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RELATION OF THE TARIFF TO FARM RELIEF IN THE UNITED STATES

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WALLACE PUBLISHING COMPANY, DES MOINES, IOWA

IF THERE is a Divine Providence as John Knox and some of our Scottish ancestors would have us believe, then one of the objects of the World War must have been to make the farmers of the middle western and the southern United States more vividly aware of their dependence on the British and European market. This is a corollary of the eighth one of the nine points which Mr. Enfield mentioned yesterday, namely the post-war reversal in credit balances. You are aware that in the seventies and eighties when we were short of capital as a result of the Civil War between the North and South, England and the European countries loaned the United States for railroad and other exploiting purposes something over \$3,000,000,000. This created a credit relationship which made Europe a natural market for our surplus farm products. In order to avoid sending gold abroad, the United States had to send goods in excess of imports to the value of about \$200,000,000 annually. Cotton, wheat, hog products, beef and Indian corn were called upon to pay the interest on the debt which we owed across the Atlantic.

The trade relationship was so easy and automatic that our farmers were scarcely aware of the degree to which they were dependent on the overseas market. The credit reversal which was bound to shock our farmers into some degree of "world consciousness" began in 1914. From 1914 to date the United States has in effect cleared up her indebtedness to Europe and has loaned Europe on government and private account something over \$15,000,000,000. Whereas before the war the United States owed England and Europe \$200,000,000 a year, the situation is now reversed and these countries owe the United States over \$500,000,000 a year.

The Federal Reserve policies of the United States in 1919 postponed the almost inevitable post-war price crash. But when the monetary machine was suddenly thrown into reverse gear early in 1920 as a result of the discount policies of the Federal Reserve Board, the results were appalling. Indian corn prices went down until they were one-fifth of what they had been a few months pre-

viously. Business of all kinds suffered not only in the United States but over the entire world.

Even those of our farmers who had read history and knew the story of agricultural depressions following great wars were not prepared for such a great shock. Most of the farmers felt that the depression was temporary and that times would become normal in the very near future. The more thoughtful farm leaders, however, realized that dislocations of credit and trade had taken place, which were fundamental in nature and which could not be cured except by very radical action or the passage of a long period of time.

The depression had been going for less than a year when my father became Secretary of Agriculture in a Republican Administration. His sympathies were agricultural first and Republican second. He, therefore, arranged for President Harding to call an agricultural conference at Washington in January of 1922. I remember this conference well because I wrote a speech for the Corn Belt representative who happened to be a Jeffersonian Democrat. The only part of the speech which was much good called on Congress to think seriously before passing the high duties of the Fordney-McCumber Tariff Act, pointing out the effect which high duties on manufactured products would have on the purchasing power of Europe for our agricultural products. I thought so highly of this part of the speech that I published it in *Wallaces' Farmer*, not knowing that the keynote speeches were to be submitted to my father for approval. To question the tariff in any way whatsoever is *lese majesty* in a Republican administration and my father promptly excised the only good part there was to my Democrat friend's speech and Dr. Taylor had one of his economists fill up the vacancy with something innocuous.

The frontal attack on the tariff as a fundamental cause of agricultural inequalities in the Middle West and South was ruled out for the time being. It was ruled that the tariff was to be attacked from the rear under the slogan of "make the tariff effective for agriculture." Mr. George Peak of Illinois had a plan to accomplish this purpose published in a little booklet called "Equalities for Agriculture." Mr. Peak presented his plan at President Harding's agricultural conference in 1922 but the administration forces turned thumbs down. Then began one of the most astounding campaigns in the history of American agriculture. Peak, a busi-

ness executive of high order, gave up his business and strove to put his idea (which later became known as McNary-Haugenism) across with the fervor of an evangelist. During 1922 and 1923 my father became increasingly disillusioned with the Republican party and the protective tariff while at the same time he was more and more weighed down with a sense of responsibility to the farmers. Finally, after having submitted the Peak idea to some of the best business brains in the United States, he had the idea drafted as the McNary-Haugen Bill and introduced into congress. My father died in office in 1924, but the fight for the McNary-Haugen Bill grew in vigor. Twice it failed to pass. Finally in 1927 the vigorous Peak forced it through both houses of Congress only to meet with the Coolidge veto. Again in 1928 he obtained an even larger vote in Congress but again came the Coolidge veto. An effort was made to inject the issue into the campaign of 1928 but without success because the liquor and religious issues overshadowed all else. However, the victory for the Republican candidate did mean the death temporarily of the McNary-Haugen idea and Peak has recognized this situation by retiring from the field.

