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HISTORICAL BACKGROUNDS OF THE INITIAL AGRICULTURAL POLICIES OF THE "NEW DEAL"

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Loyola University

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TABLE OF CONTENTS

INTRODUCTION

One of the axioms by which travelers im the purviews of historical research direct their steps to truth declares the unity and continuity of history. Changes in the historic scene are gradual and are the result of the conditions and forces of a previous time. History is evolution, not revolution. Even those upheavals that we characterize as revolts have had their roots in the deep past.

For this reason, to the unthinking, to the untrained observer, a catchy slogan like "The New Deal" is misleading. To the American people caught in the maelstrom of depression in the early 1930's, ready to grasp at any hope, it meant just what it said--a "new deal." Accompanied, as it was, by the rapid-action pace of the first weeks of Franklin Roosevelt's first administration, its effect upon morale was magical; it seemed a pragmatic triumph. In reality, the principles it involved and the actions it entailed were largely heritages from former generations of crusading Americans. It is the purpose of this thesis to consider one phase of the "New Deal": its earliest program for agriculture; to delve into the past and to bring back from its shadows to stand side by side with each "New Deal" farm policy its responsible progenitor.

CHAPTER I

THE REDUCTION OF FARM SURPLUSES

When Franklin Roosevelt assumed the duties of the presidency, the entire country was in the throes of a depression. In the foremost line of sufferers were the farmers; in fact, farm distress was so acute that many believed that its alleviation had to be the hub of any recovery program. Accordingly, one of the first measures the new president inaugurated was a plan to deal with this phase of the national economy.

The first agricultural bill which he sent to Congress and which eventually became Title I of the Agricultural Adjustment Act stated that its purpose was:

> To establish and maintain such balance between production and consumption of agricultural commodities and such marketing conditions therefore, as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the pre-war period, August 1909-July 1914.[1]

In the course of the seventy years which elapsed between the Civil War and the "New Deal," if we preclude the abnormal conditions which prevailed between 1914 and 1920, there had been only a little more than a decade during which the American farm population as a whole enjoyed a normally

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[1] House Report 3835, 73d Cong., 1st Sess., 671

prosperous existence. That was the period 1901-1913. Those halcyon years form a chapter of agrarian history during which agricultural products exchanged for industrial products and services on a plane of comparative stability and they were in direct contrast to the fifty odd years during which the perennial problem of the American farmer was the price disparity between what he sold and what he bought. One of the most significant causes of this spread between agricultural income and expense was an ever increasing over-production.[2]

Surpluses, in the first instance, were the result of too great an expansion of agrarian areas. After the Civil War, American capitalism relied upon foreign financial assistance. Agricultural increments were a means of balancing international payments and, as a consequence, Eastern industrialists and politicians did everything in their power to expand the operations of American agriculture. They succeeded to the extent that in the three decades following 1870 more land was settled than in all our preceding history.[3] At the same time, revolution in transportation during the latter half of the century was enabling Russia, India, Australia,

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[2] It is important to define the term "over-production." Charles Beard and George H. E. Smith in The Old Deal and the New, Macmillan, N. Y., 1940, 177, accurately state: "Overproduction is a relative term. It does not mean that the farmer produced more than the American people or people abroad could consume. While it is true that food production is limited by the capacity of the stomach, that capacity has never been reached in America with its millions of undernourished....the farmer lives and works in a money system where markets depend not alone upon needs or desires, but also upon the ability to pay for what is produced. It is in this sense that the farmer has been turning out more goods than the American people could buy or foreign markets could take at prices sufficient to pay the cost of production."

[3] Thirteenth Census of the United States, Washington, 1913, V, 51, 57.

Algeria, Canada, Mexico, and Argentina to enter the world markets. In spite of this, the 1890's saw a revival of Malthusianism and this fear of failing food supplies gave rise to the conservation movement, irrigation projects, and back-to-the-land crusades of Theodore Roosevelt and Howard Taft. Finally, the pressing demands of our Allies and of our own people during World War I resulted in adding nearly 50,000,000 acres of land to that already under cultivation.

While acreage was thus augmented, production efficiency was also increasing as a result of improved crop strains, the application of fertilizer, and mechanization which simultaneously released lands formerly planted in feed crops to other uses and increased the average output per agricultural worker. The problem of surpluses was further complicated by a stationary if not declining population together with changing habits of food and dress. People consumed more sugar, milk, and fruits, less cereals, meat, and potatoes; they wore less wool and cotton; favored, instead, silk and rayon.

The core of the surplus problem, especially after World War I, was the market--domestic and foreign. At home, the purchasing power of the great bulk of the American people was actually very meagre. In 1929, which was considered a prosperous year, the national income reached eighty-one billion dollars, but "42 percent of [American] families had less than $1500 annual income or about $30 per week and 60 percent had less than $2000 [per annum or] about $40 per week."[4] The foreign market was wrecked in the 1920's. During the First World War, we had paid our debts and became a creditor nation. Thereafter, we raised tariff walls against imports which

[4]Beard and Smith, 182.

made it impossible for foreign countries to provide an exchange for our agricultural exports. Many nations, too, mindful of the lessons of the war, embarked upon a program of self-sufficiency and set up controls which progressively cut down world markets. The competition for such markets as did remain was strenuous because American capital invested in Canada, Mexico, South America, Africa, Australia, and the Far East made it possible for these countries to further increase their exportations.

To accomplish the purpose set forth in the Agricultural Adjustment Act it was obviously necessary that the Roosevelt administration provide a means either to eliminate these surpluses or to utilize them. Roosevelt and his advisers employed both methods. Contrary to their boast, the devices they proposed were not so new, nor, as their critics liked to repeat, were they so radical. The acquisition of new foreign markets was part of their plan but this, even to the character and purposes of their trade agreements, had been tried before. Their program also called for the control of distribution and production through farmer-government cooperation. This, too, had a past. Government had long cooperated with the farmer to develop a production science, and, before World War I, impetus toward a marketing science had been given. After the war, farm leaders in and out of government circles saw that a synthesis of the two techniques would be necessary and attempted to realize it. The democratic planners of 1933 but gave concrete form to the visions that these pioneers had dreamed--Roosevelt's "new deal" for agriculture was simply the logical crystallization and culmination of the thinking, legislation, and practice which had been focused on this problem for many years.

That a quest for foreign markets would be an integral part of the "New Deal" policy to reduce farm surpluses was clearly forecast by Governor Roosevelt in his campaign address at Topeka, Kansas, on September 14, 1932. Speaking of reciprocal tariff bargaining, he said, "An effective application of this principle will restore the flow of international trade; and the first result of that flow will be to assist substantially the American farmer in disposing of his surplus."[5] After the "New Dealers" were actually in the seats of government, this policy was reaffirmed by Cordell Hull, then Secretary of State, in an address before the American Farm Bureau Federation, December 10, 1934, at Nashville. He declared, "In the present low state of agricultural prices and of world trade, it is especially important to develop foreign trade, for foreign markets alone can take all our agricultural surplus."[6]

The Trade Agreement Act, approved June 12, 1934, provided for reciprocity through Executive agreements. The accord between this arrangement and former usage is easily established. Neither the principle nor its application to farm distress was peculiar to the "New Deal."

The early record of the United States in respect to reciprocity is not impressive but sentiment for it existed from about 1844. In that year, return in kind with the German Zollverein was proposed but rejected by the

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[5] The Genesis of the New Deal, 1928-1932, (The Public Papers and Addresses of Franklin D. Roosevelt, 5 vols., ed. by Samuel I. Rosenman, Random House, N. Y., 1938), I, 702.

[6] Cordell Hull, Agriculture and Foreign-Trade Agreements, State Department Publication No. 678, Washington, 1935, 16.

Senate.[7] However, from that time to the present, this principle has been repeatedly suggested and since 1890 reciprocal tariff bargaining by executive agreement has been the privilege of various presidents.[8]

At least that early, too, reciprocity was conceived as a method of syphoning off farm surpluses. On July 11, 1890, when Senate debate on the McKinley bill was imminent, Blaine wrote to Mr. Frye of Maine, "Here is an opportunity where the farmer may be benefited--primarily, undeniably, richly benefited. Here is an opportunity for a Republican Congress to open the markets of forty millions of people to the products of American farms."[9] Senator Vest stated unequivocally that Blaine considered South American markets "a relief for the...depression of agricultural interests."[10] In 1902 [?] William F. King, one of the founders of the Merchants Association of New York, in an article for the New York Times, wrote, "Let us go further in the way of reciprocity....In all lines of food products this country has a surplus."[11]

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[7] "Tariff Bargaining Under Most-Favored-Nation Agreements," Senate Document 7, 73d Cong., 1st Sess., 11-13. Reciprocity until 1890 included navigation questions as well as tariff rates. See, U. S. Tariff Commission, Reciprocity and Commercial Treaties, Washington, 1919, 150.

[8] House Report 1000, 73d Cong., 2nd Sess., 9-10.

[9] Edward Stanwood, American Tariff Controversies in the Nineteenth Century, Houghton, Mifflin and Co., N. Y., 1904, II, 278.

[10] Congressional Record, 51st Cong., 1st Sess., 7905

[11] William F. King, International Arbitration and Reciprocity, (no publisher), 1902 [?] 15.

As a farm relief measure, reciprocity was unnecessary in the first two decades of this century. The period 1901-1913, as has been noted, was one of agricultural prosperity and during World War I there were no farm surpluses. But after the war, the economic nationalism of the 1920's resulted in huge crop carry-overs. While the exigencies that fostered it were not solely agrarian in nature, still concern for agricultural alleviation was in part responsible for the gradual movement toward reciprocal reduction of tariffs which again developed. For example, the American Exporters and Importers Association and the Fair Tariff League both advocated correlative tariffs as farm measures.[12]

This short history makes it obvious that the "New Dealers" did nothing very radical in regard to types and purposes of tariff contracts and it is also possible to show that the provisions of their trade legislation were drawn in their essence from the past. As a matter of fact, the Roosevelt administration did not pass an entirely new bill, for the Trade Agreement Act was simply an amendment to the Hawley-Smoot Tariff of 1930, which in turn closely resembled the Fordney-McCumber Tariff of 1922.

This amendment enabled the president to make reciprocal agreements on specified articles within a range of 50 percent above or below the United States tariff level. Furthermore, equivalent concessions entered into with one nation were to extend generally to all nations. Like rates were to be applied to those countries having unconditional most-favored-nation treatment, and those having no treaties or agreements at all, unless, perchance, any of these discriminated against the United States.

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[12] New York Times, December 10, 1931; Congressional Record, 72nd Cong., 1st Session., 7168.

These conditions were rooted deep in the philosophy of former tariff laws. Consider the sections concerned with non-discrimination. According to John Day Larkin who made a study of certain phases of American tariff history, the State Department explained that these sections provided that the duties proclaimed in consequence of the trade agreements entered into with foreign countries would be extended to all countries but that they could be confined to such countries as did not discriminate against American commerce or pursue policies which tended to defeat the purpose of the Act.[13] This means that the high tax of the general, or Hawley-Smoot Tariff, could be continued against a particular country rather than a generalization of rates negotiated in contingent agreements. Thus the Act of 1934 attempted to reconcile our post-war unconditional interpretation of most-favored-nation treatment[14] and the spirit of the penalty clauses of the McKinley and Dingley Tariffs which authorized the president to suspend reciprocal rates whenever he determined that unequal treatment was being accorded the United States.[15] In the sense of being a penalty, it is even slightly reminiscent of sections 317 and 338 of the Fordney-McCumber and Hawley-Smoot Tariffs, respectively, which gave the president authority to penalize with additional duties or even exclusion such nations as discriminated against the United States.[16]

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[13] John Day Larkin, The President's Control of the Tariff, Harvard University Press, Cambridge, Mass., 1936, 54, citing State Department press release of April 5, 1935.

[14] Henry J. Tasca, The Reciprocal Trade Policy of the United States, University of Pennsylvania Press, Philadelphia, 1938, 116-117.

[15] Ibid., 40.

[16] U. S. Tariff Commission, 148, 201.

