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A FIFTY-YEAR CRISIS IN AGRICULTURE
by Garet Garrett.

It is proposed that we shall have in this country a successful agriculture without its ancient means - that is to say, without either slave labor or peasantry.

Conscience has abolished slave labor. It is forever put away. As for peasantry, we care not for it. The word associates with Old World drudgery, "Shall the American farmer be reduced to the condition of the European peasant?" asks the political rhetorician. We answer all with one voice "No!"

This is what the psychologist calls a reaction. Few stop to examine what "peasantry" means. The sound is wrong. It makes us think of Russia or the Balkans; we pass lightly over France and Germany, where peasantry, though it hurts the back, does offer one sweet reward. The name of that reward is security. Wars, revolutions, economic disasters pass; the peasantry survives, like a tree, through the seasons. It appears that we do not esteem security. Or perhaps we take it for granted. At any rate, we say "No!" We point with pride to the fact that although the yield per acre is much lower in this country than in Europe the yield per man is higher. To explain this we keep in our minds the picture of the American farmer, not bending his back, not tending a few acres intensively, but sitting on his plow with eyes to see his prairie domains stretching to the horizon, commanding mechanical energy. That is the American way.

Nevertheless, agriculture without slave or peasantry presents difficulties which are yet unsolved. We hardly know what they are, never having defined them thoughtfully. It has been possible for a long time to conceal them. They could very easily be concealed as long as new land was to be had for the trouble of taking it - virgin land that increased in value from the first stroke of the ax and was prodigal in giving. And it could be further concealed as long as the cost of production continued to fall, as it did for many years, even where the first richness of the soil had been taken. It continued to fall for two reasons - the use of improved implements and the method of specialization.

The Rising Costs of Agricultural Production

But now the land is all accounted for; all owned. There cannot be any such improvement upon existing implements as these represent upon the scythe and flail. And specialization already has been carried to the point of evil. Thus costs are rising. They have risen enormously for reasons that are permanent. And now concealment begins to be much more troublesome.

Agriculture in this country was at first of two types. There was the planter type, resting upon slave labor. The planter crops were such as rice, tobacco and cotton.

The other was the individualistic type - heroic, romantic, allegorical. With a few rude tools, a gun, his team and wagon, a bushel of seed, a bag of salt and a new wife, the pioneer entered the wilderness. Later the surveyor found him in a log cabin, proprietor of the solitude, surrounded by increase. Others came and bought him out; he went on to do it again. Then these others, having further improved the land, sold it again and followed the original soil breaker.

When they overtook him he sold and went on. So wave after wave.

We can remember it who were not there. The straining of the wagon gear through the listening stillness of forest, nameless terrors, the pungency of hot harness, the odors of evening and frying food on the river bank, the sweetness of coarse fare, storm, starlight, morning, boundless expectation, and news and rumor even there. Always someone had gone before; news was coming back. The place of eminent desire was not Boon's Lick. The perfect valley was just discovered farther on. Then the great anxiety whether in taking what was here one had not missed what rumor said was there.

Speculation in Land a Century Ago

"Scarcely," says a contemporary writer - 1826 - "has a family fixed itself and enclosed a plantation with the universal fence - split rails laid in the worm trail, or what is known in the north by the name of Virginia fence - reared a suitable number of log buildings, in short, achieved the first rough improvements that appertain to the most absolute necessity, than the assembled family about the winter fire begin to talk about the prevailing theme - some country that has become the rage as a point of immigration. They offer their farm for sale and move away."

Selling out on the third or fourth wave, to people who built roads as they came, who brought hardware, better tools and flocks, and who meant to stay, gave those restless homesteaders the capital they required to go on with.

Speculation in land was already the national mania.

Flint, writing his Recollections in 1826, said: "During my residence in Missouri the rage for speculating in their lands was at its highest. I have often been at collections where lands were at sale for taxes and by orders of the court, and at other times, when there were voluntary sales at auction. The zeal to purchase amounted to a frenzy. Land speculators constituted a particular party. It required prodigious efforts to become adroit. The speculators had a peculiar kind of slang dialect, appropriate to their profession, and when they walked about, it was with an air of solemn thoughtfulness, as though they were the people and wisdom would die with them. A very large tract of land was cried by the sheriff for sale when I was present, and the only limits and bounds given were that it was thirty miles north of St. Louis. A general laugh ran through the crowd assembled at the courthouse door. But a purchaser soon appeared. ... Families were constantly arriving, many of them polite and well-informed, and they were going on to these tracts, which, portrayed by the interested surveyor and speculator, and as yet only partially explored, were to be their home. Never have I seen countenances suffused with more interest or eagerness than in circles of this description, where the comparative beauty and advantages of different sections of the country, or the best sites for location, were the themes of conversation. No doubt many of these speculations were dishonest. No subject is more susceptible of all the arts of cheating, because in no point is it so impossible to disprove advantages, which vary with the imagination of him who contemplates them."

But, as he adds, there were moments of retribution. The speculators at that time overstayed their market, as one says in Wall Street. Land values took a mighty fall and many of them were ruined. The tract of land lying somewhere thirty miles north of St. Louis was for a time perhaps unsalable. Not for long.