The object of the McNary-Haugen bills was to sell the exportable surplus of farm products at world price levels and the domestic consumption of farm products at the world price level plus the tariff. The method was essentially compulsory cooperation, forcing all the farmers producing a given commodity into a pool. The machinery of paying the loss on the exportable surplus was to be by means of an equalization fee somewhat similar to the Patterson butter plan in Australia. There was also machinery to hold down production so that the amounts put on the world market would not be larger than under the present system. Needless to say, the whole scheme is just as unsound as the tariff and is best described by the slogan, "Make the tariff effective for agriculture."

However, other plans have also been offered to realize this ideal. One is the export debenture or bounty plan sponsored by the Grange. This plan undoubtedly would involve some dumping and to that degree would be harmful to European producers of wheat and hog products.

Another plan is the domestic allotment plan described at some length in Chapter X of the book, "Agricultural Reform in the United States" by Professor John D. Black. I wish Professor Black

could have been here to discuss this plan. The proponents of this plan claim that it would not cause over-production or stimulate dumping to the harm of European agriculture.

Since November of 1928, when the Republicans won overwhelmingly, all such plans as the McNary-Haugen Bill, the Export Debenture Plan, and so forth, have been discarded as politically impossible. The Republicans promised higher tariffs on farm products as a means of agricultural relief. Most intelligent farmers believe however that they have more to gain from a lower tariff on manufactured goods than from a higher tariff on farm products. It is extraordinary that our farmers should not have made a frontal attack on the tariff long ago. European observers who are puzzled by the adherence of the United States farmer to the tariff principle should remember the bitterness of the Civil War. Politicians succeeded in identifying the blood of brothers and fathers with the sacred principle of the protective tariff. Only now is it becoming slowly possible to consider the whole protective system in a somewhat rational light. I have not seen the Hawley-Smoot tariff as revised by the Senate Committee but I hope it is as bad as the House draft with its average tariff on manufactured products of over 45 per cent. A tariff of this sort is bound to provoke a revulsion and the worse the tariff the more violent the revulsion.

I wish I could answer the question raised yesterday by Mr. Enfield as to how long the United States is prepared to loan money to Europe without accepting goods. This is a matter of as great interest to American farmers as it is to European manufacturers. So far in 1929, I understand that American loans to Europe have been less than half what they have been for the corresponding period in recent years. This of course, is a natural result of our Stock Exchange boom and the high money rate policies of our Federal Reserve Board. But whatever the cause, the result is weak European purchasing power for our surplus cotton, wheat, and lard. Reduced loans to Europe inevitably mean trouble for the agricultural products of which we have an exportable surplus unless we in the United States are prepared to accept manufactured goods in large quantities.

From the standpoint of world welfare, it would seem that there are several things which can be done to benefit United States agriculture without harming agriculture elsewhere, namely:

1. Gradually reduce the United States tariff on manufactured products to a reasonable level, taking into account the post-war reversal in credit balances.

2. Work for international stabilization of the general price level.

3. Devise some scheme of giving to agriculture the moral, legal, and economic equivalent of what the corporate form of organization has given to industry, and yet maintain the family-size farm.

Time is not available here for dealing with these last two factors. The third factor has a direct bearing on the point raised by Mr. Ashby, and I agree with him that if the government appropriates large sums of money to make certain farmers produce more, then that government is in duty bound to face the results of the increased production. The government which does not face this issue squarely is morally culpable. If no satisfactory equivalent of the corporate form of control can be found for agriculture then the government should stop a large part of its extension activities.

In conclusion, I wish to suggest the eventual compelling power of a few simple ideas held up before the people for a period of time. The compelling power of an ideal is just as important as sound economic analysis. Unfortunately, ideals have a way of evaporating into weak, vapid things just as sound economic analysis can easily become so dry and common place, so much a mere matter of explanation of past history, as to become totally worthless.

I sometimes feel that our economists in order to affect society in a desirable way should have a modern adaptation of the motives which moved the Hebrew prophets and John Knox to cry aloud. People of this sort change the social scheme of things. In brief, I hope that agricultural economists will recognize both strong social feeling and sound economic analysis as essential to making the world a better place to live in.

DISCUSSION OF PAPERS BY DR. TAYLOR AND MR. WALLACE

Dr. Borgedal—Increased efficiency means in most cases increased production, and increased production can bring about great reductions in prices. This is perhaps the answer to the question as to why the farmer should not try to do the best farming possible.

