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The Development of Agricultural Policy Since the End of the World War

by CHESTER C. DAVIS¹

THERE can be little doubt but that the past 20 years will be looked back upon as one of the most eventful and interesting periods in the whole of American agricultural history. It is too early as yet to appraise the events of this period, and the forces that shaped them, from an entirely detached historical viewpoint. The attempt, however, is worth making; and few people are as well equipped to make it, from the standpoint of long and intimate acquaintance with agricultural problems, as the author of this article. Here he tells the story of the increasing economic pressure upon farmers in the 1920's; the gradual spread of a powerful farm movement from the grass roots; the ideas back of the farm legislation in the latter part of the decade; the modifications in these ideas and their extension in the agricultural programs of the 1930's. It cannot be said, he concludes, that these laws have solved the farm problem. Presumably they will themselves be subject to change and displacement. But if experience in this field teaches anything, it is that a continuous thread runs through the evolution of agricultural policy notwithstanding its

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inconsistencies and contradictions. The programs of the present become the foundations for the programs of the future.

DURING 1919 and the first half of 1920 the general expectation prevailed that an enormous demand for American goods and products of the farm would follow the removal of restrictions on consumption that war had imposed on the people of the world. Farmers and nonfarmers were slow to realize that an effective market is not created by the desires or needs of men or of nations but by their ability to pay with goods, services, gold, or credit.

Farmers of the United States had produced in abundance under the joint stimulus of patriotism and price; they continued the stride after the artificial market created by the war and the post-war spree of extravagant buying had faded away. The annual report of the Secretary of Agriculture for 1919 (11)² optimistically recited that "America during the war helped to save Europe and to preserve civilization by making available to the Allies, through increased production and conservation, large supplies of foodstuffs." The same report viewed the land problem from the standpoint of our capacity to expand still further the acreage tilled, pointing out that the cultivation of land still unused could increase the output of commodities by over 60 percent of the total.

Nevertheless a faint note of warning was discernible in the report. The Secretary raised a question (11, p. 26) as to "the bearing of the increasing prices of land and the resulting speculation on the progress of agriculture and the welfare of the farmer," and concluded (11, pp. 28-29):

American agriculture should consolidate the gains already made; prepare for the period of competition which is to be expected with the return of normal world conditions, principally by increasing, through sound and economical methods, the productivity of areas already under cultivation; and utilize the services of the most experienced and judicious agricultural leaders in determining where, when, and how to bring into cultivation and develop public and private unused land.

In spite of the prevailing optimism, Secretary Houston recommended to the President that he call an agricultural conference at the earliest possible date because of changed conditions at home and abroad, existing uncertainties, and disturbed states of mind. When the conference was finally called, in January 1921, it was by another Secretary of Agriculture at the direction of another President, and it raised the curtain upon two decades of swift and radical change in agricultural policy, which is still unfolding as another general war overwhelms Europe.

AGRICULTURAL PRICES BROKE FIRST

Agricultural prices were the first to break in 1920. The July 1920 index of prices paid to producers was 10 points under the June index; the August index, 15 points below the July; and the September index, 15 points below the August. In contrast there was no noticeable drop in nonagricultural prices until near the end of the year. The blow struck the farmers at about the time the grain crop of the

² Italic numbers in parentheses refer to Literature Cited, p. 326.

United States was coming on the market. Within a few months every industry and producers of every class were swept along under the avalanche of descending prices. The boom market, which had endured while credits granted to Europe remained unexpended and while, at home, citizens were cashing bonds to buy goods, had come to an end.

The collapse of agricultural prices, particularly while the rigidity of nonagricultural prices and wages was creating a new and alarming disparity between farm income and costs, produced vehement protest from farmers everywhere. Existing farm organizations increased their membership, and new ones sprang into being. They exerted a pressure on lawmakers and administrators which, continuing through the years, has been primarily responsible for the unparalleled sweep of farm legislation from the early 1920's through 1938 and has carried the Federal Government into fields of farm aid undreamed of when the crisis of 1920 broke.

The quick violence of farm protest was due partly at least to the general unexpectedness of the price downturn. The apparent hunger of a world that had been strictly rationed for years had encouraged farmers in the belief that good markets for their crops would continue. The crops sold in 1920 had been produced at the highest costs ever known. Farmers had used credit freely in buying more land and equipment. They had set aside little as a surplus to offset losses in commodity prices. They saw no way to reduce production to match falling demand. Old debts must now be paid with products that brought sharply lower prices. The pressure for debt liquidation struck at a time when returns from crop sales were wholly inadequate to balance the debts incurred in producing them.

The ferment throughout the country during the last half of 1920 did not result in action at Washington. A Presidential campaign was under way. While demands for Government price fixing stirred farmer mass meetings, Washington talk was of higher tariffs, better farm credits, more loans to finance exports, and an improved legal status for cooperatives. The 1920 report of the Secretary of Agriculture pointed out that the year's crop had been the largest but one in the country's history and that the returns were inadequate and, while suggesting that no single solution could be found, insisted that big crops should not be allowed to impoverish the farmers who produced them.

JOINT COMMISSION OF AGRICULTURAL INQUIRY

Early in 1921 the new Congress created a Joint Commission of Agricultural Inquiry, the Senate acting on May 31, the House on June 7, and instructed the Commission to report its findings within 90 days (7). The Commission was directed to—

investigate and report to the Congress * * * upon the following subjects: (1) the causes of the present condition of agriculture; (2) the cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer; (3) the comparative condition of industries other than agriculture; (4) the relation of prices of commodities other than agriculture; (5) the banking and financial resources and credits of the country, especially as affecting agricultural credits; (6) the marketing and transportation facilities of the country.

The Commission was also directed to "include in its report recommendations for legislation which in its opinion will tend to remedy existing conditions" (8, p. 3) and to report "specifically * * * upon the limitations of the powers of Congress in enacting relief legislation."

The Commission completed its hearings and report by early fall, and delivered its findings on the causes of the agricultural crisis, with its recommendations, to Congress in early December.

In general the inquiry was broad and important, but its specific recommendations were limited and proved ineffectual when subsequently carried out. The farm groups at the time regarded them as inadequate to meet the conditions that were developing.

In attempting to arrive at the causes, the Commission studied changes in the purchasing power of the farmer's dollar, the relation of the prices of farm products to those of other commodities, and the physical output and the return to capital and labor in agriculture as compared with other industries.

It found that by May 1921 the purchasing power of the farmer's dollar was only 77 percent of its pre-war value. It reported that the prices of farm products had declined more rapidly and had fallen to a lower level than those of other commodities, although the physical output of agriculture had not kept pace with that of other industries, and that the return to farm capital and labor was relatively low.

The distress of agriculture was attributed primarily to the general business depression which began in 1920, although a failure of export demand was considered to be an important cause. The maintenance of unduly high freight rates, the lack of facilities for intermediate credit, and the need for an adequate and integrated warehouse system were also deemed contributing factors. Overproduction or overmarketing of farm products in 1920 was not adjudged to be an important cause of the subsequent price decline.

The Commission recommended granting preferred legal status to cooperative marketing associations, a system of intermediate credits for agriculture, improved warehousing facilities and supervision, reduction in freight rates on farm products, extension of the statistical, research, and foreign-service functions of the Department of Agriculture, better grades and standards for farm products, farm-to-market roads, and rural life improvement; and finally the Commission declared that renewal of confidence and prosperity was dependent on readjustment of commodity prices, which "cannot be brought about by legislative formulas but must be the result for the most part of the interplay of economic forces" (8, p. 11).

NATIONAL AGRICULTURAL CONFERENCE CALLED IN 1922

In the meantime, the War Finance Corporation was revived particularly to finance exports; an emergency tariff act, vetoed by President Wilson as one of his last official acts, was again passed and was signed by President Harding; the "farm bloc" was organized in Congress; the powers of the War Finance Corporation were broadened to enable it to make loans for agricultural rehabilitation, and its life was extended to 1924.

The National Agricultural Conference, called by Secretary of Agriculture Henry C. Wallace at the direction of President Harding, met in Washington January 23 to 27, 1922. Nearly 400 representatives of agricultural and related industries attended. Practically all of the notes that have been struck in subsequent agricultural policy were sounded in one way or another in that conference.

In his letter asking Secretary Wallace to call the conference, the President said (9, *p. 3*):

It is unthinkable that with our vast areas, our unparalleled endowment of agricultural resources, our fertility of soil, our vast home market, and the great ability and resourcefulness of our farmers we should accept the status of a distinctly industrial Nation. Our destiny seems to require that we should be a well-rounded Nation with a high development of both industry and agriculture, supporting one another and prospering together. It must be, and I feel sure it is, the national wish and purpose to maintain our agriculture at the highest possible efficiency.