Less than ten years later, in 1835, a survey way made for a railroad in Illinois from the steamboat landing at Alton through Brown's Prairie by Carlinville and Otter Point to Springfield, a distance of seventy miles. Merely the survey. And people were seized with the delusion that there would soon be no more farm land on that prairie, only cities. Farms in a state of rude development as farms were immediately laid out in town lots. Imaginary town sites were sold on what are still to this day only very good farms. A panic followed. Always as a thing of course the panic followed. Yet never did the value of land go back to where it was. Fantastic values disappeared; permanent values steadily and amazingly increased, and this has never stopped.

Plenty, Famine and Panic

What occurred on the Illinois prairie has been occurring ever since, not as a rational procedure but as an expression of the pioneer mentality, with its restless, excitable imagination, its love of adventure, its ruling phantasy of wealth by luck and discovery, and its aversion to slow repetitious toil. Briefly, the mentality of the gold seeker. We know it. There is less or more of it in all of us.

So far from ever having sought to control or rationalize this spirit, the Government has encouraged it. There has never been but one national land policy. That was and is to exploit the land. Why not? The land - it is the land that makes us rich! There was nothing else to begin with.

It was in order to bring value quickly to the land that the Government made enormous grants of the public domain to the railroad builders; and on the part of the builders to create and capture that value was the great incentive. Many of the early railroads were conceived as settlement projects on a magnificent scale. A railroad might be laid down on the prairie almost as fast as a team could walk; and then the only problem was to get people in fast enough from the Old World. The increase in the value of the land was expected to pay for everything, even the failures and disappointments, and ultimately it did.

When it was no longer necessary to subsidize railroad building with grants of land the Government found something else to do. There were vast areas of arid lands. Agriculture did not need these lands - not then. It does not need them now. Yet the impulse to exploit them was irresistible. Enormous sums of money have been spent to reclaim them by irrigation. But irrigated land, although very productive, is costly. It may be a good investment for such as mean to practice intensive farming on small acreage. But the element of speculation is not present. The majority pass it over and take instead the free, unirrigated land beyond, where the hazards are steep but where something you become possessed of for nothing may make you suddenly rich.

Of this a notable instance has just occurred. When a vast tract of semi-arid land called the Montana triangle was opened for settlement there was a frantic rush to seize it. A motley of adventurers, speculators and people with neither capital nor experience, whom the blind earth hunger moved, and also a great many farmers from Iowa, Illinois, Missouri and South Dakota, where land had become dear - they all crossed the beautiful irrigated Milk River Valley, and established themselves on that dry, high bench beyond, where land was free and where nothing had ever grown but buffalo grass. Over an area half the size of Iowa eighteen thousand habitations, seventy towns and villages, schoolhouses, banks and elevators popped out of the ground.

And, note, nobody knew whether or not that land would farm. The Government that threw it open for settlement did not know, the railroads that brought the people did not know, the Agricultural College of Montana did not know; and of course the people did not know. They would have to find out. They planted wheat. If the land would grow anything it would grow wheat; and, besides, wheat growing is the true American way of exploiting the virgin soil. It is more exciting than placer mining, and much less laborious.

This semiarid land did at first yield wheat in a prodigious manner. After two freak years of plenty it was valued at fifty dollars an acre; you could borrow twenty-five on it. After three freak years of bad weather it fell to ten or fifteen dollars an acre. Then the panic. Montana now is dealing with the consequences. They will pass. The Agricultural College is teaching people how safely to grow wheat there, on a dicing principle, so that if you get one crop in three you come out ahead. That land never again will go back to buffalo grass. It probably could not happen as a matter of biological fact, for it is said that once the natural sod is broken the grass will not return. But for economic reasons it is forbidden to happen. The land was not and is not needed for wheat. There is a ruinous surplus of wheat. Yet there are those towns, the elevators, the investment which cannot be permitted to perish. To support it the people must be kept on the soil. To this end shall be employed all the resources of agricultural knowledge; even, if necessary, public funds.

Now the point. It is this; If by "peasantry" we shall agree to mean, not uncouth rusticity but a manner of taking root in the soil for special love of it, the painstaking cultivation of small holdings with the labor of the family and a high degree of self-containment upon the land, then American agriculture is largely free of it. Actually it does exist. The cases are innumerable. But it is not characteristic. What may be called the American idea of agriculture is somewhat as follows:

First, that it shall be at least as profitable as industry or business for all who are willing to engage in it;

Second, that it shall not be more laborious than industrial life, for if it is people will leave it;

Third, and for the same reason, that it shall enjoy as far as possible all the benefits of city life and be compensated for those it is obliged to do without;

Fourth, that it shall be efficient, as business is, and produce primarily a money crop.

Our Unique Idea of Agriculture

There is almost no thought of a country life self-sufficing in virtue of satisfactions beyond the reach of cities, a rural culture self-regarding in its own environment. When you speak of it people do not know what you are talking about. Farming is understood to be a business, not a way of living one might prefer to any other.

This American idea of agriculture, altogether unique in the world, was never stronger than at the present time. It controls all our ways of thinking. The power of education is behind it. The Government first and last spends great sums of money in support of it. We adopt it unawares. Consider now how it is the fashion to speak of agriculture. Farming is an unscientific term, becoming obsolete. We speak, instead, of the wheat industry, of the cattle industry, of the dairy industry, of overhead, fixed charges, net income, quantity production and turnover.

It shall be said, first, that if in any country on earth this idea may be realized, here is that country; and, moreover, that the extent to which American agriculture has been already urbanized, specialized, industrialized, could not be imagined anywhere else. It has more plumbing, more automobiles, more scientific data, more news, more contact with the cities, more excitement, more attention, shorter hours and less drudgery than any other agriculture in the world, now or ever before. Great numbers of farmers keep their families in towns. Many go to Florida or California for the winter. In their preoccupation with the one money crop, whatever that may be, they often neglect to produce their own food. They increasingly buy their food, as city people do, and the same kinds.

