

"SOME THOUGHTS ON AGRICULTURAL POLICY"

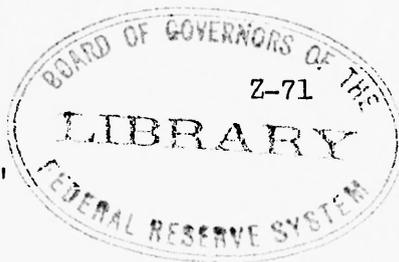
Address of

Chester C. Davis, Member,
Board of Governors of the Federal Reserve System,

at Farm and Home Convention,
College of Agriculture,
University of Kentucky,
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"SOME THOUGHTS ON AGRICULTURAL POLICY"



While this is my first visit to Lexington - and that wasn't Dean Cooper's fault either, - I feel in a peculiar sense that I am visiting the old home of some dear personal friends.

About twenty-odd years ago two rangy Kentucky-bred boys were finding their way about these grounds. Both of them went into the Department of Agriculture after they finished college. Both of them came into the Agricultural Adjustment Administration when it was being organized in that hectic summer of 1933.

One of them got his back under the problems of the tobacco growers that summer and, while his responsibilities have grown greatly with other areas and other commodities, the same thorough, brilliant genius that made John B. - "Jack" - Hutson a number one friend of the tobacco growers makes him an invaluable aid to all American agriculture as Assistant Administrator of the A.A.A. today.

The work of the other man probably has touched Kentucky farmers less closely than his. He is also an Assistant Administrator of the A.A.A. I never knew a more quietly effective man, or a man with shoulders broader for responsibility, than Jesse W. Tapp. He cleans up a job as he goes along, and he has had plenty of them shoved at him since he went with the A.A.A.

About the time these two were in school here, another Kentuckian, who also had attended this University, was establishing himself in the practice of law at Maysville, serving in the Legislature, and getting

ready to enlist in the Army of his country. That man was marked for greater honors. For 20 years he was intimately connected with the expanding agricultural movements and problems. It was he who argued the A.A.A. case, and lost it in the Supreme Court by a divided and anachronistic opinion. I think Kentucky is to be congratulated in giving to the nation the first Justice of the Supreme Court who can qualify as an expert in agricultural law and policy, in the person of Stanley Reed.

While Stanley Reed was in college, another native son of Kentucky over in Winchester was in that stage of human existence which has been defined as "an alimentary canal with a loud speaker at one end, and complete lack of control at the other." He graduated from law school here, and then worked on the Lexington Herald for four years. Paul Porter was closely associated with me in the Triple A, and those of you who remember him here will readily understand why I pay tribute to his keen and resourceful mind.

I could use up more than my allotted time in talking about these men and the host of others like them who went out of this state and from this institution to serve you and their country in these troublesome times. Personally, I would rather use up my time in that way, than to grapple with the dilemma that confronts me today. I could talk about agricultural policy, but you have heard that already on this program from Howard Tolley and others who are directly in it. I could talk to you about credit and monetary problems and programs,

about the current business recession, its causes and cures, and do a little forecasting about it, but to tell you the truth, I am getting sick and tired of speeches and would gladly sacrifice any more of them until the basis has been laid for some good-humored well-coordinated and reasonably silent action.

So I am compelled to appear before you today as a man who is regarded as a sort of a banker when among farmers, and a sort of a farmer when among bankers -- "neither fish, nor flesh nor good red herring."

My speaking in the role of a sort of banker among farmers will be short. Everybody is asking whether this business nosedive is going to continue and whether it is going to end in another crash. Without becoming a forecaster - there are plenty of them - let me say that informed men I meet do not believe this business halt marks an end to the recent progress of recovery. The elements that usually surround a prolonged depression are lacking. We have an abundance of cheap money; progress to date has not been marked by general speculative excesses; and, if we except certain agricultural lines, there has been no serious overextension in any field of productive activity. We have a lightened burden of private debt, and a large amount of unsatisfied needs for houses and for railroad, utility, and industrial plant and equipment which constitute a backlog for activity as soon as the current readjustments have taken place.

On the money and credit side, the banks of the country have

continued to have funds at their disposal available for loans and investments far in excess of their immediate needs. To use the measure that has become familiar through the last few years, the member banks have nearly one and a half billion dollars of excess reserves; that is, they have that much available for immediate use that is lying idle over and above the amount that they are required to hold as reserves, even after the Reserve Board had increased the legal requirements. With a billion and a half dollars in excess reserves the banking system could expand loans to several times that amount before it would be confronted with a shortage of reserves.

