For release when address is delivered

Industrial and Agricultural Adjustments

Address delivered by Charles J. Brand, coadministrator of the Agricultural Adjustment Act, before the Intermountain Economic Conference in joint session with the board of directors of the United States Chamber of Commerce, at Colorado Springs, at 2:00 p.m., September 22, 1933.

--oOo--

Men not engaged in agriculture naturally want to know how they will be affected by the Government's agricultural program. Consumers think first of the probable effect on prices. Manufacturers inquire how their sales may be influenced by processing taxes or marketing agreements. Some industries sell to farmers but do not buy from them. These industries figure what they will gain from the restoration of the farmer's buying power, and what they will lose should higher food prices force them to pay higher wages.

Such questions, though prompted by too narrow a conception of self-interest, are natural. They seem, on the surface, rather simple. It is impossible, however, to answer them separately. The Government expects, by raising prices to farmers, to add something to the city dweller's cost of living; but it expects at the same time to increase his ability to meet that cost. It plans to increase purchasing power as well as prices. Consumers would be shortsighted to think only of their food bill, and not of the increased trade and employment that farm recovery produces.

The manufacturer whose expenses go up when the Agricultural Adjustment Administration puts a processing tax on wheat, or cotton, or tobacco products should not set down that fact wholly on the debit side of his ledger. He should consider also the extent to which his

market improves. Manufacturers for whom agriculture is only a market and not a source of supplies, who sell to farmers but do not buy from them, should not complain too much if higher food prices necessitate higher wages. Their sales will probably increase more than their costs. The agricultural adjustment program should be estimated from the standpoint of the general welfare as well as from the standpoint of particular interests. It must be studied as a whole, with profit and loss reckoned on a national basis.

Business and Agriculture Interlocked

In discussing the relationship of business to the agricultural program, we tend to think of business and agriculture as distinct and separate entities. This is convenient, but the distinction should not be pressed too far. Business and agriculture do not occupy separate water-tight compartments. Many business enterprises are half agricultural, as for example the sugar beet industry and the canning industry. Both concern themselves directly and closely with agricultural operations. Agriculture, on the other hand, uses capital furnished by nonagriculturists, and often through cooperative organizations develops extensive business interests.

Capital and labor constantly ebb and flow between industry and agriculture. Returns higher in the one branch of production than in the other set up tendencies that eventually modify the situation. Farm returns influence business, and business returns influence agriculture. Ruinously low farm earnings tend to divorce farm operation from farm ownership, and to degrade farmers into serfdom. Farm owner-

ship shifts from the country to the town. But the shift is a peril rather than an advantage to the town. It throws the economic order out of balance, involves the farmers in ruin, and incites them to revolt. The economic security of the city requires the economic security of the country. Treating business and agriculture as sharply separated simplifies my present purpose, but at some sacrifice of precision.

Out of Step in the Post-war Boom

Proceeding then in this convenient but not strictly accurate manner, we may recall the fact that in the post-war boom urban industry prospered much more than agriculture. It had a protected home market, whereas agriculture, with an overexpanded plant, had to meet world competition. In consequence nonagricultural prices rose much higher than agricultural prices after the first post-war slump. The disparity gave urban industry a temporary advantage. It could get raw materials cheap from the farm, and had no need to advance wages equally with profits because living costs were low. In 1929 the rate of return on nonagricultural capital was about 2 1/2 times the rate earned on agricultural capital. Even during the ensuing depression nonagricultural capital continued to earn on the average a bare return. Agriculture went heavily in the red.

The fact that urban industry prospered while agriculture did not gave rise to the notion that industry and agriculture had parted company; that the city could forge ahead independently; and that the old dogma as to the identity of interest between the town and the

country no longer applied. We know now that this was a profound mistake. Industry and agriculture had not parted company. They never can. They had simply got out of step, while remaining harnessed together. When agriculture stumbled and fell, industry stopped with a jerk. It became clear that industry, by taking the products of agriculture at less than cost, had been killing the goose that lays the golden egg. Permanent industrial prosperity requires a fair exchange between the country and the town, not an unfair temporary advantage. Unbalanced prosperity is unreal.