Taking it the country over, 40 per cent of the food eaten on the farms is not produced on the farms. It is not that they sell grain for cash and buy flour or bakers' bread, not that they sell hogs for cash and buy hams and bacon and lard from the Chicago packers by the trainload; they buy garden vegetables, potatoes, fruits, canned goods, jellies, milk, butter, eggs, cheese and poultry. In Missouri, Iowa, Minnesota, North Dakota, South Dakota, Nebraska and Kansas the average farm produces less than 60 per cent of what is eaten there, and in North Dakota alone the average farm buys more than half that is eaten on its own table; and this runs up to 100 per cent, the farm in that case producing no food at all for its own table - nothing but cash wheat to be hauled away to the elevator. Thus farmyard drudgery is avoided - no milking, no slopping the pigs, no hoeing, no chores at all, and only ninety or a hundred days' work in the year.

Well, if such is the American idea and it tends to be realized, then what is the problem? Is it that progress is not rapid enough? Are we impatient? No.

The problem has many aspects. Totally it derives from the fact that this type of agriculture is always in trouble. It passes from one crisis to another and is chronically in need of being saved. Just now it is proposed, among other things, that the Government shall lend money to those farmers in the Northwest who have failed to raise their own food - money with which they shall buy milch cows, pigs and chickens in order that they may get in the way of feeding themselves. This measure is obviously false to the idea, and is justified only on the ground of an emergency. It is what might be called a step backward toward peasantry. Indeed, many of those proposed to be helped regard it in that light. They do not want to milk cows and slop pigs. All they want is a high price for wheat.

So the problem is complicated. And there is endless confusion from the fact that nobody wants to give up the idea. Nobody wants to admit that it tends to defeat itself. This it does in an inevitable manner.

The Great Land Boom.

Exploiting new lands faster than they are needed has this result, that there is always a potential food surplus. In that case, with agriculture on a money-crop basis, what is bound to happen? A profit is killed in the rush to seize it. Millions of farmers with an uncontrollable impulse increase their production of the cash crop that happens to be profitable. Then the potential surplus becomes actual and everybody is left in the lurch.

Such being the case, or, if it is true, as all professors of farm economics prove by their figures, that agriculture under the American idea does not pay, then what keeps it going? Roughly, the answer is that what floats it and has floated it all these years is the increase in the value of land.

How now? A riddle. If there is no profit in agriculture why does the land increase in value?

The explanation is not simple. To begin, when the professors of farm economics, either those of the Government or those of the states, demonstrate by statistics the absence of profit in agriculture - nay, the actual loss in it - they take this year or last year alone. Land values, interest, taxes, rents, all as they are, it is true - agriculture does not pay. The farmer is lucky to make wages. But if land values, interest, taxes and rent were still what they were fifteen or twenty years ago there would be a profit. This means that the profits of agriculture are to a very great extent absorbed by the increase in the value of the land; or, to say it another way, the earning power of the land is capitalized in advance, just as a Wall Street stock that pays no dividend may rise in anticipation of one, and then stop rising, even decline a little when the dividend is declared. There is no gain from buying it afterward; there is only a small return on the investment, and the risk, besides, that the dividend will be discontinued. That is what happens to land. In special years, with high prices, its earning power runs up; then it is valued accordingly and people excitedly buy it. Then prices fall and its earning power declines; so also its value.

There is always the expectation of this. Land booms come and come again. They are not at all confined to new experimental lands.

In 1918 and 1919, after the Armistice, there was the wildest boom in Western farm land that has occurred since the raw prairie days. It represented the capitalization in land values of the high wartime prices for agricultural produce. Iowa land values had been for a generation the first example in stability. In 1900 it could be said that they had once doubled in thirty years. Nothing mercurial there. They doubled again in the next ten years with the rise in the average price of all crops; and that had already made them rather dear - so dear that one of the oldest mortgage-loan companies in Chicago pulled out of Iowa and went into Texas lands. Then suddenly between 1910 and 1919 they doubled again. People lost their heads. They dealt in farms as in blue-sky mining stocks, selling them, buying them back, selling them again. A man in Lincoln township sold his farm at $250 an acre, bought it back at $270, and sold it again at $425. Those Iowa farmers who sold out in 1919 at values calculated on the basis of two-dollar wheat and twenty-cent hogs, got the profit - not from the preceding ten years but from the next ten years of Iowa agriculture.

And there are yet other reasons why the value of land rises faster than the profits of agriculture. One is that innate earth hunger of people which has the strength of instinct. Another is the certainty that people will continue to multiply until the bowl is full and running over.

Anyhow it is a fact that in proportion as the American idea of specialized money cropping is realized agriculture becomes an extra-hazardous occupation, chronically somewhere in trouble. It is a fact, also, that so long as the land continues to be exploited in the characteristic Western manner the only natural restraint upon overproduction will be loss.

This means that as you have marginal railroads, marginal mines, marginal factories, so you will have marginal farms and marginal farmers. The marginal producer is one whose costs are high, whose efficiency is low, and whose placement in the scheme is perhaps disadvantageous. In good times he makes a little money, in fair times he exists, in worse times he loses or goes bankrupt.

