a few years, but they are not negligible. Conditions under which the bulk of our wheat crop is produced have radically changed, chiefly because of improvements in equipment and methods. The world demand situation, to say nothing of other factors in the world wheat situation, has also changed radically. Both kinds of changes, I believe, make for a current

¹¹ For tobacco, the act specified a postwar base period, August 1919 to July 1929. In *Agricultural Adjustment*, p. 4, this explanation is given: "This variation from the base period established for other commodities is due to the fact that tobacco-consuming habits of the entire world have changed since the war, and the pre-war conditions of production and demand no longer accurately represent the present condition of the tobacco industry." The difference between wheat and tobacco in these respects is one of degree only.

“normal” economic price of wheat lower than before the war in relation to prices of things in general.¹² If these factors also could properly be taken into account, it might appear that United States farm prices of wheat in 1934-35 are above, not below, the current “normal” economic level, as might be expected after two years of short crops in succession.

There are indications that seem to me to lend some support to this reasoning. During most of the postwar years, the farm price of wheat in the United States has been more or less substantially below “parity” levels as now computed. This at least raises the presumption that this “parity” was above the economic “normal.” At times the wheat price has been so far below “parity” as to stimulate acreage contraction; but at other times, even in years when the price was below “parity,” expansion of wheat acreage has occurred; and acreage was maintained at high levels even when carry-overs were piling up. Few would question that if restrictions on wheat sowings were now removed and farmers could be assured of a national average farm price of \$1.13 a bushel (“parity price” as of March 15, 1935) on all the wheat they chose to raise for sale, a notable expansion of wheat acreage would shortly occur. I believe that with similar assurances even a price of 85.5 cents a bushel (the actual average for March 15) would lead to appreciable acreage expansion.

If one frankly admits that, whatever the present economic “normal” level of wheat prices is, the computed “parity price” does not measure it but is probably considerably higher, one may yet argue that “parity prices” are more just. My own difficulty at this point is that I can find no criteria for determining what price is “just” or “fair,” within wide

¹² This is partly because, for many manufactured products not in the index of prices farmers pay, as with farm machinery in it, technological improvements often result in better quality or higher appeal rather than in lower prices per unit.

limits. This is a matter of opinion, and opinions differ. One Congress may decide what it thinks, but another may decide differently. Even if one could determine what income a *wheat grower* is "fairly entitled to," this would furnish no rational basis for saying that his *wheat* is worth more or less than he could get for it if he sold it under competitive conditions.

The formula embodied in the act seemed satisfactory to its wheat advocates when farm prices of wheat were far below the "parities" so computed. Since farm prices have gone up, demands have arisen for a change in the formula. In the spring of 1934 a bill to redefine "parity," designed to raise the calculated "parity price," failed of approval on technical grounds. In the spring of 1935 other bills are before Congress providing for similar redefinition of "parity," authorizing processing taxes to be set higher in order to compensate for credits on processing for charitable distribution and use, and calling for drafts upon customs revenues for export promotion. The obvious intention is to increase benefit payments and farm prices also, at further expense to consumers and to the federal Treasury. Some of the food trades, in their eagerness to get rid of processing taxes,¹³ are tending to support shifting the burden onto the federal Treasury or the public credit, and are willing to see benefit payments and export subsidies increased. The outcome will presumably be determined by the political strength of various groups, in which current persuasiveness is likely to have more influence than farsighted statesmanship.

CONCLUDING CONSIDERATIONS

In practice, the statutory definition of "parity prices" is significant chiefly in determining at what heights processing

¹³ In the present situation, I am disposed to agree with the AAA that processing taxes on wheat should be retained so long as benefit payments are, in spite of the "regressive" character of these taxes.

tax rates and benefit payments can be set. This brings us to a delicate matter. The AAA has striven, in the main with considerable success, to prevent political influence from determining its wheat program or interfering with its effective execution. Nevertheless, the distribution of payments to wheat growers powerfully influences votes in the regions most concerned. Once this policy is established, and the flow of funds well started, attitudes of voters tend to be determined not by the inherent wisdom of the policy as a whole, but by the desire to keep these funds flowing in. As in the notorious cases of the protective tariff and "pork barrel" appropriations for river and harbor improvements, those who get such favors from the government seek to retain and enlarge them; and their opposition to similar favors to other regions and other groups is weakened. Thus there is a tendency for the spread of a sinister form of political corruption which even its beneficiaries do not commonly recognize as such, so plausible are the grounds on which it is advocated and its results are accepted.¹⁴

These tendencies are not surprising, but they seem to me evil. The government can well afford to say and back up its statement: "No one shall starve in this country if we can prevent it." I deem it right and wise to mitigate destitution so long as we cannot prevent it. But for wheat growers and others, I believe that individual and family incomes, above a certain low minimum, should depend primarily on their earnings—not on public "benefits" or doles, by whatever name they may be called. It seems to me economically disadvan-

¹⁴ In the fall of 1934, Republicans freely charged that the administration was in effect buying votes with AAA benefit payments and drought purchases of cattle, as well as with distribution of relief funds and public works expenditures; and attention was called to heavy distribution of benefit payments in the weeks preceding election day. While in some cases pressure was exerted to hurry wheat checks to certain districts, the main outflow of wheat payments at these times was in accord with plans made and justified on other grounds.

tageous and politically harmful to have any considerable supplement to these occupational incomes derived from public funds determined by political action. If we have done it to meet a general emergency, I think we should avoid accepting it as a continuing policy.

On such grounds as these, my own opinion is that wheat growers have been miseducated into believing that they are fairly entitled to "parity prices" of wheat as Congress may be persuaded to define them—merely as prices or as price plus "adjustment payments," on all or part of the crop. I do not believe that a truly "fair price" on wheat can be set, even as an average over a period of years. If it could be done for wheat, there is hardly a product or service for which similar efforts would not be equally justified and logically demanded. Actual changes in prices of wheat and other products constitute economic forces operating to bring about readjustments in and between agriculture, industry, trade, and services. Mitigation of the harshness of these forces and acceleration of their speed may well be sought. But with all that the AAA has done, or shows early promise of doing, no substitute for these forces of readjustment is in prospect, short of complete socialization. Of its potentially achievable advantages, if they exist, we have no evidence; and wheat growers, in particular, are among the last of our citizens to seek so fundamental a change.

In conclusion, then, I regard the first two years under the wheat program as representing a valiant experiment which yielded certain results that were earnestly desired in the face of an emergency, while Nature was effecting a radical readjustment in wheat supplies. The experiment has been too short, and the conditions under which it was tried have as yet been too unrepresentative, to permit final appraisal of its potentialities for good or ill. If the experiment could be

continued under expert guidance, it might bear valuable fruit in time, though its practical promise of advantageous wheat readjustment seems to me limited. If effectual resistance cannot be offered to continued pressure to extend the experiment with considerable disregard of the results of experience and expert analysis, it is liable to break down under an adverse combination of circumstances. Certain tendencies within it, and accompanying it, seem to me contrary to the national interest. Some basic elements of the philosophy underlying it seem to me ill founded. I am disposed to give the AAA high credit for its conduct of the experiment to date; yet I believe that neither the result nor the promise justify indefinite continuation of the experiment in the form that now seems in contemplation.

XXIII

VALIDITY OF UNDERLYING ASSUMPTIONS*

[December 1935]

Two assumptions underlying agricultural adjustment strike me as more truly fundamental than those which Secretary Wilson labels vital. (1) American agriculture has recently faced, and still faces, difficult problems of adjustment to changed and changing conditions. (2) Within reasonable limits, the government can and should help to facilitate the process of wholesome readjustment in the national interest.

I accept these basic assumptions as valid. Here I am on common ground with both of the main speakers and presumably most of you. Beyond this we diverge. How much? How far? In what direction? With what goals? By what means?

Both speakers have interpreted our topic much more narrowly: not agricultural adjustment as such, but the AAA policy and program in particular—with special reference to its enduring as contrasted with its emergency application. Secretary Wilson has given us a warm-hearted discussion of this “master plan” as seen by a master planner. Professor Jesness shows with what skepticism he regards an extensive list of fundamental assumptions underlying it. I shall try to keep within the scope of the discussion they have outlined. But I regard as invalid the occasional assumption that the AAA program necessarily implies progress in true agricultural adjustment. As every mechanic knows, experimental adjustments are often maladjustments.

* Contribution to discussion of papers by M. L. Wilson and O. B. Jesness on “Validity of the Fundamental Assumptions Underlying Agricultural Adjustment,” before the American Farm Economic Association in annual meeting at New York, Dec. 28, 1935. Reprinted, by permission, from *Journal of Farm Economics*, February 1936, XVIII, 48-51.

We have reason to congratulate ourselves on this opportunity to look at this plan, under these auspices, and to consider oft-asserted facts, deep-seated convictions, and relevant implications in their true guise of assumptions subject to test. Unlike Secretary Wilson, I think this applies to assumptions in the field of value judgments, though here the testing process may be long-drawn-out. Our present impressions regarding their validity may indeed vary with our individual "philosophies," and be consequently, in varying degrees, erroneous. Seeing "through a glass darkly" as we do, we are all groping and reasoning toward *the right* philosophy, which I take to be singular, not plural. What this is, time will prove. As it is proved, assumptions now being made will meet acid tests that no one yet can surely apply.

This is not a pitched battle between friends and foes of the AAA. Nor is it to be a more or less dignified heckling match. Nor do we constitute a supreme economic tribunal at whose bar the AAA is on trial. Rather we are trying to turn the cool light of our best available evidence and reasoning on the plans, policies, programs, and propaganda of the AAA, in order to clarify if not to influence the course of developments.

I could spend all my time merely listing relevant assumptions which I consider valid. But the AAA has plenty of "yes men," and plenty of "yes-and-no men" who must soft-pedal their "noes." It also has enough bitter opponents, but perhaps too few plain-spoken but friendly critics such as I count myself. I choose, therefore, to concentrate on two or three assumptions that seem to me invalid.

There is, for example, the basic assumption freshly reinforced in a recent amendment to the act, that Congress can prescribe a formula under which official data will indicate the "fair exchange value" of each and every farm product.

Regardless of the formula selected, I protest the validity of this assumption. Congress may call rye, peanuts, or Jerusalem artichokes "basic agricultural commodities"; they are not basic in any significant sense. Congress might even call a barber's sign the North Pole, but what of it? As Lincoln is reported to have said: You may call a cow's tail a calf, but that does not make it one.

The concept of "parity prices" has been losing favor in high quarters. The President so hinted in his recent address in Chicago. Secretary Wilson considers the idea not vital to the AAA. Professor Jesness calls the assumption of a constant parity relationship over long periods "too naïve to be tenable." Well and good! But the concept is still firmly embedded in the basic law; and with all the qualifications Mr. Bean has reiterated, "parity prices" for specific farm products remain the one tangible goal set up for the AAA to shoot at. I think Jesness speaks too gently when he says, "Parity prices . . . will need adjustment from time to time." The assumptions underlying the idea itself, and both old and new formulas, are, as I see it, not only invalid but obstacles in the way of genuine agricultural adjustment.

Again, there is the basic assumption that the AAA program insures real agricultural adjustment—that far-reaching governmental action not only conceivably can, but actually will, bring about either a satisfactory or a superior adjustment of production and income within agriculture, and between agriculture and the entire national economy. I question the validity of this assumption as stated, though I hope that needed modifications can be introduced that will make it valid for the modified program.

Despite the persistent efforts of Secretary Wallace and his associates to clarify the goal of the AAA, the utmost vagueness still surrounds such terms as "adjustment," "balance,"

“parity income,” and even Secretary Wilson’s assertion: “. . . we should produce sufficient for domestic consumption at reasonable prices plus an amount which can be exported without loss.” I would consider it a sound objective to envisage in what direction economic forces are moving toward a more stable equilibrium within agriculture, and between it and the rest of the national economy, over the long pull; and then to seek to smooth, and perhaps somewhat retard or accelerate, the operation of those forces to that end—whatever the prices or price relationships, whatever the proportions of the different products, whatever the proportion of farmers to the national population. The AAA seeks quite different objectives. Under laws that its leaders have had a large hand in drafting, it ostensibly seeks price objectives that are patently uneconomic and in large measure, I think, practically unattainable. Toward these objectives it moves by production restraints and loan policies that either are puny in their influence (as with wheat) or else create fresh and momentous maladjustments (as with cotton).

In the past, the pervasive pressure of economic forces has served to bring about notable readjustments within a season, from season to season, and over a decade or two. The process is harsh, and can presumably be materially improved; some moves in this direction are under way. For this process, however, the AAA has undertaken to substitute, now for an indefinite period, a vast regime of controls, restraints, taxes, and bonuses that tend to keep the agricultural emergency ever with us. To shortcomings, one of its answers is to demand wider scope, more control—with amazing faith, hope, charity, and “nerve.”

Omniscience and omnipotence on the part of the master planners might insure genuine, wholesome, and in a sense enduring adjustment. Lacking these, the prospects are less

bright. After all is said of the cruelty and imperfections of unaided economic readjustments, much remains to be said in a similar vein about superambitious government-directed "adjustments." Let me in closing repeat, with only slight modifications, a sentence of Secretary Wilson's: Readjustment *with* [without]¹ such centralization of aims and methods *as is feasible* will involve extreme delays, confusion of thought and action, much inefficiency, much waste. I do not expect him to like my version, but the brief history of the AAA already affords ample evidence of its truth.

XXIV

AAA AS A FORCE IN RECOVERY*

[December 1934]

The Agricultural Adjustment Act and its amendments represent a fresh culmination of the postwar struggle for "effective" legislation to improve the financial position of American farmers, after experience under the Agricultural Marketing Act had dismally disappointed even its sponsors. More particularly, however, the Adjustment Act was designed to yield prompt farm relief and to speed general economic recovery, though by no means as a panacea even for agricultural ills. It soon became an integral part of a many-sided "recovery program," and the Agricultural Adjustment Administration was expected to exert a potent influence in promoting national recovery. In dealing with this aspect, I propose largely to ignore other elements of the recovery program, farm credit and other policies affecting agriculture, and other angles from which the AAA may be considered.

THEORY AND EXPERIENCE SUMMARIZED

The theory repeatedly voiced by spokesmen for the Adjustment Act can be briefly summarized thus: Extremely low prices for farm products mean extremely low cash income for farmers; fixed charges claim a heavy share of that low income; hence purchases of goods produced by industry for use in farm operations and in the farm household have al-

* Address before a joint session of the American Economic and Farm Economic Associations in annual meeting at Chicago, Dec. 27, 1934. Reprinted, by permission, from *Journal of Farm Economics*, February 1935, XVII, 1-19, which includes discussions by Mordecai Ezekiel and T. W. Schultz.

most vanished; this vanished demand is responsible for a high proportion of industrial unemployment, and is prolonging acute general depression; the obvious remedy is to increase farm purchasing power, promptly and substantially;¹ this will result in heavy purchases and start the "upward spiral"; this can be done by measures including prompt distribution of cash benefits to farmers coupled with production restraints and other steps to raise farm prices of farm products; in turn, increased industrial income will increase effective demand for farm products, and add to further improvement in farm prices and income; thus the AAA will exert a mighty force toward general recovery.

Part of this theory was vigorously set forth by Governor Roosevelt in his campaign speeches. Shortly before the 1932 election, he said:

. . . . I believe that we can restore prosperity here in this country by reestablishing this gigantic purchasing power of half of the people of the country, that when this gigantic market of 50,000,000 people is able to purchase goods, industry will start to turn, and the millions of jobless men and women now walking the streets will be reemployed.

We need to give 50,000,000 people who live directly or indirectly on agriculture a price for their products in excess of the cost of production. That will give them the buying power to start your mills and mines to

¹ To this point, the theory represents one widely accepted phase of the doctrine of "agricultural fundamentalism," on which the following quotations from the report of President Harding's National Agricultural Conference in January 1922 are pertinent.

Secretary Henry C. Wallace said in opening the conference (*Report*, p. 13): ". . . . The agriculture of the Nation is in a bad state, and our entire business and industrial life is suffering in consequence. High production costs, followed by ridiculously low prices, have greatly reduced the farmer's net income, and his purchasing power has been still further reduced by the disproportionately high prices of the things he is forced to buy. . . ."

Committee No. 1, of which the Secretary's son, Henry A. Wallace, was a member, reported that "the primary cause of disastrous unemployment of millions of industrial workers" had been the "overwhelming drop in the purchasing power of the American farmer," and stated (p. 137): "The conference declares that no revival of American business is possible until the farmer's dollar is restored to its normal purchasing power when expressed in the prices paid for the commodities which the farmer must purchase, and the conference further declares that by right the men engaged in the agricultural field are entitled to a larger return than they have heretofore received for the service they give society."

work to supply their needs. They cannot buy your goods because they cannot get a fair price for their products.²

In subsequent hearings³ and debates on pending farm legislation, the theory was emphatically enunciated by advocates of the proposed measure, presumably with telling political effect. President Roosevelt, in his message of March 16, 1933, transmitting the draft bill for the Farm Act, spoke of it as "of definite constructive importance to our economic recovery." The theory is plainly implied in the declarations of emergency and of policy in the Agricultural Adjustment Act that emerged on May 12, 1933, and it figured heavily in Ezekiel and Bean's economic brief for the act.⁴ The farm organization spokesman at the first informal public conference held by the AAA, to consider a wheat program, said on May 26: "There is no switch on the national board which can be turned to such an immediate advantage to the Nation as that one which would provide agriculture with some immediate funds for lumber, hardware, paint, clothes, schools, debt payments, etc." President Roosevelt, in his address of October 22, 1933, referred to the AAA as a "pillar in the making" of "the edifice of recovery."⁵

The great experiment has now been under way for nineteen months. How does the theory stand up under the test of experience to date? More specifically: (1) Did the AAA get industry off "dead center" and start general recovery? (2) Has it accelerated or retarded the progress of recovery,

² At Atlanta on Oct. 24, and at Boston on Oct. 31, 1932, here quoted from George N. Peek's testimony before the Senate Committee on Finance, Feb. 14, 1933. Mr. Peek added: "Let no one doubt that the results of the election meant general approval of the views expressed above."

³ See, for example, *Agricultural Adjustment Program*, Hearings before the House Committee on Agriculture, Seventy-second Congress, 2d Session, Dec. 14-20, 1932, Serial M, pp. 139-40 (M. L. Wilson), 359-80 (Mordecai Ezekiel).

⁴ *Economic Bases for the Agricultural Adjustment Act*, December 1933.

⁵ Quoted by Secretary Wallace in his foreword to *Economic Bases*. . . .

still disappointingly limited? (3) To what extent, and in what particulars, has it modified the course and character of recovery?

The stage is early for arriving at definitive answers to these questions. Several moves of the AAA were not calculated to show immediate results; many were frankly experimental; and some have been abandoned or modified. In part the significant effects are tendencies, only partially revealed in clear-cut results. Much needed evidence is not yet at hand or assembled. Moreover, the task involved is one of the most difficult that scientists face: to segregate the influence of specific factors on the net result of a combination of factors. The natural scientist seeks to solve such a problem by patient experimentation. The social scientist has to proceed by combining reasoning with resort to pertinent qualitative and quantitative evidence, checking one procedure against others. Preliminary approximations by one student need to be subjected to the critical scrutiny of others with different equipment.

In this spirit I venture to lay bare my tentative answers to the questions posed. I have not been able to exhaust the topic or reach demonstrable conclusions, and I reserve the right to change my mind. If I speak positively, it is only to save words. Mindful of Alfred Marshall's advice,⁶ I invite not only supplementary but divergent views as a means of arriving at the truth.

Considering the AAA from this one angle only, my present answers summarize thus, on the basis of reasoning and experience to date: The AAA did not contribute significantly to start national recovery. Its influence on the extent of national

⁶"There is . . . a special difficulty in social studies. No one can have first-hand knowledge of any considerable part of the conditions and other facts relevant to any issue. Therefore, the first duty of every student is to be diffident: and his second is to shun controversy." *Industry and Trade* (London, 1919), p. 679.

recovery to date has been minor, not major. On the general course of recovery it has had more influence, sometimes accentuating and sometimes moderating the swings. Its chief influence has been to alter the character of national recovery—its distribution among regions, businesses, and groups, in timing even more than in gross extent. The AAA has contributed materially to increase the money income of farmers, particularly of certain groups; but up to date the increase in aggregate purchasing power of farmers for the products and services of other groups has been larger in appearance than in reality, and more of it has been due to other factors than to the AAA. Real gains by agriculture and closely related businesses have not been net gains to the national economy; there have been important if less visible offsets. I lean to the view that the net influence of the AAA on national recovery as a whole, including agriculture, has been positive, while its net influence on business or industry other than agriculture may have been negative. At best, the favorable effects on general recovery appear slight in contrast with the hopes held out.

The principal measures taken by the AAA that have affected the rate and degree of recovery fall into five broad categories that vary considerably in importance: (1) imposition and collection of processing and related taxes; (2) rental and benefit payments to contracting farmers; (3) loans on cotton, cotton options, and corn; (4) surplus-removal operations, including the Pacific Northwest wheat export subsidy, "surplus-relief purchases" of butter, hogs, wheat, and other products, and latterly emergency purchases of cattle, sheep, and goats; and (5) production curtailment, chiefly in 1934 except for cotton and cigar-leaf tobacco. Broadly speaking, the influence of the first and last of these has been anti-recovery, of the others pro-recovery, in the short run at least.

TAXES AND PAYMENTS

The first effect of the AAA was an anticipatory one. Prospects for early imposition of processing taxes on wheat and cotton under the act helped to stimulate mill, merchant, and consumer demands for these products in the spring of 1933, and thereby to accelerate manufacturing and trade activity. This, however, was not a dominant factor in the speculative and industrial boom in which accepted indexes of industrial activity rose with unprecedented sharpness between March and July or early August 1933. Quick action on the banking impasse; a notable change of popular and business sentiment from despair to hope; action, and promises and expectations of more action, in the direction of what was loosely called "inflation"; increasing prospects for a very short crop of wheat; consequent extreme commodity speculation; efforts to anticipate NRA measures: these, rather than AAA moves, were chiefly responsible for the sharp advances in commodity prices and business activity from late March to late July 1933.

The enthusiasm was excessive, the boom overdone, and the reaction consequently more severe. In so far as they contributed to the spring boom by casting their shadows before, AAA policies contributed somewhat to the summer recession. Stocks of flour and cotton goods were unusually heavy. A processing tax was added to mill costs of wheat already enhanced by dollar depreciation and the really short crop. Another processing tax was added to mill costs of cotton already enhanced by dollar depreciation and the extraordinary plow-up campaign of the AAA, while other operating costs were substantially increased by NRA agreements. Summer activity in these lines was lower than it would have been in the absence of the AAA.

Sponsors of the act had rested their main hopes of prompt stimulus to general recovery on the early distribution of bene-

fit payments to producers of basic crops well in advance of collections of the necessary taxes. Thus Ezekiel and Bean said:

. . . . The distribution of benefit payments through advances to producers before processing taxes are collected, creates a fund of purchasing power that serves to promote revival in the same way as a similar extension of credit in actual use.⁷

Three groups of factors prevented this consummation. First, such was the advance of prices of wheat and cotton under the influences already mentioned that the initial rates of processing taxes had to be fixed far below earlier expectations, and benefit payments were correspondingly restricted. Second, distribution of initial rental and benefit payments was made to wait, first on the decision to undertake production-control programs, then on the announcement that benefit payments would be made and processing taxes imposed, then on the sign-up, and finally on approval of individual contracts. All these steps involved delays, and the last unexpectedly protracted delays. Cotton growers, who were led to expect their first checks late in July, got few before mid-September, and October had passed before most of them were distributed. Wheat growers, who were led to expect their first payments by about September 15, got little before late in November and the bulk of them in December-February. Corn-hog checks, under the program announced in October 1933, did not begin to move until April 1934 or reach large dimensions until August-October.⁸ In the third place, participation by farmers fell short of 100 per cent; in the case of wheat, allotments for

⁷ *Economic Bases*. . . . , p. 66.

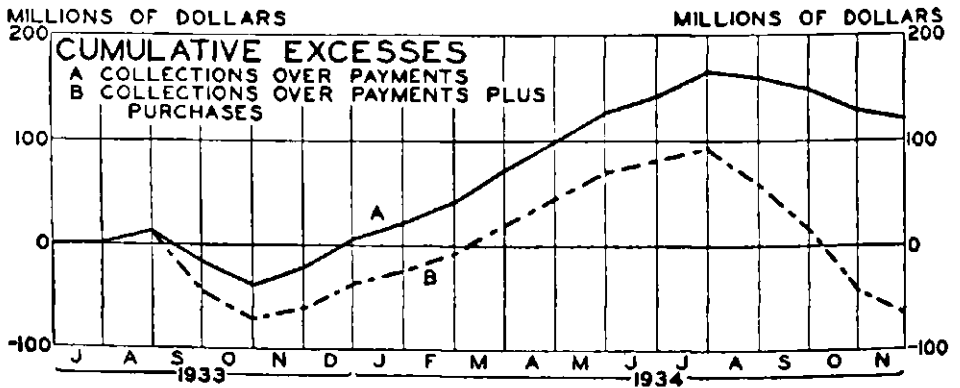
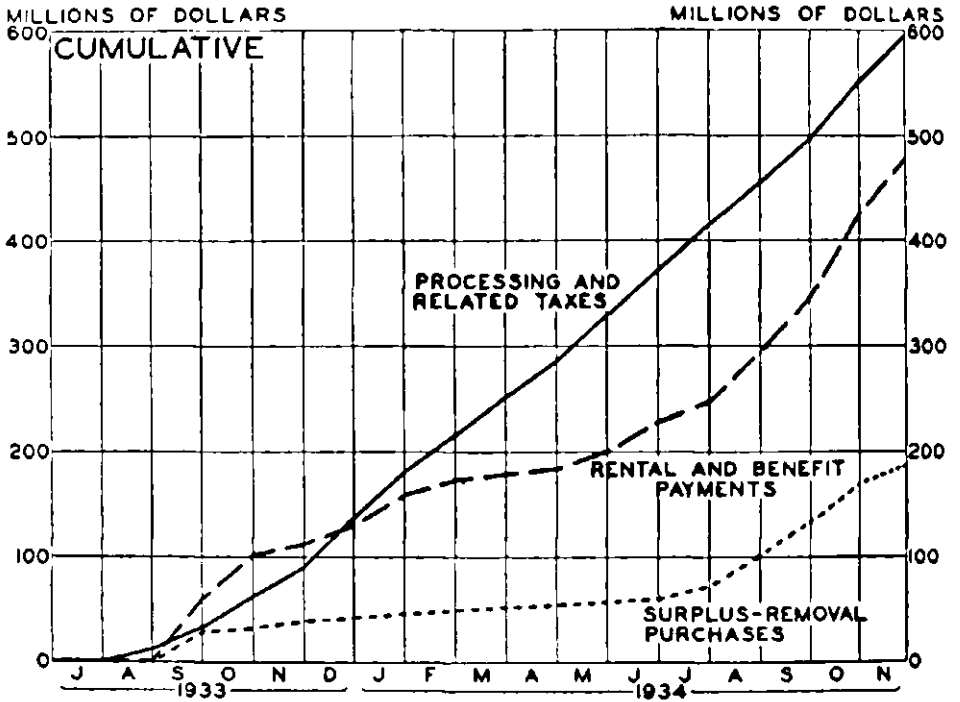
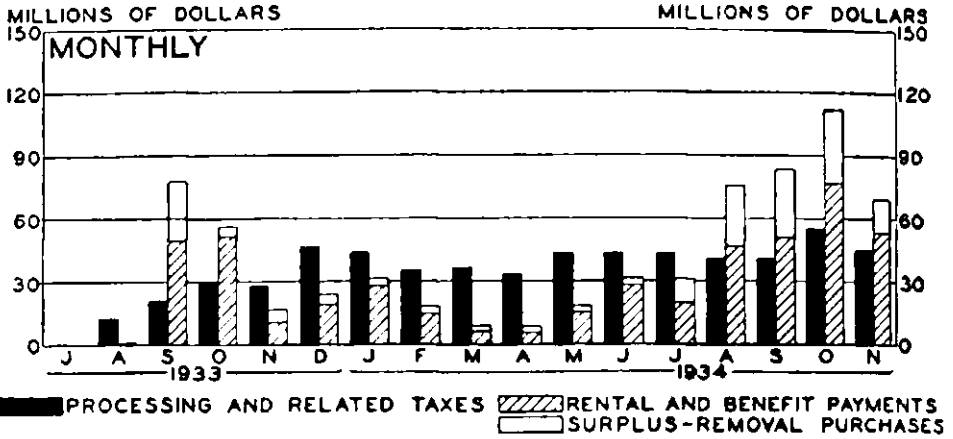
⁸ Section 8 (1) of the act authorized the Secretary of Agriculture to make reasonable advances on benefit payments on the security of any non-perishable agricultural commodity in sealed storage on the farm. Conceivably, if the Secretary had acted under this authority, on wheat, cotton, corn, and other products, a striking outflow of funds to farmers might have occurred in the summer of 1933, with pronounced temporary effects on the course of recovery. Actually, for various reasons, no use was made of this authority.

benefit payments were issued on only about 75 per cent of production in the base period 1928-32.

