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ECONOMIC BASES FOR THE AGRICULTURAL ADJUSTMENT ACT



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UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C.

December 1933

ECONOMIC BASES
FOR THE AGRICULTURAL
ADJUSTMENT ACT

By

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and

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UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1933

OUTLINE

	Page
Foreword.....	III
The economic situation in the United States in 1932-33 in relation to the declaration of emergency and policy of the Agricultural Adjustment Act.....	1
Statistical and economic facts indicating the existence of emergency.....	2
Disparity between farm prices and other prices.....	6
Decline in farm income an important depressing factor.....	8
Declining agricultural assets contributed to financial collapse.....	10
Low prices obstructed normal interstate commerce in farm products.....	11
Extreme foreign trade barriers reduced international commerce.....	13
Correction of farm situation in the public interest.....	20
Economic and social justification for the policies set forth in the act.....	21
Production and consumption must be balanced.....	21
Farmers individually unable to balance production and consumption by own efforts.....	21
Price declines intensified by accumulated supplies.....	21
Marketing methods intensified farm-price declines.....	23
1909 to 1914 price relationship provides a fair basis for "parity" prices.....	26
Price parity must be restored gradually and progressively.....	28
Social welfare requires limitations on power to control production.....	31
Methods and procedures of the act directed to the fundamental difficulties.....	32
Rapid and progressive shifts in demand for various products.....	32
Production expanded readily but failed to contract.....	37
Excess production led to low prices and accumulated supplies.....	39
Individualistic nature of farming prevented concerted readjustment of production.....	40
Existing institutions inadequate to adjust production.....	41
Maintained selling margins accelerated farm-price declines.....	44
Methods and procedures of the act based upon experience in previous attempts to correct the farm situation.....	48
First post-war attempts involved only presentation of facts.....	48
Purchasing operations without control of production ineffective.....	50
Methods of act based on this experience.....	52
Federal action necessary to deal with farm situation.....	53
Methods and procedures of the act rest on sound economic principles.....	58
Control of production and processing tax.....	58
Effectiveness of tax varies with different commodities.....	59
Tax on cotton would increase income even without production control	60
Tax on domestic commodities primarily for production control.....	61
Smaller crops do not bring larger income for all products.....	61
Balanced production essential to general welfare.....	62
Marketing agreements may reduce marketing costs, regulate sup- plies, and increase prices to farmers.....	63
Agricultural recovery only one phase of the whole recovery effort.....	65
Farm income and city income interdependent.....	65
Agricultural Adjustment Act one sector of whole recovery program.....	67

FOREWORD

At the end of 1928, the major industrial countries of the world found themselves near the peak of an industrial boom which had created the world-wide orgy of speculation in securities and uneven distribution of income. In major branches of industry saturated markets made further expansion increasingly difficult. There was evidence of weakening in the commodity-price structure.

In 1929 the international lending upon which much of the world's commercial and industrial activity had been reared was suddenly withdrawn and put to more spectacular uses in the security market. The cost of credit rose to alarming heights, checking commercial activity.

In the summer of 1929 industrial production in the United States began to recede from its peak. Then followed the famous crash of the security market in October 1929.

A series of heroic efforts to prevent the downward sweep succeeded the stock-market crash. Interest rates were sharply lowered. Industrialists were urged by the President to maintain wage rates. Funds were made available to ex-service men. Open market operations were initiated by the Federal Reserve Board. Nevertheless unemployment mounted, consumer's income fell, commodity and security prices reached new lows. The national credit structure began to weaken.

In 1930 self-protection induced many countries to erect additional tariff barriers and to conserve bank resources, further obstructing the free exchange of goods by eliminating normal markets.

In the summer of 1931 in spite of a moratorium on foreign debts, the tremendous credit strain brought on a series of central-bank crashes in Europe and the flight of capital which eventually forced England to abandon the gold standard in September 1931. In the last of 1931 and the beginning of 1932 gold was exported from the United States in huge quantities.

There followed a wave of bank failures in the United States and a continuing flight of reserves. To counteract the resulting contraction of credit open-market operations were instituted on a greater scale than before. Financial measures were adopted amending the Federal Reserve Act, but the downward sweep of the depression continued bringing apprehension concerning the banking structure. Complete loss of public confidence followed. Withdrawals increased to an alarming rate and by March 4, 1933, the entire national banking system collapsed.

Forced by this climax in the national disaster the United States Government began to formulate the present recovery program. The following acts were among those passed in quick succession:

- Agricultural Adjustment Act, Act of May 12, 1933.
- Federal Emergency Relief Act of 1933, Act of May 12, 1933.
- Emergency Relief Act of 1933, Act of May 12, 1933.
- Tennessee Valley Authority Act of 1933, Act of May 18, 1933.
- Securities Act of 1933, Act of May 27, 1933.
- Uniform Value of Coins and Currencies, Resolution of June 5, 1933.
- Reconstruction Finance Corporation Act of June 10, 1933.
- Home Owners' Loan Act of 1933, Act of June 13, 1933.
- National Industrial Recovery Act, Act of June 16, 1933.
- Banking Act of 1933, Act of June 16, 1933.
- Farm Credit Act of 1933, Act of June 16, 1933.
- Emergency Railroad Transportation Act, 1933, Act of June 16, 1933.

The close relationship of the various powers now being exercised by the Government to meet the emergency is nowhere better stated

than in the address of the President on October 22, 1933, from which we quote a few outstanding paragraphs:

How are we constructing the edifice of recovery—the temple which, when completed, will no longer be a temple of money-changers or of beggars, but rather a temple dedicated to and maintained for a greater social justice, a greater welfare for America—the habitation of a sound economic life?

We are building, stone by stone, the columns which will support that habitation. Those columns are many in number and though, for a moment, the progress of one column may disturb the progress on the pillar next to it, the work on all of them must proceed without let or hindrance.

* * * * *

Another pillar in the making is the Agricultural Adjustment Administration. I have been amazed by the extraordinary degree of cooperation given to the Government by the cotton farmers in the South, the wheat farmers of the West, the tobacco farmers of the Southeast, and I am confident that the corn-hog farmers of the Middle West will come through in the same magnificent fashion.

The problem we seek to solve has been steadily getting worse for 20 years, but during the last 6 months we have made more rapid progress than any nation has ever made in a like period of time.

* * * * *

Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels.

The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed.

* * * * *

It is the desire of the Department of Agriculture to bring home to the public generally a clear and thorough understanding of the economic and social justification for the policies set forth in the Agricultural Adjustment Act; how the methods and procedures provided by the act are directed to the fundamental difficulties; how these methods and procedures provided by the act are based upon experience in previous attempts to correct the farm situation; that such methods and procedure rest on sound economic principles; that the agricultural recovery is only one phase of the whole recovery effort.

The following, as indicated by its title, is a detailed statement prepared by the economic advisers to the Secretary of Agriculture showing the economic basis for the Agricultural Adjustment Act. Hence, it also includes a presentation of the broad economic policies laid down by the statute. In view of the important problems now facing the Nation, the material contained herein is significant. It emphasizes the emergency condition that surrounded agriculture and industry prior to the passage of the Agricultural Adjustment Act, but does not purport to describe the beneficial effects toward recovery since this and other measures have been in operation.

In the field of science the effort is first to learn the facts accurately and, secondly, to draw correct inferences therefrom. In the field of economics, likewise, the economic data must first be ascertained accurately and then economic theory must be correctly applied to such data. Are the broad economic policies laid down by the Agricultural Adjustment Act for the present emergency sound, and are the means which have been and are now being adopted by the administration to carry out such policies adequate? There can be no correct evaluation of these policies without first carefully understanding the economic data and the economic theory upon which these policies are based. It is with this thought in mind that this publication is being made as a brief and simple review for general use. I trust that subsequent publications will review critically the operations of the Agricultural Adjustment Act.

HENRY A. WALLACE,
Secretary of Agriculture.

ECONOMIC BASES FOR THE AGRICULTURAL ADJUSTMENT ACT

By MORDECAI EZEKIEL, *economic adviser to the Secretary of Agriculture*, and
LOUIS H. BEAN, *economic adviser, Agricultural Adjustment Administration*

DECLARATIONS OF EMERGENCY AND POLICY

The Agricultural Adjustment Act of May 1933 [Public No. 10, 73d Congress, H.R. 3835] contains the following declarations of emergency and of policy:

DECLARATION OF EMERGENCY

That the present acute economic emergency being in part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities, which disparity has largely destroyed the purchasing power of farmers for industrial products, has broken down the orderly exchange of commodities, and has seriously impaired the agricultural assets supporting the national credit structure, it is hereby declared that these conditions in the basic industry of agriculture have affected transactions in agricultural commodities with a national public interest, have burdened and obstructed the normal currents of commerce in such commodities, and render imperative the immediate enactment of title I of this act.

DECLARATION OF POLICY

SEC. 2. It is hereby declared to be the policy of Congress—

(1) To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefor, as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the prewar period, August 1909–July 1914. In the case of tobacco, the base period shall be the postwar period, August 1919–July 1929.

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

(3) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the pre-war period, August 1909–July 1914.

The Agricultural Adjustment Act was passed to cope with the economic situation that confronted this country at the beginning of 1933. The declaration of emergency and the statement of policy in the act were justified by the momentous needs of the hour and were in accord with social justice. The methods and procedures authorized by the act as a contribution toward an orderly yet quick dealing with the farm problem are directed toward existing difficulties and were needed to bring about orderly progress out of the great economic depression. They recognize the experience developed in previous efforts to correct the farm situation by legislative and nonlegislative measures. They utilize the results of the vast body of economic research which

has been promoted in the previous decade by the United States Department of Agriculture and other institutions in their efforts to acquaint farmers with the underlying supply and demand factors affecting their prices. The methods and procedures provided by the Agricultural Adjustment Act are in full harmony with the workings of the so-called "law of supply and demand."

These economic bases of the Agricultural Adjustment Act and the fundamental principles underlying the domestic-allotment plan are discussed in the following pages. The facts presented are from the standpoint of conditions that prevailed during the winter months of 1932-33, just prior to the passage of this legislation.

THE ASSERTIONS AS TO THE ECONOMIC SITUATION WHICH ARE MADE IN THE AGRICULTURAL ADJUSTMENT ACT ARE SUPPORTED BY AUTHORITATIVE ECONOMIC AND STATISTICAL INFORMATION

THE EXISTENCE OF A NATIONAL ECONOMIC EMERGENCY IN THE WINTER OF 1932-33 WAS EVIDENCED BY ALL SIGNIFICANT INDICATORS

Prices of practically all products had been plunging downwards for nearly 4 years; prices of many products had reached levels lower than ever recorded in modern times. The decline was especially severe in prices of agricultural and other raw materials.

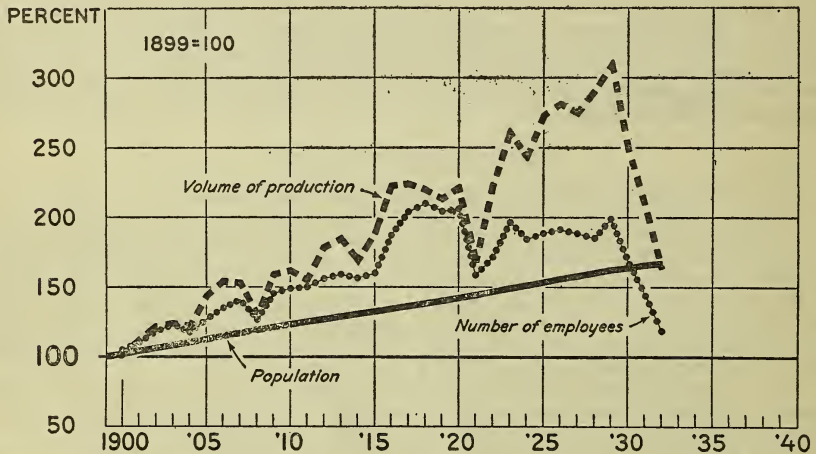


FIGURE 1.—PRODUCTION OF MANUFACTURES, FACTORY EMPLOYMENT, AND POPULATION, UNITED STATES, 1899-1932.

Industrial conditions affect agriculture vitally. When industrial activity declined in 1930, 1931, and 1932, wiping out the per capita increase of the previous 30 years, factory employment diminished so greatly that the purchasing power of the urban community fell by more than half. In these circumstances farm products could not be sold except at sacrifice prices.

Employment had been greatly reduced, and unemployment had reached record proportions. In many lines of city work, especially in capital-goods industries, more than half the workers had lost their jobs.

Production of industrial products had declined to record low levels (fig. 1) and construction activity had almost disappeared.

Interstate commerce had been very seriously reduced, as indicated in very low levels of railway carloadings, passenger traffic, ship movements, and the volume of imports and exports.

Financial activity was most seriously disturbed; bank failures had reached Nation-wide and record proportions; new capital financing had practically disappeared; and insurance companies, mortgage com-

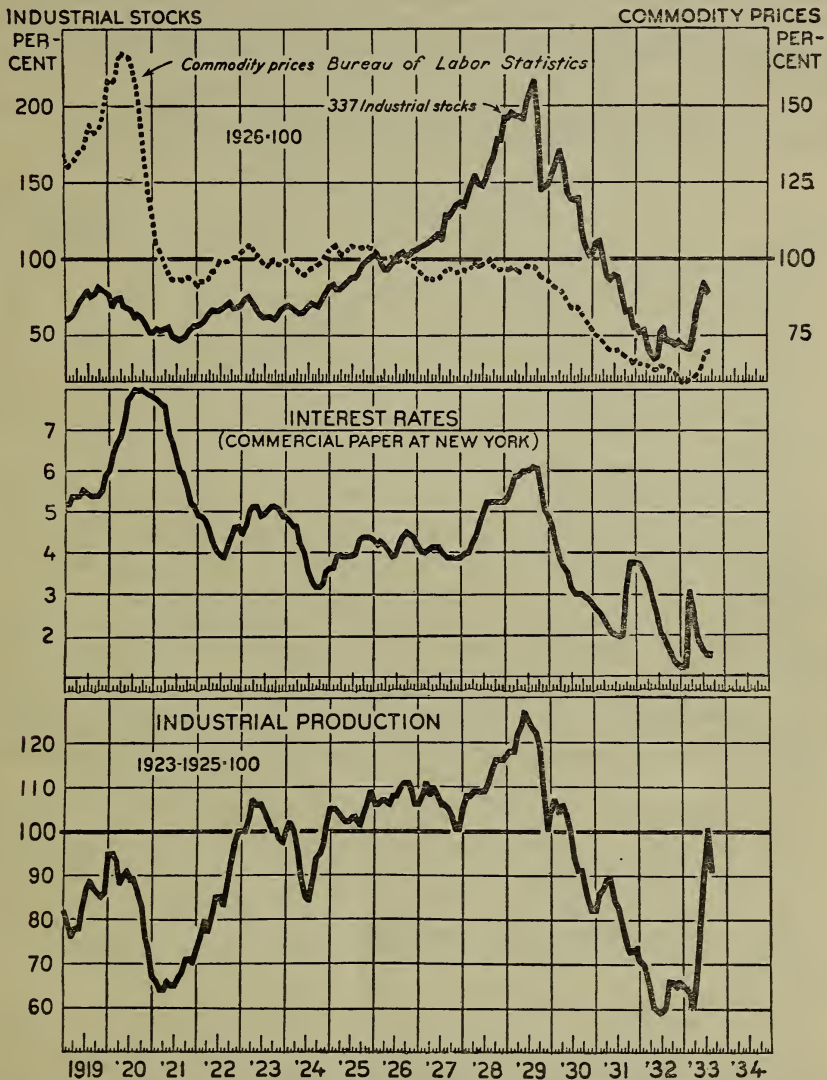


FIGURE 2.—INDEXES OF PRICES OF INDUSTRIAL STOCKS AND COMMODITIES INTEREST RATES, AND INDUSTRIAL PRODUCTION.

Such support as agricultural prices and income had received during the years 1922-29 from the industrial and speculative booms was completely lost after 1929. By the end of 1932 industrial activity was cut in half; security values lost in 4 years the rise of the preceding 8 years; commodity prices fell to below pre-war levels.

panies, and other financial institutions were facing apparently insoluble difficulties. Prices of securities fell to distress levels, and trading dwindled to very low volume (fig. 2).

Wage rates had been seriously reduced, especially in industries not protected by labor unions; and pay rolls were at the lowest point for several decades.

Incomes had been seriously reduced, in city and country alike; the national income had shrunk by half; debts and taxes had become intolerably burdensome, and tax and debt delinquency rose to large proportions.

The extent of decline in these key items between February 1929 and February 1933 is indicated in the following statement:

Key indices of the depression

	<i>Percentage change from February 1929 to February 1933</i>
Prices:	
All commodities, wholesale.....	1-37.3
Nonagricultural, wholesale.....	1-28.2
Finished products, wholesale.....	1-30.3
Raw materials, wholesale.....	1-50.7
Farm products, wholesale.....	1-61.2
Retail prices of food.....	1-41.1
Prices received by farmers.....	2-64.0
Prices paid by farmers.....	2-34.0
Production:	
Net agricultural production.....	2-4.6
Agricultural marketings.....	4-19.7
Production of manufactures.....	3-48.7
Production of minerals.....	3-33.6
Construction contracts awarded.....	4-88.0
Stocks of raw materials:	
Metals.....	4+3.6
Textiles.....	4+81.1
Food and raw materials, world.....	4+61.9
Commerce:	
Car loadings, l.c.l.....	3-36.5
Total carloadings.....	3-49.5
Passenger traffic.....	5-55.2
Exports of farm products (volume).....	2-33.6
Finance:	
Bank suspensions.....	3+146.7
Commercial failures.....	4+21.0
Bank deposits.....	3-23.7
New capital issues.....	3-97.7
Prices of industrial stocks.....	6-81.9
Prices of private bonds.....	3-14.3
Prices of United States Government bonds.....	3+1.5
Number of shares traded.....	7-75.2
Income and wages:	
Income of urban consumers.....	2-45.7
Factory pay rolls.....	3-63.0
Farm cash returns.....	2-65.9
Dividend payments.....	4-39.6
Pay rolls in wholesale trade.....	1-39.2
Pay rolls in retail trade.....	1-38.2

The unparalleled contraction in economic activity occurred in spite of the fact that the country possessed great resources and a healthy population of willing and experienced workers. Huge stocks of excess supplies of many basic products piled up, indicating that it

¹ Bureau of Labor Statistics.

² Bureau of Agricultural Economics.

³ Federal Reserve Board.

⁴ Survey of Current Business.

⁵ Revenue passengers carried 1 mile on class I steam railways, Interstate Commerce Commission.

⁶ Wall Street Journal.

⁷ New York Stock Exchange Bulletin.

was not inability to produce, but lack of purchasing power to consume what was produced, which characterized the depression (fig. 3).

Extraordinary governmental efforts were being made to assist the victims of the depression. Expenses for emergency relief, to prevent

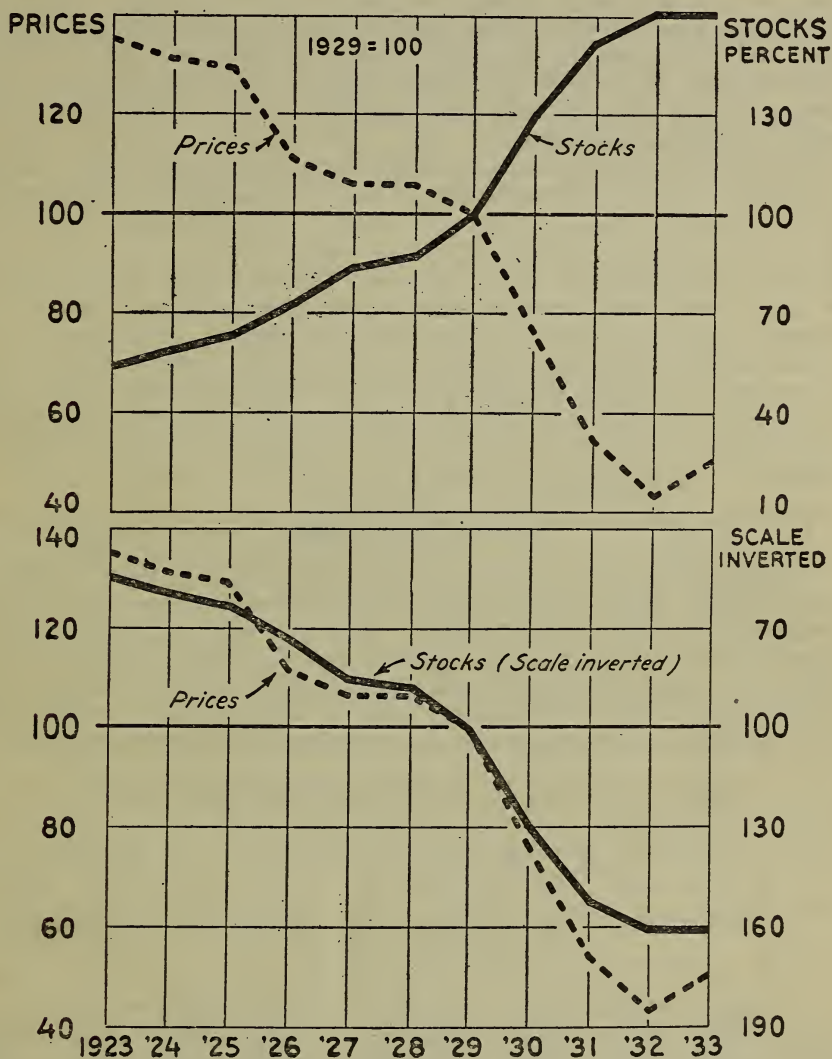


FIGURE 3.—WORLD STOCKS AND PRICES OF NINE FOODSTUFFS AND RAW MATERIALS.

Stocks must be cut down if there is to be a sound rise in prices. Prices which were somewhat out of line with stocks in 1923-25 may have initiated the production expansion which by piling up stocks eventually destroyed consumptive power. We have a long way to go before stocks and prices return to sound levels.

starvation, had reached staggering and unprecedented totals; municipalities and other Government units in many cases were unable to bear the financial burdens thus imposed; yet the relief given the unemployed provided only a very meager and most inadequate standard of

living, and in many cities was far below any decent subsistence standard.

Pronounced social unrest and revolutionary activities in increasing frequency attested the plight of millions and their growing resentment at governmental failure to check economic chaos. Lack of confidence affected all. Even among farmers, normally one of the most stable elements in American society, there were strikes, forcible interventions with legal processes such as mortgage sales, mob formation and violence, and even violence to constituted law officers such as sheriffs and judges.⁸

With the virtual break-down of the economic system, many classes of private property lost all earning value. In many cities, real estate did not bring in enough revenue to pay taxes, and large sections of some cities became virtual no-man's lands, with no one caring for the use or maintenance of the property. Other forms of assets, such as stocks and bonds, lost value in whole or in part, and no form of income was fully secure. Under these conditions private property ceased to have its former significance, for if the economic decay were to continue, no form of property would retain its value. No legal due process protection to private property could have any economic significance so long as economic chaos continued to render property valueless.

THERE WAS A SEVERE DISPARITY BETWEEN THE PRICES OF FARM PRODUCTS AND OTHER PRODUCTS

This disparity had existed long before the 1929-32 decline began; farm income failed to keep pace with the increase in the national income from 1923 to 1929 (table 1). Between 1921 and 1925, farmers shared in the rise in national income, but that share was less than before the war. Between 1925 and 1929 the national income advanced from nearly 82 billion to over 91 billion dollars, while total gross income from farm production remained practically unchanged.

TABLE 1.—*The farmers' share in the national income, 1919-32*

Year	Estimate of national income ¹	Gross farm income ²	Dividend and interest payments by corporations ³	Farm income as percentage of national income ⁴	Year	Estimate of national income ¹	Gross farm income ²	Dividend and interest payments by corporations ³	Farm income as percentage of national income ⁴
	Million dollars	Million dollars	Million dollars	Percent		Million dollars	Million dollars	Million dollars	Percent
1919-----	65,949	16,935	3,189	18.5	1926-----	84,238	11,480	4,391	9.6
1920-----	73,999	13,566	3,415	14.9	1927-----	87,276	11,616	5,571	9.5
1921-----	63,371	8,927	3,342	11.0	1928-----	88,283	11,741	6,028	9.3
1922-----	65,925	9,944	3,400	11.1	1929-----	91,405	11,918	7,588	(5)
1923-----	74,337	11,041	3,585	10.8	1930-----	81,295	9,414	8,600	(5)
1924-----	77,135	11,337	3,841	10.8	1931-----	67,000	6,911	8,226	(5)
1925-----	81,931	11,968	4,086	11.1	1932-----	52,500	5,143	7,006	(5)

¹ National Bureau of Economic Research and U.S. Department of Agriculture.

² U.S. Department of Agriculture.

³ Commercial and Financial Chronicle.

⁴ National Bureau of Economic Research and U.S. Department of Agriculture, percentages based on estimates of farm income included in the estimates of national income, and not those shown in column 2.

⁵ Comparable percentages for 1929-32 are not available, but current data indicate that in 1931 and 1932 the farmers' share of the national income had declined to about 7 percent.

⁸ UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS LIBRARY, FARMER'S STRIKES AND RIOTS IN THE UNITED STATES 1932-1933. Bibliography, 30 pp. Aug. 15, 1933. [Typewritten.]

As a result the farmers' share of the national income declined from 11 percent in 1925 to 9 percent in 1929, and the share paid to property owners in the form of interest and dividend increased. The greater decline in farm income since 1929 has reduced the farmers' share still more.