As applied to agriculture this coldblooded thought is shocking. We almost cannot accept it. As to a coal mine or a railroad it is all right. There economics may rule. In the state of Illinois there are above a hundred marginal coal mines. When prices are high they open up and add their production to the total, thereby limiting everybody's profits; when prices fall they shut up again. We do not care. The spectacle of an idle coal mine does not move us sentimentally. We regard it, indeed, with satisfaction. It represents insurance against extortion. Yet the spectacle of an idle farm saddens us. We react emotionally. It is a human tragedy. Here someone has tried to get a living from the soil and failed. Conclusion: There is something wrong in a country where one cannot get a living from the soil.

The Wheat-Raising Machinist

"Here is a case," says a Montana banker. "A man came to me only the other day saying he didn't believe he could stick it out. He had not been able to make a living for his family. He was running behind. Another poor year would finish him. Then he would have to go back to his job in Minneapolis, where he was making eight dollars a day at his trade. He was a machinist. Now what are you going to do? If something isn't done right away that man will have to abandon his farm; and there are hundreds, thousands like him."

But now consider what this case represents. It is one of numerous cases, fairly typical. A machinist is a product of technical training. He applies his skill to steel. The result is a machine, and machines are in great demand. The world cannot get enough of them. Only a few nations can produce them. If we are thinking to produce a surplus of anything for sale abroad, then let it be a surplus of machines, for they command a high price - the price of high craft skill. What has this machinist done? He has deserted the task of machine making and gone to Montana to raise wheat. There is already too much wheat. It is produced in surplus by the least rewarded, the least developed labor in the world - in Egypt, in India, in Argentina, in thirty-eight different countries, in all of which wages and standards of living are lower than they are here. Now fancy an American machinist, a man of his technical skill, worth eight, ten, maybe fifteen dollars a day, putting himself into competition with that kind of labor? In doing so he adds his moiety to the world's surplus of wheat and then complains that he cannot make a living. He is really not interested in any of this. He was not a farmer to begin with; he is not a farmer now. What moved him was the thought of getting a farm for nothing - a wheat ranch in Montana that would make him rich. If you tell him there is a sure way to get a living for himself and family on the farm, that he needs a garden, some fruit trees, milch cows, pigs and chickens, he will say: "Oh! That isn't what I came out here to do. That means work every day in the year. I'd rather go back to my trade."

Yet even a banker asks what shall be done to keep this man on the land, thereby thinking, as most of us do, without reflection, that if he has to abandon his farm it will be a tragedy, and that many such tragedies portend a social disaster. Most of that thinking, or feeling, is great nonsense. Nevertheless, it is very general and its consequences are amazing.

For more than fifty years our political life has been tormented by the effort to put profit into agriculture - to do it by edict or economic stratagem - notwithstanding the two facts already developed - namely, that the ceaseless exploitation of land creates the potentiality of a ruinous surplus and that the only natural restraint upon overproduction is loss.

Panaceas of the Past

In the last year of the Civil War wheat was $3.50 a bushel, other things in proportion. High prices held for another year, just as they did through 1919, and land values increased in the same way, everybody going into debt to buy more of it, as if the laws of gravity and reaction had been suspended forever. In the next year the collapse began, and agricultural commodities declined for nearly thirty years. So did the products of industry in a parallel manner, and for the same reason - namely, excessive and uncontrolled production; but it is agriculture we now speak of.

The first two or three years of the fall were the worst, because that was the most violent part of it and because also it caught the farmers heavily in debt for land the earning power and value of which had been calculated on war prices. In the decade from 1870 to 1880 the production of wheat more than doubled. That would seem a fairly obvious reason for its decline in price. But that cause was disregarded; every other reason was imagined - many reasons that did not exist. There followed in order the Grange movement, the Farmers' Alliance, the Populist Party and Bryanism. The means whereby it was proposed to restore a profit to agriculture, excessive production notwithstanding, were mainly these:

Coöperative selling;
Coöperative buying;
Low freight rates;
Fiat money;
Free silver.

Coöperation was tried on a very extensive scale. There was something in it if it could be well managed, but it seldom was; and the most there was in it was only the middleman's profit, and that was not enough to make agriculture profitable. Railroad rates were reduced by law in the agricultural states and the principle of state regulation of railways was established. Nor did that make agriculture profitable. It made hardly any difference at all, except to the railroads. The consumer, not the producer, pays the freight in general. What the producer pays is a geographical penalty, governed by his distance from the point of consumption. Fiat money and free silver were never tried. Both proposals were abandoned, not that the farmers believed in them less but for the reason that all at once agricultural-commodity prices stopped falling and began to rise.

This happened between 1895 and 1900. Why it happened need not be discussed. It will be enough to say that the products of both agriculture and industry, having fallen together for nearly thirty years, stopped falling together and began rising together. The causes were general over the whole world. The universal evil of low prices, which international commissions had been investigating in a futile manner, suddenly vanished. Wants enormously increased. Demand began to catch up. And if the products of industry advanced faster than the products of agriculture in the next twenty years, which apparently was the case, that was owing to the fact that basic industry stopped exploiting its resources in the pioneer spirit and found ways to rationalize production, as agriculture never did.

It was no act of Congress that saved American agriculture through all that heartbreaking decline in prices that began in 1868 and continued for nearly thirty years. Nor did low freight rates save it. Nor would fiat money have saved it. It was saved by its own way with necessity.