The power given the president to increase or decrease existing rates by 50 percent resembled both the practice of maximum and minimum rates adopted in 1909 and the presidentially-controlled flexible tariff adjustment written into the Fordney-McCumber and Hawley-Smoot Tariffs. The former set two schedules of duties either of which the president could employ as the interest of the country demanded,[17] the latter permitted the president to adjust rates to equalize the cost of production between foreign and domestic articles.[18]

Originality could not even be conceded the chief criticism leveled against the Trade Agreement Act. Because compacts under the bill were not subject to congressional approval, opponents revived the old contention that the bill delegated legislative power to the president.[19] The majority report of the House Ways and Means Committee to which the bill was first referred aimed a lengthy rebuttal at this position. It showed that "as early as 1794, when many of the framers of the Constitution were still active in public affairs, Congress passed an act delegating to the president the powers not merely to regulate or to fix rates affecting commerce but actually to prevent altogether the exportation of goods from the United States."[20] The report traced the recurrence of this procedure throughout our history and emphasized the fact that under Section 4228 of the Revised Statutes previous executive trade agreements had not been submitted to

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[17] Ibid., 269-270

[18] Ibid.

[19] Congressional Record, 72d Cong., 1st Sess., 7119; 73d Cong., 2d Sess., 5270, 5364; Laurence J. Laughlin and H. Parker Willis, Reciprocity, The Baker and Taylor Co., N. Y., 1903, 207.

[20] House Report 1000, 7.

Congress and their constitutionality had been upheld by the Supreme Court more than once.[21]

The real heart of the Roosevelt surplus program was the dual system of cooperative production and market control--a system no more unique in its broad conception and in its detailed parts than "New Deal" tariff legislation has been shown to be. Production control as employed by the "New Deal" was lifted bodily from a system of thought which had been developing for at least ten years. It was indigenous to the economic nationalism of the time for it advocated a production streamlined to the needs of home markets. As an emergency measure it could conceivably be discarded if trade agreements and research in agricultural by-products made it feasible. On the other hand, it could become a permanent adjunct of the national life.

As worked out by the "New Deal", production adjustment applied to the "basic" commodities, wheat, cotton, corn, hogs, rice, tobacco, milk and its products. On account of the wide divergency in methods of husbandry, details of the project varied with the product affected. But, prescinding from the milk industry, the peculiar nature and conditions of which required at first a "trial and error" method,[22] fundamental provisions were these: according to his own discretion, the Secretary of Agriculture could "lease land in large areas....and retire it from the production of any crop"; or,

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[21] Ibid., 12, 14.

[22] Agricultural Adjustment, A Report of the Adminstration of the Agricultural Adjustment Act, May, 1933 to February, 1934, U. S. Gov't. Printing Office, Washington, 1934, 153.

he could contract with individual farmers to reduce their output by a certain percentage calculated on a base period of the three or four preceding years. In return, rental payments or reduction benefits were given to the contracting parties.[23] Since the producer performed his part when he took steps to curtail output, he received the payments even if his crop failed. Thus he enjoyed what amounted to crop insurance. The funds for these subsidies were derived from the imposition of a tax on the processor of the enumerated products. Together with the price rise accomplished through crop reduction, these remunerations were intended to give the farmer the equity in purchasing power which was the purpose of the plan. To avoid offending against democratic processes, compliance with the plan was made voluntary.

Allotment was not a new device when the "New Deal" introduced it. It had been used rather successfully in England, Australia, and Brazil,[24] and variations of it had been discussed or tried here in this country for some years.

The belief that a reduced output was the answer to farm surpluses began to find expression rather generally soon after we found ourselves with a war-expanded producing plant and contracted world markets; in other words, early in the '20's. For the most part, however, those who wrote or spoke on the subject felt that this must be accomplished through the education of the individual farmer who would then voluntarily and in "solitary splendor"

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[23] Wilson Gee, American Farm Policy, W. W. Norton and Co., Inc., N. Y., 1934, 53; Archibald M. Woodruff, Farm Mortgage Loans of Life Insurance Companies, Yale University Press, New Haven, 1937, 127, 128.

[24] Woodruff, 128-129, n. 6; Edwin R. A. Seligman, The Economics of Farm Relief, Columbia University Press, N. Y., 1929, 239.

reduce his acreage or, at least, his output. These expressions of opinion emanated largely from the professorial and official ranks.

For instance, in January, 1922, President Harding, addressing the National Agricultural Conference which he had summoned, said, "With proper financial support for agriculture and with instrumentalities for the collection and dissemination of useful information, a group of cooperative marketing organizations would be able to advise their members as to the probable demand for staples, and to propose measures for proper limitation of acreages in particular crops."[25] The report of the Secretary of Agriculture for the year 1923 advised the reduction of acreage "since acreage was largely increased to meet war demands, and...we now have a surplus."[26] Herbert Hoover, then Secretary of Commerce, said in 1924, "continuancy of overproduction means surplus and that can only be corrected by prices low enough to make production unprofitable for some of the acreage of use."[27] In 1927, Secretary of Agriculture Jardine, writing in the Oklahoma Stockman and Farmer, warned farmers that as surpluses from normal yields piled up, they must reduce their acreage.[28] Finally, a third Secretary of Agriculture, Arthur Hyde, writing in The American Yearbook for 1930 stated:

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[25] Gee, 28, citing Report of the National Agricultural Conference, January 23-27, 1922, U. S. Gov't Printing Office, Washington, 1922, 6-13.

[26] "The Wheat Situation," Agriculture Yearbook, 1923, 15.

[27] Genesis of the New Deal, 707.

[28] John D. Black, Agricultural Reform in the United States, First Edition, McGraw-Hill Book Co., N. Y., 1929, 72.

> By this time it is evident that supply-and-demand conditions cannot be set aside by legislation, that the dumping of surpluses abroad is not feasible, that the indefinite storing of surpluses tends to prevent rather than cause a rise in prices, that tariff duties are not effective on commodities produced largely for export, and that subsidies would increase rather than restrain production. Voluntary curtailment of production is the only logical remedy for the surplus problem.[29]

Among leading professors who subscribed to this reasoning were W. E. Grimes, head of the Department of Agricultural Economics of Kansas State Agricultural College and Joseph Stagg Lawrence, professor of economics at Princeton.[30]

The period covered by these statements was one of Republican ascendancy and the Republicans did inaugurate an information service regarding production, the so-called "Outlook Reports." These were careful surveys, made by the Department of Agriculture, of the probable acreage required, with normal yields, to meet market demands at fairly satisfactory prices. They were published late in January and a few weeks later the Department sent out its "Intentions Report," which indicated the increases or decreases in crop acreage contemplated by farmers. The first of these reports appeared in the spring of 1923.[31]

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[29] Arthur M. Hyde, "Agriculture and Allied Industries," The American Yearbook, A Record of Events and Progress, Year 1930, (ed. by Albert Bushnell Hart, The American Yearbook Corporation, 229 West 43rd St., N. Y., 1931, 374-388.

[30] W. E. Grimes, "Diversification of Agriculture--Its Limitations and Its Advantages," The Annals of the American Academy of Political and Social Science, (ed. by Clyde L. King, The American Academy of Political and Social Science, Philadelphia, 1929, 216-221), CXLII, 220; Joseph Stagg Lawrence, "The Futility of Farm Relief," Harper's Monthly Magazine, Harper and Brothers, N. Y., December, 1929-May, 1930, 686-695, CLX, 692.

[31] Secretary's Report, Agricultural Yearbook, 1923, 21.

There are various reasons, however, why such unorganized reduction could not but fail. Possibly, the most pointed are that the farmers' charges are mainly fixed charges, which do not vary with the volume of production, and that each farmer, convinced that his unit of output is an insignificant part of the whole, feels he is better off producing, even at low prices, than letting part or all of his plant lie idle.[32]

The Republicans finally seemed to realize this for on December 7, 1932, the Federal Farm Board in a special report recommended that provision be made for "an effective system for regulating acreage..."[33]

A number of allotment plans were bruited about the country[34] but the one the "New Deal" adopted was, in its first form, worked out sometime before 1926 by Dr. W. J. Spillman, an economist in the Department of Agriculture under Coolidge. While it is not possible to state that it was his inspiration, still it is probable that in the course of his work, Dr. Spillman became familiar with the allotment plan adopted by the Maryland State Milk Producers Association in 1923. Certainly, his plan resembled theirs in principle. The Maryland plan divided the milk supply into "basic" and "surplus" quantities. The "basic" portion was that sold to consumers as fluid milk, the "surplus" comprised all milk receipts above the "basic" quantity. Since "basic" milk supplied the entire demand, it brought a higher price than the "surplus" which was sold for whatever price it would

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[32] Austin A. Dowell and Oscar B. Jesness, The American Farmer and the Export Market, University of Minnesota Press, Minneapolis, 1934, 5.

[33] Gee, 44.

[34] John D. Black, "Plans For Raising Prices of Farm Products by Government Action", (The Annals of the American Academy of Political and Social Science, ed. by Clyde L. King, Philadelphia, 1929), CXLII, 380-390.

bring in dairy product uses. Allotments of "basic" milk were issued to individual producers in amounts equal to their average monthly production in October, November, and December from 1921 to 1923. If a member sold his herd, the allotment went to the new owner.[35]

Dr. Spillman's system would have permitted a farmer to produce all he wished of a given commodity but any amount in excess of a certain allotment, based on his average for several years, must be sold at prevailing prices. This allotment, which would be figured in bushels, or like measurement, rather than acreage, would be made to the farm, not the farmer, and would be sold at a tariff protected price. The plan would be put into operation by a "commission of able men," which would have power to license and bond all dealers in a protected commodity. These middlemen would purchase debentures equal to the tariff from the commission or its local agent, pass them on, in sufficient amounts to cover a sale, to the producer, who, in turn, would send them to the commission as a receipt for the amount of tariff due on his allotment. If a farmer's crop failed wholly or partially, he was simply unfortunate for "The public should not be expected to pay him a tariff on something he does not produce."[36] It is easy to see here the outlines of the "New Deal" allotment plan touched up with McNary-Haugheniism.

The next advance was the work of Dr. John D. Black, an economist of Harvard, who modified the Spillman plan in some important particulars. Dr. Black stipulated that allotment rights could be sold to provide a form

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[35]Black, Agricultural Reform in the United States, 300.

[36]W. J. Spillman, Balancing the Farm Output, Orange Judd Publishing Co., N. Y., 1927, 84-99, passim.

of insurance. He further provided that processors would buy up allotment rights as produce was turned into the markets by growers and show these rights for all processed articles sold domestically. This was an improvement over the Spillman plan because processors alone rather than all small buying agencies would need supervision.[37]

Both the Spillman and Black plans, it is obvious, imposed a charge on the processor equivalent to the "New Deal" processing tax. Another plan known as the "Sales Tax Plan" offers even a closer parallel. It had been devised at least as early as 1929. This plan would have had the processor pay a tax for all products sold in the domestic market and from the funds thus collected the producer would receive a bonus at the end of the year, either on all of the product for which he could show a sales receipt or on the basis of allotment rights.[38]

Dr. Black was, apparently, the first to introduce the idea of allotment to Congress for Senator Nelson of Missouri, a member of the House Committee on Agriculture, during a debate on farm relief told the House, "Back in April, 1929, Dr. John D. Black, eminent economist of Harvard, came before our committee and for the first time, as far as I know, mentioned the so-called farm allotment plan."[39] But as the depression advanced, various groups presented bills to Congress for consideration--all with the same basic idea. On May 4, 1932, John Simpson, president of the National

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[37] Black, Agricultural Reform in the United States, 277.

[38] Black, "Plans for Raising the Prices of Farm Products in the United States," 383.

[39] Congressional Record, 72nd Cong., 2nd Sess., 1366.

Farmer's Union, offered one on behalf of three great farm organizations, which would permit the Farm Board to use, optionally, the equalization fee, the debenture plan, or allotment.[40]

On May 25, 1932, Professor M. L. Wilson, head of the Department of Agricultural Economics of Montana State College at Bozeman, appeared before the Senate Committee on Agriculture to support allotment. He and Dr. Mordecai Ezekiel, a former member of the Division of Farm Management of the Bureau of Agricultural Economics in the Department of Agriculture had worked on an adaptation of the Spillman-Black idea[41] and, according to Representative Truax of Ohio, it was their proposal from which the Roosevelt administration's farm bill eventually evolved.[42]

While a copy of Mr. Wilson's plan is not available, it is probable that it was the same that Senator Norbeck asked to have inserted in the Congressional Record on the same day Mr. Wilson appeared before the Senate Committee. This plan had been presented to members of the Senate and House by W. R. Ronald, publisher of the Mitchell [South Dakota] Evening Republic, but it was the work of a committee of which Professor Wilson was chairman and it contained several provisions which appeared later in the Agricultural Adjustment Act. Among these were the drawback of the tax on all exports of processed commodities, the definition of "basic" products, crop insurance, and an adjustable tax.[43]

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[40] Ibid., 72nd Cong., 1st Sess., 11144-5; Lawrence H. Chamberlain, The President, Congress, and Legislation, Columbia University Press, N. Y., 1946, 253.