Even at the peak of "boom prosperity" 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 (fig. 4). During the depression, the disparity was greatly increased; by February 1933 the exchange value of farm products for industrial goods had fallen to 50 percent of the pre-war average. Their exchange value for services such as labor, taxes, and credit, was even less.⁹

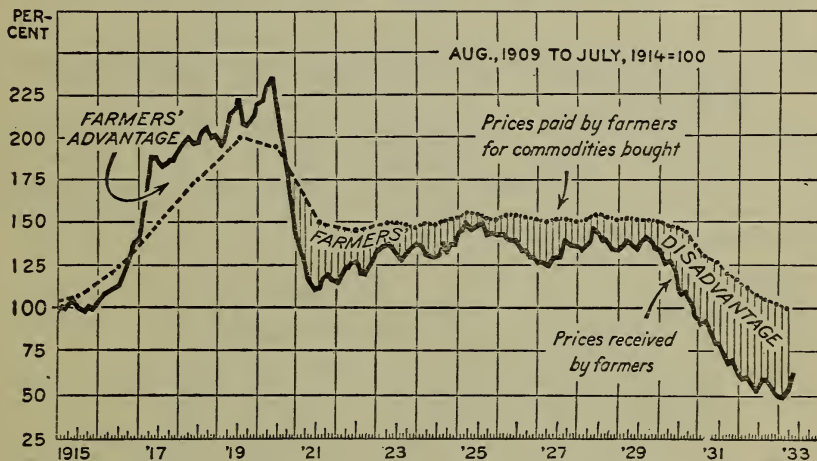


FIGURE 4.—INDEX OF PRICES RECEIVED AND PAID BY FARMERS.

The advantage that farmers gained during the war when prices received for farm products rose to higher levels than prices paid for industrial goods was lost in the 1920-21 depression. Relative to other prices, farm prices have been low ever since 1920, and the disparity was accentuated during 1930-32, when farm prices fell so low that they had only half their pre-war purchasing power.

The disparity was present in the price of every farm product. It was most severe in the export commodities, such as cotton, wheat, tobacco, and rice, where the disappearance or severe contraction of export demand had built up great excess stocks of the commodities. It was also marked in hogs and hog products; the reduced export outlets for these products had forced increased quantities into domestic consumption. Some of these price disparities are shown in table 2.

⁹ UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS. GENERAL TREND OF PRICES AND WAGES [and] . . . OF PRICES AND PURCHASING POWER. U.S. Dept. Agr., Bur. Agr. Econ. Agr. Situation 17 (3): 14-15, 1933.

TABLE 2.—Index numbers of farm prices and their relative purchasing power, February 1929 and February 1933

[1910-14=100]

Product	February 1929	February 1933	Decrease	Relative purchasing power, February 1933	Product	February 1929	February 1933	Decrease	Relative purchasing power, February 1933
Grains:			<i>Percent</i>		Meat animals—			<i>Percent</i>	
Wheat.....	118	37	69	36	Continued.				
Corn.....	135	30	78	29	Cattle.....	171	64	63	63
Oats.....	118	33	72	33	Calves.....	180	70	61	70
Cotton.....	145	44	70	44	Dairy and poultry products:				
Cottonseed.....	176	40	77	40	Butter.....	177	72	59	59
Meat animals:					Chickens.....	194	82	58	82
Hogs.....	123	41	67	40	Eggs.....	148	51	66	51
Sheep.....	175	47	73	47					
Lambs.....	214	71	67	70					

AFTER 1928 THE FARMERS' ABILITY TO BUY INDUSTRIAL PRODUCTS DECREASED EVEN MORE RAPIDLY THAN THE PRICES OF THEIR PRODUCTS

Farmers' liabilities for taxes and interest decreased hardly at all; while operating expenses declined much less rapidly than gross income declined. As a result, the cash balances available for expenditure for goods and services for family consumption declined by two thirds between 1929 and 1932¹⁰ (fig. 5).

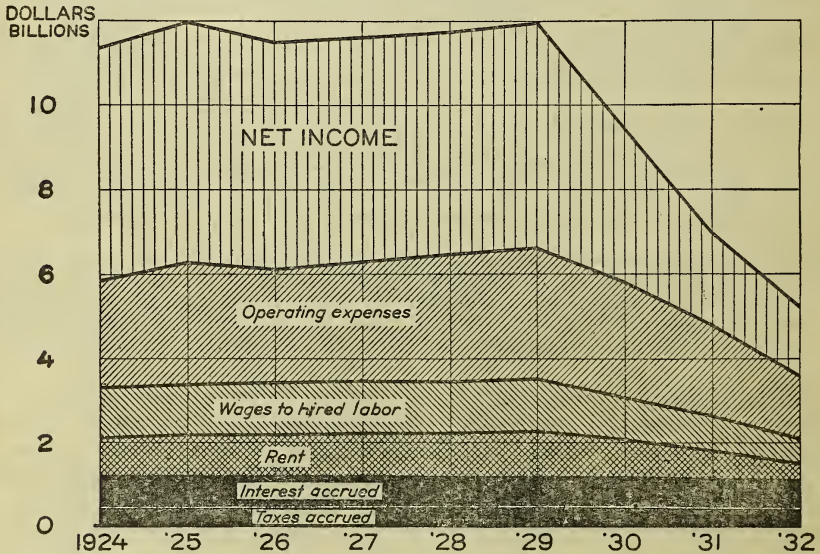


FIGURE 5.—GROSS FARM INCOME AND EXPENDITURES

By 1932, the net income from farm products had been reduced to a point where farmers were earning neither an adequate reward for their own labor nor a return on their investment. As farmers lost their former standard of living, industries dependent on the farm market released their employees.

THE DECLINE IN FARM PURCHASING POWER WAS ONE IMPORTANT FACTOR IN PRODUCING AND IN INTENSIFYING THE GENERAL DEPRESSION

The lack of balance between agricultural production and consumption began to depress international markets for wheat and cotton

¹⁰ UNITED STATES DEPARTMENT OF AGRICULTURE. INCOME FROM FARM PRODUCTION IN THE UNITED STATES, 1932. U.S. Dept. Agr. Crops and Markets 10 (4): 144-149. 1933.

after 1925. Consequently farm income from crops (fig. 6) began to trend downward, while income from livestock products, dependent chiefly on domestic purchasing power continued to improve. Recession in farm incomes became more sharply marked after the crash began in 1929, embracing all branches of farming. The sales of industries directly dependent upon agriculture, such as farm machinery, feed, fertilizer, automobiles in rural areas, and mail-order stores, declined sharply.¹¹ As the depression became more intense farmers reduced expenditures for all types of products, and sought to become more self-sufficing and to be less dependent on purchased goods.

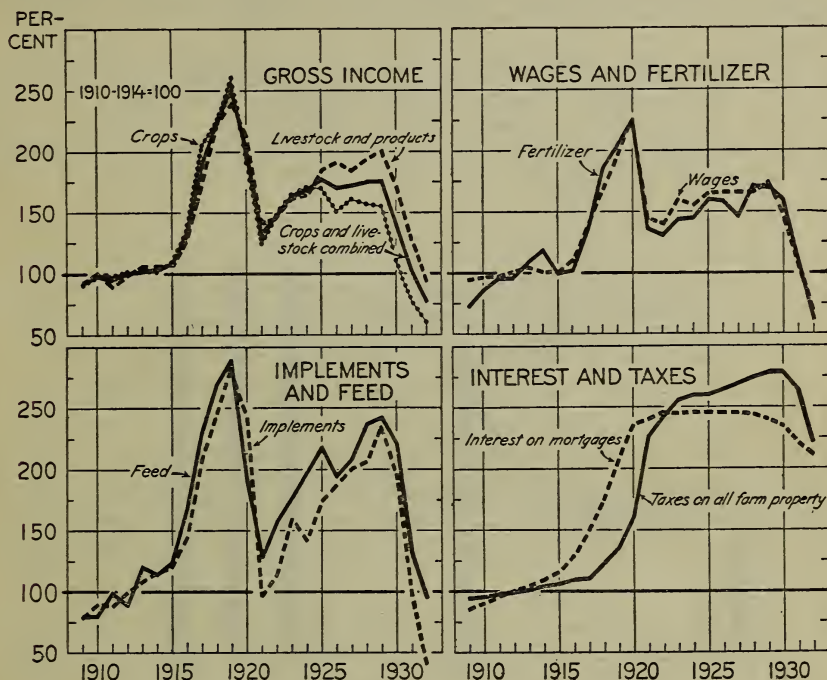


FIGURE 6.—GROSS FARM INCOME AND SELECTED EXPENDITURES. 1909-32.

As in the 1921 depression, the decline in farm income after 1929 was accompanied immediately by a curtailment in cash outlays for machinery, fertilizer, feed, and hired labor. Taxes and interest payments, though somewhat reduced, took a heavier toll than ever before out of the meager net income.

As farm purchases declined, men were thrown out of work in the city industries which produced those products, and in the city and rural agencies that distributed them to farmers. These men in turn cut down their expenditures, and threw still other men out of work. As the city-buying power declined, the sums spent for domestic farm products declined with it. This reduced still further the farm-buying power, and carried the vicious cycle of contraction on its way.

The rapid declines in prices of farm products caused heavy inventory losses to industries using farm products. In terms of ex-

¹¹ BEAN, L. H. TRENDS IN GROSS FARM INCOME AND EXPENDITURES 1909-31. U.S. Dept. Agr., Bur. Agr. Econ. Agr. Situation 16 (7): 8-12, illus. 1932.

penditures for raw materials, these industries represent ordinarily about 40 percent of all our manufacturing industries.¹² In addition to the losses on inventories, the continually falling prices made business men hesitate to lay in supplies or to buy ahead for future commitments. The resulting general shift toward conducting manufacturing and selling operations on a "hand-to-mouth" basis resulted in manufacturing activity and employment falling even more rapidly than consumer demand was being reduced, and so provided one additional factor tending to accelerate and intensify the spiral of decline.

THE AGRICULTURAL ASSETS SUPPORTING THE NATIONAL CREDIT STRUCTURE WERE SERIOUSLY IMPAIRED, CONTRIBUTING TO THE GENERAL FINANCIAL PANIC

Farm land values had been weak ever since the post-war boom (fig. 7). They began to show serious declines in 1931 and 1932; and in many areas farms became almost unsaleable. Insurance companies, mortgage companies, and other urban financial institutions were seriously embarrassed by this decline in the value of their mortgage assets (table 3).

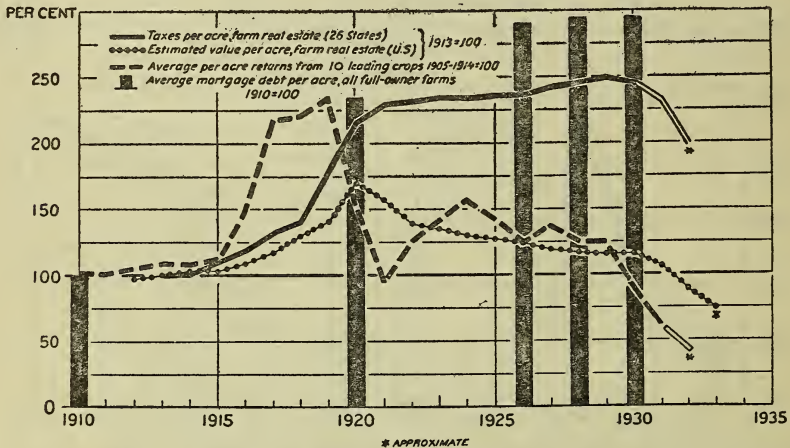


FIGURE 7.—RETURNS PER ACRE OF 10 LEADING CROPS AND TAXES, LAND VALUES AND MORTGAGE DEBT PER ACRE OF FARM REAL ESTATE.

Returns per acre for 1932-33 were about 60 percent less than in the pre-war years, while average mortgage debt per acre was nearly three times and taxes about twice as high. Consequently, land values fell still further to about three-fourths of their pre-war value for the country as a whole. This disparity between prices, land values, and fixed charges—the heart of the agricultural depression—retards general recovery.

TABLE 3.—Changes in the value of capital used in agricultural production, in stated years, between 1910 and 1932

Year	Land and buildings	Livestock	Farm machinery	Total
1910	\$34,801,000,000	\$4,879,000,000	\$1,265,000,000	\$40,945,000,000
1920	66,316,000,000	8,525,000,000	3,595,000,000	78,436,000,000
1925	49,468,000,000	5,041,000,000	2,680,000,000	57,189,000,000
1930	47,880,000,000	6,490,000,000	3,302,000,000	57,672,000,000
1932	37,027,000,000	3,459,000,000	2,830,000,000	43,316,000,000

12 BEAN, L. H., and CHEW, A. P., ECONOMIC TRENDS AFFECTING AGRICULTURE, p. 11. 1933. (U.S. Dept. Agr., Agr. Adj. Admin. and Off. Inform.)

Meanwhile the decline in the sales value of farm products made it difficult for farmers to pay off their bank loans and other short-term borrowings. In rural communities the whole structure of local credit is based almost entirely on the earning power of the farm industry. Bank failures had been heavy in rural regions all through the years of industrial prosperity; after the depression began, these failures rose to new high levels (fig. 8). By the end of 1932 only two thirds as many small country banks were operating as in 1922, while deposits were either considerably drawn down, destroyed, or tied up (fig. 9).

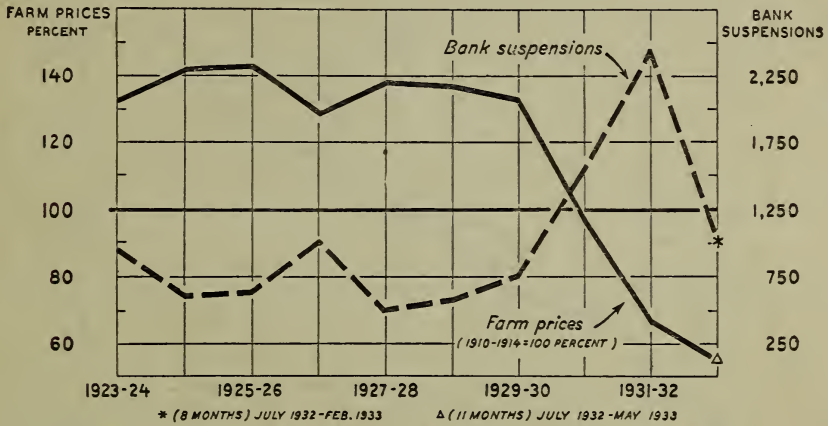


FIGURE 8.—PRICES RECEIVED BY FARMERS AND BANK SUSPENSIONS, 1923-32.

It is not agriculture alone that suffers when agricultural prices fall. From the end of 1929 to the end of 1932, the farm-price slump was accompanied by a tremendous increase in bank suspensions. The financial structure was undermined as capital values crumbled.

With the inability of farmers to repay their borrowings and the disappearance or freezing of local supplies of credit many attempts were made to supply emergency credit by public agencies. These included seed loans and drought loans, cooperative loans by the Federal Farm Board, loans by credit corporations established from Farm Board and Reconstruction Finance Corporation funds, and emergency loans provided by various types of State action. Although pressure for collections on these loans was never severe, these loans had little effect on the general liquidity of rural regions, in the face of the continued declines in income.

The failure of financial institutions and the tightness of credit in farm regions intensified the serious financial conditions in the cities, and still further reduced funds available for construction or even ordinary commercial transactions, and so led to still further reduction in employment and industrial activity.

THE DECLINE IN FARM PRICES AND THE DISAPPEARANCE OF CONSUMER DEMAND BURDENED AND OBSTRUCTED THE NORMAL CURRENTS OF COMMERCE IN FARM PRODUCTS

For some bulky products, selling prices in the cities fell below the costs of transportation and packing, and made it physically impossible to continue shipping the usual quantities. As a result, farm prices in the distant producing regions fell to almost nothing, and in cases

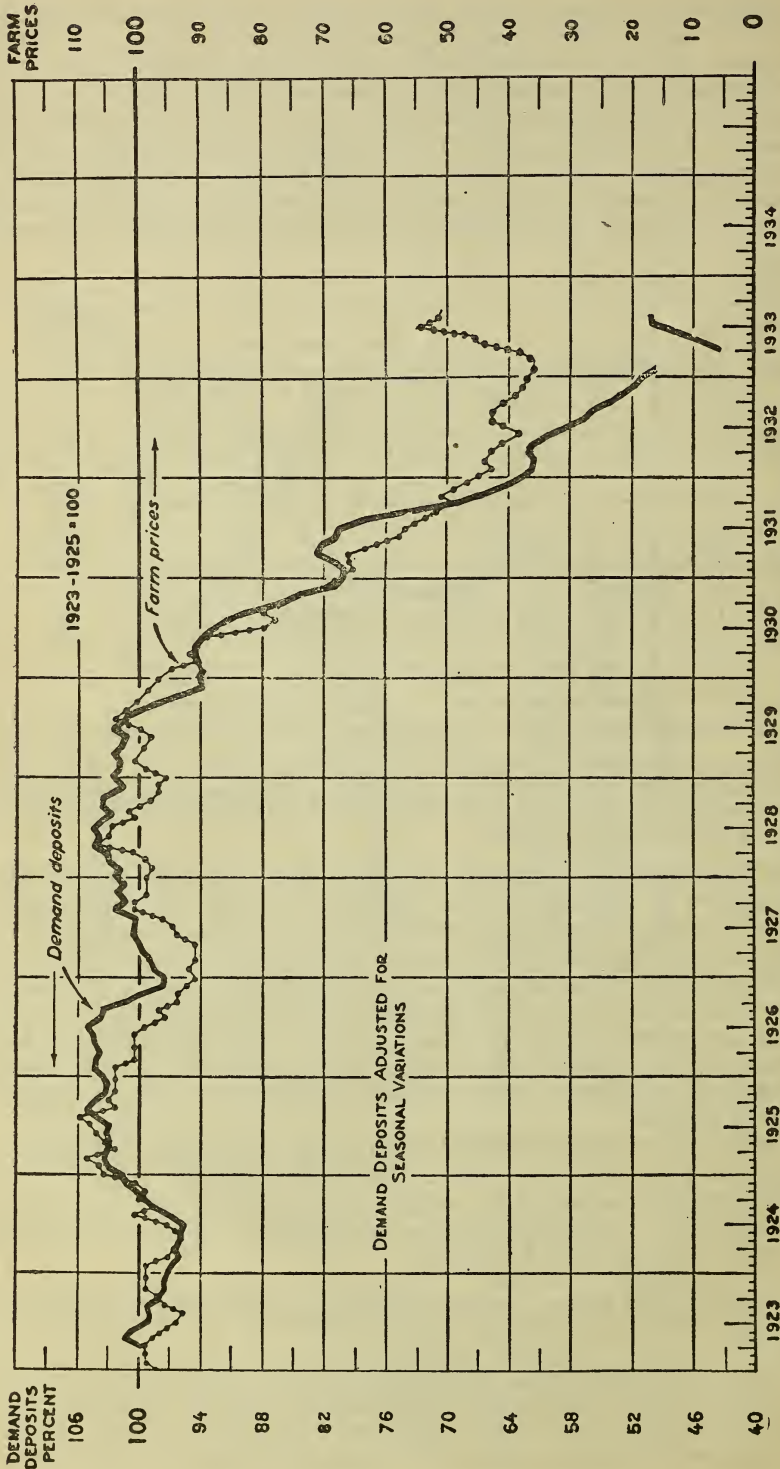


FIGURE 9.—FARM PRICES AND DEMAND DEPOSITS OF COUNTRY BANKS IN 20 STATES.

Following the financial collapse of 1929, the decline in farm prices undermined the rural-credit structure and the restriction of country-bank credit in turn added its depressing effect on farm prices.

where a shipment did not return enough to pay the costs, the farmer received a net bill for excess costs—which meant he had to pay for the privilege of giving his products away. Cases of this sort occurred with California grapes, South Carolina and Georgia peaches, far-western ewes, and even in such standard products as hay and corn in some regions. With perishable products particularly, large quantities were permitted to rot in the fields because they would not pay the costs of shipping to market.

The drastic declines in retail price, while railway transportation costs were maintained practically unchanged and selling and other distribution costs declined only slowly, produced marked changes in the relative advantage of different geographic regions in producing various products. It no longer was so profitable to produce bulky products to ship to distant markets; while it became relatively more profitable to produce products for home consumption and nearby sale. In effect, this distortion in prices and costs tended to produce a breaking-down of the previous structure of regional specialization and widespread interchange of products, and a dropping back toward earlier and simpler forms of production. The resulting readjustments were most marked in vegetables and other specialty products. The acreage of canning crops decreased 31 percent from 1929 to 1933. Meanwhile acreages in truck crops increased 15 percent and acreages in vegetable gardens for nearby sale, not adequately covered in the statistics, made partially offsetting increases. Farmers in cash-crop regions, such as the wheat and cotton belts, expanded their acreages of food and feed crops during this same period.

These geographic readjustments in production in response to the distorted price relations constitute only emergency answers to an emergency situation, and will call for fresh readjustments later on. When the normal relationship between product values and transportation and selling costs is eventually restored, the relative advantage of different products will shift back toward the previous balances, and many of the depression-produced expansions will be found to be in the wrong locations or regions. The shiftings between regions which have taken place to date in the effort to avoid the excessive costs of transportation and marketing cannot thus be regarded as enduring steps toward a better-balanced agriculture. Instead they must be regarded as being generally more in the nature of temporary expedients which will have to be remade when stable conditions are restored once more.

THE INCREASING SUPPLIES, DECLINING PRICES, AND STRINGENT FINANCIAL CONDITIONS LED FOREIGN COUNTRIES TO ERECT EXTRAORDINARY BARRIERS TO FOREIGN TRADE, WHICH BARRIERS HAVE GREATLY BURDENED AND OBSTRUCTED THE USUAL FLOW OF INTERNATIONAL TRADE IN FARM PRODUCTS

Many causes contributed to increased economic nationalism after the war. In many cases boundaries of newly created countries cut right across the heart of previously existing economic areas. There were frequent attempts to rebuild the entire business structure on both sides of the new boundaries, resulting in duplication of facilities. The war experience of inadequate food supplies led to pressure for domestic self-sufficiency. Agrarian unrest and the fear of social revolution led to efforts to build a more self-contained peasantry in some countries. It was felt that such a peasantry would constitute a safe bulwark against revolutionary appeals.

The efforts toward national self-sufficiency which grew out of military ideas, post-war treaties, and national aspirations were greatly intensified by the false economic policies of some of the leading countries. The economic policy of the United States during the post-war decade was a striking example of this tendency. The war had changed our international position from that of a debtor to a creditor country. We had sent abroad tremendous quantities of goods to help carry on the war. If the debts were ever to be repaid we would have to receive in return goods and services in excess of those we were exporting currently. We refused to adjust our national economic policy to this changed situation. Instead, we built our tariff barriers higher and higher, tending to shut out the importation of foreign goods at the same time we attempted to collect the war debts.

In effect, we said to the rest of the world: "Buy from us, pay us what you owe us, but sell little to us". For a while this unbalanced policy appeared to be successful. We made increasing loans abroad. These enabled us to maintain and increase exports in the face of a policy which fundamentally tended to discourage international trade. This unbalanced situation could not continue indefinitely. When the active speculation in our own markets in 1928-29 cut off the flow of funds abroad the cessation of foreign loans helped bring about the 1929 collapse.

These nationalistic policies for sociological, political, or military reasons, on the one hand; and the movement toward self-containment as a result of irrational and uncoordinated economic policies, on the other, both contributed to the continually increasing barriers which were placed in the path of international trade from 1925 on, and to the very serious shrinkage in international commerce during the later depression period.

For a time after the war, most European countries permitted relatively free import of most farm products. By 1925, however, the reconstruction in the devastated regions and Europe as a whole was generally completed, and the reestablishment of production in those regions, plus the continued production of the overseas areas expanded by the war, began to put increasing pressure on international markets for farm products. To protect the incomes of their farming populations, and in some cases also for social or nationalistic reasons, many of these countries began to raise their duties about 1925, and to place other barriers in the way of agricultural imports (fig. 10). The declines in prices after 1929 intensified these efforts to protect their domestic producers; tariffs were raised as prices fell, and other measures, such as import quotas or contingents, milling restrictions, and even Government monopolies of imports or exports, were used in various combinations. The struggle for internal and external liquidity following the failure of the Austrian Credit-Anstalt in the summer of 1931 led to still more extreme measures.¹³ Those countries which did not abandon gold payments, and so decrease their purchasing power for imported products, generally imposed regulations on foreign-exchange transactions, which had a similarly restricting influence on commodity imports.

¹³ OHLIN, B. NOW OR NEVER, ACTION TO COMBAT THE WORLD DEPRESSION. The Index, publ. by Swedish Commercial Bank, May 1931.

The increase in trade barriers was particularly marked for wheat, as is shown in figure 10. The increases in wheat tariffs produced

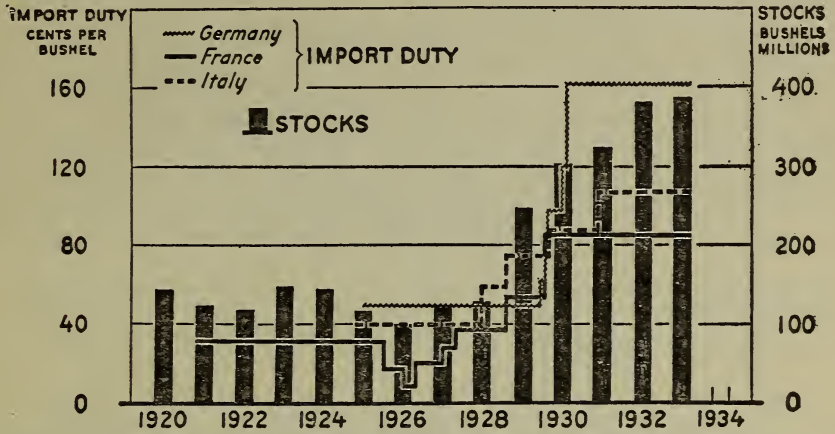


FIGURE 10.—FOREIGN IMPORT DUTIES ON WHEAT, AND UNITED STATES STOCKS OF WHEAT, JULY 1, 1920-33.