Effort to Restore the Balance

Broadly the purpose of the Agricultural Adjustment Administration is to restore the balance. Industry and agriculture need each other both as a market and a source of supplies. If industry gets farm supplies for too little money, it loses agriculture as a market. The loss outweighs the gain. Farmers constitute a very important part of industry's market. The market as a whole sags when farmers are not in it. This is the principle upon which the Agricultural Adjustment Administration relies in calling upon urban industry to support the agricultural program.

The corner stone of that program, I need scarcely remind you, is an effort to restore the purchasing power of farm products, to close the gap between agricultural and nonagricultural prices. It relies on two principal methods--the adjustment of farm production to the actual demand foreign and domestic, and the increase of consumption

through the restoration of farm buying power and consequently of urban employment. In the depression farmers had only one means of dealing with their surplus production. They could force it into consumption at sacrifice prices. They became the Nation's almoners, the dispensers of compulsory charity. Cheap farm products prolonged the depression and aggravated want. Men seek jobs based on buying power, not alms in the form of ruinously low farm prices. It was necessary to find a better way--specifically to raise farm prices and simultaneously to raise the buying power of consumers; in short to reestablish two way traffic in the distribution of economic benefits. The one way system, with wealth flowing away from the farm and no equivalent coming back, ran obviously into an impasse.

The Problem Summarized

The situation with which the national government is attempting to deal may be briefly summarized. Up to the war period American agriculture generally stood in a satisfactory relationship to its markets both foreign and domestic. Agricultural prices rose more than other prices. Net farm earnings increased, and also farm valuations. Farm exports declined after the beginning of the century, but growing consumption at home compensated for the decline. The war drew the United States back into tremendous production for export, while saddling the importing countries with debts and political troubles that reduced their buying power. Temporarily it created shortages of commodities both agricultural and industrial; but agriculture and industry over-

estimated the shortages and soon replaced them with surpluses. Tariffs excluded foreign goods which this country might have received in payment for its agricultural exports. Loans furnished our foreign customers an undependable means of payment which eventually failed. The crisis of 1929 developed largely as a consequence of these inconsistencies, though monetary difficulties in many countries played a considerable part therein. As their buying power declined, foreign countries adopted trade restrictions which added to our export difficulties, and brought world trade under governmental control to an extent unprecedented in modern times. As a result, the demand for the products of the farm dropped catastrophically, while the production remained virtually unchanged.

Effort and Results to Date

Less than five months have elapsed since the Agricultural Adjustment Act was approved. You ask what it has accomplished. It has set constructive forces into motion. It has done some of the things intended, with promise of eventual success. In February of this year the general level of the prices of farm products, and also the exchange value or purchasing power of those goods, reached the lowest point on record, at 49 percent of the pre-war average. A farmer had then to bring two wagon loads of products to market in order to get in exchange the same quantity of other things that he could have got for one wagon load before the war. In March the new administration initiated the legislative program that produced the Agricultural Adjustment Act and the National Recovery Act. Also it dealt with the banking crisis and with

currency problems. Farm commodity prices improved at once. The improvement continued in April and May.

In July a speculative boom provoked a reaction. Later the general level of farm prices slowly resumed the advance. The general average of farm prices gained 47 percent between mid-March and mid-August. The index number rose from 50 to 72. As usually happens, different farm products responded differently to the recovery factors. Wheat at Chicago in the week ended September 2 was 50 percent above the early April price. At New York in the same week cotton was 43 percent above the early April average. Corn in mid-August was 160 percent above the low point touched on December 15, 1932. Beef cattle on the other hand were only 16 percent and hogs only 41 percent above the low point of the depression. Dairy products are still relatively very low. So are many fruits and vegetables. These price differentials show that agriculture has problems of internal adjustment, of balancing the out-put of different crops and livestock, as well as a problem of adjusting its total out-put to demand.

