1946

Certain conflicts in United States agricultural and foreign trade policies

Alvin E. Coons
Iowa State College

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UMI
CERTAIN CONFLICTS IN UNITED STATES AGRICULTURAL
AND FOREIGN TRADE POLICIES

by

Alvin E. Coons

A Thesis Submitted to the Graduate Faculty
for the Degree of

DOCTOR OF PHILOSOPHY

Major Subject: Agricultural Economics

Approved:

Signature was redacted for privacy.

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PART I. THE SETTING AND THE PROBLEM
CHAPTER I.
INTRODUCTION: TOWARD A CONCEPT OF GENERAL WELFARE

General welfare is a problem in perspective. Individuals and groups see the whole in terms of their own beliefs and valuations.¹

Nowhere is this more clearly evident than in the case of trade. The virtue that has always been assigned to the consumption of home-produced goods, in patronizing the local store, in safeguarding the home market, has long constituted the most important barrier to an understanding of the dynamics of the economic processes.²

¹This is a quality which appears to be rooted in the character of intelligence itself, in the way men think. Gunnar Myrdal, Swedish economist and social scientist, has written with discernment regarding men's attitudes or opinions (An American Dilemma. New York, Harper. 1944. Appendix 1. A Methodological Note on Valuations and Beliefs. p. 1027).


"The emotional basis of the tariff has been that attitude which makes it a duty to support your neighborhood store; to shop in your own town; to ship through your own state port; and to help coerce by law, the traitors who are not bound by any sense of such moral obligation." p. 6.
Fundamentally, this is the basis of the conflict between economics and politics which constitutes the central problem of world peace and security. The desire to control, each his own security, and to unite with others to that end, is the barrier which separates modern man from attaining a degree of prosperity and economic well-being such as the ancients never dreamed could exist. It is the basis of conflicting national interests at the world level. It is the source of conflict between economic and political pressure groups at the national level.

The political problem is primarily one of organization, the channeling of forces through a system of rules and procedures for the peaceful settlement of conflicts in such a way that men can agree to live together with a "reasonable amount of happiness". The problem of economics is one of securing the release from the constraints which men impose upon the "propensity to truck, barter and exchange one thing for another," as seen by Adam Smith, and "the instinct of workmanship" which Thorstein Veblen talked about.

The periods of greatest advance in general economic welfare, have been those in which the minimum effort has been given over to a struggle for power. Whenever that issue has been settled, by compromise or the defeat of one or another of contending forces, men have gone back to the business of making a living, to the mutual advantage of all.

It is characteristic of the power struggle that its final resolution has only been possible at a higher and higher level. The political phil-

---

1 Condliffe, J.B. *The Reconstruction of World Trade*. New York, Norton, 1940. "There is a fundamental conflict in the modern world between political and economic forces or principles." p. 15.
osophy of Plato and Aristotle, their systems of justice and ethics, contained the requisites of problem solving for the city state, but their influence on the thought of succeeding generations was small, because the sun of the city state was already setting. 1 The development of science and technology has brought the peoples of the world ever closer together until the need of organization at the present time transcends the bounds of even the greatest super-power. On the working out of this problem of organization, the future of economic progress depends.

Interdependence of Economics and Politics

Economics and politics can be separate only in the minds of the analyst. Machiavelli, who admitted lack of talent in reasoning about "the art of silk or about the art of wool, either about profits or about losses," elected to reason about the state - the distilled essence of power. 2 In the unique conditions of the nineteenth century, when for a time "economics escaped the bonds of the old "State Housekeeping" (which is the meaning of political economy, in the strict and etymological sense of the term) and became the individualist housekeeping of laissez faire," the separate study of man "in the everyday business of making a living", enjoyed a celibate existence under that rather minimal government which

had become possible.

Problems of policy, when the elements are pure, are more easily resolved. For Machiavelli's "Prince", a decision on how much trade or how much agriculture to have was a simple question of how best to enhance the power of his state and thereby reduce the power of his adversaries. In a world of mutually sustaining and mutually restraining atom beings, "lightning calculators" all of pleasures and pain, each could decide his own best interest, and the integral or sum of all such decisions would equal the maximum total benefit, while that super "cop" the state walked its beat in the quiet market place. Machiavelli lived in a period of great political instability and uncertainty; it is understandable that the problems uppermost in men's minds should have been pure power. John Stuart Mill lived most of his life during an era of comparatively stable political relations, when the struggle for power was restrained by a judicious use of the balance of power and a Pax Britannica based upon the British navy, plus the existence of broad opportunities for expansion into the sparsely occupied or culturally backward parts of the earth. This was an environment in which a relatively free market could allocate resources, register the votes of consumers, and reward resource owners with a minimum interference by the state.

But that minimal state, even during the latter part of Mill's life, was already giving way to intervention, not so much the exercise of pure, unrestrained power as the injection of the power and authority of the state where a sufficient show of political strength in the electorate could
command it. The "subjects" themselves had gained in education and democratic experience; they had become a bit more "sovereign" than in Machiavelli's day.

The comparative stability of the hundred years between the Peace of Vienna and "Sarajevo", call it "Pax Britannica" or release from social tensions by empty frontiers, has been shattered. Hope for a return to "normalcy" so evident in policies (or lack of policies) eagerly adopted¹ at the close of World War I, has receded into the background, and pressure groups at the national and international levels have organized to impose their own particular views of "parity" or normal on the rest of the world or society.

Politically and economically the world is off balance. The market, supported and restrained, has ceased to be regarded as the principal agency for resource allocation. Trade has become an instrument of the foreign office, useful for rewarding friends or punishing enemies. If one looks to history for precedent, the 17th and 18th centuries are more likely to be useful than the 19th.

Each has his own "devil" theory of history in assigning causes for the present imbalance and confusion. Government is accused of interfering with business, business is accused of dominating government, classes and pressure groups oppose one another - the particular personal devil depends upon the

¹A warning note sounded by John Maynard Keynes (The Economic Consequences of the Peace, London, Macmillan, 1919) following the treaty of Versailles, and which marks the beginning of some of his later thought, was an exception to the general climate of opinion. "The power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realize with conviction, the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organisation by which Western Europe has lived for the last half century." p. 1.
frame of reference and the angle of view. Certainly an impersonal "devil" deserves more notice than it ordinarily receives - the semi-exogenous influence of technology (man's control over the physical world) which has reduced distances and brought men closer together, redistributed the principal centers of wealth and power, and imposed the need for new organizations to adjust differences and impose settlements.

In a period of rapid technological change, adjustments have tended to follow with a lag; a consequent cumulation of pressures and resistances has resulted in sudden changes and departures from what had existed before. Since it is given to men to see the past imperfectly, and the future not at all, expectations for the future rest heavily upon the past (or what the past is believed to have been) weighted inversely by its remoteness in time. A stable past, helps to make for a comparatively stable future. Sudden changes, particularly violent ones, produce over-adjustments and expectations of further change.

The future is presently weighted with change. Individuals, groups, and nations see opportunities for improving upon the past. Other individuals, groups and nations see the present in terms of their more favorable circumstances of other days, and hope for a return to previous arrangements.¹ This

¹Some have expressed the whole problem of expectations and change with greater rigor, but few with greater insight than Carl L. Becker, the historian (How New Will the Better World Be? New York, Knopf, 1944). "At all times in history of civilization the conditions of life for the majority of men have been harsh or unsatisfactory, and at all times men have therefore found compensation for the immediate present by dreaming of a better world than has existed or may or might exist at some other time or place ... in times of rapid social and economic changes the conflict becomes more serious; it becomes a conflict between those whose interests
is perhaps nowhere better illustrated than in the case of England and
Russia - the one a great power of former years, now verging on bankruptcy;
the other, a newcomer to the ranks of first class powers.

Until some kind of equilibrium of forces can be restored, until some
stability of expectation can be created, the separate efforts of the one or
the few lead not to the resolution of conflicts but to their culmination.
This is how Hobbes saw the problem long ago, during another great period
of uncertainty, on the threshold of what has come to be called the "modern
era":

And be there never so great a multitude; yet if their actions
be directed to their particular judgments, and particular
appetites, they can expect thereby no defense, nor protection,
neither against a common enemy, nor against the injuries of
one another. For, being distracted in opinions concerning the
best use of their strength they do not help but hinder one
another . . . but also where there is no common enemy they make
warre upon each other for their particular interest. 1

His prescription for an absolutist government is scarcely more likely
to be acceptable to the majority of men today than it was then. He saw a
problem that is perennial; the adjustment is continuous. But at times it
is more difficult than others.

The primary problem of policy may be viewed therefore, as the restor-
ation of some kind of economic and political equilibrium. In the present

(Footnote continued)

are or seem to them to be, best served by accepting the new ways. The
great need of our time, therefore, is to adjust our habits of thought
and conduct to these rapid changes, so that we can live in the world as
it is with the least amount of strain and frustration." pp. 22-3.

First published 1651. p. 88.
The juncture of history, politics and economics have moved closer together. In the words of Alvin H. Hansen:

Increasing use of the term "Public Policy" indicates a change in the role of government in modern economic life. It is, of course, nothing new that a governmental policy is more and more coming to the fore. The tradition of laissez faire - never, in fact, fully applied - so dominant in the first half of the nineteenth century increasingly gave way to an ever expanding measure of governmental control and intervention.

Economics becomes again, as it was in the beginning, political economy. The narrow division of labor in social studies which had proceeded so far in the years before the depression, calls for cooperation, at least in the field of policy. There is need for seeing the problem whole - not the whole problem, for that is obviously impossible - but with more attention to the connecting areas between the two, which rigorous scientific research must necessarily neglect.

The political problem remains, as in the past, that of organization, from the lowest levels to the highest. And the economic problem still is concerned with the best use of resources - the allocation of scarce means to alternative ends. But it requires that government be recognized as a productive agent with contributions to make to the economy, particularly to the general welfare. This is merely another way of saying that people now do more things collectively than they used to.


Increasing awareness of this need is the most significant development in economics in recent years. J.M. Clark has stated:

Within little more than fifteen years, this country has witnessed two momentous revolutions: one in economic thinking, and the other in the economic functions of government.

This revolution in economic thinking has centered around the ideas of John Maynard Keynes but many others have made significant contributions. Although Mr. Keynes' most controversial work focused on the role of investment and savings, monetary and fiscal policy, the implications of his theory have been more far-reaching. The importance of the political factor in economic life and the whole role of expectations as an important determinant in economic fluctuations, had engaged his attention for many years. It is the central part of the essential problem.

Probably one of the most useful contributions to the thinking in this field, to date, has been that of A.P. Lerner, whose *The Economics of Control* has attempted to bridge the gap between *laissez faire* and complete socialization which has, of course, long been the extreme solution to the jars that began to appear in the enterprise system during the latter part of the nineteenth century. Mr. Lerner, himself a onetime socialist, became disillusioned with the experiments in socialization and attempted a reconciliation of complete individualism and complete collectivism. His system, in

---


2 These are treated below under Review of the Literature.

short, tries to set up limits for government participation or interference with economic life, and the Rule he sets up as a test, or model, is the equilibrium which presumably would obtain under atomic competition if individuals behaved as competitors, if knowledge were perfect, and the indivisibilities of the technological processes were not factors limiting competition or free entry. Under his assumptions the public bodies would perform functions in the economy, including speculation and counter speculation, the use of a functional finance to encourage production or control inflation. Foreign trade would, under full employment, become a simple and natural process of exporting to obtain imports.

At the practical level, the state has, since the "depression of the 1930's, been desperately trying to learn how to turn itself from a restraining into an energizing agency". 1

The central problem of an economy that has been almost completely transformed by a technology which has required that men do an increasing proportion of their production and consumption collectively, is the working out, largely through trial and error, an equilibrating process to which the human organism can adjust and the human mind can accept. With a being that carries his past with him into the future, who organizes to perpetuate what appears to be his own best interest with others of like interest, the process is involved and slow working. 2

1 Clark, op. cit., p. 71.

2 "Groups and societies, like individuals, carry their past with them into the future and grow in historical uniqueness." Frank H. Knight, "The Limitations of Scientific Method in Economics," The Ethics of Competition, p.132.
There are those, of course, who are entirely critical of any attempt to work out within the framework of a mixed economy—who like their economies pure and government at a minimum. To those who, like Von Mises, see the demise of freedom and democracy in that kind of planning, there is no compromise with laissez faire. But man's ability to determine the kind of world he wants to live in is limited by what exists and what can be agreed upon. Again, as Carl Becker observes, from his broad background in history:

The pattern of thought and behavior, of customs and institutions that exist at any time can be changed by men, but not easily or all at once; and the way in which it can be changed, and the direction which the change must take, are as much determined by what has occurred and what exists as they are by men's will and desire. During the last century social and political institutions, and men's ways of thinking about them, have been changing, at times pretty rapidly; but they have been changing in a certain direction. This direction, the historical trend of our time, has been steadily away from unrestrained "private economic enterprise" and toward governmental regulation of private economic enterprise . . . .

The problem of greatest moment at the present time consists, therefore, of a working out within the framework of existing democratic methods and values, that new balance of individual freedom and collective or government action which will permit the solution of the problem of security, and free man's efforts for the attainment of that degree of economic progress through which alone the spectre of starvation and want, of disease and sordid poverty can be relieved. For despite the popular slogans of the much vaunted abundance, poverty still remains the most important problem of

1 Becker, op. cit., p. 136.
the world (particularly if attention is not centered on the comparatively favored few of a much favored United States) and greater production the principal solution. In the words of Colin Clark, who, after a recent study of income figures for that group of countries possessing reasonably reliable statistics, observes:

Oft repeated phrases about poverty in the midst of plenty, and the problems of production having already been solved if only we understood the problems of distribution, turn out to be the most untruthful of all modern clichés. In the U.S.A. the highest real income per head of the working population so far attained was in 1929, with 1682 I.U. per head on the basis of a 48 hour week.¹

For Italy, the average income in the same units for the period 1925-34, was 543, and that country was not the lowest for which income data are available. India and China could not even be considered, for no reliable income figures exist. Obviously, theirs would be much lower than the lowest for any western country.

Contrast these figures with those presented by Schumpeter, who on the basis of the gains in "available output" (available for consumption) over the 50-year period from 1870-1930, estimates what might have been possible in the way of consumption if the rate of progress in this country had continued:

... if from 1938 on available production under the conditions of the capitalist order continue to develop as it did before ...

¹ Clark, Colin, The Conditions of Economic Progress. London, Macmillan, 1940. p. 3. The unit of measurement, the International Unit, is defined as the amount of goods and services which could be purchased for one dollar in the U.S.A. over the average of the decade 1925-34.
it would after fifty years, in 1978 reach an amount of roughly 2.7 (2.6916) times the 1928 figure. Average income per head during those fifty years would therefore increase to a little more than double its 1928 amount, which was about $650, or about $1300 of 1928 purchasing power.\footnote{Schumpeter, Joseph A., Capitalism, Socialism and Democracy. New York, Harper. 1942. p. 65.}

Schumpeter concludes that, had this rate of progress continued, it would have done away in this country with anything approaching poverty, even for the lowest strata, by present standards.

This could certainly be taken as an argument for a return to the kind of economic arrangement, of free enterprise or capitalism as he calls it, which characterized the earlier period. But he does not regard such a return as possible, essentially for the reasons outlined above. The increasing unwillingness, on the parts of all groups, beginning with the protectionists, to accept the workings of a free market, has more and more created the attitude of uncertainty and lack of faith, the lack of a feeling of security for the future, which would permit its functioning.

The Economic Problem

The economic problem is the same, whether viewed from the world level, the national level or from the point of view of the individual - the allocation of resources which are scarce, relative to wants, to alternative uses.

Proposals for an economic policy, therefore, proceed on an assumption that behavior is, or ought to be economical. These were essentially the
assumptions regarding the "economic man" of classical literature. When ends or wants were given, and could be ranked according to their importance, then existing means could be applied and satisfaction could proceed as far as the resources would go. Since effort was required, because of a niggardly nature, total satisfaction would be at a maximum where the disutility of additional (marginal) effort was just offset by the additional (marginal) satisfaction or utility. The competition among men would prevent any one man from gaining control over the other, or of the conditions within which economic activity was carried on. In the words of Walton Hamilton, "As written down, competition is a theory of the common good . . . The system of free enterprise was made to operate in a climate of social morality."¹

The continued success of competition as a regulator of economic activity, required that it be accepted, that the institutions and habits of men be shaped to that end. In the circumstances of the nineteenth century, it appeared for a time that this was being accomplished - that through international trade and the gradual acceptance of commercial procedure (the code of behavior of the British trader) the system was destined to spread to the entire globe.

Competition was fitted just as neatly into the legal establishment . . . Now master and servant had to come to terms; their agreement was essential to unite property and labor in a productive enterprise . . . It was, therefore, no difficult matter to equip competition with legal foundations. They consist of two

pairs of institutions so definitely established that they can be taken for granted. They are private property and liberty of contract, the pursuit of gain and freedom of trade.¹

In the long run, given a continuation of circumstances which would have permitted the elimination of the carryover from the past, of the remnants of feudalism and special privilege, and had rate of man's control over his physical universe not proceeded at so fast a pace, these might have indeed become the fixed habits and institutions of the whole world. Even granting that competition was an idealised, and not a real, picture of commercial practice, it approximated the facts closely enough that, barring rapid change, they might have become real.

According to the assumptions underlying competition, world trade would have proceeded along these lines. Barring interference by governments or other groups, specialization and division of labor should have determined production according to comparative advantage and comparative costs, each country specializing in those goods in which its efficiency was greatest. By exchanging what was produced cheaply for what it could only produce at relatively greater cost, each country could, by specializing, attain its greatest benefit in terms of goods and services.

Somewhere along the line, the system broke down, or failed at establishment, both at the national and at the international level. As has been submitted, a significant part was played by the growth of technology, which imposed changes faster than men could adapt themselves to them. In combining to exploit the advantages which new processes provided in lower costs, individuals and groups found the increased power an advantage in exploiting

¹Ibid., p. 14.
the market. Others found advantages in combining to resist.

Contract, once thought of as a voluntary agreement between persons with equal bargaining power, is hard to hold to its norm. A dinner between two farmers over a couple of horses has little in common with the agreement between a giant power company and the ultimate consumer.¹

At the international level, too, the growth of newer nationalisms and the rise to power of important new states on the strength of the leveling influence of the new technology, led to a challenging of what had become accepted trade practice under British leadership. This is illustrated in particular by Germany and the United States.

Under the assumptions of classical economics, no long run benefits will accrue to the nation which interferes with the flow of the trade. There is, however, a particular set of circumstances in which, from a national point of view, a country stands to gain. That is the case in which the exported commodity possesses a relatively inelastic demand. Under these circumstances it is possible to improve the terms of trade, provided the demand for the imported goods is not also inelastic. In other words, a country can get its imports with a relatively smaller number of exports, without doing serious damage to the volume of trade. This of course assumes that there is no retaliation by other countries.

During much of the nineteenth century, the United States was an exporter of agricultural products and an importer of manufactured goods, many of them luxury items. The demand for its exports, by the rapidly growing European cities, was relatively inelastic. Furthermore, it did not encounter retaliation, because the leading trading country, England,

¹Ibid., p. 14.
still had a large area in which to operate. As Henry Clay has pointed out:

Before 1914, the spread of protection had not checked the expansion of British exports, because there were always alternative markets. India was kept open by British political control — in the interest of the Indian consumer at least as much as the European and American exporters; China by unilaterally imposed conventions. The new countries were not yet in a position to meet their own industrial needs. It followed that the exclusion of some British exports from an overseas market would result usually in their diversion (at a cost) to some alternative market. When Europe had been closed to British manufacturers, America was open; when American was closed, the Dominions and the East were open...

The rising tide of nationalism in each of the undeveloped countries, as it achieved a degree of industrialization, giving it a basis for greater independence, gradually narrowed the area within which free trade could operate, particularly as the interest groups within those countries could demand the intervention of their governments.

From the cosmopolitan point of view the argument for free trade is unassailable. Viewed from the narrow point of view of short run national interest, and especially from the vantage point of powerful political groups within a country, protection can marshall strong support. And, as Schattschneider concluded, after an exhaustive study of the American tariff act of 1930, "... political behavior is seen to bear a highly variable and irregular relation to economic interest." ²

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But as discrimination begot retaliation, and each sought to better its own interest by "beggar its neighbor," the volume of trade sunk progressively lower to culminate in the unrestrained nationalism of the 1930's, the drive for raw material and markets.

A Concept of Policy

It will be useful, at this point, to set up for subsequent discussion a definition of policy.

All policies are essentially experiments in induced behavior, which individuals or groups, or nations adopt or have imposed upon them for purposes of increasing the range of predictable social action. In a world where the future is necessarily uncertain, policies are agreed upon or imposed for purposes of control, for setting limits to variation in behavior. If a policy is successful, it makes behavior predictable.

It is to be recognized, however, that few policies are wholly the result of reflection and mature judgment. They are the results of the struggle for power, the consequences of necessary compromise, and are frequently no more than the results of on the spot decisions, made in the face of immediate necessity and in the light of old valuations which are carried forward and develop a life of their own. For this reason, it is usually more important to know who shaped the policy than what the policy is.¹ For the power group which determines the policy does so on the basis of its own valuations.

Broadly speaking, then, policy may be defined as the relationship between means and ends, of control applied for the attainment of a specific goal or value. But it can be broken down into three essential elements: (1) Goals or ends, (2) Means, and (3) Constraints or conditions imposed. (The art of the feasible).

Under conditions of perfect competition the only constraints upon an economic policy would be the quantity and quality of available resources. Under conditions as they exist, the constraints imposed upon any group, or any state, in the attainment of its ultimate goals, are determined by the extent to which that goal can gain acceptance or be imposed upon other groups or states.

A completely unified national policy for any government, particularly a reasonably democratic one, is obviously impossible except in time of war or great national emergency. So long as the war continued, a national policy could be achieved — a policy which touched the lives of all and shaped the actions of each to the end of victory. There were few constraints. The means to victory consisted of the total resources of the country — the natural resources, the adult population, and the enormous store of wealth and knowledge that had been accumulated. In a democracy a national policy, under the usual peacetime conditions, will emerge only as a balance of the myriad separate policies put forward by groups, or the influential members of those groups, find a common level of agreement.

Questions of government policy fluctuate between what ought to be and what can be. Only within the limits of agreement (which is the
political problem) can choice be said to operate. Discussions of policy, particularly of economic policy, can best be considered in terms of the separate elements of the policy concept itself.

Ends or values

Implicit in all economic discussion is the assumption that behavior is or ought to be economic. This was essentially the assumption of the "economic" man of classical literature, who neither combined with nor expressed a preference for or sympathetic interest in other men - a being without enemies, or friends. Never seriously intended as a complete picture of reality, this "ideal type" nevertheless exemplifies an important aspect of modern man's behavior; and although the enterprise economy as a social organization, whose principal virtue is the fact that it has stimulated its members to produce in quantities never before known, has been subject to no little criticism, its performance in terms of increased longevity, better standards of health and comfort has had much in its favor.¹

In view of the poverty that still exists, to have as an end an economic policy of increased national income would certainly merit a high rating on the scale of possible ends. This is what is usually designated

¹"But increased production is important. Of course it is! That plenty is good and scarcity evil - it needs no ghost from the graves of the past five years to tell us that." Tawney, R.H., The Acquisitive Society. New York, Harcourt, Brace. 1920. p. 5.
as economic progress. If more equitable distribution is also an objective, as it has become to an increasing extent, then it may become necessary to make some concession in size of income in order to achieve wider distribution. Stability of income may also constitute an important objective in national economic policy, and may in fact involve action to prevent national income from expanding as much during a boom, as it might, in order to keep it from falling as low during a depression as it has had the tendency to do. But the heart of an economic policy will continue to be greater production of a majority of the items which make up national income.

