PERSUASION

published by

PERSUASION, INC.

260 west 86 street, n.y.c.

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Vol. III, No. 2 February, 1966

V I E W S

THE FARM PROBLEM

PART I -- THE FARMER ON THE DOLE

It is common knowledge that the agricultural industry is now in a gigantic mess. Notice that the subject is most often referred to as "the Farm Problem." For over thirty years, in one form or another, the government has been supporting the prices of agricultural commodities to ensure a predetermined income for farmers and enforcing production and marketing restrictions in an attempt to control supply. The idea of subsidizing and controlling the farmer is fully accepted; the subject of debate is where to place the controls, how many and for how long.

Recent Department of Agriculture statistics indicate that something is painfully wrong somewhere. At the same time that the number of farms has been steadily decreasing (from 6,814,000 in 1935 to 3,707,973 in 1959), and the percentage of the population engaged in farming has been steadily decreasing (from 30% in 1920 to a mere 6.8% in 1964), mechanization has been greatly expanding (between 1945 and 1959 the number of farms owning milking machines jumped from 6.2% to 18.0%; trucks, 22.2% to 58.7%; tractors, 34.2% to 72.3%; grain combines, 6.0% to 26.3%), which has led productivity to show an impressive upswing (typical examples are corn--which averaged 32.7 bushels per acre in 1945 compared with 62.1 bushels per acre in 1964--and wheat--which averaged 17.0 bushels per acre in 1945 compared with 26.2 bushels in 1964). So far, so good. These figures appear economically sound--more goods produced more efficiently by less people in less space.

Further investigation, however, reveals some very uncomfortable facts. The federal government, since 1922, has spent well over $20 billion on agricultural support programs--programs including direct subsidy payments to individual farmers, payments for the difference between the market price for goods and a so-called fair price, money rewards for using land in specified ways and planting particular crops, the extension of cheap long-term credit, educational and retraining facilities for farmers, and the financing of vast research projects--to name only the highlights. (The Department of Agriculture budget for 1964, alone, was close to $8 billion.)

In addition to this busy schedule, Washington has been diligently buying up what is referred to as "surplus goods," goods which may not be offered for sale on the market because of government quotas. These goods have accumulated into a staggering stockpile--about $10 billion worth, not to mention the cost of storage. The current focus is on getting rid of it, and, like the old upright piano that nobody wants, it is costing money to move it--to the tune of a 1964 appropriation of almost $3 billion.

And how is the farmer doing? What is being accomplished in the long run by this overwhelming variety of activities which employs about 100,000 bureaucrats? The American farmer, while he continually breaks all his past production records, does not enjoy an accompanying increase in net income. In fact, his production costs have risen, so that the farmer's share of the dollar spent in the supermarket for food has dropped considerably in the past 15 years, indicating lower profit margins on sales. In 1949, he received 50¢ of each consumer dollar spent; in 1960, his share was 39¢; in 1959, it was 38¢--the lowest since 1939. But the policy of interventionism continues, with new "solutions" being advocated every day, virtually all of them involving greater expense and greater control--and the deeper the country gets in this morass of restrictions, the harder it is to rescue the farmer, the consumer and the whole nation. The situation is deplorable. Where did it all begin? How did the government get into the agricultural industry in the first place?

In a loose sense, one can say that our government has always been in the agricultural business. Farming, first and foremost, requires land, and from the earliest days of the United States, it was the government that set the conditions of its distribution. There were various methods employed to survey, apportion, sell, auction and grant the land, but the basic assumption was that the government owned the land and therefore could market it as though it were private property. This was a mistake. The idea that the government is the original owner of all the land within its boundaries, and thus owns all unclaimed land, is untenable. It is an idea derived from feudalism, a social system in which all lands and all inhabitants were the ultimate property of the king. Properly, certain governmental measures should be adopted to control the distribution of unclaimed territory. The government acts as a custodian so that when a citizen establishes his claim to a piece of land, his newly established property rights are protected by a legal deed. The early mistake of allowing the federal government to derive profit from unclaimed land was never challenged, and its quiet acceptance helped pave the road for greater and greater control of the economy. Although the early farmers were left virtually free to succeed or fail on their own without the government exercising any kind of direct control over them, improper intervention in the land distribution influenced the agricultural industry very early in our history.