As late as May 26, 1933, speaking on behalf of farm organization representatives, M. W. Thatcher estimated that the first year's benefit payments to wheat growers alone would be 330 million dollars, and urged as a "moderate request" that 70 per cent (231 millions) be advanced not later than July 15.⁹ The first year's benefit payments on wheat did not quite reach 100 million dollars, and the median date of the first instalment was about January 20. Actually, it was July 1934 before 231 million dollars had been distributed on *all* commodities. Only in September-October 1933 and August-November 1934 have rental and benefit payments exceeded current collections of processing and related taxes; and thus far, only in September-November 1933 have cumulated totals of payments exceeded corresponding totals of collections.

On all commodities, through November 1934, rental and benefit payments totaled 475 million dollars, while processing and related taxes yielded 595 millions. As the accompanying chart shows, through most of this period collections preceded payments by substantial amounts; and even if AAA expenditures for surplus removal are included, the period of excess collections over payments is not radically shortened. Perhaps a limited support to revival was given in September-October 1933 by the cotton payments, and again in recent months by corn-hog and other payments; but on the whole, on the reasoning of AAA spokesmen themselves, the combination has tended to serve as a drag on recovery. This drag might appear still greater if one could take account of lags between price effects of the processing tax and actual collec-

⁹ *Minutes of Informal Public Conference of Wheat Growers, Handlers, and Processors Held by Agricultural Adjustment Administration . . . May 26, 1938.*



tions, and between mailing of checks for benefit payments and the spending of this money.

Beyond a doubt, the distribution of rental and benefit payments has added substantially to the cash income of the farmer beneficiaries; and, broadly speaking, this has been a net addition to their current income except in the case of hog producers, and of cotton growers to some extent. There is ample testimony that this has facilitated spending by these groups; and local merchants, mail-order houses, agricultural implement companies, automobile dealers, and creditors have felt prompt beneficent results. By reason of their concentration in time and place, the effects have been easily visible. AAA spokesmen have generally pointed to these as evidence of its contribution to general recovery, sometimes implying that all the increase in farm purchasing power was due to AAA measures. On the other hand, some critics have argued that it is simply a case of "robbing Peter to pay Paul." I submit that neither position is correct. The effect of the taxes in diminishing the purchasing power of those who bear their burden must not be ignored even though it is less obvious. Since, however, recipients of benefit payments do not spend these on the same goods and services as those who bear the burden would have spent the income surrendered, the transfer of purchasing power creates differences among industrial groups and regions.

The broader question is whether—apart from timing factors, by-products of the taxes, and the production curtailment to secure which adjustment payments were made—the transfer of purchasing power represented by those collections and payments has served or could serve to stimulate *general* recovery. Unless there is some hidden factor, a mere transfer of purchasing power should be expected to change the distribution of business activity rather than to increase its extent. However, it is not merely possession of purchasing power but its

use that counts. So far as I can ascertain, economists supporting the plan believed that this purchasing power put in the hands of farmers would be more "fructifying" than in the hands of those from whom it was taken. If, let us say, the latter class included many who were letting their purchasing power lie inert while farmers would spend their benefit payments freely, an increase in effective purchasing power might be expected to result from the transfer. If, on the other hand, the taxes fell mainly on those without immobile resources of purchasing power, while the additions to farmers' income were used in considerable part in payments on debts that were saved and not spent, the result might be net curtailment of spendings.

What the full facts are, I do not know. There is ample evidence that substantial fractions of benefit payments were used by farmer recipients to pay taxes, debts, and interest.¹⁰ Not all of the sums so used went to purchase goods or pay wages and salaries; some part must have been put aside for future use or investment. The burden of the taxes collected is so widely dispersed in time and place that its effects are not demonstrable. The incidence of the taxes has varied.¹¹ Yet most of the consumers' burden of these taxes (including such "pyramiding" as has taken place) has fallen on what are mainly necessities of life for the mass of the people, more nearly in proportion to their number than to their income. In view of this, and the economic position of the masses of people, I do not see how the taxes can have tapped appreciable reser-

¹⁰ This constituted a separable element contributing to recovery.

¹¹ It appears that the tobacco processing tax has not been passed on to tobacco consumers, and in respect to tobacco a net increase of purchasing power expended has probably occurred. The burden of the processing tax on wheat has fallen, it is safe to say, mainly on consumers of wheat products, and has probably reduced their spendings for other products to almost the full extent. The burden of the tax on cotton has fallen largely on consumers, partly on producers, and of that on hogs more largely on producers than on consumers.

voirs of immobilized purchasing power. Rather I infer that the transfer of purchasing power from tax bearer to benefit receiver has operated on the whole to decrease the amount of purchasing power put to active current use.

In the case of cotton, the dramatic plow-up campaign of 1933 constituted an important factor in boosting the market price of cotton, and so enhancing the value of stocks of cotton. Most of these were held, not by growers or cotton co-operatives, but by the trade.¹² Since the bulk was hedged, most of the gains from price advances on these stocks presumably went to cotton speculators. Though I know of no certain basis for the statement, I suspect that this effective transfer of purchasing power to speculators, from industrial and individual consumers of cotton, lessened rather than increased aggregate spendings for goods and services.

PRODUCTION CURTAILMENT AND OTHER STEPS

More weighty in respect to general recovery have been the effects of production curtailment, particularly under the two AAA cotton programs. In other basic commodities the extent of curtailment effected by the AAA was far less important: in wheat, corn, hogs, and cattle it was slight compared with the effects of the drought; in tobacco and rice the curtailment was relatively substantial in 1934 but not of large national importance.

Two types of influence should be distinguished. First is the reduction in labor on the crop and consequently in employment and earnings of tenants, croppers, and farm laborers. This was substantial in the case of cotton, and rela-

¹² To the extent of some 2.4 million bales, the cotton co-operatives held futures or spot cotton with Farm Board loans. These were taken over by FCA, transferred to the AAA, and corresponding options distributed to participants in the 1933 plow-up campaign in part payment of rental benefits. From these, growers have realized some 51 million dollars.

tively so in tobacco; its social importance is by no means negligible, apart from its bearing on general or business recovery. Second is the reduction in the physical volume of business, for example, in cotton ginning, storage, transport, export, domestic manufacture, and movement of finished goods, with cotton seed as well as cotton fiber. In the latter respect, particularly, the AAA programs have tended to reduce business activity, whereas a big crop of cotton in 1933 and a good crop in 1934 would have tended to stimulate it. It is pertinent here to recall a valuable paper of 1930, in which the present economic adviser of the AAA analyzed the interrelations between agriculture and business, and called attention to those businesses which are dependent on volume of farm output as contrasted to those dependent on farm purchasing power.¹³

Moreover, in the Adjustment Act as so often before, the so-called purchasing power of farm products was too commonly viewed in terms of unit prices rather than sales value, the product of volume and unit price, on which farmer purchasing power mainly depends. It is doubtful whether the growers' gross income from sales from the cotton crop of 1933 was significantly increased by the drastic cut of 25 per cent,¹⁴ and it is by no means clear that such gross income from the two crops of 1933 and 1934 was enhanced by the double cut

¹³ L. H. Bean, "Post-War Interrelations between Agriculture and Business," *Proceedings of the Second International Conference of Agricultural Economists* (Menasha, Wis., 1930), pp. 178-97. "These facts . . . indicate, first, that the prosperity of only certain industries is intimately dependent on the farmer's financial condition and that the welfare of a larger section of industry is dependent more on the farmer's output than on his income; second, that the variations in the industrial and financial activity of the country are real and important elements in the farmer's well being; and third, that the factors which make for agricultural depressions, particularly over-production, may have a temporary stimulating effect on national prosperity and the factors which give the appearance of agricultural prosperity, such as relatively high farm product prices, may help to bring on industrial depression."

¹⁴ See H. I. Richards, *Cotton under the Agricultural Adjustment Act* (Brookings Institution Pamphlet 15), September 1934, pp. 68-69.

itself in conjunction with the processing tax. Growers' *net* income from products sold was probably somewhat increased, in large part at the expense of tenants, croppers, and laborers; but against this increase must also be set a material decrease in those business activities that depend on the volume of cotton output. In general, to the extent that the processing tax and production curtailment have reduced movement, processing, and industrial and household consumption of the products, below levels that otherwise would have obtained, AAA programs have put brakes on business recovery.

Certain supplementary steps of the AAA have figured also, in part to increase farm purchasing power and even more to affect its timing, chiefly by drafts on the general Treasury or the public credit.¹⁵ Delays in distribution of benefit payments, and widespread dissatisfaction at the price recessions of July–October 1933, led to urgent pressure for other steps to increase farm purchasing power at once. The AAA responded to some of these demands. The stabilization-relief purchase of butter was arranged in August with this in mind. In October and later, the AAA went much farther, with liberal loans to growers without recourse on cotton and cotton options and even more liberal loans on corn stored on farms, through the Commodity Credit Corporation; with market-stabilization, surplus-removal purchases of butter, hogs, wheat, and other products from AAA and FERA funds; and with the North Pacific wheat export subsidy.¹⁶ The combined effect of these actions, not yet accurately measurable, was to raise farm income in the late summer, autumn, and winter of 1933–34

¹⁵ The sources of funds were mainly Congressional appropriations and RFC loans, but wheat subsidy costs and some other surplus-removal purchases came out of processing tax revenues.

¹⁶ As these operations were conducted, and as the crops of 1934 turned out, most of these measures proved to cause the AAA no embarrassment; with the corn loan, this outcome was more fortuitous than officials have publicly admitted.

above what it otherwise would have been, but to raise aggregate farm income by much less than the amount thus spent or advanced.¹⁷

In the summer and autumn of 1934, again, the AAA not merely continued its flow of benefit payments, maintaining rates of processing taxes unchanged in spite of enhanced farm prices. It renewed its loan policies, raising the loan basis rashly on cotton from 10 to 12 cents a pound, and more conservatively on corn from 45 to 55 cents a bushel.¹⁸ It used funds appropriated under an amendment to the act for the purchase of cattle, sheep, and goats in drought areas, some to be slaughtered promptly for relief use,¹⁹ others to be pastured where pasture was available. The prices paid were presumably much above what the sellers could have got from ordinary sale. While several of these measures were essentially emergency relief rather than recovery measures, the recovery motive figured in them, and they were designed in part to check recessions if not to speed recovery.

CONTRIBUTION TO FARM PURCHASING POWER

Altogether the AAA operations, independent of other factors, increased farm purchasing power during the nineteen months under review. At times the increase was spectacular, as when rental and benefit payments, loan advances, or direct purchases poured cash into particular localities. The con-

¹⁷ This was particularly the case with the loans and surplus-relief purchases. The corn loans also served to accelerate pressure of hogs onto the market, and thus to depress hog prices for a time, though not immediate market returns. The wheat-export subsidy probably raised wheat growers' income as a whole by more than the subsidy paid, though not in the Pacific Northwest alone.

¹⁸ It also offered 25 cents a bushel as an option on corn suitable for seed, and guaranteed a price of \$1.25 a bushel on such seed corn as it should choose to purchase by May 1, 1935; bought up other seed supplies; and guaranteed \$7.00 to \$9.00 a ton on corn stover and fodder within allotments not sold by Apr. 1, 1935.

¹⁹ A large number were killed on the range, and others condemned as unfit for food use. These constituted about 15 per cent of total purchases.

centrated character of these developments, however, gave an exaggerated impression of their true influence. The loans and relief purchases, in particular, made purchasing power available earlier but only in part increased its total, though in several instances the effect of these on the general market probably increased sales returns to others than those who borrowed or sold to the AAA.

I hope that the Bureau of Agricultural Economics or the AAA will undertake to estimate how much of the total increase in gross cash income of farmers since 1932 has been due to the AAA. Apart from rental and benefit payments, and latterly cattle purchases, I believe that most of the increase was due to other factors. On most farm products normally exported or imported, dollar depreciation has been a major factor in increasing farm prices and sales proceeds, and it has exerted indirect influence on other products more or less subject to price influence from the products most affected. Two years of drought, coupled with agricultural tariffs previously in force but latterly more influential on price, have been major factors in raising farm prices of many products while temporarily lowering some, and on the whole contributed to raise farm cash income in 1933-34 if not in 1934-35. Huge outpourings of public funds other than through the AAA have helped support farm prices and cash income. Such genuine business recovery as has occurred, at home and abroad, has done the same.

Standing BAE estimates of farm cash income by calendar years, inclusive of AAA payments in 1933 and 1934, are shown in the table on page 342 with various manipulations of my own.²⁰ Considering first the dollar figures, the estimated

²⁰ BAE release of Aug. 28, 1934: "Cash Income of Farmers from Marketings. . . ." The more familiar series (e.g., *Crops and Markets*, August 1934, p. 314) includes crop-year figures for crops and for rental and benefit payments on crops.

increase from 1932 to 1933 is 723 million dollars, of which I suspect that less than a third was attributable to the AAA. Of the anticipated increase of 950 million in 1934 over 1933 (of which January-September figures account for 834) perhaps half was due to the AAA.

ESTIMATED TOTAL FARM CASH INCOME

Calendar year	In millions of dollars		Deflator: Index of prices farmers pay	Relatives on 1924-28 base	
	BAE estimate	Deflated		BAE estimate	Deflated
1924-28 av.	10,081	6,530	154.4	100	100
1929 high	10,479	6,850	153	104	105
1930	8,451	5,830	145	84	89
1931	5,899	4,750	124	59	73
1932 low	4,328	4,050	107	43	60
1933	5,051	4,650	109	50	71
1934 est.	(6,000)	(4,880)	(123)	(60)	(75)
THE SAME, LESS RENT AND WAGES PAID AND INTEREST AND TAXES PAYABLE					
1924-28 av.	6,879	4,450	154.4	100	100
1929 high	7,131	4,660	153	104	105
1930	5,477	3,780	145	80	85
1931	3,444	2,780	124	50	62
1932 low	2,294	2,140	107	33	48
1933	3,180	2,920	109	46	66
1934 est.	(4,000) ^a	(3,250)	(123)	(58)	(73)

^a Assuming that one-third of cash income went for items deducted.

The *net* addition to real farm purchasing power was less than these dollar figures suggest, because farm purchases of goods bought, including interfarm purchases, were made at higher prices for which AAA operations themselves were in part responsible. If one "deflates" the series above by the revised index of prices farmers pay (a procedure by no means to be closely trusted), one gets the figures shown in column two, roughly in dollars of "prewar purchasing power." By

comparison with the worst year, 1932, the improvement is marked, but it is much less than is suggested by the dollar figures. Only a modest fraction of the net real improvement between 1932 and 1933 can be attributed to the AAA, but in its absence 1934 might have been below 1933 instead of above. The lower half of the tabulation above gives perhaps a truer indication of the purchasing power of farmers for goods and services, and again indicates a relative gain smaller in real terms than in dollar terms.

CONCLUSIONS

I must leave unmentioned many points of possible importance. In particular, I cannot consider what influence the AAA might have had if the United States had remained on the gold standard and if weather conditions had been normal in 1933 and 1934. Nor is there time to consider whether the AAA may yet afford a stimulus to national recovery. From Dr. Ezekiel's address before the National Association of Marketing Officials, November 15, 1934, and others, I infer that AAA leaders do not confidently expect it to contribute materially to future general recovery; and I interpret the 1935 cotton program to imply a deliberate subordination of a business recovery objective to what may prove to be a shortsighted objective, fully warranted by the act, of holding up the price of cotton.

In conclusion, I hazard the guess that history's verdict on the first two years of the AAA will be that it contributed materially to farm relief and moderately to increase farm income, but that as a force in general recovery including agriculture it quite failed to fulfill the promise held out by advocates of the act and may even have retarded aggregate business recovery; and that this outcome was due in part to unpredictable events, in part to inevitable delays in admin-

istrative procedures, and in considerable part to faults in basic theory, analysis, and forecasts.

NOTE.—The foregoing paper was completed and read late in December 1934. Experience through 1935 justified some alteration in conclusions. The whole subject is discussed at greater length in a chapter largely written by Dr. Nourse, "Contributions to General Economic Recovery," in E. G. Nourse, J. S. Davis, and J. D. Black, *Three Years of the Agricultural Adjustment Administration* (Washington, D.C., 1937), pp. 420-48. To it the present author appended the following note: "I agree with nearly all of this chapter, but feel that it conveys a materially exaggerated impression of the *extent* of the AAA's recovery contribution, particularly in 1933-34; in this important sense the 'recovery argument' of its advocates was unsound."

More detailed materials on some points in the present chapter are given in the author's *Wheat and the AAA* (Washington, D.C., 1935), chapters iv-vi. The concluding section of the chapter on "Wheat Benefit or Adjustment Payments" deals with "Insurance Aspects" and concludes (p. 169): "The happy experience with benefit payments in two years of short crops in many sections serves to accentuate interest in finding some practical form of true insurance that can be applied to serve this purpose more effectively."

XXV

INTERNATIONAL TRADE IN THE RECOVERY PROGRAM*

[July 1936]

International trade has not figured heavily in the actual policy of the administration. At the outset, hopes were raised that the World Economic Conference would bring about substantial decreases in trade barriers. These hopes were certainly excessive, and might have been dashed in any case; but the actual deathblow to the conference was given by President Roosevelt's message refusing our support to currency stabilization moves that he felt would unduly tie our hands. The International Wheat Agreement, designed in part to lower barriers to wheat imports and to regulate wheat exports, soon broke down; and suggestions for other international commodity agreements came to naught. Despite Secretary Wallace's eloquent plea that "America must choose" extreme internationalism, extreme nationalism, or a planned middle course, we are still muddling along on the wrong side of the middle. No revision of the "iniquitous" Hawley-Smoot tariff was undertaken. Negotiation of several bilateral trade agreements has been the administration's principal direct contribution toward expansion of foreign trade. This has been accompanied by domestic policies with respect to agriculture, gold, and silver which have had greater influence, for the most part in the direction of restricting our international trade.

Before touching on administration policies, let me make

* Address before the Western Farm Economics Association, in annual meeting at the University of Wyoming, July 31, 1936, and subsequently included in its mimeographed *Proceedings*.

a passing comment and set forth some background facts and convictions. America's "choice," I think, is not so limited as Secretary Wallace indicated. It is altogether improbable that either extreme will be chosen, and there is no *one* middle course. The pertinent questions are: Which of the many middle courses shall be chosen, and how carefully shall the choice be considered, with all of its implications? Up to date America has chosen its course too "planlessly," and one that is too nearly nationalistic. This choice calls for reconsideration in the interests of agriculture and of the nation at large. Intelligent public discussion of the subject should be fostered. On the other hand, a choice based on anything like a popular vote would probably be even more narrowly nationalistic than it has been. One's faith in democratic government need not include the conviction that questions of policy involving intricate economic aspects can be settled wisely at the polls. The electorate is ill fitted to pass upon such questions; and in the propaganda preceding such a vote, most of the advantages lie with those who favor something like extreme nationalism. Under these circumstances, even "muddling along" may be preferable to paving the way for a commitment of a worse kind.

BACKGROUND FACTS

Trade—intercommunity, interstate, interregional, international—works to the economic advantage of communities, nations, and mankind. On the whole and by and large, this is the plain lesson of economic history: trade facilitates effective utilization of resources, brings economies in production, promotes stability in the functioning of the economic system, and advances and enriches standards of living. Where trade is severely limited, famines still recur; elsewhere they are obsolete. Much of the growth of population and of the

remarkable improvement in living conditions, in the past century or two, is attributable directly or indirectly to trade expansion. Trade restrictions, whatever their purpose and other effects, tend broadly to restrain economic progress, sometimes even to reverse it. The United States has made notable gains in spite of its high protective tariffs, not because of them. Here and abroad, economic recovery in the past three or four years has been on the whole impeded, not promoted, by the unprecedented multitude of restrictions on international trade with which nations have cursed themselves and one another.

I make bold to take this position in a section where many people and agricultural activities are partially dependent on tariffs or other restrictions affecting imports of cattle, wool, sugar, flaxseed, even wheat. Several of the states represented here would have fewer people, and their occupational distribution would be different, if we had not built up our tariff walls; but I think it safe to say that standards of living of these people would be higher, not lower, and that their distress during the recent depression would have been less instead of greater. I recognize, however, that once adjustments have been made to a complex system of trade restrictions, there is no simple and painless way to remove them. On this point economic science has yet given little help and "politico-economic engineering" has yet to make important contributions.

At the root of trade restrictions lies the vice of shortsightedness—a very prevalent human defect. Temporary and sectional interests loom unduly large on our limited horizons, and by a process of log-rolling is built a structure called "nationalistic" which is really contrary to the true national interest. In severe economic depression, dominated by emergency psychoses, the process tends to be intensified, and particularly when people induce their governments to do any and

everything to end their troubles. In the lifetime of men now living, national restrictions on international trade were probably never more general and more effective than today. Indications of reversal of the recent tendency are scanty, but I submit that it is always hazardous to extrapolate short-term trends. It is still possible that the tide of so-called economic nationalism is near its flood, and it is too early to assume that it will remain at its flood.

Economic forces, since the war as well as before it, have been working toward upward trends in the aggregate volume of international trade. While railroad expansion has latterly been of minor importance, there has been a notable cheapening of ocean transport, and the enormous expansion of automotive equipment and of improved roads has helped further to shrink the commercial world by reducing economic barriers to distribution of goods. With this and other improvements in communication, to some extent aided by experience and contacts during the war, business enterprise has developed in scope and intelligence, with selling efforts extended and intensified. Despite checks by war and recent severe depression, the upward drift in standards of living, based in part on increasing productivity and on slower growth of population, has helped facilitate international trade.

By contrast, political influences have strongly tended, particularly during the depression, to counteract these economic forces and to diminish the volume of international trade. Restrictive national policies have been dictated by various motives, differing in weight from country to country. Among these were (1) meeting specific financial difficulties; (2) protection of particular classes or pressure groups; (3) desire for security against the event of war; (4) gratifying the national pride. While severe depression alone makes for diminution in international trade—in value even more than in

volume—the unprecedented declines during the latest depression, and especially the limited subsequent increases,¹ are attributable more largely to political measures than to economic forces.

By its very nature, however, international trade is subject to great variations in composition from year to year and over periods of years. If economic forces were allowed completely free play, this would still be so. Crops vary. Transportation facilities and costs undergo great changes. Comparative advantages shift—both among nations and among commodities. Technological improvements in agriculture, industry, and commerce introduce modifications. New commodities compete with old. Changes in the age distribution of peoples, and in modes of life and work, alter national consumption. In our dynamic civilization, gains and losses of markets for particular products are the rule, not the exception, in international as well as domestic trade. The “normal” economic trend of total trade is upward, but this is not true for particular products, from particular countries or even the world at large.

Economic forces have thus been operating toward a decrease in our exports of cereals and pork products from the abnormal peaks reached during and shortly after the war. Agriculture in Europe has not only recovered from the effects of the war, but has made advances in technique which would have enlarged production of cereals and pork products there even in the absence of protective measures. With the aid of improved machinery and cheap ocean transport, other exporting countries with comparative advantages over us

¹ League of Nations indexes, covering 75 countries, are as follows:

Year	Quantity	Value	Year	Quantity	Value
1929.....	100	100	1933.....	75	35
1930.....	93	81	1934.....	77	34
1931.....	86	58	1935.....	79	35 ^a
1932.....	74	39			

^a Calculated without Italy from October 1935.

have tended to increase their share in the export trade. A trend toward lower cereal consumption per capita has extended to more and more countries, as incomes have increased, as more varied diets have become possible, and as energy requirements have been reduced.

The common phrase, "loss of foreign markets," should be considered against this background. Declines in exports of particular agricultural products are due in varying degrees to broadly acting economic forces, to economic consequences of the depression, to national measures (here and abroad) affecting the total volume of trade, and to national measures affecting these specific products. Various factors which are important in their effects on total exports (such as our international creditor position, new loans to foreign countries, international movements of gold, silver, and securities) exert very secondary influence in determining how much of a particular farm product is exported. This is largely determined by conditions peculiar to that commodity and those affecting its relative cheapness in foreign markets.

Administration spokesmen often seem to exaggerate the effect upon agriculture that reorientation of our international trade policy could bring. If we imported much more heavily, we could export more heavily, unless we insisted on large payments on the war debts or chose to withdraw our foreign investments. But such a change would not necessarily be reflected in corresponding increases in our exports of specific farm products or even in our agricultural exports as a whole. Indeed, price-raising policies can largely nullify its influence. These, together with the influence of weather conditions here and abroad, exert far greater influence on our agricultural exports, in total and in particular, than the character of our balance of trade or international payments as a whole. Other things equal, our exports of cotton, wheat, and tobacco would

probably not have been materially larger in the past six years if we had reduced our tariff in 1930 instead of raising it, though our exports of many lesser agricultural exports would have been greater.