[41] Congressional Record, 73d Cong., 1st Sess., 1362; Chamberlain, 253.

[42] Ibid.

[43] Congressional Record, 72d Cong., 1st Sess., 11144-5.

Meanwhile, the future President Roosevelt was preparing himself to capture the Democratic nomination and to win the campaign of 1932. He had collected his famous "Brain Trust" and, according to Ernest K. Lindley, "Brain Truster" Rexford G. Tugwell first called Mr. Roosevelt's attention to allotment schemes for farm relief. While allotment was in advance of Roosevelt's own work as Governor of New York State, it was in line with his liberal ideas on the subject. Consequently, about ten days before the Democratic National Convention, Tugwell was sent to Chicago to attend a meeting of agricultural economists who were to discuss allotment. He was to "explore the plan and determine if it met with general approval." Professor Wilson was present at the conference and when Tugwell returned to Albany, he took the Professor along to explain his plan to Governor Roosevelt.[44] Mr. Tugwell himself vouches for the fact that it was in this manner that allotment became a "New Deal" tenet.[45]

That fall, shortly after the election, the Agricultural Committee of the House again held hearings. This time they were considering a bill drafted by Frederic P. Lee, the spokesman for the National Grange, the National Farmer's Union, and the American Farm Bureau Federation, and Allan H. Perley, Legislative Counsel for the House. It was called the Agricultural Adjustment Act and had been framed at a conference called by President-elect Roosevelt. Henry Morgenthau, Chairman of the Advisory Committee on Agriculture in New York State, and Rex Tugwell attended as

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[44] Ernest K. Lindley, The Roosevelt Revolution, The Viking Press, N. Y., 1933, 27-28.

[45] Correspondence. See Appendix I.

Mr. Roosevelt's representatives. The bill was all but identical with the Agricultural Adjustment Act which became law in the next session of Congress. At this time, however, a Senate and House hostile to each other prevented decisive action and Congress adjourned without passing a farm measure.

This rather detailed account makes it self-evident that the "New Deal" policy of allotment was the culmination of long discussion and planning by both farm and governmental agencies. It was really not "new."

Integrated with other plans for removal of surpluses was a definite conservation program. The history of conservation in this country is so well known that its ties with the past need not be proved; it is of interest only to show that the "New Deal" used it to curb excessive production and that this plan was not original with the "New Deal."

Chester A. Davis, Administrator of the AAA, said in 1934:

> Permanent removal of submarginal lands from crop production will be part of a long-time effort...This means planning for better use and conservation of the nation's soil resources. Submarginal lands which now are poverty farms can be gradually removed from surplus production and be put into use as forests, parks, game refuges, and preserves....The enlightened policy now being followed makes it possible for farmers to conserve soil resources by keeping lands out of useless cultivation to surplus crops, and by planting soil-building and erosion-preventing cover.[46]

We can trace such vision back at least to 1926 or 1927. Dr. Spillman at that time suggested that "Some of the land now in the major crops might perhaps be planted in permanent forests...."[47] President Hoover gave as one of

[46]Chester A. Davis, One Year of the AAA; The Record Reviewed, Wash., 1934, 7.

[47]Spillman, 45.

his reasons for desiring a Federal Farm Board, the necessity of having an organization authorized to remove "unprofitable marginal lands" from production.[48] This was on April 16, 1929, at least four years before the "New Deal" came on the American scene.

A production control program was, of course, subject to the action of natural forces beyond human calculation and manipulation; also, it did not insure the dispersion of commodities to points of demand. Consequently, a system of market controls was planned. Three devices were employed to ensure an orderly feeding of commodities to the market in volumes equal to the demand. They were: first, the purchase and holding of surplus quantities of produce; second, loans to producers to enable them to hold over their own surpluses; third, agreements with licensed processors and distributors of commodities.

Surplus commodities were at first bought up by the Agricultural Adjustment Administration and the Federal Emergency Relief Administration with funds made available by Congress. For greater efficiency in distributing these supplies the Federal Surplus Relief Corporation, a part of FERA, was organized as a non-profit, no stock corporation, on October 4, 1933.[49] In this guise it was primarily a relief agency to utilize price-depressing agricultural surpluses for distribution to families with subnormal consumption. But on November 18, 1935, its name was changed to Federal Surplus Commodities Corporation and its activities transferred to the Department of

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[48] Ray Layman Wilbur and Arthur Mastick Hyde, The Hoover Policies, Charles Scribner Sons, N. Y., 1937, 150, citing State Papers, I, 31-32.

[49] Genesis of the New Deal, 263.

Agriculture. From that time, emphasis was on the removal of agricultural surpluses and the encouragement of domestic consumption. The commodities it controlled were procured through direct purchase with its own funds under competitive contracts, through donations from the AAA, and through contributions from State Emergency Relief Administrations whenever surpluses occurred in the regions they served.[50] In cases where the government lacked adequate facilities for storage, non-perishable commodities, after government inspection and under government seal, could be stored by the farmers themselves.[51]

Some attempt was made to divert part of these stocks to foreign markets but such a plan was not generally followed because the Administration feared that reciprocal trade pacts might be imperiled if we shipped large volumes abroad at world prices and paid subsidies, as we must under those conditions, to exporters. However, wheat in the Pacific Northwest was bought at domestic prices by local organizations and sold at world prices with the understanding that the government would reimburse their loses.[52]

Surplus cotton had its own holding agency, the Cotton Pool. This organization took over the cotton acquired for the government by the Federal

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[50] Report of the Federal Surplus Commodities Corporation for the Calendar Year 1935, Washington, 1936, 1-4 passim.

[51] Farm Relief and Agricultural Adjustment Acts, Washington, 1938, 22.

[52] Farm Policies Under the New Deal, (Public Affairs Pamphlets, No. 16, Public Affairs Committee, Inc., 8 West 40th St., N. Y., 1938), 13; Lawrence F. Schmeckebier, New Federal Organizations, An Outline of Their Structure and Functions, The Brookings Institution, Washington, 1934, 92, n. 8.

Farm Board and added new purchases with funds supplied by the Commodities Credit Corporation.[53]

This latter instrument afforded the second means of market adjustment. It was set up by executive order on October 16, 1933 and incorporated under the laws of Delaware. According to President Roosevelt, "The object was to contribute to the support of farm prices by enabling producers to hold on to their products which might otherwise have been dumped with resulting price decline."[54] As has been indicated, loans for this purpose were made to government agencies, but in addition both public and private lending organizations were enabled to enter the program under a guarantee by the Corporation to purchase farmer's notes on demand.[55]

The final method of market regulation exercised by the Roosevelt administration was the adoption of agreements to cover the distribution of all agricultural products and competing commodities.[56] These were voluntary contracts between the Secretary of Agriculture and the processors and the middle men who handled such commodities; they were exempt from anti-trust laws, and could regulate trade practices, prices, and the volume coming to market. This last function was accomplished through the terms of the compacts which limited the sales of the commodity to top grade or grades, suspended shipments when markets were glutted, or rationed the market

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[53] Woodruff, 128, n. 5.

[54] Genesis of the New Deal, 407.

[55] Ibid.

[56] For example jute and paper competed with cotton bags. Public Affairs Pamphlets, No. 16, 8.

amongst shippers and processors.[57] The Secretary of Agriculture controlled the entire process through his power to license all who handled both agricultural goods and competing artciles of trade.

All these procedures had their counterpart in former laws or at least in former agitations. As early as 1923, the annual report of the Secretary of Agriculture advocated the purchase and storage of surpluses by the government.[58] And it is a pithy fact that in November, 1926, President Coolidge, the Republicans' famous conservative, appointed a special committee headed by Eugene Meyer to finance the storage of 4,000,000 bales of cotton.[59] Other examples are numerous. The underlying principle of the Curtis-Crisp Bill (S 5088), introduced into Congress on January 6, 1927, and of the stabilization corporations of the Federal Farm Board was the buying and holding of surplus products.[60] This same principle was in part the basis of the two McNary-Haugen Bills which Coolidge vetoed[61] and of the Jones-Ketchum Bill the 70th Congress considered.[62] A commission of business men assembled to study the needs of agriculture in the United States recommended the stabilizing of farm prices and incomes through the agency of a stabilizing corporation which eventually would be able to buy crops at a

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[57] Ibid., 13; also, Farm Relief and Agricultural Adjustment Acts, 22-23.

[58] "Report of Secretary of Agriculture," Agriculture Yearbook, 1923, Washington, 1924, 15.

[59] Black, Agricultural Reform in the United States, 72.

[60] Ibid., 73; Congressional Record, 73d Cong., 1st Sess., 1955; Wilbur and Hyde, 153, 158.

[61] Public Affairs Pamphlets, No. 16, 2.

[62] Black, Agricultural Reform in the United States, 261

price announced before the date of planting.[63] In November, 1927, Secretary of Agriculture Jardine, in the article previously quoted supported a plan for stabilization corporations to buy and store surpluses.[64]

Precedent for donation to the needy of supplies purchased by the Federal Surplus Commodities Corporation was provided by like contributions of the Federal Farm Board's Grain and Cotton Stabilization Corporations,[65] while the sale of excess Pacific Northwest wheat at world prices with loss to the government at once recalls the debenture plans of the late '20's.

The policy followed by the Commodities Credit Corporation of lending against crops to permit holding also had its antecedents. For example, it harked back to the sub-treasury plan of 1892,[66] the Warehouse Bill of 1916,[67] and the Farm Board of 1929,[68] not to mention, of course, a similar service by

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[63] John D. Black, "Progress of Farm Relief," The American Economic Review, June, 1928, No. 2, American Economic Association, Evanston, Illinois, 1928, XVIII, 108, citing The Condition of Agriculture in the United States and Measures for Its Improvement, A Report of the Business Men's Commission on Agriculture, National Industrial Conference Board and Chamber of Commerce of the United States, Washington, 1927, 185.

[64] Black, Agricultural Reform in the United States, 352, citing Oklahoma Stockman and Farmer, November 1, 1927

[65] First Annual Report of the Farm Credit Administration, Washington, 1934, 57.

[66] The Chicago Tribune, July 2, 1892.

[67] House Report 60, 64th Cong., 1st Sess. 2.

[68] Wilbur and Hyde, 157.

banking establishments all over the country for many years. Prior to the reorganization of agricultural credit under the "New Deal," the Reconstruction Finance Corporation had also extended this aid.[69]

In seeking a parallel from the past for the market management practiced by the Secretary of Agriculture under the AAA, we are reminded that one historian found in President Roosevelt an echo of the two Progressives, Teddy Roosevelt and Woodrow Wilson.[70] It is true that there is an identity of spirit in the three administrations, and one finds a nexus between the licensing of processors and distributors by the "New Deal" and the government licensing of warehousemen under the Bill of 1916. Indeed, Frederic P. Lee told the House Committee on Agriculture and Forestry that he understood the "New Deal" plan was simply an extension of the power of the federal government in warehousing.[71] A second link was the regulation of trade practices under the marketing agreements of the Agricultural Adjustment Act. These were in spirit, at least, reminiscent of some of the fair practices legislation of both the "Square Deal" and the "New Freedom" and those laws were an answer to the long insistent demands of farmers for the regulation of elevators, distribution agencies, and the great commodity exchanges.[72]

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[69] House Document, 531, 72d Cong., 2d Sess., 3.

[70] Lindley, 8

[71] Congressional Record, 73d Cong., 1st Sess., 3077.

[72] W. B. Bizzell, The Green Rising, Macmillan, N. Y., 1926, 165; Allen Nevins, The Emergence of Modern America, 1865-1878, (A History of American Life, ed. by Arthur M. Schlesing and Dixon Ryon Fox, Macmillan, N. Y., 1932), III, 164, 165.