Means

The means at the disposal of any country for the production of income consist of what it has inherited from the past: the population, its structure and social characteristics; the natural resources, such as the land, the mines, and climate; the accumulated stocks of materials, the state of the arts, and the degree of organization—the institutions and traditions. With the exception of labor, this is usually designated as capital.¹ These are the means ordinarily regarded as the basic materials of national income production.² But, while these are the basic means

¹Boulding, Kenneth E., The Economics of Peace. New York, Prentice-Hall, 1945. p. 5. Boulding’s definition is slightly narrower than that given above, a little more material. However, he defines capital as the sum total of valuable things which appears to take in about everything.

²There is a fundamental difficulty associated with the whole concept of income—that which comes in. Income is essentially subjective. National income is usually associated with the volume of goods and services —
of income production these are not the means at the disposal of government. Most of these resources are still privately owned, except in Russia. The enormous volume of present day income is the product of a roundabout, cooperative process. Government exercises its influence on the size of that income by using its authority to influence the extent of that joint effort, by its influence upon confidence and expectations. By the use of its power to tax, its monetary and fiscal operations, by shifting incomes among the members of the society, by protecting property rights - these are the means by which government influences the size of national income. Government, or the state, is not something separate and apart. As such, it does not produce income. But it can be and is, highly productive. Through its policy with regard to trade with other countries, it can add to the national income by making it possible for goods and services to be added to the national income which would not

(Footnote continued)

an aggregation of unlike things - for which economists have long attempted to construct a useful measure. But the difficulties are enormous. A national level of prices can be constructed, through the use of index numbers. A corresponding index for physical production, or income is simply something it has been necessary to create. Cf. Schumpeter, Joseph, Business Cycles. New York, McGraw-Hill, 1939. "However useful for many purposes, total output is a figment which, unlike the price level, would not as such exist at all, were there no statisticians to create it. We seem indeed to face a meaningless heap." Vol. II, p. 484.

1 Some resources, of course, are owned by government - that is, they are owned collectively. Such things as the Postal Service, the national forests, and the properties of lesser governmental units. These, of course, contribute directly to the size of national income. In this country, they are still relatively unimportant, but they have been increasing. A recent tendency in Economics has been to recognize these sources of income and to include them in the total.
otherwise be available.

The best way for a government to use its "powers", has long been a subject of heated discussion. Adam Smith believed that its greatest contribution could be made through moderation in the use of the means at its disposal - that men cooperated and restrained one another if left alone. That was the view of nineteenth century liberalism. The socialists, of course, have long advocated abolition of private ownership of capital, in which case all available means would be directly controlled by government. The issues currently in dispute revolve around the extent to which the means to be placed at government disposal should be socialized or controlled in the general interest. 1

Constraints

The constraints upon the use of means at the disposal of government, consist principally of the extent to which the policies of separate groups as enacted into legislation or expressed in tacit resistance, work at cross purposes with the ends of policy as it operates at the national level.

At the international level, the most important constraints are the extent to which the separate policies of the individual countries conflict and cancel each other out. For to the extent that each attempts to attain security for itself alone, to extend its area of control, the security of all is reduced.

Requirements of a Planetary Economy

A national policy which looks to the improvement in the general welfare - of economic welfare, specifically - is required to face in two directions for the removal of constraints and the reestablishment of an economic and political stability within which security and economic progress once more becomes possible. For a national policy which looks but one way cannot be enough in a planetary economy and a world made small by air transport, in a world made insecure by rocket missiles and atomic fission.

It can be generally agreed that a world dominated by two or three super powers (probably two and a half) offers no possibilities of combination for a political equilibrium such as the balance of power provided. Without such an equilibrium, the possibilities for economic progress, outside the largest units, is impossible. If world trade is to be possible, then the world will need to organize for trade, and to surrender to some form of international organization the powers to regulate the extent to which one nation can beggar its neighbors by currency devaluation, foreign exchange regulations, arbitrary quota impositions. Those are the requirements for economic progress.

In any industrial economy a movement of goods can be seen to take

1Cf. Staley, Eugene, World Economy in Transition, New York, Council on Foreign Relations, 1939. "The tendency of technology, we have seen, is to make it easier to move resources and goods from place to place over the earth's surface, to increase the economic connections between different regions, and to create a planetary economy. The tendency of politics in recent years has been, by and large, to increase the economic significance of political boundaries to confine the movement of resources and goods within national or imperial frontiers, and so to counteract the tendency of technology towards world wide integration. p. 59.
place in which raw materials and agricultural products move into the in-
dustrial markets from the "hinterlands". From Von Thunen on, students of
economics and geography have been aware of this fact. Bulky materials of
low value move from the periphery inward. The more valuable items tend
to be produced near the markets. But there has been a long-run tendency,
also, for the industrial revolution and industrialization to move into
the agriculturally backward areas. As an area develops its industries,
income rises, and the proportion of the population required to be employed
in agriculture declines. This is due both to the effects of technology
in improving the efficiency of agriculture, and to the shift in tastes
of people away from a purely carbohydrate diet of cereals and fats.¹

Again, if the world economy be viewed in perspective, the movement of
foods in the future, given political stability, is likely to consist of
a flow of raw materials in the direction of the industrial and the areas
rich in capital, with a reverse movement of manufactured goods, tech-
nological knowledge and skills, and credits, from the industrial areas
or regions. In the words of Oscar Lange:

It is the exchange of industrial equipment for consumers goods,
agricultural products, raw materials, and handicraft products

¹Cf. Staley, Eugene, World Economic Development: Effects on Advanced In-
"Increasing efficiency in agriculture, which is one of the strategic
points for attack in the economic development of less developed coun-
tries, enables a smaller percentage of the occupied population to
supply more food ... It is a statistical fact that for every great
region of the earth income levels are higher where propositions
of the working population engaged in agriculture are lower." p. 26.
which in my opinion provide the solution for the basic economic problems of the world.¹

History is replete with cases where pressure groups and vested interests have undertaken, through governments, to stem the flow of capital equipment and techniques to other countries on the grounds that the industrialization of the agricultural area would ultimately destroy the basis of their trade. As it has actually turned out, however, the exchange of goods and techniques, of manufactures and semi-manufactures have provided increased volumes of trade after the basis of the original exchange of agricultural for manufactured goods has disappeared. As Fisher observes:

"Natural" differences in productive capacity are seldom unchanging differences . . . in the nature of things the nature of production can never be fully solved.²

Perhaps what should be stated is that the growth of technology is a cumulative thing which cannot be entirely predicted, conferring advantages now to one, again to another. There can be no permanent advantage, except that conferred by maintaining enough flexibility to be able to change.³

³Cf. Staley, op. cit., "The key to the problem of avoiding adverse effects from the new competition of newly developing countries is to be found in a policy of promoting adaptation - that is, encouraging the transfer of capital and labor into the lines where opportunities are expanding and out of those lines where other countries are becoming able to produce at lower cost. The competition of 'low wage labor' in the newly developing countries will not injure labor if the advanced
But this requires political stability as well as economic flexibility. The two are inter-acting, and may be mutually sustaining or may be offsetting. During the nineteenth century, a very flexible economic situation tended to break down political rigidities. The beginning of economic rigidities tended to break down existing political arrangements once more and reintroduce an increasing degree of government intervention, and a culmination of power struggles.

Significant is the fact that the single most important event of the nineteenth century which led to free trade expansion for a brief period was an arbitrary act by a semi-dictatorial government. Free traders have long used the commercial treaty between England and France of January 1860, commonly known as the Cobden Treaty, as almost the sole empirical basis for the salutary effects of their thesis. England had gone to free trade because she had an advantage in trade. France, on the other hand, had no such advantage. Her industries were not advanced, but were politically strong. The parliament and the country as a whole, favored protection. But in 1852, Louis Napoleon had announced the creation of the second empire, with himself as Emperor Napoleon III. Although Napoleon III was, in fact, a free trader by conviction, his principal reason for desiring trade expansion was political - to allay the fears of the rest of Europe that he entertained the imperial ambitions of the Napoleonic

countries maintain flexibility, keep in the forefront of technical progress and aim at expanding production in promising industries rather than defending to the bitter end those industries for which the outlook is unpromising . . . Government, business and labor in the advanced countries will be wise to reject proposals for defending vested interests against the need for change and to adapt instead a policy of facilitating and encouraging adjustment." p. 28.
tradition. To improve his position abroad would mean strengthening his hand at home. It was out of this situation that the Cobden treaty emerged.

A brief summary from Haight will make clear how the use of a rigid and arbitrary political power, actually promoted trade expansion and political stability.

Chevalier (of Napoleon's Council of State) was convinced that the only way to secure a revision of commercial policy was to present parliament with a fait accompli. In 1859, on his own initiative, he discussed the prospects with Cobden and Bright... with the approval of Gladstone they prepared a plan for presentation to Napoleon. Though well aware of the hostility of parliament and the public... the treaty was signed...

This "most conspicuous single event in the commercial history of the nineteenth century" was brought about largely by the peculiar political circumstances of the time—it promoted but was not the result of international friendship. Another point of great significance was the fact that this liberal reform was introduced by a ruler, holding special power, in opposition to the will of the people... Drastic customs reform, like the introduction of the metric system, calendar reform, or a ban on lipstick, usually requires the firm hand of a dictator.¹

The firm hand of the dictator is not so much required as the existence of a higher level of authority or power which may be essential to perform the experiment in induced behavior, to reduce the constraints of lesser competing policies.

Problems of domestic policy, when the issue of political and economic equilibrium are considered, reflect identical issues, but at a different level. The separate policies of pressure groups reflect the extent to which a use of that group's power can be effective. At the domestic level, as well as the international level, the circumstances of the nineteenth

century were unique. The existence of an undeveloped frontier, a reservoir of virgin resources, afforded an opportunity for a continuous release from an effective control by any single, powerful group\(^1\) and provided a political environment favorable to economic expansion. As the country filled up and power was more and more concentrated, both economic and political, that environment disappeared. Competing power groups, more and more limited the economic horizon. Attention was concentrated on the use of political power to restrain and redistribute rather than to expand. Agriculture was the last of the great economic areas to enter the struggle as an effective economic pressure group.

Now the government has been called upon to exercise its influence as an energizing rather than a restraining agency. The task is difficult and complex. To quote, again from Hansen:

In place of our 19th century western frontier we can, if we look for it, find and develop a great new frontier in our own "back yard". We can have an expanding and dynamic economy. But it will not come automatically. It is not easy to conquer mass unemployment. Our forefathers could exploit virgin resources. Our task is more difficult. We need to develop and improve our resources. This requires ingenuity and planning. We need to discover and develop areas for public investment which can open up private investment opportunities, increase our productivity and add to the nation's purchasing power.\(^2\)

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\(^{1}\) This was essentially the continuing theme of much of the work of the American historian Frederic Jackson Turner (and his followers) whose Frontier in American History (New York, Henry Holt, 1920) contains this observation: "Whenever social condition tended to crystallize in the East, whenever capital tended to press upon labor or political restraints to impede the freedom of the mass, there was this gate of escape to the free conditions of the frontier. These free lands promoted individualism, economic equality, freedom to rise, democracy . . . . p. 244.

But in a world where combination and interference have proceeded as far as they have at the present time, the problem cannot be solved by merely taking from one group or one state and giving to another, of assistance to use its combined strength to gain a monopoly for purposes of raising prices and gaining a larger share of a pie that has ceased to grow. Rich as the United States is, it cannot yet solve the problem in that manner. If the lower income groups are to receive larger incomes, it still must be done from an expanding pie.

Welfare economists, of whom A.C. Pigou is perhaps the most distinguished, have developed a criterion of economic welfare. In general, the conclusion that has been reached is that total welfare is increased when some members of the society are made better off, without at the same time making others worse off. This, perhaps, opens up the most promising avenue for government action. If a specific program can be demonstrated to expand total income, those disadvantaged by the change can, perhaps, be bought off. In the interests of economic progress, those who stand to lose by change may be "bought off", their transfer subsidized. Again to quote A.P. Lerner:

Another important lesson that will have to be learned by the time the war is over is that the most economical way, as well as the most just way, of overcoming policies that have to be undertaken in the public interest is to provide generous compensation for all who have to make a special sacrifice.

It is not sufficient simply to make some people richer than they are now. That way lies a progressively poorer world for all. Power exercised by one group to better its own position relative to others results not in a working equilibrium but a cumulative use of power.¹

Much of the thinking that is currently being done on this whole problem of public policy and government as an energising agent, has concentrated on one or two areas such as monetary and fiscal policies, public works policy, foreign investment, etc. as providing the single most important touchstone to success. Political feasibility has not always been taken into account. A host of unsettled issues still require investigation and thinking through. The purpose of the study which follows is to attempt to think through the problems associated with two important areas of public policy.

¹Jacob Viner has made an acute observation regarding human behavior at the international level ("Peace as an Economic Problem" in New Perspectives on Peace edited by George B. Haskar. Chicago, University of Chicago Press. 1944. p. 104) which can also be extended to cover the behavior of groups within a country. "... I believe that countries bear resentment on economic grounds against other countries not because they feel poor, but because whether they are rich or poor they do not feel as rich as they deserve to be."
CHAPTER II.

CONFLICT BETWEEN AGRICULTURAL AND FOREIGN TRADE POLICIES

In the preceding chapter an attempt was made to set forth some of the conditions of interaction between political and economic forces, and to define in broad terms, certain concepts and relationships. This is the background against which the assumptions of the present study must be viewed.

The study began as an examination of certain apparent conflicts between this country's substantive agricultural policy and its stated foreign trade policy. The Department of State has announced in favor of expanded and presumably freer world trade. Congress has made important commitments to that end. Existing agricultural policy, which since 1935 has centered on raising and maintaining farm prices, requires for its success a protected home market.

On the surface, therefore, an old controversy - long regarded as settled - appears to have been reopened, but with the adversaries changing sides. During the greater part of the nineteenth century and the first two decades of the present one, the policy of protection followed by the United States was actively promoted by the manufacturing and industrial groups. Agriculture, on the other hand, was more frequently to be found on the side of freer trade.
Today, many American industries, whose early growth was fostered in a protected domestic market, are seeking new trade opportunities abroad, and are prepared to enter the world market on a comparatively free trade basis. By way of contrast, during a period of a little less than a generation, there has been a significant shift in the attitude and interest of agriculture with respect to foreign trade. Farmers no longer have a primary interest in foreign outlets, partly because they regard those markets as lost, or no longer important, but largely because their most important markets have moved in on them, under the same national roof, and they would like to keep them for themselves. From an industry producing largely for export, agriculture has to an ever-increasing extent shaped its production to the demand of the domestic market. The farmer has, in short, arrived at that "best of all possible worlds" pictured for him by the protectionists during the nineteenth century to lure him away

\[1\] Cf. Fortune, Vol. 32, No. 5, November 1945. This entire issue is devoted to foreign trade opportunities for American producers and the plans of important sectors of industry for expanding exports.

\[2\] Cf. Barger, Harold and Hans H. Landsberg, American Agriculture, 1899-1939. New York, National Bureau of Economic Research. 1942. The extent to which domestic demand has shaped production is told in the following summary of changes in the character of output since the turn of the century: Citrus fruit increased in output more than ten fold; the production of sugar, vegetable oils, milk products and poultry doubled; potatoes and tobacco rose a little more than 50 per cent. Cotton and livestock expanded less than 50 per cent; grain production was about the same at the end of the period as at the beginning; and the net output of hay fell sharply over the four decades... In interpreting the behavior of production data we found that the contraction of exports (in absolute terms and relative to farm output) has played an especially important part in moderating the expansion in the output of the grains, of cotton, and of livestock products. p. 291.
from his periodic free trade leanings. ¹

There is the temptation, therefore, to approach the problem along traditional lines, to see the controversy as one between free trade and protection - the special interest of agriculture versus general economic welfare. In terms of the real issues, however, this would mean little more than setting up a straw man and bowling him over with a long-run argument proving that it would be to the interest of the farmer to support free trade.

A second glance at the proposed trade policy is not required to demonstrate that free trade, in the orthodox sense, is not contemplated and is not involved.² Trade policy has become an instrument of the foreign office or the state department.

More is at issue than a conflict between the general economic welfare and the special interest of agriculture. The whole question of how this country can use the full weight of its very great wealth and power in the interest of world political stability is in question. As Ellis has said:

¹Here, in the words of Horace Greeley (Political Economy. Boston, Fields-Osgood, 1870) is how the protectionist envisioned it. "It seems to me self-evident that protection tends to shorten the distance between the farmer and the artisan or manufacturer, hence to diminish the cost of exchanging their respective products, and thus to secure to the farmer not only surer and steadier markets for his produce but an ampler recompense for his labor." p. 71.

²Cf. Ellis, Howard S., "Removal of Restrictions on Trade and Capital", in Postwar Economic Problems edited by Harris, op. cit. "International trade and finance after the war, it is sometimes thought, either will go the way of the thirties, marked by rigid national interference of an autarchic nature, or will return to the relatively unregulated character of trade in the prosperous twenties. These extremes - intensive national regulation versus 'free' international trade - may appear to be the natural alternatives; in fact, however, they are not the
protective tariffs in the United States, particularly on certain agricultural raw materials promise to be the one most formidable obstacle to postwar international reconstruction.\footnote{\textit{Ibid.}, p. 353. (Italics mine) }

A rethinking of many aspects of national policy is currently required. Not only the economically desirable, but the politically feasible need to be taken into account. For although the role of government has expanded, policy is not something independent of the power groups within the country, nor of the power struggles between nations.

Agriculture is but one of a number of separate pressure groups which has perfected the technique of imposing its own policy upon the economy. It has emerged as a politically unified industry, capable of a significant show of strength on matters which involve, or appear to involve, the interest of farmers.

For many years the farmers of this country felt that they were at a disadvantage, politically, because they were widely scattered over a large area. Sectional differences, the lack of communication and rapid transportation, were long an almost insurmountable barrier to the meeting and joining together in their common interest, of those engaged in primary production. The automobile, the aeroplane, the radio - rapid transport and communication - have systematically reduced those barriers. In addition the institutional rigidities imposed by an inflexible area alternatives in prospect. The international movement of commodities and funds will be regulated in all events, and the only issue is, will the regulation be national or international? For now, more generally than before governments have definitely accepted welfare economics as a basic policy." p. 345.
representation in the national congress have prevented the political
strength of farmers from declining, relatively, as fast as their propor-
tional numbers in the total population. As rural people have shifted
to the cities, which tend to be concentrated in a rather small number of
states, they have left their political representation behind them,
particularly those in the Senate. Thus, the political influence of
agriculture has increased because of the lag in the representative char-
acter of political institutions. However, the farmers' influence is also
an expression of the strategic control over basic raw materials. Although
agriculture has declined in relative importance in the whole economy, the
fact that it does exercise control over basic raw materials is itself an
important source of power, once farmers have been welded into a unified
group which behaves as such.¹ The growth of a separate policy for
agriculture has played no small part in such unification. "Parity" has
become a powerful political symbol to move men to action.

The crisis caused by the great depression provided the environment
in which factors favorable to the growth of a separate policy for agricul-
ture could emerge.² Through that policy, agriculture was invested with

¹That this unity was not achieved easily, and is of comparatively recent
date is illustrated by this quotation from G.S. Wehrwein, careful
student of agricultural problems, who in 1928, even after the rise of
the Farm Bloc, was doubtful that the farmers could ever hope to achieve
much through legislative action in controlling their industry ("What
Does Agriculture Need — Readjustment or Legislation?" Journal of Farm
Economics, Vol. 10, 1928): "The industrial groups are now numerically
stronger than the agricultural; and can outvote the farmer. It is
within their power to decide how much agriculture we shall have and
what kind, insofar as legislation can decide this. Left to their own
interests they will tend to select the kind and the amount that will
give them food and raw materials at the lowest possible prices." p. 16.

²Cf. Painsod, Merle and Lincoln Gordon, Government and the American Econ-
the public interest, and machinery set up for the purpose of raising and stabilizing farm prices. Almost the last important stronghold of private competitive industry had thereby disappeared.\(^1\)

In one sense a vast cartelization of agriculture had been achieved by the important farm groups operating through government, based upon the exploitation of the domestic market. In this politization of agriculture can be seen an important shift in power distribution which the cumulative growth of technology has brought about, requiring some rather fundamental readjustments to achieve a new political equilibrium within which economic progress can again become possible. For that control has not resulted in stabilization but has required progressive extension. When prices rose during the war, the "parity" goal was achieved, but what had appeared during the depression to be a far-off "Eldorado" was clearly seen to be inadequate. The parity formula was extended to include a long list of commodities not formerly recognized as "basic". In addition, legislation was passed which was intended to safeguard agriculture well into the period of transition to a peacetime economy. Still, the farmers of this

\(^{\text{1}}\) Cf. Schultz, T.W. Redirecting Farm Policy. New York, Macmillan, 1943. "Agriculture was once the classic example of free enterprise, privately and competitively managed. It is now subject to many types of governmental control." p. 1.
country face the future with great misgiving. If need be, they will undoubtedly be prepared to extend controls much further. Cumulative economic maladjustment, the growth of unmanageable surpluses, are likely to call for a cumulative application of control.

It will be useful, therefore, to consider existing agricultural policy as an expression of the shift in power relationships that has occurred at the domestic level.

The United States has never, in fact, had a national policy for agriculture, in the sense that France or Switzerland have a policy - that of consciously maintaining a peasant population on the land for specific social and political reasons. There, the policy is a product of a social philosophy which places a premium upon agriculture as a stabilizing force in the national political life of the country, precisely because the peasantry has continued to resist the changes which have accompanied the industrial revolution in other western countries. The high degree of self-sufficiency, the slow acceptance of newer methods has been, in a sense, the denial of economic progress which has been given high premium in the enterprise economy. For those countries such a policy has meant the preservation of something of a constant political factor in the shifting power relationships that have followed in the wake of technological development.

In this country, agricultural policy is the valuation of a farm population that has itself become highly commercialized, that has accepted the tenets of economic progress. Although certain elements of agricultural fundamentalism do play a part in the thinking of some farm groups,
and claims for special treatment have sometimes been advanced on those
grounds, this has been for the most part a rationalization of other,
more pecuniary motives. In developing their experiment in induced
behavior, farmers have embodied in it an endorsement of economic progress
and have at the same time placed the constraint of their own political
power in the way of progress. It is at once a bid for higher income
and a stipulation of conditions under which that income shall be earned.
When the separate policy for agriculture is set off against the policies
of other economic groups, each seeking its own advantage, the implication
for economic progress becomes clear.

The Role of Trade Policy

Foreign trade policy operates at a higher level. While it purportedly embodies what is accepted as the national interest, it has come to reflect the changed status of this country with respect to the rest of the world. The United States has emerged as the greatest industrial nation. In terms of the world economy its relative industrial importance is roughly 46 per cent of the total. Its importance in world trade,


and in world economic development has become so great, that its impact on the remainder of the world, the trading world at least, can no longer be ignored. Foreign trade, which occupies a relatively minor place in total United States trade, bulks large in world totals.

The dominant role of the United States in the world economy is suggested by the fact that it ranked as the premier exporting nation during the interwar period, accounting for 15.6 per cent of the world total in 1929. In the same year, its share of total imports was 12.2 per cent, being exceeded only by that of the United Kingdom.¹

Since 1923 the trade policy of this country has increasingly been modified to take into account the fact of its dominant position in world economic and political affairs, and since 1934 has been consciously shaped to influence both world political and economic development. The attempts to expand trade and alleviate world depression during the 1930's, was in part a move to use the weight of the United States to stabilize the deteriorating political relations and stop the drift toward war. Once war began, trade policy was directed solely to the defeat of the axis countries. Now it has become an instrument of reconstruction and stabilization. In each case the end has been largely political. Unless, or until political equilibrium can be affected, considerations of economic progress will be of secondary consideration.