Foreign import duties have contributed to reduce American exports of agricultural products in recent years. It is impossible to measure the influence of these obstacles separately. They dovetail in their effect with the restoration of war-time agriculture in Europe, with the increase in the competition of other agricultural exporting countries, and with the general depression. The uprearing of trade barriers has paralleled the increase in our wheat carry-over.

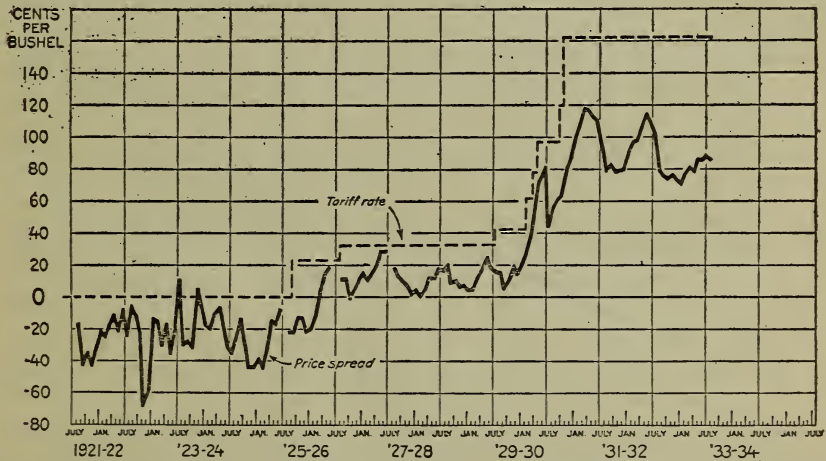


FIGURE 11.—SPREAD BETWEEN WHEAT PRICES AT BERLIN AND BRITISH PARCELS PRICES COMPARED WITH GERMAN WHEAT TARIFF RATES, 1921-22 TO JULY 1933.

As early as 1925 certain continental European countries began the process of erecting tariff barriers, raising the prices of their home-grown products, encouraging acreage expansion, and reducing their requirements of foreign farm products. This chart and figure 12 illustrate how successively higher tariff walls finally raised wheat prices above the world level. By 1933 American wheat was practically shut out of the European markets.

almost corresponding maintenance of prices for domestic wheats in Germany and Italy relative to prices in the world markets (figs. 11 and 12). These maintained prices for domestic wheat stimulated

increased acreages in these and other importing countries (fig. 13); while the high cost of wheat and the low quality of bread resulting from the milling regulations, tended to decrease the consumption of

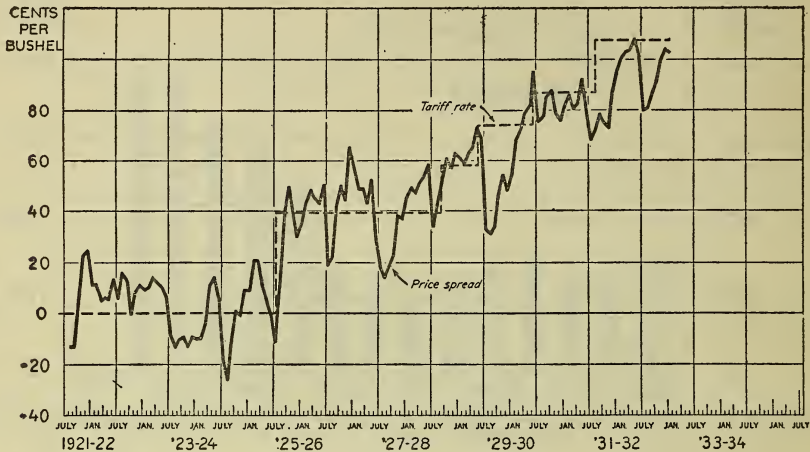


FIGURE 12.—SPREAD BETWEEN WHEAT PRICES AT MILAN AND BRITISH PARCELS PRICES COMPARED WITH ITALIAN TARIFF RATES, 1921-22 TO FEBRUARY 1933. (See legend fig. 11.)

wheat within these countries. As a result of this dual process, it has been estimated that the importing countries of Europe are now producing annually about 150 million bushels more of wheat than they

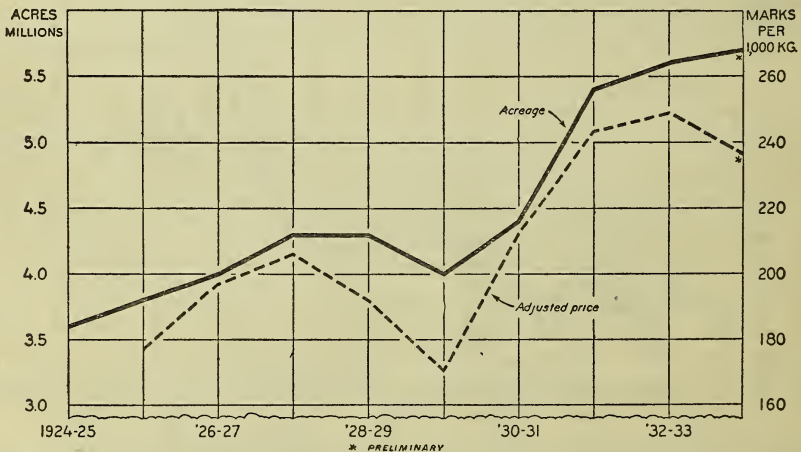


FIGURE 13.—WHEAT ACREAGE AND PRICE (ADJUSTED BY INDEX OF FARM PRODUCTS) DURING PRECEDING YEAR, GERMANY, 1924-25 TO DATE

The higher tariff barriers erected in Europe created prices so favorable as to cause considerable acreage expansion. American farmers generally were unaware of this gradual restoration of European self-sufficiency and of the need for adjusting American production to the reduced foreign requirements.

would have produced in the absence of these governmental interventions; and that they are consuming annually about 175 million bushels less wheat than they had previously been consuming.¹⁴ Over 300

¹⁴ [UNITED STATES CONGRESS.] WORLD TRADE BARRIERS IN RELATION TO AMERICAN AGRICULTURE. Report of the Secretary of Agriculture to the Senate . . . [U.S.] Cong. 73d, 1st sess., Senate Doc. 70:167-171. 1933.

million bushels has thus been subtracted from the annual commercial demands for wheat by the action of these importing countries alone.

As demand fell off abroad, the exports of wheat from the United States and Canada shrank (fig. 14). Farmers were unable to reduce their production in line with the shrinkage in demand. Exceptionally large quantities of wheat were diverted to feeding livestock, but even so large excess quantities piled up in storage. The end-year carry-over of wheat increased by 500 million bushels in the four major exporting countries between 1928 and 1933; in the United States, the carry-over increased from a normal amount of about 125 million to 360 million bushels by July 1932. Over half of the world excess of wheat was thus held in American hands.

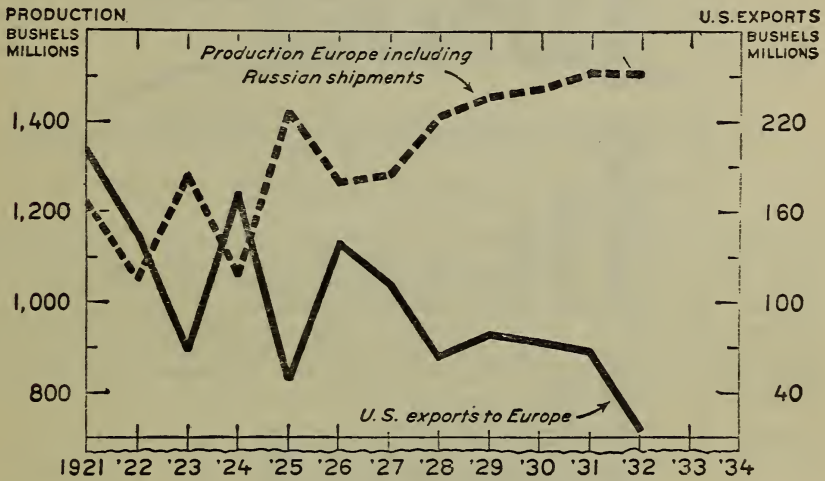


FIGURE 14.—UNITED STATES EXPORTS OF WHEAT (INCLUDING FLOUR) TO EUROPE AND PRODUCTION IN EUROPE, 1921-32.

After the war Europe restored its wheat production by encouraging acreage expansion through tariffs and other import restriction. It increased the output from 1,100,000,000 bushels in 1922 to 1,500,000,000 bushels in 1932. As a result, American exports of wheat to Europe declined. They were less than 20,000,000 bushels in 1932, as compared with 150,000,000 bushels in 1922.

The export demand for hog products has followed a fairly continuous downward trend from the high level of 1919 (fig. 15). By 1932 exports of hog products were less than in pre-war years. Foreign import restrictions on these products had only minor influence in this decline in exports; the major factor being marked expansion in production in foreign countries, particularly Germany and Denmark. After 1930 the erection of import barriers by certain European countries whose purchasing power had declined and whose exchange transactions were restricted, forced other countries such as Poland to divert its pork exports to Great Britain through lowering British prices and curtailing the demand for American pork products. By the end of 1932 Great Britain had put a quota system into effect and hog-production-curtailment measures were adopted by the Netherlands and by Denmark. In the course of 9 years, from 1923 to 1932,

American hog producers lost a foreign outlet for their pork products of about 9 million hogs.¹⁶

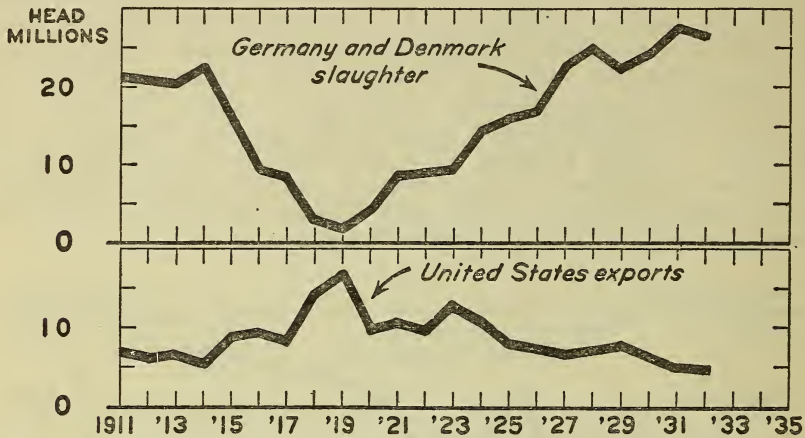


FIGURE 15.—INSPECTED HOG SLAUGHTER IN GERMANY AND DENMARK, AND UNITED STATES EXPORTS OF HOG PRODUCTS, 1911-32.

Hog slaughter declined in Germany and Denmark during the war, and increased in the United States. This country expanded its exports of hog products by about 200 percent, or the equivalent of 10,000,000 hogs. After the war, Germany and Denmark restored their hog production. They carried it in fact to a point above the pre-war level. American exports of hog products consequently declined. The war-time increase disappeared, but American farmers continued to produce as if this decline in foreign demand had not taken place.

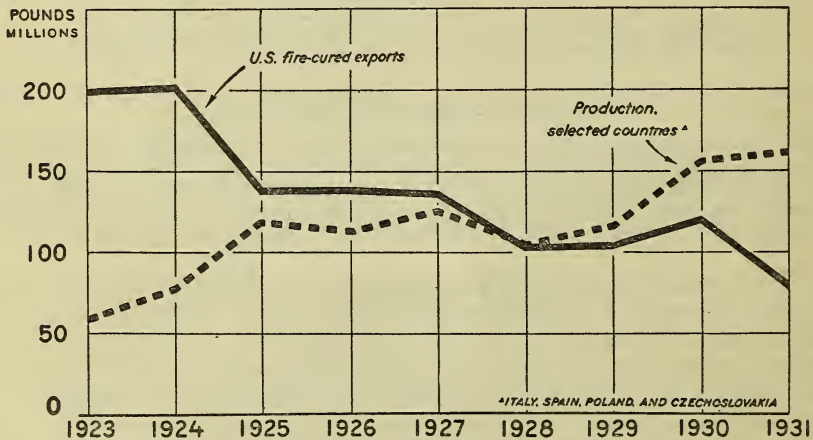


FIGURE 16.—EXPORTS OF FIRE-CURED TOBACCO FROM THE UNITED STATES AND PRODUCTION IN SELECTED EUROPEAN COUNTRIES, 1923-31 (EXPORTS FOR YEAR INDICATED AND PRODUCTION FOR PRECEDING YEAR).

As the supply of tobacco in four competitive European countries expanded about 100,000,000 pounds between 1923 and 1931, the United States exports of fire-cured tobacco declined by somewhat more than 100,000,000 pounds.

The post-war decline in exports of tobacco has also arisen from foreign trade restrictions and from the displacement of consumption of American tobacco by expansion of foreign production (fig. 16).

¹⁶ [UNITED STATES CONGRESS.] See footnote 14. Senate Doc. 70: 172-189.

Between 1920 and 1922 the trade restrictions reduced foreign consumption by 100 to 150 million pounds annually. In 1932 between 80 to 100 million pounds of fire-cured and 30 to 40 million pounds of flue-cured American tobacco was displaced by foreign types.¹⁶

The building up of stocks of nonperishable products in the United States accompanying the post-war decline in foreign demand, is shown in figure 17.

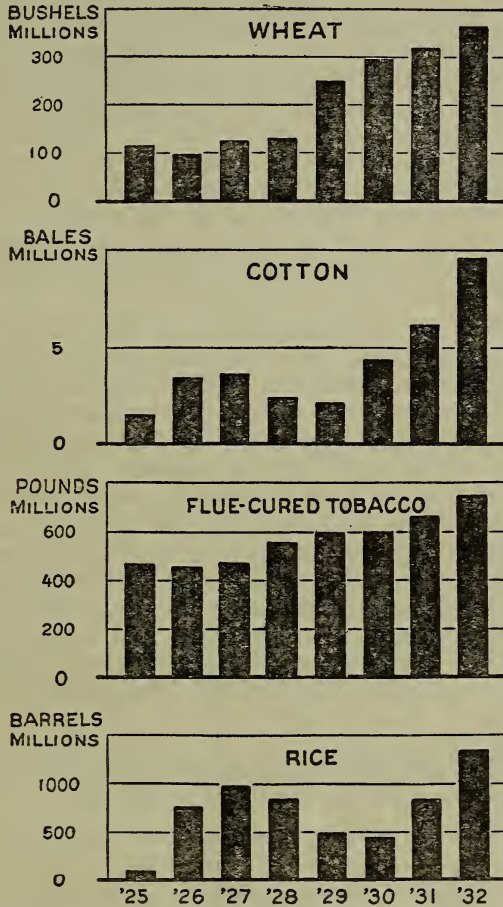


FIGURE 17.—COMMODITY CARRY-OVERS IN THE UNITED STATES AT THE BEGINNING OF EACH CROP SEASON.

Even before the depression began excess stocks had begun to pile up. Since then continued production and underconsumption have carried supplies to record levels in many lines.

Exporting countries, meanwhile, were making various special efforts to maintain the incomes of their producers. In wheat, for example, the Danubian countries used many different special forms of export dumping or governmental monopoly to maintain the domestic price of wheat above that received for the exportable surplus. In Canada, the holding movement by the wheat pools, and later direct market operation for the account of the Government, tended to main-

¹⁶ [UNITED STATES CONGRESS.] See footnote 14. Senate Doc. 70: 190-213.

tain prices. In the United States, the Farm Board purchases gave artificial support to wheat prices for a time. Both in Canada and in Australia, direct production bonuses of about 5 cents per bushel were paid at one time. Early abandonment of the gold standard in Argentina and Australia reduced the transportation costs their producers had to pay, increased the value of the wheat to producers on their domestic markets, and thereby placed fresh pressure on remaining world markets. These various methods were not so successful in maintaining prices in exporting countries as the restrictions in importing countries were in maintaining prices behind their walls. To the extent that they did support the prices that producers received in exporting countries, however, they stimulated the expansion or maintenance of production, and so deferred still more the solution of the problem. At the same time, the constant discussion and agitation over relief proposals, particularly in the United States, encouraged speculators to buy wheat in the hope of sharing in future price advances which might be due to governmental action, and so helped hold prices at a level which maintained production and shut off exports.

As a whole, this international situation reflects the way in which governmental interventions have impeded the working out of usual economic adjustments. Excess supplies of farm commodities, from 1928 on, were accompanied by falling prices in international markets. Exporting countries, in an effort to protect the welfare of their producers, adopted methods which maintained prices and encouraged production within their boundaries; importing countries followed policies which decreased consumption and increased production. In general, low prices were accompanied by falling consumption and increasing production. It is no wonder that excessive stocks piled up. This failure of production and consumption to balance themselves, and this presence of many extraordinary and unusual factors in the situation, offers one of the most compelling reasons why governmental authority had to step in to correct what appeared to be otherwise a hopeless situation.

IT IS IN THE PUBLIC INTEREST THAT GOVERNMENTAL AGENCIES ASSIST FARMERS AND THOSE INDUSTRIES WHICH HANDLE FARM PRODUCTS TO TAKE SUCH STEPS AS ARE REQUIRED TO CORRECT THE FARM DEPRESSION

The welfare of all our citizens is dependent upon the smooth working of the economic mechanism which brings each person food, clothing, and shelter in return for the things which he produces.¹⁷ The operation of this mechanism has been very seriously upset, so that millions of our population are deprived of the opportunity of supporting themselves. Successful action in correcting the price disparities, in restoring farm incomes, and in preventing the recurrence of unbalanced agricultural production, will help to restore the proper functioning of the whole economic mechanism. It is greatly to the public interest that this be done.

If the recent chaotic conditions had been permitted to continue, the economic collapse would have threatened the continued existence of all our public institutions. These public institutions can best be preserved by economic changes worked out with their help. The

¹⁷ HITZ, V. E. BUSINESS AND AGRICULTURE 1920-1933. A PARTIAL BIBLIOGRAPHY OF MATERIAL ON THE DEPENDENCE OF BUSINESS ON AGRICULTURE. 50 pp. Aug. 14, 1933. (Typewritten. Copies on file U.S. Dept. Agr., Bur. Agr. Econ. Library.)

Agricultural Adjustment Act, passed by the Congress and administered by the Federal Department of Agriculture with the help of the State agricultural colleges and other constituted local authorities, represents one part of an orderly program of reconstruction. If orderly procedures were interfered with, and economic deterioration continued, far more radical and less orderly methods of readjustment might soon be developed.

THE POLICIES SET FORTH IN THE ACT ARE JUSTIFIED BY THE ECONOMIC CONDITIONS AND NEEDS, AND ARE IN ACCORD WITH SOCIAL JUSTICE AND PROGRESS

BALANCING THE PRODUCTION AND CONSUMPTION OF FARM PRODUCTS, AND IMPROVING THE METHODS USED IN MARKETING SUCH PRODUCTS, ARE IMPORTANT STEPS TOWARD REESTABLISHING FARMERS' PURCHASING POWER

Production and consumption of many important farm products have been out of balance for 4 or 5 years. This lack of balance has been most pronounced for those products which formerly had important export outlets, and where export is now cut off or seriously diminished as a result of the developments in foreign countries already indicated. This lack of balance is most clearly indicated by the continuously accumulating stocks of these commodities.

LEFT TO THEMSELVES, FARMERS AS A GROUP HAVE BEEN UNABLE TO READJUST THEIR TOTAL PRODUCTION IN LINE WITH THE REDUCED DEMANDS

In industrial production, factories reduce output when necessary by discharging workers and reducing the scale of operations, and thus force the workers to assume a large share of the burden of lowered demand. Farmers cannot make similar savings in labor costs, for a large majority of the labor on farms is supplied by the farmers themselves or by members of their families (fig. 18). In fact, the depression has forced many former city workers to move out to live with their relatives in the country, or in makeshift shacks, so as to be sure at least of shelter and food. As a result, the farm population, which had been shrinking for many years, increased by 2,000,000 persons from 1929-33. This increased supply of farm labor has tended to maintain or even increase the production of farm products as a whole (fig. 19).

Even farm bankruptcy does not usually remove land from production. Either someone else comes in to operate the farm, or the previous owner who has been "sold out" stays on as a tenant for the bank or insurance company. In most cases land which has thus been sold for debts or taxes continues to add its quota to the excess production.

THE ACCUMULATION OF EXCESSIVE SUPPLIES OF CERTAIN PRODUCTS INTENSIFIED THE DECLINE IN THE PRICES OF THOSE PARTICULAR PRODUCTS

From 1929 to 1933 farm prices of export products such as wheat, cotton, tobacco, hogs, and rice declined more than did the farm prices of the remaining products, set solely by conditions in the domestic market (table 1). In February 1933 they had a purchasing power of less than 40 percent of that of pre-war years, compared with nearly 60 percent for the remaining products. The excessive accumulated supplies were largely in these exportable products.

With more perishable products, where long-time storage was not possible, the excess of supplies either was moved into current production or was allowed to rot in the fields when it did not pay to move it to market. In hog products, in particular, though there was some

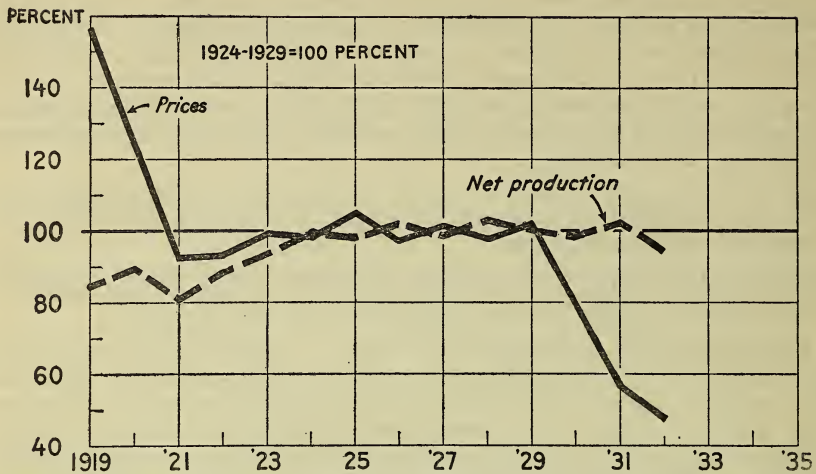


FIGURE 18.—INDEXES OF NET AGRICULTURAL PRODUCTION AND PRICES, UNITED STATES, 1919-32.

From 1924-32 our total agricultural production remained fairly stable, although some farm enterprises expanded and others contracted. Left to themselves, farmers as a group have not been able to adjust their aggregate acreage and output in line with reduced domestic and foreign demand. Growth of population in the period was at a slower rate than formerly, and the export demand for our farm products declined. The decline of agricultural prices after 1929 reflected these changes, and also the influence of deflation generally. Stocks of certain basic farm commodities piled up.

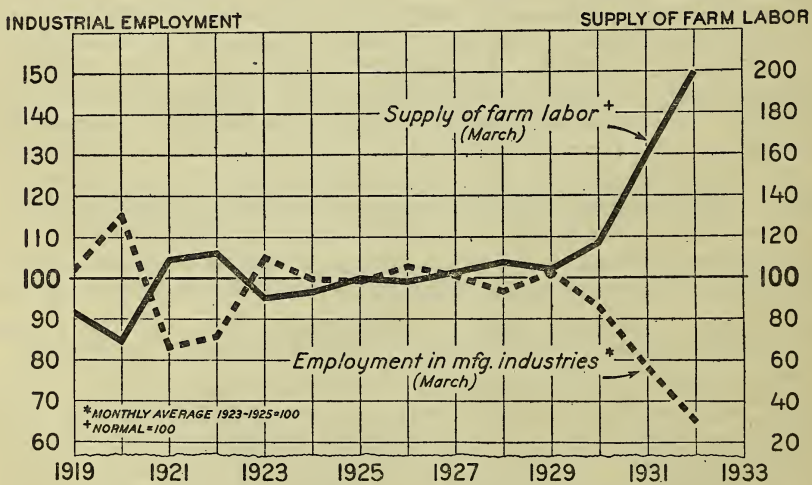


FIGURE 19.—FARM LABOR AND INDUSTRIAL EMPLOYMENT.

The industrial depression of 1929-33 checked the movement of farm population to cities, increased the movement of city people to farm communities, and thus increased the farm population. The undirected and uncoordinated shift of city population to farms means not only a reduction in city demand for farm products but also a greater commercial supply of farm products, in the immediate future, and aggravates the agricultural-industrial disparity.

increase in storage stocks, the greater part of the reduction in exports was offset by forcing increased quantities into consumption at exceedingly low prices. Retail prices of hog products in February 1933 were actually lower than the pre-war average, while retail prices of most other farm products, even bread and cotton goods, still remained higher than in the pre-war period.¹⁸

DEFECTIVE MARKETING METHODS HAVE TENDED TO REDUCE FARM INCOMES; IMPROVEMENTS IN SUCH METHODS WOULD INCREASE RETURNS TO FARMERS

For the great mass of farm products, the farmer receives only a small proportion of expenditures by the consumer, while the balance goes to pay costs of processing, transportation, and selling (table 4). The proportion of the retail price which the farmer received in March 1929 varied between 66 percent for poultry products down to 23 percent for wheat (when sold as flour, bread, and macaroni), and down to even less in the case of cotton when sold as finished garments. The percentage which goes for immediate distribution expenses has tended to increase from decade to decade, as processing and distributing methods have become more complicated; and increased very sharply during the depression.¹⁹ If these costs of processing and marketing could be reduced, income to the farmer could be increased without any corresponding increase in costs to consumers. Part of the farmers' distress results from the excess costs which have developed in marketing. Improvement in marketing methods therefore offers a specially fruitful field for improving the farmers' income.