This whole question shows clearly the great differences in the conditions of agriculture in the different countries. It is certainly possible

in the United States to send the people from agriculture to other occupations, and to make use of an extensive system of farming, but it is not possible to do this in all countries and certainly not in Norway. We have an increasing population, lack of occupations outside of farming, and only small areas of agricultural land available. The farmers cannot give up farming. They would have nothing else to do. They cannot easily buy more land because the land is very expensive and the only way for them to increase their income is to intensify their farming and increase production. The government has to find employment for idle persons, and therefore it makes large contributions to assist in cultivating new land and founding new farms.

Professor Jutila—It appears to me that farmers must be organized on cooperative lines. Some central organization or enterprise is needed for dealing with marketing and transport. This would help the farmers to get a fairer share of the national income. Finland's national income is approximately 16 million marks, of which one quarter goes to the state. The farmers pay taxes, and it is very important that the farmer should take an interest in the expenditures sanctioned by Parliament and the Cabinet. But in that case they must be organized politically. The Finnish farmers have been organized politically for 25 years and have a powerful representation in Parliament and usually in the Cabinet.

Mr. Lewis—It is desirable to increase the farmers' share of the national income, but this appears to present a difficult problem. As the consuming public progresses towards a higher standard of living, the proportion of income spent on non-agricultural products increases, and the proportion spent on agricultural products falls. Further, a rising standard of living is generally accompanied by more variety in consumption. Greater variety results in a fall in the consumption of particular commodities, and as individual farmers tend to specialize on a few commodities, this tends to lower their income. Again, the national expenditure of a particular country on agricultural products tends towards a world wide geographical dispersion. For example the British expenditure on agricultural products becomes very largely an income to the farmers of other countries. Is it not inevitable, in view of these characteristics of demand, that the farmers' share of the national income within the boundaries of any single nation must fall?

Dr. King—Dr. Taylor has brought together in connected form a number of problems which have been troubling us here. One or two illustrations from recent experience may suffice. The first illustrates the pressure of competition for farms of relatively small size. In connection with a study of the incidence of taxation I examined recently changes in rentals of farms and found that within a short time of the remission of certain rates, there was an increase in rentals. This, however, applied particularly to the smaller types of farms. The upward change was less rapid on the larger farms. This seems to suggest that there is a keener demand for land to rent on the lower scale of rentals, a fact which militates against the attainment of a higher standard of life in spite of ameliorative measures.

The second refers to farmers' inability to control competition. The almost immediate result of higher prices of milk in Scotland, brought about by combined action, was to increase production, and to swell the "surplus" for disposal. This illustrates the difficulty in controlling output in an industry composed largely of small-scale producers.

The third bears upon the high susceptibility of the farmers producing relatively large quantities of produce for sale, to the effects of favorable or unfavorable price conditions. The depression in Scotland has been greatest in the eastern areas among farmers with large amounts of arable produce for sale and with a large cash expenditure for wages and supplies. It has been felt less on smaller farms which are more nearly self contained.

Mr. Ashby—I would like to point out to English and American economists that some part, at any rate, of the peculiar conditions in British farming in the latter years before the war, and in the years since the war, have been due to a reversal in financial conditions. From about 1850 until the early part of the century, Great Britain poured capital into other countries of the world. That process of lending and sending out goods as loans cannot go on forever, and in the years just before and since the war we have begun to get back interest and repayment of capital; mainly in food supplies and raw materials which the British farmer can produce.

In part, it is this process of reversal of credit that is producing unemployment. So closely is this subject linked up with national and political interest that it is almost impossible to get any clear statement or detailed information. If America is ready to continue making loans, the higher they pile up loans the more they will have to suffer. The idea of using a system of taxation to redress some injustices needs close consideration. Nearly all political parties have been converted to the idea that we should use a system of taxation to put things right when they go wrong in the sphere of economic distribution. On the whole it has worked. But what is economically sound may not be psychologically sound. This system is bad for agriculture, deepening the feeling of inferiority in the agricultural class.

Dr. Taylor—It is certainly true that with the development of civilization and efficiency in production, the proportion of the total population that will be required to produce the needed supply of agricultural products will be smaller, and the total share of the total national income that can be expected to go to agriculture under these conditions will be lower, but that does not necessarily lead to the conclusion that the per capita share in agriculture will be lower, nor that a given output of energy should receive less than in other industries.