POLICIES IN PRACTICE

The Democratic party platform of 1932, while it advocated "effective control of crop surpluses so that our farmers may have the full benefit of the domestic market," condemned "the unsound policy of restricting agricultural production to the demands of the domestic markets." In fact, however, the Roosevelt administration has gone much farther in these directions than any preceding one. Nevertheless, I think Governor Landon gave an exaggerated impression when he said, in accepting the Republican nomination for the presidency:

By its policies the Administration has taken the American farmer out of foreign markets and put the foreign farmer into the American market. The loss of markets, both at home and abroad, far outweighs the value of all the benefits paid to farmers.

It was a prime element in AAA philosophy that American agriculture must be restricted, in view of the loss of foreign markets, to build down our surpluses of export staples until foreign markets were "reopened." The weakness in this theory is that the very act of restricting production tends further to decrease our exports of the commodities concerned. The primary objective of AAA policy was raising the farm price of farm products. Progress in this direction, however, inevitably tends to lessen the ability of our exporters of these products to compete in the international market. Even a slight price differential against American wheat or cotton in world markets suffices to cut down exports radically; a larger one practically eliminates exports; a still larger one attracts imports here. The experience of the past three years gives illustrations

of all three types of effects. Most conspicuous have been the marked reductions in our exports of raw cotton, pork, and lard, and the amazing shift of the United States from a net exporter to a net importer of wheat, corn, and cottonseed oil.²

While the clear tendency of production restraints and most of the other price-raising devices employed is in the directions indicated, the AAA cannot properly be blamed for all the shifts that have taken place. In respect to cotton, severe cuts in production reinforced by two loans at excessive rates have certainly been the dominant factor in keeping exports down to abnormally small proportions of increasing world consumption; and, with the stimulus to foreign cotton production thus given, seriously adverse effects will be felt for years to come. Temporary gains to cotton growers have been dearly bought. This policy has been less conspicuously a factor also in tobacco, rice, cottonseed oil, and some other products, even where our actual exports have increased. For cereals, pork products, and even cottonseed oil, however, the dominant influence responsible for the remarkable shifts has been adverse weather, notably including the great drought of 1934. Nature outdid the AAA. Had weather conditions been as favorable in the past four years as on the average, the underlying tendencies revealed in the case of raw cotton would have been manifest in several other commodities, but the shifts would have been far less extreme. With weather conditions as they actually were, the shift in our international trade in cereals and pork products would have been much the same in the absence of any AAA program.

In spite of Secretary Wallace's avowed leaning toward

²In the calendar year 1935, *net imports* of cottonseed oil reached 163 million pounds—a larger amount than our exports in the five years preceding, and over three times the average annual *exports* in 1925-29.

economic internationalism, the AAA program in practice has moved in the direction of economic nationalism. In addition to the tendency of price-raising measures to reduce our exports of several farm products, there are instances of restriction of imports. Outstanding is the quota limitation on imports of sugar. Other import quotas figure in reciprocal trade agreements. Congress has given the President authority to impose others, and one on potatoes is in force. Moreover, a few subsidies are being given to aid producers of farm products of which we are net importers, which will tend to expand our production and decrease our imports. Examples are flaxseed, flax fiber, and (in effect) sugar beets and sugar cane.

Under the Reciprocal Trade Agreements Act of June 12, 1934, the administration has negotiated such agreements with fourteen countries, twelve of which have been put into effect since September 3, 1934. The Department of Agriculture, we may note in passing, has shared in the research underlying these agreements and in their formulation. While the 1936 Democratic platform declares for continuance of the policy, the Republican party platform calls for repeal of the law as at once "futile and dangerous," declaring: "Its effect on agriculture and industry has been destructive. Its continuation would work to the detriment of the wage earner and the farmer."

No such conclusion is at present warranted. Really, it is too early to measure results under the agreements. We can compare short periods before and after their coming into force, but we cannot yet safely make reliable statements as to cause and effect, much less appraise the net effects. If one studies the agreements thus far adopted, however, he is generally impressed by their limited scope and character—in number of commodities, rates of duty, etc. In a few lines they have facilitated some expansion of exports, and in others some

increase in imports, above the levels to which trade had receded. But if there are few possibilities for pointing to them with pride, there is even less justification for pointing to them with alarm. Their chief significance—and it is important—lies in the fact that here is a conscientious effort to lower excessive trade barriers, which may perhaps pave the way for more far-reaching and substantial moves to make possible freer flow of goods.

I can virtually endorse the following conclusions in W. W. Lockwood's recent excellent analysis of this program:

. . . . (1) The reduction of trade barriers through bilateral agreements is the New Deal's major effort of a positive character in the field of economic foreign policy. (2) American interest in the recovery of foreign markets has gained as it has become clear that the emergency expedients adopted in the absence of such recovery were costly, in some cases unconstitutional, and often tended toward the restriction rather than the expansion of production. (3) The revision of the tariff by Administration experts within the limits laid down by Congress represents a significant step away from the scandalous procedure employed in previous Congressional revisions and toward scientific tariff-making in the national interest. (4) The trade agreements program of the United States is perhaps the major force in the world today working toward the liberalization of commercial policy, the reduction of barriers, and the restoration of equality of treatment as opposed to preference and exclusion.³

The administration has tried out the policy of loans to foreign countries for the purchase of particular farm products—a policy advocated by various groups ever since the war. The most conspicuous instance under the AAA—loans to the Chinese government in 1933 for the purchase of wheat and cotton—yielded some results, and the loans are being paid off; but the experience did not tempt repetition. Others, out of many proposals, have been of negligible importance. Mr. Peek's Export-Import Banks yielded insignificant results. If the administration had been willing to embark on the barter

³ W. W. Lockwood, Jr., *The Foreign Trade Policy of the United States* (American Council, Institute of Pacific Relations, New York, 1936), p. 6.

arrangements which Mr. Peek also urged, we might have done a little more export business with particular countries for a time; but at best the positive results would have been small, and the net outcome might easily have been to contract our total trade still further.

Our recent experience with export subsidies likewise gives no promise of important results from their use. The original Agricultural Adjustment Act authorized the use of AAA funds "for expansion of markets and removal of surplus agricultural products." Under this provision about $6\frac{1}{2}$ million dollars were diverted from processing taxes to subsidize wheat and flour exports from the Pacific Northwest in 1933-34, of which over 40 per cent went to China under her loan. Section 32 of the amendments of August 1935 put at the disposal of the Secretary of Agriculture a fund consisting of 30 per cent of the customs revenues to be devoted, among other things, to "recovery and development of export markets." This fund, amounting to around 100 million dollars a year, has thus far been drawn upon in 1936 to finance export subsidies on flour to the Philippines (continued in 1936-37), substandard prunes to Germany, walnuts and pecans, and low grades of fire-cured and dark air-cured tobacco. The total sum thus far used in these operations has probably not exceeded 2 million dollars.

From the standpoint of international trade as a whole, these operations are of negligible importance. The Philippine flour subsidy is apparently succeeding in recovering a leading share in that market for Pacific Northwest millers, which they had been losing, in spite of the Philippine tariff on flour from other countries, because Pacific Northwest wheat prices were so far above an export basis. Conceivably the walnut and pecan export operations may open up some new markets, but it is doubtful whether these can be retained on an ordi-

nary commercial basis. Considering the state of international trade, our competitive position in it, and foreign machinery for controlling it, the practical possibilities of even appreciable expansion of our agricultural exports through subsidies are exceedingly limited, and those of using subsidies to develop foreign outlets that can later be exploited without subsidies are negligible if not nil. This the administration realizes far better than Congress does. "Recovery and expansion of foreign markets," in any significant sense, cannot be achieved by such a policy. It will come if and when our products compete more effectively in world markets on truly commercial terms.

Of the gold and silver policies of the Roosevelt administration I need say but little here, since their major significance lies outside the realm of international trade. One direct effect of depreciation and devaluation of the dollar was temporarily to promote exports of certain farm products, including apples from the Pacific Northwest. Apart from such transitory effects, the influence of the policy has been chiefly indirect—on the whole, perhaps, toward restricting the volume of international trade through uncertainties as to our future currency action and delays in reaching international agreement on exchange stabilization.

The silver-purchase policy of the administration has had two distinct influences on international trade. Purchases of foreign silver have added a little to the resources of foreign countries for purchase of American goods and securities. More important, the resulting advance in the price of silver intensified the forces of depression in China, eventually forced her off the silver standard, and indirectly led to contraction of our export outlets there. Economists will not be surprised that events have not borne out the rosy prophecies of the political advocates of silver.

SUMMARY

Trade works to the economic advantage of mankind. Restrictions on international trade, imposed under shortsighted sectional pressures, tend to impede the economic progress of nations. Exceptionally extensive though such restrictions are today, it is not safe to assume that their tide will remain at flood level, even though signs of ebbing are hard to find.

The "normal" trend of international trade, in terms of total volume, is upward; but political actions and other depression influences have caused unprecedented declines since 1929, from which recovery has been slow and slight. Many factors, however, combine to determine the volume of trade in particular products and have been jointly responsible for our "loss of foreign markets" for several farm products.

Price-raising devices, notably including production-control measures, tend directly and indirectly to increase such losses, and have been important in the case of raw cotton. The AAA program as a whole has operated to diminish agricultural exports, and has tended to increase our drift toward economic nationalism. Nature, however, has been mainly responsible for some of the more remarkable export shrinkages and for our becoming net importers of several products for a time.

Export loans and subsidies, cautiously applied, are at best puny devices for expanding exports; if rashly applied, subsidies would probably tend even to reduce our total exports. Reciprocal trade agreements have thus far exerted relatively slight influence, for good or ill; yet while their direct results are likely to be limited, they do represent a wholesome effort in the direction of freer international trade.

XXVI

ASPECTS OF THE AMERICAN RECOVERY PROGRAM*

[August 1936]

I interpret the American Recovery Program broadly to include the whole group of politico-economic measures of the Roosevelt administration, beginning with the executive action shortly after the inauguration in March 1933, continuing with the legislation of 100 days in the special session of Congress, and followed by a considerable number of other executive acts and legislative measures.

The *recovery* objective was prominent in many of these measures, but by no means always dominant. Relief, reform, social experimentation, and political exigency were all involved and sometimes dominant. Moreover, it was a *program* only in a loose sense. At the outset, certainly, there was nothing like a comprehensive coherent plan, but rather a combination of schemes urged by persons of differing opinions. Gradually the administration undertook to do more "national planning," and to work toward something which might be called a "national plan." But what has thus far evolved has never constituted a comprehensive, integrated plan, nor one primarily devoted to recovery. It is perhaps necessary here to concentrate more on those parts which relate to recovery, but by no means all of the significant acts with international implications were designed as recovery measures. We should also bear in mind that the obstacles to the formulation and

* The author's statement before the opening plenary session of the Sixth Conference of the Institute of Pacific Relations at Yosemite National Park, Calif., Aug. 16, 1936. The conference participants comprised delegations from the United States, Canada, the United Kingdom, Australia, China, and Japan, and smaller representations from France, the Netherlands, Soviet Russia, New Zealand, and the Philippines.

execution of "a program of planned economic adjustment" include the limitations of time and of human capacity.

The administration began its work toward the end of a 12-months period (including the presidential campaign) in which were reached the depths of severe depression—agricultural, industrial, and commercial; and also in a psychological crisis of fear and unrest which found partial reflection in the closing of banks through failure on an increasing scale. It was out of such emergency psychoses that the early emergency program took shape. It was designed to meet the psychological crisis and the banking difficulties and, if possible, to reverse the "vicious spiral," as it was called, of economic recession. Action—bold, decisive government action—was called for over a wide front. Action could not wait on the development of integrated plans. "Do something," was the watchword, "for God's sake, do something."

There were consistent efforts, however, to avoid dictatorial methods and to win and maintain the support not only of Congress but of the public at large. Never before has there been such a large grist of press releases put out by the government, and never before has there been such extensive and effective use of the radio in the interest of government measures.

The early objectives of this policy of action were to raise commodity prices and increase purchasing power. Not only in the early weeks of the administration but again in October, President Roosevelt emphasized his intention to raise the price level from the depths to which it had fallen in the past three years. "Do it we will," he said, in one way if not in another. The increase of purchasing power, particularly of the farmers and wage earners, was likewise considered a primary objective. President Hoover had enunciated the dictum, "We cannot spend ourselves into prosperity." The new administration replied, in effect: "We shall try to," and undertook

to pour out money on a large scale. The idea was to raise commodity prices and to increase purchasing power both speedily and substantially. It is of two groups of measures directed toward these objectives that I wish to speak—the monetary policy and the agricultural program.

MONETARY MOVES

The monetary policy was directed toward the first of the general objectives, raising the level of commodity prices. The first step was to abandon redemption of currency in gold, and to restrict exports of gold. Then gold in private possession was called in. Then the purchase of gold at higher and higher prices was adopted. Finally came the President's action devaluing the dollar in terms of gold. These were deliberate moves, not forced by technical necessity. Those who regard them as a necessity find that necessity in the psychological and economic situation rather than in any technical condition of the currency. But it was also in the minds of those who were responsible for these moves that we could not merely raise prices thereby, but also institute a reform in the direction of stabilizing price levels—establishing what Professor Fisher called the "stabilized dollar," what Secretary Wallace called the "honest dollar," and what opponents called the "rubber dollar."

The initial moves were hurriedly made, on the advice of one or two unorthodox advisers. By no means all of the domestic implications were considered; there was not time. To some extent the international implications were taken into account, but they were not given great weight and were not allowed to interfere with what was deemed to be a domestically justified move to raise the general price level.

One of the earliest effects of the monetary policy was a strong speculative boom, from April to July 1933, which had

a marked influence on our course of development. This boom was quickly followed by severe recession, and this in turn by new efforts to bring about price advances of a more durable character. With respect to its main objectives, it is safe to say that the gold or currency policy gravely disappointed the administration's hopes and expectations. Soon the adviser who had strongly urged it disappeared from the inner circle, and the confident assurances that its high objectives would be achieved were apparently forgotten. The price level indeed rose from the depths to which it had fallen, particularly after the adverse weather of 1934 had severely cut the supply of various agricultural products, as well as during 1933-34 when the National Recovery Administration was working similarly in the direction of increasing prices.

One of the greatest difficulties in appraising the elements of the recovery program lies in determining their share of responsibility for the actual results to which many factors contributed. So it is with the influence of the monetary policy on the general price level. It is not known to what extent it was the cause of the advance that occurred. Surely it was not completely responsible. The fact remains that the price level today is still well below the level of 1926, which was often referred to as the goal of the policy.

THE AGRICULTURAL PROGRAM

What was called the Farm Act of 1933, one of the emergency measures of the first 100 days, had three important "titles." The last of these provided the legislative basis for the President's action on the monetary policy, thus linking the monetary with the agricultural program. The second was the Emergency Farm Credit Act, under which a Farm Credit Administration was set up with broad powers and responsibilities. In most discussions of the agricultural and recovery

programs, the FCA has been given comparatively little attention. Yet its work in the past three years, in the fields of debt relief, debt readjustment, and expansion of credit to farmers, has been carried out on a major scale and has unquestionably contributed greatly to the improvement of the financial position of the farmers. Its real importance, indeed, may have been as large as that of the more spectacular Agricultural Adjustment Administration.

The AAA was set up under the first title of the Farm Act of 1933. It was an outgrowth of prolonged planning (or plotting). Prominent in it, however, was the idea of production control, which had come rather recently into the field of agrarian thought. Not until after the 1932 election, indeed, were any of the farm organizations pledged to production control; and it was not even mentioned in Governor Roosevelt's Topeka speech of September 1932 in which he announced the principles of a farm-relief program. One of the main objects of the AAA was to cut down the production, temporarily at least, of great staples of which we produce an export surplus, in order particularly to reduce the supplies which had been carried over and were not readily salable, and to raise prices of these products both immediately and in the longer run. A second objective was to pour funds promptly into the farmers' hands. In part these were to be paid to induce farmers to curtail their acreage or production, as "rental or benefit payments." Soon, however, without special provision for it in the Adjustment Act, the administration arranged for heavy loans to the producers of cotton and corn, with the same objective—particularly, in the case of corn growers, when it was found impossible to get benefit payments to them for several months to come. Also, supplementing these loans and benefit payments, extensive purchases of various farm products were made by the AAA or the Federal

Surplus Relief Corporation, and these distributed to families on relief. These purchases were made primarily to raise the prices of the products concerned and to speed the flow of the money into the farmers' hands; but the products were dumped into relief channels rather than into export.

Efforts were made to proceed throughout with the co-operation of the farmers, both in connection with all phases of the programs for adjustment of acreage and production, and even in connection with the loan and surplus-purchase schemes. We have never before had such a painstaking effort on the part of the government to proceed with the full knowledge and co-operation of the beneficiaries of the plan. Even when Congress passed two acts, the Bankhead Act and the Kerr-Smith Act, under which coercive taxes were imposed to compel cotton and tobacco growers to participate in the adjustment plans, this action was not taken until the administration had assurance that the farmers concerned would generally welcome such action.

Eventually, the production-control measures and the other emergency actions, including the loan and surplus-purchase plans, were gradually converted in the minds of the administration into permanent ones. Without alteration of the emergency sections of the basic act, what had been purely emergency measures were held to be worthy of continuance as part of a permanent policy. To these were added some other elements of a "planned agriculture," including efforts to arrive at a "planned use" of agricultural land.

The international implications of the agricultural program were more fully considered than was the case with many of the other government measures. Perhaps this was because of the personnel that had the leadership in this program. It was accepted, for example, that the restriction of production would for the time being restrict our export of the products

concerned; but it was considered that this was essential in order to meet a changed situation in which foreign countries were less able and willing to buy these products. In no sense and in no case was permanent abandonment of the foreign market contemplated. In the case of wheat, moreover, the United States sought and got an international wheat agreement for the regulation of the flow of exports and for the readjustment of the world wheat supply to the world wheat requirements. High hopes were entertained for this and other potential agreements, and it was a great disappointment to the administration when it broke down before the end of the first year.

Export subsidies had for years been urged as a means of aiding farmers, and under other leadership it is quite possible that large-scale experiments with such subsidies would have been adopted. The international implications of such subsidies were considered objectionable, and the utmost that Secretary Wallace permitted to be done in this direction was an export subsidy scheme in 1933-34 under which 28 million bushels of wheat (in grain and flour) were exported from the Pacific Northwest, nearly half of it to China under a loan to the Chinese government. Only recently, in April 1936, was this policy of export subsidies renewed, but then limited only to flour from three Pacific Northwest states to the Philippines. Congress adopted in August 1935 an amendment—Section 32 of a series of sections amending the Agricultural Adjustment Act—providing for more extensive resort to export subsidies. President Roosevelt in January 1936 recommended the repeal of this section. When Congress did not repeal it but strengthened it instead, the administration made no further objection; but the extent to which export subsidies have been resorted to has been exceedingly limited. So far it constitutes a very minor element in our policy, and little more

than a concession to Congressional demands for some action of this sort.

The difficulty of assessing the results of the agricultural program is very large, not only because in the course of its operation there has been some genuine economic recovery in this country and abroad—to whatever cause that recovery may be ascribed—but also because the weather has played an especially important part in the past three or four seasons. The droughts of 1934 and 1936, and adverse weather also in 1933 and 1935, played important parts in curtailing production and raising farm prices and farmer income.

The production-control program of the administration really had a major result only in the case of cotton, where the crops of the three years 1933–35 were perhaps 25 per cent smaller than they would have been in the absence of any such restrictions. In the case of wheat, almost the entire reduction was to be charged to the weather and almost none to the AAA. In the case of corn, the responsibility for the reduction was divided between the two, but in two of the three years adverse weather was more of a factor than official restrictions. In rice the AAA restrictions were largely effective, but the crop is not of national importance. The loan on cotton was of major importance because it kept prices higher than they would otherwise have been, restricted exports materially, and created an embarrassing “corpse” for the government to dispose of. In respect to cotton, most of the price advance that was achieved was due to the AAA coupled with such aid as was given by the monetary policy of the administration; but with regard to wheat, corn, and hogs, most of the advances were due to the adverse weather conditions.

In practically every case except tobacco, however, the price advance fell far short of that which was called the “fair exchange value” or “parity price” at which Congress had di-

rected the AAA to aim. It proved, and the AAA soon recognized, that restriction of production in the amount necessary to raise prices to the so-called "parity level" would arouse antagonism from the general public and cause farmers to lose more in volume than they gained through price advances. Hence the administration recognized that the production-control system was a weaker force in the attainment of its objective than it had originally anticipated. Moreover, the production-control system under voluntary contracts was in process of breaking down—not where it was applied with coercive measures, as to cotton and tobacco, but where the rental and benefit system was relied upon. An increasing amount of wheat was being planted by persons who had not signed contracts with the government. The acreage sown for the crop of 1935 exceeded that of the base period for the entire country, instead of falling 10 per cent short of it as the administration had wished.

Plans to make this system permanent were under way, and new contracts were formulated or signed, when the Supreme Court made its adverse decision on January 6, 1936. That decision did not entirely invalidate the agricultural act. It threw out the production-control, processing-tax, and benefit-payment system, on the grounds that it invaded the constitutional rights of the states. This was a crippling blow, but it did not kill the AAA nor interfere with various other elements in its program. In respect to production control, indeed, this may have been a blessing in disguise to the AAA. It probably averted a disastrous breakdown in the system that was under way. It did force a radical and sudden change in plans, but under the new Soil Conservation and Domestic Allotment Act the AAA is undertaking to go as far as possible in the same direction while putting great emphasis on the conservation of soil and soil fertility.

XXVII

RETROSPECT ON THREE YEARS OF THE AAA*

[December 1936]

Exigencies of time and distance, particularly in the closing stages of this study, have prevented the authors (E. G. Nourse, J. S. Davis, and J. D. Black) from writing a joint final chapter in which apparent divergences of interpretation and emphasis could have been hammered out and our residual differences shown in proper setting. The following statement is in lieu of one indicating in detail wherein my present views diverge from those set forth in the chapter as written.

All three of us belong in the large group of economists who endorse neither extreme *laissez faire* nor extreme governmental control or operation. We agree that the AAA, under the leadership that it had, deserves high praise for the intelligence, courage, and degree of skill with which it operated in a critical period and evolved as conditions changed. The experiment was worth while, and the experience has valuable lessons.

Whatever the specific goals or programs of the AAA, they should be tested for conformity with a truly basic objective: to assist economic forces in restoring and maintaining genuine, wholesome equilibrium in agriculture as part of our evolving national economy. As I see it, the devices employed by the AAA were broadly incapable of attaining the objectives sought—true “adjustment,” “price parity,” “income parity,”

* Slightly adapted from E. G. Nourse, J. S. Davis, and J. D. Black, *Three Years of the Agricultural Adjustment Administration* (Washington, D.C., 1937), pp. 480-85. This was the present author's “supplementary statement” appended to the concluding chapter, “AAA Philosophy in the Light of Experience,” which was written primarily by Dr. Nourse. Reprinted by permission of Dr. Nourse and the Brookings Institution, publishers.

and real production control through voluntary contracts. Moreover, "adjustment" as it was commonly viewed in the AAA, "parity prices" as defined in the basic act and its amendments, controlled production within practicable limits, and "income parity" as defined in the 1936 act, are not internally consistent objectives whose attainment would promote the welfare of agriculture or the nation. Constructive achievements there were, but various major and minor steps that were taken appear in retrospect mistaken, and the net gain properly attributable to the AAA to date is moderate, not large.¹ Nevertheless, "adjustment" properly conceived is the right fundamental goal of policy; and AAA experience, if properly used, can bring us nearer to that goal.

Though critical examination of that experience is essential, I am not disposed to condemn the AAA for making the experiments that it did, even the hasty measures that it took in 1933-34, under the conditions that prevailed and at the stage of thought and technique that had been reached. Yet I believe that mature study and improvements in organization and techniques can lead to much better provisions for meeting such emergencies in future. An important function of the Department of Agriculture should be to devise and mature provisional programs, reconsidered at intervals on various assumptions, for action in the event of general war or severe depression. Similarly, the department may well undertake to work out well-considered means of coping with recurrent local and regional emergencies, instead of leaving these to

¹ The AAA was fortunate to operate in a period of economic recovery rather than in a period of recession. Though it contributed something to general recovery, and more to agricultural recovery, it claimed and received credit for much larger contributions than it actually made. Under opposite conditions, it would have received an undeserved meed of blame. The net contributions to wholesome readjustment of production, administrative practice, and "economic democracy" are difficult to assess except in longer perspective, and they will depend in part on how the experience gained is used in future.

be dealt with under special legislation or by improvised measures when an emergency has arrived. Persistent problems, such as those of land tenure and land exploitation, the low status of rural folk in the Cotton Belt, and the means of preventing severe crises from occurring, likewise merit not only serious study but action based on such study looking toward effective solutions. There is permanent scope for an AAA as a "social engineering" agency to supplement the research, informational, educational, and regulatory work of the department. Indeed, certain kinds of research on such problems will be most fruitful if done in, or in close conjunction with, the agency having the machinery for dealing with them.

If the evolution of the AAA, and not its destruction, is to be desired, this evolution will be on sounder lines if the AAA avoids commitments to unattainable goals and continuous absorption in mammoth tasks and large-scale "emergency" operations; if it devotes substantial resources to continuing critical examination of its own experience, careful analysis of its fundamental philosophy, and serious attention to bringing plans and techniques to a certain stage before undertaking widespread application; if it adjusts its own staff in such a way that considerable reserve forces are usually at work on basic problems and only at times completely drawn into emergency activities; and if it makes real progress toward co-ordination of the various "programs" it employs, without attempting to make them all-embracing.

The government may well accept responsibility for contributing to restoration and maintenance of economic equilibrium—within agriculture, in other fields of activity, and among the various fields. It cannot well accept responsibility for restoring and maintaining such equilibrium. This task is far too large for a government, and our present govern-

ment is inherently ill-fitted to undertake it. If the government attempts far too much, it will fail, and the net outcome may easily be worse than if little or nothing had been undertaken. Governmental interposition will be most constructive if it is discriminatingly selective, and nominal acceptance of too comprehensive responsibilities leads to embarking on too extensive programs.

Despite all the private and public restrictions on mobility and freedom of competition, economic forces operate powerfully toward restoration of equilibrium—though not always a satisfactory one or the best attainable. Governmental rewards, restrictions, and coercions affect both the process of reaching equilibrium and the character of the equilibrium attained. Their influence in particular situations may be large, moderate, or small, but at most they cannot determine the rate of recovery or the character of equilibrium. They may contribute heavily to temporary improvement in some phase of a situation while at the same time interfering with the attainment of genuine equilibrium. In short, “adjustment” is a complex process in which government actions are among the forces at work, but by no means the most powerful; and their influence may operate either to promote wholesome readjustment, to retard such readjustment, or even to accentuate maladjustments of one kind or another.