Not without significance is the fact that the United States is almost

¹Ibid., p. 27.
alone in its desire to return to freer trade. England, where the theory and practice of unrestricted commerce had its birth, has shown considerable reluctance to abandon its comparatively recent experiments with the tariff and its system of empire preference. The Latin American nations at the Chapultepec Conference showed a singular lack of enthusiasm for the trade proposals advanced by this country's delegates. ¹ Soviet Russia and its sphere of influence will in all likelihood continue to operate under a system of state monopoly of foreign exchange.

The United States has emerged from World War II not only as a creditor nation, but as the greatest single creditor nation and the most important source for future loans and capital equipment. The devastated areas and backward agricultural countries have need for and desperately desire the durable consumption goods and the industrial "know-how" of America. Certainly, the lot of the Chinese, the Indian, the South American gaucho, and the Eastern European peasant could be elevated in a matter of years, with sufficient left over to pay the returns on borrowed capital, rather than in a matter of decades (or never) if their countries are forced to accumulate capital from present income. The experience of Russia has demonstrated that capital accumulation is possible in a backward peasant country, given vast natural resources and authoritarian government, but even then the cost in human sacrifice is great.

The marginal productivity of capital invested in these areas is

likely to be considerably higher than if invested at home, where, in a mature industrial country with large capital accumulation and a high rate of savings, the return on new investments in the volume required to maintain full employment is not sufficient inducement for that investment to take place; where only increasing public investment appears likely to perform the task. The return in human satisfaction, as well as efficiency, would certainly be higher if employed in underdeveloped areas than if used to an ever-increasing extent in vast public works projects which no one particularly wants except to provide jobs.

There is no question of the ability of the United States to find markets abroad for its production of greatest efficiency - capital equipment, machinery, mass-produced consumption goods such as automobiles, refrigerators, typewriters, etc. - either if it is willing to accept payment in handicraft, raw materials and agricultural products, or if it is willing to lend abroad indefinitely. During the 1920's this country financed its large volume of exports to a considerable extent by lending; during the 1930's it did the same thing by buying high priced gold. Neither proved to be a sound basis for stable trade relations, for when defaulted loans caused a drying up of credit sources, trade declined sharply forcing radical adjustments, and a cumulative

\footnote{Public works programs, of course, are not the only method of redistributing income and increasing consumption. Cf. Boulding, op. cit. p. 189. "Faced with bursting storerooms and stockpiles, an entirely self-contained economy can do one of two things: increase consumption either by war or by subsidy, or diminish production. For any section of the world economy, however, there is another avenue of escape - the export of capital, or foreign investment."}
growth of national controls.

If the experience of the 1930's is not to be repeated, if trade is to flow in the regular channels dictated by economic progress and rising income, then there will need to be a system of political stability imposed through organization at the international level. This the U.S. State Department has, in fact, proposed.

Not the least of the difficulties faced by that program in gaining acceptance among other nations are the doubts regarding its sincerity. The countries most in need of the credits and the industrial equipment, face the realities of high agricultural tariffs and, doubting the ability or willingness of the United States to abide by a program which requires that it be willing to accept an increasing volume of imports, seek to retain the national control which appears to provide security.

Substantive agricultural policy can be said, therefore, to conflict with the proposed trade policy in two respects: (1) By insisting on the maintenance of high tariff rates on agricultural products to safeguard the domestic price policy, and (2) by rejecting in spirit the proposals currently being made by the State Department to implement this country's efforts to secure the kind of international organization which alone will make trade possible in an orderly sense.¹

¹Cf. United States Department of Commerce, op. cit. The effect of a bifurcation of national policy is well stated by Lary and associates: "The record of the thirties demonstrated that foreign countries, save for those narrowly dependent on the American market, could adapt themselves, after initial disturbances, to a relatively low level of exchange with the United States and yet attain a substantial internal prosperity and promote their trade with each other. And, in time, this country could also make the necessary adjustment
Creation of a political equilibrium at the separate national and international levels consists of two interdependent problems, and success in either area could reinforce and sustain the other. An expanded world trade which promoted full employment and rising standards of living would make easier the appeasement of contending political forces at the national level. An adjustment at the national level, particularly in the United States, which resulted in a high level of employment, might likewise be a significant contribution to world stability and international peace.

The latter, in fact, is the talking point of the important group of economists who propose that government attack directly the problem of full employment and rising national income as the most useful contribution that can be made to the world political problem. World trade, they feel, is secondary, and will follow as a matter of course if each country is able to achieve a high level of political and economic stability at home. In the words of Hansen, leading American exponent of this view:

With respect to the United States, it may be asserted with a good deal of confidence that this country could make no greater contribution toward the solution of the international political as well as the economic problems than that of achieving a high degree of internal economic stability at a level of fairly full employment of labor and other resources . . . . If we can achieve through a compensatory and developmental fiscal program in its export trade and domestic economy, although with difficulties exemplified by the agricultural policies of recent pre-war years. A world economy organized on this basis would unquestionably be less progressive and more subject to commercial restrictions and discriminations, but it is an altogether possible one. What is emphatically not possible is to have it both ways—a large volume of dollar receipts against a small volume of dollar payments. Yet United States foreign economic policy in the past has been largely predicated upon this manifest impossibility, most notably when the tariff on imports was sharply increased on two occasions in the face of continued efforts to collect war debts and promote exports. p. 24.
adequate markets for all we are able to produce, then we need no longer have any fear of imports.1

1Hansen, Alvin H., America's Role in the World Economy. New York, Norton, 1945, pp. 23 and 163. Somewhat in contradiction of Hansen, Professor Jacob Viner holds that this proposition is by no means self evident, and sufficient knowledge is not at hand to substantiate it. The volume of imports will depend, he contends, upon the marginal propensity to import and the income elasticity of demand for imports. He estimates an income elasticity of approximately unity. (Note: propensity to import is an extension of the Keynesian terminology and refers to the taste or desires of the individual; a person of foreign birth, with a taste for the products of his native country, would be likely to have a relatively high propensity to import; income elasticity of demand for imports can be defined roughly as the percentage increase in imports which would result from a one per cent increase in national income). Even an elasticity of demand of unity, however, could lead to a substantial level of imports. In 1939 with a national income of approximately 90 Billion dollars, this country's imports totaled roughly 4.4 billion, the largest in its history. With an income of, say, 150 billion, and assuming an income elasticity of unity total imports would be somewhere in the neighborhood of 7.5 billion. However, Professor Viner's contention that a high level of national income does not necessarily imply an automatic increase in imports is supported by indexes of income recovery, contrasted with the recovery in imports during the 1930's.

<table>
<thead>
<tr>
<th>Industrial Production in Certain Countries (1929 = 100)</th>
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<tr>
<td>U.S.</td>
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<td>------</td>
</tr>
<tr>
<td>U.K.</td>
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<tr>
<td>Canada</td>
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<td>Japan</td>
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<td>Sweden</td>
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<tr>
<th>Quantum of World Trade (1929 = 100)</th>
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<tbody>
<tr>
<td>Foodstuffs</td>
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<tr>
<td>-----------</td>
</tr>
<tr>
<td>88</td>
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<table>
<thead>
<tr>
<th>Materials, raw or part manufactured</th>
<th>1936</th>
<th>1937</th>
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<tbody>
<tr>
<td>81.5</td>
<td>95.5</td>
<td>111.5</td>
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<table>
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<tr>
<th>Manufactured</th>
<th>1937</th>
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<tr>
<td>59</td>
<td>86</td>
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<table>
<thead>
<tr>
<th>Total</th>
<th>1937</th>
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<tbody>
<tr>
<td>74.5</td>
<td>97</td>
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Underlying much of the reasoning of this group, however, is the assumption that a degree of political unity has already been achieved in a semi-autonomous policy, particularly in the field of monetary and fiscal control. But government still must operate in the face of constraints imposed by the separate policies of pressure groups and interests. Education of the electorate, the thinking through of policy objectives, the integration of separate policies so that they do not cancel each other out in cumulative political struggles still has to be accomplished. This requires effort in many areas. It is the purpose of the remainder of this study to show the forces that have shaped the separate areas of agricultural and foreign trade policy, the "beliefs" and "valuations" which today have resulted in the emerging conflict between the two policy areas, and to attempt a measure of the problem of integration.

Scope of Study

In Chapter III a review of the literature and a note on methodology will conclude Part I of the Study.

Part III will be a presentation of the changing role of agriculture as a factor in foreign trade policy. The emergence of a separate agricultural policy will be considered in greater detail. Finally, in a case study of the attitudes of leading farm organizations on the specific issues of the renewal of the Reciprocal Trade agreements, and of the votes of members of Congress as a measure of agriculture's opposition to freer trade relations will be presented.
Part IV will consist of an Analysis of the Common Denominators of policy and certain factors which may reduce the conflict.

Finally a summary will be offered.
CHAPTER III.

REVIEW OF LITERATURE AND A NOTE ON METHODOLOGY

A review of the literature which treats the essential problems embraced by this study is faced with the difficult decision of choice. International trade theory as a separate and highly specialized branch of economics has an extensive literature of its own. Agricultural policy and the role of the primary industries in a modern industrial society has likewise been the subject of extended discussion and controversy. In addition, the whole question of the interaction between politics and economics has been subjected to a voluminous treatment and poses a wide diversity of unsettled issues. The role of the social sciences as such, as a contributing factor to insight and action is involved. Technology’s impact on society and social institutions, as an important force in its own right deserves, and has received, wide attention. All that can be attempted, therefore, in the way of a review of literature is a controlled sampling for the purpose at hand.

Foreign Trade

Universal free trade, from Adam Smith onward, has been both a conviction, based upon logical demonstration, and an article of faith, with economists of the classical and neo classical school of economics. An integral part of the laissez faire tradition, it has received the most
complete treatment at the hands of Ricardo\textsuperscript{1}, Mill\textsuperscript{2}, Edgeworth\textsuperscript{3}, Marshall\textsuperscript{4}, Taussig\textsuperscript{5}, and Viner\textsuperscript{6}. In his systematic and thorough survey of the field, Viner has drawn upon more than 379 works of known authorship, and for earlier treatments of the subject upon scarce tracts of unknown origin. In this country Taussig has probably been the most distinguished and productive thinker in the area of international economics, of the classical - free trade tradition.

In most of these works, the law of comparative advantage provides the principal point of departure for the separate treatment of international trade. Two fairly recent works by Ohlin\textsuperscript{7} and Van Haberler\textsuperscript{8}, have undertaken to integrate the theory with the more general price-cost doctrine of economics.

The decline of the theory and practice of laissez faire has brought in its wake a rebirth of the Mercantilist doctrine which Adam Smith, with his free trade thesis, had attacked at length. As John Maynard Keynes,

\begin{itemize}
  \item Ricardo, David. \textit{The Principles of Political Economy and Taxation}. New York, Dutton. 1926.
  \item Taussig, F.W. \textit{International Trade}. New York, Macmillan. 1927.
  \item Haberler, Gottfried Von. \textit{The Theory of International Trade}. New York, Macmillan. 1936.
\end{itemize}
leading exponent of the new "nationalist" economic frames it: "It should be understood that the advantages claimed are avowedly national advantages and are unlikely to benefit the world as a whole." ¹

The rise of Public Policy, which must of necessity be a function of the national state, has meant the decline along with much of laissez-faire doctrine of the traditional approach to international trade.

Economic analysis and the economic problem, however, are independent of policy. This point has received increasing attention in the economic literature during recent years. Dr. Fred W. Taylor, ² in his presidential address delivered at the forty-first annual meeting of the American Economic Association in 1928, set forth the principles to be followed by a socialist state in the economic use of resources. Building upon the principles laid down by Taylor, Oskar Lange further elaborated on the practical aspects of resource allocation as it would face the collectivist state. ³ Finally, in the integration of collectivist and laissez-faire economies, A.P. Lerner⁴ has set up a theoretical framework for an economics of control.

wherein the principles for setting up a Rule (presumably the rule of law rather than the rule of men) within which rational economic behavior might be attained irrespective of a glorification of laissez faire or of the state. Both private enterprise and government could be made to function in the interest of the general welfare. Lerner frames the problem of trade as follows: "In a collectivist economy the same Rule can be applied to foreign as to domestic trade. If all countries . . . follow the same procedure, we will get the optimum utilisation of resources over all the countries taken together."¹

An important shift in the frame of reference for economic literature has witnessed the re-emergence of the macro-economic view of society as contrasted with the micro-economic view which concentrates largely upon the problems of the household and the firm, of partial equilibrium. The newer point of view is concerned to a much greater degree with the problems of national income, total employment, population, national fiscal and monetary policy, income distribution, capital formation, savings and investment, and, of course, the whole role of the general climate of opinion or expectations.

The break with the past, however, is not as sharp as it has sometimes been pictured. Economics too carries its past with it. Welfare economics, developed and advanced by Pigou² and others has been the starting for much

¹Ibid., p. 347 and 348.
of the later work; in the whole field of monetary and fiscal problems, an
undisputed province of the state, Fisher and Wicksell did important spade
work; J. M. Clark, through his studies in the social control of business
has assisted in the linking of micro and macro economics. The institutional
economists, never quite respectable in academic economic circles – Thorstein
Veblen, Wesley C. Mitchell, Walton Hamilton and many others, with their
interest in empirical research, have likewise broadened the base of econom-
ics and related it more closely to the other fields of social study.

Division of opinion among economists occurs, just as among other people,
with sometimes violent disputes between those too content with the old and
those too enamored of the new – an aspect of “valuation” at a higher in-
tellectual level. But Edwin Cannan, a third of a century ago, framed the
problem of increasing organization and collectivism and the attitude of
the economist toward it as follows:

3 Veblen, Thorstein. The Theory of Business Enterprise. New York, Scrib-
ners. 1932.
4 Mitchell, Wesley C. Business Cycles. New York, National Bureau of
Economic Research. 1937.
5 Hamilton, Walton and Others. Price and Price Policies. New York, McGraw-
Hill. 1938. This is only one of a series of studies which Hamilton has
directed and which are the basis for his inferential The Pattern of Com-
petition. New York, Columbia University Press. 1940, which is referred
to a number of times in the present study.
If anyone asks me if I am a socialist, and demands an answer, yes or no, in the rude way ill-informed people have, I say no. But if anyone asks me if I am anti-socialist or an individualist, I say no with equal readiness. I am not an anti-socialist, because I think progress involves a great extension of conscious organization, and I do not object to that extension and try to hinder it as much as possible . . . I am not prepared to take the line of advocating or opposing things simply on the ground that they seem to be in accordance with a general principle. 1

The "national" approach to economic problems has relegated international trade to a place of lesser prominence, as another aspect of trade in general. These words from Viner, a student of Taussig's, and an authority in the field are perhaps significant:

Economists are still fairly well agreed that world-wide free trade would contribute greatly to world prosperity, and a majority of American economists, I think, would still support with some degree of confidence the proposition that, in the long run, and taking only considerations of American economic interest into account, the United States would benefit from a complete removal of its tariff. But the economists have never been able to convert the American public to their views and, in recent years, have shown marked signs of having been converted to the short-run and nationalistic views of the public. If the United States should move in the direction of substantially freer trade there is now little prospect that the economic profession would provide united leadership. Perhaps this would not be a serious loss for the free trade cause, which is by no means merely a question of technical economic analysis or even of material prosperity. Security and power considerations have always been an important factor appearing to justify and even to require trade barriers. 2

Political Equilibrium

The problem of political equilibrium, or security, has been the concern chiefly of the political scientists, although certainly the sociologists and the anthropologists through their studies of integration have also contributed much. With many, the principal reliance has been in the law and organization, with the bureaucracy as the nearest approach to a representative of the general interest that can be attained. Gaus has asserted, for instance, that "Under modern conditions of complex social organization the civil servant is the nearest to an agent of the whole public in his ultimate function of looking out for the public interest not only in the administration of existing law but also in observing social change." Others place greater emphasis on the sheer "moral and physical" authority of government, to use a phrase from Hans J. Morgenthau, exponent of the balance of power thesis. Even Ernest Barker, who has the highest faith in democracy as a process, in his Reflections on Government, states that "The strengthening of executive government, and an adequate provision of leadership, is thus a work of justification which democracy has to achieve." Pendleton Herring has offered one of the better works on Public Administration in the Public Interest.

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3Barker, op. cit., p. 415.
Certain students of the problem of political equilibrium see its attainment through the medium of the "middle classes", as in the case of A.N. Holcombe\(^1\) - a thesis at least as old as Aristotle.

Not to be ignored, of course, are the important works of two Austrian economists who maintain that no basis for equilibrating political forces exists - that the growth of government interference with freedom in economic life is inevitably a cumulative process which must lead to a totalitarian, autocratic state. Friedrich A. Hayek and Ludwig von Mises have reiterated this theme in many books and articles, of which The Road to Serfdom\(^2\), by the former, and Bureaucracy\(^3\) by the latter, can perhaps serve as representative. Against which should perhaps be posed Herman A. Finer's\(^4\) reply to Hayek, bad tempered though it is, as well as his more pragmatic study of a balancing of social, economic, and political forces in The T.V.A.\(^5\)

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1 Holcombe, A.N. The Middle Classes in American Politics. Cambridge, Harvard University Press, 1940.
2 Hayek, Friedrich A. The Road to Serfdom. Chicago, University of Chicago Press, 1944.
4 Finer, Herman A. Road to Reaction. Boston, Little, Brown, 1945.
A separate treatment of the place of agriculture and of agricultural policy is very old. This is perhaps because of the interest society has always had in its source of food. Agricultural fundamentalism has had its champions in every age. The Physiocrats in France accorded agriculture special treatment, as the only true source of wealth. It was evident among the founders of this country, especially so in the writings and the philosophy of Jefferson. But when the world is viewed as a whole, the outstanding fact of economic progress is the relative decline of the farmer as a producer of income, in the modern sense. This point is stressed by Colin Clark in his important study. In its report on Postwar Agricultural Policy the committee of the Association of Land Grant Colleges and Universities sets forth as one of the basic economic considerations the fact that "in a progressive economy the needed foods and fibers can be produced by a decreasing proportion of the total population (production?)."

The record of American agriculture's continuing efforts to shape the conditions under which its production is carried on, are contained in two books, one by John D. Black and one by E.R.A. Seligman. A world approach

1 Clark, The Conditions of Economic Progress, op. cit.
2 Association of Land Grant Colleges and Universities, Report of the Committee on Postwar Agricultural Policy, October 1944, p. 5.
to problems of agricultural policy has been attempted by Karl Brandt, as a basis for economic prescription, assuming the political problem is capable of settlement.

Criticisms of existing agricultural policy are contained in two comparatively recent books by agricultural economists - T.W. Schultz, and John D. Black. A descriptive and analytical treatment of the workings of agricultural price policy, is contained in a study by G.S. Shepherd.

The Role of Technology

Perhaps the most important work on technology as the motivating force in economic progress, is contained in two works by Joseph A. Schumpeter:


A vast amount of work in the important field of the impact of technology upon institutions and organization has been done by the Sociologists, W.F. Ogburn\(^1\) being one of the more widely known in the field. The institutional economists have always devoted considerable attention to this important aspect of the adjustment problem, and it is reflected in much of their work.

Mention should perhaps be made of the work of Lewis Mumford, whose *Technics and Civilization*\(^2\) uses technology as his point of departure.

This brief summary makes no claim to completeness, and has been used only to indicate the areas from which ideas and interpretations have been borrowed in the process of thinking about the problem at hand.

A Note on Methodology

The objective of science is prediction and, indirectly, control. The purpose of policy is control for purposes of prediction. Knowledge and action, in social affairs, is an interdependent process, each setting limits to the other. This is the eternal paradox, which the social scientist faces, in his desire to know, to understand, and explain. To what extent is he rationalizing what exists, or what should exist - his own

\(^1\)Ogburn, A.F. *Social Change*. New York, B.W. Huebsch, 1934. This was among the earlier works of this author; technology is considered as one of the important forces of social change. A later pamphlet, *You and Machine*. Washington National Capital Press, 1934, contains a popular formulation of his thesis.

particular set of "beliefs" and "valuations"?\(^1\)

There is no neat solution to this paradox. There is no "objective" method which can guarantee that results are scientific beyond the "desire" to be objective.

Such is the nature of social data that they can never be refined and purified in the laboratory, to be recombined in proper proportions so as to provide definitive answers on problems of precise interaction and variation. For that reason the limitations imposed upon the social sciences are truly great. The neat expedient of intellectual experiment (controlled by rigid assumption and capable of considerable refinement) most useful as a teaching device in the classroom, opens itself to the characterization of "cultivated nonsense"\(^2\) unless used with the utmost care in the field of practical policy.

Even the welding of the social sciences with statistics and mathematics, that handmaiden of all the sciences, must accept its own limitations as a device for discovering new truths about institutions that are constantly changing, at times fairly rapidly, and must derive its principal usefulness from being able to tell "what isn't so".

It is not possible in problem solving or prediction in the social sciences to keep the distance between purpose and method, which is imposed by the nature of the subject matter on other sciences. For man is both

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\(^2\) The phrase is Professor Viner's.
the subject and object of study. Even the astronomer, who now stands off from his subject (and therefore maintains proper perspective and objectivity), given the power to participate in the affairs of the universe, would probably begin by altering a few orbits - the better to suit his taste or his preconceptions on design - and end with a headache of collision courses which would greatly complicate his science.

In human affairs, where "valuations", however arrived at, are social data, and thinking may make it so if it results in action, where nothing succeeds so well as success, or fail so completely as a venture launched in the face of doubt, laws can be no more than tendencies, certainty only a probability with not always clearly defined limits. "It is never given to man to know the whole truth, least of all about himself, lest he go blind or mad. He possesses only the power to detect untruth in the mouths of those who claim a monopoly of truth."¹

Nevertheless, there can be no substitute for the spirit and method of science, for those who would see the direction man is going, even though the purpose and end are unknown, who seek in the formation of policies a common denominator for separate activities that will make possible at least a "reasonable" amount of stability in human relations. As Myrdal has pointed out, one part at least of people's opinions, the "beliefs" as contrasted with "valuations" are subject to the ordinary methods of science.

The history of social experiment is replete with cases where even a rudimentary understanding of tendencies, and even facts, that are fairly common knowledge in the social sciences (even though it be knowledge of what isn't so) could have indicated in advance a probability of failure high enough to dictate their rejection in favor of an alternative.

While valuations are not of such nature that they can be made the subject of measurement by ordinary scientific methods, they are nevertheless, facts of the real world which have important bearings upon future events and are to be reckoned with in policy decisions. They do have a connection with the broad basic changes which have occurred over time, particularly as they affect expectations.

It is an assumption underlying this study that these valuations are an expression of the changing power relationships that have taken place in consequence of the impact of technological progress and of shifts in the centers of resource control.

The cumulative power struggle is such that efforts to gain further control have increasingly reduced the prospects for further economic progress and the processes of adjustment that is a prerequisite of that progress.

It is further submitted that only through the integration of power conflicts and the regularization of their solution at progressively higher levels of organization can the conditions required for further economic progress be reestablished. In short, policy making consists of the imposition of certain political rigidities for the purpose of economic flexibility.

The point of departure for this study is the growth of a separate agricultural pressure group, with its own separate policy. This policy is
a valuation, which is the expression of agriculture's collective power, and its interpretation of the past.

At the same time, the change in foreign trade policy expresses a shift in power relationships at a higher level.

Both reflect the present requirements for institutional change which alone can insure peace and economic development.

Although the debate over free trade versus protection was long the issue at academic levels, that was never the problem which the practical man faced. The question was whether tariffs should be higher or lower. The political success of protection can be traced in terms of the concessions the protectionists were forced to make in order to gain the required political strength for their ends.

An attempt is made in the following pages to trace the changes in the attitude of agriculture with respect to foreign trade as a parallel to the development of the industrial economy.