Lastly, the power given the Secretary to control the flow of produce to market found natural backgrounds in existing institutions and in former recommendations and congressional action. For example, Representative Clarke of New York, in addressing the House on the AAA, referred to "the warehouse system that provides for orderly assembling in many portions of the United States of products close to the source of production in order that they may be orderly sent out [sic] into the markets when the markets need them, and the great marketing agencies that advise when these products of the farmers may be shipped.[73] In April, 1924, a bill was introduced into Congress which, if passed, would have provided for an elaborate co-operative marketing system closely tied to the government by a federal administration board. It was known as the Capper-Williams Bill (H. R.8679) and was, in part, the work of Secretary of Commerce Hoover.[74] The Capper-Haugen Bill of 1925 embodied a provision for clearing associations to distribute produce between different markets to prevent gluts and shortages. This idea was not original with the Congressmen but had been inspired by a recommendation of the Agricultural Conference of farm leaders called by President Coolidge in the winter of 1924-1925.[75] In June, 1926, the Fess Bill (S 4462) provided for an administrative division of cooperative marketing in the United States Department of Agriculture. Its raison d'etre

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[73] Congressional Record, 73d Cong., 1st Sess., 1508.

[74] Black, "Progress of Farm Relief," 263.

[75] Black, Agricultural Reform in the United States, 350

was to provide friendly assistance to cooperatives.[76] Another bill, sponsored by Senator Curtis in several sessions of Congress, would have allowed the organization of 75 percent or more of the producers of each commodity on a nation-wide basis and would have set up a "marketing board" to feed commodities to the market in an orderly fashion.[77] It required no long stride to step from the sentiment inherent in these bills to the power conferred on Secretary Wallace by the AAA.

This analysis of the surplus program of the "New Deal" provides us with two generalizations pertinent to our subject. First, the program was, in a broad sense, a realization of McNary-Haugenism. McNary-Haugen Bills sought to raise the domestic price of farm products, the Roosevelt surplus policies had the same purpose; McNary-Haugenism would have sold surpluses abroad, the Trade Agreements Act aimed at a like disposal; indirectly McNary-Haugen plans proposed to curtail production, the Agricultural Adjustment Act directly provided for such reduction. We even find that the final McNary-Haugen bill, vetoed in 1928, advocated a tax on processors and distributors "to collect funds for orderly marketing."[78]

The second induction is simply a verification of our original contention that the "New Deal" production and marketing program was essentially a huge cooperative endeavour, uniting farmers and government, and that this united effort was the culmination of a long movement in that direction. Our

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[76] Black, "Progress of Farm Relief," 264.

[77] Black, Agricultural Reform in the United States, 351

[78] Seligman, 251; Black, "Plans for Raising Prices of Farm Products by Government Action," 381.

discussion has made the truth of this assertion self evident, it seems, but we may add that the "New Dealers" recognized the cooperative nature of their surplus plans. Chester Davis proudly reported, "The launching of the greatest cooperative effort ever undertaken by farmers is the outstanding accomplishment of the Agricultural Adjustment Administration's first year."[79]

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[79] Op, cit., 1.

CHAPTER II

FARM CREDIT

In the agricultural economy of the nation the problem of farm credit antedated that of commodity surpluses. In fact, from colonial times it was an integral part of the question of agrarian expansion and welfare. Between World War I and the advent of the "New Deal" it assumed vast importance, for farm indebtedness increased during that period at an alarming rate. The spiralling advances were caused, in the first place, by the expenditures entailed in war-inspired additions to the farm plant; greatly enhanced tax and interest payments were a natural consequence. As the 1920's rolled on, the sagging prices and curtailed trade which were a part of the surplus problem augmented the burden of these first debts and became the spur to further heavy borrowing. Farm mortgage indebtedness by 1930 was about nine billions of dollars, and the exchange value of agricultural products in terms of taxes and interest became so low in some parts of the country as to be a very serious matter.[1] Ernest Lindley succinctly sums up the critical situation as it was when Roosevelt took office with these words:

> Disregarding a mountain of supplementary debt, the farming industry was saddled with

[1] See Appendix II; W.Stull Holt, The Federal Farm Loan Bureau, Its History, Activities and Organization, Service Monographs of the U.S.Gov't. No. 34, The Johns Hopkins Press, Baltimore, 1924, 4, citing C.M.Thompson, Cost and Sources of Farm Mortgage Loans in the United States, Department of Agriculture Bulletin 384; Woodruff, 32, citing W. Coombs, Taxation of Farm Property, Department of Agriculture Bulletin No. 172, 1930, 5.

> between eight and nine billion dollars in mortgages. Those mortgages had been incurred when the general price level, on a rough average, was twice as high as it was at the beginning of 1933, and when the price of farm production was, on the average, four times what it was at the end of 1932. In terms of power to buy finished goods, the farm creditor had lent only half what was owed him; in terms of farm crops, the farmer owed four times as much as he had borrowed. The cost of current operations of government, which he paid through taxes, was from two to four times its former cost in terms of crops.[2]

In the months prior to Roosevelt's inauguration, this condition led to violence in the heart of the farm region.[3] The last "Lame Duck" congress failed to retrieve the situation, consequently, it was necessary that the new administration immediately cope, not only with the exigencies of agricultural surpluses, but, also, with what was another facet of the same problem--agricultural credit.

To quote Lindley again, "...the sharp cry from the farm belt was for immediate prevention of foreclosures, and for the generous government aid in meeting interest payments and taxes..."[4] The government attempted to satisfy these demands. Title II of the agricultural relief bill and a later series of supplementary acts contained legislation fashioned to ease the burden of the farm debt through liberalization of the mortgage structure; The Farm Credit Act of June, 1933, proposed to relieve credit stringency by

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[2] Op.cit., 62.

[3] In the middle of 1932, groups of Middle Western farmers united in an attempt to prevent mortgage foreclosures and to raise prices by holding commodities from market. Force was frequently necessary to accomplish their purpose. The organization chiefly responsible for this movement was the Farmers' Holiday Association. See Woodruff, 101-105, passim; also, The New York Times, January 5, 8, 10; April 28, 29, 1933.

[4] Op.cit., 99.

coordinating and extending the facilities of the credit structure already in existence. These legislative measures were so designed as to give immediate relief and to provide adequate rural credit for years to come.

A review, first, of the existing credit mechanism, which, at the insistence of farm leaders, had been built up by the federal government over a period of twenty years, and, secondly, of the history of certain mortgage laws, will provide evidence that no radical departures were devised. Rather, in addition to the fact that no new devices were employed, it is this study which offers the conclusive evidence that the cooperative potential of the "New Deal" was the flowering of the cooperative spirit the government had carefully cultivated for some years.

A demand for increased credit facilities and a broader basis for credit had been one of the rallying points of the three great agrarian movements between the Civil War and the turn of the century. In the first decade of the new century, agitation for government aid in improving the farmer's credit was intensified. This was, in effect, a demand for government help to attract capital into agriculture as it had been attracted into industry. Earl Sylvester Sparks, a recognized authority on agricultural credit, says: "This was probably one of the inevitable results of the commercialization of agriculture. The farmer was now producing for the market on a large scale with extensive machinery, and his credit needs had grown with the price of land and the necessity of large capital outlays in equipment."[5] But, if capital was to be attracted into rural fields, standardization of the farmer's credit was necessary.

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[5]Earl Sylvester Sparks, History and Theory of Agricultural Credit in the United States, Thomas Y. Crowell Co., N.Y., 1932, 114.

The first step in this direction was President Theodore Roosevelt's appointment, in 1908, of the Country Life Commission. This group studied farm conditions and reported a need for better credit facilities. Public interest in the question grew. In 1912, President Taft instructed the United States ambassadors in the principal European countries to investigate rural credit institutions in those countries, and, in the same year, the Southern Commercial Congress appointed the so-called American Commission to carry on a similar study. In 1913, President Wilson assembled the United States Commission to cooperate with the American Commission and to formulate resolutions. Their report was made in November of 1913[6] and decidedly influenced subsequent legislation.

While this investigation was being pursued and its report prepared, Congress was engaged with the bill which became known as the Federal Reserve Act. It contained sections providing for rural credit. Under the National Banking Act, no national bank could make original loans on farm mortgages but, as members of the Federal Reserve System, national banks were empowered, provided they were not located in a central reserve city, to make loans secured by improved and unencumbered land situated within the federal reserve district. The banks were also permitted to rediscount agricultural paper and in this respect agriculture was shown special favor. Commercial paper eligible for discount could have a maximum maturity of not more than ninety days but agricultural paper with a maturity of as much as six months was acceptable. Furthermore, under the Act agricultural paper could be purchased

[6] Senate Document 214, 63d Cong., 1st Sess.

machinery for certain fiscal functions. To accomplish these ends a credit mechanism organized on lines very similar to the Federal Reserve System was set up. Corresponding to the Federal Reserve Board was the Federal Farm Loan Board; analogous to the federal reserve banks were the federal land banks; and comparable to the member banks of the Federal Reserve System were the national farm loan associations of the agricultural credit system. There the structural likeness ended. The agricultural system had, as it were, a super-structure in the joint-stock land banks.

The Federal Farm Loan Board had the power to organize and charter the federal land banks, the national farm loan associations and the joint-stock land banks. It, furthermore, exercised a general supervisory authority over these institutions. The executive officer of the board was one of its members designated by the president as Farm Loan Commissioner. Connection with the system was maintained by the federal government through the Secretary of Treasury who was chairman and member ex officio of the board.

The Farm Loan Act divided the country into twelve land bank districts roughly corresponding to the federal reserve districts. In each of these a federal land bank was established by the cooperative efforts of the federal government and the farmers. An initial capitalization of $750,000 in shares of $5 each was required. Theoretically, this could be subscribed by any person, firm, corporation and state as well as by the United States government, but as a matter of fact, nearly all the original capital of the twelve banks was contributed by the federal government free of charge. To attract loanable funds to agriculture, the banks were empowered to issue and sell

debenture bonds based on all the assets of the land banks and, as an enticement to investors, these bonds were exempt from all taxation and made lawful investments for fiduciary and trust funds.

Like the federal reserve banks, these banks did not loan directly to individual patrons. Loans could be secured through duly incorporated banks, trust companies, mortgage or savings institutions chartered by the state in which the loan was made. But, since Congress wished to foster a spirit of cooperation among farmers, the preferred agency was the farm loan association. The latter could be chartered when ten or more farmers, who were owners or prospective owners of farm land, applied for an aggregate loan of $20,000 or more. Those desiring loans subscribed for one share of stock in the association for every $100 of the proposed loan and the capital for this transaction could be included in the face of the loan. The borrower also gave a first mortgage on his land to the association which endorsed it and sent it to the district land bank. There it was used as security for the debenture bonds. The association, when applying for loans for its members, likewise was required to buy capital stock of the bank at the rate of five percent of the loan. "In case of loans through agents other than a farm loan association the borrowers bought stock directly of the loan banks."[10] Cash payment for the stock when the loan was granted was a condition of the loan. The stock was retained by the bank as collateral but any dividends on it reverted to the association. Upon full payment of

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[10]Sparks, 129.

the mortgage loan both the bank stock and association stock were retired. Since the need was for capital on which returns would be slow, all loans were amortized for not less than five or more than forty years. After five years all or any part of a loan could be paid on any interest paying date. This method, it will be noted, provided an admirable safeguard for the system in that it established an automatic ratio of 1 to 20 between the capitalization of the banks and their loans.

Furthermore, provision was made for the borrowers gradually to gain ownership of the banks. Whenever the capital stock subscribed by farm loan associations in any bank equalled the original capital of $750,000, semi-annually, thereafter, 25 per cent of any further subscriptions were applied to the retirement of government-owned stock. By the end of 1929, farmer-borrowers had almost complete ownership of their respective land banks.

The joint-stock land banks, for which the Farm Loan Act provided, were organized by private investors, not less than ten in number, who must subscribe for at least $250,000 worth of stock and assume a definite liability. The United States government could not buy or subscribe for any of the capital stock of these banks. Joint-stock land banks could be established in any part of the country where the loan business was good enough to attract them and they could loan directly both to the farmers of the state in which they were organized and to those of one contiguous state. It was hoped that their competition would ease credit conditions in such localities. In accordance with the Federal Farm Loan Act, bonds based on mortgages accepted by the banks could be issued to obtain loanable funds. Since many

of these banks eventually became insolvent and were the object of special treatment by the "New Deal", it is important to note here that the Federal Farm Board exercised only a limited control over their banking policies.

The Federal Farm Board managed this vast system with the aid of a bureau called the Federal Farm Loan Bureau. It was created for this purpose in the Treasury Department and was charged with the execution of the credit act and the amendments thereof.[11]

The heavy borrowing of farmers in the latter years of World War I and in the first years thereafter attests to the success of the land bank system. The obligations then incurred largely account for the fact that increasing and more insistent pleas for what was called intermediate credits were heard. These were loans for a period longer than that given by country banks but shorter than that granted by the federal land banks. When the recession of the early 20's came, such loans were needed to pay the interest on capital loans and to finance the production of crops whose returns must pay current expenses and capital installments.