But the President clearly was not thinking in terms of a broad assumption of responsibility for agricultural policy by the Federal Government. In his opening address to the conference, he said (9, *p. 10*):

It cannot be too strongly urged that the farmer must be ready to help himself. This conference would do most lasting good if it would find ways to impress the great mass of farmers to avail themselves of the best methods. By this I mean that, in the last analysis, legislation can do little more than give the farmer the chance to organize and help himself.

Secretary Wallace told the conference (9, *p. 13*) that "the agriculture of the Nation is in a bad state, and our entire business and industrial life is suffering in consequence."

The conference operated in 12 sections, each of which reported its recommendations, which, as incorporated in the final report, are too detailed and extensive for recapitulation here. One significant pronouncement on price adjustment suggested the slogan, "Equality for agriculture," which has resounded through every subsequent political campaign, and set prominently before the country for the first time the objective for which organized agriculture was to strive in the turbulent farm fights of succeeding decades. It was incorporated upon the insistence of a man who became an active leader of farm forces in their fight for farm equality—George N. Peek, later first Administrator of the Agricultural Adjustment Act. The paragraph reads (9, *p. 171*):

Agriculture is necessary to the life of the Nation; and, whereas the prices of agricultural products are far below the cost of production, so far below that relatively they are the lowest in the history of our country; therefore, it is the sense of this committee that the Congress and the President of the United States should take such steps as will immediately reestablish a fair exchange value for all farm products with that of all other commodities.

The demand for equality for agriculture cropped out at several places in the conference report (9, *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.

Adjustment of farm production to demand was stressed (9, p. 137):

The manufacturer has in the past quickly adjusted his production to price recessions while the farmer has not. When farm production is so large that the product cannot be sold for prices that will maintain a reasonable standard of living on the farms, the supply is too large. We recommend that the farmers and the farm organizations consider the problem of world supply and demand and make comprehensive plans for production programs so that they may be able "to advise their members as to the probable demand for staples, and to propose measures for proper limitation of acreage in particular crops," as pointed out by the President of the United States.

The conference report favored higher tariffs, more foreign credits to facilitate exports, an intermediate credit system for farmers, and recognition of farm cooperative-marketing associations and price stabilization through their operations, and made scores of other recommendations of varying importance.

Recommended for study were a system of crop insurance and the whole question of Government guaranty of agricultural prices.

THE SURPLUS-DISPOSAL PLAN IN EMBRYO

In the meantime, in December 1921, George N. Peek and Hugh S. Johnson, who were associates in the management of a farm implement company at Moline, Ill., had written and filed with the American Farm Bureau Federation their first brief, *Equality for Agriculture* (3), which set forth the principles and a plan of operation which were in general incorporated in the surplus-control bills which 2 years later became known by the names of their legislative sponsors, Senator Charles L. McNary, of Oregon, and Representative Gilbert N. Haugen, of Iowa.

While the National Agricultural Conference was holding the spotlight in Washington, an important series of conferences took place between Mr. Peek and General Johnson and Cabinet members and other officials. At their suggestion their plan was submitted first to a group of economists within and outside the Government and then to a group of industrial and financial leaders. The proponents of the plan remained in Washington until mid-February. When they left, their proposal was assured continued study by the interest of the Secretary of Agriculture and of Henry C. Taylor, who that year was to become the first chief of the Bureau of Agricultural Economics. The first drafts were prepared in the Department of Agriculture in 1923 under the direction of Charles J. Brand, who 10 years later became coadministrator of the Agricultural Adjustment Act. They emerged as the McNary-Haugen bills, which reached both Houses of Congress in January 1924.

The proposal is described by its authors in the following summary taken from *Equality for Agriculture*:

This is a plan to improve marketing of farm products, to insure a fair return from farm operations, to stabilize farm securities, to facilitate farm finance, and to secure equality for agriculture in the benefits of the protective tariff, by the following means:

Establish each year the fair exchange value on the domestic market of each principal crop, by computing a price which bears the same relation to the general price index as the average price of such crop for ten pre-war years bore to the average general price index for the same period. Protect this fair exchange

value from world price by a tariff fluctuating with it and with world price.

Organize under Federal legislative charter a private corporation to maintain this value by buying carry-over from any such crop from farmers or associations of farmers at such value. Such corporation may sell for export exportable surplus at the world price, even if less than domestic price, and may sell for domestic consumption, any of its carry-over at not less than the exchange value. The process will result in little, if any, material interference with existing mechanism for supplying domestic consumption.

Purchases and losses by reason of sales to export or of downward fluctuations in such fair exchange value to be financed, viz:

From worst experienced years of price, production, and surplus, determine an empirical formula, which when applied to any future year, will compute a percentage of price per bushel or per pound, large enough to absorb any probable loss. This differential to be computed and announced in ample time before planting season to enable farmers to plan croppage with reference to existing supply.

By authority of a Federal statute, collect this percentage as a differential loan assessment on each pound or bushel when and as sold by the farmer. Issue scrip for such receipts, bearing interest on a retirable value to be fixed and announced when losses and expenses are determined.

Pass unabsorbed amounts in such fund to a farm-loan fund for reloan to appropriate banks and associations of farmers, at moderate interest, and on farmers' notes, for 1, 2, or 3 years, given for purchase of reproductive facilities.

In the first year, after a sufficient fund has accumulated to take care of annual agricultural loan requirements, the installment of scrip issued in the first year's operations is retired, and so on for each succeeding year's installment.

Wheat, cotton, corn and oats are tentatively proposed for the operation of this plan.

THE STAGE IS SET FOR FARM-RELIEF BATTLES

The Joint Commission of 1921 and the agricultural conference of 1922 helped set off the farm-relief campaigns which have continued almost without breathing space from that time to this. In the judgment of the more aggressive farm leaders the remedies proposed in the two reports were hopelessly inadequate to meet the conditions the reports recognized as existing.

Developments of later years reveal some surprising gaps and blind spots in these early post-war analyses of the farm problem. Commission and conference alike seemed unconscious of the clash between their demand that agricultural as well as industrial exports be restored and maintained and their insistence that this Nation vigorously pursue a policy of exclusion through higher and yet higher tariffs. Neither the conservative administration leaders nor the farm forces they called radical recognized that the volume of agricultural exports following the war and up to 1929 was financed in large part by extension of credit abroad—many of the loans not to be repaid.

It is less surprising that they failed to foresee the turn among the nations of the world toward autarchy, national self-sufficiency, and directed international trade, and that the consequence would be diminished export opportunities for the United States, a high-tariff, creditor Nation.

The full significance of the McNary-Haugen bills which were before Congress in varying forms from 1924 through 1928 does not end with the fact that the measures were twice put through Congress and twice vetoed. Their real importance lies in the fact that the continuous pressure for them made the Nation wholly conscious of its agricultural problem. Counterplans were put forward to sidetrack

and substitute for the measures which the organized farm groups were demanding. Some of them were adopted, and their trial added to the experience and knowledge which has helped shape still later endeavors.

Early Alinement on Farm Relief

The line-up of forces on farm relief from 1923 to 1926 was discouraging from the point of view of those who favored aggressive action to restore farm prices to equality with costs. The cooperative marketing associations, which had developed along commodity lines into strength and prominence in the years following the war, were generally hostile. They were unconvinced that, given Federal recognition and support, they could not do the job themselves. The South as a whole was indifferent, partly because its chief farm organizations were the cotton, tobacco, and rice cooperatives and partly because of traditional opposition to increased Federal powers and to extension or recognition of the protective-tariff principle.

The East and the industrial centers were inherently opposed. Even when prominent industrialists recognized the importance to national prosperity of restored farm buying power, they were violently critical of any specific method proposed to that end.

Agricultural colleges and economists were as a whole indifferent to the problem. During the early years their leadership was negative and their attitude scoffing.

Outside of Congress and a small group close to the Secretary in the Department of Agriculture, official Washington was solidly opposed to any but the most orthodox Government moves to strengthen agriculture.

The spearhead of the movement for positive Government action from 1923 to 1926, therefore, was made up in the first stages by individuals and special groups; State units of general farm organizations were next to fall in line, and after them the national farm associations—the American Farm Bureau Federation, the Farmers' Union, and the Grange.

Generally through those years the farm forces were disposed to divide all over the field as to details of procedure. The cooperatives went their own way, with the exception of Northwest wheat associations, who favored the surplus-disposal plan. Some farm leaders were for outright Government guaranty of fixed prices. There were lively debates over the surplus problem—even over the question whether in fact any surplus of farm products existed. Many farm leaders contended that there could be no overproduction if marketing were properly organized.

