

CHAPTER V

AGRICULTURAL PROBLEMS AND FARM RELIEF*

Various suggestions are made for the relief of the farmer. It is suggested that public money be loaned to farmers on mortgages bearing a rate of interest lower than the market rate. The resulting favoritism, not to say corruption, is obvious. This money must be raised by taxation, which is sure to diminish the purchasing power of the masses. It is suggested that they should be induced to curtail their crops. The absurdity of trying to abolish poverty and increase jobs by diminishing the production of wealth ought to be plain. Such suggestions are subject to the defect as shown by experience in the case of the Farm Loan Board† The theory there was that the government should purchase what was estimated to be the surplus products by our farmers over and above domestic need; the price could be held up, and the Farm Board could gradually feed out the supplies thus purchased by the Board perhaps at a higher price, or at least without loss, and the price of the farmers product thereby permanently enhanced.

*This paper was written by Mr. Record in the year 1933. He died in September, 1933.

†The Hoover Board.

This is a typical instance of what is called "social planning." It looks well on paper but ignores the result of human experience everywhere. The result was the expenditure of several hundred millions of dollars, accumulation of enormous quantities of farm products in storehouses, which are carried at large expense and which overhang the market, and which must finally be destroyed, or given away in charity to our people or to foreigners.

Farm Bounties Defeat Their Own Purpose

In spite of this colossal failure three other plans are now suggested by rival leaders among the farm organizations, and by their representatives in Congress. One is the debenture plan. This involves a payment out of the Federal Treasury to exporters of farm products of a bounty equal to one half the tariff rates on the products involved. On wheat for example the exporter would receive a bounty of 21 cents a bushel, and the theory is that he would be compelled to pay that amount extra for the wheat that he purchased in the United States and still sell his wheat abroad at the same margin of profit as before. With the exporters bidding 21 cents more per bushel, it is argued that domestic millers would have to bid equally high for the wheat they needed for domestic use.

The objection to this plan is that there is no way to tell what will be the total product of wheat for example in any year, nor how much the domestic market will absorb, nor what the effect would be upon the foreign market if a large body of wheat was dumped upon it from this country. It is obvious that the hope of the increased price would lead the farmers to very

largely extend their acreage, with a result that nobody could foresee. The probability is that the government would be faced with an immense loss and that the effect upon the domestic market would be small, but if the hopes of the sponsors of this plan were completely realized it would result in increasing the price of farm products to the consumer. The consumers in the United States speaking broadly are poor men with little or no property and scanty savings. The net effect would be to increase the cost of living to these people who are much larger in number than the farmers. This mass of consumers would thus be compelled to reduce their purchases of all products including farm products. It is impossible to see how the nation as a whole would be benefited by this process.

The next plan is known as the equalization fee plan. This has twice passed Congress and been vetoed by President Coolidge on the ground, among others, of unconstitutionality. This involves the creation of a government export corporation, similar to the farm loan board, which would buy up surplus farm products at approximately the world price plus the tariff charges. The corporation is then to collect its heavy loss by collecting an assessment from twenty million farmers, and sell the products in the foreign market.

Equalization Plan Pre-doomed to Failure

It is remarkable that this program can be seriously advanced in view of the failure of the Farm Board. Its failure is assured from the start. Nobody knows what is the amount of the exportable surplus. Nobody knows what price can be gotten for it if sold abroad,

and nobody knows what price would be actually paid to the farmer. Anticipating that he would get a higher price, every farmer would be under the incentive to increase his acreage. The outcome of such an action on the part of the farmers can not even be approximated, but the job of collecting ten cents a bushel or eighty million dollars for example from twenty million farmers, two thirds of whom are either tenants or owners of mortgaged farms and are unable to meet either the rent or the interest upon their mortgages is extremely difficult and probably impossible. The cost of bringing the necessary suits and the maintenance of the huge bureaucracy necessary to supervise the whole proceeding is impossible to estimate, and is sure to run into millions. This is another typical illustration of social planning.

Fallacies of the Agricultural Allotment Plan (AAA)

Another suggestion is known as the allotment plan. The government is to collect a tax upon all domestic farm products from those manufacturers into whose hands the raw product from the farm first goes. These men, called "processors," would be compelled to pay the government a tax of say 40 cents per bushel on each bushel of wheat purchased by them for manufacture into food products, and this tax would be distributed among those farmers who have agreed to obey the government's recommendation, or the recommendation of a Cooperative Board set up by the farmers themselves, to decrease their acreage. A moment's contemplation of the mass of detail made necessary by this scheme, and the temptation to perjury involved,

shows the extreme difficulty, if not impossibility, of carrying it out. The bookkeeping process itself would entail enormous expense, and verification of the claims of the farmers to a share in this bonus would entail the employment of a very large number of employees, most of whom would be named by the politicians, and all of whom would be subjected to the temptation to connive at fraudulent returns, exactly as our prohibition enforcement agencies are notoriously corrupted by the bootleggers.

Plight of Tenant Farmers

All these plans ignore the fact that the twenty million farmers have not a common interest.

