

# Recent Trends in the Agricultural Policy of the United States

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AGRICULTURAL policy in the United States in 1939 is an important element firmly embedded in the general economic and social policies of the country. Like the majority of these broader national programs, the present system of organizing the public aid to the farm population and of fostering and regulating agriculture is the outgrowth of the energetic recovery plan that was set in motion in 1933. Yet the agricultural adjustment policy reaches further back and follows a general trend of its own that began to develop from the 1920 collapse of the war boom and its inflated prices. The United States agricultural policy of 1939 has therefore—and this seems important for an evaluation—two separate aspects. It is at the same time the present answer to a political demand expressed by American farmers with increasing power and urgency during the last two decades, and it is the politically expedient continuation of an emergency program and a transitional recovery program under President Roosevelt's "New Deal". Though it has all the earmarks of a temporary short-run policy, and though it is built upon many arguments and claims that become unavoidably contradictory in the long run, this policy has found the endorsement of Congress simply because no better alternatives that were politically or socially suitable have been suggested, and because something had to be done in behalf of the farm population. Under the present proportional strength of representation of the Democratic and the Republican parties in the House of Representatives and in the Senate, it may be anticipated that the opposition to some of the major

features of this policy and its undesirable by-products will gain momentum; and yet it is a fairly safe guess that the essence of the present attack upon the farm problem will be carried on for reasons that are explained later.

What then are the main features of this policy as it presents itself *anno Domini*, Nineteen Hundred and Thirty-nine? The most effective and central part of the policy is centered around the attempt to guarantee to the American farmer an income that may be considered as economically desirable and as somehow in line with what is claimed to be social justice. That is what farmers claim as the purpose and the achievement of this policy and so at least runs the core of the arguments of those who endorse it, either by conviction or *faute de mieux*. If the play of prices in the world market turns out to be so adverse and the forces in the domestic market operate toward such low returns that the farmer does receive a satisfactory income, the public shall add to it the missing share. In order to determine what a "satisfactory" income of agriculture is, two statistical keys have been applied: those of "parity prices" and those of "parity income". These keys have acquired a more and more refined definition. Parity prices shall give any agricultural commodity the same purchasing power with respect to articles that farmers buy as it did during the base period of 1909-1914, with due consideration of the changes in the burden of interest and taxes. As defined by the Agricultural Adjustment Act: "parity income shall be that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the same base period." The

base of 1909-14 is taken as a period in which farmers received a square deal in prices and income. The dubious soundness and feasibility of the underlying complex assumptions will not be discussed here. It may simply suffice to state that these two index keys are an integral part of the Agricultural Adjustment Act of 1938, better known by the abbreviation AAA. the legal basis for the present agricultural policy, and that they will probably serve as such for their 1939 version of the same Act.

In order to improve and replenish the income of the farm population up to the level that Congress has thus set as the aim, a variety of measures has been applied. Some of them try to keep production in such limits that the domestic price may be prevented from dropping too low. This is achieved by national, state, county and farm allotments of the acreage to be cultivated. Since the production control or "adjustment" plans are on a voluntary basis, all those who cooperate receive cash benefits. A part of these inducements is aid for diverting acreage from "soil depleting crops", which are at the same time the "surplus commodities", and for growing "soil restoring crops," which are fodder or green manure crops.

Other measures seek to keep the market supply of the commodities within such limits that the price can be kept up. This is achieved by marketing quotas, typically apportioned as "normal yield" on the acreage allotment, with penalties on sales beyond the quota, by commodity loans to farmers, by open-market purchases of government agencies, by distributing publicly purchased "surpluses" among people on relief, and by subsidized exports. Finally the government is to pay a direct cash bonus to the producers of certain commodities per unit of their estimated normal production as a so-called price adjustment payment. Minor more or less experimental methods like licenses, marketing agreements and the state supported crop yield insurance to wheat growers may be ignored in this survey.

All these measures combined have the result that, aside from pegging the prices of some commodities through controlling markets supplies, the farmer receives a certain share of his cash income in the form of checks from the United States Treasury. For 1938 the cash income of American farmers has been estimated to have totaled \$7,625,000,000. This figure included about \$500,000,000 in direct payments from the government.

In 1939 the program provides for the following conservation and price adjustment payments to cooperating farmers: cotton, 3.6-3.8 cents per lb; corn, 14-15 cents per bushel; wheat, 27-29 cents per bushel; rice, 22-23 cents per cwt.