Not only do the banks have a large volume of idle funds available for use, but the public has in its possession an amount of funds available for business and for investment that is larger than at any time in the history of the country. With business still well below the level of 1929, deposits at banks are far above the level of that year. This means that there are funds available to finance a business expansion even without any further growth of bank credit, simply by a more rapid turnover of the existing supply.

Money rates in the open market are still at abnormally low levels of 1 percent or less. Rates charged to customers by banks in various cities are also lower than they have ever before been in this country. I know that certain types of loans are always made at a rigid rate, which means that low-cost money isn't necessarily low-cost to all borrowers, but this cannot be considered a cause of our present recession,

since it is a condition that has been with us for many decades.

Everybody agrees that we have a long way yet to go before we reach the level of national income that matches our natural and human resources. Most sober-minded men believe that this increase in national income should be earned through increased production of things people need and of which they can use and enjoy more. But income must be pumped through the hands of the masses if the masses are to have the purchasing power to acquire and use what we are able to make.

I know that I speak what is in the minds of my colleagues on the Board when I say that they will not hesitate at any time to take or to recommend to the Government such monetary action as they believe would help achieve the growing prosperity which is ours to enjoy. Monetary action alone, however, would be unwise if it encouraged prices to outstrip production and hold down consumption.

Many things are necessary if we are to achieve the prosperity which should be ours, but I can only touch on one of them today. We must have reasonable balance among the elements of our economy. The nation cannot afford for one minute to falter in its determination to maintain for the farmers a fair share of the wealth we produce. No other single thing is more important in our national economy than to hold and increase the pace at which agriculture can buy and pay for the goods and services offered by the non-farming groups.

It is hard to understand why we still have men in this country who stubbornly contest every step in the developing policy of equality for agriculture. We did not have the same need for national action when the markets of the world were open to the raw materials of the United States, a debtor nation. But we are face to face now with problems our fathers did not even dream of.

Your own Dean Cooper was one of those who saw these new problems as they grew out of changing conditions. I first met him about 20 years ago when we both were working in the Northwest. Ten years later he served as chairman of the Committee on Agricultural Policy of the Land Grant Colleges Association. Their report, adopted in Chicago in 1927, was one of the landmarks in our developing agricultural policy. It is worth reading today. Some of its sentences sound prophetic when read in the light of later history.

For example - and I quote from that report - "Recurring surpluses of the staple agricultural products represent a severe handicap under which agriculture is operating. They should yield to control, provided the basis of attack includes: adjustments in acreages and numbers of livestock; withholding new land from cultivation until there is need for it; greater use of storage facilities; sound marketing organization; and unified action in handling such parts of the production of a commodity as may prove burdensome. The movement toward stabilization and control may be hastened by favorable and sound types of legislation."

That last sentence sounds like very conservative understatement now. In fact, Dean Cooper's Committee was much more emphatic in its report adopted in Washington, D. C., five years later, in 1932, when farm conditions had become so bad that, looking back, 1927 seemed heavenly in comparison. That report, likewise, is worth reading, but is too long to quote at length. It marked another distinct step, at least in diagnosis.

It seems to me that of all people, you here in Kentucky should be in position to understand the inescapable changes in policy forced on us when our frontiers disappeared in a mature nation. No region is richer in pioneer history than this, the first settled in the westward flow of emigration, the first state west of the Alleghanies to be admitted to the Union.

Andrew Jackson visited Lexington in December, 1824, still thinking he had been elected President of the United States. The last state election had been held on November 22, but it was nearly a month later before the results were known. It took him 28 days to make that journey from Nashville to Washington - a journey, by the way, which carried him near the birthplaces in this state of two men of whom Old Hickory never heard, but whom history will never forget - Abraham Lincoln and Jefferson Davis.

I made that same journey which took Andrew Jackson more than 20 days, in a comfortable overnight ride last night. If I had wished to, I could have left my office in Washington this forenoon, and by flying,

been on time to meet you here. Bruno Mussolini this week traveled 3200 miles from Rome to Rio de Janeiro in fewer hours than Jackson spent days on his trip.

Equally startling changes have taken place in our economic world. Today nothing of consequence can happen in any part of the country, indeed in any part of the world, that does not have early, almost immediate, repercussions right here in Lexington.

Right up to the time when Tom Cooper and I were working in North Dakota and Montana, the United States continued to use a developing frontier as an escape valve which enabled it to let off economic and social steam before the explosion point was reached. The land was the shock-absorber for industrial and agricultural pressure and overcrowding. The industrial dispossessed, the overcrowded farmer, the jobless and the landless, overflowed into the West.