Agriculture was, in many respects, the last of the economic categories to respond to what Parker has called the "eruption of the group". Like the others, it has progressively built up in its own mind, the value judgment that its own best interest is the interest of society. That conviction is buttressed by the power that accompanies it.

This study makes no pretensions to the discovery of new truth. Its objective is otherwise. It is rather an attempt at synthesis, a bringing together of material from diverse sources, as they bear, or appear to bear, upon the problems of two public policy areas. The method is explanatory
and tentative.

This is dictated by the fact that public policy has more and more been acknowledged as occupying a place midway between the reservations staked out by the separate disciplines of political science and economics.

An attempt has been made to trace back an important area of national policy, with its attendant assumptions and valuations. The function of agriculture is viewed as more than the provision of food and fibres, but as part of the larger social process which has gradually freed men from a narrow dependence upon the soil. If it be taken, thus, there is justification for the reconsideration of the whole background of that important industry in American life, and a reason to raise the question of what its future is to be.

To consider economics and policies as part of an interdependent process is of course nothing new. Marx was among the first of the social scientists to attempt it on a grand scale. He thought he had found the key to history. He founded a whole school of thought, and a political action, based upon the assumption that only the victory of one of the contending classes in the social conflict can work for the unfolding history. It was his belief that economics was the cause, politics the effect. The view here expressed stands Marx on his head (as he claimed to have done to Hegel). For it appears that only in periods of political stability has economic progress made substantial headway.
If justification be needed for an attempt to straddle two areas of the social disciplines, perhaps these words of Ropke's will be as good as any:

As the present historical crisis finds its first, its most painful and its most conspicuous manifestation in the economic sphere, and since the nineteenth century has accustomed us to treat the economic problems as the main ones, it is easy to understand why the crisis is conceived primarily as an economic one and why, therefore, the traditional approaches of economics have been relied upon thus far. Men and means have been mobilized during the last ten years, on an unprecedented scale. Facts have been piled up sky ... the real cause of ... deficiency in the social sciences seems to lie just in the narrowness of our economic conception ... There is, in fact, increasing evidence that the real epicentre of the earthquake does not lie by any means in the strictly economic sphere, but rather that the economic disturbances are only the external manifestation.¹

PART II.

THE CHANGING ROLE OF AGRICULTURE AS A FACTOR IN U.S. TRADE POLICY
CHAPTER IV.
THE FARMER'S ROLE IN INDUSTRIAL TRANSFORMATION

It is possible to present a case for the hypothesis that the farmer became a protectionist through conversion, and to conclude with one economic historian that "During much of the period from 1860 to 1900 the farmer was quite doubtful of the effect of the tariff on his markets and prosperity . . . yet when tariffs on all they (the farmers) bought kept rising, they fell an easy dupe to protectionist arguments."¹ For, what agriculture now seeks in the articulation of its own policy, industry sought and obtained for itself earlier.

More is involved, however, than a process of conversion. The tradition of "the American way" has undoubtedly had an independent influence of its own, supported by certain empirical evidence of benefits derived by specific individuals and groups, but the basis for this meeting of minds in the growth of active protectionism among the farmers is to be found not in the idea but in the common denominator of opportunity, in the creation of a vested interest and the growth of political power.

Agriculture had to wait, perforce, for the working of time and technology to overcome the earlier barriers of sheer space to communication.

and organization before it could attain the basis of a unity which indus-
try had, almost from the beginning. Until almost the beginning of
the twentieth century, the great bulk of American farmers, widely
scattered across a sweep of continent three thousand by sixteen hundred
miles, had in common little more than a mutual hunger for free land.
Under circumstances where the marginal productivity of displacing Indians
appeared so high, at least in terms of expectations for future increments
in land values, the problems of foreign trade policy could be left to
those with an interest in that sort of thing. Only if it offered the
prospect of new lands, as it did in 1812 and 1860, could the farmer's
interest be aroused.

The farmer performed his function as an alienator and exploiter of
virgin resources to make his contribution to the growth of the republic,
but a force that was transforming England and the rest of Europe, the
dynamics of the industrial revolution, was to change his republic in a
manner no one could have foreseen. It was to transform the farmer as
well, bring him closer to his neighbors, shift him in great numbers to
cities and towns, and alter his own way of life and doing business. In
the words of Walton Hamilton, "The farmer, bulwark of the old system,
was dragged into the new, forced to become something of an industrialist,
and in time to speak the language of business with a slightly alien accent."¹

Early Trade Policy

The United States began its national life as a predominantly agricultural country. Aside from the local products of handicraft trades, usually closely linked with agriculture itself, the nation was dependent (as the colonies had been) on imports to supply the goods of more complex manufacture. Agricultural exports, the surpluses obtained from cultivation, the furs and hides collected by the hunters and trappers, the naval stores from abundant natural growth, were the resources converted by trade into items of consumption which could be had in no other way.¹

Jefferson, the author of the Declaration of Independence, was above all both in practice and in outlook, an agrarian; a majority of the members of the Constitutional Convention came from the land - the landed gentry to be sure, but their outlook and interest were tied closely to the soil and the primary industries of agriculture and forestry.² The makeup of the first Congress did not depart from this earlier pattern.

It would be easy to conclude, therefore, that when the first tariff act of 1789, which has been characterized as "protective in intention and spirit"³, was passed, it was the farmers of the country who initiated an embryonic "American system" of protection - allowances being made, of

³Taussig, op. cit., p. 16.
course, for the fact of limited manhood suffrage and certain common interests of the landlords and small manufacturers and traders in the struggle for power. On the other hand, it has frequently been taken for granted that the inspiration for protection was provided in Alexander Hamilton's famed Report on Manufacturers of 1792. But there is evidence to support the thesis that neither a desire on the part of the farmers to create a home manufacturing industry, nor their conversion by Hamilton, played a significant part in the decision to embark on a policy of protection.

Taussig points out that Hamilton's recommendations had very little effect on legislation. The provisions of the act of 1789 were decidedly on the moderate side, and, apart from a few specific duties (on certain selected items of trade such as hemp, cordage, nails, iron and glass) to stimulate production, were general and intended to raise revenue only.

For the next 20 years the country followed, to all intents and purposes, a free trade course, and the gross volume of trade, both in imports and exports, rose steadily. Yankee traders became familiar figures in the ports of the world. Many New England fortunes had their foundation in the foreign trade which plied a two and three-way exchange, returning to home ports with cargoes which ranged from molasses, oriental silks and spices to African slaves and immigrants in search of freedom and land.

1Ibid., p. 10.
Table 1. Growth of U.S. foreign trade, 1791-1814

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross imports (000)</th>
<th>Gross exports</th>
<th>Exports of foreign produce</th>
<th>Price of flour per bbl.</th>
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<td>31,500</td>
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<tr>
<td>1814</td>
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But the course of trade, as well as the direction of American development, was interrupted and given new directions by war. And by the War of 1812 — and especially by the Embargo and Non-Intercourse Acts which preceded it — there was created the first of the vested interest in a protected market. They were provided an entering wedge by the farmers and a president who had glorified agriculture and whose basic philosophy
was grounded in a distrust of manufactures.

The Embargo of 1807, and the Non-Intercourse Act of 1809, and finally the war with Great Britain, which was declared in 1812, were motivated by interference with this country's foreign commerce. Jefferson, fearing war and desiring peace, had first ordered American ships from the seas and then attempted to discourage their entry into European ports to avert the possibility of conflict with either England or Napoleon. It was the over-balancing majority of the agricultural interests that made the decision on which action was eventually taken - and this decision was made against the opposition of the commercial interests, as the Beards have pointed out:

If in form, the war on England was declared for commercial motives, it was in reality conceived primarily in the interests of agriculture... Agriculture just as shipping suffered from British depredations, for American exports were, in the main, not manufactures but the produce of farms and plantations. The men who voted in 1812 for the declaration of war on England represented the agrarian constituencies of the interior...

More than the question of American rights on the seas was involved. The then imperialistically inclined farmers, pushing out from the frontiers, and resentful of British aid and encouragement to the hostile Indians, saw an opportunity to annex Canada and remove the influence of England from the continent.

Quite aside from intentions, however, the overall effect of the war was to promote the growth of domestic industry. Restrictive legislation from 1808 to 1815 amounted to an equivalent of extreme protection and under the mantle of the Embargo and Non-Intercourse Acts, as well as the
war restrictions, a substantial body of manufacturers grew up. After 1816, their success depended heavily on continued protection; consequently they "formed the basis of a strong movement for more decided limitation of foreign competition."\(^1\)

Although it had for a time been assumed that world trade relations would return to what they had been prior to 1808, the pressure for increased protection continued to mount, and the still comparatively moderate tariff of 1816 passed through successive upward revisions until it reached an all-time high in the Tariff of 1828 — the "tariff of abominations".

It can be stated, therefore, that at the inception of the American policy of protection, the role of agriculture was one of unwitting collaboration. The farmers' stand in the dispute with England had been a major cause of war between the two countries - a war which created the circumstances out of which grew a vested interest in protection in the home market. The mushroom industries came to look upon the domestic consumer as their own, by right, and proceeded to consolidate a close-knit position, over the years, in defense of that right.

Between 1816 and 1820 the protectionists were able to muster considerable support among the farmers, largely because of the effects of an agricultural depression which helped create willing listeners. The grain trade, which had been unusually profitable during the Napoleonic wars and imme-

\(^1\)Taussig, op. cit., p. 17.
lately after, due to drought and short crops in Europe, collapsed shortly thereafter with the imposition of the British Corn Laws of 1815 and the good harvest abroad in 1816. Land prices, which had risen sharply during the boom, collapsed, and the farmers, particularly of the middle states, followed the lead of the manufacturers in their demand for the creation of a home market by means of protective legislation. Moreover, they asked for protection of their own products of wool, hemp, flax, and even for corn and wheat.

Although a temporary phenomenon, attributable to the depression psychology and slated to cool perceptibly as foreign markets began to improve with the increasing economic activity in Europe, this brief farm support from the middle states aided the protectionists over the roughest part of the conflict with the commercial interest of New England, and the unregenerate opposition of the southern agrarians.

During the years from 1820 to 1860, the most important single factor in the economic development of the country was the effect of industrial specialization in Europe, which led in turn to the tremendous expansion in agricultural specialization in America. The factories and mills of England depended on the foods and fibres of the New World to a far greater extent than ever before. A balanced trade between the fields of the

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1 New York, New Jersey, Pennsylvania, Ohio, and Kentucky.

2 This included, in addition to tariffs, a bill for shortening credits on duties, and a tax on sales by auction of imported goods. Taussig, op. cit., p. 70.
United States and the shops\(^1\) of the Old World ran parallel with expansion and population growth in both hemispheres, with cotton, tobacco, cereals, and meat, being used to purchase tools, textiles, metals, glassware, earthenware, and other items of convenience and luxury. Four-fifths of all U.S. exports during the period were farm products.\(^2\) But the imports began to include more and more the means of industrial production—capital goods for railroad building, machinery, and techniques. Indeed, the whole industrial revolution was imported, and soon American inventors were making contributions of their own to the advancement of the secondary industries.

Foreign trade policy fluctuated widely, as reflected in the successive tariff acts, sometimes registering triumphs for the protectionists, sometimes granting concessions to the South. In the Tariff Act of 1828, the strategy of the southern representatives, of voting ridiculously high rates to all comers in an attempt to defeat the upward revision as a whole, backfired, and the "tariff of abominations" became law. But the Ordinance

\(^1\)It is to be noted that the South had supported the comparatively mild tariff increases in the Act of 1816. But by 1820 they were again in violent opposition. A slave economy was not adapted to factories. Manufactured goods would have to be imported from the outside, in any event. They could be had more cheaply from England than from a protected domestic industry. And there was always the fear that Britain might retaliate with a tariff on cotton.

of Nullification, which passed the South Carolina legislature in the autumn of 1832, and other threats to the Union, brought some modification in the Tariff Act of 1832, with the consent of the protectionists. Although in 1832 Henry Clay, ardent protectionist, had wanted to retain the rates of 1828 intact, he rose to the occasion in 1833 with his famous compromise which appeared to satisfy both sides - the South with proposals for reductions, the protectionists with the assurance that the reductions would be spread over 10 years.¹

Although the whole struggle of this era was heavily charged with many purely personal issues, such as Jackson's hatred for Calhoun - it was evident that the protectionists were being forced to give ground in the face of an aroused public opinion. Taussig, for example, observes that "In the farming states, the enthusiasm for the home market had cooled perceptibly; and in manufacturing states the agitation came rather from the producers directly interested than from the public at large."²

The Compromise Act of 1833 continued in effect until 1842, with reductions proceeding gradually as scheduled; then in 1842 tariff rates were quite low for a period, but were increased substantially in that year, to remain so until 1846. In 1846 they were again lowered and a period of very moderate protection continued until 1857, when rates were still further moderated.

²Taussig, op. cit., p. 115.
But the debates in Congress had begun to mirror, with ever-increasing bitterness, the approach of the "irrepressible conflict". The issue of slavery was injected into the picture by the northern abolitionists, while the southern representatives charged that this issue was "mere subterfuge to cover other purposes". All other issues tended to be subordinated to the struggle for power - power to determine, in the final analysis, the shape and direction of national policy. Reuben Davis, of Mississippi, however, declared in 1860, almost on the eve of the Civil War:

There is not a pursuit in which man is engaged (agriculture excepted) which is not demanding aid to enable it to enlarge its profits and all at the expense of the primary pursuit of man - agriculture... Now this combined host of interests stand arrayed against the agricultural states; and this is the reason of the conflict which like an earthquake is shaking our political fabric to its foundation.

For those who incline toward a "theory of history", it is easy to detect in the events of the period the inevitable working out of a process, the predestined emergence of triumphant "capitalism". An approach which weighs more heavily the impact of random variables and the role of conscious human decisions can trace the threads of an unfolding strategy, the imposition of an induced behavior, which gave powerful direction to future events. By rigid standards of economic interest, the tariff-conscious industrialists should have found the agrarian interests of the North and West arrayed against them with the agricultural South; true, the slave-holding planter had little in common with the crude frontier

1Quoted in Beard, op. cit., Vol. II, p. 4.
farmers, but the gap was no greater than it was with the small farmers and free holders of the South who fought beside their aristocratic neighbors in the "war between the states". But the compact industrial groups of the East and North possessed a cohesion and unity of purpose which the sectional, highly individualistic farmers lacked.

That strategy has been aptly characterized in a report which was presented to the Twelfth International Studies Conference at Bergen, Norway, in 1939:

The main agricultural industries were export industries; cotton and wheat had their world price fixed at Liverpool, and it was not easy to see why they should permit the artificial raising of the price level of manufactures when it was impossible to pretend, with any real plausibility, that protection could do anything for the farmers. Until the Civil War, this obstacle was too great even for so adroit a politician as Henry Clay, but the Republican Party was able to combine an appeal to moral emotion, to economic interest, and to patriotism that worked the trick. 1

The economic side of this strategy centered around the public domain, and the West was enlisted on the side of the party of protection by the prospect held out to it of free land under a "liberal Homestead Act". The public land question had been interwoven with the tariff controversy almost from the beginning, since both offered possibilities to the federal government for raising its revenue. 2 Accordingly, as part of its tactics to attract the farmers, the young Republican party let it be known that a quarter section of land carved free from the public holdings would be

1Gayer and Schmidt, op. cit., p. 7.

part of its program of the land hungry settlers. Support enlisted in this manner tended to continue throughout much of the second half of the nineteenth century, even though the land made available was never "free" and the Homestead Act, as administered, was anything but liberal. However, evidences of continuing considerations can be seen in the fact that the name of Justin Morrill graces both the Land-Grant College Acts and a number of the important Tariff Acts.

With the aid of the West, the northern protectionists were destined to emerge triumphant from their struggle with the southern agrarians, with practically a carte blanche for their system of regulating "commerce with foreign nations and among the several states and with the Indian tribes."²

Final triumph of an extreme policy of protection, however, can only be viewed in the full light of its historical background if certain details of policies evolved to meet the exigencies of the war be included.

Financing of the Civil War, as of all wars, required the development of new sources of revenue. A system of excise taxes of extraordinary intensity and inclusiveness were introduced to supplement the tariff, which, up to that time, had been practically the sole source of federal revenue. The tariff, too, underwent an upward revision as a means of increasing government income. But tariffs, if carried to too great ex-

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tremes, become self-defeating as producers of revenue. More and more the burden was imposed upon domestic industries and consumers. In this context there was evolved the practice of extending tariff protection to all industries carrying heavy excise duties as a means of compensating them.

"The high duties which the war thus caused to be imposed, at first regarded as temporary, were retained, increased, and systematized, so developing gradually into a system of extreme protection."¹

During the 25 years that the party of protection was to remain unchallenged in its control of national policy, the "war tariff", which in the beginning had been regarded as unreasonably high even by such convinced protectionists as Morrill, was rationalized and justified by degrees, was allowed to stand and even raised; after the war taxes which had called it forth were abolished.

Thus, by its support of the party of extreme protection, did part of agriculture (just as it had in the first decade of the century) contribute to the "American tradition" of U.S. trade policy, largely by indirection. Lacking a policy of their own, other than in a purely immediate sense, (incapable, in fact, of achieving such a policy) the farmer acted in consort with the group which did have a policy. Later on, when they were to recant somewhat and lead the fight against the creature they had helped create - the trust - the "road back" was a difficult one, to say the least.

¹Taussig, op. cit., p. 155.
Opposition to Protection After 1860

Between the Civil War and the end of the century, the economy of the United States underwent a complete transformation. From a primarily agricultural country, in which the small farm was dominant, there emerged one of the world's largest industrial nations.

Students of economic history differ in their weighting of the causal factors in this process of transformation. To some, the rise of large scale production units, the building of the cities, the spanning of the continent with railroad networks, represented the "triumph of business enterprise". To others, changing technology, the increase of scientific and technical knowledge, provided the impetus for the transformation, and the growth of the modern economy becomes, by this hypothesis, a fortuitous combination of increasing skills with a continent of fabulously rich resources. "Things are in the saddle, and the course of adventitious events takes its tumultuous way down the decades." Both, it appears, were part and parcel of the same process, with technology providing the stimulus, the organizational forms constituting the adaptation.

As the wealth and power of the nation grew, the protectionists of the period attempted to claim the credit for their own. They had promised the farmer markets in return for protection, and it behooved them, in the


2Hamilton, op. cit., p.19. Also see Schumpeter, Joseph. Capitalism, Socialism and Democracy. Sociologists like W.F. Ogden have had considerable to say in this particular field of the influences of technology.
interest of continuance of their policy, to claim credit when credit was to their advantage.

There can be little doubt that the growth of certain industries was stimulated by protection. That industrialization itself was promoted by the tariff is open to serious question. Taussig, after long and careful study, has shown in the case of one industry after another that technological advance, not protection, must be given credit for the rise of great industrial processes. Cannon is even more specific in his conclusion:

Even the loudly debated tariff from 1816 to 1897, did little more than favor one business at the expense of another; it has not been demonstrated that industrialization as a whole was benefited.¹

One phase of national economic development, however, did derive great stimulation and support from protection - the rise of industrial combination and trusts. That the newer technology would have promoted this growth in any event cannot be gainsaid. But that the lure of great profit, to be gained by combining to exploit a growing domestic market behind protective tariffs, accentuated and extended this tendency in a manner to produce serious abuse, political corruption, and exploitation, is a fact supported by impressive evidence. Herein is to be found the beginnings of the cumulative use of power.

The technological revolution produced its effect on agriculture as well as on industry. But as exporters still, of large quantities of their produce, and widely scattered over the continent on millions of individual

¹Cannon, op. cit., p. 197.
homesteads, the farmers were unable to achieve the degree of combination which was within easy reach of such industries as sugar, iron and steel, railroads, oil, textiles, and others. Unable to join effectively with one another in the exploitation of special advantages as producers, the farmers joined in the reform movement which ultimately succeeded in turning out the party of extreme protection in 1884, on a program which included the regulation of trusts and the revision downward of the tariff. Among the dissident agrarians, it is true, the burning issue of the day was the breaking up or the regulation of the monopolies and the instituting of other domestic reforms, but in the great tariff battle which followed Cleveland's famous message of 1887, the lineup of forces in opposition to protection found many farmers on the same side of the issue as the free traders. Cleveland, with a display of courage and insight rare in U.S. political history, had attacked the protectionist thesis on the grounds that the tariff, besides being "vicious and inequitable", taxed every consumer in the land "for the benefit of the manufacturers". ¹

Cleveland was defeated for reelection in 1888, but when the Republican party interpreted its victory as an endorsement for continued protection, farm voters contributed heavily to that party's overturn in the bi-elections of 1890 and to Cleveland's return to office in 1892.

Even the Republican party was to find within its ranks, from the North and West, representatives of the agricultural interests definitely

on the side of lower duties on foreign goods. The Chicago Tribune of that day declared emphatically that "the western farmers paid dearly for the tariff". Such were the convictions of editor Joseph Medill that he vented his editorial spleen in a vein calculated to arouse the inert farmers to action:

Where then is the remedy from the heavy burdens of a fifty per cent tax on the necessities of life, both imported and domestic? There is only one element or class able to remove it and that Samson is sleeping in the lap of Delilah and will not awaken. I, of course, mean the farmers. The plundered, unprotected twenty-five million of goose-like farmers who permit themselves to be plucked of almost every feather by a hundred thousand 'protected' monopolies. So long as this simple-minded, bucolic class does not kick off the burden laid upon them, Congress will not disturb the war taxes and the manufacturers' corresponding bounties. 1

Act they did, in a series of movements - the Grangers, the Farmers Alliance, the Populist Party - and dozens of additional spontaneous organizations, with the prime motive of stripping political power from monopolists, the railroads, and Wall Street. They were advised by such agrarian orators as Mary E. Lease, who, in the course of her 160 speeches during the campaign of 1890, is reputed to have said, "What you farmers need to do is to raise less corn and more Hell." 2

Not all of the farm organizations were in favor of free trade or even of protection. Proposals ranged from a tariff on bananas to increase the consumption of home-grown fruit, to the payment of bounties.

1Congressional Record. 51st Congress, First Session, p. 4436. Quoted by Representative Walker of Missouri in an address before the House.

2Hicks, John D., The Populist Revolt. Minneapolis, the University of Minnesota Press. 1931. p. 160.
to producers of such home-grown crops as sugar beets.

Lacking the unity necessary for concerted action, possessing in common only the depression-bred misery and resentment with their lot, the agrarian revolution was diverted first to a new party and then to the "money issue", meeting final defeat in 1896. Improving economic conditions and the improved expectations for the future had reduced the militancy of the farmers. The party of protection, secure once more, was to hold sway for 16 more years, and as if for appeasement, the farmers were granted tariffs on several of their own world-traded crops in the Act of 1897.

A review of agriculture's role in the shaping of foreign economic policy would not be complete without further mention of the counter movement within the party of protection itself - the so-called "progressive movement". During the early years of the present century, led by a small group of dissident senators from the predominantly agricultural Middle West, a revolt against the steadily increasing demands of the protectionists and their complete dominance of the Republican party was carried to the floor of the Senate during the debate on the Payne-Aldrich Tariff of 1909. This revolt was the forerunner of the third party movement in 1912 which contributed to Woodrow Wilson's victory.