Secretary Wallace, in his annual report for 1922 (*11, Yearbook 1922*), summed up the opposite view in saying:

Some contend that there is no such thing as overproduction of farm products and cannot be as long as there are people in the world who suffer for food and clothing. On the same line of reasoning it can be argued that the production of automobiles will be inadequate until every man and woman and every boy and girl of high-school age owns one. There is overproduction, so far as the producer is concerned, whenever the quantity produced cannot be marketed at a price which will cover all production costs and leave the producer enough to tempt him to continue production.

Some Tariff Inconsistencies

Small voices were raised but scarcely heard when they questioned the wisdom of a tariff policy which excluded from this country the means by which foreign buyers could pay for our exports, while at the same time we demanded and expected that our exports would be maintained. Meanwhile the policy of raising tariffs swept on to its culmination in the Tariff Act of 1929 without effective protest either from the pros or the antis in the farm-relief fight.

Both sides failed to recognize the fact that continued exports through these years were made possible by the extension of credit to foreign nations and buyers. The total volume of new foreign issues floated in the United States from 1919 to 1929, inclusive, amounted to \$8,172,000,000, while the net outward movement of long-term capital during the period exceeded \$6,000,000,000. The heaviest flotations of new issues during these years were \$1,201,000,000 worth in 1927 and \$1,111,000,000 worth in 1928.

Even the farm proposals for a protected domestic consumption at parity with nonagricultural prices, independent of the world price for the surplus, depended for effective operation on the willingness and ability of the world market to take all the surplus the United States produced.

There was failure to recognize the effect of our change from a debtor to a creditor nation. Our status as a nation in another sense had also changed. We at last were at the end of the pioneering period. We now had a preempted continent—the last of the good free land had been taken up, and we were face to face with the problem of a maturing nation. No longer was there a frontier to act as shock absorber for dispossessed farmers and unemployed from industrial centers, with outside creditor nations ready to take our surplus production in payment on our debts to them.

The Farm Movement Spread by Regions

The persistence and growing strength of the farm-relief movement, from 1923 until the passage of the Agricultural Marketing (Federal Farm Board) Act in June 1929, is not explained wholly by index figures showing in national averages the purchasing power of farm crops in terms of other prices. The ratio of prices received to prices paid by farmers actually approached parity with the 1910-14 ratio in 1925, owing to the fall in nonagricultural prices at a time when farm prices were improving. But averages were misleading; they failed to reveal the local areas over which trouble was developing.

Distress did not strike all farm regions at the same time. It was most acutely felt first in the Spring Wheat Belt, and it was there that the first farm-relief movement caught on and incubated. The South had only three partly good years from 1919 to 1926, but nevertheless that region was slow to start thinking in terms of national action. The Corn Belt in 1921 and 1922 was not particularly interested when agitation for farm relief was running strong in Minnesota and westward. But when hog prices went back to pre-war levels in 1923, foreclosures and bankruptcies set in in earnest. The banks began to close. Land prices in Iowa in 1927 were 91 points below those of 1920.

The storm center began to shift from the Northwest to the Midwest about 1924.

THE DEPARTMENT'S PART

The influence of the Department of Agriculture in giving direction to the gathering farm-relief movement became clearly evident in the autumn of 1923. In October, Henry C. Taylor, Chief of the Bureau of Agricultural Economics, made a trip into the Dakotas, Montana, and the Pacific Northwest which gave him an opportunity to question most of the farm leaders of the region about the agricultural situation. Members of the groups which gathered to meet Dr. Taylor recall that he made no positive statements in support of any particular form of farm relief, but it was after his trip that the Northwest with singular unanimity started its drive for a Government export corporation to segregate and dispose of agricultural surpluses.

Secretary Henry C. Wallace first publicly referred to the export plan in an address to the Chicago Association of Commerce on November 14, 1923 (12). In this guarded endorsement, he said:

Among all of the suggestions that have been made, the one which has been made by several people in this state and which has been considered at different times, seems to have more merit in it than anything else. It is simply this. In the case of those products of which we produce a large surplus, which must be exported, the government might well consider whether by setting up a government agency which would take that surplus and handle it in exactly the same way that many manufacturers have handled their surplus in times past, so that it would not be the government carrying the burden, but the producers of that crop, many who have given the matter consideration believe that of all the proposals suggested that offers the most hope.

On November 30, 1923, Secretary Wallace delivered to the President and published a report on *The Wheat Situation* (13), which provided the farm-relief forces of the Northwest with a wealth of ammunition which they were not slow to use. The report closed with these paragraphs:

Inasmuch as the first step looking toward increasing the domestic prices requires the disposition of the surplus over and above domestic needs, and inasmuch as the facts presented in the foregoing pages indicate that the world production of wheat will probably be over-large for another year or so, the suggestion that the Government set up an export corporation to aid in the disposition of this surplus is worthy of the most careful consideration. Such a corporation necessarily would need rather broad powers. It would not be necessary that it should undertake to handle the entire crop, and it could probably carry on its activities in cooperation with existing private agencies. If it should be found necessary to arrange for the sale of the surplus exported at a price much lower than the domestic price, the loss so incurred would properly be distributed over the entire crop.

The prime duty of such an export corporation would be to restore, so far as possible, the pre-war ratio between wheat, and other farm products of which we export a surplus, and other commodities. Its activities would therefore expand or contract according as the relative prices for farm products varied with other commodities, and it would cease to function as pre-war ratios become fairly well restored.

In December 1923 and throughout the winter so-called export corporation leagues sprang into being in the spring wheat States. Wheat growers' associations of the Northwest opened a militant campaign, and organizations of businessmen in cities and towns from Minnesota west pressed for action. In 1924 State farm organizations of the Corn Belt joined up, and the struggle was on in earnest.

CENTRAL IDEAS OF FARM-RELIEF PLANS

The agitation centered, first and foremost, around the general idea of equality for agriculture and the related idea of "a fair share of the national income." It also embodied the hope for security against bankruptcy prices and low and unstable income, drought and crop failure, and mortgage foreclosure and uncertain land tenure.

Prior to the appearance of the McNary-Haugen bill on the congressional scene, the Norris-Sinclair bill held the lead in farm support, although it had received no encouragement from the executive branch of the Government. Senator George W. Norris, of Nebraska, its chief sponsor, originally felt that the McNary-Haugen bill was an administration measure introduced to divert and divide farm support. He was strengthened in his conclusion by the fact that the original McNary-Haugen bill was drafted in the Department of Agriculture and had the quiet support of Henry C. Wallace, the Secretary of Agriculture, a fact which had much to do with the quick alinement of farm support back of it.

The Norris bill would have created a Government corporation empowered to buy or lease storage and processing facilities, and to buy, process, and sell farm products in raw or finished form. Its declared purpose was to eliminate as far as possible the commissions and charges between producer and consumer so as to increase the price to the former while decreasing the cost to the latter.

On their face, therefore, the provisions of the Norris bill promised to increase farm income by savings and short cuts which it was believed would be secured by substituting a Government agency for the private processors and middlemen. Its supporters read into the measure, however, the hope and expectation that the corporation would fix prices to farmers on a cost-of-production basis. The corporation was to be given \$100,000,000 capital, with authority to sell tax-free bonds up to five times that amount.

In contrast, the McNary-Haugen bills proposed a minimum of interference with existing agencies and aimed only at the segregation and exportation of crop surpluses to bring domestic prices up to the "ratio" or fair-exchange level. It was proposed that operations should be made self-financing by collecting an "equalization fee" upon the first sale or the first processing of the commodity dealt with.

This plan was written into the original 1924 version of the McNary-Haugen measure and also into the vetoed bills of 1927 and 1928. The mechanism for implementing the plan varied considerably in the several bills, but at no time did the advocates abandon what they considered the essential ideas, (1) that the centralizing power of the Federal Government should be used to assist farmers to dispose of the surplus abroad and raise prices to the desired level in the domestic market, and (2) that the loss on the segregated exports was to be paid by the farmers themselves by means of an equalization fee.

The opposition centered its fire on the equalization fee, and assailed the proposal to bring about fair-exchange, or ratio, prices for export farm crops as "price fixing." They fought back against farmer charges that tariffs are ineffective on export crops. The supporters of the measures clung stubbornly to the principle of the equalization fee to

enable the programs to pay their own way, but retreated temporarily from the fair-exchange-price principle and, instead, offered a bill in which the existing customs duties were made the measure of the price benefits to be secured by draining the surplus production off into export channels.