TABLE 4.—*Farm value of certain foods as percentages of city retail value, March 1929 and 1933*

Product	Retail foods	Farm value as percentage of city retail value	
		March 1929	March 1933
Poultry products (hens and eggs).....	Hens and eggs.....	<i>Percent</i> 66.0	<i>Percent</i> 50.6
Dairy products (milk and butterfat)....	Fresh and canned milk, butter, and cheese.....	53.5	33.8
Meat animals (cattle, hogs, and sheep)...	Beef, pork, and lamb.....	53.3	37.2
Potatoes and rice.....	Potatoes and rice.....	41.0	38.3
Wheat.....	Flour, bread, and macaroni.....	23.2	11.1
Average.....	47.6	30.8

Excessive competition between distributors and efforts to maintain volume at the expense of other agencies in the field have frequently resulted in duplication of facilities or provision of extra services which resulted in increased selling costs without any corresponding economic service. Competition between packers has taken the form of frequent deliveries to retailers of very small orders and of expenditures for salesmen to visit many small outlets out of all proportion to the volume of sales through such outlets. Yet as long as any large concern continues such practices all its competitors must go to equal expense or lose their share of the business. Similarly, in many food specialties such

¹⁸ U.S. Dept. Labor, Bur. Labor Statist., Monthly Labor Rev., v. 36, no. 4, 1933.

¹⁹ EZEKIEL, M. WHAT DISTRIBUTION CAN CONTRIBUTE TO FARM RELIEF. (Address.) Boston Conference on Retail Distribution Rpt. 5, p. 344. Sept. 19, 1933.

as prepared cereals, or in other highly standardized branded merchandise such as cigarettes, a great deal of the advertising may serve merely to retain the business of a given company against the pull of advertising by its competitors; yet all these practices add to the costs which intervene between farmer and consumer. Similarly in retail trade, the provision of luxury services such as frequent deliveries during the day, or very liberal terms on charge accounts, add to the cost of doing business and may compel many competitors to offer the same facilities to retain their share of the trade.

Any tendency of competition to eliminate excessive costs seems to work haltingly if at all in the case of competing selling agencies. When new agencies come in and take away part of the business, that decreases the volume for all the concerns in the business. With smaller volume, costs per unit are increased, and all concerns have to operate at an increased margin per unit to cover their usual expenses. Sometimes, of course, some concerns have sufficient capital to sell below cost for a time, and so force some of their competitors out of business and regain enough volume to operate at a profit again. There are enough instances, however, where through large sectors of marketing the number of concerns remaining in business has stayed for long periods well above the number really required to handle the business, to give much color to the suspicion that competition is but a very faulty device for eliminating excessive costs in marketing.

Such data as are available indicate that on the average the real income per person gainfully occupied was but 23 percent higher in 1928 than in 1919,²⁰ and the total number of persons gainfully employed increased 17 percent.²¹ The total volume of goods and services handled therefore increased about 44 percent during the decade. The number of persons engaged in trade, transportation, communication, clerical, and professional service, however, increased from 12,600,000 in 1919 to 17,200,000 in 1929, or 36 percent, or almost as fast as did the volume of goods and services produced.

The total volume of output per worker in distribution in general, therefore, increased but very little during this decade in spite of the great developments in chain stores, mail-order houses, and other simplified-service institutions which may have tended to increase efficiency in marketing. These facts suggest that marketing methods as a whole have not shown anything like the continued growth in per capita efficiency that have characterized other sectors of our industrial life,²² and that something more than the blind workings of competition and the self-interest of individual business men may be needed to develop real efficiency in this field.

Any method for increasing efficiency and reducing costs in marketing must be sufficiently flexible so that it can be adapted to the many different methods of selling which prevail among the different farm products, and so that it can cope with the wide range of different problems which grow out of the diversity of marketing methods and institutions and the varying types of price structures. Certain products, such as wheat and cotton, are sold through a system where a speculative market provides a means of hedging and thus eliminating

²⁰ KING, W. I. THE NATIONAL INCOME AND ITS PURCHASING POWER. p. 87. New York, 1930.

²¹ Census of Population, 1930, v. 5, p. 39.

²² For data on the growth of per capita production and the readjustment problems which it creates, see the following: EZERIEL, M. WHICH WAY, AMERICAN FARMER? Speech before the Open Forum, Chicago, Ill., Oct. 31, 1933 (mimeograph).

part of the price risk from the calculations of intermediate purchasers of the product. The methods of buying from the farmer at local markets are widely different for wheat and cotton, however, and so are the methods of selling to the miller or spinner.

Other products, such as fresh fruits and vegetables, have developed a great variety of different marketing methods for selling from the producer to the local wholesaler or jobber, such as cooperative associations, auctions, telegraphic auction, consignment selling through wholesalers, etc.²³ Fluid milk has an entirely unique method of sale, with a contractual arrangement between producer and distributor, and with prices set for a stated period, and changed from time to time in accordance with predetermined methods or by mutual agreement or collective bargaining.²⁴ In the different products the differences as to the physical characteristic of the product, the place which it plays in industry, the kind or degree of processing required to fit it for retail sale, and perhaps even the accidents of historical or geographic evolution, have resulted in the great diversity of institutions and practices between commodities, and even between different markets for the same commodity. No hard and fast system or plan, applied indiscriminately to all products, could be successful in improving the workings of these complex and intricate mechanisms. The function of marketing is essential; whether any particular unit or any particular practice is essential is, however, a matter for determination in the light of the facts of each case. The methods for improving marketing must be flexible yet powerful enough to meet these varied and intricate needs.

Previous attempts at improving marketing methods through the substitution of cooperative organizations or through joint action in other ways have frequently become ineffective because of failure to maintain united support on the part of farmers. The disorganized milk situation in New England; the failure of the Minnesota potato pool; the inability of the Nation-wide cooperatives established by the Farm Board to affect materially the marketing situations in wheat and cotton; and the breakdown of the grape control plan of a couple of years ago, all were due to their inability to rally all farmers to their support. When the way is left open for some producers or processors to stay on the outside and to make individual profits at the expense of the majority who are cooperating in the group effort, any plan which calls for joint action can be overturned.

As a whole, the methods of marketing and distribution have been too inflexible to readjust to the changing conditions of recent years. As a result, marketing costs were maintained with but little reduction as retail prices fell; and most of the burden of reduced consumer buying power was passed back to the farmers.

This was why farm prices of 14 major foodstuffs fell by 62 percent from 1929 to February 1933, whereas retail prices of foods fell by only 43 percent. Rigid costs for transportation and selling also explain why prices of some products were forced down to absolute zero in some cases—contrary to the usual economic theory that demand would expand indefinitely as prices fell, so that practically

²³ SHERMAN, W. A. *MERCHANDISING FRUITS AND VEGETABLES, A NEW BILLION DOLLAR INDUSTRY.* 499 pp. Chicago, New York, [etc.] 1923.

²⁴ METZGER, H. *COOPERATIVE MARKETING OF FLUID MILK.* U.S. Dept. Agr. Tech. Bull. 179, 92 pp., illus. 1930.

zero prices would never be reached. When selling costs were more than consumers would pay for the entire article, nothing whatever was left over for the farm producer.

Finally, certain features of the mechanism of the speculative exchanges have been of doubtful utility to farmers. Brokers' profits depend on commissions and on volume of sales. Their eagerness to stir up business has frequently resulted in insignificant news items being played up as a basis for speculation. As a whole, the speculative exchanges evidence variations in prices which are out of all proportion to the changes in the market situation which accompany them. Evidence is not lacking that such movements are sometimes entirely produced by a few large speculators. This constant tendency to exaggerate both good news and bad news makes the open market which such exchanges provide not altogether an unmixed blessing to farmers, and stirs up much dissatisfaction and resentment because of the vacillating and frequently unpredictable course of price movements.²⁵

THE PERIOD FROM AUGUST 1909 THROUGH JULY 1914 PROVIDES A SATISFACTORY BASIS FOR DETERMINING A FAIR PARITY BETWEEN PRICES OF FARM PRODUCTS AND OF OTHER PRODUCTS

Although there have been constant changes in the relation between farm prices and the prices of other commodities, there has been a persistent long-time tendency for farm products to rise in price compared to other commodities. This is shown clearly in figures 20 and 21, which reveal the general level of farm products and of other products since 1800, and also the ratio of farm prices to other prices during that period. The relative value of farm products tended irregularly but unmistakably upward over the entire period from the end of the Napoleonic wars to the decade after the World War.

This tendency has continued up to the present with a momentum sufficient to suggest even greater potentialities in the immediate future. For example, the same quantity of goods produced by 50 concerns in a 51-hour week in 1923 could have been produced in a 35-hour week in 1931.²⁶

The upward trend in the purchasing power of farm products reflects the fact that there is more room for technological improvements in industry than in agriculture. As constant improvements have been made in factory methods, and as the scale of production has become ever larger, the cost of producing industrial products has fallen more rapidly than has the cost of producing farm products, where mass-production methods cannot be applied with the same effectiveness.²⁷ This constant decline in the relative cost of industrial products will undoubtedly tend to continue in the future; the mechanical improvements and the new developments in the continuous organization of machine and production processes indicate that the possibilities of still further economies in the production of industrial products are almost limitless. With continuing improvement in industrial out-

²⁵ For evidence on the control of market movements by big speculators, see the following: DUVEL, J. W. T., and HOFFMAN, G. W. MAJOR TRANSACTIONS IN THE 1926 DECEMBER WHEAT FUTURE. U.S. Dept. Agr. Tech. Bull. 79, pp. 17 and 33. 1928.

²⁶ ALFORD, L. P., and HANNUM, J. E., APPLICATIONS OF THE KILO-MAN-HOUR METHOD OF ANALYZING MANUFACTURING OPERATION. Amer. Soc. Mech. Engin. Trans. December 1932.

²⁷ HANSEN, A. H. EFFECT OF PRICE FLUCTUATION ON AGRICULTURE. Jour. Polit. Econ. 33: 1926-216. 1925.

BEAN, L. H. WHEN WILL THE FARM PRICE DISPARITY END? U.S. Dept. Agr., Bur. Agr. Econ. Agr. Situation 11 (3): 20-22. 1927.

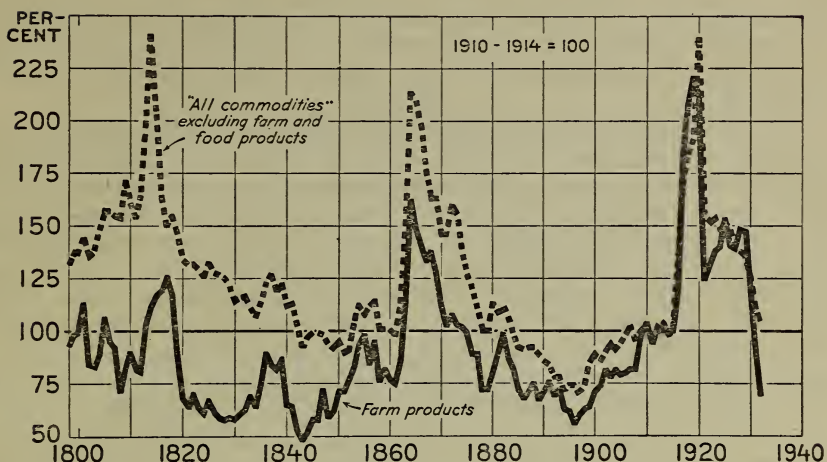


FIGURE 20.—INDEX NUMBERS OF WHOLESALE PRICES OF FARM AND NONAGRICULTURAL PRODUCTS, 1798-1932.

In the nineteenth century, and during the first decade and a half of the twentieth century, the trend of agricultural prices was generally upward and the trend of nonagricultural prices downward. Both groups of prices moved upward together under the stimulus of the War of 1812 and under the stimulus of the Civil War. In like manner they rose together during the World War. Following the crisis of 1929, agricultural prices dropped to the low levels of the 1890's, whereas the average of other prices dropped only to the pre-war level.

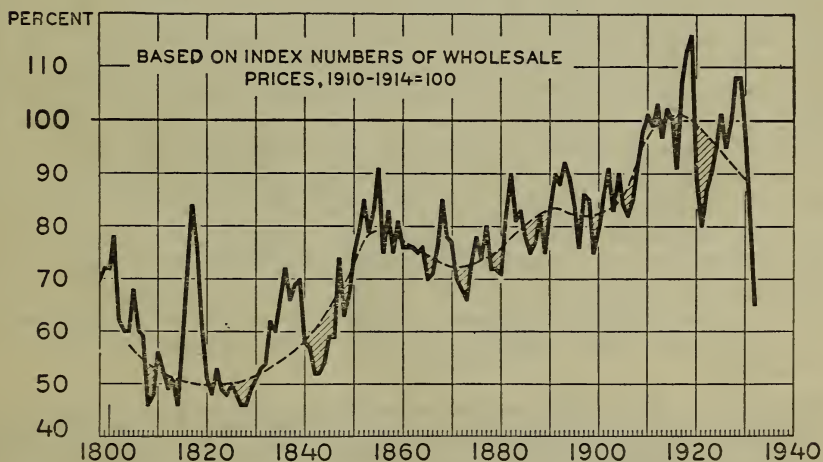


FIGURE 21.—RATIOS OF PRICES OF FARM PRODUCTS TO PRICES OF NONAGRICULTURAL PRODUCTS, 1798-1932.

Farm products generally rose in exchange value in the century preceding the war. As the country became more and more industrialized, the domestic market for agricultural commodities improved and the prices of factory goods declined. This was not in itself a proof of agricultural well-being, since farmers had continually to increase their outlay for industrial products. It is nevertheless true that a fairer exchange value for agricultural products than now exists is essential to agricultural prosperity. The war reversed the favorable trend that had persisted for a century, and the second post-war depression (1930-32) wiped out the relative gains of 90 years.

put at a more rapid rate than is possible with farm products, the purchasing power of farm products must continue to rise relative to industrial products, or otherwise farmers would be unable to share in the higher standards of living made possible by the improved technology.

It is evident from these facts that if prices of farm products had maintained their previous trend, that by 1933 the normal purchasing power of farm products would have been between 100 and 105 percent of the level reached in the period from 1910 to 1914 instead of only 65. The exceptional train of events since the war distorted the usual economic readjustments in ways which have already been sketched. As a consequence, instead of continuing their normal slow increase, the purchasing power of farm products has remained low through the post-war period. This was shown more clearly in figure 4 where the prices of farm products at local markets are compared directly with the prices of products that farmers buy. (Products at local markets have remained somewhat lower in price since the war than the same products at wholesale markets, due to the relatively increased costs of transportation and other distribution charges. That is one reason why fig. 4 does not show as great a recovery in farm prices in 1928 and 1929 as fig. 20 shows for wholesale prices.) Then when the present depression came, the disparity was greatly increased, and farm products dropped to barely half their pre-war purchasing power.

As a whole, the period from 1909 to 1914 represented one of considerable agricultural and industrial stability, with a good balance between the production and the consumption of each product with equilibrium between the purchasing power of city and country, with well-sustained industrial activity, and little unemployment. In the post-war period, on the contrary, the stimulus of war demand and the abnormal effects of post-war readjustments prevented the reestablishment of the pre-war balance on any sort of lasting basis. Throughout the post-war decade, agriculture was afflicted with chronic surpluses showing first in grains, then shifting to livestock and livestock products, then showing up in grains again and in cotton. In selecting the prices of the pre-war period as the standard for readjustment, the act thus bases the parity prices upon the most recent period when economic conditions, as a whole, were in a state of dynamic equilibrium. This is a second reason supporting the choice of that period as a reasonable and satisfactory period for judging normal price relationships.

THE RAPIDITY WITH WHICH THE PRICES OF FARM PRODUCTS CAN BE RESTORED TO PARITY DEPENDS UPON THE VARYING CONDITIONS IN THE DIFFERENT COMMODITIES. THE PROVISION THAT PARITY SHOULD BE RESTORED "GRADUALLY AND PROGRESSIVELY" IS THEREFORE IN ACCORD WITH THE ECONOMIC POSSIBILITIES OF THE CASE

Prices of certain products, such as meat animals and dairy and poultry products, depend very largely upon the amount of income which the consumers have available to spend (fig. 22). For such products, readjustments in supplies and improvement in marketing methods and structure can go a considerable way toward bringing about higher prices, but only a limited way in increasing returns, until city purchasing power is restored. Complete recovery in the prices of these products to a point where they also mean a substantial

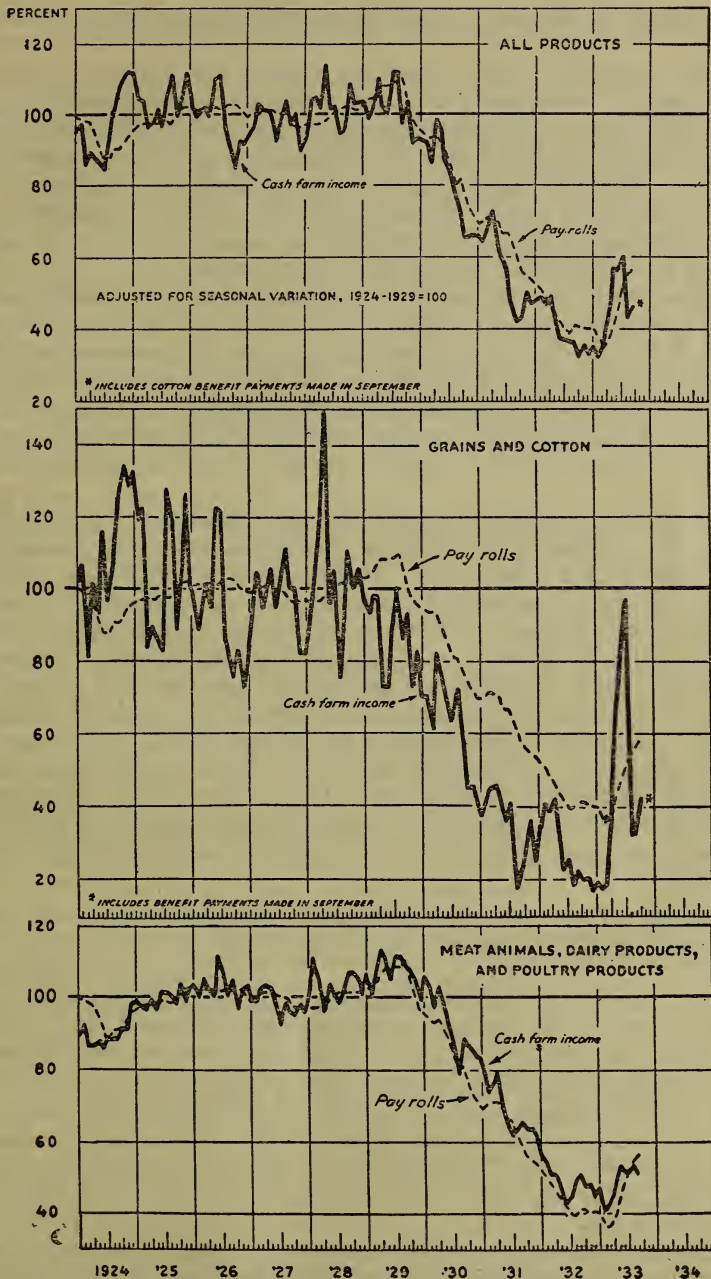


FIGURE 22.—FACTORY PAY ROLLS AND CASH INCOME FROM FARM PRODUCTS.

Returns to farmers for their marketings of farm products depend by and large on the money income of consumers in general. This is particularly true of returns from the production of meat animals, dairy and poultry products, and other commodities that are sold chiefly in the domestic markets. The income from commodities that depend on foreign markets, such as grains and cotton, are additionally influenced by international conditions of supply and demand. For that reason, the cash income from grains and cotton declined to 20 percent of the predepression level by the end of 1932, while cash income from livestock products declined to about 40 percent.

improvement in income, must therefore wait on general economic recovery.

In other products, such as wheat, cotton, and flue-cured and dark-fired tobacco, excess supplies and foreign market conditions are of great importance. As is shown in figure 22, cash returns and therefore prices of grains declined out of all proportion to the decline in city pay rolls. The rate at which their prices may be restored to parity therefore depends largely on how fast the foreign situation and the excess carry-overs may be corrected, or upon how long it takes to readjust our production solely to current needs.

In other products, particularly cotton, industrial conditions are of great importance in determining the volume of consumption. Cotton prices fell much more rapidly during the depression than did pay rolls, and responded very sharply to the burst of activity in the spring of 1933. Although a good deal of improvement in cotton prices can be secured by eliminating the excessive supplies, full restoration of parity prices for cotton will thus involve increased and sustained industrial activity.

In addition, it should be noted that the excess carry-overs of wheat, cotton, rice, tobacco, and similar products had been accumulating over a period of 4 to 6 years. During that considerable period production had been exceeding consumption each year. To eliminate the excessive supplies, production will have to fall below consumption by an equal amount annually for an equal term of years. In view of this fact, it would not be safe to assume that under normal weather conditions the accumulated surpluses could be eliminated instantly. Instead, a progressive continued effort over several years may be necessary to the full restoration of a balanced economic situation and the full reestablishment of parity prices for such products.

The difficulties in the way of attaining a restoration of pre-war parity price levels for agriculture have been summarized in the following paragraph:²⁸

Certain factors are operating to maintain for some time the disparity between agricultural and nonagricultural prices, a disparity that now is greater than at any time since the 1870's. Among these factors are the usual response of agricultural prices to general deflation, as costs of transportation and processing remain relatively high and inflexible; the sharp curtailment in industrial production, which tends to sustain certain industrial prices and at the same time to increase unemployment and to reduce buying power; the inability of farming to make such drastic adjustments in output, which creates a condition of relative abundance of farm products; the shift in population from cities to farms, which reduces consumer demand for farm products and adds to the total supply of such products; and the increased agricultural production abroad, which tends to maintain an abundance of agricultural products throughout the world relative to the supply of other goods. Still another element in the United States, which affects the long-time course of demand for farm products, is the slowing down in the rate of population growth. The restoration of former relations between prices of farm products and prices of nonagricultural goods is likely to be slow and protracted unless certain fundamental developments are hastened.

In the light of these facts, the provision for approaching parity "by gradual correction" appears desirable and necessary, by making it possible to adjust the program to the facts and possibilities of each particular commodity.

²⁸ ASSOCIATION OF LAND GRANT COLLEGES AND UNIVERSITIES. REPORT ON THE AGRICULTURAL SITUATION. Assoc. Land-Grant Col. and Univ. Proc. 1932: 17. 1932.

THE POWER TO INCREASE RETURNS BY REDUCING PRODUCTION MUST BE LIMITED
IF IT IS TO PROMOTE GENERAL SOCIAL WELFARE

Many governmental steps have been taken, particularly in the imposition of tariffs, which modified economic returns between groups, but which set no limits as to how far they might go in modifying the incomes of different groups. When, however, any group is given the power to limit its production, either by its own action or with the assistance of public agencies, in order to increase its own income, then that power must be most carefully guarded if the rest of the people are to be protected from possible monopoly or extortion. Furthermore, it is perfectly evident that if each group were permitted to seek to increase its income by reducing its output, less and less would be produced for all to share; and although prices might go to starvation levels, real standards of living would be sharply reduced.

Some control of production, however, is justified for particular industries, if production in those industries has run so far in excess of other forms of production, or of the basic needs for their products, that it has created unbalance through the price system as a whole. The events of the depression have clearly shown that extreme lack of balance between production of various products upsets the equilibrium of exchange; and if too extreme, tends to check all economic activity. Agriculture is so organized that it maintained its physical volume of production, in spite of very low prices (fig. 18); while industrial output was sharply curtailed during the depression. As a consequence, agricultural prices were sharply reduced, while prices of industrial products were far better maintained.

Reduction of the excessive production and supplies in the particular industry, agriculture, which is most seriously out of balance would therefore help to restore economic equilibrium and the interchange of commodities, and is in the general interest of the community. This progress toward balance would be accelerated if industrial plants would meanwhile expand their production, and so tend to close the gap by making industrial output relatively abundant and increasing employment and consumer incomes to sustain relatively higher levels of agricultural prices.

If agricultural output were so sharply reduced as to lead to unduly high prices, that would tempt producers to make marked increases in output and so threaten a new relapse toward excess production. The limitations as to parity prices and as to the percentage that the farmers should receive of the consumers' dollars are therefore safety valves, which guarantee that the control features of the act will not be carried to extreme limits, and will not be permitted to go to a point where they harm the ultimate consumer or tend to bring about subsequent break-downs in recovery.

The percentage of the consumers' dollar which is returned to the farmer has shrunk to abnormally low levels under the pressure of the depression, as is shown in table 4. In most commodities, full restoration of the farmers' previous percentage would cause only modest increases in costs to consumers, and could not lay a heavy or unfair burden upon them. Retail prices of food products showed the greatest declines of any retail prices during the depression; by February 1933 they were 41 percent lower than in 1929, and much lower than other reported retail prices. A full restoration of the farmers' share would

not carry retail prices of food above the level of other retail prices, but would merely restore the normal parities.

The Agricultural Adjustment Act is the first Federal act affecting economic activity which places safety limits on the shifts in income which may result from its action. The Interstate Commerce Commission Act protected railroads when prices advanced, but has not been applied to protect users of transportation when prices declined again. Tariffs have produced marked transfers of income and wealth, with no limitation on resulting costs to consumers or the general public. Taxes have taken income outright, with little regard and no limitation as to the economic balances disturbed.