AAA experience with “production adjustment” or control seems to me to yield powerful testimony to its weaknesses rather than its actual or potential strength. Very moderate influence on volume of output was exerted except in the cotton plow-up and with the aid of coercive measures later, and resort to these led generally to excessive restrictions with serious consequences for the longer run. At present I believe that the AAA might have contributed more to recovery, wholesome readjustment, and normal equilibrium if it had never em-

barked upon production-control programs. Absorption with price raising, "parity" objectives, and commodity programs hindered rather than helped, and events proved a Supreme Court decision necessary to bring a shift into more promising channels. Perhaps this experience, like that of the Farm Board with stabilization loans and purchases, had to be gone through with; but in both cases it is not yet clear that the important lessons have been really learned. The degree of influence on output through noncoercive measures would remain relatively small under such an evolving policy as Dr. Black envisages and hopes for. Many lines of proposed action should be considered from the standpoint of whether their influence on production will tend toward wholesome readjustment or toward maladjustment; but much if not most of what deserves the name production control in agriculture seems to me unattainable in so far as it is desirable, and undesirable in so far as it is attainable.

For most farm products, the "parity price" formulas embodied in the basic act fixed price objectives too high to be consistent with the more fundamental goal of sound adjustment, and led to governmental action of types and extent that were undesirable in the light of the larger goal. "Parity prices" for wheat and cotton, for example, constituted objectives inconsistent with that of normal economic balance, and even partial attainment of the direct objective was uneconomic in the larger sense. Despite strenuous efforts to restrict wheat acreage in 1934 and 1935, subparity prices stimulated expansion of sown acreage; and current experience yields convincing evidence that if wheat growers were assured "parity prices" they would produce, with average weather conditions, far more than could be sold commercially at that price. Despite three years of important restriction on cotton acreage and output, with voluntary contracts, loans and lib-

eral payments to growers reinforced by coercive taxation, cotton prices have not been raised to "parity levels." There is every reason to believe that attainment of "parity prices" for cotton would entail sacrificing still more of our export outlets, and that if assured of "parity prices" American cotton growers would produce (if permitted) much more than could be sold commercially at that price.

I regard as futile the search for a satisfactory "parity price" formula and appropriate means of applying it. If one economically sound could be devised, it would almost certainly be politically unacceptable and would rest on too slender a foundation to withstand political attack. The "parity income" formula embodied in the 1936 act, while much less objectionable on various grounds, has other weaknesses, and is also liable to prove inconsistent with the fundamental goal of "true adjustment."

Recognizing important dangers inherent in generous outpourings of public relief and government subsidies, I consider that such were appropriate measures in aid of farmers at the depths of the depression, and that within limits better defined they deserve a place in future programs. Conservation of human farm resources is even more truly vital than conservation of soil and forests. In the hurried early days, it was convenient to deal with farmers according to major farm products, but this need not have involved production-control programs. Subventions to wheat growing, cotton growing, corn-hog production, and sugar production I consider inherently objectionable, whether the growers are induced thereby to contract, limit, or expand their output. Subventions calculated to induce better farming in the long-run interests of individual farmers, regions, and the nation are inherently defensible, even though important questions of policy and detail remain to be solved.

BROAD DRIFTS IN POLICY
1937-1938

XXVIII

OBSERVATIONS ON AGRICULTURAL POLICY*

[June 1937]

INTRODUCTORY CONSIDERATIONS

There is urgent need of finding ways to enlarge and improve our research in agricultural policy,¹ as well as the techniques of bringing research results to bear on the adoption of policies. Three main types of policy research projects, in order of increasing difficulty, may be put thus:

1. Actual policies and programs call for intensive, skillful examination that goes far beyond narration of events and changing ideas. It should proceed to segregate results attributable to the measures from those due to more or less accidental disturbing factors, and culminate in unbiased appraisal of the whole.

2. Proposed policies and programs call for searching examination. This should include penetrating study of their objectives, with special reference to real aims as contrasted with mere talking points. There should be what I call a "projective" analysis, including a realistic forecast of how the measures would presumably work in practice, and an appraisal of prospective results with respect both to the objectives and to other consequences, welcome or unwelcome.

In considering policies in vogue currently or in the past, the following questions should be answered:

* Presented before the Western Farm Economics Association, in annual meeting at the University of Nevada, June 23, 1937; later published in its *Proceedings* and in *Journal of Farm Economics*, November 1937, XIX, 861-77. From the latter it is here reprinted by permission.

¹ "The need for research in agricultural policy presents a challenge to the present generation of agricultural economists." This is the opening sentence of *Research in Agricultural Policy—Scope and Method*, Social Science Research Council Bulletin 21, June 1933.

Was the situation designed to be met correctly analyzed?
Were the underlying assumptions of the policy correct?
Did execution of the program prove feasible?
How far were the intended results achieved?
Were the secondary results welcome or tolerable?
Was the net result worth the cost?

Similar questions deserve answer in reference to proposed policies. I deplore the fact that policies embodied in the Agricultural Marketing Act—to say nothing of later acts—were not previously subjected to adequate projective analyses of the sort of which I speak; and also that the same can be said, to the best of my knowledge and belief, of the proposed policy of the “ever-normal granary.” On the other hand, I am glad to see bits of evidence of fundamental research on policy, here and there, far beyond anything being done a decade ago.

3. On the basis of extensive studies of past experience, the current situation, actual policies, and projective analyses of proposed policies, constructive research should be directed to drafting proposals for policies and broad programs that seem to hold promise of best meeting the needs of the situation while avoiding disadvantageous consequences. In this field it is not to be expected that any one individual will be able at once to arrive at sound and comprehensive conclusions; but substantial progress can be made through the work of numerous individuals and its gradual co-ordination.

Important among the constructive policies to be drafted are those to be held in reserve for application in the event of serious war or major depression. We have had far too much emergency drafting of emergency policies. It is not too early to make considerable progress, through intensive studies of experiences during the World War and the recent Great Depression, toward the formulation of broad policies and pro-

visionally detailed plans for dealing with corresponding emergencies if and when they should come upon us. Here is one of the most important opportunities of the Bureau of Agricultural Economics and the Agricultural Adjustment Administration, and a challenge to many outside official circles. I say this with full realization of the fact that adoption and alteration of policies rest primarily with Congress and the President.

Certain other differentiations deserve passing attention.

At any one time, I think it fair to say, we have a comprehensive policy toward agriculture, even though it may not be clearly formulated or recognized in any clean-cut fashion. One of the first tasks in approaching policy problems is to get an orderly grasp of the numerous elements of actual policy, with their manifold incongruities and inconsistencies. The constructive task is not to formulate a policy as if none were in existence; it is rather to propose modifications and new departures, and to secure a better integration of policies.

Two main groups of policies should be distinguished. First are those designed to bear directly upon agriculture or those engaged in it. Of these I shall shortly touch on numerous examples. Second are those designed primarily for other purposes but with significant influence upon agricultural developments. Signal illustrations of the latter are our immigration and industrial tariff policies; public stimuli to construction of railroads and highways, and to giant flood-control and water-power developments; and the currency, public works, and relief policies of the Franklin Roosevelt administrations. Such indirect or auxiliary elements in our agricultural policy deserve important consideration in any well-rounded treatment, though I shall say little of them here.

We should also distinguish between "active" and "passive" elements of policy. Profoundly important in our agricultural policy, as comparisons with agricultural evolu-

tion in Europe and in China would plainly show, have been our constitutional guarantees of freedom of interstate trade throughout this broad land, and effective liberty to move from place to place and from one occupation to another. Almost unrestricted freedom to buy and sell farm land, another long-established passive policy, has been perhaps even more influential than our active national policy under the Homestead Act. The passive policy implied in exempting cooperative farmers' marketing associations from antitrust legislation should be distinguished from the active policy of promoting farm co-operatives under the Agricultural Marketing Act and others.

In recent years agricultural policy has come to include more and more active elements, of which the production-control policy embodied in the Agricultural Adjustment Act is a striking example. But I submit that we had a policy toward agricultural production before the AAA, when that policy was predominantly one of *laissez faire*. The drift of recent years has been toward rapid expansion of active policies, in this field as well as others; but here, as elsewhere, we should remember that extrapolation of short-time trends is hazardous, and that the reaction that often follows action may spell either retrogression or wholesome progress.

Sharp distinctions should also be drawn between policies designed to meet emergencies—general, regional, or local—and those designed to deal with persistent problems. The drought-relief purchase of cattle, sheep, and goats in 1934 is in a different policy category from indemnification for cattle slaughtered after condemnation under tests for bovine tuberculosis and Bang's disease, or from the commodity purchases under the Federal Surplus Commodities Corporation. The corn and cotton loans of 1933-34 belong in a different category from current ever-normal granary proposals. Farm

credit policies appropriate for conditions in the depth of severe depression are not necessarily appropriate for ordinary times. Huge federal subsidies to farmers, however camouflaged, are one thing in years of extreme agricultural distress and quite another in the general run of years. The grave emergency which the Adjustment Act was ostensibly designed to meet has passed. Though the President may have implied as much in his statement of October 25, 1935, he has not yet acted under the provisions of Sec. 13 of the act, to proclaim that "the national economic emergency in relation to agriculture has been ended"; but he is apparently free to define this in such terms that the "emergency" may last indefinitely!

With the qualifications implied in the foregoing observations, I accept J. D. Black's distinction between "policy" and "program," taking the former to mean "a more or less carefully considered course of action followed [or to be followed] consistently for a period of years,"² and programs to mean the detailed, changing measures by which attempts are made to give effect to policies. In considering policy or policies, interest centers on objectives and broad lines of action designed to attain these objectives, whereas programs are much more concerned with means to the ends and subsidiary lines of action. Policies should be adopted and altered with deliberation, whereas programs must and should be modified with considerable facility.

I shall try to concentrate on policy rather than programs, but I have to emphasize that actual policies must often be inferred from programs actually applied. No one who examines the AAA programs under the Soil Conservation and Domestic Allotment Act can fail to realize that production control re-

² "The Problem of Determining an Economic Policy for American Agriculture," in E. A. Duddy (ed.), *Conference on Economic Policy for American Agriculture* (Chicago, 1932), pp. 1-5.

mains part of our current agricultural policy, despite the Hoosac Mills decision invalidating the relevant features of the Adjustment Act. On the other hand, in Sec. 32 of the August 1935 amendments to that act, Congress seemed to have deliberately committed the country to export-dumping operations on a huge scale; yet administrative action under this section shows that our actual policy cannot yet be described in such terms.

Certain broad principles of agricultural policy can be set forth on which there can be substantial agreement. I venture to mention five, as follows:

1. The long-run welfare of the nation as a whole should be the all-embracing objective, the basic criterion by which specific policies should be appraised.

2. The interests of all those engaged in farming deserve equitable consideration.

3. Policies should recognize the existence of marked diversities in natural conditions, types of farming, types of farmers, and grades of farming ability.

4. Policies should be formulated and modified with due regard not merely to recent experience and current conditions but also to persistent economic and social factors and forces.

5. The various policies should be integrated into a rational whole.

The first two of these principles deserve passing comment here, and the fourth I must shortly elaborate.

Much of our agricultural policy per se, particularly in recent years, has been directly designed to provide "farm relief" or otherwise to promote the welfare of farmers. Such elements are naturally those most pressed by farm leaders and farm organizations. Fundamentally, however, the soundness of a policy (whether applied or merely proposed) is to be judged by its bearing on the long-run welfare of the nation

as a whole. Injuries to certain groups as well as advantages to others must be weighed in studying the balance for or against a policy under consideration. Farmer welfare is not necessarily identical with national welfare. Conflicts of interest between farmers and the nation are fewer and smaller in reality than in appearance, but those which arise should be resolved in favor of the national interest. I shall not argue this basic proposition, for its truth would be acknowledged even by almost all who in practice generally ignore it. Extreme difficulty in applying this touchstone should lead, not to giving it little or no consideration, but to perfecting methods of discriminating analysis that are not yet adequately available.

Moreover, in so far as agricultural policy is designed to aid those engaged in farming, the interests of all groups within the farming industry deserve reasonable consideration. In the past, even the recent past, the interests of the less potent groups have been inadequately safeguarded where they have not been largely ignored. Such are farm laborers, croppers and share tenants, and small farmers of diversified agriculture as compared with landlords and farm entrepreneurs producing great staple or specialty crops. Few would dispute that here is an obvious defect to be remedied.

CONDITIONING FACTORS AND FORCES

Of the conditioning factors and forces I must say something more, at the risk of boring you with familiar facts. New departures in agricultural policy should be framed with due reference to powerful economic and social forces. The play of these forces can be modified by public action of various kinds, sometimes advantageously, sometimes disadvantageously. But they must always be reckoned with; it is exceedingly difficult to run counter to them; and so far as possible

they should be utilized constructively. Here it will suffice to specify a few of these forces or their net results that constitute factors conditioning American agricultural policy.

The rate of population growth in the United States has been and is declining, and the age composition of the population is changing to include a smaller proportion of children and a larger proportion of those in the upper age groups. For these trends our restrictive immigration policy bears a major responsibility, and this might be but is not likely soon to be changed. But with existing limitations on immigration, social forces tending to restrict the birth-rate and to reduce the death-rate are highly influential. The same trends in most foreign countries constitute forces that have important bearings on our agricultural outlook and policy. Broadly speaking, these now afford opportunity for technological developments to offset economic tendencies to diminishing returns in world agriculture. In the century before the war, a different balance of these forces enormously stimulated agriculture in overseas exporting countries and the expansion of international trade in agricultural products.

Technological progress in agriculture, industry, transportation, and commerce must be accounted an extremely important force. Its most spectacular expression in our generation is the rise of the automotive industry, with its concomitants and revolutionary consequences. But notable technological developments ramify through the whole economy, in Soviet Russia, Nazi Germany, and Fascist Italy as well as in progressive democratic nations. They exert important influence not only through expansion of agricultural output per person engaged in farming, but also through the multiplication of alternative products and processes, so that agriculture is decreasingly fundamental in the world economy and any one farm product is much less essential than formerly.

Partly in consequence of the foregoing, the tendency of agriculture to decline in relative importance, in a world so progressing, is a powerful force that is not commonly rated at its true value. Though by no means all people, even in the more advanced nations, are well supplied with what may be termed necessities of life, this is due not to inadequate agricultural resources or output but generally to other things, including effective competition of other goods with essential foodstuffs and fibers produced by farmers. The prospective expansion of effective demand for farm products as a composite group, or for the services of farmers in producing them, is far less than for products and services of nonfarmers. In severe depressions the unemployed seek refuge on farms, but not in response to demand for their services there. In the longer view, most of the increase in gainfully occupied workers will normally be absorbed in occupations outside of agriculture. Public policies which interfere with such absorption are to this extent uneconomic.

Farming as an occupation and a way of life continues to have powerful attractions, in spite of its modest financial returns. The technological developments of the past thirty years have diminished many of what were formerly regarded as its outstanding handicaps. The Great Depression brought home to many its almost-forgotten advantages in times of stress, and resulted in a net increase in the farm population in 1930-34 which wiped out the net decline of the preceding twelve years.³ Moreover, it implies no reflection on the quality of those whom we are prone to regard as typical farmers to say that millions of people of low ability and training, who are ill-suited to or repelled by the tensions involved in urban life and occupa-

³ Revised estimates given in *The Agricultural Situation*, May 1937, show a net increase of 1,640,000 in 1930-35 (most of it in 1930-32), as compared with 2,610,000 shown by earlier estimates of the BAE.

tions, and find it hard to earn a living in cities, stay in or fall back into what the census counts as the farm population.

This leads naturally to emphasis upon the mobility of our population, with reference both to location and to occupation, as an impressive social force. Farmers in the United States are a changing group, not a fixed hereditary caste or class firmly planted on the land. There is a striking amount of movement into and out of agriculture, as well as within agriculture itself. Part of this is due to mere restlessness, and much of it doubtless reflects conditions calling for remedy, but a great deal represents wholesome flexibility facilitating progressive readjustment. In any event, agricultural policies must reckon with this mobility as a persisting characteristic of American society.

Parenthetically let me say that because of these forces I consider contradictory rather than mutually harmonious the objectives of agricultural policy that J. D. Black expressed in 1929—the raising of agricultural incomes and scales of living above the levels of the pre-depression period, and maintaining in agriculture a larger proportion of the population than would otherwise be there.⁴ On similar grounds, I consider that the price and income objectives of our current agricultural policy have been set unreasonably, even unattainably, high. Though it would take a good deal of time to elaborate the view, I believe that beyond somewhat narrow limits higher real incomes per farm family are conditioned upon reductions in our commercial farming personnel, as well as increase of size of commercial farms to accommodate improved machine technique; and that subsidies to keep more people in farming will not avail, in the long run, to raise incomes per farmer.

Another force which has long been taken for granted, but has latterly been underrated in government propoganda, is the force of adjustment within agriculture arising from the judgments and actions of individual farmers facing multifarious conditions and prospects. You who are close to the farmer well realize the power of this force, and are not, I am sure, inclined to regard it as antisocial, needing to be displaced by governmental adjustment procedures. I will not sing its praises, or expatiate on its undoubted shortcomings which warrant various forms of governmental interposition. I merely emphasize that it should be recognized at its true value, as one which is merely supplemented by official adjustment measures.

Finally, there is the powerful force of nationalism, rampant all over the world. In some of its manifestations it makes for war, or for preparation for defense or for war. In numerous instances it leads to self-sufficiency policies with respect to various farm products, and to radical restraints—direct and indirect—on international trade. In other manifestations the same force results in successful log-rolling in the interests of particular sections regardless of the national interest. This force must be taken into account in considering agricultural policy, even though it be not accepted as beyond the possibility of modification.

POLICY OBJECTIVES

Consideration of agricultural policy requires a clarification of the paramount objectives of policy and subsidiary purposes related thereto, and a sifting out of the sound from the unsound, the attainable from the unattainable.

Put most broadly, I consider the paramount objectives of American agricultural policy should be (1) to protect natural

resources against wasteful exploitation and neglect, (2) to facilitate their effective and economical utilization for the longer run, (3) to raise the level of efficiency in the production and marketing of farm products, (4) to promote advances in the standard of living of those engaged in farming, and (5) to increase their security against natural and economic disasters. On further consideration I might add to this list, but most other objectives I view as subsidiary rather than paramount, and of these I can touch on but few.

I regard as inappropriate (in some cases merely obsolete) major objectives the promotion of rapid settlement on the land; maximizing the utilization of agricultural resources, the number of agricultural workers, the output of farm products, or the volume of exports; national self-sufficiency with respect to agricultural products individually or in the aggregate; so-called "parity prices" of farm products and "parity income" for the farm population; and stabilization or control of agricultural production or prices. In the following observations it seems pertinent to comment more at length on certain objectives that I am disposed to condemn.

Early in 1926 the British Ministry of Agriculture and Fisheries stated, in a brief report submitted to Parliament:

There is a wide measure of agreement that a national agricultural policy should aim at securing the two following objects: (1) That the land should yield its highest economic possibilities in the way of food for the nation, and (2) That it should furnish a basis of life and a reasonable livelihood to the greatest number of people.⁵

The ministry itself by no means endorsed these objectives as deserving implementation; they are not the goals of current British policy; and competent observers have criticized them as inappropriate.⁶

⁵ *Agricultural Policy* (Cmd. 2581, London, 1926), p. 2.

⁶ See *The Agricultural Dilemma: A Report of an Enquiry Organised by Viscount Astor and Mr. B. Seeböhm Rowntree* (London, 1935).

For the United States these have not been urged as policy objectives, yet others looking in the same direction have been. Secretary Wallace is reported to have put "safeguarding of the Nation's food supply" first of two "fundamental purposes" of the proposed agricultural adjustment act of 1937; and to have listed first among its principal features "to protect consumers against drought disasters such as in the years 1934 and 1936."⁷ These I regard as political talking points, not as justifiable policy objectives.

I do not believe we need to make a positive objective the production of an ample supply of foodstuffs and fibers, to say nothing of seeking maximum utilization of our agricultural resources. There is no prospect of danger on this score, unless we tamper too radically with the play of economic forces. Despite three or four successive years of adverse weather in 1933-36, the outlook is that, by and large, abundance of farm products will continue to be more of a problem than scarcity, in this country at least. If the nation's food supply needs protection, except against wasteful exploitation and neglect that endanger future productivity, it is not against Nature or farmers but against restrictive and repressive public measures.

In the same category I would put the maintenance of a so-called "balance" between agricultural population and the rest, in any sense susceptible of concrete expression.⁸ I do not even regard it a pertinent question to ask: What number or proportion of our people do we want to have living on farms or engaged in farming? The normal relationship is an ever-changing one and, on the whole, one of declining propor-

⁷ AP dispatch, May 27, 1937. This bill and accompanying discussion were not available for use in preparing the present paper.

⁸ Time does not permit consideration of various other uses and abuses of the elastic word "balance" in connection with policy objectives. The word is easy to use but difficult to use well. Such slogans as "equality for agriculture" and "fair share of the national income" are phrases to conjure with, rather than explicit objectives.

tion of farm population. As already suggested, I disagree with the position expressed by J. D. Black in 1929, that we should strive "to maintain a somewhat larger proportion of our population on the land than otherwise would be the case."⁹ In fact, I believe that success in such an objective would be dearly won, and that it could be maintained only at huge expense for subsidies in one form or another, or by abhorrent forms of regimentation. I regard as a condition of long-time advances in standards of living, in city and country alike, that the flow of population from the farms be allowed to continue. Most of the virtues associated with rural life, as contrasted with urban, are potentially attainable by large numbers without involving agriculture as a major occupation.

Here it is pertinent to recall Disraeli's speech in defense of the Corn Laws, in the debate in the House of Commons on February 20, 1846. Touching on those "principles of high policy, on which their system ought to be sustained," he said:

. . . . First, without reference to England, looking at all countries, I say that it is the first duty of the Minister, and the first interest of the State, to maintain a balance between the two great branches of national industry; that is a principle which has been recognised by all great Ministers for the last two hundred years; and the reasons upon which it rests are so obvious, that it can hardly be necessary to mention them. Why we should maintain that balance involves political considerations—social considerations, affecting the happiness, prosperity, and morality of the people, as well as the stability of the State. . . . I say that in England there are special reasons why we should give a preponderance to the agricultural branch; and the reason is, because in England we have a territorial Constitution. We have thrown upon the land the revenues of the Church, the administration of justice, and the estate of the poor; and this has been done, not to gratify the pride, or pamper the luxury of the proprietors of the land, but because, in a territorial Constitution, you, and those whom you have succeeded, have found the only security for self-government—the only barrier against that centralising system which has taken root in other countries. . . .¹⁰

⁹ Black, *op. cit.*, p. 60.

¹⁰ From a more extended passage quoted in A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents* (London, 1914), pp. 709-10.

Students of English history in the past ninety years are aware that Disraeli's protest was in vain, that the balance he sought to maintain was not maintained, and yet that the "ignominious catastrophe" he feared did not eventuate. I venture to add that Britain would have found it intolerable and impossible to maintain the balance as Disraeli appeared to conceive it, and that the stability and the progress of the nation were both greatly promoted by the decision to work with and not against the powerful economic forces that were in operation.

So-called "parity prices" for farm products I consider a vicious objective of agricultural policy. It entered into our legislation as a substitute for more unsatisfactory objectives—"tariff equality" with industry and cost-of-production prices for farm products. Officials often defend it when attacked, not as the objective itself, but as a limit beyond which prices should not be raised by governmental measures. Yet farmers have been taught that "parity prices" as legally defined are their just due, and that Congressional recognition of this "right" marked a new epoch in our agricultural policy. I believe it a very serious mistake to propagandize an economic fallacy of this kind, and that the inculcation of this fallacy tends to cumulatively unwise measures. If it were possible to redefine "parity prices" in terms of an average level to which actual prices tend to conform, changing with changes in relative costs and with shifts in demand, the damage would be minimized; but political expediency almost inevitably forces definition of the concept in excessive terms. Attempts to secure and maintain prices called "fair," but in reality uneconomically high, tend in turn to create or intensify maladjustments in production, thus giving rise to pressure for production control even of coercive types. In certain fields, notably feed crops, dairy products, and fruits and vegetables, the national

interest calls for policies directed toward lowering costs rather than raising prices; and except for the short run I believe the farmers' interest lies in this direction also.

So-called "parity income" for farmers seems to me also an ill-chosen if not vicious objective, open to some of the same objections as "parity prices" are. The statistical basis for the concept, as thus far worked out, seems to me shot through with the fallacies involved in aggregating and averaging heterogeneous quantities, comparing incommensurables and incomparables, employing "guesstimates" extensively, and ignoring what cannot even be "guesstimated." I look forward to progress by Dr. Stine and his collaborators in their laborious researches bearing on this subject, but I cannot persuade myself that the best results attainable will provide us with a serviceable policy yardstick.

Moreover, the economic theory implied seems to me erroneous. We live in a dynamic world in which change is normal. Relative incomes quietly exert pressures affecting the flow of workers into various occupations. Efforts to establish fixed relationships among group incomes per capita will not readily succeed, but in so far as they do they create demands for wholesale regimentation to replace the economic forces that ordinarily make for extensive readjustments.

Among the four stated "fundamental objectives" of the 1937 agricultural conservation program of the AAA is this: "Enable agriculture to provide for the farmer's family a living standard comparable to that enjoyed by the other three-fourths of the country's population."¹¹ At first glance this seems admirable. Yet it rests on such dubious assumptions as the following: that one can make effective comparisons of standards of living on the average farm and in the average household outside of agriculture; that in their

contribution to the national product the farm population is reasonably comparable with the nonfarm population; that averages of such heterogeneous groups are appropriate in this connection; and that agriculture alone, unsupplemented by other sources of income, must support the farm population.

With respect to "stabilization" and "security for agriculture" as policy objectives, I have time merely to say that I heartily endorse them in the modest sense of mitigating and moderating instability and insecurity in many forms, but regard them as objectionably overambitious in the senses in which they are commonly employed.

VARIOUS PHASES OF POLICY

Certain well-established policies justify continuation with improvements as experience may dictate. Among these are: (1) support of an extensive system of agricultural education, in high schools, colleges, and universities, and through extension procedures of various kinds, with increasing emphasis on economic and social aspects; (2) promotion of agricultural research, in the United States Department of Agriculture, state agricultural colleges and experiment stations, and elsewhere, also with larger emphasis on economic and social aspects and with some special reference to "social engineering"; and (3) maintaining a flow of current information on acreage, production, demand, prices, and prospects for each. These policies contribute toward several of what I call paramount objectives.

Certain of the newer policies seem to me thoroughly justified in principle, though I cannot discuss them in detail. Among these are the erosion-control policy which, in spite of current exaggerations of the seriousness of the problem, was long overdue and deserves to be effectively prosecuted; other genuine soil- and range-conservation policies, as distinguished

from those that masquerade under these heads while serving mainly as an excuse for government payments to farmers or attempted regulation of production; and many other phases of land-use policy which are designed to prevent costly or wasteful use of lands and to facilitate economic readjustments in land use. I see virtue in limited experiments with bringing back submarginal lands into the public domain, and in rural resettlement, but consider that experience does not yet warrant us in regarding these as settled major policies.