FARM-RELIEF PRESSURE FORCES COLLATERAL LEGISLATION

Under pressure of this general agitation, farm legislation advanced speedily along less controversial lines.

The Federal Government, always sympathetic to the idea of agricultural cooperation, moved to strengthen further the legal position of cooperatives with respect to the antitrust legislation by enacting the Capper-Volstead law of 1922.

Demand for further improvement in the credit structure had paralleled the fight for marketing reform. Specifically this was a demand for farm credit at rates comparable to those paid by businessmen and for the establishment of new banking institutions that could meet the peculiar credit needs of farmers. The Federal Farm Loan Act had been passed in 1916. Although this act greatly increased the availability of long-time farm-mortgage credit, it did not meet the needs of farmers for intermediate and short-time credit.

The Federal Intermediate Credit Act of 1923 provided for the establishment of 12 intermediate credit banks, to rediscount agricultural paper maturing within 3 years for banks and special lending agencies. This still did not fully meet the short-time credit needs of farmers. They had to wait another decade until the banks for cooperatives, the production credit corporations, and the production credit associations were set up or provided for in 1933 under the Farm Credit Administration.

To meet the growing unrest in the Northwest, the Norbeck-Burness bill was introduced in late 1923, appropriating Federal funds with the general idea of turning spring wheat farmers into dairy production, and the President called the Northwest Agricultural Conference to meet in Washington in February 1924 to give it public support. The main body of the conference, which was made up chiefly of nonfarmers, endorsed the plan to spend money to diversify northwestern agriculture and recommended the establishment of the Agricultural Credit Co. to assist banks in the Northwest. Most of the farmer-members of the conference, however, united on a minority report endorsing surplus-control legislation along the lines of the McNary-Haugen bills, which had just reached Congress, and took their statement to the White House.

Action by the President about the same time to increase the tariff on wheat from 30 to 42 cents a bushel failed to lessen the pressure from the Wheat Belt, and the Haugen bill was brought to a vote in the House of Representatives in June 1924 and came within 36 votes of passage. In July the American Council of Agriculture was established at a big farm mass meeting in St. Paul to carry on the campaign for surplus-control legislation.

Special Organizations Play Important Part

The drive of the farm forces for a more clearly defined national agricultural policy brought into being from 1924 to 1928 a number of special organizations which cooperated with the general and long-established farm organizations and some of the cooperative marketing associations in support of particular bills. The American Council of Agriculture was the first of these to bring together a membership of cooperating organizations with national rather than regional scope. It was the center of leadership for the aggressive farm forces during 1924 and 1925. The national farm organizations sometimes joined in its statements and sometimes expressed their views independently.

The functions of the American Council of Agriculture in guiding the campaign for the McNary-Haugen bills passed to another special organization when the Executive Committee of Twenty-two was created early in 1926. This committee grew out of a conference of Governors of 11 Midwestern and Northwestern States which met at Des Moines, Iowa, in January 1926, on the call of the Governor of Iowa. Its activity ended when the second Presidential veto of the McNary-Haugen bill threw the issue into the 1928 political campaign.

The Corn Belt Committee of Farm Organizations was still another special body whose representatives were in Washington working closely with the Committee of Twenty-two during the years when the latter was active. But the American Council of Agriculture did most of the speaking for the proponents of farm relief from midsummer of 1924 until the early months of 1926.

Agricultural Conference of 1925 Draws Fire

With this prospect of continued activity on the farm front, President Coolidge in November 1924 called an agricultural conference which held hearings culminating in a series of reports filed in late January and early February 1925.

The conference report (6) failed to develop any program acceptable to the farm forces and served to spread the irritation that had become increasingly apparent. One of its proposals for a Federal cooperative marketing board with broad powers was defeated shortly thereafter in the House of Representatives.

Another section of the report (6, p. 2) directly attacked the pending proposals for handling exportable surpluses when it said:

Any form of legislation or plan that tends toward a stimulation of production of any particular commodity for export will result in even further ill balance to our agriculture and, therefore, continued subjection of American farmers to competition with production based on lower standards of living abroad. There must, therefore, be established a balanced American agriculture by which production is kept in step with the demand of domestic markets and with only such foreign markets as may be profitable.

The conference failed to submit any blueprints for the establishment of the balanced agriculture it advocated. The fight went forward when the American Council of Agriculture filed its reply with Members of Congress, in which it declared (10, p. 63):

No human agency can adjust acreage or number of these great commodities and, except by accident, arrive at, or anywhere near, the desired mark in production. No human agency should attempt to. The one attempting it would be

faced with the necessity of suggesting substitute crops to utilize the acres thus vacated. The difficulty of this is apparent. It is noteworthy that those ardent advocates who in 1923 would have turned the wheat farmers into commercial producers of butterfat, are now silent in the face of existing conditions in the dairy industry.

Even if it were possible for farmers through voluntary organization to make a nice adjustment of acreage to the estimated domestic demand, there is no possible way of forecasting to what extent drought and flood, hail and freeze, insects and disease—all these and others beyond the farmers' power to foresee and control—would thwart such calculations.

On the proposition that the task of handling the surplus should be left to cooperative associations, the American Council had this to say (10, p. 63):

The great task is to deal with this normal surplus so as to preserve the home market for American producers at an American price that *does* equalize differences in production costs between farmers of this and competing countries. Those without experience in trying to accomplish this say: "Let the farmers organize cooperatively to do this thing." Undoubtedly, if this were practical, it would be the very remedy sought for. Co-operative organization has done great good for agriculture in this and other countries, and in years to come is destined to accomplish vastly more. The opportunity for co-operatives to demonstrate their worth by helping farmers secure a fair price for their products would be immensely increased if the question of the disposal of the surplus were itself disposed of otherwise. But to maintain a domestic price above world levels, and at the same time dispose of a substantial surplus at the world price, is a task which co-operative organizations of farmers alone cannot do, and which, if attempted by them, would destroy them.

The conference report had one direct effect on the form of the surplus-control legislation. Taking at face value the suggestion that cooperatives should handle the surplus problem, the bill was redrafted to provide that cooperative associations might organize to administer the export transactions with a particular commodity, backed by the equalization fee to spread the costs over all producers presumably benefited by the operation. While the modified bill failed to reach a vote in the Congress then in session, the changes may have accounted in part for the increased support the measure received from cooperative associations in 1926 and subsequent years.

South and West Unite

The year 1926 marked the union of the South with the West in backing the farm-relief program. The first conference with southern farm leaders took place in Memphis, Tenn., in March of that year, after which heads of southern commodity cooperatives, first cotton, then tobacco and rice, joined the western farm leaders in Washington.

These cooperative marketing associations, based on membership contracts and formed on commodity lines, were at that time the most active and influential of the southern farm organizations. Their influence in the national cooperative movement was great. As a result of their growing interest, midsummer conferences were held between proponents of the pending legislation and some of the nationally prominent sponsors of cooperative marketing, including former Governor Frank O. Lowden of Illinois.

A joint mass meeting of southern and western farmers in St. Louis in November, after the Haugen bill had met its second defeat in the House, issued a long declaration of principles. The section on surplus legislation said (4):

As a practical and immediate move to secure for agriculture a just and proper share of the national income and a position of equality with other industries in our national economy, we favor legislation that will enable farmers to control and manage excess supplies of crops at their own expense, so as to secure cost of production with a reasonable profit. We assert our conviction that such legislation must function through and foster cooperative marketing.

The tariff came in for critical attention at this convention. The declaration reads (4):

We recommend to farmers' organizations that they make a special study of the effects on agriculture of industrial tariffs and also of the effect of our change from debtor to creditor nation, and especially of its effects on the accumulation of our agricultural surpluses. Our "tariff primers" have taught us that the farmer would get his reward through the demand created by the high purchasing power of prosperous industrial classes. We demand that the farmer be given the opportunity to promote the national prosperity by his own increased purchasing power through increased prices.

Alternative Legislative Plans Appear

An alternative method for surplus disposal through use of customs debentures to subsidize exports reached Congress early in 1926. The general plan was developed by Charles L. Stewart, of the University of Illinois, and chiefly supported by the National Grange. It was essentially an export bounty which, instead of being paid in cash, was to be paid to exporters in the form of negotiable certificates (debentures) that could be used for paying import duties and hence would have a cash value. This increased buying power in the hands of exporters would enable them to bid more than the world price for exportable commodities. The increase above the world price was, of course, the objective of the plan.

The proposal that a Federal farm board be created to assist cooperatives to stabilize agriculture developed among opponents of the surplus-disposal programs and took several forms in 1927. The Curtis-Crisp bill, with administration support, gave it legislative status early in the year. The idea was endorsed in the report of the Business Men's Commission on Agriculture, which was one of two important committee pronouncements on agricultural policy published in late 1927 from quarters that until shortly before had been silent or negative on the farm question. The other report was presented by a special committee of the Association of Land Grant Colleges and Universities, also in November.