In the light of these facts, and in contrast with previous disregard of the necessity for limitations, the checks and counterchecks included in this act—the parity price and the “share of the consumer’s dollar” provisions—introduce new and necessary elements which appear highly essential in legislation affecting the social and economic welfare of the people.

THE METHODS AND PROCEDURES AUTHORIZED BY THE AGRICULTURAL ADJUSTMENT ACT FOR DEALING WITH THE FARM PROBLEMS ARE DIRECTED TO THE FUNDAMENTAL DIFFICULTIES WHICH EXIST

EXTREME SHIFTS IN THE DEMAND FOR AMERICAN FARM PRODUCTS DURING THE PAST 20 YEARS CONSTITUTE ONE OF THE BASIC DIFFICULTIES, AND HAVE NOT BEEN MET BY COMPARABLE READJUSTMENTS IN PRODUCTION

These shifts appear in both domestic and foreign demand. They arose out of causes beyond the horizon of the individual farmer. Such adjustments to these changes as individuals have attempted have been completely ineffective. There has been no adequate attempt to coordinate the efforts toward readjustment of individual farmers, of the several branches of agriculture, or of the several agricultural regions.

The World War created unusual demands for American wheat, cotton, meat products, and tobacco; and American agriculture organized to meet those demands as its contribution to the winning of the war. Production and productive capacity also expanded sharply in other overseas countries, as well as in the United States, to meet the wartime decline in European farm output. In the United States the acreage of 13 important crops was expanded by about 31,000,000 acres during the war years and has been maintained at an even higher level since then. The exports of food products from the United States during the war more than doubled pre-war quantities. The continued dependence of European countries on foreign farm products for a time after the armistice gave rise to still further expansion in farm output during the brief post-war inflationary boom with the result that food exports continued at more than twice the pre-war volume through the 1921-22 season (fig. 23).

In the meantime, crop areas in Canada, Argentina, and Australia increased by 26,000,000 acres by 1920 over the pre-war area, while Europe’s acreage in important crops began to return to production immediately after the war. In the post-war depression European buying power collapsed and set in motion a protracted decline in American exports of food products. Recovery from that depression after 1920 was accompanied by a partial restoration of demand for our farm products, particularly cotton. But the restoration of European production continued persistently, and was paralleled by increased competition from the new productive areas of the Western

Hemisphere. By 1932 Europe's acreage of important crops, and that of Canada, Australia, and Argentina, exceeded the pre-war acreage by nearly 100,000,000, or 16 percent. The rapid restoration of European production together with expansion in other countries has brought the volume of crop output outside the United States to about 40 percent above the pre-war level. This increase in foreign competi-

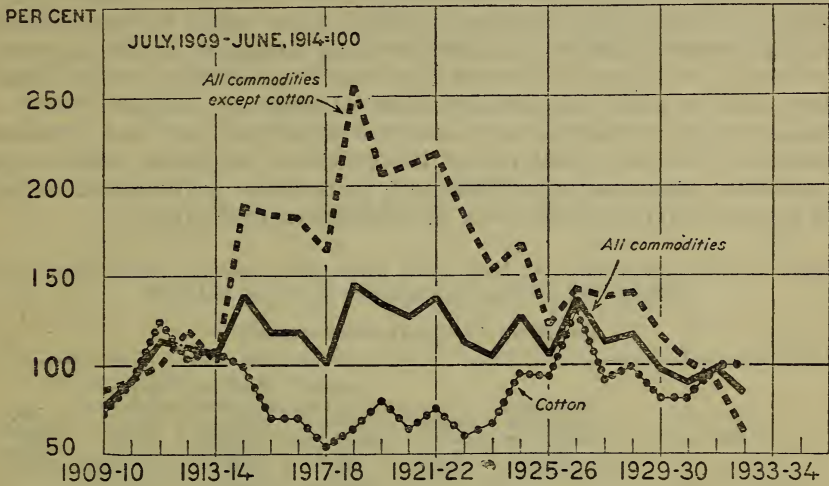


FIGURE 23.—VOLUME OF UNITED STATES AGRICULTURAL EXPORTS.

Total agricultural exports from the United States reached a record level during the war, and declined sharply thereafter. Wheat and pork exports declined most. Cotton exports, which had fallen off during the war because of reduced production and curtailed foreign textile activity, benefited between 1919 and 1925 by a revival of business activity abroad. Foreign takings of American cotton rose above the pre-war level in 1925-26, and then declined.

tion and foreign self-sufficiency brought about a persistent decline in United States exports of food products from 1921 on, long before the 1929 collapse. By 1932-33, export volume finally shrank below pre-war levels. In the face of this shrinkage in foreign demand, acreage of important crops in the United States has been maintained about 10 percent above the pre-war acreage (table 5).

TABLE 5.—Crop acreage in leading agricultural regions in stated years ¹

Year	United States	Europa (excluding Russia)	Russia	Canada, Argentina, Australia
1909-13	296,000,000	250,000,000	² 282,000,000	99,000,000
1920	321,000,000	210,000,000		125,000,000
1925	321,000,000	240,000,000	263,000,000	125,000,000
1930	327,000,000	250,000,000	303,000,000	151,000,000
1932	320,000,000	247,000,000	337,000,000	140,000,000

¹ Figures include: For United States, wheat, corn, oats, barley, rye, cotton, tame hay, potatoes, sweet-potatoes, flaxseed, buckwheat, tobacco, and rice; for Europe, excluding Russia, wheat, corn, oats, barley, rye, potatoes, sugar beets; for Russia, all crops; for Canada, field crops; for Argentina, wheat, corn, oats, flaxseed, barley, rye, and alfalfa; for Australia, all crops.

² 1913 only.

Our international economic policies tended to aggravate the shift in foreign demand away from American exports. In the past 10 to 15 years, the United States became the world's chief creditor nation.

Foreign nations now owe us much more than we owe them. This new international position called for a national trade policy permitting a freer flow of foreign products to the United States in payment of wartime borrowings. Instead, our tariff barriers were raised in 1921, made still higher in 1922, and finally pushed up still further in 1930. For a while, exports to foreign countries were made possible by private loans. With development of the widespread speculative activity in the United States after 1927, these loans were eventually sharply reduced (table 6). The resulting pressure on foreign countries served to intensify the growth of barriers to foreign trade abroad, after such barriers had already been extensively adopted, both in retaliation for or imitation of our own tariff policies, and for other reasons.²⁹ The net effect of our international economic policies was to promote economic self-sufficiency, to increase agricultural output and to erect barriers in the way of our agricultural exports.

TABLE 6.—*New investments by Americans in foreign countries and foreign investment in the United States, 1896-1914 and 1919-32*

[In millions of dollars, i. e., 000,000 omitted]

Year	New foreign securities sold in the United States	Direct American investment abroad	Foreign and American stocks and bonds bought from foreigners	Total annual investment of American capital in foreign countries ¹	Total annual investment of foreign capital in the United States	Net amount invested abroad
1896-1914.....				53	105	² 52
1919.....	436	300	234	970	515	455
1920.....	506	200	739	1,445	571	874
1921.....	665	200	227	1,092	303	789
1922.....	637	(³)	326	963	294	669
1923.....	363	(³)	54	417	435	² 18
1924.....	795	(³)	114	909	364	545
1925.....	920	(³)	90	1,010	551	459
1926.....	1,002	240	624	1,931	1,326	605
1927.....	1,183	257	804	2,314	1,609	705
1928.....	1,124	378	1,604	3,266	2,591	675
1929.....	635	350	1,407	2,469	2,328	141
1930.....	833	253	1,276	2,439	2,161	278
1931.....	213	197	842	1,302	1,520	² 218
1932.....	27	38	530	645	862	² 217

¹ Total for 1926-32 includes bond redemption and sinking-fund payments and receipts.

² Net foreign capital invested in the United States.

³ Not estimated.

The depression after 1929, with falling prices, severe pressure on governmental budgets and national financial systems, and reduced consumption of agricultural products, led to still more marked growth in trade barriers. Agricultural production in European countries was further increased and led to almost complete disappearance of export markets for many farm products. Exports of our wheat to Europe, an extreme but very important example, fell to about 20,000,000 bushels in 1932, in contrast with 60,000,000 bushels in 1929, and more than 160,000,000 bushels in 1921. Shut out from foreign markets, our exportable wheat piled up into an enormous surplus.

Paralleling these changes in export demands there have been domestic internal changes which have reduced our total demand for farm products and modified the relative importance of agricultural items in the national consumption, both in total and between different

²⁹ [UNITED STATES CONGRESS.] See footnote 14. S. Doc. 70 : 15-28.

products.³⁰ The widespread substitution of automobiles and tractors for horsepower has reduced the number of horses on farms from 21,000,000 in 1920 to 12,000,000 in 1933, thus decreasing the demand for feed grains equivalent to the output of 21,000,000 acres. Accompanying this "release" of feed-crop acreage, there developed technics in hog feeding, and a shift in production of both hogs and cattle to lighter-weight animals for slaughter, which increased meat output per unit of feed.³¹ The larger total slaughter, with a declining export market, forced surplus hog products into domestic consumption at resulting lower prices.

Other important shifts in domestic consumption which were an outgrowth of the surplus feed prices, were increases in the per capita consumption of dairy and poultry products (fig. 24). Producers of these domestically consumed products, together with producers of fruits and vegetables, experienced the benefits of the expanding purchasing power of consumers up to 1929. Under these conditions, it was possible for these products to move into consumption in larger and larger volume without compensating reduction in price. With the decline in general demand conditions after 1929 these branches of agriculture were also severely affected, although not so severely as the major export products.

Marked reductions have also occurred in the per capita consumption of wheat, corn, rye, and potatoes. These are an outgrowth of the changed habits of life brought about by the advent of the automobile, by a greater concentration of the population in apartment homes, and by an occupational shift toward service and professional activities that call for smaller per capita requirements of foodstuffs.

Changing styles and habits in dress have reduced requirements for wool and cotton for clothing and have shifted consumption partly to silk and rayon. Here, however, increased industrial uses have been a partial offset, particularly for cotton.

Another hidden but nevertheless potent factor in domestic demand is the reduction in the rate of population growth and the changing age composition of our population. Instead of an annual increase of about 2 percent 15 years ago our population has recently been increasing at the rate of 1 percent (fig. 25).

Similarly the increased proportion of the population in the older age groups, and a decline in the proportion of young people has had and will have even in greater degree an effect on the relative importance of the items in the national food budget.

Furthermore, new technological discoveries and applications, and the development of new producing areas in other countries, especially tropical and subtropical countries, have increased the competition of imported agricultural products in our markets. Vegetable oils and vegetable fibers particularly, and tropical and subtropical fruits, have become important elements in the national consumption.

As a whole, these shifts have led to a gradual contraction in the total demand for certain of our staple food products. The depression since 1929 has accentuated the weakening domestic demand, particularly of cotton, which has suffered from contraction in demand both

³⁰ BAKER, O. E. THE PROSPECT FOR CONSUMPTION OF FARM PRODUCTS. Address, University Farm, St. Paul, Minn., Dec. 2, 1932. [Pub. in Calif. Dept. Agr. Mo. Bull. 22: 44-58. 1933.]

³¹ For feed requirements for different weights of livestock, see the following publication: HENRY, W. A., and MORRISON, F. B. FEEDS AND FEEDING; A HANDBOOK FOR THE STUDENT AND STOCKMAN. Ed. 13, 770 pp., illus. Madison, Wis. 1923.

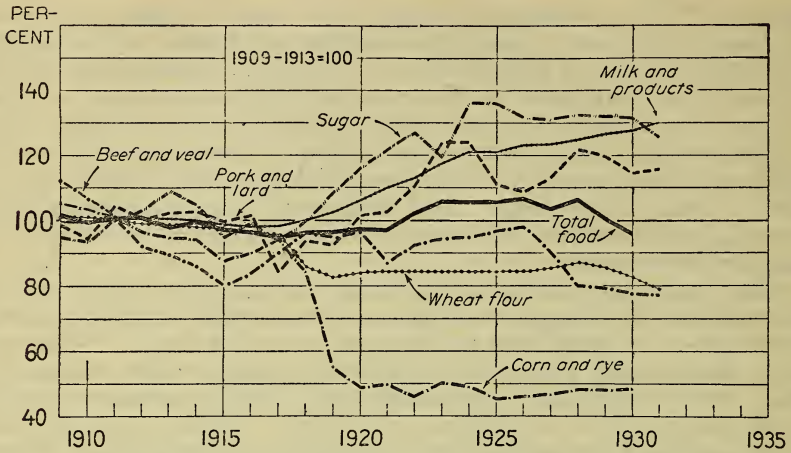


FIGURE 24.—CHANGES IN CONSUMPTION OF FOOD PRODUCTS PER PERSON TOTAL AND SIX PRINCIPAL PRODUCTS, UNITED STATES, 1909-31.

The World War worked significant changes in the diet of the American people. Perhaps of equal importance was the prohibition amendment of the Constitution, the prosperity of the urban people during and after the war, and the food education articles and advertisements in the popular magazines. The result has been a decline since the war years of about 100 pounds per person in consumption of cereal foods, and an increase of about 25 pounds per person in the consumption of sugar; also a notable increase in the consumption of milk and of pork, and probably a smaller increase in use of fruits and of vegetables. During the depression years, 1930 and 1931, the consumption of milk continued to increase and of wheat, a cheap food, to decrease.

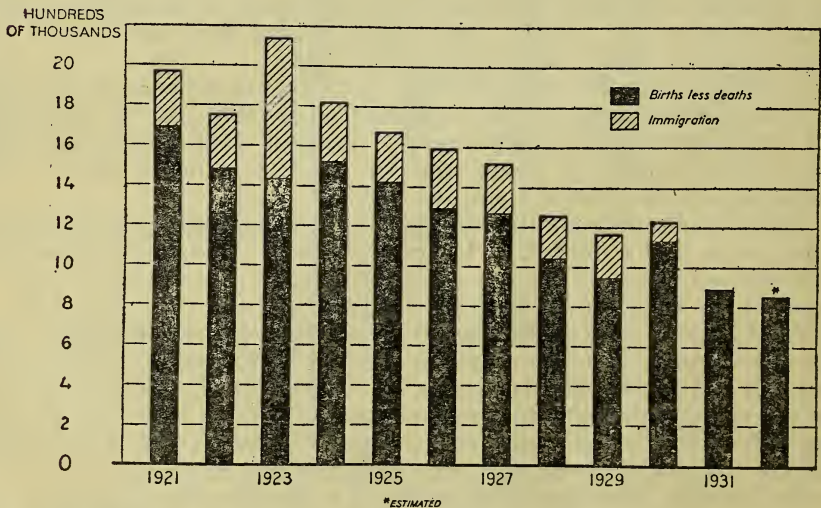


FIGURE 25.—POPULATION INCREASE IN THE UNITED STATES, 1921-31.

Ten years ago the population of the United States was increasing nearly 2,000,000 a year. Now the increase is less than 1,000,000. This trend toward a stationary population, if it continues, would materially alter the domestic-demand prospects for certain farm products. Farm adjustments to changes of this sort must be on a national rather than on an individual basis.

for clothing and for industrial uses. Until 1929 these downward shifts were accompanied by expanding demand for other products, some at a modest rate and some at a rapid rate, such as dairy and poultry products and truck crops. Other products experienced a stable, or gradually declining demand, among the latter being hay and feed grains.

Extensive shifts in the domestic and foreign demand for American farm products, developing gradually during relatively normal periods, bring about corrective adjustments. Arising largely out of the great upheaval during the World War, continuing thereafter partly hidden from view by the development of an industrial boom, and finally taking on major depressing influences on farm prices in the economic chaos of 1929-32, the shifts in domestic demand are beyond the efforts of the individual farmer to cope with. The corrective measures must be on as broad a scale as the causes that brought about the lack of balance between output and demand.

FARMERS ADJUSTED THEIR PRODUCTION UPWARD WHEN DEMAND INCREASED BUT DID NOT MAKE CORRESPONDING DECREASES IN TOTAL PRODUCTION WHEN DEMAND DECREASED

Material increases in acreage and production were made in response to the war and post-war home demands. By 1920 the acreage in 13 important crops had been increased from 290 million in the pre-war years to 321 million, and was maintained at 320 million in 1932. While there has thus been very little change in total acreage since 1920, noticeable shifts occurred as between crops and regions. For example, the area in wheat States east of the Mississippi River decreased from 16 million in 1920 to 10 million acres in 1930, but this was exactly offset by an expansion in Western States.³² But such internal shifts have merely served to transfer the incidence of weakening demand from region to region and from commodity to commodity.

Total production also increased during the first part of the post-war decade and was maintained not only during the second half, but even after the 1929 collapse. Between 1924 and 1931 total farm output was nearly 20 percent greater than in 1919-21, and but for unfavorable weather conditions the output of 1932 would have been equally as large. Hidden in this evidence of aggregate stability are major commodity and regional shifts, such as the continued expansion of dairy and poultry products and of fruits and vegetables, which for a time enjoyed an expanding domestic demand. Regional readjustments took place to meet the abnormal geographic burden of costs that was created by the greater decline in net farm receipts for commodities produced at the greater distances from consuming centers. As a whole, these resulted in as much increase in production in some regions as there were decreases in other regions (fig. 26).

Some shifts between crops have taken place. From 1929 to 1932, wheat acreage seeded fell 9½ percent, partly due to unfavorable weather conditions; cotton acreage, 12.6 percent. High cotton yields in 1931 offset acreage reduction and helped maintain surplus stocks. Other southern products at the end of 1932 were so low in price that no further reduction in cotton acreage was to be expected. Crops for farm use showed remarkable increases, especially in the South. The acreage in peanuts, cowpeas, sweetpotatoes, and sorghums increased

³² UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS. WHEAT ACREAGE TRENDS BY REGIONS. Chart 24, 220. 1932.

40 percent; corn and hay acreages increased in regions which previously imported food and feed. Truck crops for canning decreased over 400,000 acres, or 35 percent; but truck crops for market increased almost 200,000 acres. In general, production of specialized or perishable crops for long-distance shipment declined; crops for home subsistence or for nearby or local sale increased.

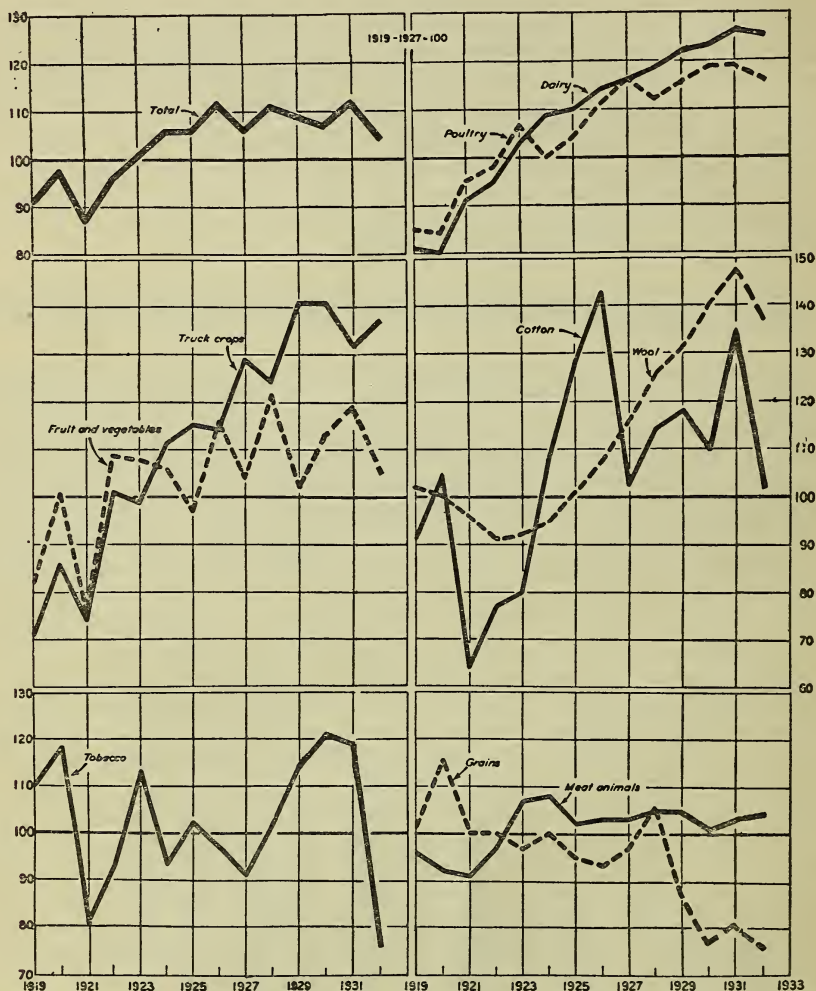


FIGURE 26.—INDEXES OF NET AGRICULTURAL PRODUCTION IN THE UNITED STATES.

The outstanding trends in post-war farm production have been a sharp recovery in cotton production, expansion in dairy, poultry, and truck-crop production. In the aggregate, production has remained at a fairly stable level since 1924. While it has not kept pace with population, the export demand has been decreasing.

These geographic shifts in production, in response to the present relatively high marketing charges and transportation costs, are building up new agricultural industries in areas where they cannot be maintained once a more normal balance between incomes, prices, and

marketing and transportation charges has been reestablished. New commitments are being made which will prove unprofitable later on, and which will show up as new maladjustments to be solved when normal geographic and regional specialization once more becomes profitable.

Livestock production has been held to relatively high levels under the stimulus of cheap prices for feeds. The depression happened to catch the beef cycle at the low-production extreme. Wide-spread droughts reduced corn production in 1930 and 1931, and retarded livestock expansion, but in 1933 hogs, beef cattle, and perhaps dairying were set for increased production; in the absence of corrective action, the 2 or 3 years following would see the same general declines in relative prices of livestock as followed the similar period of low feed prices in 1920 and 1921.

The sharp decline in prices after 1929 affected certain commodities more than others, and acreages were reduced for some products most seriously affected. The South made two attempts at reducing acreage in response to unprofitable cotton prices, once in 1931 and again in 1932, but partly because of favorable growing conditions in 1931 and partly because of the continued low consumption, these adjustments proved inadequate. The decline in prices of other southern farm products which had taken place in the meantime, led cotton growers in the winter of 1932 to plan an increase in their cotton plantings for 1933. Further prolonged disaster confronted the South if it continued in its inability to adjust supply to demand.

In the wheat belt a similar situation was developing. There much of the acreage planted in 1932 had been abandoned, and the prospect of somewhat higher prices arising from this fact led wheat growers to plan an increase in their plantings in 1933. In the face of staggering surpluses of both wheat and cotton of about three times their usual volumes, these contemplated actions constitute a clear illustration of the continued disaster that confronted the millions of farmers in these vast agricultural areas because of their individual inability to adjust supply to the national and international collapse in demand.

CONTINUED PRODUCTION, IN THE FACE OF DECLINING DEMAND, DEPRESSED PRICES AND EVENTUALLY LED TO THE ACCUMULATION OF EXCESS SUPPLIES

At first the pressure of continued production forced farm products below pre-war exchange values, and moved the excess supplies into consumption without actual accumulation of stocks for more than very brief periods. The distorted post-war relation between production and demand for grains and meat animals in every year but one since 1920 has kept grain and meat-animal prices, as a whole, considerably below their pre-war exchange values. With mounting consumer incomes up to 1929, relatively low meat prices helped to sustain consumption.

After 1928 and 1929 the pressure of continued production on markets where demand kept falling month by month, became so severe that in spite of low prices the excess stocks began to pile up to unheard of levels. These stocks threatened to perpetuate the relatively low price levels if governmental steps were not taken to aid producers in making the necessary production adjustments. The products for which the lack of balance between production and demand was greatest were the international products, such as wheat, cotton, tobacco, and wool, and these showed the greatest fall in prices.

THE LACK OF CONCERTED ACTION TO MAKE THE NECESSARY ADJUSTMENTS IS INHERENT IN THE NATURE OF THE ORGANIZATION OF THE FARM ENTERPRISE AND IN THE MARKED INDIVIDUALISM OF FARMERS

There are more than 6,000,000 farmers in the United States. They constitute the great bulk of entrepreneurs in this country. Each owner-operator or his tenant conducts his farming operations as seems best to him or his landlord, with little, if any, regard to the competitive forces and to the demand conditions beyond his horizon. From the point of view of the individual, changes in his production appear to affect the quantity of units which he has to sell, but not the price of each unit. His immediate concern is with the size of his farm and the productive capacity of his equipment and labor, and with putting into practice the physical concepts of efficiency. In periods of hard times, the kind of relief from low prices most obvious to the individual producer is increasing the number of units to be sold. The fact that this procedure on the part of millions of producers means oversupply and further price depression is of little practical significance to the individual as long as there is no machinery adequate to insure him that any acreage or production adjustment he might undertake would simultaneously be undertaken by all or a majority of his fellow producers.

Attempts at concerted action always face the difficulty that the individual may profit more by staying out and reaping the advantage of the action without sharing in the burden. The Agricultural Adjustment Act meets this basic difficulty by providing for benefit payments to participating producers, in addition to the local prices received by nonparticipants, sufficient to promise the cooperator in the readjustment a larger income from his reduced production than the noncooperator receives from his maintained production. It also provides for benefit payments sufficiently attractive to elicit the voluntary cooperation of most of the producers of a given commodity.

Agriculture is the sole great basic industry where there has been no development of centralized control of production policies. In sharp contrast to the individualistic production policies of 6,000,000 farms stands the modern corporation, with control of industrial action in the key industries concentrated in a few hands.³³ The development of public utilities and of public regulation of them had provided similar centralized control, through public bodies.