For example, as early as 1785, the federal government provided for the auction and sale of land, with high hopes of this being a major source of revenue. They sought to control the westward movement and encourage slow and orderly settlement by establishing high prices. It was difficult to maintain these plans in the face of adventurous pioneers eager to settle new land. The "squatters" emerged, people who moved to new areas in advance of federal survey, and they were tenacious enough to sway government policy to one of aiding pioneer settlers to become farm owners. Government credit was greatly extended and, eventually, a set basic price of $1.25 an acre was established. The Pre-emption Act of 1841 allowed pioneers to legally settle land before the government had surveyed it and put it up for sale, and if they improved the land they were permitted to buy it. At the same time, Congress granted free land for state universities, agricultural colleges, roads, canals, railroads, swampland drainage and grade schools.

Then, a sensible change took place when Congress passed the Homestead Act of 1862, one of the best historical examples of the right approach to the distribution of unclaimed land. Settlers could obtain a tract of 160 acres, by staking a claim on a first-come, first-serve basis. After working the land and paying a nominal service fee, they obtained a deed to the property. In this way, they earned their right to the land by working it--by creating new wealth from barren territory. It was not sold to them by the government, who never owned it in the first place, nor was it simply handed to them indiscriminately. The Oklahoma land rush of 1890 stands out in American history as one of its most exciting and colorful events. At high noon, the territory was thrown open to settlers, and by sundown, two towns had been established: Guthrie and Oklahoma City.

As a result of government land grants to railroads, many farmers--particularly those who were living in areas which depended for shipping on a railroad built with government subsidies--found it very hard going. The offer by the government to give financial assistance to railroad builders was an open invitation to swindlers, confidence men and anyone who operated by political pull, and gave no consideration to creating a railroad as a long-term, profitable venture. To the misfortune of many farmers, this "easy money" was taken advantage of by individuals who charged rates that wiped out any profits the farmers might have expected and saw to it, through securing legal restrictions, that no competing railroad came into the area.

The Great Northern Railroad, built by James J. Hill, stands out in vivid contrast to those stifled by political corruption. Without government aid of any kind, Hill built his railroad and planned a long-range future based on a continuous flow of great volume for low rates. He created his own market by convincing hundreds of thousands of immigrants to leave Europe for a new life in Minnesota, where Hill aided their settlement by building whole communities for them. "It is our best interest," he said, "to give low rates and do all we can to develop the country and create business."

The continuing combination of a relatively small market for crops and the impossibly high cost of shipping freight placed the average farmer in a position of almost insurmountable hardship, and gave rise to enormous discontent throughout western farmlands. By the 1860's and 1870's, the "happy farmer" was already disappearing from the scene. In a concerted effort to fight this intolerable situation, farmers joined together to form the first influential private agricultural organization: The National Grange. The group appealed to the government to alleviate the exorbitant freight charges and to help them command market prices profitable enough to comfortably meet credit payments.

Their outcries were based on a plausible argument--an argument which lies behind every political pressure group before or since and is a key to the growth of controls in the economy in general and the farm industry in particular. In essence, it goes like this: "Look here, Government, you've played favorites by putting a legal arsenal in the hands of a selected group. We're suffering as a result of being unarmed. You're responsible to us, too. We demand our rightful fair share of weapons to enable us to fight back." Based on the idea that it is the place of the government to grant weapons, in the form of legal favors, the argument is tenable. But, it is precisely the initial premise that should be questioned. The government is, in <u>one</u> respect <u>only</u>, an arsenal, inasmuch as its sole purpose is to protect the rights of citizens with retaliatory force when necessary. It is <u>not</u> a legal munitions dump whose purpose is to distribute battle supplies to selected groups of the economy. It is precisely this political favoritism which turns free competition into an "economic war." By placing legal weapons, in the form of economic laws, in the hands of certain individuals, it makes it possible for them to enforce unreasonable demands upon those who must deal with them. The parties concerned are no longer trading on a voluntary basis. The extent to which this policy is practiced in an economy is the measure of the breakdown of its free market.