The names most prominently associated with the progressive movement were those of Senators Beveridge, LaFollette, Dolliver, and Cummins - all middle-westerners. In the heat of their battle, Senator Beveridge of Indiana was quoted as saying, "I want to see an end to the scandal that
has accompanied the framing of every tariff bill. It has corrupted American industries and made great enterprises mere adjuncts to political agitation." Senators Aldrich, leader of the extreme protectionists, in an attempt to read the dissenters out of the party declared, "The Senate has been voting in reference to these matters with men who believe that protective duties are added to the cost of all domestic articles. The Senator's speech (Beveridge's) would have been made with great effect by any free trade or tariff reformer."2

In the final vote on the bill, ten Republican senators, all from the middle western agricultural states, opposed the measure.3 That the progressives interpreted correctly the attitudes of their constituents, and of the country generally, was borne out by the voters at the polls in 1910 and again in 1912. The split between the two wings of the Republican party contributed to the victory of Woodrow Wilson and the Democratic party's program of tariff reduction, but it is doubtful, in the light of

2 Ibid., p. 345.
3 On July 10, 1908, the New York World published a political cartoon portraying a bronze tablet engraved with the names of ten Republican senators, bearing the inscription, "In honor of the ten Republican senators who voted for the people against privilege, plutocracy, and the betrayal of party faith." The senators listed were: Beveridge, Indiana; Burkett and Brown, Nebraska; Dolliver and Cummins, Iowa; Clapp and Nelson, Minnesota; Crawford of South Dakota; Briston of Kansas; and LaFollette of Wisconsin.
the 1910 voting, that even without the split the results would have been
greatly different. In their platform, the Progressives favored a protec-
tive tariff which would equalize conditions of competition between the
United States and foreign countries, both for the farmers and the manu-
ufacturers, but pledged a downward revision.¹ Their program was not as
radical as that of the Democrats on the tariff and proved to be very
popular in the farming states, several of which returned a larger vote
for the Progressives than for either of the other parties.

President Wilson, in his tariff message, declared:

We must abolish everything that bears a semblance of
privilege of any kind of artificial advantage, and put
our business men and producers under the stimulant of a
constant necessity to be efficient, economical, and enter-
prising masters of competitive supremacy, better workers
and merchants than any in the world.²

The Underwood tariff of 1913 was far from a free trade program, but
it did represent a step in the direction of free trade and was a reflec-
tion of public sentiment and the sentiment of much of agriculture. "The
Democrats in the House . . . passed bills for lowering greatly the duties
on cottons and woolens; and they passed a 'farmers free list' bill which
indicated what element in the electorate they were determined to bid for."³

This first significant downward revision in the U.S. tariff since

²Congressional Record. 63rd Congress, 1st Session. Part 1, p. 132.
³Taussig, op. cit., p. 413. The free list for farmers included
machinery, binding twine, fertilizer ingredients, etc.
before the Civil War never became effective, however; the obtrusion of World War I so changed the entire trade picture that neither the catastrophe forecast by the protectionists nor the "new freedom" of the believers in free trade bore any resemblance to the real events. Changes already evident before 1914 were speeded up and intensified so that the whole world was destined, though a valiant effort was made, never to return to what it had come to regard (perhaps only after it was gone) as normal.

Under the stimulus of war demand, intensified by England and France having been cut off from the Dominions, from South America, and from Russia in the east, prices of agricultural commodities rose, and farm output in the United States was expanded to a new high. Foreign claims against the American economy, built up by borrowing from abroad during the previous century, were liquidated in great blocks, paid off with twenty dollar hogs, two dollar and twenty cent wheat, and eighteen dollar beef. The raison d'être of the export surplus which had seemed a permanent characteristic of the American economy had disappeared.

When the land of Europe once again came back into production and the remote and newer agricultural areas were released from the U-boat blockade, the foreign outlets of the American farmer shrank to a fraction of what they had been and U.S. agriculture was forced to adjust itself to a greater reliance on the home market than it had ever known. Now, at last, the arguments for protection to which it had been subjected for so many years were listened to with
renewed interest. Industry, persisting in old habits, and beating the drums for a return to "normalcy", was intent on renewed insurance against foreign competition. "The feeling for national self-sufficiency was intensified by the war; and the representatives of the agricultural West supported protection with a vehemence never shown before."¹

The farmers, faced with prices which had been halved - even out to one-third - were demanding assistance. The tariff was little help, as a protection to products which still spilled over into the world market. And so there began the drive to make tariffs "effective" for the farmer. Proposals for export debenture and domestic allotment, put forward as a basis for an integrated policy for agriculture, eventuated in the McNary-Haugen Bill. The west, which in the first decade of the century had produced the Progressive dissenters against the Payne-Aldrich tariff, now contributed its quota of the Farm Bloc - those "sons of wild jackasses" - which was to display its new power in demanding equality for agriculture.

This new attitude and display of political strength was clearly discernible in the Emergency tariff of 1922 but was finally to make its full power felt in the drafting of the Smoot-Hawley tariff in 1930.

President Hoover had summoned a special session of Congress in the summer of 1929 to deal specifically with the "farm problem", with no express instructions other than the suggestion that perhaps the tariff on agricultural products should be increased. As the special session dragged

¹Ibid., p. 449.
on into the following year and merged with the regular session, beginning in March 1930, the tariff issue became the central theme of Congressional attention. Every special interest in the country availed itself of the opportunity to lobby for an increase in its own tariffs. The agricultural representatives eventually revolted at the prospect of a session, called originally to consider the problems of their constituents, becoming the medium for voting new and higher tariffs for industry. There ensued a spectacle of log-rolling in the national legislative body at its worst which eventuated in the Tariff Act of 1930—a conglomeration of the highest duties on record, with large increases for agricultural products. It was for agriculture, however, very largely a Pyrrhic victory; the provision of subsidized dumping abroad had been eliminated and many of the agricultural tariffs were no more than nominal. Exceptions were those on sugar, wheat, corn, wool, long-staple cotton, dairy products, and live cattle.

An appraisal of the agricultural attitude at the time (offered in a totally different context but relevant to the topic at hand) is expressed by Charles W. Holman: "In 1929-30, all important national farm organizations were united for adequate protection against the inpouring of farm products from lands of cheaper costs."

After the onset of the great depression, and particularly with the coming of the New Deal, American trade policies entered upon a new phase —

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a phase which extends into the present. Agriculture's role in this new phase, and the emergence of a separate agricultural policy, will be considered in the next chapter.

Strategic Factors in the Growth of Agricultural Protection

While industry can be represented, generally, as having maintained a fairly constant attitude and pursued a consistent policy on the question of protection throughout most of the 19th century and until quite recently in the present century, no such generalization can be made for agriculture. As has been shown, there have been periods when farmers have favored free trade, or at least tariff reduction. There was rarely a time when they were not willing to accept protection on their own produce, particularly during depressions and periods of low agricultural prices.

An examination of the resolutions passed by farm organizations, the votes of congressmen representing agricultural constituencies, and an analysis of testimony presented at congressional hearings by spokesmen professing to speak for large bodies of primary producers will show, in the main, that where the opportunity has been present, the kind of trade policy desired by farmers has not been different from that of industry. 'Sockless Jerry' Simpson might be against a tariff, but, if there was anything going, he wanted his share for Kansas."

At the peak of the agrarian indignation against railroads and the trusts, when the farmers were charging, perhaps justifiably, that they were being exploited, tariff reduction was regarded as a way to strip them of some of their power. When they became sold on the idea that free coinage of silver would do the job more effectively, the tariff issue

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1Sayer, op. cit., p. 7.
became secondary.

Yet, an overall impression to be gained from such an examination of farm opinion from the Civil War to shortly before the end of World War I, would be that, while there were wide variations in the proportion of the whole, large numbers of farmers were of the opinion that industrial tariffs were against their interests and that protection for their own commodities would do little for them in any event. That opinion is voiced again and again by farm groups and agricultural leaders, together with a professed willingness to meet foreign competition on its own ground, if large industry would do the same. Witness, for example, a Minnesota resolution passed in 1891:

We demand that the war tariff which has too long survived the object of its creation shall be radically revised, giving very material reduction on the necessaries of life and placing raw materials upon the free list, to the end that we may compete with the world for a market. 1

It is scarcely conceivable that a like expression could have come from any comparable group of manufacturers of that day.

This consistency, on the one hand, in the policy pursued by industrial pressure groups, and the lack of consistency, by and for agriculture, can be traced (1) to certain political-institutional arrangements, and (2) to the dynamics of economic forces operating within that framework. Both, of course, acted upon each other, but for purposes of analysis the two can be separated:

1. Foreign trade policy was, from the beginning, a function of the national government—a grant of power under the Constitution to the Congress of the United States to regulate trade with foreign nations. An account has already been given of the struggle for control, through Congress, of that policy and of the strategy employed by the protectionists to determine its direction and nature.

On the other hand, no basic policy existed for agriculture, long regarded as a concern of the local communities and the states. A separate department of agriculture was not created until 1862, and even then was to wait for 27 years before being elevated to the status of an executive department with a Secretary in the cabinet to head it. Even the outlook of the department itself was to reflect an attitude essentially unfriendly to anything approaching a national policy until the third decade of the 20th century. Until then, it was to concentrate principally upon the adjustments within the individual farm long after the farmers themselves had inclined toward the advice of Mary E. Lease.

Politically, therefore, agriculture was at a disadvantage. After the Civil War, the South was practically without a voice in national affairs until the return of the Democrats to power in 1884; and by that

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1Gaus and Wolcott, op. cit., p. 9.

2Ibid., p. 9. Gaus and Wolcott cite a lecture by Carleton R. Ball delivered before the graduate school of the Department of Agriculture in 1936, in which he classified the personnel outlook of department members as follows: 1862-87, individual; 1888-1912, bureau; 1912-32, departmental; 1933-, national.
time, the industrial interests had perfected techniques for controlling party machinery and influencing Congress through the use of liberal campaign contributions, railroad passes, and other less savory methods. And, on the tariff question at least, they could gain the support of the growing laboring population by linking it with the gradually rising standard of living. When they felt it was contrary to their interest, they could even block the demands of agricultural representatives for tariffs on their own products, or use them as a leverage for raising their own tariff demands still higher. The case of a tariff on wool can be cited. When the agricultural representatives succeeded in passing a higher tariff on wool the manufacturers then used this tariff as the basis for a further increase in duties on imported woolen materials because of the increase in their costs.\footnote{Dickey, op. cit., p. 5.} Failures, such as this, played an important part in the repeated attempts by the farmers to found third parties which they felt would more nearly represent their interests. Later on, when the political scene had changed in their favor, they were to follow the older practice of industry—working through their own bloc in Congress regardless of party.

2. The economic environment, within which these political forces operated, was a conditioning factor, if not determinate.

In the development of a vast continent of unknown resources, the process of alienation and settlement was carried out by an agriculture
which was essentially exploitive. To feed and clothe the teeming peoples of Europe, as well as the expanding domestic population, the output of American Agriculture rose year by year. To fence and improve the land of the advancing frontier and to make it ready for the plow, millions of acres of forest lands were denuded in a manner which later generations were to view as fraught with great waste. Lands were brought under the plow which, in terms of later social costs, might better have remained in grass or trees.

Not counting forest products, agricultural exports rose in value from about $350,000,000 in 1870 to $335,000,000 in 1900. Until the turn of the century, the chief item of export was "the breadstuff of the West", with cotton holding second place. Forest products exports likewise rose steadily in value throughout the period. The growth and general character of exports from 1865 to 1900 are shown in Table 2.

1 Cannon, op. cit., Especially Ch. II.
Table 2. Domestic exports by sources of production, five-year periods, 1865-1900 (000 omitted)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Manufactures</th>
<th>Mining</th>
<th>Forest</th>
<th>Fisheries</th>
<th>Miscellaneous</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td>1865</td>
<td>$156,063</td>
<td>$59,037</td>
<td>$10,792</td>
<td>$14,858</td>
<td>$2,836</td>
<td>$4,796</td>
<td>$12,981</td>
</tr>
<tr>
<td>1870</td>
<td>361,168</td>
<td>68,280</td>
<td>4.71</td>
<td>1.10</td>
<td>3,026</td>
<td>1.85</td>
<td>2.981</td>
</tr>
<tr>
<td>1875</td>
<td>430,307</td>
<td>76,956</td>
<td>16.51</td>
<td>5.45</td>
<td>4,875</td>
<td>5.73</td>
<td>655,208</td>
</tr>
<tr>
<td>1880</td>
<td>685,961</td>
<td>102,856</td>
<td>12.48</td>
<td>1.15</td>
<td>5,883</td>
<td>5.73</td>
<td>1,050</td>
</tr>
<tr>
<td>1885</td>
<td>530,173</td>
<td>147,186</td>
<td>20.25</td>
<td>1.18</td>
<td>17,321</td>
<td>2.11</td>
<td>283,946</td>
</tr>
<tr>
<td>1890</td>
<td>622,921</td>
<td>161,102</td>
<td>17.87</td>
<td>2.11</td>
<td>15,798</td>
<td>2.11</td>
<td>599,238</td>
</tr>
<tr>
<td>1895</td>
<td>535,210</td>
<td>183,896</td>
<td>23.14</td>
<td>3.61</td>
<td>22,015</td>
<td>3.03</td>
<td>455,208</td>
</tr>
<tr>
<td>1900</td>
<td>635,958</td>
<td>433,682</td>
<td>31.65</td>
<td>3.81</td>
<td>37,844</td>
<td>4.76</td>
<td>1,370,764</td>
</tr>
</tbody>
</table>

Foreign countries, the United Kingdom in particular, as part of the process of building up cheap sources of food and raw materials, invested heavily in U.S. internal development during the 19th century, particularly in railroads, ports, and other internal improvements, but also in agricultural enterprises as such; the cattle industry, specifically, was one in which foreign capital was invested. Agriculture, therefore, highly exploitive and subject to great uncertainties, became the "hearer of wood and drawer of water" for industrial Europe, and the underwriter for the importation of the industrial revolution into America. The service charge on foreign debts rose until interest charges alone approached a quarter of a billion dollars annually. The neo-mercantilist bias became a semi-permanent part of the national outlook, as, year after year, visible exports exceeded visible imports and the way to national prosperity and development appeared eternally to be simply a matter of selling more than was purchased abroad. When farm surpluses exceeded in quantity the amount which could be sold at what farmers regarded as "reasonable" prices, neglecting entirely the value of non-replaceable national resources, they were assured that once the infant industries, which they were helping to support by means of tariffs, had reached a mature and efficient age, the situation would be changed. They were assured that the foreigner paid the tariff in any event. To a certain extent he did. But only to the extent that restriction did not lead directly to retaliation. For England, too, the principal creditor, was also enjoying a position in international economic life that was in one sense unique.

Because the demand for food and fibres was relatively inelastic;
and because the demand for England's industrial output was relatively elastic and capable of diversion elsewhere, the arbitrary action of those in control of foreign trade policy did not, for a considerable period of time, lead to the retaliation abroad, which the planters of the South had feared.

Time has wrought its changes, however, both in the political effectiveness of the farmers and in their role in both domestic and world economy. The sectional nature of agricultural interest groups, great though their influence proved to be in the past, has been moderated as they have fused into the larger national organizations that have demonstrated an ability to follow the lead of the earlier pressure lobbies of industry. The farmers have their own "bloc" of senators and representatives in Congress which can be fairly well counted on to vote favorably on important legislation, even across party lines, watched over and reported on by the "unofficial third house of Congress". ¹

The drift of farm population toward the better economic opportunity of the cities has contributed to this political effectiveness of agriculture, because of the heavy concentration of the urban population in a relatively small number of great centers such as those of the eastern seaboard, Detroit, Chicago, the steel centers of Ohio and Pennsylvania and on the west coast. Greatest agricultural strength can be mustered in the upper body, where the predominantly rural states elect

54 of the 96 members. In the House, rural districts elect 225 out of 435 members. Only in the electoral college with elects the Chief Executive, does the urban population possess the greater strength. ¹

The following table shows how the declining relative numerical strength of the rural areas has affected the representative character of the Senate:

Table 3. Senate representation and urbanism

<table>
<thead>
<tr>
<th>Degree of urbanism</th>
<th>Percentage of population</th>
<th>Percentage of Senate</th>
<th>Percentage of population</th>
<th>Percentage of Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>States under 25 per cent urban</td>
<td>32.9</td>
<td>42.2</td>
<td>5.7</td>
<td>10.4</td>
</tr>
<tr>
<td>States 25 to 50 per cent urban</td>
<td>31.9</td>
<td>37.7</td>
<td>52.8</td>
<td>45.8</td>
</tr>
<tr>
<td>States 50 to 75 per cent urban</td>
<td>30.9</td>
<td>15.5</td>
<td>43.9</td>
<td>35.4</td>
</tr>
<tr>
<td>States over 75 per cent urban</td>
<td>4.3</td>
<td>4.4</td>
<td>17.6</td>
<td>8.3</td>
</tr>
</tbody>
</table>


Despite the increase in the political effectiveness of agriculture, however, the United States could no longer be regarded as an agricultural

¹ Holcombe, op. cit., p. 102. Cf. also, Key, V.O., Politics, Parties and Pressure Groups. New York, Crowell. 1942. Especially Ch. III and XVII.
nation, though in terms of production it still ranked as one of the great producers of primary commodities of the world. Although its foreign trade almost doubled between 1900 and the outbreak of World War I, doubled again by 1916, and in 1929 was four and a half times as great as at the turn of the century, agricultural exports lost ground steadily as a percentage of the total.

The United States had become primarily an industrial country. More and more the domestic market was capable of absorbing the agricultural output, while to feed the mills and factories a growing volume of raw materials were needed from the outside. Many of these raw materials, coming from the newer countries with a semi-colonial agriculture, began to compete with American farm products. Latin American countries, Canada, Oceania, and Asia were developing as markets for U.S. industrial goods and were able to pay only in agricultural raw materials.

The following table will illustrate clearly the change which was taking place:

Table 4. Export of merchandise by groups
(Percentage of totals)

<table>
<thead>
<tr>
<th>Yearly average</th>
<th>Agricultural products</th>
<th>Non-agricultural products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1896-1900</td>
<td>66.2</td>
<td>33.8</td>
</tr>
<tr>
<td>1911-1915</td>
<td>49.7</td>
<td>50.3</td>
</tr>
<tr>
<td>1916-1920</td>
<td>42.1</td>
<td>57.9</td>
</tr>
<tr>
<td>1921-1925</td>
<td>48.2</td>
<td>51.8</td>
</tr>
<tr>
<td>1926-1930</td>
<td>38.1</td>
<td>61.9</td>
</tr>
<tr>
<td>1931-1935</td>
<td>36.6</td>
<td>63.4</td>
</tr>
<tr>
<td>1936-1938</td>
<td>24.4</td>
<td>75.6</td>
</tr>
</tbody>
</table>

Source: Gayer, op. cit., p. 25.
It has already been noted that the Underwood Tariff of 1913 represented the first sincere attempt at tariff reduction since before the Civil War and that this reduction was made possible by the progressive split in the Republican party, which gave a clear majority to the Democratic party under the leadership of Woodrow Wilson, a convinced and courageous advocate of greater competition and lower duties on all items of foreign trade. The farmers, by and large, divided their votes between the Progressive party and the Democrats, both pledged to downward revision of tariffs.

However, during the time that the bill was being debated in Congress, there began to appear increasing evidence of uneasiness among farm groups over what the effect of lower tariffs all round might do to farm prices. Farm papers were expressing concern over the likely effect on wool and sugar producers. The Country Gentleman was forecasting the ruin of the Louisiana sugar industry.\footnote{This magazine, with its large volume of industrial advertising, and a management closely allied with large capitalistic enterprise, has never been noted for its objectivity, or even for an unmixed bias in favor of the farmers.} Ohio newspapers predicted the demise of the sheep-raising industry in that section of the country.\footnote{Dickey, \textit{op.cit.}, p. 48.} Wallace's Farmer in Iowa, on the other hand defended the bill on the grounds that while the profits on growing wool would be less, clothing costs to the farmer would be less; it also maintained that, on the whole, the farmer got the
worst of the wool tariff in any event.¹

Although farmers generally had agreed that certain tariffs — those on industrial products — had been inordinately high and should be reduced, duties on farm products were not regarded as "unreasonable". As a result, an increasing emphasis was placed on the virtue of an impartial tariff commission, which would determine the "reasonableness" of tariffs by some objective formula based upon costs of production. Even among the members of the Democratic party, the old free trade loyalties were weakening; as Taussig has stressed, the difference between the Republican "cost of production formula" and the Democratic "competitive tariff" were not so great as had been assumed.² Under the former, cost of production would be used as a "minimum measure for rates, while the Democratic party insisted that it be the maximum".³ The National Grange, which had been sharply critical of the Tariff Act of 1909, in 1915 passed a resolution that since tariff legislation had long been unfair to farmers, a non-partisan tariff commission should be appointed which would adequately represent agriculture.⁴

²Taussig, op. cit., Especially Ch. 13.
³Schattsneider, op. cit., p. 8. When this writer considers the same conflict between the parties in the 1930 tariff debate, he observes, "If the platform of the two parties were, in fact, nearly identical, why were protectionist organizations, such as the American Tariff League, nevertheless fiercely Republican. The answer is that the costs formula is worked out so badly in practice that it can be made to mean almost anything."
⁴Dickey, op.cit., p. 49.
Although the Underwood Tariff remained "on the books" throughout the war, it was never, in fact, effective. When German submarines made the long shipping lanes from South America and the Pacific too hazardous, Allied demand was shifted to the United States because of the shorter distances of the North Atlantic where it was possible to protect merchant vessels traveling in convoy. Farm prices rose to dizzy heights and output expanded in response; new lands were brought into cultivation and mechanization proceeded apace.

At the close of the war, after the initial shortages had disappeared, the provisions of the Underwood Act began to be effective. By 1920, when farm prices had already begun to decline, considerable grain was being imported.

Proponents of a new high tariff argued that rates which would be effective in keeping out these foreign grains would raise the domestic price above the world market price by the amount of the tariff. And, at no time in history, had farmers appeared so universally in favor of shutting off the imports of agricultural products.

When protection failed to live up to the claims made for it, the advocates of agricultural reform turned to other methods of making the tariff effective. But the world was little more interested in the agricultural surpluses of the United States, even at very low prices, than were domestic consumers.

The production of newer agricultural countries was growing apace. Between 1909-13 and 1922-27, the wheat acreage of Canada increased from 10 to 22 million acres; that of Australia from 7.5 to 10.4 million. In New Zealand, between 1911 and 1922, dairy herds were doubled.

Following the peace settlement, a new wave of nationalism swept over many of the countries that had suffered acutely from food shortages during the war. France, Germany, Italy, and the newer countries created by the Versailles Treaty embarked upon a deliberate program to increase their own agricultural production. The emerging agricultural policy of this country, which sought a reserved home market, was, accordingly, not out of step with the times.

One other influence in the changing pattern of agricultural thought should be noted in passing, not necessarily as a causal factor but as evidence of the adjustments required, and actually taking place, within agriculture. It can be designated broadly as the Conservation movement, although that term has become a blanket covering a multitude of things. It has nevertheless become a symbol capable of influencing behavior in a manner inconceivable to an earlier period.

Frederic Jackson Turner, in his analysis of the 1890 census, had noted the disappearance of the frontier. By the turn of the century it was becoming increasingly difficult to move from worn-out land to new, virgin territory. An important form of agricultural adjustment had been removed.
The National Country Life Conference called by President Theodore Roosevelt in 1907 was an evidence of the change taking place in agriculture and in the national attitude toward the basic resources of the country. The day of a primarily exploitive and exploratory type of agriculture was drawing to a close. It is undoubtedly true that the conservationists — the great names associated with the movement, men like Roosevelt, Pinchot, Van Hise and others — have generated an emotional reaction which far transcends concrete accomplishments, but the movement has played its part in creating an environment favorable to a national policy for agriculture.
CHAPTER V.
DEVELOPMENT OF A SEPARATE AGRICULTURAL POLICY

It is now proposed to consider in greater detail the emergence of a separate agricultural policy after 1933.

The policy which has evolved is a reflection of the farmer's primary concern with a domestic market and of the growing body of experience in exercising control through governmental action. In the development of a program centered on the parity concept, farmers have been provided with an effective instrument for raising prices and with a symbol around which to consolidate a greater political unity among themselves.