Production control, on the other hand, seems to me an unwise agricultural policy. Applied under voluntary procedures, it is comparatively ineffective but disturbing to normal regional relationships and readjustments. Applied coercively, even with the approval of the farmers directly concerned, it tends to be carried much too far for their own good or that of the nation, as well as to disturb the course of wholesome economic readjustments. Obsession with exaggerated notions of "fair prices," overoptimism regarding both the power and the wisdom of administrative agencies, and public opinion favorable to huge outpourings of federal funds to farmers hard hit by the depression, go far to account for the excessive emphasis on production control in recent years. Even its place in measures to cope with severe depression warrants careful study. All sorts of policies, regardless of the immediate objectives, need to be considered from the standpoint of their prospective influence on agricultural production; and here too I would not condemn limited experiments with production control if it were politically feasible to proceed on this basis.

The so-called "ever-normal granary plan" is officially regarded as an essential complement of production control. I regret that it has not been effectually formulated by those who propose it, and that it has not been subjected to adequate

study in official circles or outside. Most of the arguments for it seem to me ill-founded, many of its supposed advantages illusory, and its costs in various forms gravely underrated. I strongly suspect that unbiased projective analyses of its probable working would reveal that in practice it would not deserve a place in our agricultural policy.

Crop insurance proper, as distinct from forms designed to serve "ever-normal granary" ends, seems to me a promising subject for study and eventual experiment, though I cannot see that a proper basis for the experiment has yet been laid and I am not confident of the outcome. There is much to be said for putting substantial pressure on farmers in areas subject to exceptional hazards, in wheat growing for example, to get them to take out such insurance; on the other hand, in various areas where wheat is a minor crop, farmer participation should not be urged.

"Preserving the home market for the American farmer" has been a persistent policy for many years. It has not been carried to the extremes of necessitating substitution of domestic farm products for tea, coffee, and bananas, which we cannot produce except at prohibitive cost, or of forcing substitution of industrial products for silk, or of insuring that our farms shall produce all of the sugar, wool, flaxseed, vegetable oils, and rubber that they might if we had embargoes or prohibitive tariffs on these products. Such extreme measures, of course, would not enlarge the home market for farm products to anything like the extent to which imports were curtailed; for consumption would be reduced and industrial substitutes would displace considerable portions of the imports. Nevertheless, the home-market policy has been pressed too far, in my judgment, to be consistent with the national welfare. Moreover, it has induced farmers to accept the same policy with respect to industrial products, which have in turn

been made more expensive, and has restricted export outlets for our farm products, through reducing the ability of foreign countries to purchase here and helping to induce them to carry protectionist policies to extremes.

“The present policy of this Government relating to agricultural exports,” we are semiofficially assured,

has two principal aims. The first is to confine the production of agricultural commodities on an export basis to that quantity which can be sold remuneratively. The second is to expand wherever possible the opportunities for remunerative exportation of agricultural products. While the export opportunities existing at the present time must be accepted as facts, those of the future are not entirely outside of the control of the Government of this country.¹²

With the policy underlying the reciprocal trade agreements program I am in hearty sympathy—perhaps more in sympathy than the Congress and the administration are. But I stick on the crucial word “remunerative.”¹³ Secretary Wallace, for the time being the leading authority, evidently interprets it to mean that export products must yield the farm producers a satisfactory price, perhaps approximating so-called “parity prices,” and that production from which an export surplus is obtained must not entail soil depletion as currently defined. This is crucial because prevention of such “soil depletion” and raising prices to “parity” levels tend to entail restraints on crop acreage, production, and/or marketing, which reduce the competing power of American exports with those of other countries. Our exports of cotton, and in lesser degree those of several other products, have unquestionably been reduced by government measures adopt-

¹² H. J. Wadleigh, “General Considerations Relating to Agricultural Exports,” in *Agricultural Exports in Relation to Land Policy* (Part II of the Supplementary Report of the Land Planning Committee to the National Resources Board, Washington, D.C., 1935), p. 3.

¹³ In the section quoted above, no explanation of this word is vouchsafed, though its bearing is brought out in a later section dealing with cotton exports. It does not appear to have reference to export dumping, in which the administration has small confidence.

ed under the Agricultural Marketing and Adjustment Acts. Domestic price-supporting policies for American farmers may continue to be a powerful force in restricting American exports of farm products as our production recovers and as world economic recovery proceeds. All or most of what can be achieved through reducing trade barriers may be much more than offset, as respects our exports, if the standard of remunerativeness is set too high.

In general, I believe that removal of uneconomic obstacles to export of farm products is a desirable subsidiary goal of policy; but that more specific positive policies, such as various forms of export restriction, promotion, and subsidy, are mainly contrary to the national interest. In recent years a succession of adverse seasons, coupled with depressed conditions and extreme protectionist measures abroad, has reduced our exports of farm products below what will probably prove to be their long-term trend. But it is too much to expect these exports to rise to the level of the years shortly after the war, and we may well lay no great stress on specific export policies.

Surplus-relief purchasing has been and is a "dumping" procedure, primarily designed to support farm prices and enhance farm income. It is less objectionable per se than (a) destruction, open or disguised; (b) export dumping, frank or camouflaged; or (c) government purchase with disposition undetermined. Nevertheless, I regard it as unwise policy, to have the decisions dictated primarily by official appraisals of farm commodity positions, rather than by the need for commodities to be used in relief.

To the extent that relief of distress through government aid is essential—for farm, other rural, and urban classes alike—that problem should be attacked as such, with a view to providing the necessary products at minimum cost. Co-operation of the AAA should be sought to insure that advantage is taken

of commodity abundance wherever it exists, so that relief funds will go farthest. But this should not involve nation-wide distribution of wheat or flour from the Pacific Northwest, purchase of high-quality rice for general distribution, and extensive interregional shipments of eggs, apples, onions, etc. It should involve direct relief use for food of low-grade prunes, canning peaches, etc., when such supplies are abundant, in regions that can economically be reached.

Our policy on farm tenure has been largely *laissez faire*. It is high time to undertake to distinguish genuinely pathological conditions which adversely affect natural resources, farming efficiency, and farm planes of living; and to correct these conditions by a combination of research, education, restrictions in appropriate forms, and facilitation of wholesome types. The policy should not be determined by fetishes such as farm ownership, family-size farms, or land nationalization. Farm ownership by operators is not good per se, though in many circumstances it works best; it often saddles men with risks that they are in no position to carry. Farm tenancy is not bad per se, though certain forms tend to be. A broad trend toward increase of tenancy is probably normal, and the major remedy for abnormalities in tenancy lies mainly in raising standards of leasing arrangements, rather than in pouring out public funds for land purchase for sale on long-term credit. Corporation farming, and corporate ownership of farms operated by tenants, should be allowed opportunity to find their normal place in agriculture. What this is we may dimly perceive but cannot yet be sure of.

Our long-established system of inheritance of farm property needs overhauling. If this were done, it would indirectly improve the land-tenure situation. Where a farmer leaves his farm to two or more children, equal division of the net valuation among those who stay on the farm and those who do not

is usually unfairly burdensome on those who stay to operate it, frequently with disastrous consequences. Here more research is needed, education following research can do much good, and state legislation may in time be appropriate.

With respect to migratory farm labor, there is urgent need for legal establishment of minimum standards for sanitary and educational conditions, in the light of modern developments in tourist camps, and for effective protection of the right of such laborers to organize and bargain collectively. There are other particular groups of farm labor, such as those in sugar-beet growing, for which some special regulation may be feasible and desirable. Of the situation in the South, I know too little to speak specifically. With respect to most other farm labor, I believe the need for active public policies is not urgent. As in England in the past century, the best progress in improvement of conditions of farm labor is likely to be forced by reduction in the number of farm laborers through absorption of many into other occupations and through mechanization of agriculture. For most farm laborers who wish to rise to the status of independent farmers, the opportunity should ordinarily come through inheritance or intervening occupations off the farm rather than by a "farm ladder."

Encouragement of the development of co-operation among farmers deserves a place in agricultural policy, but by no means a high or central one such as it had in the Agricultural Marketing Act and as it has in the thinking of some co-operative leaders.¹⁴ Neither theoretical analysis nor actual experience justifies such promotional and subsidizing tactics as the Federal Farm Board pursued under what it considered a Congressional mandate. Co-operation so-called is far from

¹⁴ Cf. opening sentence of C. C. Teague, in "The Human Equation in Cooperation" (*Cooperative Journal*, July-August 1934, X, 105): "The safest long-time plan for the social and economic welfare of agriculture is the development of cooperation among farmers. . . ."

being the panacea that its fanatical adherents consider it. In the United States it will probably never have the high place that it holds in Danish agriculture. Milder measures of aid and guidance, such as were used before the Farm Board and have been applied since its abolition, are more conducive to wholesome growth of the co-operative movement. Even yet, discriminations in favor of co-operatives tend to be carried too far.

XXIX

ECONOMICS OF THE EVER-NORMAL GRANARY*

[December 1937]

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

Because the proposal is primarily his brain-child, it is peculiarly difficult to discuss it critically without seeming objectionably personal. Inside or outside the Department of Agriculture, anyone who subjects to careful scrutiny the idea, the arguments, the plans, runs grave risk of stepping on the

* Address before the American Farm Economic Association in annual meeting at New York, Dec. 28, 1937. Reprinted, by permission, from *Journal of Farm Economics*, February 1938, XX, 8-21, which is followed by Mordecai Ezekiel's discussion of this paper. See chapter xxi for the earlier evolution of the official doctrine on this subject.

Secretary's toes. I cannot avoid doing this. The forthright appraisal you expect of me will contain much that he will not like.

Now, I assure you, nothing approaching rancor or disrespect inspires my words. On the contrary, it pains me to cause Mr. Wallace pain. I admire and honor him for much that he is, and says, and does. More than he may realize, I agree with him. Yet on this topic and some others, when I cannot endorse his reasoning or share his convictions, I must sometimes speak out even though I offend him. He said last June: ". . . The farmers and consumers of the United States would like to know the enemies of the ever-normal granary plan—the real enemies who hide behind false whiskers and spread false propaganda."¹ Without whiskers, false or real, I stand up again to be counted against the proposal,² though I do not call myself an "enemy" of anything or anybody. So far as I am aware, I serve no special interests, and have only at stake such reputation as I may have for seeing straight.

For other reasons the topic assigned me is hard to deal with briefly, especially at this juncture. The broad idea, long stated only in general terms, is only now emerging into something approaching concrete form; and Congress will doubtless leave considerable latitude to the Secretary of Agriculture. It is difficult to make a "projective analysis" without appearing to predict the unpredictable. I must concentrate mainly on the idea, the arguments on behalf of the "principle," and how some such scheme may be expected to work with one or two commodities. Even so, it is hard to disentangle the economics from the "politiconomics" of the ever-normal granary. By

¹ Radio address, June 1, 1937.

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

“politiconomics” I mean a spurious imitation of economics put forward, for broadly political purposes, as if it were equivalent to the real article. “Parity price,” “parity income,” “fair exchange value,” “fair share of the national income,” are typical politiconomic concepts.

THE PROPOSED SCHEME IN OUTLINE

Secretary Wallace has defined the ever-normal granary as “a definite system whereby supplies following years of drought or other great calamity would be large enough to take care of the consumer, but under which the farmer would not be unduly penalized in years of favorable weather.”³ In its evolved forms, several overlapping elements are involved: (1) government-financed storage of certain staple farm products, in substantial volume; (2) commodity loans to growers in years of large crops, to hold price-depressing influences in check; (3) releasing portions of these stocks under certain conditions, when Nature curtails the crop; (4) production “controls,” “voluntary” or compulsory according to conditions, designed to prevent the stored surplus from growing too large; and, if occasion arises, (5) marketing quotas to replace or supplement production restraints. Essentially what is contemplated is a linked system of stored reserves, plus crop restrictions and/or marketing restrictions.

The term “ever-normal granary,” apparently retained for its intended appeal to consumers, is obviously inappropriate for this whole system; and one cannot properly consider the scheme of reserves apart from the restraints on production and marketing that are proposed to be coupled with it.⁴ Secretary Wallace tries to bring production restriction under the

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

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

same term by calling it "storing the grain in the soil" instead of "storing it in the bin"; but this, of course, is just politico-economics. What is left stored in the soil when a "soil-depleting" crop is not planted is not grain, but only a certain amount of soil moisture and fertility which, under some conditions but by no means universally or inevitably, will give higher yields when the land is again planted to the crop.

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

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

in the whole national economy. Sometimes these claims are qualified, but often they are not.⁵ Farmer spokesmen, moreover, ostensibly expect the system to achieve the objectives of "parity prices" for "normal" supplies of the five specified farm products⁶ and "parity income" for the farmer.

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

CONSUMER PROTECTION

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

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

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

In the fall of 1934 Secretary Wallace interpreted "the lesson of the cycle of the generations" thus: "There probably will be serious food shortage over the entire world beginning sometime during the next ten or fifteen years, and . . . the shortage once definitely started will continue for a number of years, with an intensity varying . . . with the weather."⁷ Conceivably this prophecy was truly inspired. I will merely say that extensive and prolonged research on world food problems, past and present, affords no basis for anything like it; that, on the contrary, every decade sees increasing economic assurance against world food shortages due to adverse weather or any cause but devastating general war; and that our new agricultural policy correctly implies that, in this country, prospective abundance of wheat and corn, not prospective national scarcity, presents the difficult problems to those with exaggerated ideas of "fair prices."

More specifically, the succession of poor crops in North America from 1933 through 1936 has been used as a basis for urging the consumer's need of ever-normal-granary protection. Secretary Wallace has presented the scheme as "a better mechanism to level out the years of feast and famine."⁸ He has said: "The American farmer owes a sacred duty to the American consumer to see that he is adequately fed no matter how severe the drought."⁹ A. G. Black said recently: ". . . the first and foremost provision of any comprehensive program for meeting future problems of surpluses, of falling or fluctuating prices, or of drought, will be to assure an adequate food supply for the Nation."¹⁰ It is ostensibly on such grounds that Congress is asked to provide for building up government-financed supplementary grain reserves, such that after good crops there will be minimum total

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

⁸ June 1, 1937, p. 1.

⁹ Aug. 19, 1936, p. 5.

¹⁰ Address at Frederick, Md., Aug. 11, 1937, p. 7.

carryovers of perhaps 200 million bushels of wheat and 350 million bushels of corn. "Without such stored quantities to call upon in time of shortage," said Dr. Black, "prices tend to rise to heights which tempt farmers to plant in excess of needs in succeeding years."¹¹ Secretary Wallace said last May: "Since the droughts of 1934 and 1936 the consumers have been heavily penalized by the lack of protection which such a plan as the ever-normal granary would afford."¹² Again he said: "To keep agriculture producing on a basis that will afford ample assurance of national food supply it is necessary that farmers shall receive their fair share of the nation's income."¹³

Hardly one of these statements bears analysis. Even if farmers have not received for years what Secretary Wallace computes as their "fair share of the national income,"¹⁴ there is no sign of their voluntarily failing to produce abundant food supplies for the nation. Whether individual consumers will be adequately fed is quite another matter. The long campaign for surplus-control measures testifies unmistakably to the absence of danger of food shortage resulting from farmers' actions or inaction. Prices well below computed parities have induced farmers to plant acreages that can be expected, on the average, to yield far more wheat and corn than the nation can readily use. At any levels thus far suggested, the ever-normal-granary carryovers would be quite inadequate to "level out" such corn-crop failures as those of 1934 and 1936, or to insure us against four short crops of wheat in a row as in 1933-36. Even the so-called "towering surpluses"

¹¹ *Ibid.*, p. 8.

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

¹³ *Ibid.*, p. 136.

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

that were used as arguments for production control in 1933—in the case of wheat nearly double the proposed ever-normal carryovers—did not suffice to prevent commercial imports of wheat and corn over high duties. Yet prices did not rise enough to lead to the very simple expedient of temporarily lowering those duties.

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

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

If time permitted, I would pay my respects to the examples Secretary Wallace is fond of using—the Biblical tale of Joseph in prehistoric Egypt and the asserted use of an ever-normal granary in China “for over 1400 years.” Even if one accepts these stories at their face value, they have not the

slightest significant bearing on the current problem. I will not insult your intelligence by laboring the point that the food position in ancient Egypt and in medieval China must have been totally different from what it is in twentieth century America. Perhaps there are nations today in which "security reserves" of food may prudently be accumulated. Some recent experiences, as with Japanese rice control since 1921, yield no support; for there is no evidence that consumer security in Japan has been significantly enhanced thereby, and it is amply clear that it did not save Japanese farmers from extreme distress. Sir Arthur Salter has recently urged that the British government take steps to build up, as a defense measure, special food stocks equivalent to a year's consumption of wheat.¹⁵ But again our position in this respect is so vastly different from Great Britain's that I need not discuss the lack of parallel.

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

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

THE LOAN POLICY

Let us consider first the loan scheme. Secretary Wallace seeks to have certain reserves of wheat built up under a crop-yield insurance program, in which premiums and losses would be settled for in wheat. He recognizes the possibility of accumulating other stocks of wheat and corn through government purchase, but sees dangers in this from political pressure. The bulk of the ever-normal-granary reserves would be grower-owned but government-financed, presumably under regulations broadly similar to those applied in the corn loans since 1933. While the corn collateral would be mainly stored on growers' farms, the wheat collateral would probably be stored mainly in public elevators or warehouses, much as under the cotton loans. Presumably the loans would be "without recourse," that is, any gain from price advance would go to the borrowers, any loss fall on the federal Treasury.¹⁷ Nominally, at least, the collateral would be under government

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

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

control, but experience under the cotton loans shows that such control is by no means untrammelled.

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

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

be assembled, and from all that we can see it will remain so.

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

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

The Farm Board experience with its wheat and cotton loans, and the AAA experience with the cotton loans of 1934-

35 and the present season, afford supporting testimony on several of these points.¹⁸ We should have had more by this time if Nature had been less niggardly in 1933-36.

Among the potent defects in the plan that I can barely touch upon is the horizontal character of the loan rate. Under the corn and cotton loans, the rate has been uniform regardless of location. To facilitate administration, the whole complex but natural geographic price structure is ignored. Especially with corn and wheat, such a procedure interferes with the commercial flow of the grain and tends to confer the greatest financial benefit on those economically farthest from the market. Even if attempts are made to overcome this defect, the plan almost necessarily involves for a season a fixed loan-rate structure, by type, grade, and location, more or less completely supplanting the continually adjusting price structure that normally facilitates the most effective and economic disposition of the composite supply. In this respect as in others, the present economic system is by no means perfect, but the proposed substitute has these serious imperfections.

STABILITY OF SUPPLIES AND PRICES

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

Theoretically, a considerable part of any big crop would be held off the market, the next crop reduced by restrictions either on acreage directly or through marketings indirectly, and a short crop compensated by release of stocks. In practice, however, large and small crops do not regularly alter-

¹⁸ Congress literally gave away much of the Farm Board's "stabilization" stocks of wheat and cotton; and the AAA had left 1.4 million bales of 1933 and 1934 loan cotton when the bumper crop of 1937 was harvested.

nate, even compulsory crop restrictions do not constitute production control,¹⁹ and many factors would prevent the nice compensation anticipated through accumulation and release of stocks. To meet the unpredictable risk of very short crops, or two or more in succession, would require average carry-overs so huge as to be almost always abnormal. If such were carried, the *percentage* fluctuations in marketable supplies could be lessened, but only at extremely heavy cost. Fluctuations in *total* supplies would continue, probably on a higher level; the price interference contemplated would limit the flow into export and less important domestic uses which ordinarily absorb considerable fractions of large crops; and year-to-year fluctuations in total supplies might be greater than ever.

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

Contrary to official arguments, there is no prospect that wide swings in production would be avoided under the scheme. In the main, variations in production have resulted and will continue to result from unpredictable variations in acreage

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

abandonment and yield per acre due to natural causes. But crop restrictions and relaxations may intensify rather than offset such fluctuations. Certainly the downswing from 1933 to 1934 was accentuated in some degree by crop restrictions imposed on wheat, corn, and cotton, such as might be imposed under the new plan. The great upswing in wheat, corn, and cotton production in 1937 took place with the Secretary's blessing, and might well have occurred if the proposed system had been in operation.

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

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

The maintenance of huge stocks under government control,

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

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

If my reasoning as to the prospective working of the scheme is at all reliable, its chief contribution to price stabilization would come through limiting price advances. Disturb-

ances to price stability, however, come from many sources, and not merely from fluctuations in domestic production, or crop plus carryover, as Secretary Wallace usually seems to imply. Several of the greatest advances in wheat prices in the past fifty years, notably those of 1897-98, 1914-15, and 1924-25, occurred when the United States had a large crop. Some of the notable declines in wheat prices have not been primarily due to big crops here. The size of crops abroad, particularly in Canada, Argentina, and Europe, is important in the case of wheat. For corn, the size of the Argentine and European crops is important. Especially in the case of cotton, the level of business activity is vital, as well as the size of cotton crops abroad. Currency influences, the scope of minor wars, the threats of larger wars, and ocean shipping rates all figure; and there are many other factors. Genuine stabilization of prices of individual commodities is an impractical goal except in a completely managed economy, and a highly questionable ideal.

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

CONCLUDING OBSERVATIONS

I must pass over various important questions. Such are the cost of the scheme, which no one can now estimate; the

feasibility of enforcing compulsory provisions and penalties; the difficulties to be faced in handling out-of-position stocks, of special import with corn; and the position in case financial limitations should prevent increasing government-financed reserves or force liquidation of accumulated stocks.

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

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

From the standpoint of American farmers, the most serious objection is that, without realizing it in advance, they

would be "selling their birthright for a mess of pottage." Except perhaps at the outset, their maximum gains would gravely disappoint them. If it did not break down first, the system would lead, not late but fairly soon, to compulsory regulation of acreage, production, and marketing of the specified crops and probably others not yet named. The substantial degree of freedom farmers have truly enjoyed, and deeply prized, would be replaced by a large measure of government fiat. Perhaps they would have chances to vote on its application, but only on referenda framed in Washington, after "educational" campaigns dominated by Washington propaganda. True also, the pills would be sugar-coated with government payments, which farmers might be persuaded were only their due but which many would recognize as uneconomic and wrong in principle, even if they could not give them an appropriate label.

I shall doubtless be criticized for being destructive rather than constructive; yet when blundering policy-building is going on, destructive criticism is the most constructive act, even though it be ignored. There is economic justification for various developments in our agricultural policy. The soil-conservation program has a core of soundness and is worthy of perfecting. Crop-yield insurance merits limited and careful government experimentation. Other provisions for meeting local or regional farm disasters should be put on a permanent basis. The problem of how best to meet general extreme emergencies, when they come, should be faced well in advance, in the light of both experience and constructive policy research. But there is no economic warrant for fixing in our permanent agricultural policy an uneconomic doctrine of parity price, large-scale subsidies to farmers, regimentation of farm production and marketing, and huge government stores of wheat, corn, and cotton. Though presented as a permanent

policy, I predict that the ever-normal-granary system—like the ill-considered, ill-starred Agricultural Marketing Act of 1929—would not work well enough to endure long.

NOTE.—In discussing this paper before the association which had listened to it, Dr. Ezekiel expressed agreement on certain points and disagreement on others. Perhaps his most important criticisms were the following:

. . . . We do not yet have "Schools of Social Engineering," such as Dr. Davis proposed a year ago, but we do have men, such as Henry A. Wallace, who in the stress of participation in political life, have become "social engineers," and as such are helping create and mould the economic institutions of the future. As Dr. Davis pointed out a year ago, the job of the social engineer is different from that of the economist. The social engineer cannot argue for his ideas with the calm detachment, and with the nice balancing of pros and cons in his statements, that the economist uses in his classroom discussions. For that reason it is rather unfair for Dr. Davis, as he has done in this paper, to select statements from papers in the field of "politiconomics" and then interpret them as if they were prepared as calm economic appraisals. If only calm economic appraisals were used by the social engineer, he would never sway voters or legislators to carry into actions the things he sees are needed.

. . . . It is probably correct, as Dr. Davis concludes, that it would be cheaper to import wheat in years of short crops than to store reserves over from years of large crops. Yet the fact remains in the world of "politiconomics" in which the social engineer must operate, that it is a major injury to import five million bushels of wheat one year that no amount of subsequent exportation can wipe out, and that the sin of importing one million pounds of Polish hams cannot be expiated by the exportation of tens of millions of pounds of lard and bacon.

The social engineer, operating in the world not only of prices and production but of voters and legislators, must have a cool head to be sure his economic proposals are right and will work; but he must also have a warm heart to present his proposals in such a way [that] they will secure support and be carried into action.

XXX

AGRICULTURE AND THE NATION'S BUSINESS*

[July 1938]

The agricultural problem — actually comprehending a complex multitude of problems—is baffling in the extreme. Increasingly competent study in the past twenty years has yielded far closer approach to correct understanding, but the horizon recedes as we progress. We yearn for comprehensive solutions and policies, but their formulation has thus far defied our best efforts. I must concentrate on a few things that seem to me worth saying, leaving unsaid more that I could say and much more that no one can yet safely say.

AGRICULTURE AND THE LATEST DEPRESSION

Businessmen are naturally interested to consider how far, if at all, agricultural conditions were responsible for the abrupt and severe business recession of last autumn and the typical but not yet protracted depression that has since continued; and also to inquire what bearing agricultural developments are likely to have on the business situation in the next year or two.

Let me first give a hasty résumé of relevant history as it is not yet widely written. In the first postwar depression, it was commonly asserted that business could not recover until agriculture did. Actually, general business recovery came first, and this pulled the farmers out of their financial morass. Then it was argued that the agricultural depression was persisting—wrongly, I think, for in retrospect the period 1924—

* Portions of an address given before the Stanford Business Conference at Stanford University, Calif., July 18, 1938. Later revised and published substantially in full in *Harvard Business Review*, January 1939.

29 seems to have been reasonably "normal" for agriculture; and many insisted that we could not have lasting industrial prosperity along with agricultural depression. In a sense, this was safe to say, for no country has yet learned the secret of uninterrupted prosperity. In the sense in which it was meant, however, I think it was false. The period was truly one of remarkable progress, industrial and general, with agriculture lagging somewhat behind but making notable adjustments to changing conditions.

There are still those, like George Peek, who believe that inadequate returns to farmers throughout the 1920's eventually constituted a powerful cause of the Great Depression. This, too, seems to me false. On the contrary, so far as agricultural developments contributed to the crisis of 1929-30, the potent factors were overstimulated production and accumulated stocks of farm products, in this country and abroad, under the influence of broadly attractive farm prices with changed cost levels, government farm-relief proposals and policies, and bumper crops in 1928 generally and in 1929 in Europe. Yet there is no doubt that the depth and duration of the severe depression of the early 1930's were increased by the serious plight of the farmers, here and in other lands, and by drastic measures which many countries took to prevent or mitigate this disaster.

By 1937, however, under the joint influence of government aid in many forms, severe droughts in several countries, and general business recovery, the agricultural depression as such was over. Last year, the purchasing power of farm income in this country was at least up to the level of pre-depression years, and in several countries it was an unusually prosperous year for farmers. Moreover, the volume of agricultural output in 1937 was large; for this country the United States Department of Agriculture volume index reached an all-time

peak. These two factors in combination constituted favorable factors for business.