As early as 1918 the federal government had given recognition to this type of requirement and thus set a precedent. In an executive order, July 26, 1918, President Wilson instructed the Secretary of Agriculture to make loans for seed grains to farmers in drought areas from a fund of five

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[11] Since our general purpose is a concern for the backgrounds of what was apparently "new," it is interesting to note here that in 1891 W.A.Peffer, a Kansas farmer, suggested a loan bureau in the Treasury Department which would establish a central loan agency in each state capital with local agencies at convenient localities, to loan money on real-estate. W.A. Peffer, The Farmer's Side, His Troubles and Their Remedy, D.Appleton and Co., N.Y., 1891, 249.

million dollars which had been appropriated for national security and defense. Subsequently, Congress continued this lending practice. Appropriations for emergency crop production and seed loans were made in eight different years between 1921 and 1933. They were handled by the Crop Production and the Seed Loan Office set up in the Department of Agriculture.[12]

Another emergency measure of the same type was the bill, passed January 3 and 4, 1921, which revived the War Finance Corporation that it might assist the financing of the exportation of agricultural products. Through this agency advances were made to cooperative associations to help them carry cotton in warehouses until it could be exported, and to finance the carrying of American cotton in foreign warehouses. Eventually, this service was extended to the carriers of wheat, dried fruits, canned fruits and vegetables. In August, 1921, the Corporation was authorized to make "advances to persons, firms, or corporations outside of the United States which purchase our agricultural products..." provided these loans were backed by collateral held in the United States. The Corporation could also loan to agencies supplying agricultural credit.[13]

These loans, however, represented emergency measures, whereas farm leaders wanted a permanent system of intermediate credits. These were the years of the "Agricultural Bloc" in Congress and this group of determined advocates finally secured such a device.

In May and June of 1921, the Senate and House, respectively, appointed a Joint Commission of Agricultural Inquiry to hold hearings on the farm

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[12] For an example of such an appropriation see House Report 598, 66th Cong., 2nd Sess.

[13] 41 Stat. L., 1084; 42 Stat. L., 181.

situation and offer recommendations. Their report, given October 15, 1921, stated that existing credit facilities for farmers were inadequate and that a system of intermediate credits was desirable.[14] The commission also submitted a tentative bill known as the Lenroot-Anderson Bill but no conclusive action was taken on it. The next year, 1922, Senator Lenroot submitted a general agricultural credit bill and Senator Capper introduced one providing for credit for livestock dealers. Both bills passed the Senate. In the House the two bills were united and certain amendments formulated by Representative Strong to liberalize the Federal Farm Loan Act of 1916 were added to them. All three were passed March 3, 1923, as the Intermediate Credits Act.[15]

The first part of this bill provided for the creation, in each of the federal land bank districts, of twelve new banks. They were placed under the supervision of the Federal Farm Board and the officers and directors of the land banks were ex officio officers and directors of the new banks. Known as federal intermediate credit banks, they extended credit for not less than six months or more than three years.

Contrary to the policy followed in regard to the land banks, sole ownership of the intermediate credit banks was retained by the federal government. The Secretary of the Treasury was authorized to subscribe $5,000,000 for capital stock in each bank. Collateral trust debentures secured by agricultural and livestock paper could be issued by the banks

[14] House Report 408, Part II, 67th Cong., 1st Sess.

[15] Chamberlain, 284-286, passim.

to obtain additional funds. Also, they could sell their acceptances in the open market and, subject to certain restrictions, they could rediscount paper with the federal reserve banks.[16]

Since it was believed that local agencies could best evaluate an individual farmer's needs and security, Congress provided that loans from intermediate credit banks must be made through such institutions. State, national and savings banks were, of course, available for such service, but in order to give the farmer more avenues of approach to the intermediate banks, this function was also extended to agricultural credit corporations. Included in this category were any corporations organized under the laws of any state to loan money for agricultural purposes or for the raising, breeding and fattening of livestock. A wide variety of local credit agencies came under this definition, among them cooperative banks, cooperative credit associations, trust companies and incorporated livestock loan companies. Thus, as was the case in regard to federal land bank loans, the farmer could not borrow directly from intermediate credit banks but he could create organizations which could borrow for him.

It will be noted that this arrangement provided some standardization for cattle paper, a need that experiences of the War Finance Corporation in dealing with livestock loans had exposed. But it was felt that even more scope for this activity must be devised and that certain evils in livestock

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[16] Section 404 of the Intermediate Credits Act amends the Federal Reserve Act to enable federal reserve banks to handle agricultural paper for a longer time and increases the amount that may be loaned to an individual farmer on his mortgage. 42 Stat. L., 1479.

financing must be remedied. Banks frequently operated cattle loan companies as subsidiaries and failed to separate their commercial banking from their loan business. This practice was prolific of economic vices which states were slow to eradicate. As a consequence, Title II of the Federal Intermediate Credits Act provided for the incorporation of national agricultural credit corporations and for rediscount corporations[17] which would be subject to inspection by federal agents. The National Banking Act served as a model here. In fact, the procedure to be followed in organizing these corporations was almost identical with that required for the organization of national banks and state chartered corporations could be converted into national banks in practically the same manner that state banks could become national banks. As originally planned, these enterprises were to be purely private in nature with no relation to the federal credit system and it was hoped that the banks would become their sponsors. However, on March 4, 1925, an amendment giving them the right to rediscount their paper with intermediate credit banks made them an integral part of the intermediate system.

Spark's concise evaluation of intermediate credit legislation shows that it accomplished in its sphere what the Federal Farm Loan Act succeeded in doing in its metier. The system it created, Sparks says, has helped to standardize agricultural paper "by better credit analyses, and by issuing

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[17] The difference between the two was a matter of capitalization. A national agricultural credit corporation must have capital of $250,000 but one which was capitalized for at least $1,000,000 could rediscount paper previously discounted by another corporation or bank or trust company which was a member of the Federal Reserve System. 42 Stat. L., 1461, 1465; Sparks, 412.

short time bonds on the basis of farm paper, [thus enabling] agriculture to borrow in the capital markets on a favorable basis with other industries." But, he continues, the intermediate credit banks were not "emergency institutions." They could not give "unlimited credit during times of depressed prices and credit stringency." Rather, they were "investment institutions" and acted "as intermediaries in the investment of savings" without the commercial banks' function "of increasing the circulating medium of exchange."[18] This pointed observation explains the failure of the federal agricultural credit system to sustain the demands made upon it during the depression crisis of the early 30's and the framing, at that time, of further legislation to enlarge agricultural credit facilities.

However, even before the depression set in, agricultural conditions were such that Congress was moved to create a new credit agency of importance. Briefly, its genesis was as follows. In 1927, a Business Men's Committee was organized by the National Industrial Conference Board and the United States Chamber of Commerce to study the status of agriculture and propose measures for its improvement. As a result of their research, the committee suggested the establishment of a federal farm board whose members would be appointed by the president and whose duties would be "to aid in the stabilization of [agricultural] prices and production by advising farmers and farm organizations...regarding planned production and marketing of crops."[19] In the presidential campaign of 1928, both major parties

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[18] References for this discussion of the intermediate credit system were: 42 Stat. L., Part I, 1454-1482; Sparks, 287-430, passim, the evaluation quoted above is found on pages 429-430; Holt, 57; The First Annual Report of the Farm Credit Administration, Washington, 1934, 25-32, passim.

[19] Gee, 37, citing Report of Business Men's Commission on Agriculture, 32.

promised action to improve the farmer's lot. After his victory, President Hoover felt the necessity of implementing the Republican promises. His laissez faire tendencies caused him to prefer as little governmental intrusion in private business as possible and he saw in a board, such as had been proposed, an opportunity for government to help agriculture help itself in the least aggressive fashion. With his approval the Agricultural Marketing Act became law on June 15, 1929.

Under its authority, as two of Hoover's cabinet officers tell us: "The Federal Farm Board was set up by President Hoover primarily for the purpose of creating and financing farm cooperatives."[20] This, of course, was a method of self-help for the farmers. The Board not only encouraged cooperatives but it encouraged large ones for it dealt only with those local and regional cooperative marketing associations which met the requirements of the Capper-Volstead Act of 1922, and that act was framed to permit the formation of associations which might otherwise be prohibited by the anti-trust laws. Loans to cooperatives were made from a revolving fund of $500,000,000 appropriated for the purpose by Congress. They could be made to finance various cooperative activities, among them the merchandising of agricultural commodities, the construction or acquisition of physical marketing facilities, the formation of clearing house associations, and the education of producers to the advantages of cooperative marketing.[21]

As its partisans maintain, it is probably true that the real value of

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[20] Wilbur and Hyde, 442. The Farm Board's grain stabilization activities have already been discussed.

[21] Sparks, 417-419, passim.

the Federal Farm Board can never be assessed, because it had hardly begun operations when it was confronted by the unprecedented conditions produced by the financial crash of 1929 and the depression which followed. Agriculture, of course, had been in a depressed condition for almost a decade; consequently, it now bordered on complete collapse. Emergency legislation was necessary and in January of 1932 Congress passed "An Act to provide emergency financing facilities for financial institutions to aid in financing agriculture, commerce, and industry and for other purposes."[22] This bill eventuated in the organization of the Reconstruction Finance Corporation on February 2, 1932. Chamberlain, in the work previously quoted, says that the idea of the RFC stemmed from the success achieved in a lesser crisis by the War Finance Corporation.[23]

The RFC had capital stock of $500,000,000 subscribed by the United States government. Through the Secretary of Agriculture it made loans, secured by first liens on growing or grown crops, in cases where emergencies existed and farmers were unable to obtain production loans for 1932. Agencies for the Secretary of Agriculture were savings banks, trust companies, mortgage loan companies, federal land banks, joint-stock land banks, intermediate credit banks, agricultural credit corporations and livestock credit corporations. The federal reserve banks were named as depositories,

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[22] Reconstruction Finance Corporation Act with Amendments, (compiled by Elmer A. Lewis, Washington, 1938), 1.

[23] Chamberlain also notes that this Act projected "the Federal government into the market as a supplier of Capital for private enterprise." Op.cit., 287, 291; New York Times, Dec. 9, 1931.

custodians and fiscal agents for the RFC.[24]

When a second emergency extension of rural credit was deemed necessary in July, the RFC proved a convenient outlet. The Emergency Relief and Construction Act, approved July 21, 1932, amended the Reconstruction Finance Corporation Act to permit the RFC to make loans to finance sales of agricultural products in foreign countries and to make loans to bona fide institutions to enable them to carry and market agricultural commodities and livestock produced in the United States. Further, the RFC was authorized to create regional credit corporations, one in each of the federal land bank districts, and to provide $4,000,000 in capital stock for each. These corporations were to have discount privileges with the RFC, the federal reserve banks, and the intermediate credit banks. It was figured that a total credit somewhat in excess of $1,360,000,000 would thus be made available. Loans from these new institutions could be obtained for crop production and the raising, breeding, fattening and marketing of livestock.[25] These regional corporations were the last instruments of rural credit which the federal government developed before the Roosevelt administration was inaugurated.

For some time previous to this latter event, it had been recognized that a reorganization of the entire system, looking to the elimination of overlapping functions and of wasteful overhead, was desirable. For example,

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[24] Reconstruction Finance Corporation Circular No. 4, (Revised), Washington, August, 1933, 1.

[25] Reconstruction Finance Corporation Circular No. 5, Washington, March, 1933, 1-4, passim; Milton S. Eisenhower, "Agricultural Legislation," American Yearbook, 1932, 404; Wilbur and Hyde, 444. These corporations were frequently called Agricultural Credit Banks.

the agricultural conference called by President Coolidge in 1925 directed attention to duplication of effort and recommended an agency to coordinate the various credit sources.[26] When the Agricultural Marketing Act was being considered in 1929, many protested that credit facilities for the farmer were adequate, that what was needed was the elimination of unsound parts of the existing mechanism.[27] Authority for such action was given by Congress on March 3, 1933.[28] Thus, it is evident that the first contribution of the "New Deal" to agricultural credit--the thorough over-hauling of the credit structure to make it more efficient and therefore more effective--was an old idea when the "New Deal" was introduced.