Important Committees Report on Agricultural Policy

The Business Men's Commission was sponsored and financed jointly by the National Industrial Conference Board and the United States Chamber of Commerce. A report of the former body on The Agricultural Problem in the United States had been published and given wide attention in 1926.

Referring to it as the administration plan, the Business Men's Commission endorsed the proposal for a Federal farm board to aid in the stabilization of prices and production in agriculture through advice to farmers on production and marketing and through a system of quasi-official stabilization corporations with power eventually to buy farm products at a price announced before the date of planting.

The commission condemned "legislative measures designed arti-

cially to raise the domestic level of farm products above the world price level by export bounties, export debentures, or by agencies designed to dispose of surplus products abroad at a loss * * * (2). At the same time it asked, in effect, for a thoroughgoing revision downward of the tariff, starting with industrial rates, and then, when industry and agriculture reached approximately equal levels as to protection, to continue the reduction at equal rate, retaining adequate protection, however, on products the full domestic production of which is required by the country's long-run interests.

The report of the land-grant college special committee, like so many reports of the period, was strong on analysis and weak on remedy. It was important chiefly as a belated recognition by the agricultural colleges that a national agricultural problem did exist, and that they should be concerned with the development of a national policy to meet it. The discussion of the agricultural situation was revealing; of the tariff, straddling; and of the surplus problem, vague. "The movement toward stabilization and control," it concluded (1), "may be hastened by favorable and sound types of legislation."

Progress of Farm Bills in Congress

Before these studies were undertaken, the effect of the union of farm forces back of export control legislation had been felt in Congress. The McNary-Haugen bill had passed both Senate and House, but had been vetoed by President Coolidge.

Early in 1928 a revised measure was introduced, dealing with all farm products instead of a limited number of basic commodities, and providing for operations similar to those proposed under stabilization corporations, with use of the equalization-fee plan only as a last resort if other moves failed to achieve the specified results. Again, both Senate and House passed the bill by substantial margins, and again the President returned it with his veto. On May 25 the Senate failed by 10 votes to muster sufficient strength to override the veto.

Agricultural policy commanded first-rank attention from the major political parties, but the threatened farm revolt against the administration failed to materialize in 1928. The farmer had been promised a general farm bill, and the Federal Farm Board was provided for in the Agricultural Marketing Act of 1929. He had also been promised higher tariffs, and he got them, too, in the Smoot-Hawley Act of the same year.

THE AGRICULTURAL MARKETING ACT OF 1929

The Agricultural Marketing Act of 1929 aimed to provide agriculture with a mechanism for the orderly production and marketing of farm products that would parallel the production and marketing mechanisms of other industries. The major provisions of the act were concerned with marketing, and the Federal Farm Board undertook to encourage cooperatives and stabilization corporations, provided the latter were established and owned by cooperatives. To unify the process of agricultural marketing with the support of loans, a 500-million-dollar revolving fund was put into the hands of the Board.

At the beginning of its operations, the Board viewed its principal function as the fostering of a system of cooperative marketing associations, but the drastic decline of agricultural prices which developed in the latter part of 1929 caused the Board to become increasingly concerned with the stabilization of the prices of agricultural commodities.

Notwithstanding many previous unsuccessful attempts to hold up prices by stabilization measures of storage and withholding, the Federal Farm Board through its subsidized stabilization corporations launched an ambitious attempt to support prices in this manner. Unfortunately, the period selected for the venture coincided with a world depression of unprecedented scope and severity. Operations might have been temporarily much more successful if, instead, they had coincided with severe droughts such as those experienced in 1934 and 1936.

The first efforts toward stabilization consisted of making loans to the cooperatives which would enable them to hold the commodities in storage until the market improved. This was followed by the setting up of stabilization corporations for wheat and cotton. These corporations took over most of the supplies that had been held by the cooperatives and in addition accumulated stocks by direct purchase in the market. Legally, these stabilization corporations were owned by the cooperatives, but the actual financing, operation, and risk-bearing were ultimately taken over by the Farm Board itself. The operations of the stabilization corporations resulted in heavy losses to the Board, which soon began to insist that gains in withholding supplies from the market could be realized only if production were held in line with actual market demand at home and abroad.

CONTINUED DEPRESSION FORCES FURTHER ACTION

Meanwhile foreign loans had practically ceased, and the export market shrank year by year. Renewed depression fell with cruel force on the American farmer.

Even at the peak of the business cycle in 1929, farm products could be exchanged for only 91 percent as much of other products, on the average, as they could have been exchanged for in the period before the war. By February 1933 the exchange value of farm products for industrial goods had fallen to 50 percent of the pre-war average. Their value in terms of taxes and interest was even less.

The disparity was present in the price of every farm product. It was most severe in the prices of export commodities, such as cotton, wheat, tobacco, and rice, where the disappearance or severe contraction of export demand had backed up great excess stocks of the commodities. It was also marked in hogs and hog products, the reduced export outlets for which had forced increased quantities into domestic consumption.

Gross farm income from the production of 1932 was less than half that of 1929, while fixed charges, including taxes and interest, were not proportionately lower. The Department of Agriculture estimated that the average farmer, after paying the expenses of production, rent, interest, and taxes, had only about \$230 left out of his year's

income. This gave him nothing as a return on his investment and much less than common-labor pay for his labor and management.

All the capital employed in agriculture had a value in January 1933 of only 38 billions of dollars as compared with 58 billions in 1929 and 79 billions in 1919, while farm debt remained virtually unchanged.

Credit was restricted and in many communities practically ceased to flow as thousands of country banks closed. Nearly 15,000 banks suspended operations during the 14 years 1920-33, involving total deposits of \$8,500,000,000. Of these, 4,000 suspended in 1933, with total deposits of \$3,600,000,000.

In the face of these conditions, it was obvious that further farm legislation would be enacted soon. It was only a question of what and when. During the winter of 1932-33 the agricultural committees of both Senate and House held hearings and produced bills, but the effort to enact them was less than wholehearted in view of the change in administration scheduled for March.

When the three national farm organizations were asked by the Senate committee to embody in a farm bill their ideas of what should be done, each brought its favorite remedy out of the past, and the result was a three-barreled measure combining the equalization-fee-surplus-disposal program of the Farm Bureau, the cost-of-production goal of the Farmers' Union, and the export-debenture plan of the Grange. The Secretary of Agriculture was to choose the method, or combination of methods, best calculated to work. This proposal did not command much congressional attention.

FORCES THAT SHAPED FIRST AGRICULTURAL ADJUSTMENT ACT

With mounting surpluses and stagnant markets staring farmers in the face, the argument for production control began to gain ground. Control legislation was freely discussed in 1932, and prototypes heralding the coming Agricultural Adjustment Act appeared in Congress during the winter of 1932-33.

Economists inside and outside the Department of Agriculture took a hand in shaping the Agricultural Adjustment Act of 1933. At the same time, responsible leaders of farm organizations had reached a stage of willingness to cooperate in trying to devise practical means to work for fair-exchange or "parity" prices through adjustment of the productive plant in line with probable future demand. The forces that had twice put the McNary-Haugen bill through Congress had been disorganized during the 4 years following 1928. Many of the leaders of that movement had experienced growing doubt whether, under existing and prospective world conditions, a sufficient foreign market could be found for an export surplus in the old proportions. This doubt became conviction when export outlets shrank with the termination of foreign loans by the United States.

All of the experience of the previous decade converged in the first Agricultural Adjustment Act and related measures.

The cooperatives had demonstrated to their own satisfaction that they could not hope to maintain and stabilize prices of the commodities for which they assumed responsibility so long as nonmembers shared in the benefits but escaped the costs assessed against members.

The interest of farmers in maintaining export outlets was recognized by provisions for disposal of excessive surpluses either abroad or in new uses at home.

The Federal Farm Board, which had operated with almost the complete support of organized agriculture, even of groups that had opposed its creation, had demonstrated the futility of attempting to control prices through storage and withholding without effective authority to control production.

Outlook Reports a Contributing Factor

Another important type of experience, of which nothing has yet been said, had originated in the Bureau of Agricultural Economics in the early 1920's and had continued with steady purpose since its beginning. That was the preparation and publication of outlook reports, covering all phases of farm production. In this work the Department drew heavily on the State agricultural colleges and experiment stations with their familiarity with local and regional conditions and problems.