The primary concern of farmers with the domestic market was an adjustment, as has been indicated, imposed from without in the process of world economic development. The extent of the adjustment that has been made has been shaped by the farmers themselves. Control of the domestic market has become increasingly complete.

The indications are that every attempt will be made to keep that control. The purpose here is to gain some estimate of the strength that has been built up to insure that it can be kept.

1Key, op. cit. "It seems that these policies which give the farmer a tangible stake in national policy, have stimulated a strengthening of farm organizations and created a higher degree of political alertness among farmers." p. 82.
General Background

The Agricultural Adjustment Act of 1933 was a product of the great depression, but its roots extended much deeper in time, to long-run developments (already noted) which had been speeded up and intensified by the impact of World War I. Following the comparatively prosperous years from 1915-20, agriculture had passed through more than 10 years of unrest and generally unsatisfactory economic conditions, an unrest which attained crisis proportions in 1930-32.

By traditional standards of economic analysis, the crux of the agricultural problem was to be found in the failure of farmers (or their inability) to adjust to the long-run changes which had occurred in national and world economic relationships.¹

Domestically, these changes were associated with shifts in consumers' wants as the country as a whole became richer - the demand for a greater proportion of goods and services produced in the secondary and tertiary industries.² Technological progress within agriculture itself, the shift from animal to mechanical power, were resulting in reduced requirements for crop and feed production. The adjustment called for, which in fact was taking place to a considerable extent, was the transfer of labor, of

¹Seligman, op. cit., p. 46.
²In technical parlance, the income elasticity of demand for farm products is relatively low in a wealthy society, particularly for staples, while it is relatively high for the products of secondary and tertiary industries.
farm people, from farms to the industries and the services which were accounting more and more for the growth in the national income and scales of living.\(^1\) This transfer could not be achieved rapidly enough to accomplish the downward adjustment in the production of the great staples, due in part to the lack of easy entry into other fields, in part to the traditionally slower rate of change among farm people, the smaller degree of control over the farm business. When the depression struck in industry, creating widespread unemployment among industrial workers, the movement of labor out of agriculture was actually reversed, with a net migration back to farms.\(^2\) Although this was a temporary phenomenon, it added to the crisis in agriculture and helped to create that "consciousness of need" which Key posits as a necessary condition for concerted political action.

The changing world relationships which were intensifying the agricultural adjustment problem were: (1) the ending of a debtor status for the United States; or the growth of the industrial and the economic weight of this country; (2) the growth of production in the newer agricultural areas which were rapidly developing a position in world trade analogous to that of the United States a half century earlier; (3) the changing character of U.S. exports, particularly as this country expanded its trade with the newer countries in Latin America, Oceania, Canada, and Japan; (4) the lag


in adjustments in institutions and attitudes in this country which alone
might have integrated it with an expanding world economy; the United States
still insisted upon behaving as a debtor country, exporting more than it
was willing to import.¹

One other factor adding to the complexity of the agricultural adjust­
ment problem — a factor that has received increasing attention from the
proponents of a "mature economy thesis" was the slowing down of the rate
of growth of total population.² Changes in the rate of growth of U.S. pop­
ulation are indicated by the following figures:

<table>
<thead>
<tr>
<th>Census period</th>
<th>Per cent increase during the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890-1899</td>
<td>20.6</td>
</tr>
<tr>
<td>1900-1909</td>
<td>22.6</td>
</tr>
<tr>
<td>1910-1919</td>
<td>15.2</td>
</tr>
<tr>
<td>1920-1929</td>
<td>16.0</td>
</tr>
<tr>
<td>1930-1940</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Regardless of the interpretation placed upon these figures with re­
spect to their full implication for this country’s future, there can be
little doubt that the slower rate of population growth has contributed
substantially to the magnitude of adjustments in agriculture, particularly
an agriculture greatly expanded by the war demand from 1915-1920.

¹During the movement for a “return to normalcy” which followed on the
heels of the First World War, H.C. Wallace, Secretary of Agriculture in
the Harding Cabinet, fought a losing battle with the Secretary of Commerce,
Herbert Hoover, in an attempt to get a liberalization of tariff policies
as a measure of relief for agriculture.

²Contributing causes to the declining rate of population growth were
(1) decreased immigration in consequence of rigid restriction after
World War I, and (2) a falling birth rate.
"Relief for agriculture" became a rallying cry for farmers early in the 1920's, which continued in a mounting crescendo. The political party in power was forced to pay increasing attention to unrest among the farmers. But assistance in the form of government intervention was confined largely to measures for easing credit and assistance to cooperatives and marketing organizations. In his two veto messages on the McNary-Haugen Bill, President Coolidge stressed the necessity for agriculture to rely upon its own devices to meet the required adjustments and upon the beneficence of the free market to solve the problem in the long run.

The first concerted action by the federal government to provide machinery whereby the efforts of farmers to better their economic position could be implemented, took the form of Agricultural Marketing Act of 1929. This act "aimed to provide agriculture with a mechanism for the orderly production and marketing of farm products that would parallel the production and marketing mechanisms of other industries. The major provisions of the act were concerned with marketing and the Federal Farm Board undertook to encourage cooperatives and stabilization corporations, provided the latter were established and owned by cooperatives. To unify the process of agricultural marketing with the support of loans, a 500 million dollar revolving fund was put into the hands of the Board."\(^2\)

\(^1\) A joint Commission of Agricultural Inquiry was created by Congress early in 1921 to investigate the "cause of the present condition of agriculture" and report in 90 days. The Secretary of Agriculture, by direction of the President, called a National Agricultural conference to meet in Washington, January 27-29, 1922. Another conference, called by President Coolidge, met in Washington in November, 1924.

\(^2\) U.S. Department of Agriculture, op. cit., p. 512.
persisted in official circles that the solution to the farm problem lay in the direction of improved market procedure, although during the summer of 1930, Alexander Legge, Governor of the Farm Board, toured the country urging reduction in the acreage of harvested crops. The onset of world-wide depression was destined to underwrite this experiment with failure and to raise the demand for more positive action among farmers and farm groups.

"Beliefs" and "Valuations" in the Formulative Period

Important to the understanding of the substantive policy of the present is an understanding of the manner in which farmers, and particularly farm leaders, interpreted their problem, and the objectives they set up as ultimate goals.

Worthy of note, perhaps, is the fact that two names prominently associated with discussions of agricultural reform during these years were those of George H. Peek and Hugh S. Johnson, whose "equality for agriculture" was to become a slogan which linked together the many continuing conferences and discussions. Both of these men had been connected with the farm implement industry, and their thinking was undoubtedly conditioned by the experiences of an industry which enjoyed substantial protection in the American market but which suffered from the depressed

1Peek and Johnson presented their recommendations in the form of a brief entitled, "Equality for Agriculture", which was submitted to the American Farm Bureau Federation on December 21, 1921, approximately one month before the meeting of the Joint Commission of Agricultural Inquiry.
conditions among the farmers. When this experience was projected into the agricultural field, it was to take the form of making protection, or the tariff, "effective" by separating the domestic from the foreign market. ¹

The central idea of the Peck-Johnson plan, with its equalization fee recommendations, was to be recast in other forms - the export debenture plan, the domestic allotment plan, creation of an export monopoly under either government control or management of the cooperatives, and others.²

But all of these plans were aimed at the raising of farm prices on the home market and the use of the tariff to insure against competition from abroad. In general, it can be fairly stated that these proposals had their most favorable reception among the farm organizations, the business and commercial organizations which maintained committees on agriculture, and political spokesmen in and out of Congress.

Other names associated with these early attempts to deal with the problems of a depressed agriculture included: George Warren, who constructed the first index of agricultural prices, which became the point of departure for a measure of the disparity between farm and other prices; H.C. Taylor, who established and became the first chief of the Bureau of

¹For industries operating under conditions of monopolistic competition, as the farm implement industry was, the practice of price discrimination between foreign and domestic markets had proven itself an effective means to increase profits.

Agricultural Economics, and who instituted the annual outlook conferences and reports in an attempt to provide farmers with a body of factual data upon which to base production and marketing plans; John D. Black, long-time advisor to the Department of Agriculture, whose summary of Agricultural Reform in the United States brought together much of the disparate thinking on the subject; M.L. Wilson, one time a division chief in the F.A.E., an agricultural economist and at one time the advocate of large-scale corporation farming as a means of solving agriculture's impasse; and C.C. Davis, one time Commissioner of agriculture in Montana and long-time student of agricultural problems. More could be mentioned - particularly the leaders of farm organizations who were to lead the struggle, year after year, to make certain that the farm problem was never far from the forefront of the minds of public policymakers, and key figures in the Department of Agriculture itself.\(^1\)

Many of these leaders were agricultural economists, but mostly they represented the farm management approach to agricultural problems. With the leaders of farm organizations they saw the problem in terms of the adjustments faced by the individual farmer, which are important, but which are not always adequate for thinking in terms of long-run policy for agriculture, as an integral part of the larger national and developing world economy.\(^2\)

\(^1\) Gaus and Wolcott, op. cit. See especially Chapters III and IV. pp.30-81.
\(^2\) T.W. Schultz ("Two Conditions Necessary for Economic Progress in Agriculture," The Canadian Journal of Economics and Political Science, Vol. X. No. 3, August 1944) in an attempt to rethink the problem of Economic Progress in Agriculture, observes, "In a consideration of the economic problems that confront agriculture there is much wisdom in a return to the classical tradition of treating these problems within the context of the political economy. In our division of labor in professional effort we have departed from this tradition; and our work has been weakened as a consequence." pp. 298.
When Henry A. Wallace assumed the duties of Secretary of Agriculture in 1933, the urgent need of the moment was for action. Farm prices had fallen to an all-time low, and farmers throughout the country were exhibiting an angry mood of discontent not equalled since the Populist uprisings a half century earlier.

The Farmers' Union, under the leadership of John Simpson, had, by 1933, marshalled a substantial and extremely vocal body of opinion in support of a "cost of production" program which sought to have enacted into federal law a series of prices based upon cost of production, and to prohibit the purchase or sale of farm commodities at less than that amount. The movement sought, in short, to have the government guarantee the farmer cost of production. Among the supporters of the movement was no less a figure than Senator George W. Norris of Nebraska. Proponents of the plan maintained that the income effects of such a policy would create purchasing power in the hands of farmers which would lead to an immediate revival of business and employment. Cost of production bills failed of passage in Congress by small margins.¹

It was, in part, to head off this economically unworkable cost of production program that the "parity" formula was originally put forward by the Department of Agriculture and "sold" to the farmers of the country [1]

¹See note on "cost of production" at end of this chapter.
as a program of agricultural justice with a solid core of scientific truth. The most complete statement of "parity" as the basis of a program to give content to the slogan "equality for agriculture" was contained in an official Department of Agriculture publication by Ezekiel and Bean. In a tightly reasoned statement of the measure of agricultural disadvantage, compared to the base period, 1909-14, these writers posed the more modest objective for a national agricultural policy. The goal, as stated, was to balance economy and raise agricultural prices gradually, thereby giving the farmer command over other goods and services which would make him as well off as he had been during the base period.

When this publication appeared, the first AAA had already been enacted into law, but it brought together and summarized the collective thinking that had been done by economists, farm leaders, and members of the Department of Agriculture in shaping the Agricultural Adjustment Program. It constituted a part of the continuing "education" which was calculated, finally, to build unity of support among farmers and farm organizations in the achievement of the "parity" goal.

At the time, in contrast with the "cost of production" agitation which proposed the raising of agricultural prices by government fiat to what appeared to be inordinately high levels, the reasoned statement of the parity goal seemed to possess the attributes of sound economic objective as well as justice for the farmer. At the level of prices prevailing in

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1933, the prospect of prices which would make the farmer as well off as he appeared to have been (viewed from a point in time some 20 years removed) during the base period, seemed positive, desirable, and right. The declaration of policy contained in the original act will make this clear:

Sect. 2. It is hereby declared to be the policy of Congress (1) To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefore, 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. In the case of tobacco, the base period shall be the postwar period, August 1919-July 1929. (2) To approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets. (3) To protect the consumers' interest by readjusting farm production at such levels as will not increase the percentage of consumers' retail expenditures for agricultural commodities, or products derived therefrom, which was returned to the farmer in the pre-war period, August 1909-July 1914.

The practical development of agricultural policy, however, is to be found, not in the statement of intentions, but in the manner in which it was worked out in the "interstices of procedure" over the succeeding five years. For parity, as an abstract statement of objectives, is quite different from the operational concept.

Since the purpose of this recapitulation of agricultural policy is limited, it is not necessary to consider the minutiae of detail which attended two major revisions of the Agricultural Adjustment Act (one

1Ibid., p. 1. (Italics mine).
necessitated by Court action) or the numerous separate agencies set up to deal with the problem of raising prices in the domestic market. The object here is simply to present an over-all view of the extent to which the emergence of this separate policy has, by a more or less cumulative process, contributed still further to a separation between the domestic and foreign market, in the process of adjustment to certain significant changes, political and economic, in U.S. and world relations.

In translating the statement of intentions of the AAA into action, the Administration, on the basis of previous experiences of the Federal Farm Board, and in the light of existing world conditions, had concluded that in order to put agriculture on an initial equal footing for the "orderly progress out of the great economic depression", drastic reduction of existing surpluses would be necessary. Accordingly, "millions of farmers entered into contracts to reduce acreage in specified surplus crops (and hogs) in return for benefit payments". These benefit payments were financed, originally, from processing taxes on the specific commodities, but when this procedure was invalidated by the Supreme Court, they were tied to the Soil Conservation and Domestic Allotment Act and paid out of general appropriations.

Although the production control features of the Agricultural Adjustment Program have been the more spectacular, associated as they were with the problem of soil erosion and conservation, it is doubtful whether the accomplishments have justified this attention. ¹ Improving technology and

¹Schultz. Agriculture in an Unstable Economy, p. 172.
the soil-building practices which were tied in with the program mostly offset the acreage reductions. The significant reductions actually achieved can be credited to the two major droughts of the 1930s.

The actual accomplishments in the direction of achieving "parity" prices for agriculture were made by the Commodity Credit Corporation, operating through the Ever-Normal Granary or storage program, the means whereby disturbing surpluses were removed from the market. Originally intended as a program for reducing price fluctuations due to variations in annual output by alternating large and small crops, the Ever-Normal Granary emerged as the most important price-raising agency in the adjustment program. Through the non-recourse loans of the Commodity Credit Corporation, the continuing surpluses in the basic crops - cotton, wheat, corn, rice and tobacco - were partially sterilized in their depressing effect on prices.

In his appraisal of the operations of the Commodity Credit Corporation, Shepherd sums up its operations from 1933-41 as follows:

The CCC loans were used, therefore, for three purposes: (1) to stabilize prices against fluctuations in production, (2) to stabilize prices against variations in general demand, and (3) to raise prices over a period of years.¹

He quotes the first annual report of the CCC in support of the view that the latter of these three purposes was regarded as the most important.

It becomes apparent, therefore, that while the "parity-formula", based as it is upon a ratio between agricultural and other prices, possesses

¹Shepherd, op. cit., pp. 39-40.
119.

a certain flexibility (though not very much when prices in the rest of the
economy are also comparatively rigid), such flexibility becomes less and
less when tied to a loan program committed to the raising of prices over
a period of years, based upon loan rates at a steadily increasing per-
centage of parity.

Here it may be useful to digress, momentarily, to consider the
evolution of parity as the increasingly useful tool which it has become
in the hands of the agricultural pressure groups for extending control
over the domestic market. On this point, again, Shepherd has summarized
the course of events:

In the first five years of the CCC, from 1933 to 1938, parity
was only a general and distant goal, and the loan rates were
set chiefly at the discretion of the administrators of the
CCC. The use of the loans to raise the general level, more
or less regardless of supply and demand (or, at most, in
anticipation of AAA reductions in supply), had been kept in
the background. The Agricultural Adjustment Act of 1938,
however, brought this use of the loans into the foreground,
and crystallized it into law. It circumscribed the CCC's
powers by specifying the range of 52 to 75 per cent of parity
within which the loan rates had to be set for wheat, cotton,
and corn.¹

This circumscribing of the specialists within CCC was accomplished
very largely by the spokesmen of organized agricultural groups, working
through the representatives of the agricultural districts in Congress.
For, by now, the effective use of parity as an instrument for achieving
the end of higher prices was obvious. The parity symbol had, in fact,
become an accepted part of the mores of American agriculture: it had

¹Ibid., p. 46.
largely superseded any vestiges of the cost of production dogma; practically all individuals and groups had cast their thinking in the parity mold, the only dissatisfactions evident being from the producers of commodities who were at a disadvantage under existing bases. This dissatisfaction mostly took the form of demands for revision of the formula, not the abandoning of the concept.

By 1938 it was already becoming apparent that the consequences of tying agricultural policy to a comparatively inflexible price formula were tending to: (1) promote greater rigidities in the use of agricultural resources and to freeze certain production patterns to their historical base; (2) widen income disparities within agriculture; and (3) still further reduce agricultural exports. This latter consequence is the direct concern of this study.

The proposed new directions in agricultural and foreign trade policies emerged together - the AAA and the Reciprocal Trade Agreements Program. It had been assumed by many, in the Department of Agriculture and out (explicitly stated by Secretary Wallace in many of his public statements and writings), that as the country recovered from the effects of the depression, provided a balance had been restored between agriculture and industry, that, when the effects of the new trade program had begun to assert themselves, the whole economy would move forward into a period of rising domestic and foreign trade.

A number of important agricultural commodities were still dependent upon foreign markets for part of their sales, ranging up to 40 per cent for cotton, more than 30 per cent for wheat, and lesser percentages for meat, lard, and certain dried and fresh fruits. If the United States were to completely insulate its agriculture from foreign markets it would require an even greater magnitude of adjustment. This Secretary Wallace pointed out repeatedly in his speeches and publications.

It should, perhaps, be noted that the direction taken in 1933 was decidedly more liberal with respect to foreign trade than was desired by some of the older proponents of agricultural reform. George N. Peek, first AAA administrator, who frankly espoused a nationalist program for agriculture - with a closed domestic market and an out-and-out dumping plan for disposing of surpluses abroad - broke with Secretary Wallace over what he regarded as a compromising of agriculture by the "free traders". "The administration", he charged, had, "... committed itself, by a distortion of the Reciprocal Trade Agreements Act, to a low tariff policy which has all the worst features of that free trade which the nation has always turned down at the polls." ¹

Nevertheless, the overall effect of the AAA programs, as they progressed through successive stages of revision and amendment, was to widen the gap between the American and the world market. When, after 1932, U.S.

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exports rose rapidly from their depression lows, agricultural exports followed an erratic course, but as a percentage of total exports, declined almost steadily (See Figure 1). The decline would undoubtedly have been more pronounced in the absence of subsidized exports.

Since this shift in the character of U.S. exports is consistent with a long-run trend, it would of course be a mistake to infer that the declining importance of agricultural commodities in foreign trade was due solely to domestic policy; however, there can be little doubt that in the case of certain products, particularly cotton and tobacco, the high American prices provided a stimulus for production expansion in other areas. Cotton acreage in Brazil, for instance, which stood at 2,466,000 acres during the period 1930–34, more than doubled by 1936 and rose to 6,672,000 acres in 1937; production increased from 481,000 bales in 1932, to 2,075,000 bales in 1937. Egyptian cotton production for the same period increased from 1,028,000 bales to 2,228,000 bales.1

The burden of troublesome surpluses continued throughout the decade of the 1930's (relieved now and then by the fortuitous intervention of drought, insects, and floods) despite the increasing pressure for acreage reduction, marketing quotas, and export subsidies. The U.S. carryover of cotton, just prior to the outbreak of the war, was in the neighborhood of 10 million bales - nearly equal to a normal year's crop. Large wheat

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1Egyptian cotton, consisting of long staple varieties, does not compete with American cotton, however, to the extent that the Brazilian product does.
Indicates of the Value of Domestic Agricultural Products and Domestic Nonagricultural Exports 1914-42

Source: United States Department of Agriculture
Interbureau on Postwar Programs

Fig. 1
stocks had also accumulated in the bins of the Ever-Normal Granary and on farms. These carryovers constituted a continuing threat to prices for current production, despite increasing regulation of the CCC to prevent sales at prices lower than the loan rate, and limitations on quantities that might be sold in any case during any one month or any year.

At prices maintained in the American market, it became increasingly apparent that farmers would prefer to produce more than the market could possibly absorb. The politicization of agriculture had failed to solve the problem of adjustment and stability.

Impact of World War II on Agricultural Policy

The war changed the context within which U.S. agricultural policy had been forced to operate, without materially altering its direction. By creating scarcities, where surpluses had been the rule, it gave the quite natural inclination of farmers to produce more, at higher prices, the sanction of public approval. By closing off important competing producers from access to the Allied markets, and by stimulating effective demand through large government purchases and induced full employment, the war greatly facilitated the entire price-raising process - the attainment of full parity prices for farm products. It did not, however, divert the agricultural pressure groups from a conviction that their subsequent interest would be tied to the domestic market.

By a sequence of legislative acts, from 1941 on, agriculture's representatives in Congress succeeded in enacting a series of hedges
against the time in the indeterminate future when the end of the war would remove from the picture temporary advantages that had accrued to the primary producers. In the act of May 26, 1941, mandatory loans at 90 per cent of parity (95 per cent in the case of cotton) were imposed by Congress on the CCC—except in the case of corn and feed wheat—and provisions inserted for the continuance of these loans for two years after the war. By the Act of July 1, 1941 (the so-called Steagall Amendment), the parity formula was made applicable to an extended list of commodities. Prior to the war, "parity" prices had been computed only for the five "basic" commodities—cotton, corn, wheat, rice, and tobacco. The Steagall amendment provided for the setting up of bases, and the extension of price supports for such non-basic crops as hogs, eggs, chickens, turkeys, milk, butterfat, dry peas, dry edible beans, soybeans for oil, peanuts for oil, American-Egyptian cotton, potatoes, cured sweet potatoes, and others. Although the price bases established for these newer commodities were not tied to the same historical period which characterized the basic commodities, and were more nearly tied to a forward-looking principle calculated to stimulate production on the basis of war needs, they have been added to the range of commodities which can now be expected to look to government intervention for securing price supports on the domestic market.

Section 21 (c) of the Surplus Property Act of 1944 (Public Law 457, 78th Congress) prohibited the sale by the Commodity Credit Corporation of agricultural commodities in surplus in domestic markets at less than
domestic price or parity, whichever is higher, but permitted export sales at world prices.

On April 12, 1945, Congress extended the life of the CCC to June 30, 1947, increasing its borrowing authority to $4,750,000,000 to support farm commodities through loans and purchase operations; prohibiting sales of farm commodities owned by CCC at less than parity except for wheat for feeding (at not less than the parity price for corn) and except sales for new or by-product uses, exports, seed or feed, or peanuts for oil. It was further stipulated in this act (Public Law 30, 79th Congress) that these provisions were to continue for two years after the present emergency.

Behind this wartime legislation can be seen the continuing concern of the organized agricultural groups with safeguarding against a recurrence of the events of the 1920's. Thinking among farmers and farm leaders tends to be in terms of price - of preventing a debacle in farm commodity prices, such as followed World War I. An indication of such an attitude is to be seen in the assumptions behind policies of the National Grange, that American consumers have never paid enough for food; it is evidenced in the credit claimed by the Farm Bureau in securing the passage of the bills listed above, and other wartime measures to insure that price control should not interfere with farmers receiving full parity prices or higher during the emergency.¹

¹The American Farm Bureau Federation. The Nation's Agriculture. October, 1945.
In effect, this primary concern with a rigid and a high level of farm prices dictates that the focus of attention must be the domestic market. The foreign market has been of declining importance - the result of long-term shifts in the world economy, intensified by the dislocation of war and to a lesser degree by the positive action of a more politically conscious agriculture.