Of course, price readjustments were inevitable in wheat, corn, cotton, and other products, as abundance replaced scarcity; but these price declines were appropriate, not ominous. In my present opinion, no significant contribution to the recession of last fall was attributable to agriculture. Indeed, the recent situation has been more nearly comparable to that of 1907-08, when farm income suffered from the business crisis and depression, but agriculture was in such shape that it facilitated prompt business recovery. The decline in farm income this year will be attributable, I think, more largely to the industrial depression than to important maladjustments in agriculture itself; and even without the feverish spending on behalf of farmers, this year's reduction in farm income would probably constitute no important drag on general recovery. In this respect, ignoring all others, I appraise the near outlook favorably.

When I look ahead a year or two, however, the picture looks less favorable. Our government and several others are building up stocks of staple farm products, here under the deceptive slogan of "an ever-normal granary," abroad in the guise of reserves against the event of war or other emergencies. For the time being, this gives some support to the market, just as speculative holding did in the years just before 1929, and as the Federal Farm Board did in 1930 and 1931 and its Canadian counterpart then and later. Conceivably the gambles may succeed, as the sizable stocks of corn accumulated under loan in 1933-34 were easily absorbed when drought devastated the crop of 1934. More probably, these stocks will hold prices down when the farmer has less to sell, and there will be the devil to pay when the government has to bury its "corpses." The test may come in 1939 or 1940.

APPROACHES TO LARGER QUESTIONS

All this leads naturally to larger questions. Why can we not find a solution to the agricultural problem? Why must we forever be assailed by complaints of the plight of the farmer?

Our world today bristles with problems, which seem unprecedentedly numerous and difficult. Actually they are not; they merely *seem* so because we have refined and multiplied ways of seeing them, and are no longer content to leave any unsolved. Agricultural problems are perennial. Today some are old; some are new; some are old but wear new guises. Their number is legion. Indeed, as we perfect our economic counterparts of the telescope, the microscope, and the camera, they seem to have multiplied terrifically. Fortunately, even our prosperity does not depend on solving them all.

Problems can be set that are insoluble—at least with present resources, and in some cases with all the resources we can ever expect to command. Babies will always cry for the moon in vain. Notions of journeys to the moon still belong to the imaginations of romanticists, comic-strip producers, and the insane. But we have learned to fly, to bridge formerly impassable stretches of water or ravines, and to do other things beyond the range of our earlier abilities. Our progress in these directions has come through working with the forces of Nature, including human nature, and particularly through science and engineering, which are beginning to have their counterparts in what some hopefully term social science and social engineering.

Agricultural problems can be so defined as to be insoluble, at least so far as we can see. Stability in farm production, prices, and incomes, on levels that everyone agrees are just right, are utterly beyond hope of attainment. The weather, technological changes, and policies of other nations, as well as nonagricultural policies of our own, conspire to prevent.

In this field as in others, we should be satisfied with progress, and not risk disaster by seeking the millennium. The rational procedure is to classify our problems, provide tested solutions for a few, continue or begin attack on others, make a few limited experiments, develop research on many others, and leave many more for the future.

The present administration is to be commended for a number of steps in these directions, including its vigorous attack on soil erosion, its intensive efforts to develop a constructive land policy, and its courageous attempts to open up international trade through reciprocal treaties. But the Agricultural Adjustment Administration is devoting by far the major part of its funds and energies to price-raising measures even when these involve huge subsidies to farmers, huge government purchases on various bases including loan and insurance schemes, and regulation of farm acreage and marketing under substantial penalties. Meanwhile, little progress is being made in dealing with persistent and serious problems such as those of farm labor and the agricultural slums of the Cotton Belt.

CURRENT MAJOR PROGRAMS

One of the grave obstacles to success in active interposition on behalf of farmers is that almost any national program must rely too much on broad aggregates and averages, which fail to represent the infinite variety of conditions on 6 to 7 million individual farms of all sizes and types with all sorts of farmers. The administration deserves credit for attempting to reckon with this multiplicity, but it will not yet recognize the limits to general programs which are thus set. The result is ill-fitting regulations, evasion of inappropriate regulations, and terrific waste of federal funds as money is poured out to lubricate all parts of the lumbering machine.

Of the major elements in current policy I regard two as

ominous: the ever-normal-granary scheme, to which I have already adverted, and the growing subsidies to farmers. I do not question the good intentions of their advocates, but there is truth in the old saying that "hell is paved with good intentions." I will not call in question the sincerity of their sponsors, though I frequently feel that what seem to be political necessities give rise to statements that their spokesmen realize will not bear the scrutiny of those concerned only with the truth. But the subsidy and ever-normal-granary policies, like the Farm Board policy, must be judged not by the intentions and sincerity of their supporters, but by the way they will presumably work.

By subsidies I mean not only the drafts on the federal Treasury for direct payments to farmers, but also various others designed to raise prices of farm products. Because farm leaders long protested that farmers wanted no subsidy, and because the word had an ugly sound to many, the various forms of subsidy have been ingeniously called by attractive names such as benefit, adjustment, soil-conservation, and parity payments, ever-normal-granary loans, and surplus-relief purchases; and the Agricultural Adjustment Administrator and the President himself have tried to argue that the word subsidy is inapplicable. Whatever the success of these efforts, the term fits.

The latest program expansion is that under the Federal Surplus Commodities Corporation, an agency of the Secretary of Agriculture. It is entering all sorts of commodity markets, with some 80 million dollars to spend, and dumping the products into the relief machine purely to supplement what the recipients get through other channels. This seems to me the wrong way to do a job that needs to be done. Whether relief requirements are large or small, they should be met as economically as possible. If there is buying to be done, the

purchasing agency should be subsidiary to the relief administration, or a federation of them. The Department of Agriculture can and should facilitate the process of meeting the requirements economically. But this would mean a very different distribution of purchases, could result in much more economical handling, and would entail no supplementary rations to go as luxury or waste. Moreover, undue bolstering of farm prices would not, as it does now, tend to keep production at surplus levels.

I do not regard all manifestations of "government in business" as deserving unsparing condemnation, threatening disaster to our civilization. Yet there is sense behind the businessman's prejudice. The government as buyer, under such circumstances, is not a shrewd buyer. Cost is not a major consideration; abundant funds are provided without concern to those who do the actual buying. Pressures, openly political or merely potentially political, constitute a large factor. Another is administrative desire to avoid the appearance of favoritism. Economy in handling is not a prime consideration, as in private business. Both the buying and the handling under government agencies, however, are far less inefficient than selling. Here the government agency usually "botches the job," by comparison with private business. It has not the trained personnel, the organization; it cannot get or keep them. Its competition is resented and feared. Potent political opposition is aroused. Some form of dumping is thus almost inevitable. So our Federal Farm Board found; so other nations in recent years have found; so the present administration has found with cotton; and so it is likely to find with other products that it is now accumulating.

Before the depression, Mr. Hoover was not criticized for saying that the country would not begrudge the spending of a few hundred million dollars in providing a workable solu-

tion for the problems of agriculture. The country did not approve the results of Farm Board actions, but I think we did not feel too badly about the evaporation of its "revolving fund." During the depression, the present administration spent something like 400 million a year in more or less direct payments to farmers. One might have supposed that the spending would be tapered off as agriculture recovered. It did not. All told, it was practically on a peak scale in 1937.

One great difficulty with such spending, as with what is collectively called pump-priming, is stopping it, and then weathering the crisis that sudden stoppage tends to bring. Another is the sapping of the morale of the recipients, and the tendency of the government checks to influence farm votes. These are even more important than the third—the burden of public debt that comes in its train.

INTERRELATIONS OF AGRICULTURE AND BUSINESS

Broadly speaking, agriculture has a threefold importance for business: as a source of materials for processing and consumption; as a source of commodity movements requiring handling, transportation, financing, and processing; and as a source of purchasing power of farmers who buy the products and services of other groups. The unquestionable interdependence of business and agriculture needs no emphasis from me. Rather I must protest certain erroneous or exaggerated inferences on this subject that are often expressed by businessmen themselves.

For years economists have called attention to the close correspondence in the postwar years between indexes of industrial payrolls and of farm income. Even in monthly series the divergences are usually not striking. Often the inference is drawn that to increase the farmers' purchasing power is to

work the most powerful lever for raising the level of business prosperity and well being of all.

Indeed, it is often stated, as if axiomatic, that agriculture is "fundamental," "the basic industry," and that farmers are "the backbone of the nation." Once these statements were almost literally true, and in some areas they are still broadly true, though by no means all of their implications were and are. Generally today, such statements are extremely misleading, in spite of the elements of truth they contain. It is primarily the rise of other industries and occupations that has brought revolutionary advances in our standards of living, and these have involved declines in the relative numbers and importance of agriculture and farmers. So far as we can see, these trends will continue. One of the harsh facts of these postwar years is that this country, and the world at large, needs fewer farmers than there tend to be. Increased efficiency in farming here and abroad, reduced per capita utilization of important farm staples such as wheat and horses, greater attractions in farm life accompanying the democratization of the telephone, the automobile, the tractor, the radio, and electricity: these are among the factors responsible for the much-discussed agricultural surpluses and the matter of "surplus farmers" which is usually too delicate to discuss.

The annual drift from farming into other occupations, partly offset by a return movement to the farm, indicates that this surplus, like others, normally finds ways of being absorbed. According to the latest official estimates, the number of persons on farms declined in 1921-29 by 1,600,000 (from 31,763,000 to 30,169,000) or 5 per cent,¹ while the total national population increased by 14 per cent. This was doubtless one of the conditions of the improvement in farm prosperity in this period, unsatisfactory though that seemed to

farm spokesmen then. During the Great Depression, however, the 9-year loss was soon more than recovered. As business improved, public policies of various kinds have helped to prevent another net reduction of the farm population, and the current estimate for January 1, 1938 is not far below the prewar peak of about 32.1 million. There is no prospect that so large a farm population as we now have can earn a satisfactory living from agriculture.

Much has been loosely written of the importance of establishing and maintaining a right balance between agriculture and industry. Any such true balance, however, is not a static proportionality, but a shifting one, in which social forces are inexorably reducing the proportion in agriculture. Farmers, blind to the basis and power of these forces, naturally cry out against such outcome. But governmental efforts to resist these forces obstruct the restoration of a new equilibrium without restoring conditions satisfactory to farmers.

Are there other opportunities? Is the doctrine of "work for everybody" obsolete? Are we doomed to a new type of overpopulation?

There are those who doubt whether there is work enough to go around, and whether there are occupational outlets for what I harshly call "surplus farmers." The persistence of industrial and commercial unemployment on a large scale seems to give the lie to the economist who urges that there is more than an abundance of work for everyone to do, if only the workers want work and find what people want done and are willing to pay for. The issue is important, for if there is only a limited amount of work to be done, there must be surplus workers in many lines and there are limited outlets for surplus farmers. In times of depression, this is temporarily the case. If the condition persists, however, it means that individual initiative is sadly lacking or that barriers are obstructing

the absorption of workers in old or new lines. The existence of such barriers is undeniable; and their removal is of vital importance for the satisfactory functioning of our society, and in particular for the solution of agricultural problems.

I will mention only two examples of these barriers. One is trade-union limitations on entrance into trades and insistence on wage rates so high as to reduce wage incomes and overstimulate replacement of labor by machinery. The other is a public-relief system so operated that many can and do shry away from employment on terms that they do not like, and lie down on the public rather than use their initiative and enterprise. I believe in trade unions. I believe that entrance of the federal government into relief was proper as well as politically inevitable. But these shortsighted abuses of both constitute barriers to normal adjustments between the supply of labor and the demand for it. Among other things, such barriers constitute obstacles to the rational solution of a basic farm problem.

Bear these things in mind as you hear or voice the pleas for "fair" prices for farmers and a "fair" share of the national income for them. No one wishes to oppose fairness or endorse unfairness. Yet it is incontestable that notions of what is "fair" have been set impossibly high. The basic reason why farm prices and incomes have averaged no higher, over a run of years, is that farmers' goods and services are available in larger quantities than people are willing to pay for at rates the farmer wants to get. Prices and incomes low in money terms are society's way of putting pressure on the weaker farmers to quit. If this form of pressure is lifted, some other form of pressure, here or elsewhere, must be exerted. When Congress sets the goals of farm prices and farm incomes at figures far above current economic normals, as it has done, it not only creates insoluble problems; it also forces

the adoption of drastic measures certain to fall short of the goal, which in turn create fresh problems complicated of solution. No one has yet seriously proposed that measures to regulate acreage, farming procedures, production, and marketing be reinforced by regulation of the entrance into and exit from farming, but these are logical further strands in the tightening web of regimentation.

I do not believe that our genuine agricultural problems are insoluble. Our resources for solving them were never larger. Genuine progress is being made in some directions. But I consider that in certain other respects our current policies are being wrongly directed, in ways that multiply and magnify our problems, and in ways that exhaust our expert personnel in futile and even frenzied efforts to carry out extravagant programs or cope with emergencies unnecessarily created. In this field and in others, signs of a turn toward greater sanity and wisdom, a turn from political expediency to long-run workability, are to be profoundly welcomed.

XXXI

AGRICULTURAL PROBLEMS AND POLICY*

[August 1938]

I have accepted the invitation of the Republican Program Committee to discuss the agricultural situation in its broadest terms, and to offer constructive suggestions. I am eager to be helpful in this week's deliberations. To forestall mistaken inferences, however, I must make my general position plain at the start.

PRELIMINARY OBSERVATIONS

First: I am a democrat—a republican too; a conservative, also a liberal—by my own definitions. But I am none of these with a capital letter. I have chosen not to affiliate with any political party. Nevertheless, no one has charged me with being the sort of mugwump who sits on the fence, academically balancing pros and cons, unable or unwilling to come to a conclusion. I count myself a discriminating appraiser of agricultural conditions, policies, and programs, under Republican and Democratic administrations alike. I am not an “enemy” to any administration, but a friendly, critical analyst seeking to aid in the understanding of agricultural problems in the hope that workable solutions may be evolved. What I say here I would say in a similar gathering under different political auspices. I address you not merely as a committee of Republicans who are eager to see your party return to power, but primarily as a group of intelligent, public-spirited

* Address before the Republican Program Committee in summer conference at Northwestern University, Chicago, Aug. 1, 1938, and circulated in mimeographed form by that Committee. At a few points, short passages have been deleted or modified to avoid undue duplication with chapters xxx and xxxiii.

Americans who are eager to find ways of advancing our country in soundness and strength through the years.

Second: I harbor no illusions regarding the adequacy, accuracy, and usefulness of what I shall say this evening. I will not intentionally mislead you, but I may do so unintentionally. For fifteen years I have been almost continuously studying this subject, but it grows under one's very eyes. Though I have somewhat matured my understanding and improved my techniques of analysis, I cannot pretend to have mastered it. Indeed, no one has. With all our real advances, no fully authoritative authorities have emerged in this field. I have spoken frequently on one phase or another of the subject, even in recent months, subjecting my views to general criticism. The response generally indicates that I give expression to what large numbers of my professional colleagues would say if they could, but at various points my statements excite vigorous dissent, particularly in higher official circles. In general, I venture to believe that my errors are chargeable to defects of knowledge and expression rather than to bias or prejudice.

Third: I speak with the advantages and limitations of an economist. In both its scientific and its practical aspects, economics may have outgrown its infancy but has hardly emerged from childhood into adolescence. Economists, like bankers, businessmen, lawyers, and farmers, are a highly varied lot. We differ enormously in ability, training, knowledge, judgment, and wisdom. We disagree more or less, though not nearly so much as current wisecracks imply. The press, straining to find something newsworthy in our dull speeches, sometimes inadvertently misrepresents us. There are a few crackpots in our ranks, and some glib, irresponsible talkers. These, with outsiders whom the public miscalls economists, sometimes bring the whole profession into disrepute. Too

many of us, moreover, work overtime to keep up with current events, and merely teach this along with what we learned in graduate school. Too few of us are really building economic science or bringing it to bear on important social problems. We sorely need to develop a supplementary profession of economic doctors and engineers to supplement our economic researchers, technicians, and teachers. Nevertheless, as a group, we seek the truth; so far as we find it, we speak it—unless our superiors in business or government effectually forbid—regardless of its degree of interest or popularity; and we are legitimately concerned with the general welfare over the run of years, not with the temporary prosperity or success of a particular class in the present and near future.

Many troubles arise from our being too shortsighted, as the politician tends to be, or too farsighted, as the economist tends to be. The politician is concerned with attracting votes, winning elections, getting into power, and staying in power. This leads him to concentrate on plausible words and schemes, gilded promises, bluffing. The economist, on the other hand, tends to be concerned with the long run, often to the neglect of transitional problems. This is a lesser defect, but it nevertheless limits his dependability as an expert adviser. The driver of an automobile runs grave risk of accidents if he is either farsighted or nearsighted. The same is true of those who have to do with piloting what used to be called the Ship of State, whether it be a huge ocean liner or a one-seated "putt-putt." We need to wear glasses to correct our mental astigmatism and give us normal vision under all conditions; and to equip ourselves with microscopes, field glasses, and telescopes for special tasks.

Fourth: I cannot presume to advise on reformulation of party policy. Indeed, when political formulations are under consideration, I feel perplexed and utterly skeptical of the

utility of my best efforts. Some years ago my ideas on agricultural policy were informally solicited by a party leader behind the scenes. When I expressed them, he said sadly: "That may be all right, but there's no politics in it." An outstanding businessman with whom I occasionally correspond once wrote me: "It would seem to me that . . . it should be possible to find a formula which would tend to restore the balance between industry and agriculture." I had to reply that I thought the search for any such formula worse than futile. I still think this. To sketch an agricultural policy that is economically sound is difficult enough, but I am sure that I cannot outline one that can be certified as at once economically sound and politically expedient. I can only hope to bring some grist to your mill, not to produce the flour your customers will like.

All too often long-run soundness is subordinated to short-run expediency: ambiguous slogans and catchy phrases are given wide currency; competition for the farmers' votes leads parties to vie with each other in putting forward policies untested, ill-considered, futile, or worse; the tendency to overpromise is well-nigh irresistible, and—even if party platforms and campaign speeches are more or less ignored when an election is over—so also is the tendency to try to outperform. For the near future at least, current uneconomic policies may have greater political appeal than would any sound combination program; and there is real danger that on grounds of political appeal, some of the sounder elements in current policy will be attacked and some even worse alternatives to present bad ones be cooked up. Political appeal no more insures durable solutions of public problems than sex appeal insures durable marriage.

Perhaps these remarks will explain why I was reluctant to accept the invitation to address you on this topic.

PRESENT GOALS IN HISTORICAL PERSPECTIVE

After these preliminary observations, let me open my main discussion with a hasty résumé of the general course of the agricultural cycle over the past thirty years. (1) For several years before the World War, American farmers enjoyed a higher level of prosperity than ever before. (2) During that war, and in consequence of war demands and price inflation, they experienced remarkable though irregular income gains, in relative terms as well as absolutely; and the boom reached its culmination after the Armistice. (3) Partly because of this abnormal boom, the postwar crisis and depression of 1920-23 were extremely severe upon farmers, and agricultural recovery lagged behind general recovery. (4) The years 1924-29 were marked by a rising tide of agitation for "farm relief" on a broad front. In retrospect, in the light of revised data and a truer perspective, these years should properly be regarded as moderately prosperous and relatively normal for agriculture. Despite the painful shrinkage of inventories and land values, and the burden of debt left over from the preceding inflation of farm-product prices and land values, major readjustments were made in farm population and production, important advances registered in farming practices and equipment, and significant gains in real income secured. (5) The Great Depression of the early 1930's fell with extreme severity on the farmers, and some of the early measures to cope with it made it worse. The situation called for emergency efforts to mitigate the disaster, ease the burdens, and facilitate recovery. (6) This recovery took place in 1933-37. It was complicated, but on the whole not retarded, by an extraordinary run of drought years in which 1934 and 1936 ranked first and second in our history. It was facilitated by debt-adjustments on an extensive scale, and by certain other forms of government aid. Notably also, the general forces of eco-

conomic recovery contributed to bring farmers out of their financial morass. Then 1937 proved a year of crops so good that the index of agricultural production as a whole made a new high record, and farm purchasing power (though not gross or net income in terms of current dollars) was practically as high as in pre-depression years.¹ (7) The industrial recession of last fall, and the depression that followed in its train, inevitably reacted adversely upon farm income; and prospects for a second season of good crops, in a depression year, excited grave apprehensions in the minds of official observers; but I regard the general position of agriculture in 1938 as one of relative soundness, as it was in the brief depression of thirty years ago.

There are those, I know, who still insist that the abysses of 1920-23 and 1931-34 were only extremes in an agricultural depression that has been continuous ever since 1920. In my judgment, however, those who hold this view have impractical notions of what is normal in a world in which "normal" does not mean "ideal."

Of course you will not take me to mean that all was well with agriculture or with farmers, in 1937, or in 1924-29, or even in 1909-14. No! There was the perennial necessity for continual adjustment to changing conditions at home and abroad, including the advance of the automobile and tractor at home and the shrinkage of foreign outlets for some of our staples. There were persisting problems that even yet have been hardly touched, such as those concerning share-croppers and laborers in the Cotton Belt, migratory farm laborers in the Far West and some other sections, and the soil erosion

¹ On these points, see publications of the Bureau of Agricultural Economics, e.g., *Crops and Markets*, December 1937, and later issues of this monthly giving indexes of prices farmers pay and receive; "Volume of Agricultural Production for Sale or for Consumption in the Farm Home 1919-1937," Feb. 12, 1938; and "Gross Farm Income and Government Payments Estimated at \$10,003,000,000 for 1937," May 21, 1938.

that has been eating away a basic national asset. There were numerous opportunities for improvement in farm tenure, organization, equipment, techniques, marketing; and many too for farsighted planning to meet both recurrent local emergencies and critical depression conditions when they return as they will. There was room for further advances in the standard of living on farms as the nation continues its broad advance. More could be added. Yet I do mean to say that, if we regard 1924–29 and 1937 as periods of depression or agricultural “emergency,” we imply definitions of these terms so excessive that we can hardly hope the “emergency” ever to come to an end, except temporarily under some such conjuncture as accompanied the World War.

Properly viewed, none of our genuine agricultural problems is impossible of reasonable solution, given time. Our resources for dealing with them are vastly greater than before the war—in knowledge, in men, in private and governmental machinery, in funds and readiness to use them. Here as elsewhere, confidence is more fitting than despair. Yet we can, if we mischoose, so frame outstanding agricultural problems that solution is hopeless. We can set goals that are not only virtually impossible of attainment, but so high that attempts to attain them bring fresh complications and maladjustments, and make matters worse instead of better.

This is my basic criticism of certain aspects of our current agricultural policy. Under the plausible slogans of “equality for agriculture” and “a fair share of the national income for farmers,” Congress has specified goals of “parity prices” of farm products and “parity income” for the farm population; and Congress has so defined these goals² that to reach them

² The standing definitions, as given in Sec. 301(a) of the Agricultural Adjustment Act of 1938, read thus:

“(1) ‘Parity,’ as applied to prices for any agricultural commodity, shall be that price for the commodity which will give to the commodity a purchasing power with

would create an unstable disequilibrium instead of restoring the so-called "balance between agriculture and industry."

With general price levels, commodity conditions, and international relationships as they are, currently computed "parity prices" are far above levels that would serve to bring supplies and demand into adjustment. For computing "parity income" the data are not yet fully available.³ Last January, however, the economic adviser of the Agricultural Adjustment Administration estimated that in 1935 to 1937 farm income from farming was close to 80 per cent of parity, and that government payments raised the percentage to about 85; and he forecast that in 1938, inclusive of government payments then in prospect, the net income of farmers would be below the "parity standard" by 1½ billion dollars.⁴ Mr. Bean added that in 1937 farm income amounted to only 10 per cent of the national income, whereas "on a per capita basis and in line with past experience, this figure ought now to be more nearly 13 per cent." These are dangerously excessive goals.

In the realm of the spirit Emerson may have counseled well when he said, "Hitch your wagon to a star!" In the

respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period; and, in the case of all commodities for which the base period is the period August 1909 to July 1914, which will also reflect current interest payments per acre on farm indebtedness secured by real estate, tax payments per acre on farm real estate, and freight rates, as contrasted with such interest payments, tax payments, and freight rates during the base period. The base period in the case of all agricultural commodities except tobacco shall be the period August 1909 to July 1914, and, in the case of tobacco, shall be the period August 1919 to July 1929.

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

³ The Bureau of Agricultural Economics launched in 1936 an extensive co-operative research project designed to yield estimates suitable for the purpose, under the definitions employed in the Soil Conservation and Domestic Allotment Act of Feb. 29, 1936. This spring the first results began to appear. These covered preliminary estimates, by states, of farm income by calendar years from cotton and cottonseed, 1910-37 (April 1938), and from tobacco, 1909-37 (May 1938).

⁴ Louis H. Bean, "The Other Half of the Farm Problem," address to Illinois Agricultural Association, Jan. 28, 1938, *AAA Press Release 1183-38*, pp. 9-10.

realm of agricultural policy, however, this is bad advice. My first constructive suggestion, unpalatable though it may strike you, is this: Moderate goals are essential if sound progress is to be made. They can be revised upward as gains are achieved. Excessive goals, and straining to attain them, bring setbacks and disillusionment if not disaster.

AGRICULTURE IN THE NATION'S ECONOMY

Here it is appropriate to raise the broad issue of the place of agriculture in the national economy, and to ask what kind of agriculture we may reasonably expect to have.

It is common to speak of the farmer as "the backbone of the nation," as did the Republican platform of 1920; to speak of agriculture as "the nation's basic industry," as did the Democratic platform of 1932. That "agriculture is fundamental" has been widely voiced as a vital element in the national creed, if not a universal axiom. I cannot here discuss the truths and fallacies in this doctrine. There is an unquestionable interdependence of agriculture and what is too broadly called "industry." But we should not let this blind us to certain harsh facts that must be reckoned with in a sound approach to agricultural policy.

As nations progress, their agriculture declines in relative importance. Farmers produce mainly foodstuffs and materials for clothing. As efficiency increases, such necessities of life cease to be the absorbing concern of men. Other wants, far more elastic, arise to be met. Today much of the food we consume consists of nonessentials, and a large part of our clothing expenditure satisfies wants other than those for protection and warmth. With advances in technology and regional specialization, increasing numbers are absorbed in industry, commerce, the professions, and service occupations of many kinds, and these provide a living for growing pro-

portions of mankind. Revolutionary advances in standards and planes of living have resulted from and in turn promoted the rise of nonagricultural activities, and have entailed more or less continuous declines in the relative importance of agriculture and farmers. Every progressive nation shows this. Even unsatisfactory data for a century or more, such as those for Great Britain and the United States, bear eloquent testimony to it. The forces at work are well-nigh irresistible; the trends they cause can be reversed, if at all, only at terrific cost. Where farmers still constitute a high proportion to the total population, as in China, India, Bulgaria, and the USSR, this is a symptom of a retarded civilization and a backward agriculture.