The outlook reports aimed to promote efficient farming and balanced production. The Department had long lent its aid to the improvement of crops, livestock, and soils. The work got under way with the passage of the Morrill Act in 1862 providing for the establishment of the land-grant colleges. The research activities were intensified with the passage of the Hatch Act, in 1887, which provided for the establishment of the State agricultural experiment stations. Later on, in 1914 and 1917, with the passage of the Smith-Lever and Smith-Hughes Acts, machinery was provided for disseminating to the mass of farmers and farm youth the research findings and technical advances made in the experiment stations and research bureaus of the Department.

Beginning in 1922, the Department moved beyond the old boundary which had confined it merely to bringing the farmer improved techniques of production. The new step included the dissemination of economic information which would enable individual farmers to make adjustments in their acreage of crops and production of livestock in the light of prospective domestic and foreign demands. It was believed that farmers provided with such an outlook service could develop well-balanced systems of farming which would at least minimize, if not prevent, unprofitable agricultural surpluses and thereby stabilize income.

The objective of this program, obviously, was basically sound, but it depended entirely upon educational appeal as the motivating force. Even though they convinced farmers intellectually, the outlook reports failed to direct the economic behavior of many of the millions engaged in farming as individual units. The average farmer remained inclined to let the other fellow do the adjusting while he maintained or increased his production in his fight to meet expenses and interest payments. But the educational process started many farmers thinking about acreage allotments and quotas.

Domestic-Allotment Plan a Forerunner

An important contribution to the Agricultural Adjustment Act of 1933 was made by the domestic-allotment plan, which came to be

widely discussed during the years in which the Federal Farm Board was gaining experience and disillusionment.

The domestic-allotment plan was proposed prominently after the export-debenture and equalization-fee plans had been set aside by the creation of the Federal Farm Board. The domestic-allotment plan recognized that these proposals would fail to work unless an export market existed that would take, at some price, all of the surplus of a crop above domestic requirements. It grew out of a doubt whether, under existing conditions, such large export outlets could be found. Therefore it sought to increase income directly for the domestic consumption, leaving the export surplus to take care of itself.

As originally conceived, it involved raising the price that farmers would receive on the domestically consumed portion of their export crops by limiting sales of such crops in the domestic market. The part of the crop which farmers could sell in the domestic market was called the domestic allotment, and they were to be given certificates covering that allotment. In order to move a commodity into domestic consumption, processors had to cover the quantities offered for sale with certificates purchased from farmers. The increased return on each farmer's domestic allotment was to result from the fact that he received not only the world price but also the proceeds from the sale of his certificates. No certificates were issued on production in excess of the domestic allotment, and on this quantity the farmers received only the prevailing world price. A somewhat different plan, incorporated in the Hope-Norbeck bills of 1932, eliminated the certificates and provided that cash-benefit payments realized from a processing tax and requiring limitation of production be made on the domestic allotment.

This plan, which developed through study and discussion by a small group of economists, aroused considerable interest in the winter of 1932-33 in both farm and nonagricultural circles. M. L. Wilson, recently Under Secretary of Agriculture, then an economist with the Montana State College, and John D. Black, professor of economics, Harvard University, developed the domestic-allotment plan with the aid of specialists on the staff of the Federal Farm Board and in the Department of Agriculture. Most of these men later became important figures in shaping programs under the Agricultural Adjustment Act.

The domestic-allotment plan definitely influenced the form of the agricultural adjustment legislation. Some of those who had worked on it participated in the discussions of farm legislation that took place following the election of 1932, before the new administration took office.

THE AGRICULTURAL ADJUSTMENT ACT OF 1933

In March 1933 the unofficial work carried on during the winter by informal groups matured into draftsmanship, with Members of Congress, farm leaders, Federal and independent economists, and executive officials all taking a hand.

The Agricultural Adjustment Act was passed in the spring of 1933. Under this act millions of farmers entered into contracts to reduce

acreage in specified surplus crops in return for benefit payments, financed chiefly by processing taxes on the commodity concerned. In order to assure the success of the cotton adjustment program, cotton farmers were soon asking for marketing quotas with a penalty tax to force noncooperating producers into line. These requests led to the passage of the Bankhead Control Act, under the leadership of Senator John H. Bankhead, of Alabama.

This act imposed heavy taxes on the ginning of cotton, and at the same time provided participating cotton growers with tax-exemption certificates on their production allotments. This was soon followed by similar quota legislation for tobacco. Under the Kerr-Smith Tobacco Control Act, taxes were placed on the sale of tobacco, and participating tobacco growers were given tax-payment warrants on their production allotments.

The adjustment program was brought to a sharp halt by the Supreme Court decision in the *Hoosac Mills* case in January 1936, which held that the Agricultural Adjustment Act was unconstitutional in that it was a scheme for regulating and controlling agricultural production, whereas this power resided in the States and not in the Congress. The processing tax was also declared void because it was an inseparable part of the scheme for effecting production control. This decision, in turn, helped to determine the direction of the Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1938. Under the conservation act an open or unilateral offer on the part of the Secretary replaced the contracts under the original adjustment program; conditional payments replaced benefit payments; direct appropriations replaced processing taxes; and the emphasis was shifted from acreage control toward soil conservation and upbuilding. Although it had obvious merits as an aid to better use of land, the Soil Conservation and Domestic Allotment Act was largely impotent as an aid to continued acreage control. The heavy production of wheat and cotton in 1937 was in part a testimony to that lack and intensified the problem faced by farmers and officials in 1938.

Farmers in general were dissatisfied both with the Supreme Court's narrow definition of the powers of the Federal Government to assist agriculture and with the ineffectiveness of the Soil Conservation and Domestic Allotment Act to implement acreage adjustments. So farm leaders took a more important hand in shaping the latest general agricultural law, the Agricultural Adjustment Act of 1938, than they had done with any of its predecessors that had become law.

PRECEDING EVENTS AND EXPERIENCE MOLD 1938 LEGISLATION

It is interesting to examine the extent to which this act and related measures represent a synthesis and culmination of earlier efforts. For this purpose the existing legislation may be considered under five major headings: (1) Soil conservation, good farm management, and balanced output; (2) loans, marketing quotas, and parity payments; (3) marketing agreements; (4) the diversion of surplus production into both domestic and foreign channels, and the development of new uses for agricultural products; and (5) crop insurance.

Soil Conservation, Good Farm Management, and Balanced Output

Maintenance of soil resources is a basic objective of the Agricultural Adjustment Act of 1938 and must be included in any farm program which hopes to bring enduring benefits to agriculture and to the Nation. The act of 1938 provides for payments to farmers who save and build up the soil. The supplemental income received for cooperation in the program enables them to check the inroads of soil erosion and hence take a necessary step in the application of the principles of good farm management to their enterprises. An important aim of the farmers' work under the present program is to keep the total acreage allotments at a level that will insure a normal supply of food and fiber for domestic consumption and export. This balance between depleting and nondepleting acreage tends not only to protect farmers against those erratic swings in production that have led to burdensome surpluses and ruinous prices but to guarantee consumers an ever-normal supply of essential farm products.

Under earlier programs the tendency was to work toward this objective through direct control of acreage. The experience of the Federal Farm Board led to this approach to the problem. As losses on commodities held by the stabilization corporations increased, the Board began to insist that gains could be made only if production were held in line with the requirements of orderly marketing. The shift from this approach following the Supreme Court's decisions of 1936 did not eliminate the necessity of working toward a balance between supplies of farm products, on the one hand, and domestic-consumption requirements and foreign demand on the other. On the contrary, it is only through such balance that the declared purposes of the present act—parity prices and parity incomes for producers and adequate and steady supplies of farm commodities at fair prices to consumers—may be attained.

These provisions emerge from the background of previous experience. The problem of soil erosion is one which has attracted the attention of farmers and agricultural experts since Revolutionary times. Since the latter part of the nineteenth century the State and Federal Governments have given attention to the problems of erosion control, and the results of this work eventually reached farmers through activities of the Extension Service. A most significant advance was made in 1930, when Congress authorized the establishment of 10 regional experiment stations whose work revealed the full seriousness of the problem and hastened the formulation of more effective measures for coping with it. Shortly afterward came the establishment of the Soil Erosion Service, first in the Department of the Interior and subsequently transferred to the Department of Agriculture, which inaugurated a program of soil-conservation demonstrations in cooperation with private landowners. The manifest importance of this work led to the passage of the Soil Conservation Act of 1935, which established the Soil Conservation Service. The work of this agency was closely integrated with that of the Agricultural Adjustment Administration, as the programs of the latter aimed not only to increase agricultural purchasing power through control of the production of basic crops but also to encourage adjustments from the chief soil-depleting crops to crops or uses which would conserve or improve the soil and check or prevent erosion.