A Note on Cost of Production

It would be interesting to speculate on how the cost of production approach to agricultural adjustment might have developed as a vehicle for the framing of a substantive policy which is an expression of the politization of agriculture.

Cost of production, as an economic concept, is another term which possesses that specious quality of "misplaced concreteness" which gives it a certain popularity with many people as something real, something directly applicable to everyday life. It has, for years, been a useful fiction employed by the Tariff Commission as a basis for tariff rate determination. Recommended rates are supposed to reflect the difference in cost of production between producers in this country and foreign producers, in order that foreign and domestic commodities shall "compete" in the home market on a basis of equality. Practically, its use has been as a device for raising tariff rates, and hence for maintaining high prices on the home market.

John D. Black offers a useful breakdown of cost of production into
component parts, and shows that it is really an embodiment of three ideas or concepts. These are summarized as follows:

1. Historical cost - the sum of the cost items actually spent on some production already completed. In computing such costs, buildings and machinery are charged on the basis of depreciation from their actual, original purchase price. It will be apparent that cost thus computed will commonly be out of line with prices on the high side in a period of improving technology or declining price level.

2. A second meaning of cost of production is cost equal to what prices 'should be' - for example, equal to prices that will support the kind of living producers want or that somebody thinks they should have ... What you really do is decide what income and prices you want for farmers and figure back from there.

3. The third and most useful meaning of cost of production is the amount that will need to be spent now, or in the production year which is just starting, to get the needed amount of it produced. This is commonly called the necessary costs ... Necessary cost figured by this method is likely to be fairly closely in line with prices over a period of several years. Any one year, the accidents of weather, or wars, or business recessions and the like, may make actual prices either higher or lower than necessary costs estimated currently just in advance. ¹

The cost figures used by the Farmers' Union and other individuals and groups in their campaign for federal legislation represented a combination, by and large, of Black's first and second cost categories - historical costs plus farm labor payments based upon returns farmers felt they should receive for their labor.

The most that could have been incorporated into legislation, through political action, would undoubtedly have been the setting up of costs of

¹Black, Parity, Parity, Parity. p. 179.
production as an objective which could be approached gradually over a period of time. Cost of production would have become simply a price-raising device, just as "parity price" did, and the limitations or constraints encountered would not have been different. Production control would more than likely have become a first order of business, with about the same likelihood of success which attended reductions under the AAA. For again, as Black points out:

> A full-fledged program of fixing prices according to unit cost of production would always be faced with the danger of pyramiding prices and costs. Once prices were set appreciably above necessary costs, land rents, farm wages, and capital goods, cost rates would rise in response and furnish a statistical basis for still higher costs. . . . Output control would need to become more and more rigorous to prevent a breakdown of the whole program.¹

The consequence to foreign trade and economic progress would, no doubt, have been similar, for the same desire to protect whatever gains had been made on the domestic market would have produced adverse reactions to any imports which might threaten an established American producer. Slightly less flexibility would possibly have existed between agricultural prices and prices in the rest of the economy. However, it is conceivable that, in the face of rigidities such as will likely face American agriculture at the end of the present emergency, the transition to necessary cost of production (what has been called forward pricing by Schultz and others) could perhaps be more easily made from a cost of production formula than from an established and slightly ethical "parity".

¹Ibid., p. 180.
CHAPTER VI.
EXISTING FARMER ATTITUDES ON FOREIGN TRADE

The concomitant development of a separate agricultural policy and the proposed new direction in foreign trade policy posed something of a dilemma for administrators in the two areas after 1933. Although Secretary Wallace had pointed out the consequence, in terms of the magnitude of adjustment required, of a completely nationalistic solution of the farm problem, organized farm groups were from the beginning openly hostile to the Reciprocal Trade Agreements program or accorded it a support contingent upon an assurance that farm commodities would not come under its provisions.

During the war both policies could pursue their separate courses without conflict because, under the stimulus of the requirements of total war, they were traveling in the same direction. For more than four years production restrictions gave way before the demands for more and more production, while rising prices and expanding output operated together to produce salutary income effects for the farmer. Despite the use by farm pressure groups of their full measure of political effectiveness to buttress their greatly improved position against possible future reverses, they did relax their opposition to the imports of certain agricultural commodities. The import of feed grains for use in the production of animal products, for instance, which in 1939 amounted to some five million bushels, increased to 18 million bushels in 1942, 246 million in
1943, and 224 million bushels during the first 10 months of 1944. Instead of opposing these imports, farmers actually urged their increase.\(^1\)

To interpret this behavior by farmers as an indication that, given full employment and a high level of national income, they would offer little resistance to a lowering of trade barriers is a seemingly self-evident conclusion. Such a conclusion is supported, as well, by experiences from the past. As will be recalled, even during the nineteenth century, the periods when farmers were most willing to acquiesce in tariff increases were the depressed ones, while during prosperous times they were quite cool to the overtures offered them in the form of tariffs on agricultural products in exchange for increased industrial tariffs.

But when it is considered that, in terms of moving forward into the immediate reconstruction period under the banner of world trade revival, timing is of the essence, and the attitude of agriculture may very well be determinate. And the vigor with which the farm organizations pressed for measures to safeguard their wartime gains is something of an indication of their lack of confidence in the ability of the economy to maintain high levels of economic activity.

In consequence of rising prices and a 30 per cent increase in production, farmers have emerged from the war years in a stronger economic

\(^1\)These figures include the imports of five selected feed grains comprising wheat unfit for human consumption, barley, oats, rye, and unhulled ground oats. Source of this data is an unpublished study by Bert F. Haselitz, J.M. Letich, and Theodore W. Schultz, of the University of Chicago, dated May 17, 1945.
position than they have known in more than a generation. Farm incomes
have increased more, proportionally, than have incomes in most other
sectors of the economy; mortaged indebtedness has decreased by more
than a billion dollars since 1940, while technological improvements have
raised the efficiency of the farm industry.¹

On the surface, at least, the post-war situation which faces
agriculture contains many more favorable factors than was the case in
1920. The war has pointed up, perhaps more than ever before, the
correlation between a high level of industrial employment, the size of
the national income, and agricultural income. There is evidence which
indicates that government, more than ever before, will bend its efforts
to the maintenance of a high level of employment and full production.

But, as Calvin B. Hoover observes:

There is considerable reason to suppose that even if we
succeed in maintaining the level of national income necessary
to, and consistent with, reasonably full employment, our
agricultural exports will continue their declining trend.
Should we have to import more agricultural products from
abroad, a new political problem might develop, reversing
the past situation. Farmers might become the effective
proponents of protective tariffs while manufacturers might
become the advocates of lower tariffs.²

Some indication of the strength of that political situation can be
gained from an examination of the position taken with respect to the State
Department's proposed renewal and extension of a more liberalized Recip-

¹U.S. Department of Agriculture, B.A.E., 1946 Agricultural Outlook Charts
Washington, December 1945, p. 33.

²Hoover, Calvin B., International Trade and Domestic Employment. New
York, McGraw-Hill, p. 139.
rocal Trade Agreement act in 1945. The bill to extend the Reciprocal Trade Agreement for three more years, from June 26, 1945, provided for a grant of power for the President to reduce tariffs by an additional 50 per cent from their January 1, 1945, level, and was regarded by the State Department as an important part of any attempt to liberalize U.S. trade policy for the postwar period. It had the endorsement of President Roosevelt, who in March, 1945, had sent a special message to Congress urging the passage of the bill. It had the endorsement of President Truman and was represented by the majority leaders in both houses as the first test of Congressional support for the new administration. In the light of the many circumstances favorable to international cooperation, and the strength of the political support for the proposed bill, the position of farm leaders and representatives of farm organizations in their testimony before the congressional committees, together with the votes of congressmen from the agricultural districts, should provide a useful case study in existing attitudes and an index of prospective conflicts between the two policy areas.

The published hearings of the Senate Finance Committee and the House Ways and Means Committee, containing 628 and 2935 printed pages, respectively, of testimony, supporting documents, letters, and telegrams presented to these committees to bring to their attention the stand taken by scores


of groups and organizations, includes the offerings from 20 organized farm groups or agricultural officials. This is exclusive of the evidence submitted by the U.S. Department of Agriculture as such.

As organizations, 14 of the 20 groups represented opposed the bill; six favored it. An analysis of the positions taken can be presented most conveniently by means of a classification of the groups represented into three broad categories: general farm organizations, agricultural commodity organizations, and special groups.

General Farm Organizations

Of the three large general farm organizations, the National Grange, the American Farm Bureau Federation, and the Farmers' Union, two were put on record by their representatives in favor of enactment of the bill, one as opposed.

The National Grange

The attitude of the National Grange, oldest of the general farm organizations claiming a total membership of about 900,000 farmers distributed throughout 37 states, has remained in unqualified opposition to the Reciprocal Trade Agreements act since its inception. Their position remains the same. In the words of Master Albert S. Goss, who testified before the Senate Finance Committee:

We believe in the American market for the American farmer... the American farmer and the American working man ought not to
have to compete for the domestic market with the lowest standards of living on earth.\footnote{1}

To attain this end, the Grange favors a tariff based upon the difference in cost of production. Although it is willing to recognize what it calls "natural advantages" in production, it maintains that any producer who shows a "reasonable" efficiency in his methods is entitled to a price which will cover his cost of production. This would presumably include anyone now engaged in agriculture. On this point, Mr. Goss observed:

There are those who say 'let the American farmer get into some other line but let us have food where we can get it the cheapest.' We do not concur with this philosophy. That nation is strongest and most prosperous which is able to maintain a well-balanced economy, producing, processing, and fabricating the largest part of the basic wealth upon which the economy is built.\footnote{2}

Two specific features to which the Grange objects in the Reciprocal Trade Agreements act are the "most favored nation clause", and the delegation of the tariff and treaty-making powers to the Executive. The first, it maintains, gives access to the American market to countries who have not given anything in return by way of concessions to American goods. The second, it maintains, is a violation of the Constitution.

The Grange is not uninterested in foreign trade, but it insists that it be viewed chiefly as an outlet for surpluses - which incidentally will not be large if conservation practices are followed - but insists

\footnote{1}{U.S. Congress, Senate, \textit{op. cit.}, p. 384. (Italics mine).}
\footnote{2}{\textit{Ibid.}, p. 386.}
upon the farmers' right to those outlets.¹

There is reflected in the testimony of the Grange representatives much of the character of that organization's membership, which is made up predominantly of farmers who produce for local markets - dairymen, poultry and egg producers, fruit and vegetable growers, and a fairly sizeable group of wheat farmers in the Northwest.² The almost religious quality of the agricultural fundamentalism which pervades the testimony of this organization's representatives, as well as most of its public statements, is indicative of the extent to which the basic interest of membership in the home market has shaped its opinions and its political strategy.

The American Farm Bureau Federation

Since 1934, the official attitude of the farm bureau has undergone somewhat of a change. At each of the hearings on renewal, since the Reciprocal Trade Agreements were passed, this national organization has supported their extension.

¹While neither Mr. Goss nor Mr. Fred Brenckman, Washington representative of the National Grange whose testimony was presented before the House Ways and Means Committee, touched specifically upon this point, it has been given positive statement in the national platform adopted at the 79th annual convention at Kansas City in plank number 6, which reads: "A two-price system for exports should be adopted, to be accomplished by international commodity agreements that assure the American farmers a fair share of the world markets at stable prices." Cf. The National Grange Monthly. Vol. XLIII, No. 1, January, 1946. (Italics mine).

²Key, op. cit., p. 56.
In 1945, President Edward O'Neal appeared before the Senate Finance Committee to urge the passage of the bill to extend the act and enlarge the powers of the Executive. In his testimony, Mr. O'Neal listed the total membership of his organization as 830,000 farm families, or three and a half million farm people. Under cross-examination, Mr. O'Neal stated that the National Executive Committee had voted 17 to 3 in favor of supporting the bill — the three in opposition being from the western states. He then cited a resolution passed by the national convention to the effect that "International trade is basic to the well-being of this nation and of the world."

In his testimony, however, Mr. O'Neal was careful to point out that the American Farm Bureau Federation does not favor free trade, but that it did consider the trade agreement program a practical approach in dealing with an extremely complicated international situation. Under cross-examination by Senator Taft, the Farm Bureau president indicated his organization held the view that:

Foreign trade is vitally important as an outlet for surplus agricultural products. The total volume of agricultural production in 1944 was 33 per cent above the prewar average. Even though the domestic market is the most important outlet for agricultural products, the importance of the foreign market as an outlet for farm surpluses cannot be overemphasized.

On the matter of agricultural imports, however, it was evident that

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1 U.S. Congress. Senate, op. cit., p. 448.
2 Ibid., p. 455. (Italics mine).
the official position of the largest general farm organization was considerably less trade-minded. This will be apparent from the following exchange between Senator Taft and Mr. O'Neal:

**Senator Taft:** If you reduce the tariff on Argentine corn, it is inevitable that you will reduce the price of corn in the United States.

**Mr. O'Neal:** We are not expecting to reduce the tariff so low as to destroy any legitimate industry in this country.

Mr. O'Neal continued:

It is true that there have been some reductions made on agricultural products, but it is important to note that the greatest care has been taken in making sure that such reductions do not cause a flood of imports that would disrupt our agriculture.

He then went on to outline why his organization was confident that agriculture had no reason to fear increasing imports under the Reciprocal Trade Agreements program, enumerating four safeguards against foreign competition: (1) the "escape" clause, now to be included in all treaties, which provides that at any time, as a result of unforeseen developments, the reciprocal trading arrangement leads to an increase in quantities which threaten serious injury to domestic producers, either government is free to withdraw concessions in whole or in part; (2) the use of quotas; (3) the provisions of Section 22, Public Law 320, 74th Congress, for an investigation by the Tariff Commission any time imports interfere with the price of a goods which is being curtailed under the Soil Conservation and Domestic Allotment plan, and a proclamation by the President to reduce imports when they are found to interfere with the agricultural program; and (4) the fact that Congress can, at any time, nullify the
In the light of his later amplifications, therefore, Mr. O'Neal's testimony appears decidedly less friendly to foreign trade than his opening statement and indicates the kind of contingent support his organization is willing to give.

Here, again, the character of the organizational membership will throw considerable light on the reasons behind Mr. O'Neal's stand. Mr. O'Neal is a southern planter and represents the interest of the cotton farmer. Control of the Farm Bureau Federation, by virtue of strength of membership, has resided almost since it was founded in 1919 in an alliance between the corn-hog Middle West and the cotton South. These are the great surplus crops least likely to benefit from tariffs. However, since the inception of the Agricultural Adjustment Administration and the growing disparity between the domestic and the world prices, the spectre of foreign competition becomes much more a reality. Thus the tendency has been, as in the case of the Grange, to cling to the hope of preserving the best of both the world and the domestic market.

Another factor, however, has led to a tendency for "splintering" within the Farm Bureau itself. A loose federation of state, county and local organizations, the Farm Bureau has been built around the county agent and the Extension Services of the land-grant colleges. Represented,

1 Ibid., pp. 460-61. (Italics mine)
2 Key, op. cit., p. 58.
therefore, in the National Executive Committee, is the diversity of interests in the wide variety of agriculture in the separate states, which, as the organization has grown in strength and membership during the years of improved agricultural income, has multiplied the conflicts. This is demonstrated in the fact that three of the State Bureaus filed letters and telegrams with the congressional committees, taking a stand opposite from that of the National Executive Committee.¹

It becomes apparent, therefore, that the kind of support Mr. O'Neal was able to offer for the program had to be the kind of "contingent" support his organization would accept, resting upon an assurance that the Trade Agreements would not interfere with the domestic market for "legitimate" farm products or with "parity".

From the standpoint of the cooperation that might be anticipated from the Farm Bureau in the way of support for a "sound" trade program, much would depend upon the interpretation they might place upon the term "legitimate". Would "legitimate" mean "low cost" or "efficient"? Something of an indication of what that interpretation might be can be had from the following exchange between Mr. O'Neal and Senator Taft.

Senator Taft: Mr. O'Neal, I would like to ask you a question about this western thing. For instance, the tariff on wool; apparently if that tariff were cut in half, it would destroy the wool industry. They all say so. What do you think?

Mr. O'Neal: I think so.

¹California Farm Bureau Federation, Michigan Farm Bureau Federation, and the Minnesota Farm Bureau Federation.
Senator Taft: You are willing to sacrifice that industry for the general welfare of the country?

Mr. O'Neal: No. No. That is the reason I am saying; let us have a trade agreement, let us have some bargaining authority and use the protective laws that you put on the statute books so as not to destroy that industry.

The National Farmers' Union

In their statements before the committees, James G. Patton, president, and Russell Smith, legislative secretary, of the National Farmers' Union gave unqualified support to the Reciprocal Trade Agreements act.

In his appearance before the Senate Finance Committee, Smith prefaced his remarks with a quotation from the resolutions passed by his organization, which claims a national membership of between 145 and 150 thousand families distributed among 32 states, at its preceding national convention. This resolution read as follows:

Trade barriers contributed to World War II and if permitted to continue will bring on World War III. When peace comes, we must freely exchange substantial parts of our farm and industrial production with other nations, receiving from them products which we need.

Mr. Smith then went on to say:

In the last 25 years, we have changed to the position of the largest creditor nation in the world. We don't believe we can maintain as high a standard of living with that changed position under the same kind of foreign trade policies which we had when we had the other position of a debtor nation.

1U.S. Congress. Senate, op. cit. p. 463.

2Ibid., p. 399.
Under the cross-examination of critical members of the committee, particularly Senator Taft, Mr. Smith continued to reiterate his position that the problems of trade could not be solved by continuing to examine piecemeal the effects of a particular tariff on a specific commodity - that the prosperity of all farmers depended upon the total prosperity of the nation. He stressed the importance of the "attitude generally of the people in the world rather than of specific instances", and insisted that "refusal to extend the trade agreements authority for more than one year would seriously weaken the United States' leadership in world economic affairs and would cause grave suspicion of our intention to participate vigorously in international cooperation for a world order and abundance", and insisted that "the issue of overwhelming importance is an issue of attitude, whether we prove our words of cooperation by deeds of cooperation."

In terms of agricultural and economic statesmanship, there can be little doubt that Mr. Smith presented the most forward-looking testimony that was offered before either of the committees by an agricultural spokesman.

In terms of the attitudes of farm groups, there remains only a question of the extent to which Mr. Smith (and Mr. Patton) were representative of the attitude of their members, or the extent to which they can continue to lead their organization if the membership feels that it may
be running counter to their narrower interests. In part, the organization's stand can perhaps be explained by its general background. Seat of its great strength is to be found in the Great Plains where farmers have been subjected to the rigors of a less friendly environment which has traditionally produced a more radical outlook. The area has the traditions of the Greenbackers and the Populists behind it. It has less love of the status quo, hence its policy demands are likely to weight more heavily the importance of change, to look to a future that is better than the past. As will be shown presently, however, the organization's stand on international trade has not been registered in the requirements it exacts from its congressional delegation.

The commodity organizations

In passing from the general farm organizations to the second classification based upon specific commodities, it is not necessary to consider the individual organizations in such detail. Suffice it to say that with two exceptions, the commodity organizations were solidly against the Reciprocal Trade Agreements. Those two exceptions were the International Apple Association and the Dried Fruit Association, both representing small memberships and both with very heavy stakes in the export trade.

1Cf. Schattschneider, op. cit. Especially Part IV, Chap. 5, pp. 217-285, in which the author analyzes the unrepresentative character of pressure groups and the extent to which claims habitually outrun the facts.
Largest of the commodity organizations, representing some 350,000 farm families in 46 states, is the National Cooperative Milk Producers' Association. Not only is this organization primarily interested in the domestic market, but it is also perhaps one of the most highly unified and organized. It has in the person of its secretary, Charles W. Holman, a most effective lobbyist with a competent and well-paid staff. The association has been, from the beginning, bitterly opposed to the Reciprocal Trade Agreements.

Mr. Holman appeared before both committees with extensive documentary evidence to support his position with carefully selected statistics. His position in brief was:

(a) An importation of so much as one per cent of the country's total dairy product consumption would ruin the domestic market. This is evident from the following exchange between Mr. Holman and Representative Eberharter from Pennsylvania:

Representative Eberharter: In other words a very small percentage of imports in relation to our domestic production could ruin our market; is that your contention.

Mr. Holman: That is correct.

Rep. Eberharter: One per cent?

Mr. Holman: Oh, yes, one per cent would do it.

(b) The most favored nation treatment provided by the act reduces American bargaining power and prevents the country from having a favorable balance of trade.

(c) The power granted the President to raise or lower tariff rates by as much as 50 per cent violates the Constitution and ties trade policy to international politics.
(d) Except for a few unimportant types of foreign cheeses, the United States has "abundant capacity to satisfy every need of the American consumer for all other dairy products". All that is needed is governmental support for a relatively small proportion of high-cost producers.¹

The position taken by two other important commodity organizations, the National Livestock Association and the National Wool Growers' Association, was practically identical with that of the dairymen, but while the latter has its greatest strength in the Northeast and around large urban centers, the other two are most influential in the West. The Wool Growers' Association is most active in 12 relatively sparsely populated western states, which in turn provide 24 senators for the upper house. The Livestock Association claims 17 affiliated state associations.

F.E. Mollin, executive secretary of the Livestock Association, summarized his organization's position as follows:

The land is useful only for grazing purposes and it would be just tragic to do anything to the livestock industry that would jeopardize the use of this tremendous land area in the production of food . . . I would like to say that if the information we have is correct, that we are going to need the American market when this war is over more than we ever needed it . . . I think I can say that our western cattlemen, western and southern cattlemen, are almost one hundred per cent in favor of the position I have taken . . . I do not recall a resolution that has been passed by any of our more than 100 member organizations which has been contrary to the position we have taken.²

The position of the National Wool Growers' Association, as explained by J.M. Jones, president, who claimed to represent an industry of 175,000 operators with an investment of three-quarters of a billion dollars, is aptly summarized by the following exchange with Representative Eberharter:

Representative Eberharter: On the basis of clean content, you would advocate then, at the present time under present conditions, a duty of how much?

Mr. Jones: Approximately 50 cents (a pound). I would judge roughly... and if we did not want to place a duty of that nature, we might have it by an import quota... then there would be two ways of doing it.

Rep. Eberharter: And that would keep the price to the consumer at a very high level, would it not?

Mr. Jones: It would be at a higher level than it is today, yes.

Rep. Eberharter: It would raise the price of clothing to the consumers of the United States?

Mr. Jones: To that amount it would, which of course would not be a very great increase on a suit of clothes for example.

Rep. Eberharter: But you would be taxing, in effect, every consumer or every person that wore clothes in the United States in order to protect the wool industry.

Mr. Jones: Yes, if you want a wool growing industry in the United States, that is what is necessary.1

The remainder of the commodity organizations to present testimony or to file briefs - the U.S. Beet Sugar Association, the Hothouse Vegetable Growers, the California Fruit Growers' Exchange, and the Oregon Nut Growers - took positions practically identical with those of the larger and more powerful associations. Since their testimony was mostly on a

1U.S. Congress. House. op cit., p. 1758.
lower plane and less ably presented, it is unnecessary to refer to it directly.

Miscellaneous

Two organizations of public officials with agricultural ties in the separate states - the National Association of Commissioners, Secretaries, and Directors of Agriculture, and the Southern Commissioners of Agriculture - would probably be least useful as an index of farmer opinion. The fact that both appeared in opposition to the bill may, however, indicate something of the schism which exists between the departments of agriculture at the state level as contrasted with the national level, and provide something of an index of the "splintering" of agricultural policy in consequence of the complex state-federal relationship that prevails in this country. Charges by the Southern Commissioners that U.S. trade policy was ignoring the interests of the cotton South may provide something of an indication of the metamorphosis of southern thinking in consequence of the national agricultural policy followed since 1934.