The total disbursement of government payments under the Agricultural Adjustment Act of 1939 will be considerably higher than in preceding years. They will amount to \$500,000,000 payments in behalf of soil conservation and acreage adjustments, and to \$212,000,000 parity price payments. If the total cash income should range around 7.5 to 8.0 billions, this would mean that from nine to ten per cent of it would be directly derived from the Treasury. Since the commodities which contribute the largest share to the farmer's cash income, such as animal products combined with fruits and vegetables, receive little or no direct aid, the public bonus to the "commodities on relief" is much more pronounced than the total cash income figures indicate. If we assume that the market wholesale price of cotton will oscillate around 8.5 cents per lb., the bonus of 3.6-3.8 cents per lb. to the farmer represents an additional payment of 42 to 44 per cent. If the wholesale price of wheat ranges between 60 and 70 cents a bushel, the bonus of 27-29 cents per bushel means an additional payment from the Treasury of from 50 to 60 per cent above the farm price.

The policy however which will contribute some 712 millions of dollars in direct cash payments to cooperating farmers involves a much larger public aid. The Secretary of Agriculture has at his disposal about \$140 millions in appropria-

tions from the Customs which is used in behalf of surplus commodity operations. The operation of the wheat insurance scheme and unavoidable losses in the commodity loan and carry-over business may easily reach a sum of \$148 millions, which could bring the main visible expenditures from public sources up to a total of one billion dollars in a single year. In this account the appropriations for land purchases under the Farm Tenancy Act and much larger appropriations under the Federal program of purchasing submarginal land as forest reserves or recreational acres are not considered because they are a public investment aside from their assistance to certain farmers.

It was stated before that the present AAA policy has become the permanent form of an experimental emergency program adopted in the depression, the bottom of which was passed in 1932, and that the main theme of this policy will most probably be continued for some years to come, although some specific devices may be exchanged against others eventually. Under such auspices it seems to be a timely proposition to trace some of the dominant arguments and convictions that have been instrumental toward the political entrenchment of this agricultural policy and the elements that will make its repeal very unlikely. However, this is more easily suggested than done because this policy rests on a host of sentiments, convictions and tendencies. They find their best common expression in the slogan of the early twenties under which the campaign began: "Equality for agriculture!" That powerful slogan meant economic equality but it also involves a certain philosophy of justice. Adverse conditions beyond the control of the farmer are supposed to be responsible for the unsatisfactory financial results of his industry. The main arguments that bolster the AAA may be divided into five different groups. These are centering around:

1. Criticism of the economic system.
2. Necessary compensations for effective industrial tariffs.

3. Adversities in the specific historical situation.
4. Social considerations.
5. Conservation for natural resources.

The general criticism of the competitive price system and of the set-up of a free market economy is perhaps the root of the strongest support of the present agricultural policy. Few American farmers may be willing to go more than half way with the various groups of economic reformers and planners in their crusade against the liberal market doctrine, but in the hands of those who drafted the policy the disbelief in the competitive system is the most powerful weapon because it serves to prove the impossibility of a *laissez-faire* policy and to stress the necessity of centralized control and planning. This logic begins with the notion that agriculture is one of the last remnants of a freely competing industry. Agriculture is said to continue to operate under a system of a destructive "atomistic" competition while industries and commerce and finally even labor are operating under the protection of strong monopolies. These monopolies are supposed to exist either by virtue of trusts, cartels, unions, "gentlemen's agreements", or public control, by virtue of concentration of investment or technical minimum capacity, or to be the result of state protection in the form of tariffs. It is argued that effective tariff protection for industries and all the other forms of restrained competition lead toward enhanced prices for materials that farmers buy, while atomistic competition depresses the price of farm products. Another belief in the defective functioning of the competitive system assumes that the slow rhythm of production and many natural handicaps of agriculture prevent an equilibrium and a sufficient adjustment of the supply to the demand. Some of the most influential strategists of the AAA policy go so far as to conclude that not only is monopoly not the root of the evil but that monopoly is necessary and that hence agriculture must be organized as a monopoly. Many other sponsors of the AAA conclude simply

that no matter how or why monopoly or tariffs exist, whether they are good or bad, something has to be done to give the farmer a fair deal, either by lowering industrial tariffs and "busting" monopolies or, if this cannot be done, by compensating their evil effects.