It is most important to note that the farmer's plight was brought about by improper government intervention. The Grangers did not question the role of government in the economy. They did not ask for the removal of the controls that got them in hot water in the first place. Instead, they asked for more controls--controls favorable to them. They shook their fists until their demands were met in the form of the "Granger Laws," state laws which restricted the rates of the shipping and storage industries (and eventually led to the establishment of the federal Interstate Commerce Commission in 1887, an agency which, today, heavily regulates the flow of goods throughout the entire country). In 1862, Congress passed the Morrill Act which provided land grants for agricultural colleges and which created the Department of Agriculture. In the following years leading up to World War I, additional legislation was passed setting up federal-state services to keep farmers abreast of the latest developments in research and for Federal Land Banks to provide cheap credit for farmers. They continued to complain of low farm incomes, but did not yet pressure the government to directly regulate prices and production.

The problem of making farming profitable continued until shortly after 1900, when new outlets were created by heavy immigration into the United States which provided new city markets here, and by the industrialization of Europe which provided new export city markets there. The period between 1910 and 1914 is still considered to be the farmer's most successful in terms of how his wealth compared with the rest of the economy.

Then, with the coming of World War I, the government instituted new policies which resulted in a drastic blow to the farmers. During the war, the government pressured the farmers to extend their production with the slogan "Food Will Win the War," and it extended almost unlimited credit to them. In the wartime years, production was boosted sky-high to meet emergency demands, caused by a depleting farm work force which was diverted to either the army, defense plants or other wartime efforts. Food was much scarcer in the domestic market, and there were whole populations to feed in war-torn allied countries. Prices reached heights never before realized, and farmers, deluding themselves into believing this was a permanent situation, hastened to make enormous investments in new land and equipment. They jeopardized their future with overly optimistic speculation and could not have been more vulnerable when the walls came tumbling down in late 1919. Prices quickly hit an all-time low, and the "twenties", for the farmer, were anything but "roaring." The "experts" in the Department of Agriculture responded by declaring the "obvious need" for stronger intervention. Several attempts were made to somehow rectify the situation; among them were new tariff laws which placed higher duties on imports in the hope of cutting down the supply and forcing prices up. All attempts failed miserably and prices continued to tumble. Further legislation was proposed--something new and daring--the more direct control of prices and commodities.

At first, Congressmen found the idea so drastically interventionistic and unpalatable that they did not manage to swallow it until the proposals had been twice defeated. The original controversial proposals were the McNary-Haugen bills, which were debated from 1922 to 1929. Apparently seven years of chewing it over changed the attitude of Congress, since, finally, the new tighter controls became law in the form of the Agricultural Marketing Act of 1929, an act which sailed smoothly through both Houses. The essential feature of the bill was the creation of a new concept called "parity." The idea was that, at last, the farmer would have "equality" (or parity) with other industries. It was argued that Congress and the President should take any necessary action to "re-establish a fair exchange value for all farm products"--"fair" meaning a price that would bear the same relationship to the current national price index as had existed in the "ideal" years preceding World War I. In other words, if a bushel of wheat traded for a pair of overalls in 1912, a bushel of wheat ought to trade for a pair of overalls today. The term "parity" has become a household word in America and is the central focus of and justification for all the federal farm programs which followed. Any number of attempts to imlement the idea have resulted in abysmal failure. The first attempt in 1929 provided for a Federal Farm Board "to promote the effective merchandising of agricultural commodities...on a basis of economic equality with other industries...by aiding in preventing and controlling surpluses in any agricultural commodity, through orderly production and distribution." By 1932 most of its allotted $500 million was tied up in the farm commodities surplus which a good part of the law was designed to diminish, and no one knew what to begin to do with it. Farm prices were still falling. The Agricultural Marketing Act ended in bankrupt failure and was, in fact, mild compared with what was to come. But it was important because the acceptance of its basic idea cleared the way for the onrush of the New Deal and the "Roosevelt Era."

Whatever one thought Franklin Delano Roosevelt would initiate when he entered the White House in 1933, it is safe to assume that he exceeded the limits of anyone's imagination. The Depression had affected every sector of the economy, but the impact on the agricultural industry was so acute that it hardly paid many farmers to market their crops. Resentment and hostility were at a fever pitch.