It is not yet possible to estimate closely the probable gross farm income from the sale and home consumption of farm commodities produced in 1933. It may reach $6,100,000,000. This is a substantial increase over the $5,143,000,000 received in 1932, but is below the 1931 figures which was $6,911,000,000. The returns will be augmented by payments from the Agricultural Adjustment Administration for the curtailment of acreage and other restrictions in production. These payments may reach nearly $300,000,000, according to a conservative estimate,

and will bring the total gross income of the farmers to about $6,400,000,000. This increase of a billion and a quarter dollars in farm income will undoubtedly benefit industry and labor as it comes into the market for city goods.

A Logical Measuring Rod Necessary

In judging the Adjustment Act and its results, we must use a logical yard stick. We must define clearly what we expect the Act to do so that we may distinguish its effects from those produced by other influences. Let me be a little more specific. As you know the depreciation of the dollar in foreign exchange caused the price of certain commodities, notably wheat and cotton, to advance sharply. It had less influence on most other farm products, and very little on products governed by local conditions. Monetary depreciation does not change the underlying facts of production, supplies and consumption. The wheat price, of course, this year reflects the abnormally low crop. It is therefore, improper to credit the farm adjustment program with more than its share of the price gains of the last six months. Strictly we should measure the value of that program by its effect, not primarily on the price of farm commodities, but on their purchasing power.

The law expressly so declares. It provides means to adjust the production of farm commodities, so that their exchange value will rise. In other words it provides means for correcting unbalanced conditions in the tangible elements in the supply and demand equation. Prices are only symptoms. Mainly they reflect the underlying facts of production,

supplies and consumption. Prices may change, through monetary influences, without a proportionate change in production, supplies and consumption. But in that event all prices, and not merely prices to farmers, feel the effect, eventually if not immediately. The old disparity persists on a higher general price level. This is not a completely negligible result from the standpoint of the farmer. On the higher price level farmers may have to pay more for commodities, but such relatively fixed charges as debts and taxes are less burdensome.

Certainly, however, price gains that apply more or less uniformly to all commodities do not accomplish the purposes of the Agricultural Adjustment Act. They do not close the gap between agricultural and nonagricultural prices. The true measure of agricultural recovery, and the true standard by which we should judge the effectiveness of agricultural adjustments, is the progress made in raising the purchasing power of the farm products. From mid-March to mid-August, as I have already noted, the general average of farm commodity prices advanced 47 percent. There was not nearly so great a gain -- only 28 percent -- in the purchasing power of farm products.

Crop Adjustments Needed to Cure the Disparities

Gains in relative farm prices, in the exchange value of what the farmer produces, can come only from thoroughgoing readjustments in production and consumption. Production is the only factor directly controlled by the farmer, and it is the factor with which the Agriculgural Adjustment Act deals primarily. How are we getting along in the control of farm

products? The answer to that question is the real test of the Agricultural Act. In the nature of things the progress will be slow. There is no magic method of solving the fundamental problems of economics.

In the case of the basic crops specified in the Act the law authorizes the use of processing taxes to finance crop adjustments. So far such taxes have been applied only to wheat, cotton and tobacco products. Steps have been taken looking to the imposition of a processing tax on hog production and the Administration is considering the use of a processing tax to facilitate the control of dairy products.

The Cotton Situation

In 16 States approximately 1,040,000 contracts for cotton reduction have been signed. Nevertheless a surplus situation continues in the cotton industry. The Administration has launched a cotton adjustment program for 1934 and 1935. The new program has features, notably the individual allotment principle, that promise to make it still more effective than the one applied this year. It will take several years at the very least to adjust our cotton production to the probable demand. Our cotton area increased from 38,678,000 acres in 1921 to 44,616,000 acres in 1926 and declined only moderately from that figure. Foreign cotton acreage is down only slightly from the 1925-26 peak. It is obviously impossible to judge the effects of the Farm Act as applied to cotton merely on this year's showing.

There was acute need this year to control the production of cotton. In the marketing season 1932-33 the total supply of American cotton was no less than 26 million bales, half of it from the carryover and the

other half from the 1932 production. The world carryover of American cotton was 13 million bales, 2 1/2 times the normal. Circumstances early in 1933 pointed to a worsening of the cotton-surplus problem. Growers felt driven, despite the disastrously low price of their staple crop, to increase the acreage devoted to it. They had no other cash crops to which they could profitably turn, and the necessity to grow something for revenue was compelling. They had to do something that might help meet their bills and pay their debts. Accordingly, they planted more than 40,798,000 acres to cotton, as compared with 35,939,000 acres harvested in 1932.