To be sure, this wasteful young nation overdid it. We plowed up land that should have been left in range. We destroyed forests and grass that should be standing to protect our land from erosion and our bottom lands from destructive floods. But in those days the markets of the world were open to the raw materials shipped out of a debtor country, and very few of us stopped to think about the cost and the pain of the readjustments that would have to be made later.

Just think of the change a very few years have made! The Pilgrim Fathers stepped from Plymouth Rock into a continent of grass and forest. Grass brushed the stirrups of Buffalo Bill as he rode through a kingdom

of unplowed range, and the empire builders laid their rails on prairie sod from the Ohio River to the setting sun. But the grass and the trees vanished before the pioneer, his covered wagon, his axe and his plow. Wheat and cotton, corn and tobacco, erased the Wilderness Trail, and the wealth of the land of Boone and Crockett and Houston and Buffalo Bill, of Ezra Meeker and Brigham Young, the wealth of our country is going down to the sea in mud.

And with it all, the time came when the products of the American farm piled up, untaken by society even at the lowest prices in our recorded history.

There is another side to the picture which we who are interested in American agriculture must recognize. The nations of the world which once freely bought our surplus products, now are equipped with new legislative devices by which they can instantly regulate the quantity they will take from us or anyone else to fit their national plans.

Two years ago I was privileged to spend a couple of months abroad studying the trade controls, and the agricultural programs, of eleven Western European countries.

Conservative old England, progressive and freedom-loving Denmark and Sweden, the then gold standard countries France and Holland, as well as Nazi Germany and Fascist Italy -- all these governments have had in operation for several years national agricultural programs for control of price and for control of production up or down. In the case of some commodities they employ compulsion, exacting prohibitive

penalties above a certain limit. England with a tax of five pounds -- about twenty-five dollars -- per acre for excess potato acreage is one example. The English hops scheme is another extreme. No new producer can grow and market hops. Production above individual quotas must be burned.

In the highly diversified and once free-trading country of Holland these control programs apply to every commodity grown except horses, sugar beet seed and a few flower seeds.

In Denmark hog prices are fixed for the number that will fill the British import quota and the Danish demand. Pig quota cards are issued to the individual farmer for his share of that market. Under Denmark's program hog numbers were brought down from five and one-half million in 1932 to 3,200,000 in 1934.

Denmark has production control of cattle too, which, like the hog plan, is largely financed by a processing tax. Old cows and "boarder" cows have been bought up and made into meat meal. The farmer was paid the value of the animal's yield in meat plus a government grant which comes out of the slaughter tax fund.

These examples could be extended indefinitely. To the extent that the programs aim to increase production they limit the opportunity for American exports into those countries or their immediate trade territory.

All over the world governments have been changing. Strange new forms have sprung up, controlling hundreds of millions of lives.

Everywhere the democracies, and the citizens of democracies, are challenged to prove that they can adjust themselves to withstand the strains.

In the midst of all this, largely unconscious of its significance, a large part of our population continues to believe that, in some magic way, we will be able to turn back to the "good old days" - and that everything will be all right if we do. Among them are included many who by training, and position, and power, are patterns who lead and influence the opinions of millions of others.

There can only be disappointment ahead for their hopes. No matter what leaders, what administration is in power, they will find it necessary to deal with strange new problems in strange new ways. The present objectors would find that they did not like what other leadership did -- even leadership of their own choice - any better than they like things that are done now.

It is human nature to look for an easy way around an obstacle. Sometimes people who are far enough away from such an obstacle think they can see a way around which really isn't there.

Some very important people believe that they see a way in which, by increasing industrial uses for the products of the farm, the need for adjusting production will be eliminated. I have a great deal of respect for the power and accomplishments of the scientist, and believe in taking full advantage of every break in that direction, but I do not want to have to hold my breath until the beneficent effects of what its

promoters call "chemurgy" save the day for agriculture. As a matter of fact, the two most important breaks along that line of scientific development in my time have been against the farmer. The internal combustion engine has transferred the use and market for the products of approximately 35 millions of acres of farm land to the oil fields,-- by replacing horse and mule power with the automobile, the tractor and the truck. Rayon and artificial fiber furnish a lot of fabric and clothing at home and abroad that once used naturally-grown fibers exclusively -- and the percentage is sure to increase, not diminish.

Other important people believe that the old foreign markets for our agricultural exports can be regained if we will only adopt this or that or the other expedient or subsidy. I'm all for getting those markets back, but until we do, and to the extent that we fail in recapturing them, we will have to continue to try to make this country safe for farming. The Secretary of State, Cordell Hull, on behalf of this country is waging a magnificent battle for freer world commerce on the principle that trade to be permanent must be on a basis of two-way, mutual benefit.