The movement in this direction was given further impetus with the enactment of the Soil Conservation and Domestic Allotment Act of 1936, under which soil conservation became the primary concern of the Agricultural Adjustment Administration and farmers and ranchers received payments conditioned upon positive performance in improving and conserving farm and range land. The Agricultural Adjustment Act of 1938 embodies a reenactment of the Conservation Act of 1936, and the objective of soil conservation remains a major objective under the present program.

Loans, Marketing Quotas, and Parity Payments

A separate title of the 1938 act provides a series of supplemental measures which enable producers of corn, wheat, cotton, tobacco, and rice to obtain storage loans to put a floor under prices when these are threatened by a slump and to finance the holding of surplus supplies until they are needed. Furthermore, marketing quotas may be employed to buttress the price-supporting influences of the loans. Their effect is to limit the sales of a commodity during a marketing year when supplies are at excessive levels. Each farm is given a marketing quota, and penalties are prescribed for sales in excess of that quota. Quotas, however, may be introduced only after producers of a commodity, in a special referendum, have voted in favor of their use by at least a two-thirds majority. Finally, since the result of the loans and quotas may be to stabilize farm prices at levels still too low in the light of the goals of parity prices and income, the Secretary is authorized to make payments, insofar as funds are available, to producers of the five basic commodities, that together with their income from the sale of their crops, will bring them a return approximately equal to parity price on their normal production.

Here again, there are historical antecedents. The crop-loan idea became sufficiently widespread to furnish a basis for the Agricultural Marketing Act of 1929, which was administered by the Federal Farm Board. Through its revolving fund, the Board was authorized to facilitate orderly marketing through loans to farmer-owned cooperatives and stabilization corporations. Loans on corn, cotton, naval stores, and other commodities were important adjuncts to programs under the Agricultural Adjustment Act of 1933.

The marketing-quota device found partial precedent in the Bankhead and Kerr-Smith laws and is a logical accompaniment of acreage allotments and of the present policy of encouraging the storage of excess supplies.

The direct parity payments are clearly traceable to the post-war demands, as evidenced by the McNary-Haugen and domestic allotment movements, that agriculture be accorded parity prices and its fair share of the national income.

Various criteria for determining the level of price stabilization have been discussed for years in connection with farm legislation. These have included such standards as equivalent tariff protection, cost of production, parity price, and, more recently, parity income.

The criterion of tariff equivalence, which implies raising agricultural prices above the world-market level in about the same average proportion that the tariff has raised the prices of industrial products

above the world-market level, has considerable justification on grounds of equity. It is not, however, very satisfactory. Industrial tariff rates are designed to check imports, and the rates necessary to do this do not necessarily constitute an accurate measure of the discrepancy between the positions of agriculture and industry.

Cost of production has a considerable amount of theoretical validity, but it is an unsatisfactory concept to use in practice. The experience of farm-management investigations and the studies of the Tariff Commission have indicated that the statistical determination of cost is exceedingly difficult and involves many arbitrary decisions, particularly with respect to the allocation of costs among different products produced on the same farm.

Parity price is easily calculated and easily understood, but the Department of Agriculture has pointed out that it is not always a reliable index of disparity between agriculture and industry. It assumes that over a period of time prices of all agricultural products will continue to bear the same relations to one another that they bore during the period selected as a base. In many instances the attainment of parity prices will bring undesirable results, such as impeding the normal consumption of farm products and even reducing the net income of producers below a fair level.

The Department of Agriculture has come to believe that parity income constitutes a more justifiable expression of the concept of agricultural-industrial balance than does parity price. The income concept was introduced into the Soil Conservation and Domestic Allotment Act of 1936, the purposes of which include the—

reestablishment, at as rapid a rate as the Secretary of Agriculture determines to be practicable and in the general public interest, of the ratio between the purchasing power of the net income per person on farms and that of the income per person not on farms that prevailed during the 5-year period August 1909–July 1914, inclusive.

Unfortunately, the fact that incomes cannot be determined with the same statistical accuracy as prices greatly reduces the usefulness of the income criterion.

Consideration of all the proposed criteria raises the question whether the objectives of agricultural policy can be once and for all established by a simple exercise in arithmetic.

Marketing Agreements

Supplementing the provisions of the 1938 act aimed to prevent sudden surpluses from disrupting the farm-price structure, the Agricultural Marketing Agreement Act of 1937 enables farmers and distributors to establish permanent and rational marketing systems for entire crops and groups of crops. The basic device authorized by this act is the marketing agreement, the genesis of which is easily discerned. Like so many other devices, this idea crystallized during the McNary-Haugen period. The final version of the McNary-Haugen bill provided that surpluses in excess of the requirements for orderly marketing could be handled by marketing agreements between the then contemplated Federal Farm Board and farmers' cooperative associations or corporations established and controlled by cooperatives. The Agricultural Marketing Act of 1929 laid great

emphasis upon orderly marketing and effective market organization but did not specifically provide for the use of marketing agreements.

The marketing-agreement idea was revived and made an integral part of the Agricultural Adjustment Act of 1933. The marketing-agreement provisions of the act permitted the organization of processors, distributors, and cooperatives into groups exercising centralized control over the marketing of agricultural products, and exempted such groups from antitrust laws. These provisions were supplemented by others granting the Secretary of Agriculture power to license distributors in order to eliminate unfair practices and to effectuate the general purposes of the act. Because of the doubt cast on the validity of the licensing provisions by the Panama Refining and Schechter decisions of the Supreme Court, orders of the Secretary were substituted for licenses in the 1935 amendments to the Agricultural Adjustment Act. The principal marketing-agreement provisions of this amended act were reenacted as the Marketing Agreement Act of 1937.

Surplus Diversion and New Uses

The Agricultural Adjustment Act of 1938 contains important provisions designed to widen the market for farm products. In the forefront are provisions authorizing the continuation of the Federal Surplus Commodities Corporation and the establishment of four regional laboratories to conduct research into and develop new uses and outlets for farm products. In addition, the Secretary of Agriculture is authorized to—

use available funds to stimulate and widen the use of all farm commodities in the United States and to increase in every practical way the flow of such commodities and the products thereof into the markets of the world (5).

The idea of diverting farm surpluses into domestic channels antedated the present act, as evidenced by the congressional resolutions of 1932 directing the Farm Board to make available to the Red Cross up to 40,000,000 bushels of wheat and to distribute 45,000,000 bushels of wheat and 500,000 bales of cotton to distressed persons in the 1932 crop-failure areas.

The original Agricultural Adjustment Act authorized the Secretary to make use of available funds for the disposal of surplus agricultural products. This authority was greatly emphasized and extended by section 32 of the amending acts which provided that 30 percent of the receipts from import duties be segregated for use in surplus-removal operations.

Operations designed to increase domestic use of farm products by low-income consumers were carried out first by the Agricultural Adjustment Administration in conjunction with the Federal Surplus Relief Corporation, and since 1935 have been carried out by the Federal Surplus Commodities Corporation. As to new uses, the regional research laboratories represent the culmination of a line of activity in which the Department of Agriculture has long been engaged and to which both farm and industrial groups have given wholehearted support.

The provisions for encouragement of exports have a distinguished and obvious lineage in the equalization-fee plan which was a prominent feature of the McNary-Haugen bills and in the export-debenture plan of the late 1920's which was written into the proposed McKinley-

Adkins bill of 1926 and the Jones-Ketcham bill of 1928. Last of this line was the domestic-allotment plan, which was designed primarily to avoid the appearance of export dumping, which had been charged against both the equalization-fee and the export-debenture plans.

The history of the special provision enacted in 1935 that sets aside 30 percent of annual customs revenues to finance disposal of surplus at home and abroad illustrates clearly the influence of past events on present legislation. Representative Marvin Jones, of Texas, Chairman of the House Committee on Agriculture since 1933, was one of the early supporters of the export-debenture plan, which indirectly would have diverted customs revenues to pay bounties on agricultural exports. Chairman Jones conceived section 32 of the amending legislation as a direct way to accomplish the same purpose but broadened the purposes for which the funds could be used so as to include disposal of surpluses for relief and other domestic uses.

In many quarters consideration has recently been given to current proposals which would give the export-diversion idea a more prominent place in the present program than it now occupies. In some of their forms these proposals would virtually abandon other approaches, such as soil conservation and orderly marketing, in favor of a program of large-scale export diversion plus certain direct subsidies to farmers.