Under some conditions, such as have tended to prevail in the past thirty years, various progressive nations show an absolute decline in the farming population. In the United States, according to the latest estimates,⁵ the peak of what is termed the farm population was reached shortly before the World War. The postwar decline, in 1921 to 1929, reduced the farm population by 5 per cent, while our entire population increased by 14 per cent. Even so, more people were engaged in farming than the country needed.

The Great Depression abruptly checked the absorption of the human surplus of our farms. As they became a refuge for many out of work, and as depression also reduced urban opportunities for farm boys and girls, the 9-year loss was quickly recovered. Standing estimates indicate that in the five latest calendar years the farm population averaged 99 per cent of the corresponding average for 1910-14, while constituting only 25 per cent of the total as compared with nearly 35 per cent in the prewar period.

⁵ See *Agricultural Statistics, 1937*, p. 389, and *Crops and Markets*, June 1938, p. 128. Intercensal estimates of the farm population have been radically revised.

Contrary to the usual experience, the farm population seems not to have appreciably declined as agriculture and industry recovered in 1933-37. Among the influences primarily responsible for this, five probably deserve a high place: the incomplete recovery of urban employment, certain policies of organized labor and business, and our federal relief and agricultural policies. At all events, our present farm population of nearly 32 million is probably something like 2 million larger than we can expect to earn a reasonably satisfactory average income from farming even with customary supplemental income from nonagricultural occupations.⁶

For the past fifteen years the Bureau of Agricultural Economics has published data on employment on farms of crop reporters on the first of each month.⁷ These show a marked shrinkage since the pre-depression period. In the six calendar years 1924-29 the monthly figures averaged 3.48 persons per farm, including the farm operator, family labor, and hired labor. In 1937 the corresponding average was 2.94. For July-June 1937-38 the average was 2.92 as compared with 3.51 for 1927-28 and 1928-29. Recall that the volume of farm output in 1937 was at record levels. If these sample data are to be trusted, it seems proper to infer that increased mechanization and other efficiencies have, in the past decade, reduced farm employment on the better-managed, presumably more prosperous farms by about one-sixth; and that a larger proportion of the enlarged farm population is subsisting and working under conditions permitting poorer financial returns.

⁶ The importance of such income has been greatly underrated. In preparation for the 1940 census of agriculture, the Census Bureau recently completed a special survey covering 3,000 farms in selected counties of forty states. This disclosed that one farmer in three had income from nonfarm sources, and that such income averaged about three-fourths as much as their average farm income. Much more light needs to be thrown on this whole subject.

⁷ The data appear from time to time in *Crops and Markets*.

This brings me to my second major constructive suggestion. Removal of barriers to the full absorption of the nation's working population, in all the manifold channels of activity, is vital to the solution of basic agricultural problems. The doctrine of ample work for everybody is not obsolete or even obsolescent. The persistence of large unemployment reflects, not simply inevitable friction in our economic machine, but policies and practices of business, labor, and government that shortsightedly obstruct absorption of workers in lines old and new. Rural residence may well increase, but resumption of a net outflow from farming into other occupations is a condition of the continued improvement of the lot of those who continue to farm.

IMPLICATIONS FOR POLICY

After all, what kind of an agriculture, what kind of a farm population, do we want? I cannot answer authoritatively, but as I read the permanent interest of our country I should answer broadly: *those appropriate to the day*. We cannot have a horse-and-buggy agriculture in an automobile-tractor era. But what does this mean?

It means, first, conservation of certain characteristic opportunities that we have long cherished: opportunities for many types of farmers, farm organization, farm management, marketing—even good, bad, and indifferent—to exist side by side; for mobility within farming and between farming and other occupations, under the stress of aptitudes, inclinations, and experience; for learning by education and experience through a great variety of channels; for substantial freedom of individual decision as opposed to constraint by law or the majority; for earning one's way instead of feeding at a public trough.

It means, second, progressive adjustment to changed and

changing conditions. The term "balance" is too often misinterpreted to mean some fixed proportion of farm population to the total, of farm income to the national income, of farm prices to the general price level. The term "stability" is often used to mean similar fixity, usually above attainable levels. Even security is dearly bought at the cost of progress. The bicycle rider, the tightrope walker, even the individual walking, each keeps his balance by continued change. So, in the social and economic sphere, is equilibrium maintained or regained. In our dynamic civilization, security is to be sought through continual adaptation. The modern stabilizer is not an anchor or a boulder, but a gyroscope. Agricultural adjustment is nothing new. It was never more pervasive and extensive than in the decade preceding the establishment of the AAA. Witness the postwar data on farm output: dairy and poultry products, fruits and vegetables, and truck crops all show broad upward trends, while grain production tends to decline. Public adjustment measures merely supplement, are no substitute for, and may be injurious if they are out of harmony with, powerful economic forces of adjustment.

It means, third, governmental interposition at many points, probably increasingly numerous, but in limited ways—consistent with the limits of our knowledge and understanding, with the urgency of the need, and with inherent weaknesses in our government as an economic machine—in order to facilitate the natural adjustment process and smooth the working of the economic system. It does not mean comprehensive, bureaucratic regulation or attempts at well-nigh universal control. Experiences in socialist and fascist dictatorships only too clearly reveal how controls breed controls, shackling individual initiative and freedom while failing to yield the high standard of living held out as the goal.

We should try to gain and keep our perspective and to

correct it if it becomes distorted. Agriculture and farmers should be viewed in relation to the nation as a whole. A sympathetic understanding of the farmers' position is essential, and no group or party has a monopoly on sympathy for farmers in their hazards, struggles, or distress. But mere sympathy is insufficient, an unsafe guide to wise policy, and it may be excessive as well as deficient. We must avoid the obsession that farmers are always in a "plight." We should take stock of their advantages along with their disadvantages, their gains as well as their losses.

We do well to view agricultural problems not as a Pandora's box or a hopeless tangle, but as a series subject to classification, segregation, and differentiation. We cannot expect to solve them all at once, or to have them all stay solved. We are unduly prone to underestimate their complexity and exaggerate their seriousness and urgency. Some must wait; others can wait. The important thing is that we make progress in dealing with them, that our partial solutions are in the right direction, and that we do not magnify and multiply the problems themselves by the measures we take.

COMMENDABLE ELEMENTS IN CURRENT POLICY

I am happy to commend several elements in current agricultural policy, including various recent steps, as worthy of continued prosecution with such improvements as experience will indicate.

Our time-honored policy of promoting agricultural research and education, in a great variety of ways, is thoroughly justified. Our state agricultural colleges, experiment stations, and extension services, with essential leadership and collaboration from the United States Department of Agriculture, have done and are doing yeoman service. They are, on the whole, better manned than ever before. The research and informa-

tion output of the Bureau of Agricultural Economics, in particular, seems to me better than ever.

Some shortcomings remain. One is by no means new: in spots, at times, significant research activities or their public expression seem to me unduly repressed or otherwise influenced by the prepossessions of top political figures. Another has accompanied the amazing farm programs developed since 1933: too much of the energy of the research and extension services in the states is diverted from its primary functions to operation of these programs and propaganda in connection with them.

A third defect is hardly yet recognized: we need more, and more effective research on policy and planning for the long run, corresponding to what I gather is done in the general staff of the War Department. A group of able men, relieved of other pressing tasks, should be unobtrusively studying how past emergency programs have worked and how present ones are working, and formulating in advance tentative plans for meeting future emergencies better, when they come. Other such groups should be studying special problems of long standing or now clearly present, and formulating tentative long-run programs for dealing with them. My observations indicate that far too little of this is being done. We have had altogether too much hasty improvisation when emergencies come, and our current procedures for drafting the elements of permanent legislation are woefully inadequate.

Also among the broad policies I commend is that reflected in the "land-use program." On the basis of effective research quietly conducted for over fifteen years, considerable progress is now being made in grappling with delicate and complex problems in improving the character of our land utilization. This is no emergency matter. We still do not see clearly, and there are dangers in hasty action. Slow progress is to be ex-

pected and indeed welcomed. Research and education must precede and continue hand in hand with some enlargement of public regulation, land purchase, and leasing. But mistakes or even blunders should lead merely to strengthening this essential staff. Their work is in the interest of millions in the farm population and the nation as a whole.

We are at last seriously grappling with an old, long-neglected problem. Soil erosion has wasted away millions of acres of our good lands. Now, particularly under the Soil Conservation Act of 1935, field research, demonstrations, and various forms of defense are being put into operation wherever erosion of farm land is serious. Some contributions to this end—I believe lesser ones—are also being made under later acts. The Soil Conservation Service deserves increasingly adequate support.

Our farm-credit machinery was adapted to meet the depression emergency, and rendered ill-recognized service in mitigating that disaster. With the Farm Credit Administration as now organized, and related subsidiary and private agencies, I believe we have an adequate and satisfactory system of farm credit, as we long did not have. Complaints arise chiefly from those, including many in Congress, who believe that farmers should have still freer credit and pay uncommercially low rates of interest. Governor Myers of the FCA, realizing that credit may be too easy for the farmers' own good, rightly stood out against the continuation of this emergency measure, but in vain for the time being.

I welcome the experiment with crop-yield insurance for wheat under the recent Federal Crop Insurance Act. The system now being set up is directed toward meeting a genuine need. Though I cannot approve all features of the present crude scheme, I hope that lessons from experience will be learned and applied before other crops are brought under it.

While I have not studied the operations of the Rural Electrification Administration, I believe that its existence is justified. Extension of electrification to more farms is to be welcomed, from the standpoint of both working efficiency and living comforts, even if it indirectly enlarges the problem of bringing the farm population into adjustment with society's needs for farmers' services.

RESERVATIONS ON OTHER POLICIES

Of some current policies I must speak with reservations.

The nation can rightly endorse, I believe, a policy designed to check undue soil depletion otherwise than by erosion, but I am not satisfied that the policy has yet been thought through or that the right soil-conservation programs are now being pursued. I have official testimony, based on field observations in various states, to the effect that soil-conservation payments have already led to definite improvement of farming practices in these respects. From other quarters I learn that in very considerable measure these payments are pure bonus, paying farmers for doing what they would do anyway, and that in some cases the required compliance is in the interest of neither the farmer nor the nation. If a reliable net appraisal is available, I do not know of it.

I believe, however, that officials have greatly exaggerated the desirability of soil-conservation and soil-building measures, and that the dominant motives for developing the present system were the desires to continue the production-control efforts and the flow of federal money into farmers' pockets, to which the Hoosac Mills decision of the Supreme Court temporarily put a stop. Our present agricultural administrators are adept in putting a good face on things, calling things by appealing names—so much so that I think the truth is often obscured or distorted. Confessing myself a bit old-

fogyish, I oppose masquerades on principle, except as a form of recreation. I believe that purified and far less ambitious and expensive programs could do far more of what is really needed in soil conservation.

On the farmer-rehabilitation efforts there is conflict of evidence, and I know too little to speak with assurance. There is place for both rehabilitation loans and resettlement efforts. To date these have included excessively rash and loose experiments, whether exceptional or representative I cannot say. I believe that such operations, now under the Farm Security Administration, should be quite different from any general attack on our tenancy problems. The long trend toward increase in the percentage of farm tenancy is probably normal, not alarming. Under many conditions, tenancy is a desirable status. Discriminating analysis reveals particular types and forms that are in need of reform, through private or public action. The appropriate corrections can be sought, found, and applied; but among them there is only a modest place for long-term federal loans to finance the purchase of small family-size farms.

Efforts to find new types of outlets for farm products and by-products have long been part of our policy. Further advances, for which the Agricultural Adjustment Act of 1938 (Sec. 202) makes special provision, through well-staffed regional laboratories in each of four major farm-producing areas, are to be welcomed. Yet we shall delude ourselves if we expect these to yield major contributions to the solution of agricultural problems in the calculable future.

From formal efforts to enlarge export markets for farm products, little is to be expected except as we radically modify current policies of supporting prices and restricting production, and as we throw more weight into the still feeble movements to improve international relations. So far as they go,

the reciprocal trade agreements are steps in the right direction; and the administration has prudently had little resort to export subsidies that Congress specifically authorized, and liberally financed, under Sec. 32 of the 1935 amendments to the Agricultural Adjustment Act of 1933.

Marketing agreements for specialty crops hold possibilities for good and ill. So far as they smooth the flow to various markets, and facilitate effective distribution of supplies, abundant or scarce, they render valuable service. Too often, however, they have entailed government aid to shortsighted monopolistic tactics that should be self-financed if, indeed, they merit approval as in the public interest. Years of experiment with crops such as canning peaches, prunes, and raisins have failed to yield the right answer.

Surplus-removal purchases through the Federal Surplus Commodities Corporation, of which we have had a great splurge in recent weeks, and disposition of these commodities as supplementary relief, do not commend themselves to me either in principle or as I observe the practice. If relief in kind is to be carried on, it should be to make relief dollars go farther and thus lighten the cost to public treasuries, and not to serve as a dumping-ground for products bought primarily to support farm prices. In this respect as in others, our relief policies and organization have not been soundly worked out. The Department of Agriculture could render effective assistance to relief administrators, and facilitate relief use of exceptionally abundant commodities; but the procedure and results should be significantly different from what they are.

MAJOR ELEMENTS IN PRESENT POLICY

The most striking features of current agricultural policy are: (1) huge subsidies to farmers, direct and indirect;

(2) commodity loans to farmers "without recourse," leading to large government holdings; (3) acreage and production restraints; and (4) marketing quotas with stiff financial penalties for exceeding them. The administration points with pride to these, with some others earlier discussed, as constituting an integrated, permanent program of high constructive value, not only to farmers but also to consumers, business, labor—indeed, our entire national economy. Witness Secretary Wallace's fulsome praise of the astounding Agricultural Adjustment Act of February 16, 1938.⁸

My own "projective analyses" of those measures, and of earlier proposals and the ideas behind them, lead me to very different conclusions. Adopted in a relatively prosperous agricultural year, ostensibly for permanent application, this new "stabilization" program goes far beyond those inaugurated in the depths of depression to cope with what was deemed a national emergency. As I look back, around, and ahead, it impresses me as excessively ambitious, involving needless gambles, liable to prove crucially disappointing, and leading in wrong directions. Perhaps I am wrong. The test is coming, probably within two years. We must await it.

For the moment, the huge outpouring of federal funds on behalf of farmers is particularly noteworthy. When the Federal Farm Board was created in 1929, it was provided with a "revolving fund" of 500 million dollars. Used in loans at rates that proved excessive, this fund largely dissolved, but it took four years to disappear. In the first three and a half years under the AAA, federal payments more or less direct to farmers, exclusive of relief grants, averaged 400 million a year. This year such payments will be much larger, and the Treasury burden promises to exceed a billion dollars

if one allows for surplus-relief purchases and threatened losses on commodity loans.

In view of the administration, these outpourings of federal funds have a composite justification. They are all designed to supplement the farm income earned through the usual channels in order to bring the sum up toward "income parity"; judging by available computations, they should be still further increased to reach this excessive standard. Several, such as the loans and surplus-relief purchases, are designed to boost or support current farm prices and sales returns. Several, including most of the direct payments and the loans, are designed to induce farmers to submit to more or less detailed regulation of their farming and marketing operations; and many of these regulations are designed to hold up or increase farm prices and income in future. I will not call in question the sincerity of those who have urged these measures, or charge that they are out to buy the farm vote. Yet there can be no doubt that these subsidies—I use the accurate word—have potent political influence. As a believer in democracy with all its dangers, I object to them on this score. But I also believe they tend to sap the farmers' morale, to keep more people on farms than the country needs there, to hold down the per capita income of farmers in the longer run, to induce farmers to surrender too much of their freedom to bureaucratic domination.

In my own judgment, subsidies to farmers are not justified as mere supplements to prices, or in connection with the production of specific commodities, or to supplement the income of farmers regardless of their needs. In this connection they are like habit-forming drugs. For relief and rehabilitation, to those in urgent need of either, they are just as essential as with any other group. So handled, they correspond to medicine used in illness under a doctor's care. If

still other uses deserve approval, they should be employed with prudence rather than in profusion, with indirect consequences taken fully into account.

The loan system on the enlarged scale now being implemented has its own hazards. In August 1937, arrangements were made for 9-cent loans on cotton. The crop turned out strikingly above the estimate then standing. In turn, cotton prices fell below the loan rate; about 5.3 million bales of 1937 cotton are under government loans averaging 8.4 cents per pound—implying average grade or quality below standard; enough price support was given to restrict our cotton exports in 1937-38; today's carryover of American cotton is at or near record heights; and the 1938 cotton acreage is restricted to the smallest since 1900.

Loans on wheat were first offered on July 14, 1938. Wisely, the administration set the average loan rate at the minimum permitted by law, and provided for geographical differentiation of loan rates. Even so, it now seems probable that the loans will serve to restrict the normal flow from important surplus regions, to enlarge the 1939 carryover to something like record levels, to leave what the trade calls a "corpse" of grain stocks in government hands, and to depress wheat prices in 1939-40 as Farm Board holdings did in 1931 and 1932. In my opinion, the prospect for loans and "parity payments," to take care of the situation a big crop might bring, was among the factors responsible for the record wheat acreage planted for 1937 and 1938. The acreage allotted for 1939 (though not nearly so low as the formula embodied in the original act of 1938 would have set it) involves cuts averaging over 30 per cent. Additional storage facilities are being encouraged, though the country now has more than we really need. The so-called "ever-normal granary" already bids fair to be abnormal.

I will not predict. No one safely can. War, or crop disasters here or abroad, may conceivably make such stocks accumulations welcome, as were the corn stocks held under loan when the great drought of 1934 came upon us. But the costs and risks of excessive stocks are heavy, to the public Treasury and to farm producers as well. I do not expect this policy to prove in the interest of farmers, consumers, or the nation at large.

The production restraints attempted under the Soil Conservation and Domestic Allotment Act proved disappointing to the administration, as the bumper cotton crop of 1937 and the near-record wheat crop of 1938 attest. Now, notwithstanding the Hoosac Mills decision, an unprecedented battery of them is being brought into action. The "coercion" is to consist of depriving those who will not submit, or go along, of the various financial privileges—loans as well as payments—to which they are otherwise entitled. Not all will find this deprivation serious, hence 100 per cent "co-operation" is not expected. Except with coercive taxes employed for cotton and tobacco under the Bankhead and Kerr-Smith Acts, the AAA succeeded poorly in its earlier attempts at control of acreage and production. With much larger sweetening of the dose, the new medicine may be swallowed more generally.

The other big gun is the marketing quota, designed to reinforce production restraints. It is about to be applied to cotton and tobacco, not for another year to wheat or rice. When it is applied to corn, it is striking to contemplate, Corn Belt farmers will be told the maximum they may sell *or* feed, of their own raising, and how much they must store under seal, without being subject to a tax of 15 cents a bushel on the excess.

This is a grandiose scheme. An omniscient, omnipotent authority might operate it wisely, efficiently, beneficially, but the

only one we have has chosen not to employ it. How well or ill the multifarious tasks will be done, we may shortly see, though a scientific analysis of the results will never be forthcoming. Yet I see no prospect that, at huge cost to the nation and in exchange for their substantial freedom of action, American farmers will obtain the high, stable income and the degree of security they are openly or implicitly promised. Still larger subsidies, tightening regimentation, or both, may be tried before the attempt is discredited and the tack radically changed. For the time, the burden is on the administration; for outsiders, watchful waiting is the most constructive action.

May I observe, however, that the grand plan represents an attempt to substitute governmental pulls and pressures for corresponding economic forces. Dissatisfied with prices and incomes as regulators, government payments and penalties are applied to supplement or even supplant. I expect these to work badly, not well. But I also believe that the dissatisfaction with the results of economic forces was excessive, and that under no system can we expect to attain the excessive goals that have been set up. For more than a decade our farmers have been led to expect the economically impossible. Their disillusionments are not yet ended.

A FINAL WORD

I regret that I have not found time to speak of certain contributions to the solution of farm problems, which are to be sought in policies directly concerned with other fields. Every reasonable step that can be taken to reduce the incidence and allay the fears of war, to reduce obstructions to international trade, and to promote full employment of all who wish to work is a step toward improving the agricultural situation. Particularly in this group, I should like to have

argued the second point, even though it seems to be outside my topic. On welcoming imports it is hard for us to outgrow our narrow provincialism, to see beyond our noses. The Business Men's Commission on Agriculture, whose report of November 1927 had less influence than it deserved, was ahead of its time in this respect.

In conclusion, let me say that we should not view the agricultural outlook with despair, but merely with clear eyes instead of through dark or rosy spectacles. We have not arrived at a perfect, comprehensive agricultural policy, and I do not think we shall reach it without important shifts. In some phases, however, important forward steps have been taken in the past decade, and even unhappy experiences bear fruits that can be used. If we recast our objectives in more moderate forms, and work with economic forces instead of against them, we can achieve the changing balance that we seek.

XXXII

A WORD TO POULTRYMEN*

[October 1938]

An Irish anecdote that I heard as a boy may have been buried so long that I can safely resurrect it. Patrick ordinarily had a glib tongue, but he was hard put to it when called upon for an after-dinner speech. Red in the face, he put his whole message into one nutshell sentence: "The ginerality of mankind, as a gineral thing, ginerally, *imposes* upon the ginerality of mankind, as a gineral thing, ginerally." This "gineralization" is widely popular today. Events in the past year or two in this country, and in Europe very recently, seem to give new support to it. But I venture to believe that there are large groups, yourselves among them, about whom it isn't true. Back of my remarks lies the conviction that your real interest is not in conflict with the general interest but in harmony with it.

Specifically, the market for eggs and poultry depends very heavily on two things: the costs of producing them, and the amount and distribution of consumer income. I have no doubt that you are doing your part toward lowering or holding down costs of production. You are properly concerned lest government policies operate to raise feed costs or indirectly subsidize competition in poultry raising. But you have most to gain from policies that promote full employment and rising income for the mass of the people.

European studies of how people spend their incomes make it abundantly clear that the consumption of eggs in particular

* Excerpts from an address on "Current Trends in Agricultural Policy," before the California Poultry Improvement Association in annual meeting at Berkeley, Calif., Oct. 14, 1938.

is very low among groups of very poor people, and rises to a high level as one passes from low-income groups to high-income groups. Recent studies of poultry consumption in relation to income in certain cities of this country show the same thing. This is not true of all commodities, and there are few of which the fact is so striking as with eggs and poultry. Broadly speaking, the reverse is true of cereals as a group: except among the very poor who run short of food, per capita consumption of cereals tends to fall as income rises.

In this country and many others the general trend of per capita consumption of wheat for food—indeed, of all cereals combined—has been downward. At the same time, in various countries there has been a substantial increase in per capita consumption of eggs and poultry since the World War, and the expansion has far yet to go before a “saturation point” will be reached. Enlarged outlets for products of the poultry industry primarily depend on rising levels of real income.

Before passing to broader questions, let me touch one other point. Last spring I ran across a friend of my wife's who is in the poultry business. She and her husband were excited over rumors of heavy imports of eggs and oranges (!) over the tariff. When I got back to my desk I looked up the statistics, and I have checked them again recently. There were some imports of eggs—there almost always are some; but, as usual in recent years, they were practically negligible.

United States exports of eggs in the shell, though small compared with pre-depression years, have practically always exceeded imports of the same. Comparing the value of eggs and egg products imported with those exported, the peak excess of imports in 1937 was only \$1,770,000. The gross value of imports of eggs and egg products in 1937 was under 2½ million dollars. This was less than one-half of one per cent of the farm value of eggs produced in 1937, now esti-

mated at 530 million dollars. Thus far in 1938 the comparison is even less fearsome. If you represent value of farm production as a target, and even gross imports as a spot in the center, the bull's eye would be hard to hit.

Don't let anybody fool you into magnifying a molehill into a mountain. The poultry industry has not suffered, and I feel sure is not likely to suffer, under the reciprocal-trade-agreement program. On the contrary, it stands to gain far more from expanding trade, business, and incomes, to which this program can reasonably be expected to contribute, than to lose from any slight trickle of imported eggs or poultry.

XXXIII

THE DRIFT OF AGRICULTURAL POLICY*

[November 1938]

In the past decade there has been a striking evolution of national agricultural policies almost all over the world. Previously, the chief features of agricultural policy were tariffs on farm products, and public provision for education, research, and dissemination of information. A few countries had already gone beyond this—Soviet Russia in the most notable degree. Rumania and Mexico also had undertaken extensive programs of redistribution of agricultural lands. Fascist Italy had started her “battle” for self-sufficiency in grain. The United States had created government-supported institutions to ease credit to farmers, and adopted legislation favorable to co-operative marketing. Here and there other specific measures were adopted.

Shortly before the Great Depression, however, new policies began to find expression in law and administration. As the depression deepened, there was a pronounced drift toward high and complex barriers to international trade, unprecedented financial aid to farmers, active intervention by governmental agencies, and thoroughgoing control of farming operations. Today this drift, in various forms, has reached logical extremes in Soviet Russia, Nazi Germany, and Fascist Italy; but in democratic countries, including Great Britain, France, and the United States, remarkable strides have been taken in much the same direction.

* Address before Arizona Bankers' Association in annual meeting at Phoenix, Ariz., Nov. 11, 1938. An earlier version was given before the California Bankers' Association in annual meeting at Del Monte, Calif., May 25, 1938. The latter association has kindly given permission to reprint portions published in its *Proceedings*.

Many influences combined to bring about this reorientation of agricultural policy, even where a new philosophy of the authoritarian state did not prevail. Prominent among these influences were effective and widespread agitation for farm relief during the first postwar decade, the extreme decline in prices of farm products during the ensuing depression, prevalence of war fears in Europe, and the facility with which peacetime controls of economic affairs could be introduced with the aid of wartime precedents and experience. Once established, such controls have tended to persist even with marked economic recovery, such has been the influence of more acute war fears, the natural resistance of a bureaucracy to its own liquidation, and the tendency of controls to breed more controls.

In addressing myself primarily to American policy, I cannot dwell upon the measures designed to meet agricultural emergency as such, either under the Federal Farm Board or from 1933 onward. With the emergency clearly ended, the striking fact is that the federal acts of 1936 and 1938, ostensibly designed as permanent measures, go far beyond those that were ostensibly designed to cope with extreme emergency.

CURRENT AMERICAN POLICIES

A fundamental characteristic of American agricultural policy today is that it is predominantly active rather than passive, and well-nigh comprehensive—concerned with doing something about almost everything, agriculturally speaking. I wish first to touch upon some policies in course of application upon which a few words must suffice.

Soil erosion, by water and wind, has long been a serious national evil. It has been largely ignored, at heavy cost in basic resources. Farming practices inappropriate to condi-

tions, and certain types of farm tenure, have greatly magnified the losses. The damage already done and in prospect needs emphasis, to bring recognition of the importance of checking the ravages of this scourge, by appropriate public measures and private action. The present administration deserves much credit for seriously grappling with this problem.