That which has been called the American idea of agriculture was not so strong then; it had not been developed. What there was of it was put aside. Those farmers who could paid off their debts; those who couldn't were foreclosed upon; then they started again on deflated land. They grappled with the soil. They produced their own food, dressed it themselves, and supplied the village demand. They bought nothing they could make or produce for themselves, or do without. On this long curve of falling prices came into being a generation of farmers who would sooner want than borrow, who regarded debts with terror, who thought signing a note was a step with the sheriff. They never could understand what they saw on a rising price curve where the next generation lived.

<u>Borrowing in Falling Markets</u>

They were right and sound in their feeling about debts. On falling prices it is disastrous to borrow. It takes always more and more to pay back, until at last you are ruined. If when wheat is a dollar a bushel you borrow a thousand dollars, that represents a debt of a thousand bushels of wheat. But if wheat falls to fifty cents the debt is doubled. You need two thousand bushels to pay it off.

Precisely the opposite is true in a time of rising prices. Then it takes less and less of your labor and produce to pay back what you borrow. If when wheat is a dollar a bushel you borrow a thousand dollars, that again represents a thousand bushels of wheat. But if wheat rises to two dollars a bushel the debt is halved. You need only five hundred bushels to pay it off.

Between 1895 and 1900 prices began to rise, and they rose for more than twenty years, not uninterruptedly, of course, but as the tide rises. Old farmers whose wisdom was that of the falling price curve saw the young men going into debt, and prophesied their ruin. But the young men escaped. They borrowed more and more; they bought land with borrowed money and gave their notes at the bank for working capital. Their land increased in value and their notes did not worry them. If they could not pay them off one year they renewed them and waited for a better crop or better prices.

Now suddenly a great discovery occurs. The perfect solution is at hand. The way to put profit in agriculture is to give it credit, plenty of credit - credit such as any other business gets. The farmer shall be financed. He shall do business at the bank. He shall have banks specially adapted to his uses and needs.

Coöperative marketing is not forgotten. It is all the better. The reason why it never succeeded is that it never was properly financed. It wanted credit. The master key is credit - credit to buy land with, credit to buy implements with, credit to sow and harvest with, credit with which to hold one's crops for a fair price instead of selling them away to the speculator.

This became of a sudden the ruling theme. For fifteen years no man spoke sympathetically to the farmer's case without saying that above all else what he needed was credit - cheap credit, long-time credit, short-time credit, honorable credit, special forms of credit determined by the special problems of his industry.

Consent was unanimous. Never had human contradiction hit upon a more seductive panacea. There was plenty of it. It was cheaply dispensed. The patient clamored for it.

So the farmer was financed. Yea, how he was financed!

The amount of credit that has been placed at the call of agriculture in the last ten years cannot be definitely calculated. There is no figure to express it. Nobody knows how much it is. A former secretary of the Treasury estimated that the amount provided for by Federal legislation alone - by that only - was five billion dollars.

First of the credit agencies under the jurisdiction of the Federal Government came the Federal Reserve System with twelve regional banks. The functions of these twelve regional Federal Reserve Banks were mainly two - to mobilize the gold resources of the country, and to make credit more elastic, more équitably accessible to everybody by lending money out of one great reservoir, through those twelve Federal Reserve Banks, to private banks, which in turn should lend it to private borrowers. For the farmer it worked like this: If he went with his note to the small-town bank and asked to borrow on it and the small-town bank had no money of its own to lend, it could still take the farmer's note, send it to the nearest one of the twelve Federal Reserve Banks and get the money.

Farmers Killed by Credit Kindness

But that was not enough. It was soon found that the rules under which the notes of merchants and manufacturers were taken at the Federal Reserve Banks were too narrow for the farmer. Therefore the rules were relaxed in his favor, so that a farmer's note had more time and grace at a Federal Reserve Bank than any other.

And that was not enough. The farmer needed credit for what he was doing - yes. And he could get it. But he needed credit also for what he was going to do. So Congress created the Federal Farm Loan System, with twelve regional Federal Land Banks to be launched where necessary, with government credit; and the purpose of these banks was to lend money to national farm-loan associations, which in turn should lend it to farmers for the purchase of agricultural land, for the equipment and improvement of the land and to pay off old mortgages. Any ten or more natural persons could form a national farm-loan association; more than forty-four hundred have been formed. The same law authorized the creation by private persons of joint-stock land banks, under the supervision of the Government, such banks to sell debentures up to fifteen times the amount of their capital, and lend the money on land.

Still not enough. In March, 1923, Congress passed the great Agricultural Credits Act, creating twelve Federal Intermediate Credit Banks, to be established "alongside of but organically independent of the twelve Federal Land Banks," each with a capital of five million dollars provided by the United States Government. These intermediate credit banks lend money for "agricultural purposes" for periods of six months to three years.

The same act provided also for national agricultural credit corporations to lend money for "agricultural purposes" direct to farmers, and national agricultural rediscount corporations to take over from private banks loans that have already been made for "agricultural purposes."

These are the agencies created by Federal legislation:

Federal Reserve Banks;
Federal Land Banks;
Joint-stock land banks;

National farm-loan associations;
Federal Intermediate Credit Banks;
National agricultural credit corporations;
National agricultural rediscount corporations.

These agencies have placed in the last ten years, by an estimate of a former Secretary of the Treasury, five billion dollars of new credit at the disposal of agriculture.

And this is by no means all. The War Finance Corporation, a banking concern set up during the war to finance war activities - owned by the Government and furnished with government capital - has been converted into an agency for extending government credit direct to agriculture.