Out in the Midwest a young man named Henry Wallace was supplying the farmers with answers to their angry questions. In 1932 he had helped persuade the Midwestern states to vote for F.D.R., and soon after the election, he was appointed Secretary of Agriculture, a most influential figure in the New Deal. His particular way of putting his viewpoint, often couched in obscure, occult-sounding terms, is best summed up in his own words, written to F.D.R.: "I feel for a short time yet, that we must deal with the 'strong ones,' the 'turbulent ones,' the 'fervent ones,' and perhaps even with a temporary resurgence, with the 'flameless ones,' who with one last dying gasp will strive to re-animate their dying giant 'Capitalism.'" Wallace then prepared the Agricultural Adjustment Act of 1933, a program which the President frankly admitted was experimental, saying, the "unprecedented condition calls for the trial of new means to rescue agriculture." This same man had declared in his platform that he had a plan which would not cost the government a dollar and that his was a "program whose basic thesis is, not that the system of free enterprise for profit has failed in this generation, but that it has not yet been tried."(!)

The aim of the Act was to control acreage and livestock production, thus preventing surpluses while at the same time propping prices up. Cooperating farmers were paid directly for "denied production," that is, for not growing. While Wallace was paying hundreds of millions of dollars to kill hogs, burn oats and destroy crops outright, he also announced to an already bewildered nation that our biggest problem was the failure to produce enough food to provide people with even a bare subsistence diet. All sorts of incredible contradictions were taking place in the AAA program. While the oats were being burned, we imported oats from abroad; while slaughtering pigs, we increased lard imports; while stopping corn production, 30 million bushels of corn were brought in. In two years, $700,000,000 was paid out to farmers to destroy crops and to plant nothing. A big sugar corporation was paid over $1 million in one year <u>not</u> to produce sugar. And where did these financial rewards for nonwork come from? A special "processing" tax, which was eventually shifted to the consumer, provided the funds for nonproduction prizes. It was this tax which led to a temporary setback in the New Deal when, in 1936, the Supreme Court declared the AAA unconstitutional. The court judged the tax to be discriminatory class legislation and federal intervention a violation of states' rights. This blow to F.D.R.'s programs did not have to be withstood for very long; death and retirement opened up the bench for the appointment of Justices whose minds were free of what President Roosevelt called "horse-and-buggy" precedents.

In 1938 a new AAA was passed, much the same as the original but containing an additional new idea of Wallace's, known as the "ever-normal granary." Through a gigantic storage operation, the government would buy when prices were low, hoping to raise market prices, and sell when prices were high, hoping to lower market prices, thus achieving the dreamed-of automatic stabilization of prices. The dream did not come true. Government bought, government stored, government collected tons of crops--but prices remained low. Apparently Wallace saw no reason to re-examine the idea of purchasing surpluses, since he promptly instituted another version of the same approach, bearing the intriguing name of "loans without recourse." It was a complicated affair which boiled down to paying farmers the difference between market prices and parity prices while continuing to store excess crops. Food was flooding into government silos like a tidal wave while, according to Wallace, the country was on the brink of starvation.

For every new wrinkle in the procedure, a new bureau was created. They poured forth like a steady stream of alphabet soup--the AAA, NRA, CCC, FSCC, BEW, FERA, <u>ad infinitum</u>. With each new attempt failure became more acute, and Wallace was sitting on top of a mountain of food. How would he ever move all this stuff? The answer came on December 7, 1941, when the United States again needed food to win a war.

--Lois Roberts

(To be completed in our next issue.)

R E V I E W S

THE THEORY OF THE LEISURE SOCIETY

The Affluent Society, by John Kenneth Galbraith, Houghton Mifflin Co., Boston, 1958

When we say that a man is affluent, we mean that he possesses material things in abundance, and has the means to satisfy all his desires. But what is an "affluent society? According to John Kenneth Galbraith, it is something quite different from a collection of affluent men.

His thesis has been described as being the position that Americans have been spoiled by too much wealth, and that they should spend their money on things other than the frivolities advertised on television. But this is to take his thesis as referring to Americans. Galbraith is not talking about Americans; his actual thesis is much more subtle and all-encompassing than that. He is talking about America.