The reduction of industrial production during periods of depression has been effective in creating relative stability in industrial prices, but has therefore contributed to the creation of the agricultural-price disparity and of reduced demand for farm products through reduced urban employment. Between February 1929 and February 1933, the quantitative output of processed farm products fell only 15 percent compared with a nearly 65 percent contraction in products processed from nonagricultural commodities (fig. 27). Wholesale prices of non-agricultural products during this same 4-year period had declined 28 percent, while wholesale prices of farm products had fallen 61 percent. Compared with pre-war levels, the former in February 1933 stood at 98 percent and farm products at 58 percent.

The effectiveness of control in industry accentuated the difficulties of farmers, through reducing the production of industrial products

³³ BERLE, A. A. and MEANS, G. C. THE MODERN CORPORATION AND PRIVATE PROPERTY. Ch. III. New York, Chicago [etc.], 1932.

available to exchange for farm products, and through substantially maintaining the prices of industrial products bought by farmers.

THE EXISTING INSTITUTIONS CONCERNED WITH AGRICULTURAL PRODUCTION AND DISTRIBUTION WERE INCOMPETENT OR INADEQUATE TO PROVIDE THE REQUISITE CONTROL

The private organizations engaged in marketing farm products have been organized solely to function as distributors of farm products. They have made little or no effort at directly coordinating production with demand. The individual concerns comprising these marketing systems operate largely at fixed charges or commissions. Their profits frequently depend primarily on the volume of business transacted and it is naturally against their interest to have these profits diminished. In some cases charges on a percentage basis tend to offset lower volume, but as a rule in fairly normal periods marketing

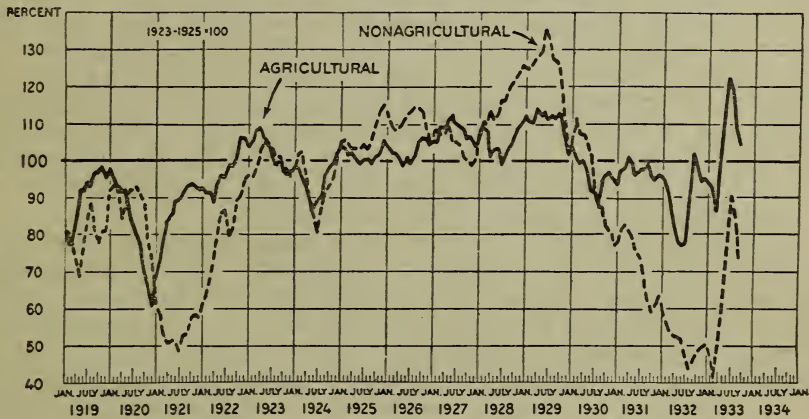


FIGURE 27.—INDEXES OF PRODUCTION IN FACTORIES USING AGRICULTURAL AND NONAGRICULTURAL MATERIALS.

Factory utilization of farm products declined much less sharply than factory utilization of nonagricultural products after the slump of 1929. This does not signify that agriculture was damaged less than other industries. On the contrary, it suggests the persistence of agricultural production in the face of a declining demand. Farms, unlike factories, cannot be promptly shut down. Their production flows to the market, and must be handled there. Unless it is wasted, it must be stored, processed, or moved into consumption. In periods of overproduction, this takes place at extremely low prices. Factories handling agricultural products obtain their supplies for less money; and since, as a rule, the prices obtainable for the processed articles decline less, the factory operations tend to continue at a relatively high level.

agencies are not concerned with the scaling down of farm output. Even in the abnormal period 1929-33, the relative advantage of distributors and processors of farm products derived from the fairly constant flow of products to market as farmers fail to make the necessary adjustments, is revealed in a maintenance of profits. By 1932, industrial corporations as a group, had experienced a decline of about 100 percent from their 1929 profits and therefore failed to show net incomes on investment, but the food industries still earned more

than half of their 1929 profits,³⁴ while tobacco corporations made even more than their 1929 profits.

As a result of this divergence in interests, food and tobacco manufacturing and distributing concerns and their organizations have fought at nearly every step all efforts to provide a better coordination of farm production with consumption, or to develop marketing machinery which would return a larger share of the consumer's dollar to farmers.³⁵

There are also certain concerns whose private advantage it is to cause frequent and wide changes in prices, either to increase their own volume of business through the extermination of small competitors, or to take advantage of speculative opportunities. Such intense speculative activity, which makes for unstable prices, is contrary to the interests of farmers, for it tends to keep them always in the pursuit of the advantages of current rising prices through increasing their output, only to find at marketing time that their acreage expansion has undermined the prices which had stimulated their action. There are also a large number of industrial concerns for whom variations in agricultural prices and incomes are as harmful as they are to farmers. This is particularly true of those concerns who depend upon the farm market as an outlet for their goods and services and who cannot thrive in the face of the uncertainties created by instability in certain branches of agriculture.

Cooperative-marketing agencies have been unable to develop a general solution of the problem of production control and market stability. Although cooperative marketing made much progress in some special cases, the movement did not come up to the great expectations of its sponsors. In isolated cases of localized and specialized production, as in cranberries, California citrus fruits, and walnuts, great strides have been made toward effective adjustment of production and shipment to the needs of the market, but even this control in these isolated cases is limited in effectiveness by the competition from other areas. The California citrus crops, for instance, have to bear competition of citrus marketings from Florida. In the case of major crops cooperatives have been unable to secure and maintain support of a sufficient proportion of producers to make possible effective coordination of production and consumption. Farmers generally proved unwilling to merge their individual advantage in the general welfare; financial necessity compelled many individuals to seek individual profit at the expense of the majority.

Cooperative operations have frequently placed undue emphasis on price control, with too little recognition that local cooperatives, or those with only a portion of total output, can have only minor influences on prices which are dominated by national or international supply and demand conditions. Many cooperatives dealing with specialized crops at one time or another attempted to hold up prices by withholding supplies from the market. The Burley Tobacco Pool and the Connecticut Valley Tobacco Cooperative are outstanding examples. In every case of this sort, however, farmers not members of the cooperative expanded production to such an extent that the

³⁴ *Annalist*, 42 (1078): 348. Sept. 15, 1933.

³⁵ Many examples of such opposition may be found in editorials and articles in publications that serve largely manufacturing and distribution interests. For such articles, see the following: BERCAW, L. O. THE DOMESTIC ALLOTMENT PLANS FOR THE RELIEF OF AGRICULTURE. U.S. Dept. Agr., Bur. Agr. Econ. Library Bibliog. 41. February 1933.

effort failed. Those on the outside shared in the profits and paid none of the cost, while the insiders held the umbrella over the whole industry. Attempts at cooperative price control have thus led inevitably and almost without exception to increased production by outsiders, reduced income to members, and consequent loss of membership and breakdown of the association. These experiences demonstrated that cooperation was not an effective means of bringing about the necessary fundamental readjustments between supply and demand.³⁶

Where cooperative organizations of major commodities on a national scale have been attempted, not enough farmers have participated to provide an effective means of regulating production, or of influencing prices except for short periods. The American Cotton Cooperative Association consisted of local and State organizations in each of the cotton-producing States, but its membership supplied only about 10 to 15 percent of the crop. It could, therefore, have little significant effect on the general level of cotton prices during the season through its marketing policies, nor on the year-to-year changes in prices through adjustment of production. Its efforts were directed chiefly toward securing for the members a somewhat greater return than nonmembers received for their crop, particularly through providing more effective grading and classing services, and thus paying members accurately according to the varying qualities of their crop.

Similarly, with the activities of the National Livestock Association controlling less than 20 percent of the yearly slaughter of meat animals, the effect on prices has been quite insignificant. The activities of the Farmers National Grain Corporation represented about 15 percent of the wheat crop, but this could not resist the weight of world-wide factors of supply and demand that control the wheat-price level.

Only in one product—fluid milk—have cooperative-marketing associations made significant changes in general selling methods, but even here there are lacking the bases for an adequate control of production on a Nation-wide scale and for such improvements in marketing practices as would lead to a greater consumption at lower prices to consumers and to a larger share of the consumer's dollar to the producer.

In certain restricted areas milk producers have enjoyed protection from outside competition through sanitary regulations or other acquiescence of local health officials, or through unusual cooperation on the part of distributors. As a result of these favorable conditions, several fluid milk marketing systems in eastern centers have been developed which stabilized production and prices and maintained adequate supplies at reasonable prices over considerable periods of time, through special classification methods of selling, or "basic surplus" or other special methods of paying producers.³⁷ Even these arrangements were not adequate to cope with the tremendous disintegrating forces of competition and curtailed purchasing power of the past 4 years.

In other areas, milk-marketing cooperatives have had very little effect in correcting unsatisfactory distributing conditions. This may

³⁶ PRICE, COLLINS, EZEKIEL, M. COOPERATION IN MARKETING TOBACCO. U.S. Farm Credit Admin. Rpt. 1933. [Mimeographed.]

³⁷ METZGER, H. See footnote 24.

be attributed to their failure to secure sufficient support of producers, to competition from supplies from other areas, to duplication of cooperative facilities, or to a failure to develop definite plans for coordinating production and consumption.

The fluid-milk cooperative-price systems generally have given way or have been seriously deranged by the pressure of the conditions of the past 4 years. Much of the progress that dairy farmers had made toward an effective coordination of the production and distribution of their products has been lost during this depression. This branch of the industry now stands in as much need of governmental assistance to solve its economic problems as any other.

In some instances cooperative agencies have confined themselves to improving marketing methods and practices and developing greater operating efficiency. Through these limited efforts they have been able to contribute to greater returns to farmers, but these gains have been slight compared to the losses due to lack of effective coordination of production.

THE AGENCIES ENGAGED IN SELLING FARM PRODUCTS GENERALLY FAILED DURING THE EARLY STAGES OF THE DEPRESSION TO READJUST THEIR COSTS AS PRICE LEVELS DECLINED, SO THAT ALMOST THE FULL BURDEN OF REDUCED CONSUMER EXPENDITURES WAS THROWN ON FARM PRICES

Rigid intervening costs have prevented retail prices from following farm prices. From 1928 to 1932, freight costs per ton-mile fell about 2 percent. Overhead expenses in stores have been reduced but little. Wage rates fell less than the number of hours worked—in food industries and wholesale and retail trade 17 to 19 percent decline in rates per hour in 2 percent or more decline in hours worked. Urban incomes contracted without selling cost per unit being correspondingly reduced. Any plan for farm recovery would have to deal with this disproportion between farm prices and distribution costs.

The farmer's share of the consumer's dollar has been markedly decreased. The farm income from 100 pounds of beef was cut in half from 1929 to 1932; from hogs it fell from \$10 to \$3. The margin for processing, transporting, and distributing, fell only moderately. The wheat producer's share of the retail bread price fell from 1.9 cents in 1928 to 0.6 cents in October 1932 (fig. 21). The share retained by bakers, millers, and transporters fell from 7.2 cents to 6.1 cents. The farmer lost 1.3 cents out of an initial share of 1.9 cents. Other agencies lost only 1.1 cents out of an initial share of 7.2 cents (figs. 28 and 29).

In cigarettes, the situation is even more striking. From 1928-31, the price of cigarette tobacco fell by half, the selling price of cigarettes advanced steadily, manufacturers' gross margins increased over 50 percent; yet wage rates paid in the industry were reduced nearly 20 percent. Net profits to manufacturers steadily increased. Increased retail prices in the face of reduced consumer buying power retarded sales. Less tobacco was sold, supplies were further piled up, and the situation of the tobacco producer was made even more unfavorable.

The nature of the undue share of the burden of the depression that has been thrown upon the farmer appears also from an examination of the monthly retail expenditures per family for a typical group of food products. In March 1929, the monthly purchases of 14 food

products for an average family had a retail value of \$25.53. Out of this, farmers received \$12.14, and the distributing and processing agencies, \$13.39 (fig. 30). By March 1931, the retail value of the same basket of commodities declined about \$5. The farmer's share was reduced about \$4, and the reduction in distributing margins by only \$1. By March 1933, the retail value of these products had fallen nearly \$11 from the 1929 cost. Nearly \$8 of this total came out of the farmer's share, and only about \$3 out of distributing margins. The farmer's share in March 1933 was only 30 percent of the total retail value compared with nearly 45 percent in 1929.

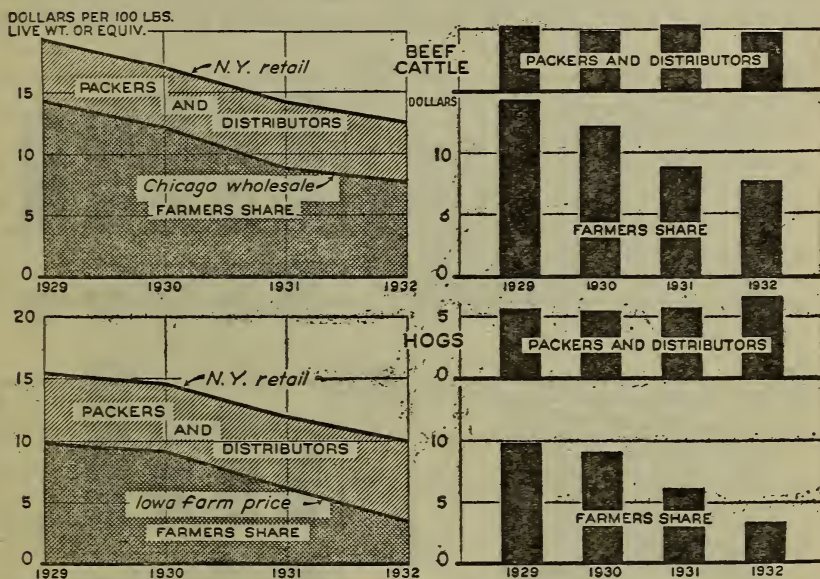


FIGURE 28.—FARMERS' SHARE OF RETAIL EXPENDITURES (BEEF CATTLE AND HOGS).

Most of the decline in retail prices of beef and pork products during this depression came out of the price of beef and hogs at the farm, inasmuch as the processing and distributing margins remained relatively unchanged.

NOTE.—The retail prices of hog products are for New York City. Prices for the country as a whole have fallen somewhat more, so that retail margins elsewhere show real reductions. The available data do not cover adequately the cheaper cuts of fresh pork. These charts should therefore be regarded as showing only the general situation, and not as any exact measure of distributing costs.

Had the decline in retail prices been shared equally between the distribution share and the farmer's share, the farmer's purchasing power at the beginning of 1933 would have been about 50 percent greater than it was.

These facts illustrate a situation which is chronic throughout agriculture. Relatively rigid intervening costs have prevented the reduction of retail prices in line with the reduction of farm prices; and low prices to farmers have not meant correspondingly low prices to consumers, with the result that consumption has not been stimulated.

The development of new mechanisms for marketing and of new methods of employing those mechanisms have resulted in increased demoralization in some markets, rendering obsolete much of the previous equipment. Outstanding in these new developments in marketing are the continually expanding uses of the motor truck that have received increased stimulation during this depression from the protective rigidity of railroad transportation routes and costs. The motor truck has produced fundamental changes particularly in livestock marketing and in the distribution of fresh fruits and vegetables. During 1932, 41 percent of the receipts of livestock in 17 markets arrived by truck, compared with only 18 percent in 1928. Such great and rapid diversions of traffic, unorganized and uncoordinated

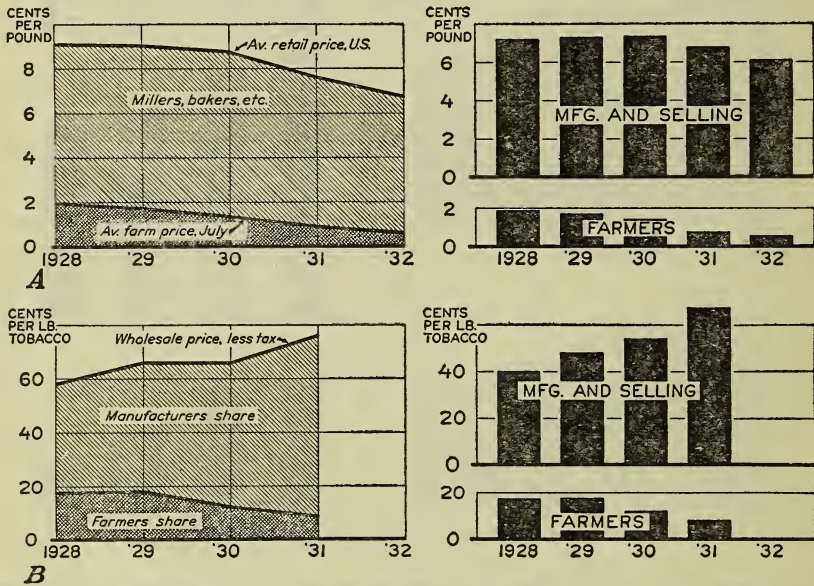


FIGURE 29.—FARMERS' SHARE OF RETAIL EXPENDITURES FOR BREAD AND CIGARETTES.

While the processing and distributing margins in the price of bread (A) declined somewhat after 1930, the margins in the case of cigarettes (B) actually increased; while the farmer's share in both cases declined in much greater proportion than the decline in market prices.

with established practices, have not been without their detrimental influences, particularly in creating uncertainties in the volume of market supplies and in the price policies of established shipping-point and central-market agencies. The rapid advent of new marketing methods call for a control in the interest of farmers, distributors, and the public, which competitive methods, as we have seen them in operation up to 1933, are incapable of bringing about.

Many distributors realize the results of excessive competition, of practices which do not increase total distribution but merely shift business from one firm to another; they are aware, for example, of the increased distribution costs due to frequent and overlapping deliveries of the wastes arising out of glutted markets, of excessive competition for orders, and of numerous trade practices that have

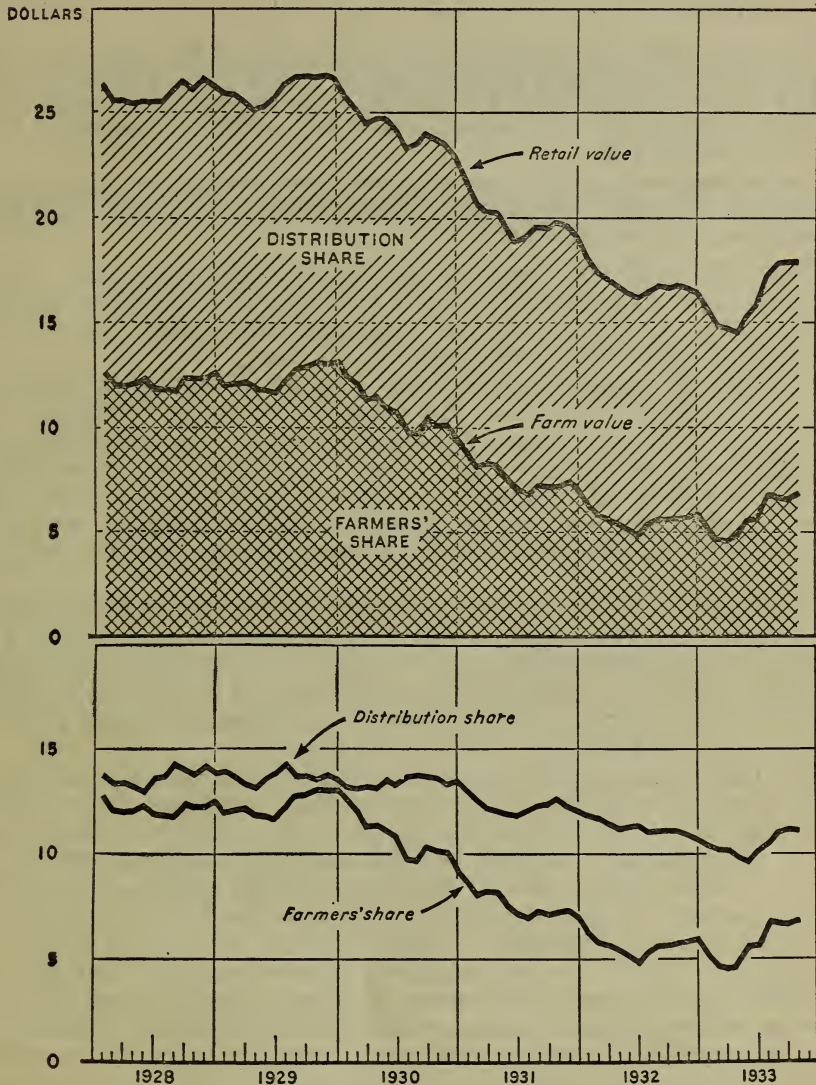


FIGURE 30.—RETAIL AND FARM VALUE OF TYPICAL MONTHLY PURCHASES OF 14 FOODS PER FAMILY.

The above chart illustrates how the course of a major depression affects differently the level of retail and farm prices and how the relatively smaller decline in distribution costs reduces the farmer's share of the consumer's dollar. By March 1933, consumers were paying about \$11 less, but about \$8 of this came out of the farmer's share and distribution charges had been reduced only \$3. This reduced the farmer's share of nearly a half of the consumer's dollar in 1929 to only about 30 percent in March 1933. Had the decline in retail prices been shared equally by distributors and farmers, prices at the farm in March would have been about 50 percent higher than they were.

grown up under unregulated competition in the distribution of farm products. But these elements in the maintenance of inefficient marketing they have been incapable of correcting in the face of competitive practices.

THE METHODS AND PROCEDURES AUTHORIZED BY THE ACT FOR DEALING WITH THE FARM PROBLEM TAKE INTO ACCOUNT AND ARE BASED UPON THE EXPERIENCE DEVELOPED IN PREVIOUS NONLEGISLATIVE AND LEGISLATIVE EFFORTS TO CORRECT THE FARM SITUATION

THE FIRST POST-WAR EFFORTS TO READJUST AGRICULTURAL PRODUCTION ATTEMPTED TO SECURE THE NEEDED CHANGES MERELY BY PLACING THE ECONOMIC FACTS BEFORE FARMERS AND INTERPRETING THEM IN LANGUAGE THAT FARMERS COULD UNDERSTAND

The individual was expected to make such adjustments as he thought best. No effort was made to direct the individual adjustments so as to accomplish an aggregate adjustment that would redound to the benefit of the mass of producers.

In order to supply farmers with information for use in planning their subsequent production, the statistical methods available were strengthened to give more reliable indicators of supply-and-demand developments to be expected. The Department of Agriculture instituted a series of "intentions to plant" reports, pig surveys, calf surveys, historical price series, foreign market and foreign competition reports; as well as studies of fluctuations in domestic demand affecting agriculture.³⁹

The reports on the production changes which farmers were intending to carry out were supplemented by studies of factors which in the past had controlled changes in acreage and changes in livestock numbers. It was discovered that prices received in one season determined to a very large extent the farmer's response in terms of production during the following season or seasons.⁴⁰

The data available were analyzed by the most modern and adequate economic and statistical methods to provide a definite basis for appraising the probable outcome of supply-and-demand situations for a given farm product. A staff of price analysts was organized in the United States Department of Agriculture whose chief task it was to utilize modern statistical technic to analyze the behavior of prices, to determine the quantitative significance of the several factors of supply and demand, and out of these findings to develop methods for determining the most likely course of prices. Studies were made on the supply-and-demand factors which affected the price behavior of such commodities as cotton, wheat, oats, hogs, lambs, cattle, potatoes,

³⁹ See annual reports of the U. S. Department of Agriculture, Bureau of Agricultural Economics, Division of Crop and Livestock Estimates and Division of Statistical and Historical Research for 1923 to 1930, inclusive.

⁴⁰ SMITH, B. B. FACTORS AFFECTING THE PRICE OF COTTON. U. S. Dept. Agr. Tech. Bull. 50, 75 pp., illus. 1928.

BEAN, L. H. THE FARMERS' RESPONSE TO PRICE. Jour. Farm Econ. 11: 368-385, illus.

rice, peaches, and a number of other farm products.⁴¹ These results of studies showed quantitatively the effects on price that certain supply-and-demand factors have had in the past. Together with the indications of "intentions-to-plant" reports and livestock-breeding reports, these price analyses supplied the bases for definite quantitative indications of prospective trends in prices.

Economic forecasts based upon these and other studies were made available to farmers in a series of "outlook" reports developed and issued by the Department of Agriculture annually and semiannually since 1923. These reports give farmers a clear-cut appraisal of the probable economic developments for their products. Reports, national in scope, were prepared in collaboration with State agricultural economists and extension agents. The reliability and dependability of these reports were gradually established and led to the preparation of State outlook reports by each of the States. These State reports were based on the facts contained in the national outlook report, supplemented by local information and by interpretations of the outlook in view of State and local needs and possibilities.

Extension agencies—national, State, and local—spent much energy in bringing these reports to the attention of farmers through numerous local meetings. During the 1931–32 season 2,000,000 outlook reports were distributed, and 2,675,000 in 1932–33. Regular schedules of county and community meetings were developed, and each year more farmers were reached. In 1932–33, 15 percent of all farmers attended such meetings, compared with 2 percent in 1928–29.⁴²

Although the outlook reports proved quite dependable⁴³ in forecasting changes in prices over the next season or two and, therefore were highly useful as a basis for the individual farmer's adjustments, farmers as a whole were but little influenced by them in making their

⁴¹ WELLS, O. V. FARMERS' RESPONSE TO PRICE. A SELECTED BIBLIOGRAPHY. U.S. Dept. Agr., Bur. Agr. Econ. 26 pp. 1933. [Mimeographed.]

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⁴² UNITED STATES DEPARTMENT OF AGRICULTURE, EXTENSION SERVICE. REPORT OF EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS IN THE UNITED STATES, 1932. p. 10. 1933.

⁴³ WELLS, O. V. A COMPARISON OF OUTLOOK STATEMENTS WITH SUBSEQUENT EVENTS. U.S. Dept. Agr., Bur. Agr. Econ. 19 pp. 1930. [Mimeographed.]