In addition to what the Federal Government has done, the states have been at the same time dispensing credit to agriculture. They, too, have created farm-loan systems and farm-credit boards; they have sold tax-exempt bonds on the public credit and loaned the money to farmers at low rates of interest.

And above everything else there occurred a wild multiplication of private banks in the agricultural districts, under both national and state charters, whose principal business was to lend money to farmers on their notes and who competed with one another for the privilege of doing so. Any few natural persons with a little money could start a bank. In the Northwest area, called the Ninth Federal Reserve District, more than fifty national banks were chartered by the Comptroller of the Currency at Washington over the protest of the Federal Reserve Bank at Minneapolis. There were already too many new and inexperienced banks, as the Federal Reserve Bank at Minneapolis knew; but the man then Comptroller of the Currency at Washington said that if people wanted banks they should have them. So farmers became their own bankers; they could give credit to themselves.

Never since credit was invented had agriculture so much of it. Never before in all the history of banking was the farmer so much financed. And with what results?

There is again an acute crisis in agriculture. It is the worst that has occurred in this generation. Farmers by the tens of thousands - the Department of Agriculture says by the hundreds of thousands - are losing or have already lost their property, their lands and chattels, by forfeiture to creditors and by the foreclosure of mortgages. In the Northwest area alone - Minnesota, Montana, North Dakota and South Dakota - where occurred an expansion of credit perhaps greater in a relative sense than anywhere else, more than five hundred banks are shut up because the farmers cannot pay their notes. The War Finance Corporation has been dispatched to the scene with more credit. An extraordinary credit corporation has been formed by private bankers of the East and the Middle West, at the instance of the Government, to go to the relief of the Northwestern banks.

There is still no lack of credit. That is not the trouble. The difficulty is to find anything suitable upon which to grant credit. Farms, livestock, chattels, commodities in storage are already mortgaged for more than they are worth.

Mortgaged to the Hilt

And you have this spectacle to ponder: Those bankrupt money croppers of the Northwest, with neither means of their own nor credit at the bank with which to buy the chickens, pigs and milch cows they need in order to be able to feed themselves, are to have money out of the United States Treasury for this purpose, and at the same time a large mortgage-loan company in Minneapolis, having bought and sold Northwestern farm mortgages until the bag burst, makes a street-window display of Imperial Japanese Government 6½ per cent bonds. There is a good demand for them. They are selling. Is the word of the Japanese Government then better security than Northwestern farms and chattels? No. The explanation is simply that the Northwestern farmers, who desperately need the money that Minneapolis investors are putting into Japanese bonds, have nothing left to pledge. They have borrowed more on their farms and chattels than those farms and chattels would bring if put up for sale at auction.

Here now an interruption. We shall be reminded that this crisis in agriculture is owing to the headlong fall in prices. Yes. The fall in prices was a cause. But it was the last cause. If the farmers had not been extravagant with credit before, if they had not mortgaged their property above its ears in the days of exuberance, if in North Dakota they had not used it to hold wheat for three dollars and fifty cents a bushel when they might have been selling it for two dollars, if they had not behaved as if the day of payment had been abolished by edict, there would still have been a crisis, no doubt, but not the kind of crisis it is. There would have come losses, disappointments, hard times, but no avalanche of bankruptcy, pulling down banks by the hundreds. Credit is a thing you can use only once. Having already used it they could not use it again to ease themselves down as prices fell away. Not only that. Just when they began to need credit for reasons beyond their control, and when they had nothing left to pledge or mortgage, the day of payment arrived. What they already owed was due and payable.

The farmers say they were deflated in a brutal manner by the banks. Particularly do they say this in the Northwest, where now the consequences are most acute. To this the failure of more than five hundred banks in Minnesota, North Dakota, South Dakota and Montana is a fairly convincing answer. Banks that are brutal save themselves. These did not. First they loaned too freely; then they did not demand payment in time. They are not denounced for having loaned too freely, nor for having renewed farmers' notes beyond prudence instead of requiring them to be paid; they are denounced for having demanded payment at all. Borrowing human nature will always blame more the banker who demands to be paid than the one who refused in the first place to lend.

Danger Signals Unheeded

For a long time before the fall in prices began it was notorious that much of the credit at the call of agriculture was being improperly used. There seemed no way to stop it. A great deal of it was by indirection. Individual farmers tied up their own money in golden affairs of the imagination, especially in land speculation , and relied upon the banks for money with which to carry on farming operations. Thus, less and less the farmer financed himself with his own means; more and more of his own capital was left free for adventure. The local banks, unable to take care of him, and having a great deal of their capital also tied up in speculation or in bad loans, passed him on, or, rather, they passed his notes on, to the nearest Federal Reserve Bank. The notes were all regular enough. They were for agricultural purposes, according to law. They were therefore eligible for rediscount - that is to say, they were properly purchasable under the rules; yet every Federal Reserve Bank knew what the situation was.

In December, 1919, the Federal Reserve Bank of Minneapolis said:

"It is quite evident that through the extravagances of individuals and the indiscriminate extension of credit by certain banks for investment and speculative purchases the reserves held by the Federal Reserve Banks have been used through an indirect process for purposes other than those intended and authorized by law. The extension of credit for speculative purposes is not confined to stocks and bonds alone; but substantial advances have been made to encourage the movement of land and for speculation in commodities. The Federal Reserve Bank of Minneapolis has used every precaution to eliminate such use of its facilities, but indirectly these credits have been extended, with the result that an unwarranted overextension of credit exists. If this condtion is permitted to continue it will in time work a severe hardship upon everyone."