Not the same can be said regarding soil depletion, which must be distinguished from loss of the soil itself. The rise and fall of soil fertility is of importance to individual farmers, and all good farmers properly take it into account in their farm planning. Here is a field for research and education, both economic and agronomic. But it is by no means a new field, and there is little basis for the propaganda that soil depletion as such presents a serious national problem. Under the Soil Conservation and Domestic Allotment Act of 1936, elaborate distinctions are drawn between soil-depleting, soil-conserving, and soil-building crops; but these chiefly furnish convenient bases on which to hand out federal money to farmers, through which it was hoped to exert influence on the relative production of different crops. The so-called "agricultural conservation programs" may be rendering durable service in some areas, as my friend Mordecai Ezekiel assures me on the basis of extensive personal investigations. In all too many sections, however, they are contributing little or nothing to the conservation or permanent improvement of our natural resources, and in many instances they exert little or no constructive influence on farm practices.

Our whole policy regarding land use—of good, poor, and submarginal lands, of crop, grazing, and forest lands—has rightly been receiving major attention after prolonged neglect. The problems are vast and complicated, not pressingly urgent but clearly demanding gradual solution. Here research and policy consideration ought to precede and accompany active

public intervention. Purchases of submarginal land, resettlement of farmers, and prescriptions regarding land use are not mature elements in a settled policy; in the main they represent limited and often rash experiments with a policy as yet properly unsettled.

Much the same can be said of farm tenancy. We can easily be misled by alarmist statistics showing a trend toward increase in the proportion of tenant farmers. Pouring out federal funds under the Bankhead-Jones Act, to transform tenants into owners, bids fair to be wasteful and largely futile. The right solutions of tenancy problems are of many kinds. They can be reached, gradually, as public study and private experience yield good diagnoses and appropriate prescriptions.

Marketing agreements I regard as still essentially experimental, justifying hopes and fears; but they do not loom large in current agricultural policy. The reciprocal trade agreement program deserves, in principle, the support of all those who have the interests of American farmers at heart. You may well be on guard against innumerable petty complaints of it, which often rest on the flimsiest basis. But its direct influence to date has been slight—so small, indeed, as to be almost entirely obscured by other influences operating at the same time.

There is some promise in the wheat crop-yield insurance experiment authorized by the recent act. Wheat growing is a hazardous business. The voluntary scheme now being launched under the Federal Crop Insurance Corporation, on a crude semiactuarial basis, is worth trying; and we may hope that it will be improved as experience yields lessons to be learned. I believe that in high-risk areas such insurance should eventually be made essentially compulsory. I seriously question the wisdom of holding the reserves in actual grain, at what will prove a considerable expense, instead of in an income-

yielding form. I believe that eventually the premiums charged should cover operating costs and most of the administrative expenses, instead of loading these onto the Treasury. Such policy questions should be thoroughly threshed out before the scheme is extended to other crops.

The more striking features of our current agricultural policy may be grouped under four heads:

1. Huge drafts on the federal Treasury for payments to farmers or expenditures on their behalf.

2. Huge federal loans to farmers on their staple products, designed to be both price-supporting and storage-promoting, and tending to bring large stocks of these commodities into government hands.

3. Purchases of "surplus" products, for dumping at public expense into relief and export channels.

4. A high degree of federal regulation of individual farm operations, including the use of farm acreage, storage and feeding of crops, and farmer sales of farm products.

To understand these, one must examine the amazing Agricultural Adjustment Act of 1938, approved on February 16¹; persisting features of earlier amended laws, especially the Adjustment Act of 1933 and the Soil Conservation and Domestic Allotment Act of 1936; and a flood of publications of the Department of Agriculture. But my conclusions as to how the moves will actually work are greatly at variance with the roseate picture that Secretary Wallace painted in his radio addresses of February 17 and March 7. His own experts, I strongly suspect, would defend such words as necessary "selling talk," rather than as truths that will stand critical scrutiny.²

¹ Seventy-fifth Congress, *Public No. 430, H.R. 8505.*

² Pertinent here are Mordecai Ezekiel's remarks on a similar point, when he discussed my analysis of the ever-normal granary before the American Farm Economic Association. (See note at the end of chapter xxix.)

TREASURY BURDENS

Consider first the Treasury burdens for direct or indirect subsidies for bonuses to farmers.

In the days of vigorous agitation for farm relief during the 1920's, farm leaders were united in saying that farmers wanted no federal subsidy but only a chance to get "fair prices." In 1929 Congress authorized appropriations of 500 million dollars as a "revolving fund" for the Federal Farm Board. In the four years of the board's life this fund largely evaporated through losses on loans to co-operatives and stabilization corporations—much of it to support prices at what proved uneconomic levels. Far more liberal payments direct to farmers, under the original Agricultural Adjustment Act, were defended on grounds of extreme emergency at the bottom of the depression. These averaged some 400 million dollars annually in the first three and a half years under the AAA.³ In addition there were important expenditures for commodity purchases and some for export subsidies, some losses on cotton loans, and large costs of central administration.

The flow of federal funds to farmers did not diminish as farm income increased. This year, with farm purchasing power below that of 1937 but far above depression levels, federal expenditures of these types are scheduled to include some 500 million dollars in "agricultural conservation payments," 130 million for "cotton price adjustment payments," and large sums from the customs-revenue fund of about 140 million at the disposal of the Secretary of Agriculture. Congress authorized so-called "parity payments" to producers of wheat, corn, rice, cotton, and tobacco, and late last spring 212 million dollars was appropriated in partial fulfillment

³ E. G. Nourse, J. S. Davis, and J. D. Black, *Three Years of the Agricultural Adjustment Administration* (Washington, D.C., 1937), p. 586.

of this purpose.⁴ The wheat crop-yield insurance program, and probably substantial losses on commodity loans, will be additional items. Altogether, the Treasury burden of the new policies in the current fiscal year will be considerably over a billion dollars.

On September 30 Secretary Wallace said with some pride, at a farmers' meeting at Fort Worth, that cotton growers' income for the current year will consist of about 600 million dollars from cotton lint and seed and about 265 million from government payments. The day before he told farmers at Hutchinson, Kansas, that wheat growers could expect payments of 26 to 30 cents a bushel on their allotments, contingent on their "co-operation" in the 1939 AAA program; and that with such payments individuals cannot afford to stay out of it.

This drift is ominous. Its bearing on budget-balancing is too obvious to require my comment, but other bearings are even more important.

Farmers have set great store by independence, whatever its limitations in practice. The new policies are not only curtailing this independence but sapping their morale, even though many recognize as bonuses payments that are camouflaged under more appealing names. Once accustomed to a gentle rain of federal checks, farmers are reluctant to see the rains cease—however irrational the procedure may appear to them, however uncomfortable the terms imposed. Regardless of the purity of motives of the administration, a subtle form of political corruption is involved; for farmers' votes are

⁴ "Sec. 303. If and when appropriations are made therefor, the Secretary is authorized and directed to make payments to producers of corn, wheat, cotton, rice, or tobacco, on their normal production of such commodities in amounts which, together with the proceeds thereof, will provide a return to such producers which is as nearly equal to parity price as the funds so made available will permit. All funds available for such payments with respect to these commodities shall, unless otherwise provided by law, be apportioned to these commodities in proportion to the amount by which each fails to reach the parity income. Such payments shall be in addition to and not in substitution for any other payments authorized by law." Agricultural Adjustment Act of 1938.

effectually influenced when their income seems to depend increasingly on political measures, and less and less on the economic value that society sets on their products and services. We are drifting away from the principle that, in the main, a man should earn what he gets, and that the best form of public aid is to improve the people's earning power.

Moreover, uneconomic discriminations among farmers are not merely inevitable in detailed administration, but they are now written into law. Under the latest act, the so-called agricultural conservation payments are definitely limited for high-income farmers, moderately increased for those of medium income, and increased by 23 to 40 per cent for low-income beneficiaries.⁵ By and large, such discrimination tends to favor the less competent and the less efficient farmers. It may be administratively convenient and politically expedient, but it is economically disadvantageous.

THE COMMODITY LOAN SYSTEM

Bankers have a special interest in the Commodity Credit Corporation loan system. This has been utilized for corn and cotton ever since 1933, and may now be available for any farm product. As you know, the CCC does not merely lend on the product itself, but virtually guarantees bank loans made on specified terms. These, however, are not ordinary extensions of credit. The loan contract is virtually a sale contract with seller's option to repurchase. If the rate on cotton, for example, is 9 cents a pound, the borrower has the option of either paying his loan with interest or surrendering the collateral without further obligation. For the farmer, the proposition is "heads, I win; tails, you—the government—lose."

A by-product of this loan system is a drift toward large

governmental holdings of farm products. We had sad experience with this sort of thing under the Federal Farm Board, when huge stocks of wheat and cotton were held by so-called "stabilization corporations" financed by the board, and large amounts of wool, mohair, beans, raisins, etc., were held under its loans to co-operative marketing associations. We had additional unhappy experience with it under the original Agricultural Adjustment Act, notably with cotton virtually acquired through 10- and 12-cent loans; and only the great drought of 1934 forestalled a similar experience with corn. Under the 1938 act there is fair prospect of similar experience with cotton, corn, wheat, wool, and other commodities.

At present the government holds 1,670,000 bales of cotton, the unsold balance of 4,632,000 bales of 1933 and 1934 cotton on which 12 cents a pound (basic rate) had been loaned; the current inventory cost is considerably higher. In addition, on August 4, 1938, \$231,602,000 was outstanding on 9-cent loans on 5.3 million bales of 1937 cotton.⁶ The corresponding average price in ten spot markets was then 8.58 cents. The world carryover of American cotton on August 1 slightly exceeded the high record set in 1932, and the government holdings inclusive of loan cotton were about 50 per cent above the previous maximum in 1935.

In a desperate effort to prevent further accumulation next year, cotton growers were assigned shares in a cotton acreage allotment for 1938 of 26.3 million acres, smaller than any cotton acreage planted since 1900 and only two-thirds of the average acreage harvested in the decade before the AAA; and they were induced to vote, on March 12, for the imposition of marketing quotas under stringent penalties to en-

⁶ Because of adjustments for grade and quality, the average loan on this cotton was 8.4 cents per pound. One cannot compute an average current market price for comparison.

force compliance with this drastic restriction.⁷ Protests and pressures led to an amendment to the act, approved on April 7, raising the acreage allotment by 2 million acres. Nevertheless, the 1938 crop already exceeds average world consumption of American cotton, the government estimates of its volume have been rising, and the farm price is near to the lowest since 1932-33. This season's loan rate, 8.3 cents per pound, has already attracted over 2 million bales under loan.⁸

The huge and rising stock of loan cotton is certain to be costly to carry and difficult to dispose of; the loss of our cotton export markets and the stimulus to cotton production abroad are thus prolonged; and the problem of finding alternative employments for workers displaced in the Cotton Belt is thereby revived. Secretary Wallace himself asked cotton growers on September 30: "Are you not simply piling up future agony for yourselves if the government takes your cotton at the loan value and accumulates a big supply which must be got rid of sometime?"

On September 30, 1938, there were 47 million bushels of 1937 corn under loan, at a base rate of 50 cents per bushel and an actual average rate of 48.52 cents. Some weeks ago farmers were offered the privilege of renewing these loans at the higher base rate of 57 cents per bushel. Yesterday (November 10) this was announced as the loan rate on the 1938 crop, and it will presumably attract much more borrowing.

The first CCC loans on wheat were announced on July 15 last, at rates varying by region, grade, and type. In many if not most areas, farm prices have since fallen below the loan

⁷ A most illuminating document is AAA leaflet "38-Cotton-2," distributed to cotton growers in February 1938.

⁸ Through Nov. 3, 1938, the various lending agencies had disbursed 99 million dollars on 2,136,366 bales at rates averaging 8.9 cents per pound. On the same date, loans of 11.7 million dollars were outstanding on 64.7 million pounds of wool, at rates averaging 18.12 cents.

rates. The loan machinery was slow to get into good working order, for three principal reasons: the geographical differentiation of rates was decided on very late, and at best it complicates administration; farm storage facilities are much smaller than with corn; other storage facilities are less abundant than with cotton. In recent weeks, however, wheat loans have been rising rapidly; through November 3, loans averaging nearly 60 cents a bushel had been disbursed on 32.2 million bushels. Moreover, in sections where approved storage facilities are not available, the Federal Surplus Commodities Corporation is buying "eligible" wheat at the loan rate.

The prospect is that the carryover next July will materially exceed the "ever-normal granary" level, as officially defined; and that, through loans and outright ownership, the government holdings will approach or exceed the peak holdings of the Federal Farm Board, which has been unsparingly condemned by those who will be responsible for the new accumulation. Disposal is sure to be difficult, as the Farm Board found to its sorrow. Despite the fact that storage facilities already exceed our economic needs, congestion is already a problem in some localities, and may be more general when the 1939 crop moves.

SURPLUS PURCHASES AND DUMPING

Such price-supporting measures tend of course, with wheat as with cotton, to narrow the price spread between domestic and importing markets, and thus to check exports. In efforts to meet this the government, late in August, started a program of subsidizing exports. In form, the Federal Surplus Commodities Corporation buys wheat and flour, resells to exporters at lower prices permitting exportation, and absorbs the loss. Already the subsidy rate has risen to around 20 cents a

bushel, yet the business has lagged. Faced with prospective competitive export subsidies in Canada, Argentina, Australia, and elsewhere, the administration is urging an international agreement involving export quotas and acreage restrictions such as broke down in 1934.

Since late last May the FSCC has been buying flour in large quantities, primarily to support wheat prices, and trying to dump it into relief channels; and a like program has lately been adopted for corn meal. Similar measures have longer been in vogue for many lesser products. Recently Secretary Wallace sent up a trial balloon suggesting a modified form of dumping under what he calls a "two-price system." This idea I have no time to analyze here; but I would remind you that our economy already has, in the range of prices for different grades and qualities, a multiple-price system which normally facilitates the disposal of agricultural products and others. The new official suggestion is a logical further step in substituting bungling official management for what is imperfect yet less blundering operation of economic forces.

THE TREND TOWARD COMPULSION

The wheat situation this year is extremely difficult at best, with huge supplies in this country when the world as a whole has a bumper crop. Large responsibility for this position rests with our government and many others. Wheat prices have been supported at levels stimulating excessive acreages, and wheat growers have been given various kinds of bonuses besides. In the United States, with no economic justification whatever, wheat acreage sown in each of the past two years has exceeded the record plantings for the crop of 1919; and this the administration effectually encouraged by word and deed, except in so far as soil-conservation regulations afforded a mild check. Now, frenzied efforts to prevent the price from

falling to levels facilitating disappearance of the surplus are clogging the ordinary processes of disposition.

I have already adverted to acreage restriction in cotton. Less drastic restrictions were applied to corn in the Corn Belt this year, with similar results. Under the Adjustment Act of 1938 the prospect of an excessive wheat carryover in 1939 called for reduction in wheat acreage by something like 40 per cent of the acreage sown for 1937 and 1938. When this loomed on the horizon, Congress modified the act; and the official allotments total 55 million acres, implying a reduction of about 32 per cent. Despite adverse weather for sowing in important areas, there is no prospect that so drastic a reduction will be achieved, without extreme penalties effectively enforced or far more liberal farm payments than are yet assured. Unless Nature frowns again as she did in 1933-36, there is reason to expect a 1939 wheat crop of such size as not to require drawing much if any on the reserves accumulated, and prices will tend to be held down by the volume of wheat stored under loan. If this happens, a marked drop in the wheat grower's income will occur. In 1938-39 he will have sold most of his wheat at 60 cents a bushel or better, but in 1939-40 he will probably have much less to sell or borrow upon, without the compensating advantage of materially higher prices.

Under the "soil conservation programs" of 1936 to 1938, every farmer, if he wished to get "agricultural conservation payments" from the federal Treasury, received instructions laying down specifications as to how he must farm his land, and he had to satisfy inspectors that he had conformed thereto. These specifications, while by no means comprehensive, are extraordinarily detailed. Hitherto, compliance has been sometimes troublesome but not very difficult. Now, however, individual acreage allotments for one or more "basic" crops are

to be annually assigned to every grower of wheat, cotton, tobacco, or rice, and to every grower of corn in commercial corn-producing counties. Those now assigned and in prospect will involve real restraints. If the inspector certifies that a farmer's acreage exceeds his allotment, his "conservation payments" are to be drastically reduced, and it lies within administration discretion to make it practically impossible for him to borrow from the Commodity Credit Corporation.⁹

Moreover, if a farmer referendum, by a two-thirds majority of eligible farmers voting, confirms the Secretary of Agriculture's proclamation of a marketing quota, an individual farmer cannot lawfully market in excess of his assigned share in the national quota except by paying a penalty tax on the excess marketed.¹⁰ The act attempts to force buyers of farm products to participate in the policing, by making them responsible for collecting this penalty tax and, therefore, keeping the records requisite to show on what it is due. Marketing quotas are already assured for cotton and leading types of tobacco for 1938-39, but are not this year to be applied to rice, wheat, or corn.

For corn, be it noted, "marketing" includes feeding the grower's own corn to livestock on his own farm, and enforcement of this restriction is vital to the success of the official scheme of stabilizing livestock production through control of corn supplies. Under certain conditions, moreover, Corn Belt farmers will be under obligation to store designated quantities of corn in sealed cribs. As with corn under CCC loans (which may be had on such corn), the farmer must not break the seal

⁹ For wheat in 1938, the provisions were much more lenient, since wheat was sown before allotments were made; and we have been officially informed that current wheat loans are not being restricted to "co-operators" in the acreage-restriction program. Acreage allotments for rice will first apply in 1939.

¹⁰ Penalty tax rates are as follows: 15 cents a bushel on wheat and corn; $\frac{1}{4}$ cent a pound on rice; and 2 to 3 cents a pound on cotton and tobacco.

except in accordance with regulations prescribed by the Secretary of Agriculture.

Some concessions to expediency are made. Corn marketing quotas are to apply only in 566 counties determined to be in the "commercial corn-producing area," and will not be assigned to individual farmers whose "normal production" on the acreage planted is under 300 bushels. Wheat marketing quotas will not be assigned to farmers whose normal production on the acreage planted is less than 100 bushels, and cotton quotas to those similarly producing under 1,000 pounds of lint cotton. Cotton marketing quotas are in a sense liberal, for they will be "the normal production or the actual production, whichever is the greater, of the farm acreage allotment," plus all of the farmer's carryover that would have been marketed without penalty. Under certain circumstances, marketing quotas may be adjusted or terminated for particular counties or other areas, or in total. The more significant penalties for failure to comply are loss of payments or privileges otherwise promised, rather than the penalty taxes or other punishment.

Broadly speaking, the detailed regulation mentioned is to be administered through county and local committees of farmers. An enormous administrative task is involved in working out and changing these individual allotments and quotas for millions of farmers, in effectively policing conformity to them, in withholding of privileges if conformity is not certified, and in collecting penalty taxes. The crucial determinations are the acreage allotments and the computed normal yield per acre for each farmer; and the crucial points in enforcement are the determination of conformity to acreage allotments and the collection of penalties on excess marketings.

With due recognition of the remarkable job the AAA has

done with the administrative tasks under the acts of 1933 and 1936, I find myself appalled by the enlargements now provided for. Frankly, I think it impossible for the job to be done well. It will not be surprising if the policing should be imperfect to such a degree as to defeat the intent of the act as regards control of production and marketing of corn and wheat.

If the authorized procedures should prove ineffective, or in imminent danger of breakdown in important aspects, the next step is likely to be to pour in more federal funds, to provide for stricter regulation, or both. High officials evidently believe that, in order to bring about what they consider adequate restriction of crop acreage for 1939, they must offer larger bonuses than existing appropriations permit; and a big push for additional ones, and for processing taxes to cover them, is in prospect for next January. *Wallaces' Farmer*, the weekly journal of which the Secretary of Agriculture is "editor on leave of absence," devoted the cover page of its April 23 issue to a discussion of "Heading Off Compulsion." It argued that if "the present voluntary AAA program . . . doesn't work" with respect to corn, farmers "will get something that will. And that something—judging by the experience of dairymen in the east and cotton farmers in the south—will be ironclad compulsion imposed by the majority upon the minority." May I recall that Secretary Wallace, in his praise of the 1938 act, called it "a new charter of economic freedom" for farmers.

As what I have said will suggest, the drift of our agricultural policy is plainly toward regimentation of farmers. This phrase is anathema to Mr. Wallace, but as far back as February 1934 he said:

If we finally go all the way toward nationalism, it may be necessary to have compulsory control of marketing, licensing of plowed land, and

base and surplus quotas for every farmer for every product for each month in the year. We may have to have government control of all surpluses, and a far greater degree of public ownership than we have now. It may be necessary to make a public utility out of agriculture. . . . Every plowed field would have its permit sticking up on its post. . . .¹¹

The Secretary said this by way of warning, not of prophecy; but he has himself led us a long way on this road.

OBJECTIVES RECONSIDERED

The objectives of the new agricultural policy are often stated in terms that most of us can wholeheartedly accept: conservation of natural and human resources, ample supplies of foods and fibers for consumers and for export, stability of acreage and production, fair prices for farm products, a fair share of the national income for farmers, stabilized prosperity for all. But when these objectives are given specific official meanings, we must look through plausible, "politiconomic" phrases to hard economic facts.

Indeed, the central secret of the weakness of the grand schemes on foot is that wishful thinking and political forces have set impossible goals for "economic engineers." Mathematicians have not learned to square the circle, physicists the secret of perpetual motion, chemists to transmute base metals into gold. Likewise, effective control of the output of most farm products is beyond our reach; true stabilization of supplies and prices of individual farm products is feasible only at terrific cost; and the goals of attaining "parity prices" and "parity income" for farmers, on the formulas prescribed by law, are economically unattainable except perhaps for brief periods.

It is a "politiconomic" fiction that the government can con-

¹¹ *America Must Choose* (World Affairs Pamphlet 3, published jointly by the Foreign Policy Association and the World Peace Foundation, New York and Boston, 1934), p. 11.

trol crop production generally. Influence it within limits it can; but even acreage sown cannot be precisely regulated, and yields per sown acre remain the prime determinant of crop outturn. In large measure crop yields are the result of Nature's caprices, except as man gradually learns how to raise the general level of yields. But with cotton, and in some degree with other crops, the farmer can materially influence yields by the use of fertilizer. There is little doubt that the record cotton yields secured in 1937 were partly due to heavy applications of fertilizer, and the severe restraints on cotton acreage this year were substantially offset by heavy fertilization per acre. Control of fertilizer sales may be the next logical step. In so far as the soil-building program succeeds—and part of the payments to farmers are nominally for this purpose—it will increase future yields per acre. To this extent it will tend to enlarge output, to increase the difficulty of maintaining prices and restricting “surpluses,” and to heighten demands for restrictions.

The basic purpose of much of the current agricultural policy is to raise farm prices and farm income. With such an objective few wish to quarrel, but the crucial questions are: From what level? How high shall the goals be set? Raising farm-product prices beyond an economic equilibrium level tends to increase farm production beyond amounts that will bring these prices; this creates genuine surplus problems, and gives rise to pressures for surplus-control schemes, fixed loan rates, and fixed prices. Raising farm income above its economic equilibrium level tends to mean more farmers than can earn these incomes; this hampers consolidation into more efficient operating units, creates a problem of surplus farm population, and intensifies demands for subsidies to farmers; and it logically leads next to restraints on entrance into farming.

No one can ascertain precisely what is the economic equi-

librium level of farm-product prices, or of farm income, over a period of years in the past, to say nothing of the future. It is still more difficult to say what departures from such levels are economically appropriate in a given season. But there is no shadow of a doubt that both "parity prices" and "parity income," as defined by present legislation,¹² are on the whole substantially above what may be called economic levels.

Under present conditions, average farm prices of 15.6 cents for cotton, 80.9 cents for corn, and \$1.14 for wheat—the current "parity" figures—are certainly overstimulating, uneconomic prices. They are far above levels adequate to insure the area planted and the average volume of production that can be commercially marketed domestically and in export. So much are they too high that even 52 per cent of the national average parity prices—the minimum loan rate for certain crops—is an uneconomic price in many surplus-producing sections in years of large supply. They are not levels from which departures tend to be self-correcting; rather they are levels which when temporarily attained indicate lack of equilibrium.

It is true that Congress does not make mandatory the attainment of "parity prices" or "parity income." The machinery is provided to assist farmers to obtain them "in so far as practicable."¹³ But even the efforts to attain them tend to create disequilibrium, as well as to impose wholly unjustifiable burdens on the federal Treasury.

Here is a vital defect in the theory of "balance" as officially expressed and applied. Here is a fundamental conflict between plausible popular slogans and workable principles—in a word, between politics and economics. Economic laws are, as yet, too poorly understood, and I will not argue that

¹² Quoted in chapter xxxi, footnote 2.

¹³ As stated in the "Declaration of Policy" of the 1938 act.

they are sacred or sacrosanct; but there are limits to what political machinery can do in the control of either Nature or economic forces.

THE OUTLOOK

The present drift of agricultural policy bears the marks of a tidal wave. But tides ebb as well as flow. Trends have a way of turning, and it is not safe to project one of such brief duration. From several important phases of recent policy, the results can easily be so costly and so disappointing as to bring radical revision or reversal.

I do not believe that indefinitely we shall be willing to increase or even maintain huge subsidies to agriculture. I do not believe that we shall indefinitely prolong the life and extend the sphere of the Commodity Credit Corporation and the Federal Surplus Commodities Corporation. I deplore the weakening of farmer morale through hand-outs from the Treasury, so disguised that many farmers accept them without feeling their pride hurt; but I believe that eventually farmers will rebel against the multifarious regulations, restrictions, policing, and penalties which these hand-outs have thus far induced them to endure. I do not expect the United States to follow either Soviet Russia, Nazi Germany, or Fascist Italy to the logical limit of their varied forms of dictatorial regimentation of agriculture—which Secretary Wallace sincerely abominates even while his policies steadily move us in that direction.

I cannot dismiss the impression that an unnecessary crisis is already in the making. Yet I believe that our national strength will prove sufficient to stand this punishment, which may conceivably lead us to agricultural policies that are not excessively ambitious and will work well instead of giving rise to repeated emergencies.

Yet it seems a profound pity that we should have to face this outlook. Really, there is no longer rational excuse for major blunders in national agricultural policy. In time of war, or the extreme emergency of severe depression, the practical or political necessity for rapid action greatly increases the risk that grave mistakes will be made. Even against these, in future, many safeguards could be developed if such situations were given careful advance consideration by competent experts. We never have a surplus of such personnel, yet in the past twenty-five years there has been a really remarkable increase in their number and competence, as well as in basic data, techniques, and specific studies which they need to use. In ordinary times, their services could be effectively utilized in developing sound policies as well as in applying practical programs. Except in slight degree, they are not being so used. I wish I were more confident that they will be, under the reorganization recently effected in the Department of Agriculture. I fear they will not be, so long as dreams, hunches, and political considerations determine the main drift of our agricultural policy.

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