By executive order, effective May 27, 1933, President Roosevelt consolidated all federal agencies dealing primarily with agricultural credit into a single organization known as the Farm Credit Administration. An act of June 16, 1933, called the Farm Credit Act, confirmed and completed this merger.

The pattern of organization worked out for the new structure was as follows. At the head of the system was an executive officer known as the governor.[29] He was assisted by two deputies, a general counsel, and four commissioners. Each of the latter supervised a special field of activity.

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[26] John D. Black, "Progress of Farm Relief," 263.

[27] Sparks, 435.

[28] 47 Stat. L., 1517.

[29] Schmeckebier holds that this office was the equivalent of that of Chairman of the Farm Board, which, of course, was abolished. Op.cit., 25.

One, the Land Bank Commissioner,[30] had jurisdiction over the twelve federal land banks, the national farm loan associations, the joint-stock land banks, and Land Bank Commissioner loans. A second, called the Intermediate Credit Commissioner, controlled the work of the twelve intermediate credit banks. A new organization, The Bank for Cooperatives, took over all the functions, except those of stabilization, entrusted to the Farm Board. Directing the Bank and its activities was the Cooperative Bank Commissioner. The fourth commissioner, the Production Credit Commissioner, headed a set of production credit corporations created by the Farm Credit Act to replace the regional agricultural credit corporations organized by the RFC.[31]

These officials had their headquarters in Washington, D.C., and exercised their authority through branch offices in the twelve regions of the United States corresponding to the twelve federal land bank districts. The organization of each district was described as follows in the First Annual Report of the Farm Credit Administration:

> In each district organization there are four permanent credit institutions--a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives--in addition to local national farm loan associations and production credit associations. The four main credit institutions are

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[30] The old Federal Farm Loan Board and Bureau were also abolished. The only office retained was that of Farm Loan Commissioner. The Farm Credit Act changed the title of this functionary to that of Land Bank Commissioner and transferred to him the powers of the former Board. 48 Stat. L., 273; First Annual Report of the Farm Credit Administration, 4; Schmeckebier, 26.

[31] The Crop Production and Seed Loan Offices of the Department of Agriculture were also transferred to the Farm Credit Administration but seem to have been under the immediate control of the governor and his deputies. First Annual Report of the Farm Credit Administration, 5.

> located in the same city and have the same directors. Unified policy is assured through the single board of directors, sitting as a coordinating body known as the "Council of the Farm Credit Administration for the district." Coordination of activities and avoidance of unnecessary duplication of personnel and facilities have been secured through an executive officer called the "General Agent" nominated by the Governor of the Farm Credit Administration and appointed by the district council, acting with the presidents of the four lending institutions as an advisory committee.[32]

That the "New Deal" inherited this rural credit system almost intact seems to be beyond dispute. If there were any entirely new or hitherto unthought-of factors present, they would necessarily be found in the one or two changes that were made. These call for examination.

One innovation was the gradual liquidation of the joint-stock land banks. This action on the part of the administration was in keeping with previous opinion on the matter. Three of the banks had gone into receivership in 1927, three more in 1932. No less a person than President Hoover stated in a speech delivered October 4, 1932, "The character of the organization of the Joint-Stock Land Banks whose business methods are not controlled by the Federal Farm Loan Board has resulted in disastrous and unjust pressure for payments in some of these banks. The basis of that organization should be remedied."[33]

A second change was the Cooperative Bank System. But here, too, purpose and structure were, in general, according to precedent. As its name implies, this system was established to continue the work of supplying

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[32] Ibid.

[33] Ibid., 59, 60; Wilbur and Hyde, 445.

credit for cooperatives which the Farm Board had begun. To this end, the revolving fund created for the Board by the Agricultural Marketing Act was invested in the capital stock of the cooperative banks. Structural outlines and the loaning policy of the new system resembled that of the Federal Land Bank System. Equivalent to the latter's governing board was the Central Bank for Cooperatives located in Washington; comparable to the twelve federal land banks were the twelve banks for cooperatives, one in each land bank district. As in the case of the land banks, loans were made by the branch banks to associations which were required to purchase stock in the bank at the time of borrowing. The parallel in this respect extends even to the fact that this stock was retired when the loans were cancelled. Both systems were authorized to secure loanable funds by selling debentures based on assets. One deviation was in the fact that the Central Bank for Cooperatives made direct loans to associations, if the face value of the loan exceeded $400,000.[34]

The production credit corporations, as has been said, were designed to take over the work of the regional agricultural credit corporations. The latter were temporary institutions to tide over an emergency, whereas the production credit corporations were to be part of a permanent credit system. Therefore, it was planned that as the one expanded, the other would contract. The new corporations combined features of two or three older credit agencies. Their nature and purpose so resembled the regional agricultural credit corporations that, in framing the Farm Credit Act,

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[34] First Annual Report of the Farm Credit Administration, 35-42, passim; Wilbur and Hyde, 156.

Congress thought it wise to state that the Act should "not be construed to repeal subsection (e) of section 201 of the Emergency Relief and Construction Act of 1932"[35] which authorized the regional corporations. There was one production credit corporation in each federal land bank district. They enjoyed discount privileges with the intermediate credit banks and organically they were to the intermediate banks what member banks were to the federal reserve banks, a facility through which the intermediate banks could work. W.I.Meyers, Governor of the FCA, explained the need for them as follows:

> Previously the lack of financially responsible local institutions, able and willing to endorse and rediscount borrowers' notes, has severely restricted the services of the intermediate credit banks in providing production credit. Farmers requiring loans were frequently unable to raise the necessary capital to organize livestock loan companies or agricultural credit corporations which could qualify for discount privileges and commercial banks made little use of the intermediate credit facilities.[36]

To reach these groups the corporations employed a liberalized federal land bank procedure. Like the federal land banks, they proposed to contact their patrons through local production credit associations of ten or more farmer-borrowers, but where the borrowing farmers supplied all the capital for their national farm loan associations, the production credit corporations subscribed part of the capital stock of each production credit association. Since the initial capital of the production credit corporations

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[35] Federal Farm Loan Act With Amendments and Farm Mortgage and Farm Credit Acts, (compiled by Elmer A. Lewis, Washington, 1945), 160.

[36] First Annual Report of the Farm Credit Administration, 33-34.

was supplied by the government from unused or repaid funds originally appropriated for seed and crop production loans,[37] and the farmers were required to purchase some stock in the associations when a loan was secured, the system was, in essence, a continuation of the policy of government-farmer cooperation which we have noted.

A further attempt of the FCA to assist extremely needy farmers was the formation of federal credit unions.[38] A credit union was in "method, operation, and control" a miniature cooperative bank, "concerned with the very small units of saving and equally small units of credit." Credit unions in the United States date back to the year 1909; by 1930 some thirty-two states had legalized them. In the field of rural credit, they were chiefly concerned with expenditures the farmer had to make before any income resulted from his labor or operating capital. Since shares were purchased on an installment plan for sometimes as little as ten cents per week, and interest on loans was kept at a minimum, the FCA could, through this well-tried medium, extend aid to the most distressed rural groups.[39]

The establishment of these new agencies was not the only method of expanding credit facilities. The federal land banks were enable to accommodate many whom they formerly could not serve by legislation which authorized them to lend directly to farmers in regions where loan associations did not exist

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[37] 48 Stat. L., 258.

[38] Authorized by act of Congress on June 26, 1934. Schmeckebier, 33.

[39] Sparks, 362-266, passim.

or where existing associations were not financially able to accept applications.[40] The loaning funds of the RFC were increased by $300,000,000, and intermediate credit banks were empowered to loan to producers cooperative purchasing associations as well as to cooperative marketing groups.[41] These last two expediencies were obviously in the spirit of former practice and Messrs. Wilbur and Hyde claim that President Hoover first recommended that federal land banks be permitted to make direct loans.[42]

Concurrent with the problem of consolidation and multiplication of credit agencies, was that of liberalizing the mortgage structure which had been erected over the years. Lindley says that the more radical thought on the question would have had the federal government refinance practically the entire farm mortgage debt at low rates of interest--rates as low as two per cent were suggested. Conservatives, the same authority avers, preferred government assistance limited to friendly intervention in reducing principal and the provision of facilities for pooling and averaging mortgages with a resultant lowering of interest rates.[43] The Roosevelt plan was a compromise between these two schools of thought.

Under the administration plan, funds for refinancing farm mortgages were to be secured by the sale of consolidated federal land bank bonds to

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[40] In order that the formation of associations be not discouraged, the rate of interest was higher in the case of direct loans. One object of the FCA was to establish strong associations. 48 Stat. L., 44; First Annual Report of the Farm Credit Administration, 17-18.

[41] 48 Stat. L., 50; First Annual Report of the Farm Credit Administration, 6, 26; Woodruff, 137, 144.

[42] Op.cit., 443.

[43] Op.cit., 109.

the amount of $2,000,000,000. Interest on these bonds was guaranteed by the government. Two methods of refinancing were provided: bonds could be exchanged for existing mortgages written down to fifty per cent of the normal value; or the bonds could be sold and the proceeds used to take over mortgages. Only first mortgages on farm land were considered for this treatment. In addition, $50,000,000 was appropriated to permit federal land banks to postpone payment of principal for five years on loans already in existence. If a loan was in good standing, interest payments might also be deferred.[44]

For borrowers unable to meet federal land bank requirements more lenient loans could be advanced by the Farm Loan Commissioner from a fund of $200,000,000 provided by the Reconstruction Finance Corporation. First or second mortgages on land, chattel mortgages or liens on crops were accepted as security for these loans, and amortization payments were not to commence until three years from the date of the loan. The agencies for the Commissioner were the federal land banks. The amount of a Commission loan together with all prior mortgages or other forms of indebtedness against the mortgaged property could not exceed 75 per cent of the appraised normal value of the property and, in any case, not more than $5,000 to any one farmer. Loans could be made for the purpose of redeeming any land sold by foreclosure after July 31, 1931, to pay debts other than mortgages, and for operating expenses.[45]

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[44] 48 Stat. L., 42-43.

[45] Ibid., 48.

Since land values had rapidly declined during the 1920's, the amount of a mortgage held by the mortgages frequently exceeded the value of the farm. To encourage the scaling down of the principal of such mortgages, the FCA adopted the policy of making no land bank or commission loans unless all previous indebtedness was thereby retired. Accordingly, when a land bank loan for 50 per cent of the value of the property plus a commission loan for 25 per cent did not total as much as existing indebtedness, scaling down was necessary and was generally accepted by creditors who would lose money on a foreclosure sale in any case. This was found necessary only where original loans were carelessly made.[46]

The lending structure which has been described remained unaltered, but on January 31, 1934, the Federal Farm Mortgage Corporation Act changed the method of financing the federal land banks and the commission loans. This Act provided for the organization of the Federal Farm Mortgage Corporation which was placed under the management of the Secretary of Treasury, the Governor of the Farm Credit Administration and the Land Bank Commissioner. After ninety days, the federal land banks were to cease issuing their consolidated bonds and the Federal Farm Mortgage Corporation was to issue instead two billion dollars worth of bonds whose interest and principal would both be guaranteed by the government. The Farm Loan Commissioner was directed to use the $200,000,000 advanced him by the RFC to subscribe for bonds on behalf of the United States. Of the $2,000,000,000, six hundred

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46 Woodruff, 146.

million was alloted to commission loans, one billion, four hundred thousand to federal land bank loans. The land banks were to continue as agents for these loans.[47]

All of this legislation represented the logical consumation of recommendations, agitation and demands, official and non-official, which had been prevalent during the depression period prior to 1933. Precedent for some of it, in fact, was of more remote origin. A few examples will be conclusive.

Beginning with a bill introduced by Senator Frazier of North Dakota on December 8, 1930, numerous plans for refinancing farm mortgages at lower rates of interest were considered by Congress. Senator Frazier's bill advocated the sale of bonds by the Federal Land Bank System, with the provision that those bonds secured by land mortgages would draw only 1½ per cent interest and those backed by chattel liens would draw 3 per cent. A typical proposal was Senator George's of Georgia which would have authorized the RFC to loan as much as three billion dollars to help farmers refinance their mortgages.[48] President Hoover recommended one such bill. On December 8, 1931, his message to Congress advocated that $25,000,000 be subscribed to the federal land banks against which they could issue bonds for land loans to about one billion dollars. He would have had the RFC buy these bonds.[49]

There were many proposals for mortgage moratoria. One such bill passed

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[47] 48 Stat. L., 344; Woodruff, 140,141.