On the acreage originally planted to cotton this year, average yields would have given a production of 13,500,000 bales or thereabouts. As the season advanced, it became clear that the yields would be above the average. The August report of the crop reporting board estimated 198.4 pounds per acre, compared with a 10 year average of 167.4 pounds. Had the crop been allowed to mature on all the acreage planted, the production would have been approximately 16,500,000 bales -- the third largest crop on record. With such a crop, the price of cotton would inevitably have declined again -- possibly to 5 cents a pound or less. Against the weight of an increasing supply already much too large, the commodity could not have held its place in the general advance of prices that had resulted from the government's monetary and industrial policies.

<u>Net Results not yet Measurable</u>

As to net results of the whole campaign, it is too early to speak. Nature produced cotton abundantly this year, and thus complicated our task. Cotton suffered much less from the drought than the more im-

portant crops grown in the North. The indicated total cotton production in August, with 4,200,000 bales of potential production destroyed, was 12,314,000 bales. This crop, added to the carryover of approximately 12,000,000 bales, gave a supply of American cotton larger than that of any year prior to 1932. It gave a supply approximately 10,000,000 bales in excess of the world's consumption in 1932-33, and far above any probable consumption in 1933-34. The reduction of acreage this year merely prevents the surplus from growing oppressively larger. It does not by any means sufficiently reduce the oversupply, and the situation in the cotton belt remains critical.

In all probability, however, the withdrawal of 10,304,000 acres from production benefited the cotton-price situation more than may appear. It is a truism that over-production depresses price cumulatively. Each addition to the supply forces prices down with a disproportionately increasing effect. The same principle works in the opposite direction. Removing the top of the surplus has a proportionately greater beneficial effect than removing equal amounts later. It may reasonably be concluded, therefore, that the 1933 cotton reduction campaign achieved as much as could have been expected, in view of the unexpectedly large production on the acreage remaining for harvest. More important still, it blazed the trail for more extensive efforts in the future.

We can measure the benefits of the cotton program so far in terms of several hundred million dollars. When we have achieved the real goal of the program — a state of balance between the cotton industry and other industries, a balance that will again permit and foster a free interchange of goods between different economic groups — we shall have

to measure the benefits in billions. Indeed, it is questionable whether or not the real benefits of a well-adjusted, balanced economic order can really be measure.

Adjusting Wheat Acreage

In the case of wheat the situation is different. We entered this crop year with a crushing wheat surplus. In 7 of the last 8 years the production of wheat in the United States exceeded 800,000,000 bushels, in 2 of those years it exceeded 900,000,000 bushels. In the same period foreign countries increased their wheat production tremendously also. Wheat exports declined inevitably. The net total $$ 1932-33 was only 32,300,000 bushels as compared with 142,000,000 bushels in 1928-29. This year our wheat production was low. But next year it may be large again.

In the wheat adjustment program now going into effect the Administration requires cooperating farmers to reduce their acreage 15 percent. High yields on the reduced acreage could nevertheless give us a larger production next year than we had this year. It may be necessary to go much further with the wheat adjustment program in order to adjust our wheat industry to the effective demand. It is encouraging that the recently signed International Wheat Agreement provides for the adjustment of production and the control of exports by the wheat exporting nations and obligates importing countries not to take advantage of any efforts that the exporting countries may take to eliminate excess supplies. This is an intelligent and a promising start; but it is only a start. For the present the wheat surplus remains. This year's small crop will reduce the carryover. But the

wheat campaign must be projected into the future. Otherwise, normal weather and an inevitable expansion in acreage will pile up an excessive carryover again. Accordingly, the acreage reduction contracts extend to the 1935 crop.