While under the present program large-scale attempts to stimulate exports have been made, notably with wheat and cotton and their products, it needs to be recognized that in view of existing world conditions this approach is less likely to attain desired results now than in earlier periods. With the progressive narrowing of world markets for agricultural products and with increasing supplies of competitive substitutes throughout the world, it seems impossible to increase our agricultural exports much above the recent level without causing sharp declines in price. Furthermore, many important countries to which we used to export in large volumes are engaged in a drive for agricultural self-sufficiency, and their strongly centralized governments are almost certain to resist effectively any influx of large supplies from abroad which would tend to make these countries more dependent upon outside sources of supply.

In presenting these new proposals, the proponents naturally give only the broad outlines, which possess a disarming appearance of simplicity, particularly when contrasted with the administrative detail necessary to carry out the present program. A more rigorous examination of such proposals reveals that without exception their effective operation requires detailed administration. For example, many of these plans call for the segregation of farmers' crops into two parts, one for export and one for domestic use. This means that quotas must be determined and enforced on the individual farms. Again, many of the plans imply the extensive regulation of all types of middlemen and processors in order to secure information as to the prices at which different portions of various crops are bought and sold. In any event, it is certain that proposals which involve the abandonment of vital parts of the current program should be carefully scrutinized to see whether or not they are really any simpler than the current program and whether their promise of greater gain for the farmer is a reality or only a mistaken hope.

Crop Insurance

The Agricultural Adjustment Act of 1938, under title V, cited as the Federal Crop Insurance Act, sets up the Federal Crop Insurance Corporation, an agency of and within the Department of Agriculture. This new agency has a capital stock of \$100,000,000 and is empowered to write insurance against loss in wheat yields, commencing with crops planted for harvest in 1939. This new development has a background of its own. The hazards of farming have long been a subject of serious discussion, and in seeking modification it is but natural that the idea of insurance, applied so successfully to the elimination of other hazards, should be tried out in the field of agriculture.

As early as the latter part of the nineteenth century, private companies made an attempt to enter the field of all-risk crop insurance, and governments have been interested in the possibilities of crop insurance from an early date. The topic has been a matter of public interest in the United States since the early 1920's, and bills relating to crop insurance and resolutions calling for investigation of its possibilities have appeared frequently since that time. The immediate inspiration of the present law was the report of the President's Committee on Crop Insurance in December 1936, which proposed, among other things, that a crop-insurance plan for wheat, effective in 1938, be recommended to Congress.

SOME NEWER PROBLEMS

Even a brief history of agricultural policy since the end of the World War would be incomplete without some reference to three types of problems that have become increasingly prominent during the past decade. Approaches to a solution of these problems have been tentative and experimental, but there is a growing realization that they must be met.

One is the problem of tenancy. This is not a new problem. Ever since 1880, when the Census Bureau, under Francis A. Walker, first began to collect figures on farm tenancy, some attention has been given to the steady growth of tenancy at the expense of operator ownership. The trend did not become a matter of public concern, however, partly because other agricultural problems seemed more urgent and perhaps partly because farm tenants are not a homogeneous or articulate group. But during the last few years farm tenancy has received new emphasis as a factor in soil misuse. In addition, the fact that 42 percent of our farmers are now tenants, with the percentage as high as 70 in some States, seems to some people to be a sharp contradiction of the traditional American ideal of individual ownership.

The problem received prominent recognition through the appointment in 1936 of a Committee on Farm Tenancy, composed of citizens from various parts of the country. In 1937 Congress passed the Bankhead-Jones Farm Tenant Act, and under this act increasing sums have been appropriated each year to be loaned for the purchase of farms on a 40-year-mortgage basis. The administration of the fund, which is still small enough to be considered only experimental, is now in the hands of the Farm Security Administration. Meanwhile an attack

on the tenancy problem is being made from another angle through the study, in several States, of local customs and laws relating to leases. The idea here is that many of the so-called evils of tenancy may be largely a matter of the conditions of tenure and that by an intelligent approach on the part of States and communities, these conditions can be made consistent with the welfare alike of tenants, landlords, and the soil.

The second problem is that of the large group of farmers who are on the fringe of commercial production or entirely outside it. This problem is possibly a belated backwash of the industrial revolution, finally having its full effect in agriculture.

Broadly speaking, three conditions prevented the appearance of a surplus farm population in the United States in the past. At first American farmers were largely self-sufficient. Next they were kept busy supplying the wherewithal for building up American industry, which was founded on farm exports. Then, when industry got into its stride, it was able for a time to absorb whatever surplus population there was on the farm.

One by one, these three conditions were reversed. The United States now has a highly commercialized agriculture which, like industry, is constantly undergoing technical improvement so that year by year fewer workers are needed to produce a given quantity of products. At the same time the domestic demand for many important food staples, unlike that for industrial products, is relatively inelastic; adequate industrial opportunities for the part of the farm population released from labor by improved techniques do not exist at present; and the rate of natural increase among rural people remains relatively high.

The net effect of these conditions is summed up in the fact that 50 percent of our farmers now produce 90 percent of our commercial agricultural products. The other 50 percent—which is more likely to grow than to be reduced—perforce constitutes a marginal and in part a surplus farm population. How are these people to make a livelihood?

The situation is not a theory but a hard fact. It is made worse by any adverse condition such as the recent widespread droughts. The marginal and surplus farmer is the rural counterpart of the unemployed city worker, and both would of course disappear if industry expanded enough to absorb them. Throwing the problem on industry's doorstep, however, does not alleviate the immediate plight of some millions of American citizens. On humanitarian grounds alone, their problem cannot be left unsolved. Aside from humanitarian grounds, there is the question of how healthy a society can remain if so large a number of its members have no apparent economic function and therefore no self-respecting way to gain a subsistence.

Obviously there is no simple or easy solution for this problem, which in fact is only one aspect of a much more complex situation. Too little has been done as yet to draw any very significant conclusions, though recognition of the problem as of major importance is itself significant. A limited attack has been made on the problem, first by the Federal Emergency Relief Administration, then by the Reset-

tlement Administration, and today by the Farm Security Administration. This agency uses an individual-case-study method. The situation of each family with which it is concerned is studied individually, and an effort is made to give the family an adequate start toward self-sufficiency and a modest livelihood. This may involve resettlement of the subsistence-homestead type. The work proceeds on the theory that for the most part the rural unemployed are average folk, willing and able to make a living and that they can find a place for themselves if they can get the right kind of start. The Farm Security Administration has also attempted some cooperative projects, and it has started a promising program for medical care in rural areas.

The third problem has to do with the domestic consumption of farm surpluses. Orthodox methods for disposing of these surpluses have already been mentioned. An ingenious new method has recently been receiving considerable attention. This is the food-stamp plan being tried by the Federal Surplus Commodities Corporation as a possible way to overcome some of the shortcomings of distribution through ordinary relief channels. The food-stamp plan has three distinctive features. It attempts a systematic correlation of surplus production with actual need—for example, by getting certain foods to people whose diets are deficient. It operates through regular trade channels, making commercial dealers an integral part of the picture. And it apparently stimulates some additional buying of the surplus products beyond what the stamps themselves would provide.

All these aspects of the current farm problem are discussed at greater length elsewhere in this Yearbook. They are brought into the historical record here because, though relatively new, they indicate that under the drive of necessity there has been a significant broadening out of agricultural policy beyond the areas of price, export, and credit with which it has been traditionally concerned.

AGRICULTURAL POLICY; ITS MEANING AND EVOLUTION

A nation's agricultural policy is not set forth in a single law, or even in a system of laws dealing directly with current farm problems. It is expressed in a complexity of laws and attitudes which, in the importance of their influence on agriculture, shade off from direct measures like the Agricultural Adjustment Act through the almost infinite fields of taxation, tariffs, international trade, and labor, money, credit, and banking policy.

The combined indirect effect of policies in many of these other fields may be nearly as important, if not fully as important, in determining progress toward the goal—equality for agriculture—as are the direct approaches to the farm problem. A common tendency to ignore these related factors has been apparent in the oversimplification of most statements of what is called the farm problem.

Our own experience with farm legislation indicates that a nation never reaches the time when it can say its agricultural policy is fixed and complete. Evolution and change are nearly the only constant factors, partly because conditions at home and abroad which policy is required to meet are themselves constantly changing.

The intense effort and deep study of the business of farming in the United States, which so many individuals and groups have contributed during the two past decades, have produced the present system of agricultural laws and organizations, but it cannot be said they have solved the farm problems. Presumably these laws themselves will be subject to change and displacement. But if experience in this field teaches anything of value, it is that a continuous thread runs through the evolution of an agricultural policy notwithstanding the manifest inconsistencies and contradictions that appear in it. The programs of the present become the foundations for the programs of the future.

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