But while we are working along these lines, and waiting for them to lead to better results, in the meantime we must help the American farmer to cooperate with his neighbor in a concerted effort to shift his farming operations with an eye to the effective foreign and domestic market.

In addition to the reasons for a strong central program in support

of agriculture which you have heard from this platform in the last few days, there are other reasons less frequently expressed which support, to my way of thinking, the equity and justice of deliberate steps to maintain and increase agricultural income.

Throughout this nation's history, there has been a steady, though almost unnoticed, drain of wealth from the country to the city. An economist in the Department of Agriculture points out that, in the decade between 1920 and 1930, farmers could have had 50 percent more to pay debts with and to spend than they actually had, and without raising farm products a dime, if they could have stopped this flow of farm wealth into the cities. He estimates this flow, from three streams alone, amounted to 36 billions of dollars during the 10 years in which the total farm income amounted only to 100 billions.

Country people spent 14 billions to feed, clothe and educate the 6,300,000 young men and women that the country sent to live and work in the city in those years.

Country people sent 4 billions to the city in the form of estate settlements in which city children got the big share.

Country people sent 18 billions to the city to pay interest on mortgages, and rent for farms.

These conditions suggest that the nation, and not the rural communities alone, should help pay the cost of rural education; that it is time some consideration is being given in this country to letting the boy or the girl inherit the farm who is actually farming it, without making the farm operator wear himself and the farm out paying off the

city heirs; and that it is a good idea for a farmer to get out of debt just as soon and as completely as he can.

Now I do not believe that any single act of Congress is ever going to solve the farm question, or the problem of maintaining fair balance for the farmer in this nation's scales. I regard our agricultural policy as an ever-changing, evolutionary thing, each phase growing out of earlier experiences. If I had time, I would like to show how the experience of the Burley Tobacco Growers Association, for example, contributed to the thought that shaped later events, and how the operations under the Federal Farm Board served the same purpose.

I do not know whether the new law which Congress is about to enact will work out as satisfactorily as its sponsors hope, or whether it will be another step in the developing series I have referred to. I believe in the principles of the old A.A.A. - and on that question I am still "unreconstructed." It applied economic persuasion in a way that I believe would have worked -- part of a farmer's income from a crop coming from the open market price for his product, and part from the processing tax which went, however, only to the farmer who cooperated in the program, to make it worth while for him to cooperate. That was one emergency program which paid its own way as it went along - and I like to keep calling that fact to the attention of the great host of American business and financial leaders who cheered when the Supreme Court ruled against the A.A.A.

The questions considered in that A.A.A. case have not been finally

settled yet. The majority opinion was an ante-bellum opinion. In it the Court abandoned the philosophy under which earlier problems had been met, and which had made of our Constitution a vital guide for a growing nation.

There is one more point to be made as I approach the conclusion of these remarks. It is important for the nation at large, as well as for the farmers themselves, that they create and support for their service and expression strong and independent organizations headed by intelligent and able and fearless leaders. The farmers of Kentucky have in the past made great contributions to farm leadership. I congratulate them now on the strong and vigorous young Farm Bureau they are developing. It happens that, early in the setting-up of the A.A.A., I tried to hire your able young secretary away from you. He thought it over, and then, at considerable financial sacrifice, decided to stay and carry on the job he had undertaken here. That's the kind of leadership the farmers can appreciate!

And now, in the words of an old popular song, "I'm a-nearin' the end". I should like to close with a plea that the press, the business and financial world, help the farmer by looking at his problem realistically. I cannot understand the man's mind who singles out the moderate adjustments demanded by agriculture for condemnation as programs of scarcity when he seeks simply to apply the existing rules of the economic game to his business. Manufacturers, when they no longer need production to fill orders, shut down their plants, and plow their laborers out on

the streets to rustle for themselves, or to go on public relief until work starts up again. Organized labor protects itself with strict control and high financial assessments upon apprenticeship, and with iron-bound limitations on volume of production. Apparently the public is accustomed to these things.

As a matter of fact, there are many conditions in the present-day economic rules as they apply to the production and distribution of goods that will not satisfy the thoughtful man as long as there are human needs unfilled. But the indictment rests against the entire economic system which fails to spread the power to buy, in proportion to need and willingness to work. The genius of the American people will not be content while underconsumption and unemployment are companions. The farmers of the nation will do their part toward working out a better order. They always have done their part. But it is unfair to ask the farmers to play the economic game under one set of rules while industry and labor play under another. The farmer wants to produce generously and without restraint; it goes against his grain not to; but he has at last served notice that if these are the rules he and his family must have their share.