[48] Chamberlain, 296-298, passim.

[49] Wilbur and Hyde, 443.

the Senate but not the House during Hoover's presidency. It had his approval. Voluntary moratoria were granted by leading insurance companies both at Hoover's request and because resentment in farm regions made such action salutary. Several states went so far as to make such moratoria compulsory.[50]

The period of redemption for foreclosed property reflected former state laws. A.M.Woodruff proves this conclusively. He says that a Kansas law of 1893, which continued in force there until 1933, instituted to the detriment of the creditor, a redemption period of eighteen months. The Supreme Court declared the law could not apply to mortgages existing at the time it was passed, but later, Woodruff points out, the Court upheld a New York rent law of 1920 which compelled landlords to renew leases at rates deemed fair and reasonable. This set a legal precedent sanctioning interference with a contract during an emergency.[51]

Finally, this legislation followed closely on the years during which commissions were busy scaling down the debts of the enemy countries of World War I. The United States played a leading role in these transactions, so the idea was not new to us.

This evidence concludes a fairly comprehensive review of "New Deal" rural credit legislation--a review which highlights each phase against its own peculiar background. The facts presented seem to justify the conclusion that in the field of agricultural credit the "New Deal" accom-

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[50] Ibid., 442; George Soule, The Coming American Revolution, Macmillan, 1934, 187.

[51] Woodruff, 107-108, citing 163 U.S. 118 and 258 U.S. 242.

plishment represented, not a revolution, but the completion of an evolutionary cycle, in which the federal government first encouraged, then joined hands with the farmers to continue and strengthen a rural cooperative credit movement. The words of Henry Morgenthau, Jr., first Governor of the Farm Credit Administration, do not belie this deduction. He said:

> We intent to assist cooperative enterprises and to promote cooperation. In the Farm Credit Administration...there are four divisions. Each one of those divisions is set up on a basis designed to encourage the cooperative principle in dealing with the farmer's economic and credit problems.[52]

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[52] James D. Magee, Willard E. Atkins, Emanuel Stein, The National Recovery Program, F.S.Crofts and Co., N.Y., 1933, 52.

CHAPTER III

INFLATION

In addition to the problem of farm surpluses and farm credit, the agricultural policy of the "New Deal" was concerned with the question of raising price levels through currency management. Title III, better known as the Thomas Amendment, of the Agricultural Relief Act empowered the president to utilize, at his discretion, various kinds of inflationary measures. He could ask the federal reserve banks to buy and hold $3,000,000,000 worth of government bonds, the proceeds of which would reach the public either through loans of member banks or through payment of government expenses. If the banks failed to cooperate, the president could direct the Secretary of Treasury to issue legal tender up to $3,000,000,000 worth of United States notes. Out of respect for sound-money interests, "a bit of sleight of hand was incorporated into this section of the law. The government could use the three billions in non-interest bearing notes or currency to retire outstanding obligations; it could not use them to finance new undertakings, although it could...borrow anew"[1] for the latter purpose. A check on this flow of "printing-paper money" was provided by the stipulation that these notes be cancelled at the rate of four percent annually.

The president was also authorized to reduce the gold content of the

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[1] Lindley, 123.

dollar by any amount up to fifty percent[2] and to provide for the unlimited coinage of both gold and silver at a ratio to be fixed by him. Furthermore, for a period of one year, he could accept up to $200,000,000 in silver, at a price not to exceed fifty cents an ounce, in payment of foreign debts and he could cause one dollar silver certificates to be issued against this reserve.[3]

The law did not oblige President Roosevelt to resort to any of these expediencies and all authorities agree that he accepted the broad powers conferred upon him to avert mandatory inflationary legislation of a more radical nature. Lindley notes that Congress showed signs of "getting out of control" and that "It had become apparent that the Administration could not get the farm bill through the Senate without making concessions to the more radical demands of the farm belt."[4] The same on-the-spot observer says that between January and April, 1933, Senator Burton K. Wheeler's fight for free silver at a ratio of 16 to 1 had won fifteen recruits in the Senate, and that Senator James F. Byrnes of South Carolina--an administration watch dog--informed Roosevelt that Senator Thomas' amendment could not be defeated.[5] Raymond Moley, who at that time was, possibly, in the best position to know, confirms Lindley's story and testifies, "The cold fact is that

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[2]The Gold Reserve Act of 1934 permitted a variation up to sixty percent of the former gold content of the dollar. Beard and Smith, 85-86.

[3]Lindley, 121; Arthur Whipple Crawford, Monetary Management Under the New Deal, American Council on Public Affairs, Washington, 1940, 46; E.E. Lewis, A Primer of the New Deal, American Education Press, Inc., N. Y., 1933, 35.

[4]Lindley covered the Roosevelt administration as a Washington correspondent.

[5]Op. cit., 113-120, passim.

the inflationary movement attained such formidable strength by April 18th that Roosevelt realized that he could not block it, that he could, at most, try to direct it."[6]

This situation was not surprising. The farmers were desperate; they were, as we have shown, organized for violence on rural fronts and for action in Congress, and they had inherited from former generations of farmers a firm faith in inflation as the remedy for their ills. Moley philosophizes about it in this vein:

> It was natural that inflationary sentiment should express itself in the form of amendment to the farm bill. The main purpose of the bill was to raise commodity prices. The idea of doing this through restricted production was not only less dazzling but less familiar than the notion that it could be done through monetary inflation--a notion touted as a remedy for farm ills ever since farm products were first traded for tokens of value, and deeply rooted in the political thinking of the West and Northwest.[7]

Sparks adds this testimony, "...farm relief schemes by means of cheap money and legislation began in this country with the early colonies and have continued to the present day. 'Inflate the currency, raise prices and bring prosperity' has been a common slogan of farm leaders during the various periods of economic depression."[8]

Though we do not forget the monetary policies prevalent during the War of 1812 and in the West prior to the Civil War, the period most readily

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6 Raymond Moley, After Seven Years, Harper and Brothers, N.Y., 1939, 157. Moley calls Lindley the best historian of the Roosevelt regime up to 1939, 13.

7 Ibid., n. 19.

8 Op. cit., 346.

called to mind by these observations is, probably, that immediately following the Civil War. During those decades the farmers supported their inflationary demands by national organization for political action.

The Civil War had in part been financed by the issue of $400,000,000 in legal tender notes whose value at the end of the conflict was about half their face value in gold. Farmers of the country borrowed heavily in this medium during the war and were still burdened with these debts when the government embarked upon a policy of gradual contraction of paper currency and of resumption of specie payments in December, 1865. For the farmer of the late 1860's and the 1870's, this meant that while the dollar remained the same in name, it increased 100 percent in value when compared with the property out of which his debts must be paid. As one farmer put it, "Practically any law requiring a resumption of specie payments is a law adding to the amount of a currency debt the full depreciation of the currency unless you... scale the debt."[9]

Farm and labor groups were able to stop the further reduction of circulating currency in 1868 but in 1873 silver was demonetized. That same year saw a panic and a deepening agricultural depression. In 1874, the farmers organized a political party with a significant name--the Greenback Party. The principal planks in the platform of the Greenbackers were a demand that the resumption act be repealed, and a declaration which favored the "issue of legal-tender notes convertible into obligations bearing

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[9] Peffer, 113.

interest not exceeding one cent per day on each $100."[10] The party had some success until 1880 after which it gradually declined.

At the end of the ensuing decade, however, a singular coincidence of events and circumstances evolved another farmer's party bent on inflation. First, the Farmer's Alliance, organized in two separate branches, one in the North, one in the South, during the '80's, had, by 1889, increased so tremendously in membership that direct political action was a possibility from that standpoint; second, economic conditions favored a new farm party, for crop failures due to drought augmented financial distress throughout the West; third, a collusion of silverites and manufacturing interests in Congress resulted in 1890 in the Silver Purchase Act and the McKinley Tariff, both of which angered the farmer. They had been asking for free silver since the "Crime of '73" and were merely given an increase in the amount purchased; they wanted lower tariff duties on manufactured goods and had to be content with a "more or less meaningless 'protection' of their farm produce."[11] The result was the formation of the Populist Party at Cincinnati in May, 1891. While this party had other objectives, it is principally remembered for its advocacy in the next five years of the free and unlimited coinage of silver and gold at a ratio of 16 to 1.

The success of the Populists in the congressional elections of 1894 made it impossible for the Democratic and Republican Parties to ignore the

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10 Davis Rich Dewey, Financial History of the United States, (American Citizen Series, Twelfth Edition, ed. by Albert Bushnell Hart, Longmans, Green and Co., N.Y., 1928), 379.

11 Solon J. Buck, The Agrarian Crusade, (The Chronicles of America Series, ed. by Allen Johnson, Yale University Press, New Haven, 1921), XLV, 132.

monetary issue in the national elections of 1896. Their choice was between winning the South and West with silver and retaining their conservative vote with gold. The Republicans chose the latter course, but the Democrats, according to Frederic L. Paxson, were driven toward free silver by "forces beyond the control of [the] politicians."[12] Their ranks in the South and West had for some time been permeated by the Populist doctrine of free silver, and the repeal of the silver clause of the Sherman Act at a time when money was particularly scarce in those regions drove men who had fought the Populist doctrine since 1890 to its support. The Democratic conventions of thirty states instructed their delegates to the national convention in Chicago, July 7, to demand free silver. This group obtained control of the convention on the first ballot, decided contests in their own favor, and made silver the chief issue in their platform. In William Jennings Bryan, a young Nebraska lawyer, who, since 1890, had been an advocate of bimetallism, they found their candidate. When the Populists met in St. Louis, July 22, it was logical that they should endorse Bryan and fuse with the Democrats. This action proved to be the death knell of the Populist Party but not of the farmer's devotion to inflation when his next crisis came in the 1920's.

In the meantime, what its industrial and governmental sponsors intended to be a form of controlled inflation was enacted into law. The panic of

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12 Frederic L. Paxson, The New Nation, (Riverside History of the United States, ed. by William E. Dodd, Houghton Mifflin Co., N.Y., 1924) IV, 236.

1907 produced investigations and studies which it was hoped would solve the periodic problem of monetary stringency. They in turn produced the Federal Reserve System. As originally conceived, this system was intended as a means of expanding currency when business conditions required it and contracting the circulating medium when the need was less. But the Federal Reserve Act had barely become effective when World War I broke out and an amendment which permitted reserve banks to loan to member banks on government securities diverted the facilities of the system to the financing of American participation in the war. This provided the basis for war time inflation with the dire results for farmers which were described in Chapter One.

Suggestions for monetary inflation came from various sources during the '20's.[13] But, of course, rural leaders were once more the principal proponents of expansion. It was during this period that proposals to stabilize the purchasing power of the dollar were first seriously considered as a method of controlled inflation. In 1922, the national Agricultural Conference called by President Coolidge recommended investigation of plans to that end, and, in 1926, the House Committee on Banking and Currency began hearings on monetary stabilization of that nature and continued them through several sessions of Congress.[14]

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[13] For example, Thomas Edison proposed that the government sponsor a commodity dollar based on warehoused farm products. Sparks, 353.

[14] Gee, 29; Crawford, 14.

Agitation for currency expansion reached a crescendo during the depression of the '30's. Lindley notes that "many insurance company executives and business men, who were most dependent on the farmer's ability to buy and sustain his debts," joined farm and silver-state leaders in the fight for an augmented medium of exchange.[15] George Soule states that he received literally thousands of inflation schemes during 1931 and 1932--schemes for remonetizing silver, issuing greenbacks, devaluing gold, issuing bonds as legal tender, issuing stamped script, abandoning a metallic standard altogether and basing currency on ordinary commodities and so on.[16]

More than fifty bills embodying such proposals were offered to the 72nd Congress. The conservative Hoover Administration blocked the more radical measures but two inflationary laws were enacted. The first, the Glass-Steagall Act of February 27, 1932, was sponsored by the administration;[17] the second, the Borah-Glass Amendment to the Home Loan Bank Act, was simply more acceptable to the Hooverites than the Goldsborough Price Stabilization Bill.

The Glass Steagall Act permitted a substitution of government securities for the gold, over and above the 40 percent required by law, which had been backing federal reserve notes because there was a dearth of eligible paper. It was estimated that this would result in an expansion

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[15] Lindley, 114.

[16] Soule, 189.