No matter. The inverted pyramid of bank loans continued to grow. It grew until it fell; after that it grew lying down. "Following the collapse of prices in 1920," says the Federal Reserve Bank of Minneapolis, speaking of the Northwest, "banking, Federal Reserve and War Finance credits underwent an acute secondary inflation, for the obvious reason that farmers caught in the collapse could not continue without immediately available resources. No funds were available for current operations, or to meet maturing indebtedness, except by borrowing from the banks."

In 1921 the War Finance Corporation came with its bag of emergency credit. It is there still.

How strange! The Federal Reserve Bank of Minneapolis says one cause was too much credit. Yet a block away is the temporary office of the War Finance Corporation, with an organization made on the spot, dispensing more credit. However, the part of the War Finance Corporation is somewhat like that of the physician with the violent drug addict. He must believe he will continue to get it, and at the same time he must be tapered off.

The true index to what agriculture has done to itself with credit is a statistical curve representing the rise in the farmer's annual interest charges and taxes. His interest and taxes together in 1923 were threefold what they were in 1913. Threefold!

The increase in his interest represents what he borrowed as an individual. Farm mortgages more than doubled in ten years.

"The great increase in mortgage indebtedness," says the Howard-Moorhouse Agricultural Business Service, "came in 1919, as a result of land speculation after the Armistice. The total amount on January 1, 1920, has been estimated at eight billion dollars, which was more than twice the amount of ten years previous. Since 1920 there has been a further increase of one billion dollars, due to the funding of current obligations incurred during and just previous to the depression."

After the Armistice. During and just previous to the depression.

This is not unsympathetic testimony. The Howard-Moorhouse Agricultural Business Service is conducted by James R. Howard, first president of the American Farm Bureau Federation; N. C. Murray, formerly chief statistician of the Bureau of Crop Estimates; Lloyd M. Graves, formerly statistician of the American Farm Bureau Federation, and H. W. Moorhouse, formerly dean of the School of Commerce of the Oklahoma State College.

It is obvious that what agriculture did with credit was to capitalize war prices in the value of the land.

The increase in the farmer's taxes represents, not altogether, but principally, his group borrowing. In his political capacity he adopted the universal example and sold enormous amounts of state, county, township and school-district bonds. He used the money to improve his social environment, saying: "Why are we not entitled to have these things too? Why shall our children not have schools as fine as those the city people's children have?"

There is no simple answer to that question. It perhaps cannot be answered separately at all. It ties up with the whole problem of American agriculture. The machinist who leaves his job in Minneapolis to get a free wheat ranch in Montana not only thinks he is entitled to a profitable price for his wheat; he thinks he is entitled to have, out there on what was yesterday a cattle range covered with buffalo grass, a school for his children like the school in Minneapolis. And he thinks this without reference to the fact that in choosing to raise wheat instead of making machines he has put himself into competition with the low-paid wheat-producing labor of Argentina, Egypt, India and thirty-five other countries.

Building on Credit

But the farmers asked the question in a rhetorical manner only. They did not wait for the answer. The credit was handy and they used it. They did not build country schools. They built city schools, with baths, gymnasiums and all. You can understand it.

You can understand also the disgust of the roundheaded banker, whose bank has never failed and never will, who started in life with one calf and one horse, when he says, "Over here's a town of five hundred people that's just built a school that cost fifty-three thousand dollars. They put in one of them gymnasium things. Now they will hire somebody to teach their kids basketball because they've got nothing better to do."

Product: Taxes.

Farm taxes per acre, taking the country at large, were in 1923 about 2½ times what they were in 1913. Commenting upon this the Department of Agriculture says: "In 1913 taxes consumed a little less than one-tenth of the farmer's net income. In 1923 they consumed nearly one-third of it." Then it adds:

"Between 80 and 90 per cent of the taxes paid by the farmer is for expense within the county, the larger items being schools and roads. Such taxes, therefore, are within the control of a majority of the people of the county."

That is merely to say, the farmer did it to himself. A very great portion of his taxes is now beyond control, since it represents interest on money borrowed - interest on county, township and district bonds sold to outside investors.

In reduction, the great solution solved nothing; it produced instead many lamentable effects which were not intended. It will take years to efface them.

So now the sacred credit myth is in decline. If there were symbols of this fetish on which farmers could inflict their wrath you would find them lying in the Western ditches ignominiously, like those pagan rain gods the heathen were used to hurl into the dry fields so they might see for themselves how bad the drought was, and perhaps repent.

You cannot put profit into agriculture by giving it credit. That is settled.

Farmers themselves now say, "We don't want any more credit. That one thing has nearly ruined us. What we want is better prices."

Many of them indeed are suspicious of further experiments with credit, even such as lending Northwestern wheat croppers money out of the United States Treasury to stock their farmyards with chickens, pigs and milch cows; they suspect that the Government thereby begs the issue and postpones consideration of the true solution. For there is a new solution. Everything else has been tried; therefore this is bound to work.

The name of the new solution is the McNary Bill. The name stands for an idea. The idea is price control by government edict. But it must not be so stated. To say baldly what it is would perhaps defeat it. There is already too much prejudice against the thought of price fixing. And because it must not be referred to as a scheme for controlling prices by edict the exposition of it by its friends becomes extremely involved.