In the hog industry contitions are quite similar. This country during the war expanded its export of hog products by about 200 percent, or the equivalent of 10,000,000 hogs. After the war European countries restored their hog production; thereupon American export of hog products trended downward. The war-time increase disappeared. In 1932 the exports represented the equivalent of only 5,000,000 hogs as compared with more than 16,000,000 in 1919. Hog farmers had a surplus for the same reason that the cotton and wheat farmers had; their export outlets had shrunk. We had nearly as may hogs in the United States in January last as we had in January 1919 when the world demand was at its peak. The Administration has launched an emergency program to reduce potential marketing of hogs during the coming year by a maximum of 2,000,000,000 pounds. It recognizes, however, that any price gains thus produced will not last unless corn production can be controlled also. A corn production program is under consideration, but it is full of difficulties. In the case of the hog industry, production control is not yet even started. The emergency marketing is a mere preliminary skirmish.

Tobacco Central Program

With a serious oversupply depressing the cigar-leaf tobacco industry the Administration launched a program of crop adjustment. It

made contracts with the growers in the New England, Pennsylvania-New York, Ohio-Indiana, Wisconsin-Minnesota and Georgia-Florida districts whereby it made payments to growers for specific performance in reducing their production. In all these districts except the Georgia-Florida district the cooperating growers had to reduce their acreage by 50 percent. In the Georgia-Florida district the growers had to leave unharvested a part of their crop. The program there effected a 23 percent reduction. The agreements give the Secretary of Agriculture power to require a limitation of production in 1934 and 1935, if conditions should require it. Plans for the adjustment of supply with respect to types of tobacco other than the cigar type are going forward.

Narrowing Price Spreads

The trade agreement and licensing provisions of the farm act give us an opportunity to do something about preventing waste in distribution. Distribution costs went up during the war, and have not come down enough since then. The spread between what the farmer gets and what the consumer has to pay has not narrowed nearly so much as both the farmer and the consumer have a right to expect. So-called service charges that are figured into our food bill cost too much. The difference is the reward for growing food and for processing and distributing it is tremendous. On the average retail food prices in 1932 were 10 percent higher than they were in 1910; farm prices were 40 percent lower. Our biggest tobacco companies reported last year a total net profit of about 150 million

dollars. That was almost as great as the entire amount of money they paid American farmers for their tobacco crop. In addition they paid to the Government in taxes about 450 million dollars, which is 50 percent more than the farmer received for his tobacco and the profits of the industry added together. Spreads are too large between country and city prices in the case of many commodities.

One marketing agreement (formally approved) covers the California cling peach industry. More than 99 percent of the output of canned cling peaches is produced in California. Thus it is possible to achieve complete control of the situation through the one agreement. The total peach pack is limited by the agreement to 218,000 tons, or 10,000,000 cases. In the event that the supply of No. 1 cling peaches exceeds this amount, the pack is to be allocated among the canners through an allocation board. In case the supply is less than 218,000 tons, enough No. 2 peaches to make up the difference are to be canned. From the growers' standpoint, the most important feature of the agreement is that it guarantees them a price of $20 a ton for their harvested fruit and an equivalent amount for that which is not harvested. Another feature is the setting of minimum and maximum prices, varying according to grade and classification, at which the canners may sell their peach pack. Funds for the purchase of the surplus crop are to be obtained from payments by the canners of $2.50 or more per ton for each ton of peaches they pack. Administration of the agreement is under the direction of a control committee of ten, representing growers, canners and the

consuming public.

Formulation of other marketing agreements, calculated to meet situations where the commodity is not canned but goes directly into consuming channels, followed approval of the peach agreement. One of these deals with California deciduous tree fruits; another with apples and other tree fruits produced in Washington, Oregon, Idaho and Montana; a third with California Tokay grapes; and others with the citrus industry of California, Arizona, Texas, Florida and Puerto Rico.

Each of these proposed agreements is intended to set up machinery for the operation of proration plans under official supervision, with equitable treatment of the shippers and growers in the several shipping districts, so that all may contribute to the success of the plan by withholding a portion of their shipments when necessary.

Three citrus agreements, affecting the California-Arizona, Texas and Florida producing areas, contain an identical section providing for a National Stabilization Plan, through the creation of two National Citrus Stabilization Committees -- one for oranges and one for grapefruit. This plan is intended, in seasons of excessive production, to make possible the limitation of the total volume of supply going into market channels in the United States and Canada, and the proration of this supply in an equitable manner among the various producing areas.