For, most importantly, Galbraith is a collectivist. I do not mean by this that he is an activist for some specific brand of political ideology. Rather, in the very method of his thought he sees society as an entity as palpable as the Matterhorn is to a mountain climber. Individuals are only the parts which make up this entity--Galbraith knows that they are there, but they are usually invisible to him. This is why his language throughout this book is studded with terms such as "society," "the economy," "the nation," and, above all, "we."

On the first page, Mr. Galbraith makes his first and almost only reference to individual men. He says, "As with individuals so with nations," in reference to the man who, until he learns to live with his wealth, has "a well-observed tendency to put it to the wrong purposes or otherwise to make himself foolish."

Mr. Galbraith thus announces the assumption of his book--that in effect America is putting "its" wealth to wrong purposes and making itself foolish. In order to establish this, he has to deal somewhat with individual men, at least to the extent of discussing where and why Americans spend money in such a way as to make "America" look foolish.

According to him, men are so little in control of their own economic decisions that they are led by the nose, so to speak, by three things--the advertising blandishments of modern industry, the heavy use of installment credit, and an overweening desire to emulate their fellows.

This means that men have two kinds of wants which can be economically satisfied; those that are "independently determined" (arising from hunger, cold, and the like), and those that arise from the"dependence effect" (which means that a man does not want a television set until he is informed by advertisers that the television set has been invented). Because of the importance of the dependence effect, we now have a crescendo of production of material goods which men will buy, but do not <u>really</u> need.

But if the products are of little value in Galbraith's eyes, what of the process of production itself? Does he value it as an important human activity? Well, it isn't that he doesn't value this tide of goods and the energy it represents. He credits it, and the capitalist-competitive system in whose time it arose, with having put man into "The Age of Affluence," in which production is no longer a problem. We are enthralled, he says, by "a myth...that production, by its overpowering importance and its ineluctable difficulty, is the central problem of our lives." (p. 281) Now, says Galbraith, we must move on to new things: the proper use of these productive capacities. At present, they are being largely wasted.

One may at this point be somewhat reminded of Thorstein Veblen's <u>The Theory of the Leisure Class</u>, which I reviewed in the October, 1965, issue of <u>Persuasion</u>. And John Kenneth Galbraith is in fact a great admirer of Veblen's, and may be said perhaps to be the present-day Veblen--with a comparable command of language and what may seem to many an equally seductive point of view. But whereas Veblen's invective was used (in a non-pejorative fashion, he always assured the reader) to describe individuals within the society, who formed a class, Galbraith no longer deals with the trees-- he is concerned with the wood.

If a man is newly-rich and foolish, he may spend too large a proportion of his money upon luxuries and enjoyment, and forget the necessities of life. Galbraith is saying that America as a collective whole is doing the same thing--it is affluent in the private area of the economy, where advertising and credit hold sway; but it is poor in the public area, which is the area of necessary services. This lack of "social balance" must be corrected.

But before this can be done, "we" must break the connection between income and production, since "...income and employment rather than goods have become our basic concern." (p. 292) "The solution, or at least one part of it, is to have a reasonably satisfactory substitute for production as a source of income....An obvious device...unemployment compensation." (p. 293) This would be of a different kind than that which is now in use. Galbraith's name for it is "Cyclically Graduated Compensation." He states that "unemployment compensation should be increased as unemployment increases and should be diminished as full employment is approached."(p. 298) Thus he would mitigate against depressions, lessen economic insecurity, and even lessen the chance of inflation.

In his opinion, under present monetary and fiscal policies inflation is inevitable. The reason: we are committed to maintaining full employment, which means full use of productive facilities, which means a constant pressure on materials. The only way to halt inflation is to curtail production, which means unemployment and a slow-down or even a halt in economic growth. No politician who attempted to put such a policy into effect could remain in office, and therefore, no politician seriously attempts to put such a policy into effect.

Inflation, however, must be prevented; it is the "implacable enemy of social balance." (p. 305) If necessary, it must be prevented by price and wage controls. "Given full employment or any close approach to it, wages and prices are subject to large discretionary movements. The only preventative is some public restraint on this discretion." (p. 306) These price and wage controls would apply only to the large industries with large unions. Galbraith suggests that many local tribunals could be set up with representatives from management, labor, and the public. These would decide which price increases were justified.