One half of these farmers are tenants. The rent of the farm is based upon competition between tenants, and for many years past there have been more tenants than there have been farms to rent, with the result that the rent of the farm is in most cases the entire product of the farm less barely enough to enable the tenant to live and purchase the necessary equipment for the operation of the farm. At the present time it is estimated that most of these tenants are unable to pay the rent which they have agreed upon, and the banks and insurance companies and individuals that own these farms are unable to collect from the tenant enough money to represent a low interest upon the value of the farms, most of which have been acquired under foreclosure. It is obvious that any increased price of farm products, or any bonus paid to tenant farmers under this or any other plan, would be promptly taken in increased rents by the owners of the rented farm, and the purchasing power of the ten million tenant

farmers would not be increased. Of the remaining ten million farmers it is estimated that seven million five hundred thousand of them have their farms mortgaged, and nearly all of these at the present time are unable to meet the interest, to say nothing of the principal, as the same falls due. Any benefit this class of farmers received would of course be promptly appropriated by the money lenders. The benefits of either of these schemes therefore which might be reflected in an increased price of farm products which would increase the purchasing power of the farmers would be limited to something like two million five hundred thousand of the twenty million farmers, while the enhanced cost of farm products to the mass of consumers would diminish their purchasing power and thus produce a further contraction of trade and increase of unemployment.

Farm Mortgage Plan Political Football

To meet these objections the plan is suggested of issuing bonds and exchanging them for the mortgages upon farms, and also upon homes in the cities. This has the merit of direct action extended to a deserving class. Let us analyze this project.

If the terms of the bill as announced in the newspapers are adhered to, the bonds will be issued in an amount not in excess of 70% of the present value of the farms, and 30% of the value of the improvements. The estimate is that this will require only eight billions of bonds. If there are six million mortgaged farms, this would make an average mortgage of about thirteen hundred dollars. The average mortgage on farms is

probably greatly in excess of this sum. If the farms and improvements and homes can not measure up at present depreciated values to the amount of the mortgage, will the money lender accept a 30 or 40 percent cut in his principal and cancel his interest, in return for a government four percent bond? Only experience can answer this question. If they do, then the next question arises as to the relation of these farmers and home owners to the government in the future. One can imagine easily the immense pressure upon Congressmen from the farmers and home owners in the future who are unable to meet the government interest, and it is difficult to imagine a political government facing re-election attempting to enforce collection from farmers and home owners by the process of foreclosure and eviction. But assuming all these obstacles to be overcome, what are the incidental effects of the government going into the business of lending money to farm owners, at rates lower than the market, and the further project of lending money to people who want to acquire homes, or to prevent existing home owners from losing their homes on account of mortgages which they can not meet?

Unless all of the farmers and home seekers who desire financial help are accommodated by the government, certain consequences will ensue. In the first place there will be a struggle to obtain political influence in order to get a preference, if the government's funds are inadequate for all, as they are sure to be. The effect of this upon politics can be easily imagined. Those who are disappointed must give up the ideas of homes or apply to the other money lenders. Will

these money lenders meet the government's low terms? The answer would be no, and that the money lending market will be utterly demoralized by this project.

We had in New Jersey an experience which throws some light upon this situation. A State Commission had charge of the rental and sale of lands under water fronting upon our navigable rivers and ocean front. This money was put into the hands of some State officials and dedicated to the public schools, and these officials were authorized to loan it out to individuals upon real estate security, with the usual nominal safeguards. This fund became a regular source of influence exercised by the politician, with the result that most all of the fund was found invested in mortgages which were uncollectable.

Mortgage Relief Helps Land Speculation, Not Farming

We come now to the underlying and fundamental objection which so far as I can learn has never been considered by the President or by Congress, and is certainly ignored by all those who pretend to speak with authority upon this subject. When finally analyzed the entry of the government into the lending of money upon land at a rate way below the market will result in an increase in the number of people desiring to acquire land upon these favorable terms, and the inevitable result will be the enhancement of land values, of farms and of home sites. Here we strike at the root of our whole trouble throughout the world, and which is entirely ignored by everybody in authority. In the end such farmers as gain will gain not as working

farmers but as owners of farm land, and the home owner will gain as the owner of land and not as a wage earner, and the enhancement in the price of land operates as a privilege which decreases the consuming power of the mass, including the benefited home owners and farmers themselves. This performance is what is known as social planning. It is a theoretical interference with the natural and inevitable laws of political economy.

Most of the benefits of these plans, therefore, if any of them could be made to work, would go to those who own farms in their capacity as land owners, and would not benefit the tenant farmer at all, nor would it benefit the farmer operating his own farm in his capacity as a producer of farm products. His gain would be as an owner of land. The tenant farmer would not gain at all. He is the "forgotten man" in all these plans. The same consideration applies to every suggestion for aiding the farmer so far made. This economic law will be more evident when we consider the land question.

Real Relief for Farmers

The only justification for either of these plans is that some attempt should be made to save the owners of mortgaged farms from losing their farms. It is hard to resist this plea, but the farm problem can not be permanently solved until we are ready to face the underlying realities of the situation. If there are too many farmers and more farm products are produced than the market will absorb at profitable prices, there are only three possible permanent remedies.

- (1) The abandonment of farming by a sufficient

number of farmers to restore profitable farm conditions to the remaining farmers.

- (2) The payment of subsidies to all existing farmers either by direct money payments or by loaning public money to carry farm mortgages, which subsidies must be raised by enforced contributions collected in taxation from all our people. These taxes unless levied exclusively upon the rich, which nobody proposes, will further diminish the purchasing power of the masses.
- (3) The abolition of privilege, as hereinafter set forth, resulting in employment and higher wages than now prevail for all men willing to work, with the consequent increased demand for all farm and manufactured products.