Various milk agreements have been signed which should establish a better adjustment in dairying. They will be linked eventually with agreements affecting the dairy product industries -- the butter, cheese,

evaporated milk, dry skim milk, condensed milk, and ice cream trades. But this too is a long job, the benefits of which can be realized only gradually. Nor can we expect quick results from the trade agreements affecting fruits and vegetables and poultry and eggs. It is impossible to slow down production immediately in huge industries operated by millions of competing producers.

How NRA Affects Agriculture

As part of the general recovery program the National Government intends, as the President has frequently said, to raise the general level of prices through the control of credit and currency and through industrial codes designed to raise wages, increase employment and improve labor conditions. These policies may obviously affect the prices of the goods farmers buy as well as the prices of the goods that farmers sell. Action taken to raise the general price level decreases the burden of farm debts and taxes, but does not necessarily give better relative prices for farm products. It is not a sure cure for the price disparity.

Action under the national recovery program affects matters differently. At first it obliges manufacturers and others to increase the prices of certain commodities and thus seems to delay the closing of the gap between farm and nonfarm prices. Ultimately, however, it is hoped that the program will promote farm interests substantially. The increase in the prices of the things farmers buy will go largely to factory workers and other employees in increased wage rates and total wage payments. It will stimulate the demand for farm products, and percolate through to the farm. The National Recovery Act should eventually boost

the prices of the things farmers sell even more than it boosts the prices of the things they buy. It harmonizes perfectly with the Agricultural Adjustment program.

Few realize how much damage agriculture has suffered since 1929 through the collapse of urban buying power. Factory employment dropped so tremendously in 1930, 1931, and 1932, that the purchasing power of wage earners fell by more than half. The purchasing power of other groups diminished proportionately. Nothing could be better calculated to improve farm commodity prices than the restoration of urban buying power through increased employment. Restoring urban buying, even if it means raising nonagricultural prices, is a true farm relief measure.

One thing remains necessary, nevertheless, to translate improved urban buying power into increased farm income. Farm production must be adjusted so that it will not vastly overtop the demand. Otherwise city workers will have no need to pay more for agricultural goods, and will spend their increased income for furniture, radios, automobiles, and nonagricultural products generally. The final necessary link in the chain of economic recovery is readjusted farm production. Lacking that, whatever the Government may do to raise prices generally and to increase the buying power of consumers will be disappointing to agriculture. Through currency control the Government may raise the general price level, but it cannot single out any particular group of prices for special attention. It can not by this means boost farm prices and not other prices. Monetary policy, in other words, is incapable by itself of closing the gap between farm and nonfarm prices. There is no way to establish favorable price relationships in overstocked markets.

Economic Planning Versus Blind Competition

Perhaps I may sum up the whole thing by emphasizing the fundamental character of the agricultural adjustment program. It attempts to substitute economic planning for the old system whereby millions of farmers produced blindly for an unknown demand. It is true that, with sufficient time and a willingness to pay the enormous social cost, we could get a balanced economy once more under the old system. The Devil, as usual, would take the hindmost who would be a numerous army. He would do it through farm bankruptcy and foreclosures and through years of grinding poverty and despair for farm people. Farmers would have to continue for a long time feeding and clothing nonfarmers at less than cost. Eventually when enough farmers had been eliminated, farm commodity prices would rise. There might even be temporary food shortages. Soon, however, blind production for the unknown market would pile up new surpluses, and the wheel would swing full circle to disaster once more.

Instead the Government seeks to build a regulated and properly balanced agricultural industry, with the forces of production so bridled as not to run rapidly beyond the demand. It seeks also to increase the demand by redistributing purchasing power so that it will come more readily into the market for consumable goods. As everyone knows, badly distributed purchasing power blocks consumption. It runs to waste in speculation or ill-advised foreign investment. Two principles are the pillers of the agricultural adjustment program. First, regulated production to prevent the disastrous accumulation of surpluses; second, increased consumption so that the brakes need not be kept on production too long or too hard. It is a colossal job on new lines which are not yet clearly defined. One thing we know. It is impossible to make progress any longer on the old lines.