CAMPBELL, P. C. AMERICAN AGRICULTURAL POLICY. . . . 304 pp., illus. London. (See ch. 3 and appendix.)

production plans.⁴⁴ This outlook method failed to remove the conflict between the individual interest and the group interest. In certain commodities, such as cotton and potatoes, the nature of demand is such that producers as a group tend to receive greater returns for moderate supplies than for bumper crops. This basic fact has little significance to the individual grower unless the entire group undertakes, in a joint effort, to bring about a condition of moderate supplies. Without that common effort, the individual farmer sees his interest only in producing a larger volume, especially if there is reason to believe that other producers are undertaking to bring about a reduction in supplies and higher prices. Since the outlook method provided no means for action on a commodity-wide basis, it has had little effect in bringing about adjustments in the national supply of those commodities that have suffered in the past decade from changes in foreign and domestic demand.

Attempts to correct surplus situations through cooperative action have been generally unsatisfactory, and attempts to correct undesirable market situations by cooperative action have produced only partial success.

The reason for the ineffectiveness of agricultural adjustments through cooperatives was discussed on earlier pages. The ineffectiveness of these agencies became even more marked as this depression developed after 1929. Despite the long-continued cooperative efforts in such sections as the New England and New York milk areas, the need for adjusting supplies to current market conditions is as great there as in other agricultural areas. To a large extent, the reason for the continuation of unstable conditions is to be found in the fundamental fact that local agricultural conditions are part and parcel of national forces of supply and demand. Even under the most perfect cooperative conditions, a local cooperative effort must face the competitive effects of supplies from other areas and changes in demand conditions which arise out of the national fluctuations in industrial conditions.⁴⁵

EFFORTS TO STABILIZE PRICES BY PURCHASING SURPLUSES ALSO FAILED TO CORRECT THE SURPLUS SITUATION

The Agricultural Marketing Act of 1929, which established the Farm Board and gave it power to purchase commodities for stabilization purposes, proved ineffective in controlling prices as its sponsors had hoped. In the attempts to check the downward course of prices, substantial purchases of cotton and wheat were made. At one time the Farm Board controlled over 250,000,000 bushels of wheat and 3,500,000 bales of cotton. These purchases exerted some sustaining influence on market prices at the time the purchases were made (figs. 31 and 32). This support to the declining wheat and cotton markets undoubtedly proved beneficial also to the credit structure of the country, insofar as it is affected by changes in prices of these two basic commodities; but this method of operation had practically no effect in bringing about the necessary adjustments in production. On the contrary, the purchase of the supplies tended to maintain production and to expand the surplus and possibly to contract con-

⁴⁴ TOLLEY, H. R. THE HISTORY AND OBJECTIVE OF OUTLOOK WORK. *Jour. Farm Econ.* 12: 523-534. 1931.

⁴⁵ For references on farm relief activities, see the following: UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS, LIBRARY. AGRICULTURAL RELIEF. Bibliography, 327 pp. 1933. [Mimeographed.]

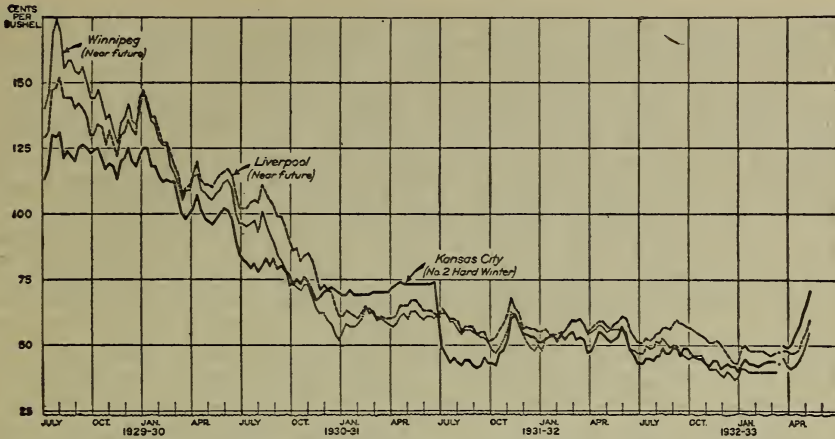


FIGURE 31.—WHEAT PRICES AT KANSAS CITY, LIVERPOOL, AND WINNIPEG, WEEKLY, JULY 1929 TO APRIL 1933.

This chart shows weekly average prices of cash wheat at Kansas City, compared with corresponding averages of the prices of the nearest future delivery at Winnipeg and Liverpool. The effect of stabilization operations is clearly shown in the fact that Kansas City prices declined much less from July 1929 to January 1930 than did prices at the other markets, and that Kansas City prices prevailed well above the other prices during the first half of 1931. Even in the 1931-32 season, when stabilization supplies were being sold, Kansas City prices were nearly as high as prices in Liverpool and Winnipeg during most of the year.

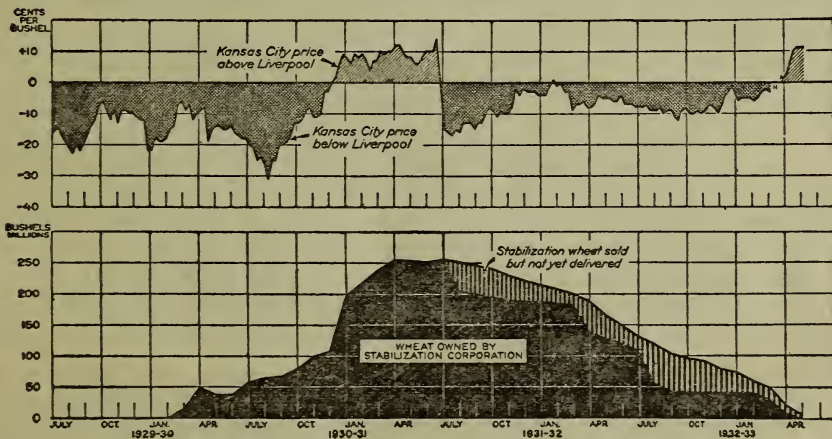


FIGURE 32.—SPREAD BETWEEN KANSAS CITY AND LIVERPOOL WHEAT PRICES, AND GRAIN STABILIZATION CORPORATION HOLDINGS, MONTHLY, 1929-30 TO 1931-32.

As stabilization holdings increased, our prices rose in relation to foreign prices until they actually exceeded them. Even in the 1931-32 season, when stabilization stocks were being gradually liquidated, domestic prices were maintained much closer than usual to foreign prices.

sumption and export through the fact that it altered the normal relations between prices in the domestic and in the foreign markets.⁴⁶

Subsequently, the existence of the stocks tended to depress market prices and in that way offset the original gain from the temporary price stability attained during the purchase period. The stocks were disposed of only at heavy loss to the Government and with general dissatisfaction to all concerned. The supply and demand forces that affected the market for wheat and cotton during the period 1929-31 were much greater than could be coped with by a Government agency that had authority only to purchase a part of the total supply, without any power to control the total production. The only power possessed and exercised by the Farm Board to control production was that of speeches and oratory and other advice to farmers,⁴⁷ but these were without appreciable result. Farm prices continued to decline from 1929 to 1932; \$200,000,000 of Government funds were expended to stem the tide, and finally the Farm Board in its last report confessed its inability to deal with the situation. It recommended that it be given the power—

to provide some means of elevating the returns to farmers from the production of exportable farm products, in such a way as (a) to pay the costs, if any, on a continuous and self-sustaining basis, and (b) to provide an effective system for regulating acreage or quantities sold or both.⁴⁸

THE AGRICULTURAL ADJUSTMENT ACT WAS BASED UPON THESE PREVIOUS ATTEMPTS TO TAKE CARE OF FARM SURPLUSES

The act aimed to avoid the mistakes of earlier legislation by providing for control of production. Thus, the authority to levy processing taxes and to arrange for benefit payments to farmers in return for the restriction of production, permits the Secretary of Agriculture to perform exactly the type of operations which previous attempts had shown were necessary for effective action to remove and prevent surpluses.

One of the special characteristics of the Agricultural Adjustment Act is the elastic and flexible character of its structure. It is not a cut-and-dried plan, laid out in advance. No attempt is made to prescribe the exact detailed steps which will be applied in each particular case, or to foresee and meet all the ramifying problems which will arise in coping with the particular difficulties of each commodity or each special market. Instead, the Secretary of Agriculture is given a broad grant of power to develop appropriate action to meet each special case, in line with broad fundamental policies. In this it follows the most successful method of administrative regulation, laying down a policy and then leaving the working out of detail to competent administrative authority.

The act is flexible in a second characteristic, in that its policy looks to the reestablishment of farm prices, not at any fixed and arbitrary level of dollars and cents, but rather at a level fixed in relation to the prices of other commodities. It recognizes that it is not prices as such, but the relation of one set of prices to other sets of prices, such as the relative exchange value of farm products for industrial products,

⁴⁶ For details of the operations of the Federal Farm Board, see the following: [UNITED STATES] FEDERAL FARM BOARD. ANNUAL REPORTS, 1-3. 1929/30-1931/32. CAMPBELL, P. C. See footnote 43, second reference, pp. 191-235.

⁴⁷ [UNITED STATES] FEDERAL FARM BOARD. OUTLOOK FOR AMERICAN COTTON. [U.S.] Fed. Farm Bd. Bull. 4, 26 pp., illus. 1930.

⁴⁸ ——— SPECIAL REPORT . . . 7 pp. ([U.S.] Cong. 72d, 2d sess., House Doc. 489.)

which determines economic balance and approaches economic justice. The act in this respect constitutes a significant step forward in methods of governmental action. If all our utility regulation had been based on similarly flexible standards of fair return, the inequities which developed in the war period of rising prices and the subsequent periods of falling prices would have been avoided. The basic provisions of the Agricultural Adjustment Act provide for no new rigidities in our price mechanism; instead, the measure offers price parity as a workable concept of balanced price relationships.

FEDERAL ACTION WAS NECESSARY TO COPE WITH THE PROBLEMS THAT FACED
AMERICAN AGRICULTURE AT THE BEGINNING OF 1933

The major agricultural products move in national and international markets, and even relatively minor products have Nation-wide markets and distribution. No local or State government could cope with the problems involved in coordinating production and consumption. Furthermore, for those commodities that are affected by foreign competition and by foreign demand, international action is necessary in order to correct the oversupply conditions.

The national characteristics of each of the farm products produced in the United States need only brief mention. The free flow of farm products from one end of the country to the other is reflected in a system of market-price relationships such that the national elements of supply and demand tend to influence the returns of growers in every locality (figs. 33 and 34). Cotton prices in every community in the Cotton Belt move in harmony with the prices as established at New Orleans and New York, and the latter move in a course parallel to prices at international cotton markets like Liverpool. Similarly, the prices of wheat in the different sections of the wheat-producing States follow the price movements in the central markets of Minneapolis, Kansas City, Chicago, New York (fig. 35); and the latter are a direct reflection of price movements in the international markets where the world-wide conditions of supply and demand are registered (figs. 36 and 37). In both of these commodities, local factors have some influence, but they are relatively insignificant in contrast with the broader influences that arise from the national and international forces. The dairy industry is similarly affected by national and international conditions. In some areas it may appear that local supplies determine the behavior of prices in local markets, but a comparison of prices in these local areas with prices in more distant markets like New York and Chicago, reveal the part played by national supply-and-demand conditions on the local dairy situations. This comes about partly through the interstate movement of milk, and in part through the interstate movement of manufactured milk products. The surpluses of milk converted into butter, cheese, and other dairy products affect the net returns to milk producers in New England, New York, and other States. Furthermore, the prices of these manufactured products are to some extent influenced by competitive conditions in the international markets. The price of butter in New York cannot rise to a level equal to the tariff over the price of Danish butter in London without resulting in an inflow of dairy products into the United States.⁴⁹

⁴⁹ UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU AGRICULTURAL ECONOMICS, DAIRY PRODUCTS OUTLOOK chart, N.Y. 22169, Butter: Price Margins Tariff Level. Imports and Exports, 1932.

Many relatively minor farm products have an even greater dependence upon the national situation, especially on national demand conditions, and many of them depend upon foreign outlets to a varying degree. The specialty crops such as peaches, grapes, early potatoes, and the like, while produced in restricted areas, must find their outlets throughout the Nation, and while a considerable measure of control of production can be attained locally, these adjustments cannot be effective without comparable action in competing commodities. For example, the action taken to control any of the small-fruit crops produced in California or Florida must face the possibility of expansion in competing fruit crops of other States.

The dependence of the minor commodities on conditions in the export markets is indicated by the following facts. While nearly



FIGURE 33.—DISTRIBUTION OF 11,155 CARS OF POTATOES FROM IDAHO, BY STATES JULY 21, 1924, TO APRIL 14, 1925.

The far-flung distribution of a crop produced in a given State, shown in this chart, is typical of many farm products. Local prices are determined very largely by national market conditions and their improvement cannot be accomplished by local action alone.

three fifths of the cotton crop and one fifth of the wheat crop usually find their way into export channels, about one half of the prune and raisin crops are usually exported, about one third of the tobacco and rye crops are usually exported, and approximately one fifth of the rice and apple crops find their way into foreign markets. In the case of oranges and grapefruit, something less than 10 percent of the crop has to be marketed abroad.

It is thus clear that no State Government can cope independently with its own farm-price problems when its markets are so inextricably bound to the competitive influences from production in other areas and to the outside industrial conditions which affect the demand conditions within the State.

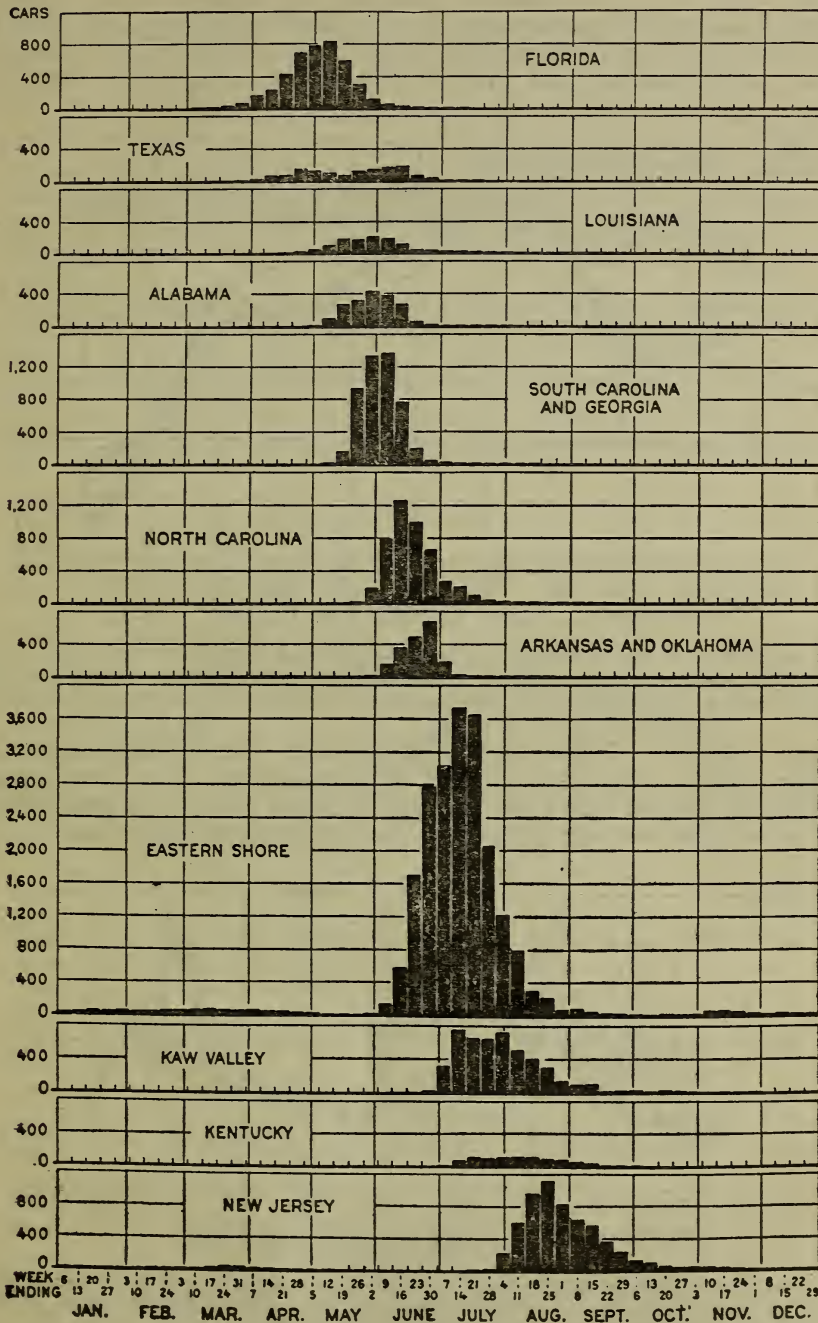


FIGURE 34.—WEEKLY SUMMARY OF CARLOAD SHIPMENTS OF POTATOES BY NAMED AREAS, 3-YEAR AVERAGE, 1923-25.

This chart illustrates a typical case of regional competition in the seasonal marketing of a given crop. No one State can effectively control market supplies without the cooperation of all other producing competitive areas.

The necessity of adjusting oversupply conditions on an international basis exists particularly in the cases of wheat and cotton. Wheat production in the United States continues to be on an export basis, approximately one fifth of the crop usually going into the

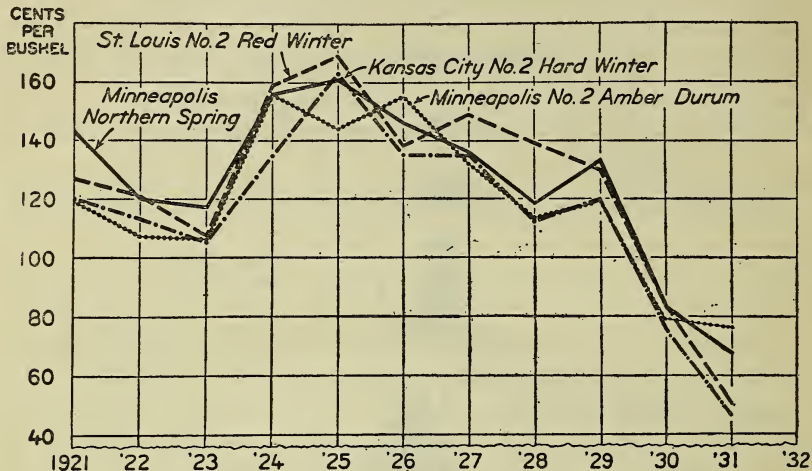


FIGURE 35.—PRICES OF WHEAT BY CLASSES, 1921-31.

The national and international forces of supply and demand affect alike every class of wheat and every wheat region in the United States. Local supplies have only a small influence in causing prices to diverge from the general level.

export markets. Consequently, prices in the United States and the welfare of the wheat belt cannot be disassociated from the foreign supply conditions and from foreign financial conditions that affect the international wheat markets. The adjusting of wheat production

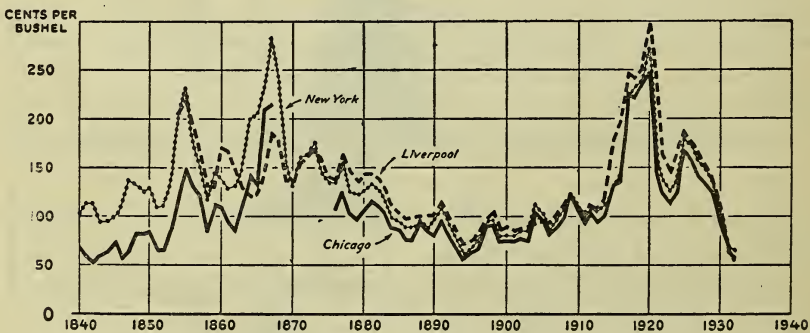


FIGURE 36.—AVERAGE ANNUAL PRICE OF AMERICAN WHEAT, CHICAGO, NEW YORK, AND LIVERPOOL, 1840-1932.

With surplus wheat for export the United States price of wheat is dominated by world-wide conditions. The world supply and demand conditions create similar price movements in the major world wheat markets.

in the United States, if it is to bring about a reduction in world surpluses and to result in stabilizing the level of wheat prices, calls for similar efforts in other wheat-exporting countries and cooperative action on the part of European importing countries. To a large

extent, the surplus of wheat in the United States has been created by the expansion of production in the importing countries of Europe and the exporting countries of Canada, Argentina, and Australia. These three countries, in addition to the United States, hold by far the largest portion of the world surplus of wheat. While the surplus of wheat in the United States can be removed by the adjustment of acreage, the basic factor in domestic wheat prices, namely the world wheat price level, can be permanently improved only through an adjustment of supplies in both the major exporting and importing countries and through improvement in international business and financial conditions.

The dependence of the cotton crop on international conditions arises chiefly from the fact that about three fifths of our production is normally consumed abroad. Another factor is the competition that this 60 percent of the crop meets from the foreign production of cotton. In the immediate future, the dominating influence on world prices of American cotton in addition to that arising from the domestic supply,

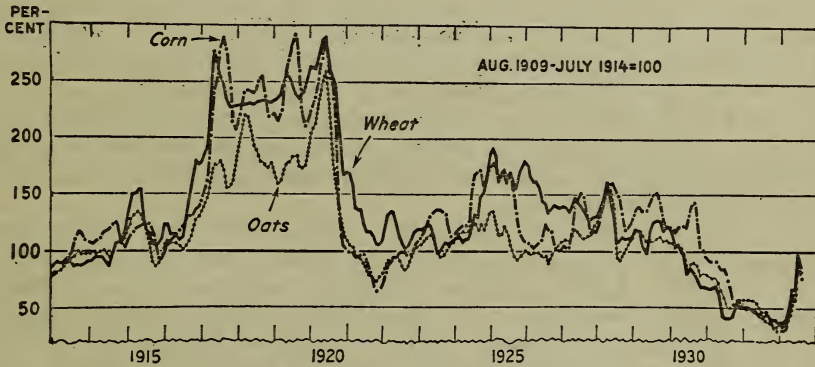


FIGURE 37.—RELATIVE FARM PRICES OF WHEAT, CORN, AND OATS.

The interdependence between farm commodity prices calls for coordination of farm production and a degree of cooperation between producers and regions that has not hitherto been possible.

will be the course of industrial activity and purchasing power in foreign countries. Fundamentally, the world level of cotton prices will be affected by the volume of foreign cotton produced in competition with the supply coming from the United States. A cotton-adjustment program for the United States must, therefore, eventually be broadened to include international cooperation with such cotton-producing countries as India and Egypt.

Producers of sugar crops in the United States also have a vital interest in international-supply adjustments. The domestic crops supply only about one fifth of the total sugar consumed in the United States. It is, therefore, evident that the level of domestic prices paid to the producers of sugar beets and sugarcane fundamentally depends upon the world supply and the amount imported into the United States. Permanent adjustments affecting the welfare of producers of sugar crops in the United States must ultimately rest on international action supplementing domestic adjustments.

METHODS AND PROCEDURES OF THE ACT REST ON A RECOGNITION OF THE ACTUAL WORKINGS OF THE SO-CALLED LAW OF SUPPLY AND DEMAND

Previous acts have failed because of inability to cope with the fundamental difficulties of controlling excessive supplies, removing inefficient marketing methods, and improving general purchasing power. The Agricultural Adjustment Act goes directly to two of these basic difficulties—unbalanced production and expensive marketing. The allotment scheme for controlling production was devised not only to remove the current surpluses, but to bring about a stable agricultural output as called for by domestic consumption requirements and the altered conditions of foreign demand. It is essentially a method of altering the supply-and-demand factors so as to have the law of supply and demand work primarily to the benefit of the producers and to promote the general welfare by removing maladjustments as between prices and incomes. The allotment plan recognizes the necessity of compensating producers for action which on an individual basis they would not undertake. It also obviates the economic difficulty that arises from the existence of a group of nonparticipating producers, for the allotment plan is so devised as to compensate participating producers by payments which are in addition to the local prices obtained by nonparticipants. As a result, farmers who cooperate in reducing production can receive more income from the reduced output than the noncooperators receive from their maintained output. This should induce nearly all farmers to participate in production control.

It would be possible to levy a tax and disburse the resulting funds to farmers as benefit payments without any accompanying control of production. Under certain conditions such operations would increase farmers' incomes. The possibilities of the method are materially different as between products, some of the supply of which are exported, and products which are sold entirely on the domestic market.

When control of production is combined with the collection of tax and disbursement of benefit payments, farmers may receive long-time benefits in reduction of excessive supplies and general advance in the level of prices, even if the value of the crop for the current season were not increased. This is particularly true of nonperishable crops, where, as has already been shown, excess supplies from 1 year pile up and act as a depressing influence on prices for a long time thereafter. As is evident from the following discussion, however, the current income from crops such as wheat and cotton would be increased even if there were no accompanying control of production; the fact that under the Agricultural Adjustment Act both methods are combined make the potential advantages of the method all the greater.

The tax on the domestic processing of individual farm products as specified in the act may serve two purposes: (1) To provide funds for the payment of benefits to farmers for control of production, and (2) to produce more income from the commodity than would otherwise be received.

In those cases where the imposition of the tax, together with other arrangements makes possible effective control of production, the processing tax may be worth while even though the combined income from sale prices and tax is no larger than would be received in the absence of a tax. The tax may be still more effective, however, if it not only provides funds for control of production, but also directly produces a larger net income for the same quantity of product.

EFFECTIVENESS OF THE TAX IN RAISING NET FARM INCOMES WILL VARY WITH DIFFERENT COMMODITIES

Although the processing tax is to be collected from the processors, that does not necessarily mean that the full amount will be paid by the processors themselves. In paying the tax, the processor may derive the necessary funds from three sources: (1) Charging higher prices to consumers, (2) paying lower prices to producers, or (3) operating themselves on lower margins.