[17] It was not put forward as an inflationary measure but inflationary possibilities brought support to it. Crawford, 17.

of currency by a maximum of about $1,500,000,000.[18]

The Goldsborough Bill proposed unabashed currency management. It would have had the government restore and maintain, by control of credit and currency, the average purchasing power of the dollar as shown in the wholesale commodity markets for the period 1921 to 1929. The value of the dollar in those years was to be ascertained by the Department of Labor, and the Federal Reserve System, through the open-market purchase and sale of government securities and the control of discount rates, was to restore and stabilize its value. The federal reserve banks had exercised such powers previously but with emphasis on needs of business, not with the price level as prime consideration.[19]

As has been noted, the Borah-Glass Amendment replaced this bill. This amendment increased the number of national bank notes in circulation by about $920,000,000 through the expediency of permitting notes to be secured by all bonds of the United States Government bearing interest at 3 3/8 percent or less. Previously, this privilege had been confined to three issues of 2 percent bonds aggregating $675,900,000.[20]

Obviously, the existence of pre-"New Deal" inflation sentiment is incontestable--is, in fact so well established that its persistence over the years would, in all probability, never be challenged. Consequently,

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[18] Ibid.

[19] Ibid., 15

[20] Ibid.

the real question in assessing the character of this phase of the "New Deal" is: were "New Deal" methods of inflation the traditional ones? Or, at least, had they been advocated earlier?

When the Thomas Amendment was receiving consideration in the Senate, the orthodoxy of sections 1 and 2 was defended by Senator Rankin. These were the sections dealing with Federal Reserve market operations and the possible issue of United States notes, respectively. Senator Rankin stated that money issued under section 1 was in accordance with the Federal Reserve Act and would be on a parity with money issued under the Federal Reserve System, while money circulated under section 2 would be issued under the same law employed by Abraham Lincoln during the Civil War.[21] It is true that federal reserve banks were authorized to deal in government securities.[22] It is also true that a huge experiment with this form of inflation was carried on under President Hoover. During his administration, federal reserve banks accumulated about $500,000,000 of excess reserves, on which to extend credit, through the purchase of government bonds.[23] As for the United States notes, the so-called greenbacks, we have already stated that their further contraction was blocked in 1868. They still formed a part of the national currency in 1933.

Probably the most controversy has centered around the president's power to reduce the gold content of the dollar. But once more evidence

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21 Congressional Record, 73d Cong., 1st Sess., 2174.

22 38 Stat. L., 265.

23 Lindley, 122; Soule, 180.

forces us to conclude that the "New Deal" did not pioneer in untried fields. We may go back as far as 1834 for the first example of such action. In an attempt to keep undervalued silver coins in circulation, the gold content of the dollar was reduced slightly in June of that year.[24] This was a single drastic procedure to correct a single situation, nevertheless, it set a precedent.

Furthermore, for nearly twenty years prior to the "New Deal," through the efforts of a group of prominent economists, minds were being conditioned to the idea of changing the weight of the gold dollar to control price levels. As early as 1912, one of this group of specialists, Professor Irving Fisher of Yale, developed the theory of the commodity, sometimes called the compensated, dollar. Mr. Fisher, at that time, proposed that the gold dollar cease to be a constant weight of gold with a variable purchasing power; instead, he suggested, that it be a gold dollar of constant purchasing power and varying weight. That would mean to "virtually" increase or decrease the weight of the gold dollar to compensate for the depreciation or appreciation of gold. The use of the word "virtually" here means the gold would not actually be coined. It would, rather, be kept in bullion form in the United States Treasury and certificates based on it would be circulated. To round out his plan, Mr. Fisher advocated a change in the status of gold coins already minted to that of silver coins. That is, they would be mere tokens entitling the holder to a varying

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[24] Dewey, 211.

quantity of gold bullion which would be the virtual dollar. Also, it would be wise to restore the ancient custom of seigniorage[25] adjusted according to index numbers and to lower or raise the mint-price of gold to keep pace with its depreciation or appreciation. The adjustment of weight would have to take place monthly or quarterly and be determined by an official index number of prices to be based on the prices of some initial year.[26]

There is much evidence to show that this theory was "taking hold" during the 1920's and the years of the depression. The deliberations of the House Committee on Banking and Currency have been mentioned.[27] Gee says that Henry A. Wallace while still editor of Wallace's Farmer was an enthusiastic champion of the idea.[28] It received attention in such publications as Elementary Economics, I, by Fairchild, Furniss and Buck[29] and was endorsed in articles which appeared in the Annals of the American

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25 This was a small charge for coinage. Mr. Fisher intended it to restrict the amount of gold coined, thereby reducing prices. This effect, of course, would be the direct opposite of the purpose for which Mr. Roosevelt eventually used his power to revalue the dollar, but that does not undermine the contention that Fisher's plan helped prepare the way for the reception of revaluation.

26 Irving Fisher, "A Compensated Dollar", (The Quarterly Journal of Economics, Harvard University, Cambridge, Mass., 1913, XXVI, 213-235), 233-235, passim.

27 See p. 63.

28 Op. cit., 105.

29 Macmillan, 1931, 531-532.

Academy of Political and Social Science and Harper's.[30] Mr. O'Neal, President of the American Farm Bureau, told the House Committee on Agriculture, in December of 1932, that a conference of agricultural organizations had agreed definitely on a program calling for reduction of the amount of gold in the dollar by about 30 percent.[31]

In the meantime, the name of Professor George F. Warren of Cornell University came to be identified most closely with the commodity dollar. Gee says he was "perhaps, the most influential single advocate of the idea."[32] And, indeed, all literature on the subject so consistently mentions Professor Warren's name together with that of his colleague, Professor Frank A. Pearson, that one most conclude that he did not a little of the spade work necessary to plant the compensated dollar theory in the American consciousness. By 1933, the two professors were ready to publish a detailed study of prices, which was obviously, the result of long and painstaking labor. It contained an apologia for the commodity dollar and

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30 Dr. W.T. Foster, "Planning in a Free Country: Managed Money and Unmanaged Man", Annals of the American Academy of Political and Social Science, vol. 162, Philadelphia, July, 1932, 49-57; Stuart Chase, "The Case for Inflation", Harper's, vol. 165, Harper and Brothers, N.Y., June, 1932, 198-207.

31 Chamberlain, 255, citing Hearing before House Committee on Agriculture on H.R. 13991, 72d Cong., 2nd Sess., December 13-20, 1932.

32 Op. cit., 105.

endorsed and acknowledged Professor Fisher's pioneering efforts "to establish a scientific measure of value."[33]

The silver provision in the Amendment was, as Lindley says, "encrusted with a rare assortment of economic theories of venerable history which were kept alive by the demand of the silver-mining states..."[34] Moley informs us that the manner of its implementation had been a "pet idea" of Senator Key Pitmann's, one of the men who had long fought for silver.[35]

Lindley's statement was not an exaggeration. In the earlydays of the republic, while we had a bimetallic standard, silver had been accepted in payment of both public and private debts, from both foreign and domestic debtors.[36] After its demonetization in 1873, the silver interests with the aid of the farmers and some laboring groups had twice succeeded in having laws passed authorizing its purchase and coinage by the government. Both these laws, the Bland-Allison Act of 1878 and the Sherman Silver Purchase Act of 1890, provided that silver certificates be issued against the silver thus acquired.[37]

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[33] George F. Warren and Frank A. Pearson, Prices, John Wiley and Sons, N.Y., 1933.

[34] Op. cit., 123.

[35] Op. cit., 160.

[36] Ernest Ludlow Bogart, Economic History of the American People, Longmans, Green and Co., N.Y., 1932, 368.

[37] 20 Stat. L., 25; 26 Stat. L., 289.

No exact precedent seems to exist for the provision giving the president power to fix the ratio between silver and gold, but one in the same spirit does. The Bland-Allison Act directed President Hayes to negotiate, through commissioners, with Latin American and European countries to the end that a common ratio between gold and silver be adopted internationally.[38]

As a last point, we may consider what was, in reality, the salient achievement of the Thomas Amendment--the weakening of the sacrosanct gold standard. Here, again, it is correct to say that the "New Deal" simply followed a trend for the first great rift in the gold standard had come some years before. At the end of World War I, it had been necessary to establish new currencies for the countries created by the diplomats, with the consequence, that existing gold supplies "had to support a much larger superstructure of paper currency" than in the ante bellum period. This situation was met by the creation of the "gold exchange standard and by placing gold movements on a bullion basis." These devices enabled most of the new countries of central Europe to use "paper exchange on straight gold standard countries" like our own. Thereafter, the relation was not the simple one of gold to paper, rather, it was "paper to paper to gold."[39] This is a subtle distinction, but one which cannot be overlooked in this discussion, for it indicates that the

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[38] Ibid.

[39] Beard and Smith, 26, 27.

inviolable character of the gold standard had ceased to exist before the "New Deal" was conceived.

It seems, then, that our final judgment in regard to the "New Deal" inflation policy must coincide with our deductions regarding the other phases of its agricultural program. It did not introduce startling innovations. Beard and Smith, in the pentrating study we have several times quoted, also adhere to this viewpoint. In speaking of the monetary legislation of the Roosevelt era, they make the following comment:

> Entangled in the thought of the time, apart from the monetary doctrines of traditional inflationists, were the views of politicians who were acquainted with the long conflict in the United States over the demand for a complete transfer of control over banks of issue from private hands to the Federal Government and the newer views respecting government management of currency....How far these two types of views actually influenced the legislation...it is now impossible to discover.... That they were present in the struggle cannot be doubted.[40]

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[40] Ibid., 122.

CONCLUSION

Formal conclusions in regard to specific farm policies and the phases of the "New Deal" program of which they formed a part have been stated. But a general deduction is of the essence of such a discussion. To draw one is not difficult for "New Deal" farm policies were the crest of a long and consistent rural movement.

Traditionally, rural America has looked upon the use of the powers of government as a normal means of securing agricultural welfare. With persistence, the farmer has solicited state and federal help to resolve his difficulties and government has responded with a slow but steady increase of interest in the economic life of the farm. Of its very nature, such an interest generated a tendency toward cooperation: in the earlier, timid years, cooperation between farmers sponsored by the government; in time, a cooperation between farm groups and the government itself. The "New Deal" took this hesitant yearning and with swift boldness developed it into a doctrine of government responsibility. Then, true to itself, it put into effect, for the hard pressed farmers of the time, programs and visions culled from the garnered wisdom of the rural past.

There was one departure from convention. Fresh, vivid, bold, and confident language clothed the old stratagems in concealing habiliments. To paraphrase the words of Isaac of old: The hands were the hands of Esau, but the voice was the voice of Jacob.

APPENDIX I

An apparent discrepancy exists between Lindley's account of Roosevelt's adoption of the allotment plan and that of George Soule in his volume, The Coming American Revolution. A letter was addressed to Rexford Tugwell asking him to verify or deny Mr. Lindley's statements. Mr Tugwell replied as follows:

THE UNIVERSITY OF CHICAGO
Chicago 37, Illinois

Department of Sociology
17 July 1947

Sister Mary Ritella, B.V.M.
The Immaculata
Chicago 13, Illinois

Dear Sister Mary:

Your difficulty is understandable. I think what Mr. George Soule meant was that the well-known fundamental work of W. J. Spillman in the Department of Agriculture laid the indispensable basis what [sic] later became the allotment plan for agriculture. But, what Mr. Lindley said is also true.

Perhaps if you wish to follow the matter further, we might talk about it sometime in the Fall.

Sincerely yours,

Rexford G. Tugwell

RGT: ry

APPENDIX II

TABLE SHOWING THERATIO OF FARM PRODUCT PRICES TO TAX AND INTEREST PAYMENTS[1]

Year	Total Farm Tax and Interest Payment (millions)	Index Numbers of Tax and Interest Payment	Index Numbers of Prices of Farm Products	Ratio of Prices of Farm Products to Tax and Interest Payments
1914	$755	100	100	100
1920	$1,457	193	201	104
1921	$1,684	223	114	56
1922	$1,749	232	122	53

In his annual report for the year 1932, the Secretary of Agriculture stated that the farmer's cash income showed no increase in the period 1923 to 1929, rather, it fell off 35 percent as compared with 1919 while his tax burden and indebtedness mounted substantially.[2]

[1] Yearbook of United States Department of Agriculture, 1923, 8.

[2] Mauritz A. Hallgren, Seeds of Revolt, A Study of American Life and the Temper of the American People During the Depression, Alfred A. Knopf, N.Y., 1932, 23, citing Statistical Abstract, 649 and Annual Report of the Secretary of Agriculture, October 31, 1932.