It is in a similar vein that the necessity for the AAA policy is argued on the base of an adverse historical situation. The more familiar variety of this deduction hinges also on the question of competition, state interference or planned economy. The main emphasis is placed, however, on its international aspects and those of the world market. It is assumed that industrial protectionism at home and agricultural protectionism abroad prevent the payments for American agricultural exports and that as a consequence American agriculture has lost since the beginning of the last depression a good deal of its export markets. These markets were lost also because of the discontinuation of American loans to Europe and as the result of the insolvency of debtor nations and the autarchy policy of the dictatorial regimes. As a result of this loss of export markets, the United States has some 40 to 50 million acres in excess of requirements under cultivation. This situation is considered as a historical accident and as something beyond the control of individual farmers. In order to avoid injustice and undesirable effects upon the economic system as a whole, it is urged, the government must act.

The next group of arguments of a social nature is well intertwined with the preceding ones. Among the large number of sponsors of the AAA who do not question the capacity of the competitive system to bring about the necessary adjustments by the automatism of the market are those who frequently claim that such drastic adjustments as are necessary today would cause unjustifiable hardships among the farm population and that such "cruel" consequences of laissez faire are socially undesirable or politically unbearable. Their argument is strengthened by the economic explanation that without public aid the adjustments would necessitate a shift of

population from farming to industrial or commercial occupations or into personal services. So far the other professions are clogged with millions of unemployed people. At least as long as this condition prevails—so say the most moderate sponsors who argue that way—the AAA policy is a social palliative for a continued emergency at least as long as this situation persists. It is not surprising that such social reasoning has gained more and more weight within an era in domestic policies that emphasizes above all else the aim of social security. If every one is to have a certain amount of social security, why should not the farmers have their share in it.

A last group of arguments is of a different character, although it is related to the first group that questions more or less the soundness of the competitive economic system. The standard conclusion of this group runs approximately like this: Low prices as the result of chaotic competition and the lack of planning the agricultural production lead to rugged individualistic exploitation of land resources, to erosion and soil depletion. Thus American farmers have exported in cut-throat competition and far below "real costs" the soil fertility of the United States and left over the sad remnants. Hence it is necessary to plan production, to reduce cash crop production, and to raise prices in the domestic market to a level that is remunerative and permits adopting soil conservation methods in farming. Motion pictures and fiction writers, public agencies, colleges and schools have for several years joined in a nationwide drive toward conservation of national resources that sways the minds of the people. Today the American layman, no matter whether he be an intellectual or a laborer, is so soil-erosion conscious that a policy that requires the support of the taxpayer for erosion control and soil conservation has his sympathetic ear.

These four groups of reasons represent the major body of arguments advanced in behalf of the AAA policy, partly as an endorsement for a temporary cure, partly as an energetic drive for a

systematic and permanent reform policy, partly well-formulated, and partly only active in the sub-consciousness of the public. The narrow limitations of allotted space prohibit the most tempting venture to discuss the validity of the various arguments. From the birdseye view of the heterogeneous argumentation, however, it seems to become obvious already that some of the controversial arguments lead straight into the fathomless depth of political and economic philosophy and defy in the ultimate analysis an objective discussion. It shall only be hinted here that if the nation decides to pay for its food and textile raw materials permanently in the dual way of prices plus taxes for bonuses, this policy may not only not correct inadequate automatic adjustments but it may unintentionally upset the major part of such adjustments altogether. It seems reasonable to expect that a perpetuated AAA in its present form will artificially maintain an oversized agricultural population, and that it will tend to establish agriculture on an artificial level of costs. There are just as many arguments contra as those which are pro

the present AAA. However, the "ayes" at present carry the vote.

It is the writer's conviction that the real problem of agricultural policy which the AAA tries to solve lies mainly outside of agriculture, namely in the industrial field and particularly in that of the production goods industries. If the total capacity of productive man power can be absorbed in industries, the problem of the AAA solves itself by automatic adjustment in prices, in the number of farmers and their output.

As long as millions of unemployed clog the labor market in industries, it seems to be considered also as an indisputable political necessity to keep the farm population in good spirits lest they may join fascist or other political movements that undermine democracy. This offers another answer to the question why the AAA is maintained in spite of its all too obvious shortcomings. In other words, in spite of its perpetuation in its present form, the AAA is an expedient temporary cure for the symptoms, as they appear in the agricultural industry, of an industrially and commercially maladjusted situation.