The extent to which prices to consumers can be raised depends upon the consumers' willingness and ability to pay a higher price without reducing purchases. In some commodities, such as bread and fluid milk, differences in retail price apparently have little bearing on the quantity consumers will purchase. In such cases, the processing tax may be in large part passed on to consumers without material reductions in the quantity that they will purchase.

The extent to which the processing tax can be passed back to farmers, in paying them a smaller price for the product purchased, is partly determined by the ability of farmers to resist such lower prices. Over a long period, farmers can resist by reducing supply. Once a given crop has been produced, however, farmers can resist only by diverting part of the supply to other markets than those provided by domestic processors, or by refusing to sell at all. For products such as wheat or cotton, the ability to sell on foreign markets may strengthen the farmers' resistance. The extent and effect of this resistance depends on the readiness of foreign markets to take increased quantities without serious price concessions. For some commodities, such as cotton, there may be a marked expansion in the quantity which can be sold abroad as a result of a relatively slight decline in price. In such cases, farmers are in good position to resist efforts to reduce the prices paid them, since they could readily dispose of additional quantities of products abroad.

Finally, part of the tax might be absorbed by reducing the margin received by processors, and marketing and distribution agencies. These agencies cannot reduce their costs below that required to cover their current cash outlays without eventually being forced out of business. On the other hand they can operate over considerable periods of time without the same return on their investment as they have received in the past. The profits earned by corporations engaged in this field have shown less reduction during the period of the depression than those of other corporations, and in some cases have even increased. This indicates there may be real possibility of absorbing part of the tax through reducing the margin taken for distribution.

During periods of declining prices, the changes in wholesale prices tend to lag behind changes in the prices for raw materials, and changes in retail prices tend to lag behind changes in wholesale prices. Distributors' margins widen, or at least do not shrink as fast as they

otherwise might shrink. The imposition of the processing tax reverses this process by creating a condition where the cost of raw materials to the processor tends to increase. Since ordinarily wholesale prices do not increase as rapidly as the cost of the raw materials, and retail prices do not rise as rapidly as wholesale prices, the tax may exert a definite tendency toward reducing the margin.

This appraisal of the ways in which the tax may be borne indicates that portions of it may be absorbed in each of the three ways, dependent on the conditions in the particular commodity. The final result for any commodity would depend on the net balance among the effects in all these directions.

APPLYING THE TAX ON COTTON, EVEN WITHOUT LIMITATION OF PRODUCTION,
WOULD RAISE FARMERS' RETURNS

If a tax of 4 cents per pound were imposed on the domestic processing of cotton, that would tend to reduce the domestic consumption. Even if the entire 4 cents were passed on to domestic cotton purchasers, however, it is unlikely that this much advance in cost would reduce the domestic consumption by more than half a million bales. In the absence of production control, it would be necessary to add that half million bales to the quantity to be disposed of in foreign markets. Foreign markets are much more sensitive to changes in cotton prices than are domestic markets, however; so this additional half million bales could be added to exports without causing much of a drop in world price levels. Preliminary estimates indicate that a 4-cent tax, with no change in production, might reduce the world price level something less than 1 cent per pound, and increase the cost of cotton to domestic consumers (tax included) by something more than 3 cents per pound.⁵⁰ The gain of over 3 cents on the 40 percent of our cotton production which goes into the domestic market would much more than offset the loss of less than a cent on the 60 percent which goes into foreign markets, and the net income from the whole crop would be materially increased in consequence.

The ability of such an operation to increase the net return from the product depends upon three factors: (1) The responsiveness of domestic consumption to change in price; (2) the responsiveness of foreign consumption to change in price; and (3) the proportion of the total domestic product which may move into export.

In the case of cotton, where more than half of the total is exported, the operation would not bring a net gain in income from domestic cotton production if it were not for the fact that domestic demand for cotton is less elastic than is foreign demand. Withdrawing a given quantity of cotton from domestic consumption and adding it to the quantities disposed of in foreign markets results in a much greater increase in domestic prices than a decline in world market prices.⁵¹

In commodities such as wheat, where a small proportion of the crop is exported, and where our exports contribute a small percentage of the total world supply, the probable gain in income would be much greater. The additional price would cause only a negligible decline

⁵⁰ These estimates are rough first approximations, but are based on the price data readily available. More exact estimates could be obtained from more elaborate examination of all the elements in the case, using the results of such precise studies as that reported in Technical Bulletin 50. (See footnote 40, first reference.)

⁵¹ If, at the same time, production were to be reduced by an equal or even larger amount, the world market price would not be forced down at all, and the entire effect of the reduction would be concentrated largely on domestic markets.

in domestic consumption; and the addition of this quantity to export would have only slight influence on world prices, even if no effort were made to reduce production. Such a commodity offers an almost ideal situation for the operation of this plan to increase income to farmers.

Fundamentally, the domestic-allotment plan enables the quantity sold on domestic markets to be adjusted at such a level as will bring in a fair return from the domestic use of the product, even though the rest of the product is being sold for foreign use at the lower price prevailing in foreign markets. During the period while processing taxes are imposed, it guarantees to cooperating farmers that the market price plus the benefit income will bring them a parity price on that part of their production which is needed for domestic consumption. The plan offers them a protected price on their allotted share of the domestic consumption—hence the term “domestic allotment plan.”

ON DOMESTIC COMMODITIES THE TAX WOULD PRIMARILY FACILITATE THE CONTROL OF PRODUCTION, BUT WOULD NOT OF ITSELF PROVIDE INCREASED FARM INCOME

In the case of a commodity such as butter, which sells ordinarily entirely in the domestic market with no export movement, the situation is quite different. Here there is no possibility of the farmers resisting the reduction in the farm price by diverting part of their supplies to foreign sale. The only way in which the imposition of the tax, without production control, may lead to increased income in the hands of the farmers is by increasing the price paid by consumers or by reducing the margin taken by distributing agencies. So long as the same supplies are forced on the markets, presumably consumers would pay only the same price. Only to the limited extent that distributing costs would be reduced would the imposition of the processing tax on such a commodity increase the total income which will be derived from such commodity.

It might be worth while to impose a processing tax on a product such as butter or beef cattle, merely for the sake of securing funds with which to control volume of production. Such cases offer a less promising field for increasing income through the processing tax than do those commodities such as cotton and wheat, where the balance of economic responses in domestic and foreign markets is such that even in the absence of production control a net gain may be made in farm income from the commodity, through the modification of pricing practices which would result from the application of the tax.

REDUCED PRODUCTION DOES NOT INCREASE FARM INCOME FOR ALL COMMODITIES

For products sold entirely on the domestic market, the utility of the processing tax lies largely in its producing the funds to bring about a reduction in the supply. This involves several further problems. (1) Is it true that for all farm products the larger the volume produced the less the income the farmer receives? (2) Even if it is true, is it to the social welfare to increase farmers' income by starving the consumer or otherwise forcing him to pay high prices?

The data available indicate clearly that for some products, such as potatoes, a given change in the volume of the crop will have a far

more than corresponding change in the price on the domestic market. For such crops a crop no larger than the average or possibly slightly smaller than the average will return far more income to farmers than will crops much larger than the average.

One reason for this condition is that when supplies are unduly large prices fall to the point where farmers feed some of the crop to livestock or leave it undug to dispose of the whole crop. This is particularly true of crops of large bulk or relatively low value per pound so that transportation and marketing costs may absorb the entire retail price in years of large production.

In the case of some other products, such as butter and cattle, there is far less response to change in prices than is true in case of potatoes. For these two products a small supply will apparently sell for somewhat more than a large supply. The difference is, however, less pronounced than in the case of potatoes.

For still other products, especially semiluxury products such as some of the higher-priced fruits and vegetables, and also for specialty products such as peanuts, the data available indicate that a 10 percent increase in production causes less than 10 percent decline in price. Under such conditions, a large crop may bring in more gross income than a small crop will bring in.

In all of these cases, of course, the question of cost has been ignored. Even though a large crop of peanuts may sell for more than a small crop, it may be that it costs the farmer enough extra in the way of additional harvest labor and other expenses that he nets no more from the larger crop. As a whole, however, the proportion of total cash costs which varies with output is sufficiently small so that the gross income from the product may be taken as at least a rough approximation of the effect of changes in the production of the product on income of the farmer.

It is evident that reduction in the volume of production is not a universal answer to the problem of how to secure higher farm returns. For some products, such control of production may bring in materially increased returns; for other products it may produce an incidental increase in returns; and for still other products, control of production may actually reduce gross income. Furthermore, there are marked limitations to what may be done to increase farmers' income under any conditions so long as demand conditions remain relatively poor. With any given level of demand conditions there are thus definite limits to the effectiveness of production control as a way of raising farm incomes.

REDUCED PRODUCTION MAY BALANCE OUTPUT AND SO CONTRIBUTE TO GENERAL SOCIAL WELFARE

A certain degree of restriction of production may be desirable from the point of view of the general welfare. When farm products are produced in such abundance that the retail prices do not even pay the cost of moving them to market, and the excess is permitted to rot in the fields, such surpluses are of no value to anyone. In such cases, it is clearly to the general good to save the additional effort involved in producing the excess supply. Even where such physical destruction is not involved, the attempt to force exceedingly large supplies of cotton or wheat or hogs into consumptive channels may

press prices so low that farmers' buying power for industrial products is largely eliminated. Under such conditions the inability of farmers to buy and the resulting disturbance of the normal exchange of farm products for city products may result in such a serious break-down in industrial economic activity that the city loses far more through reduced employment and general economic depression than it gains from the resulting low prices for cotton or wheat or meat.

What is needed is a balance between the production of various products and the quantities which the markets can absorb at reasonable prices and with sustained activity on the part of industry as a whole.

One further element is involved. Although the demand for individual food products is elastic in varying degree, the maximum demand for food products as a whole is quite inelastic and depends on the size of the population plus the export market. The human stomach sets the limit to the quantity of food we can use; and the area of our skin tends to set a limit to our need for textiles. There are growing uses of farm products in industry, it is true, such as fountain pens made from the casein of milk or auto tires made from cotton and rubber; but such uses of farm products are slight compared to the basic uses for food and clothing. The substitution of mechanical power for human muscle, and of heated houses for heavy clothing, has actually caused a reduction in our per capita consumption of food and clothing. There have been shifts between products, of course, as more dairy products and vegetables and less wheat and potatoes; but even including the increasing industrial uses our consumption of farm products seems to be growing no faster than our population, and probably not even quite so fast.

The limited demand for farm products makes it clearly in the general welfare that only so much farm products should be produced as are needed, either for the export market or to maintain adequate supplies for domestic requirements; and that which is produced should be in the proper balance between commodities.

It would clearly be contrary to the general welfare for farmers to be permitted to reduce the production of essential products to such a great extent as would result in famine conditions and corresponding scarcity prices for products even though such prices should produce unusually high farm incomes. There is no danger of such a contingency under the Agricultural Adjustment Act, however. As indicated in that act, processing taxes can be used only so long as the prices of farm products are below their normal relation to prices of other products. As soon as that parity has been established, the processing taxes will not apply in subsequent seasons. The act, therefore, completely prevents any extreme monopolistic practices on the part of farmers, through the control of production or otherwise.

MARKETING AGREEMENTS, AS PROVIDED FOR IN THE ACT, CAN REDUCE DISTRIBUTION COSTS, REGULATE MARKET SUPPLIES, INCREASE PRICES TO FARMERS, YET PROTECT PUBLIC INTERESTS

Through voluntary agreements with associations of producers, processors, and dealers, and with the Secretary of Agriculture as a party to the agreements acting in behalf of the public welfare, it is possible to make considerable progress toward more efficient marketing. They open up opportunities in many directions for the general welfare.

Market gluts that destroy values both at the farm and at central markets can be prevented through agreements that prorate shipments according to current market requirements, and leave the nonmerchandise portion of the crop to be distributed either through relief channels or in other ways, so as to bring about a wider consumption without having the surplus portion of the crop threaten the value of the entire crop. Price demoralization that arises from the marketing of low-grade products in years of bumper crops can be prevented.

Marketing agreements may also be utilized to remove a large variety of unsound trade practices that contribute neither to the welfare of consumers nor the producers.³⁸

Advertising programs which under present conditions serve largely to shift the volume of business done from one firm to another without actually expanding consumption, can, under the voluntary marketing agreements, be made to serve the interests of all producers and the distributing agencies as a group. Advertising expenditures may result in a larger total volume of consumption by emphasizing the essential characteristics of a product and its place in a higher standard of living. Such advertising can reasonably be expected to contribute toward reducing marketing spreads per unit. Advertising which bases its appeal on imaginary qualities that the article never possessed, or on emotional appeals, may lead to competitive struggles for volume which increase selling costs without any corresponding advantage to producers or consumers. Such practices might be modified by suitable marketing agreements.

Similarly, voluntary agreements open the way for reorganizing inefficient high-cost distribution facilities, in the interest of lowering the costs of marketing. Agencies entering into an agreement with the Secretary of Agriculture, may undertake to retire high-cost inefficient services and to encourage the expansion of low-cost services in the interest of a greater volume of distribution, relatively lower costs to consumers, and a larger share of the consumer's dollar for the farmer.

Furthermore, marketing agreements can be utilized as a direct means of securing more adequate prices to producers. Where definite control of total supplies can be established either through prorating shipments among dealers or limiting the volume to be processed, agreements may provide for prices to producers and to distributors in accord with supply-and-demand conditions, provided most of the producers and primary distributors or processors participate in the agreement. Price fixing under these circumstances becomes economically feasible, since important elements which determine prices are brought under control. In these cases, however, the price improvement which can be secured through these agreements is limited to that which can be exerted through changes in supply and greater efficiencies in marketing, since these agreements offer no direct means of increasing effective demand for the product (except possibly to a limited extent by diverting excess supplies to relief channels).

The Agricultural Adjustment Act provides for direct efforts at improvements of marketing methods and reduced costs of distribution. Through voluntary agreements with the Secretary of Agriculture, the

³⁸ UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS. UNFAIR PRACTICES IN THE MARKETING OF AGRICULTURAL PRODUCTS. U.S. Dept. Agri., Bur. Agri. Econ. Library. 13 pp. Aug. 25, 1933. (Typewritten.)

act makes possible the elimination of trade practices by group action which no individual distributor could undertake and which might be contrary to the antitrust laws if attempted by private agreements. By means of voluntary agreements under the Agricultural Adjustment Act, it is possible to prevent the losses to producers, distributors, and consumers that arise from the marketing of bumper crops beyond the requirements of consumers. Through marketing agreements it is possible to recognize the principle that reduced costs which result from the establishment of more efficient marketing practices should redound to the benefit of producers, distributors, and consumers. They are also predicated on the sound economic principle that prices to growers, distributors, and consumers can be established at basic levels for each group consistent with existing conditions of consumer purchasing power; provided there are the requisite definite arrangements for carrying through needed readjustments in marketing organization, structure, and pricing methods.

Many of the problems in distribution already discussed, which tend to reduce the farmers' share of the consumer's dollar, cannot be adequately solved without the centralizing power of a Government agency.

The Agricultural Adjustment Act provides for the removal of surpluses through means other than direct reduction of production. By the use of a portion of the processing taxes, surpluses may be removed by the elimination of domestic underconsumption and by the expansion of markets, as well as by the reduction of acreage. The flexible provisions of the act permit the setting up of marketing agencies to dispose of surpluses among the millions of domestic unemployed consumers and to dispose of surplus crops abroad without affecting the usual currents of domestic or foreign trade.

THE EFFORTS TO INCREASE AGRICULTURAL INCOME WILL HELP, AND WILL BE HELPED BY, GENERAL ECONOMIC RECOVERY

Agricultural income and general purchasing power are definitely interrelated. For certain branches of agriculture, world-demand conditions may at times bring about an increase or decrease in farm income, but the major portion of farm income is so intertwined with the national income that it is statistically difficult to treat them separately and to measure the influence of one upon the other. For example, during most of the period 1921-32, the changes in farm income have paralleled the changes in the money income of industrial workers (fig. 38). At certain critical periods, however, improvement in farm income preceded and supported the revival in consumer incomes. During the last half of 1921, the volume of industrial activity had begun to advance, but money incomes of industrial workers remained at their low levels until the spring of 1922. Farm income, however, largely as a result of curtailed supplies of cotton and other crops, rose sharply during the winter months of 1921, thus aiding the progress of revival. Again in 1924 when industrial activity was declining and consumer incomes were being reduced, a sharp advance in farm income, this time due to favorable foreign-demand conditions growing out of a small world wheat crop, helped to check the business recession and bring about business revival.

Similar beneficial influences could reasonably be expected to result from the operations of the Agricultural Adjustment Act in 1933, as

bases are laid for higher prices through reductions in current or prospective supplies. The control of production and elimination of surpluses can contribute to general industrial recovery and increased consumer incomes through its effect on prices. The rise in farm prices through actual or potential reduction in acreage and production, insofar as it enhances the inventory value of surpluses, strengthens the credit structure, and gives farmers a greater income, and spreads purchasing power. The distribution of benefit payments through advances to producers before processing taxes are collected, creates a fund of purchasing power that serves to promote revival in

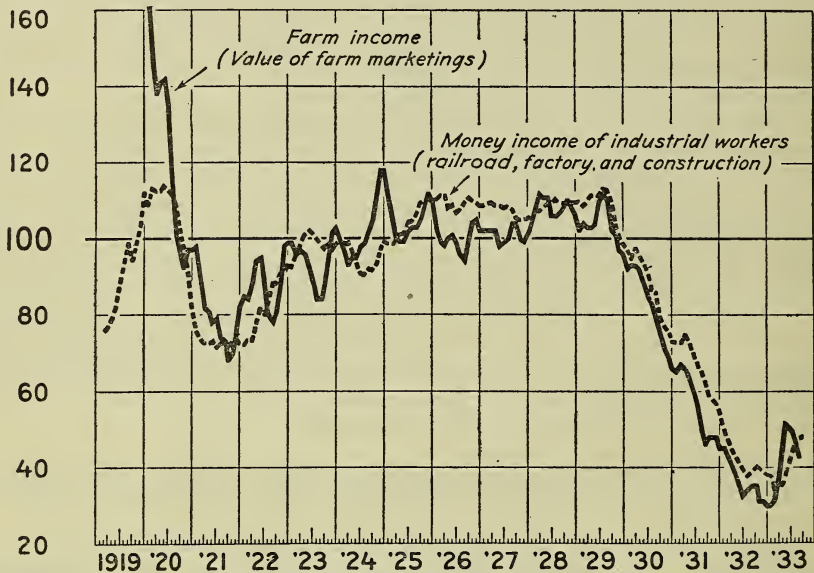


FIGURE 38.—MONEY INCOME OF INDUSTRIAL WORKERS AND FARM INCOME, 1919 TO SEPTEMBER 1933.

Farm income and industrial consumer incomes are basically interdependent; at certain critical points, however, farm income may either decline (as in 1919-20) or rise (as in 1921-22) before the similar changes in consumers' incomes. The prospect for foreign demand at the end of 1932 was not at all favorable. A rise in farm income if produced by reductions in surplus supplies would assist in promoting general recovery as in 1921-22 when domestic crops were reduced and 1924-25 when foreign demand was stimulated by reduced crops abroad.

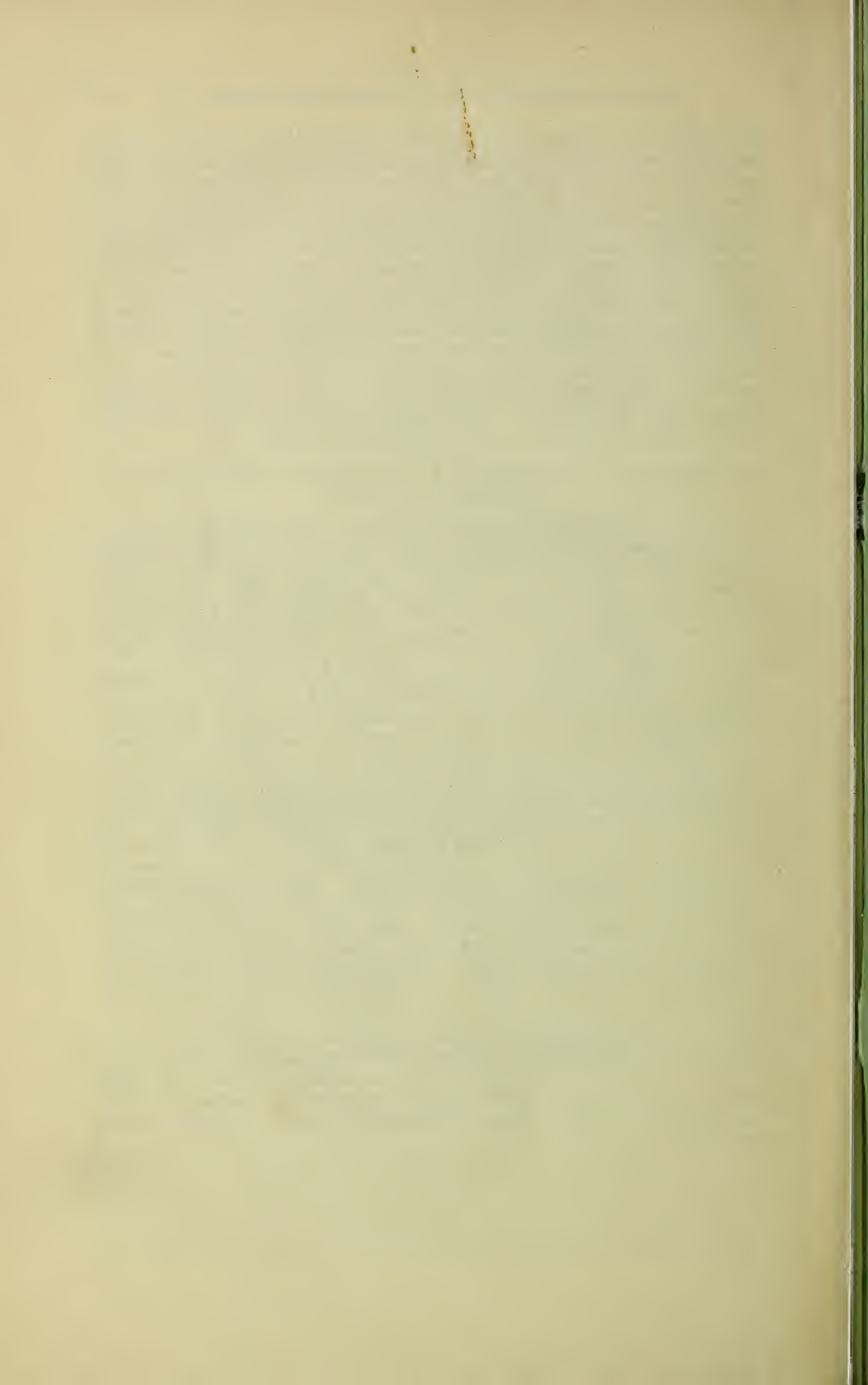
the same way as a similar extension of credit in actual use. Increase in agricultural income may thus serve to expand other incomes as it did in the 1921-22 revival.

The dependence of farm income on the national income, once the broad forces of revival are well in motion, naturally serves to emphasize the restricted field of influence on prices that may be exercised by the operations of the Agricultural Adjustment Act. The level of prices at the farm is controlled by several factors—the volume of production, distribution, and processing costs and charges, consumer purchasing power, and monetary changes. The operations of the Agricultural Adjustment Act can go a great ways toward raising prices through

the reduction of supplies, and it may increase farm returns through reducing certain distribution and processing costs, and removing unfair and inefficient trade practices. In cases where these distribution and processing charges are determined largely by transportation rates and industrial wage levels, benefits to farmers from marketing agreements will depend very largely on the extent to which industrial wages and transportation rates respond to current depressed conditions. The operations of the Agricultural Adjustment Act cannot, of course, restore that portion of the fall in farm prices which is due to monetary policy and to consumer incomes, except as improvement in the latter is the outgrowth of benefit payments to farmers. For complete restoration of pre-war parity prices, the removal of surpluses must be accompanied by other action aimed toward expanding employment and consumer incomes, and bringing about more nearly normal relations between various prices and services.

**THE AGRICULTURAL ADJUSTMENT ACT IS AN INTEGRAL PART OF THE WHOLE
RECOVERY STRUCTURE**

It is one of the several measures that have been adopted to expand purchasing power to consumers. The National Recovery Act, which was enacted shortly after the Agricultural Adjustment Act, is intended to raise pay rolls through the elimination of sweatshop wage conditions, through balancing increased efficiency with shorter hours so as to decrease unemployment, to coordinate and control business activity so as to create a freer and stable flow of purchasing power. The Public Works Administration was organized to expand purchasing power by undertaking activities which call for a great outlay for materials and wages, so that the latter might enhance the demand for agricultural and other products of current consumption. The Farm Credit Administration was established so as to refinance farm mortgages and to provide other credit facilities to farmers at lower interest rates and at better terms, with the purpose of releasing agricultural buying power for the current purchases of industrial products. The Home Loan Administration was similarly organized to help refinance and extend urban credit so as to release current purchasing power for the products of industry and agriculture. The Emergency Relief Administration was organized to provide temporary relief to the unemployed victims of this depression. This, too, provides for Federal, State, and local distribution of funds so as to give those on relief some measure of purchasing power. All of these recovery efforts are interrelated. Recovery calls for removing agricultural-price disparities and increasing farmers' purchasing power, wiping out unemployment, restoring incomes to city workers, creating a demand for raw materials of agriculture, mining, and manufacturing and so bringing about a general business revival on an enduring basis. The Agricultural Adjustment Act and the other recovery measures are thus fundamental in promoting a lasting and self-sustaining general recovery.





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