The McNary Bill Analyzed

It begins with a declaration of the thing to be done - namely, to make basic agricultural commodities worth as much as industrial commodities when by reason of overproduction or a surplus above domestic needs they are selling for less. The means by which this is to be accomplished are as follows:

First, the United States Agricultural Commission to notify the President that there is a surplus of wheat, flour, corn, cotton, wool, cattle, sheep, swine or any food product of cattle, sheep or swine, and that the domestic price is too low. The President thereupon by proclamation declares an emergency to exist in respect of that commodity.

Second, the United States Agricultural Commission determines what the domestic price of that commodity ought to be. This it does by means of a statistical index number comparing agricultural products with industrial products. The price so determined is called the ratio price, and it is proclaimed as the price that by right should and in fact shall thereafter prevail.

Third, the United States Agricultural Export Corporation, now for the first time named, begins to operate. This is a merchandising concern, to be owned by the Government, with two hundred million dollars capital out of the Treasury. At the ratio price proclaimed by the commission the United States Agricultural Export Corporation will buy up all the surplus, or any amount necessary, of wheat or corn or cattle, or whatever the commodity is, in order to make the ratio price effective; and then the surplus over domestic needs it shall dump in foreign markets for what it can get. Both the amount that will have to be sold abroad and the loss thereon - meaning by loss the difference between the domestic price and the world price outside - will be estimated beforehand. Say the commodity is wheat; and it is estimated that one-tenth of the wheat crop will have to be sold abroad at twenty-five cents a bushel less than the official domestic price. In that case every farmer when he sells his wheat will get the full official domestic price, except that as to the one-tenth which is exportable surplus he shall receive the last twenty-five cents per bushel in the form of scrip. If the loss on what is exported turns out to be less than twenty-five cents a bushel he may get something for his scrip; if the loss turns out to be more he lets the Government worry. The scrip, you will understand, is bought for cash at any post office, like stamps, and the post offices turn the money in to the United States Agricultural Export Corporation. If you are a buyer of wheat you are obliged to have scrip with which to pay the last twenty-five cents on every tenth bushel. It is compulsory.

Unless one is interested in the McNary Bill curiously, as a piece of experimental mechanism, all that one needs to know about it is this: It is a proposal to employ the power and credit of the Government to lift the average price of basic agricultural products. If it is not meant to do that it has no point whatever; if it were not meant to do that nobody would be for it.

It is an undertaking to put profit into agriculture in spite of excessive production, in spite of the fact that the exploitation of land in the characteristic American manner creates the potentiality of surplus in the first place, in spite of the fact that the only natural restraint upon overproduction is loss.

Even more. One comes at last to the complete contradiction that the average price of agricultural products must be lifted because there is overproduction.

The bill contains its own argument. All these things proposed to be done are necessary because "there exists a general emergency in respect of agricultural commodities." And then it declares - the bill declares - that the general emergency is owing to "the existence of surpluses available for export" and to "the economic impracticability of immediately preventing the continued production of such surpluses."

Thought of limiting production is resentfully rejected by all concerned, for three reasons: First, it is too simple; second, it is impracticable; third, it is impossible. That is to say, agricultural production must not be subject to that restraint which regulates every other kind of production - namely, the restraint of loss.

In North Dakota the true problem is how to diversify agriculture- how to induce wheat growers to bother with pigs and chickens, milch cows and bees, in order to feed themselves. Necessity is the only inducement to which they have responded. One crop for money - that is what they want.

Farmers are united for the McNary Bill. The Department of Agriculture is for it. All the agricultural minds of Congress are behind it. Many more Western business men, even bankers, than you might suppose are for it, on the ground that if it helps agriculture, no matter how, it will help them too. The bill includes the hated millers and the horned packers. It had to do this, for obviously they could not buy grain and cattle from the farmers at the high ratio price and sell flour and meat products abroad at the world price; and if they could not do this they would not buy from farmers more than enough to supply the domestic demand. So it is provided that the millers and packers may buy at the high ratio price and then sell their exportable surplus of flour, hams, sausages, bacon, lard, and so on, to the United States Agricultural Export Corporation.

Are We Farmers at Heart

And what the farmers are for is not the McNary Bill as such. They are for the doctrine it embodies. A bill by any other name that went much further with the same doctrine would be more acceptable. The doctrine is that agriculture, as it has been and is and wants to be without change, shall be made to pay as a matter of public policy. The marginal farm and the marginal farmer shall be saved for the sake of all that structure of exploited land values, and at the same time the farmer shall be saved from drudgery and boredom in virtue of the great money-crop idea.

The farmer is not alone to blame. He is perhaps the least to blame. His relation to the soil, wherein it is uneconomic, is an effect, not a cause.

The United States Government through the Department of Agriculture, and the states through their agricultural colleges, have spent vast sums of money to propagate the thought of money cropping, of specialization, of industrial methods as applied to agriculture, all the emphasis on production, with a shabby imitation of city culture at the end. The one thing that has not been sold to the farmer is farming - the agricultural life for its spiritual satisfaction, as a manner of living. Do you say it has not these satisfactions? Then at heart we are not farmers. That may be it. And yet, half of us are on the farm. Of that half of us, only about 20 per cent are in serious trouble. All the commotion relates to that 20 per cent. They are the marginal people. Their costs are high, their efficiency is low, they have planter notions under a high wage system, and they make the surplus. There is about the same percentage of marginal people in shopkeeping, in manufacturing, in any field of human activity. Only in agriculture is the question of their survival a political issue. One wonders what would happen to American agriculture if only it were let alone.