But more emphasis is put on the issue of breaking the tie between production and income, so that a curtailment of the former would not affect the latter. After all, the only reason we have all this production is for the jobs it makes. "Production for the sake of goods is no longer very urgent.... When men are unemployed, society does not miss the goods they do not produce.... But the men who are without work do miss the income they no longer earn." (p. 197) "...Social well-being and contentment require that we have enough production to provide income to the willing labor force." (p. 198)

With workers freed from the necessity of production he goes to a redress of the "social balance." The problem as Galbraith sees it is that there is a plethora of goods on one side of the scale, and this very mountain of private goods is causing an additional drain on the public area. He cites the highway congestion caused by the automobile, the greater need of hospitals when people are in a position to overeat and overdrink, and the greater strain on the police when there is more around to steal. He points out that "every increase in the consumption of private goods will normally mean some facilitating or protective step by the state." (p. 256)

And yet, "the line which divides our area of wealth from our area of poverty is roughly that which divides privately produced and marketed goods and services from publically rendered services." (p. 251)

It seems obvious to Mr. Galbraith that such a state of affairs should not continue, and we must find a way to transfer some of the affluence to the poverty-stricken public sector. "The solution is a system of taxation which automatically makes a pro rata share of increasing income available to public authority for public purposes. The task of public authority, like that of private individuals, will be to distribute this in accordance with relative need." (p. 311) But he does not end there. When he sets out to redress a social balance, his thumb presses heavy.

For the state and local areas "the solution...is most clear. It involves a much expanded use of the sales tax....The community is affluent in privately produced goods. It is poor in public services. The obvious solution is to tax the former to provide the latter." (p. 315)

What would this diverted income do? (And these taxes are not proposed as substitutes for, but as additions to, all present taxes, including the income tax.) One goal is to "secure each family a minimum standard as a normal function of society." Poverty would be largely eliminated, as would rural and urban slums. Even beyond this, "the greater prospect we face...is to eliminate toil as a required economic institution." (p. 340) Here, Galbraith is distinguishing toil, in the sense of drudgery, from the wider classification of production which he has already divorced from income, but not eliminated.

The question which inescapably arises in the mind of this reader, at least, is as follows: why, under such a system of confiscatory taxation to the point of semi-slavery, would people in the private area keep on producing? I don't think Mr. Galbraith even understands the question, fully--the answer seems to him to be a demonstrable fact. People, it is implied, would continue to produce for the same reason that the organs of the human body continue to function. It is in their nature to do so. Once production has been separated from income, and toil eliminated, everyone would be able to join what he calls The New Class, people who primarily work for the pleasure they get out of the work, and only incidentally for the pay.

And this is perhaps his main objective. He says, "the further and rapid expansion of this class should be a major, and perhaps next to peaceful survival itself, the major social goal of the society. Since education is the operative factor in expanding the class, investment in education, assessed qualitatively as well as quantitatively, becomes very close to being the basic index of social progress." (p. 345)

Mr. Galbraith, who was in charge of price control for the Office of Price Administration during World War II, recognizes the efficiency of the marketplace, but will not admit its justice. Therefore he profoundly mistrusts any economic approach that would leave "society" vulnerable to the fluctuations of individual desires. There are many economic points that might be argued with Mr. Galbraith, but superceding them all is his over-all political approach, which treats the question of property rights as simply not relevant to economic decisions. Economics is in his eyes a set of prescriptions as to what "society" ought to do--and apparently what "it" ought to do first, before making specific decisions, is to get it through "its" large, collective head that "it" can do what "it" pleases with "its" own components--who are you and I.

---David J. Dawson

Published monthly by Persuasion, Inc., 260 West 86th Street, New York, N.Y. 10024. Subscription rate: $4.00 per year ($5.00 outside U.S., Canada, and Mexico). Canadian residents add 8% foreign exchange.

Please include ZIP code number with your address.

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PERSUASION, INC.
260 WEST 86th ST.
NEW YORK, N.Y. 10024
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