Votes of Agricultural Representatives

The attitudes of pressure groups become effective policy by being translated into political action and ultimately through being impressed

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1The nature of testimony given, however, indicates that the Southern Commissioners, as a subdivision of the national organization, merely presented its own case in order to make a more impressive showing. Both appeared to be "stooges" of local industries rather than representatives of agriculture.
upon legislation. The preceding analysis of testimony presented by agricultural representatives at congressional hearings on a bill purported to seek a liberalization of American trade policies has indicated a substantial opposition among farmers to any move in that direction which might force the individual commodities to compete with foreign products. It is now proposed to examine the results of the stands taken by congressmen, in particular those congressmen representing predominantly agricultural areas, in the debates and the voting which resulted in the final passage of the bill. The assumption is made, of course, in giving weight to congressional action, that senators and representatives do reflect, generally, the attitudes of their constituents.¹

Figures 2 and 3 are a graphic summary of the areal division between support and opposition to the Reciprocal Trade Agreements in the Senate and House of Representatives. It is based, not upon the final vote in the two houses, but upon the real test of support or opposition to the bill. In the House, the opposition made its supreme effort on a motion by

¹It is recognized, of course, that this assumption is a fairly sweeping one to make, particularly when applied to a specific bill. The individual representative is concerned chiefly with maintaining an acceptable record and not to please all of his constituents on every bill – an impossible task. If the general thesis of this study is true, however, this bill would likely be one on which farmers would feel rather strongly. The recent renomination of Senator Butler of Nebraska against the opposition of Harold Stassen, potential Republican presidential candidate with internationalist leanings, provides some indication of the extent to which this may be true. Mr. Butler was one of the most vigorous opponents of the Reciprocal Trade Agreements. His renomination by a predominantly agricultural state may be indicative of present farm opinion.
SENATE SUPPORT FOR RE EXTENS
Fig. 3
Representative Knutson of Minnesota to recommit the bill to committee. This motion failed to pass by a vote of 181 to 212. When the bill finally passed the House 239 to 153, the favorable votes included something over 25 that had actually been recorded in the opposition earlier.

Representatives Knutson and Judd of Minnesota had also proposed crippling amendments to cut the proposed extension from three to two years, and to cut the percentage by which tariffs could be reduced or increased to 25 per cent instead of the 50 per cent which the bill provided. Just before the final vote, another member of the farm bloc, Pace of Georgia, offered an amendment to prohibit the importation of any agricultural commodity which could be sold at a price lower than the "support" price being maintained for American production. Since this amendment did not come to a vote, Pace's stand has not been recorded against reciprocal trade. 1

In the Senate, the test vote on the bill came when Senator O'Mahoney of Wyoming proposed an amendment which would require Senate review of all Reciprocal Trade Agreements. 2 A proposal by Senator Shipstead of Minnesota to exempt all agricultural products from any tariff reduction was not brought to a vote. The final vote in the Senate was 54 to 21 in favor of passage. 3

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3 A total of 34 members in the Senate and House recorded no vote on the bill. A letter was sent to each of these members asking for a statement on what stand would have been taken had they been present and voted what, in their estimation, would have been the wishes of a majority of their constituents. Five replied with a definite statement. These have been recorded on the Charts.
It will be apparent that a vast majority of the opposition in both houses came from the agricultural areas. The strength of the support was in the South and the large urban centers. Something of a commentary on the support of the Farmers' Union members for their national leadership is provided in the fact that in the Great Plains states, the seat of that organization's greatest strength, the members of Congress were in almost solid opposition to the bill. This may, of course, indicate the greater relative influence of the commodity organizations with their congressmen.

The evidence of this section, however, appears to indicate rather conclusively the extent to which the farmers of the country have reached a conclusion that the domestic market must be preserved, and that their combined political strength can be used to the end of insuring their protection in that market.
PART III.

COMMON DENOMINATORS OF U.S. AGRICULTURAL AND FOREIGN TRADE POLICIES
CHAPTER VII.

EVOLUTION AND PROPOSED NEW DIRECTIONS OF U.S. TRADE POLICY

It is now proposed to consider in greater detail the general background of proposed U.S. Trade Policy, with particular reference to its conflicts with existing agricultural policy.

Although present trade policy seeks to create a political environment favorable to trade expansion, the factors which have made the United States the principal advocate of world trade are economic and technological.

Economic Basis of New Trade Policy

Because of its size, because it now accounts for roughly one-half of the world industrial production, and because of its acquisition of a large part of the world's gold and credit resources, whatever this country does has an important influence on the other trading countries of the world.

During much of the nineteenth century, the United States was able to maintain a trade policy that was highly arbitrary. It refused to be bound by the unconditional most favored nation practices of the principal trading nations,¹ or to follow the rules of reciprocity in commercial

¹Cf. Viner, "Peace as an Economic Problem", p. 92. "There was, in fact, during the middle years of the century, a peculiar interlude in the history of civilization, when all the important trading countries,
negotiation. In most of its major commercial agreements, it insisted on this country's right to determine when other countries had met the conditions for special consideration - such as were granted to Cuba and offered to Canada - with the result that while expecting most favored nation treatment for itself, it followed neither most favored treatment nor the principle of reciprocity.

For a considerable period, the United States encountered little retaliation, because during much of the period before 1914 there were still alternative opportunities for those countries that found the American markets closed. There existed what Lange has called "atomistic conditions" in international trade. The United States, itself, had a rapidly expanding domestic market and an industrial and agricultural plant geared to an expanding population. Surplus agricultural products, the principal items traded, were the most important items in financing the import of the industrial revolution.

After 1920, however, the United States had very largely cleared itself of foreign obligations. It had, by virtue of the first World War, become a creditor nation. In addition, its industrial plant had expanded to the point where it dominated many areas. Perhaps more significant is the fact that an industrial economy with a high percentage of capital

except the United States, were reducing trade barriers, when all the important trading countries, again except the United States, had committed themselves to the policy and the practice of the equality of treatment of all foreign countries, and when the two most important colonial powers were on their own initiative establishing the open door in their colonial territories."

goods production, becomes increasingly unstable and is dependent upon expanding markets in order to avoid periodic depression and unemployment.

During the 1920's, under the leadership of Secretary of Commerce Herbert Hoover, the United States vigorously promoted the sale abroad of the products of the heavy and mass production industries, while still insisting upon maintaining the traditional trade and tariff barriers. Agriculture's role in the policy of this period has already been considered in detail. However, it began to encounter increasing retaliation from other countries, singly and in combination. Its dominant position was too great to be ignored any longer.

Beginning in 1923, therefore, the United States proposed to extend unconditional most favored nation treatment to all countries, and to insist upon such treatment for itself.¹

The continuance of its high tariff policies, however, while pushing its export trade, made it increasingly difficult for other countries either to export their own products to the United States, and hence to pay for goods purchased, or to pay service charges on capital they had borrowed.

When, in 1930, the U.S. Congress passed the Smoot-Hawley tariff, the reaction in other countries was prompt and retaliatory.² The twenty-


²Cf. Gayer and Schmidt, op. cit. p. 69. "While the tariff bill (1930) was still being considered in Congress, European trade associations from every important country on the continent, filed protests against it with American consular and diplomatic representatives and after
five nations taking action, in nearly every instance, gave as their reasons the tariff act of this country. Soon the breakdown in international trade was complete.

The value of foreign trade of the United States fell even more rapidly than did that of the world as a whole; it dropped from $9,640,000,000 in 1929 to $2,934,000,000 in 1932. As world trade diminished, employment and incomes fell and the worldwide economic depression was deepened and prolonged. Between 1929 and 1932 our foreign trade dropped nearly 70 per cent; national income 45 per cent; cash farm income, 58 per cent; wages and salaries in manufacturing industries, 53 per cent.

As part of the New Deal efforts to recover from depression lows, the State Department, under Secretary Cordell Hull, instituted its "new trade policy", calculated in part to open up the markets of the world once more to American exports. It combined the practice of reciprocal bargaining with the principle of most favored treatment.

A case can be presented for the favorable effect on this country's trade, of 28 agreements concluded. During the two-year period immediately preceding the outbreak of the war, when 16 trade agreements were in effect, this country's exports to the nations covered by these agreements averaged 62.8 per cent greater than in 1934-35, while its exports to all other countries were only 31.7 per cent greater. Imports from the agreement countries averaged, during the same two years, 21.6

the Tariff Act of 1930 was signed by the President, foreign governments proceeded to enact retaliatory measures. Before 1931 closed, fully twenty-five countries either had made extensive tariff revisions, had increased specific duties, or had threatened to do so.

per cent greater than in 1934-35, while imports from the other countries averaged only 12.5 per cent greater.

These figures do not tell a complete story, however. For by 1938-39, this country's foreign trade policy had already become an instrument for rewarding friends and for punishing those whose policies and acts were clearly leading the world to war. The increased demand for American exports was in part a consequence of the rearming which was taking place in the countries that were later to become the victims of Hitler. The exception was Japan, which had been able to benefit directly from the trade agreements under provisions of the most favored nation treatment, although no agreement was concluded with that country. On the actual contribution to trade expansion, therefore, the figures are inconclusive so far as the effects of the Reciprocal Trade Agreements program is concerned.

Even so, the statistics indicate the fundamental weakness of the United States trade policy, even under the leadership of Mr. Hull. The expansion in exports far outran the increase in imports. And imports, if the United States is to participate in world trade expansion, will need to be expanded. They can be delayed by lending, but not indefinitely.

Economically, the United States has become the most industrially advanced country, with a high and increasing proportion of its population employed in secondary and tertiary industry. Sustained economic progress requires that savings be invested in an ever-expanding productive enterprise.

1Ibid, p. 19.
Under stable world political arrangements, part of these investments would move abroad, particularly in the raw material producing areas. Payment for these loans would be made initially in raw materials, handicraft products and semi-manufactured goods which would be imported into this country to enter the flow of a rising national income.

The tendency would then be for fewer people to remain in agriculture. For those who did remain, agricultural resources in labor and capital would be shifted to the more specialized production – quality produce, dairy and poultry products, livestock of high quality and finish, protective foods, and those types of agriculture, generally, requiring relatively greater proportions of skill, of capital equipment, and specialized resources.

These are the broad economic forces behind the general flow of trade which has taken place and is taking place in a world of unequal and uneven development, where the important force of technology is in process of binding the world together into a single economic unit.

Political Factors in U.S. Trade Proposals

Political institutions, the control of resources, and indirectly the control of men, are essentially conservative, conflicting, and non-rational. Resources have always been inequitably distributed among the peoples of the world. The principal social and political institutions that have evolved during the course of history have been concerned largely with preserving property and the advantages accruing from such control.
The slow growth of knowledge, the increasing command over the physical environment, has resulted in a continuing shift in organization forms, in types of control, and in the nature of property itself. And it has changed the channels through which political control operates.

Since about the end of the eighteenth century, the predominant political organization has been the nation state. The successor to localism and feudalism, in political organization, and universalism in ideology, the nation has become the principal expression of supreme power for the protection of property and the provision of security, as well as focus of the principal loyalties of its members. It is, as Kohn points out, an empirical arrangement and an idea.¹

Originally the instrument of absolutist governments, resting upon power derived from the control of the land, the state, under an extension of democracy which began with the rise to power of the trading classes, has gradually been opened to a wider participation by all peoples, who singly and in combination have exercised their powers to influence the economic processes, to command wealth and income, to redistribute property.

Conflicts among these groups, and among separate states, are a continuing force in the systems of power relationships. During certain periods, however, the persistence of comparatively stable political relationships have tended to free the efforts of men from such conflicts and opened the way for broad cooperative effort which has resulted in sub-

stational increases in wealth and welfare. The latter part of the nine-

teenth century was, by and large, such a period. It appeared for a time

that the political stability of those years had resulted in a submergence

of the overt manifestations of nationalism; and, while inter-group

struggles within some of the economically more backward countries were

frequently bitter, the temporary stability gave the liberal thinkers of

the time a reason to hope that in time the orderly processes of democracy

and individual economic freedom would ultimately spread over the globe.

The reform of institutions, which still contained within them the

vestiges of the old feudal power relationships, failed to keep pace with

other changes which occurred at an increasingly rapid pace. Inequalities

in wealth and power increased, rather than diminished, in consequence of

the new growth of technology. The essentially equalitarian ideals of

liberalism were never realized in fact, with a consequent "eruption of

the individual and of the group" as Barker has described it.

The breakdown of the old order in 1914, and the failure to reestab-

lish the kind of political equilibrium within which orderly economic

relations at the international level were possible, the growth of power-

ful monopolies and economic power combinations operating through their

governments, and sometimes independently of them all conspired to add

to the cumulative power struggles, both at the national and international

levels. In consequence, there was no return to what some had come to

regard as normal, no reestablishment of an environment within which ex-

pectations could be favorable to orderly economic progress.
Each country, acceding to the essentially exclusive and competing demands of divergent groups within, and by the use of unilateral and arbitrary actions without, has progressively reduced the possibility of political balance.

It is as an experiment in induced behavior at the international level, that the proposed trade policy of the U.S. State Department must be viewed. It is more than a trade policy. It is a political instrument. It is a pragmatic approach to the attainment of a world political organization, in which the economic and, probably the military weight, of the United States, is intended to be used as a means of promoting a political equilibrium at a higher level. The following quotation from Hansen, whose influence in shaping this country's economic policy has been considerable, is to the point:

The experience in the interwar period makes it clear that traditional approaches to the problem of trade and commercial policies are sterile and ineffective. It does no good merely to hold an international conference and make pious recommendations with respect to the removal of tariffs and trade restrictions. The experience in the interwar period shows that such recommendations produce no results. Worse yet, the more the experts recommend trade reductions, the more it seemed that those in charge of practical policy in the various countries resorted to increasing trade restrictions. We must make a fresh start on this problem. Expansionist international trade policies cannot and will not be adopted and put into effect unless they constitute part and parcel of a broader program of international cooperation.¹

Commitments already made by the United States to the end of world trade expansion and reconstruction are substantial. In addition to

¹Hansen, op. cit., p. 91.
adherence to the United Nations, these include: ratification of the Bretton Woods Agreement, which provides for a Monetary Fund for exchange stabilization, and an International Bank for Reconstruction and Development; an extension of the Reciprocal Trade Agreements program, with increased authority for the chief executive to reduce tariffs by an additional fifty per cent from their January 1, 1945 level; an increase in the lending authority for the Export-Import Bank, from $700,000,000 to $3,500,000,000; governmental loans to foreign countries (including the British loan) which may reach as much as $7,800,000,000; and a surplus property sale which will approach $6,000,000,000 - mostly on credit.\(^1\)

The National Planning Association, in its proposed trade program for the United States has estimated that world requirements for reconstruction and development will amount to $150 to $200 billions in the first postwar decade. Of this amount, it is presumed that perhaps half will have to be met by the United States.\(^2\)

Thus may be seen something of the magnitude of an undertaking which looks to the future of expanded world trade and development. While these figures (conceived during a time of very great optimism regarding the


possibilities of World cooperation) are undoubtedly in excess of the likely scale of lending by this country, it is quite likely that the nations of the world will shortly be owing the United States much in excess of anything that has previously existed. ¹

While most of the loans are to be amortized over a long period, and while a large part of the lending is intergovernmental rather than private, as they mostly were during the 1920's, failure to insure against the kind of debacle which occurred in the 1930's, would most certainly leave a wake of defaults and bitterness, as well as disrupted economies. Consequently, while proceeding on a program which is aimed at the alleviation of stagnation and underdevelopment, it is a part of State Department policy, as stated at least, to build political breakwaters against such failure.

State department policy can be interpreted, therefore, as a recognition of three important political and economic facts: (1) that government and private interference with trade has proceeded so far that recognition of this important fact must be the starting point for future world trade relations; (2) a consciousness of the economic weight of the United States in world affairs - a sense of security which comes from possessing

¹Hal B. Lary of the Department of Commerce, has elected to think in terms of an outflow of American capital aggregating $50 billion over the next 20 years. The maximum claim of all creditor nations against all debtor nations in the past was $40 billion in 1914. Cf. Hal B. Lary, "International Investment", American Economic Review, Vol. XXXVI, No. 2, May 1946. Papers and Proceedings, p. 872.
a "lion's share" of the world's gold and credit resources; and (3) a recognition that in a highly industrialized country, with large capital accumulation and facilities for heavy goods production, expanding markets are a requirement for sustained economic progress, or even to avert retrogression and economic depression.

Detailed Proposals

To the end of setting up an Organization to deal specifically with problems of world trade, and for establishing rules for commercial policy, the United States has called for a world trade conference. In a White Paper prepared by the U.S. State Department, there is contained the essential outline of this country's proposed foreign trade policy. The following detailed outline derives principally from that source.¹

Most important to a release from restrictions imposed by governments, and from fear of irregularity in production and employment, will be the functioning of the agencies created under the Bretton Woods Agreement.

The Monetary Fund, under the proposed international organization, is charged with providing for: "(a) short term credit to countries to help them over temporary difficulties in their balance of payment positions;"

¹U.S. Department of State, Proposals for Expansion of World Trade and Employment, Publication 2411, Washington, November 1945. Certain interpretations of the contents of this publication were obtained from Jacob Viner, who assisted in its preparation.
(b) mechanisms of adjustment to improve the long term balance of payment position of member countries; and (c) continuous machinery for international consultation and for research surveys and reports dealing with current international problems.\(^1\)

It is submitted that these provisions would eliminate the short run necessity for a country to interfere drastically with its foreign exchange rates in order to prevent their decline and a consequent fall in exports, with unfavorable effects on short term employment. It would, therefore, tend to discourage any one country from attempting to seek a temporary advantage over other countries by exporting its unemployment through the use of tariffs, quotas or other restrictive measures calculated to stimulate domestic industries. But most important, by the surrender to an international authority of the right to insist on complete national sovereignty over matters that affect all nations, it would remove the possibility of the unilateral solution of problems affecting the general interest. These problems would be solved at a higher level. In time, if this authority could be established it would constitute a system of induced behavior which would, in fact, make the actions of each participating nation more predictable.

In addition to the Monetary Fund, the International Bank for reconstruction and Development will provide a capital fund of $9.1 billion, subscribed by the member nations (plus authorization to sell securities

\(^1\)Hansen, op. cit., p. 55.
for raising additional funds) to constitute a reserve of long term capital to facilitate the orderly development of devastated and backward countries. This source of capital is to be available when private investors are unwilling to provide long term loans at reasonably low rates of interest. The bank is designed to assist nations in the providing of employment through capital improvements to promote a better use of their resources. This is expected to contribute to an increased national income and a rising scale of living, thus insuring a greater demand for those goods which move in international trade. By providing experienced technical advice, the Bank can promote a regularization of the processes of international investment and act as a safeguard against the kind of investments which proliferated during the peak of the private lending boom of the 1920's, when investments were sponsored chiefly by investment houses having little connection with the actual enterprises other than an interest in the sales commission.

Use of the Trade Agreements

As a further aid to the reduction of trade barriers, it is a part of State Department policy to use the Reciprocal Trade Agreements program as a leverage for obtaining reduction in existing tariffs and trade barriers. Instead of bargaining with separate countries, however, using up the bargaining power granted by Congress (the 50 per cent flexibility in tariff rates) it is proposed that bargaining shall be carried on simul-
taneously at a conference among all trading nations.¹ By this arrange-
ment, the most favored nation treatment could be made more meaningful,
since it would, in effect, be extended only to the "members of the club"
of trading nations. It would obviate the practice followed by this
country during the 1930's of using the "principal supplier" technique
and the extension of commodity classification for tariff-making purposes.²

Cartel Policy

As a means of reducing private interference with international
trade, the State Department has proposed, as an integral part of its
policy "that countries will act individually and cooperatively, to curb

¹This is a leaf borrowed from the book of experience of the Weimar
republic, which followed the practice of having all commercial treaties
expire in the same year. Known as the kommetjahre policy, it allowed
treaty negotiations to proceed simultaneously with several countries
so that none would be aware of what concessions had been made until
all treaties had been signed and published.

²In order to protect its bargaining power under reciprocal negotiations
the practice followed by this country has been to negotiate with a
country on commodities of which it happened to be the principal
supplier for the United States. This has tended to violate the spirit,
if not the letter, of most favored nation treatment. Similarly, it
has been the practice to make a more detailed classification of commod-
ities - for example, Gouda, Swiss, Parmesan and other cheeses have
replaced the more general rate on cheese - enabling the United States
to bargain with the principal suppliers of these items. Cf. Popper,
"Foreign Policy" Vol. XIII, No. 3.
those restrictive business practices in international trade which interfere with the objectives of increased production and trade, access on equal terms to markets and raw materials, and high levels of employment and real income." It is thereby proposing a parallel action to that of the Department of Justice in this country. To this end it is proposed that a special agency be set up within the proposed International Trade Organization to receive complaints and advise on remedies.¹

Note should perhaps be taken of Hansen's interpretation of this phase of the international organizations activity. He contends that it does not necessarily require indiscriminate trust and cartel busting, but that it does involve organizing for a study of abuses in order to prevent unnecessary price raising, suppression of patents, and the accumulation of excessive monopoly profits. It is his belief that, in certain of the cartelized industries, particularly those in heavy goods and basic materials, monopoly has been an adjustment imposed by the wide fluctuations in demand and the necessity for excess capacity. A more stable trade, he believes, will help to remove the causes of monopoly or cartels; if it does not, he proposes that governments thoroughly reconsider their patent laws, regulate prices, and as a last resort tax away monopoly profits.²

¹ U.S. Department of State, op. cit., p. 5.
² Hansen, op. cit., p. 175.
Commodity Agreements

Finally, the State department proposes, as a collective approach to the chronic surplus problem in the basic industries, an extension of the use of commodity agreements. This type of agreement has been rather widely used in the past, but chiefly as a price-raising device administered by the principal producers of a commodity for purposes of controlling the supply.\(^1\) The past history of such agreements has caused them to be regarded in economic circles with considerable questioning as simply another form of cartel with government sanction. Their acceptance by the United States as an integral part of a trade program has been regarded as a perversion of a genuine desire for freer trade. However, as proposed by the State Department, "Such agreements are not intended to freeze existing patterns of production, but rather to provide a program of adjustment and a period of time within which the essential changes can be made without undue hardship."\(^2\)

To comprehend the essential proposals of the commodity agreement program it is necessary to consider, briefly, the production problem in the primary industries. Agricultural and raw materials production are not subject to the same type of cyclical production as industry. The fluctuations occurring are caused largely by new discoveries (in minerals), weather, pests, and other almost wholly unpredictable factors. Planned

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\(^2\) U.S. Department of State, *op. cit.*
production, as a whole, is comparatively stable. In years of good
harvests and large crops, because of the comparatively inelastic demand
for most raw materials, prices have a tendency to fall to ruinously low
levels. When large crops coincide with a general fall in the price level,
surpluses accumulate and continue to have an adverse effect on prices,
even when recovery has begun in other sectors of the world economy.

Extended periods of depressed prices, theoretically, should induce
a transfer of resources out of the industry. But in agriculture, particu­
larly in the predominantly agricultural countries, the opportunity for
transfer is limited. Farm people tend to be less mobile than other
segments of the population. When transfer does take place, it is usually
through the movement of the younger generation. If agriculture is
reasonably profitable so that the sons and daughters of farmers have the
opportunity for education, the transfer is made more readily. During
extended periods of depression, children are forced to leave school,
and the generally more fertile farm peoples add to an increasing backlog
of population in the rural areas.

It is for purposes of dealing with this kind of problem that the use
of the commodity agreement is proposed. To insure, however, that it does
not become merely a device for raising prices and restricting production,
it is proposed that principal consuming countries shall be represented
and become a party to the agreement. Positive measures will be initiated
to stimulate demand for products in surplus, through new uses or perhaps
through subsidized consumption in low income areas. Coordination with
the Food and Agricultural Organization of the United Nations is expected
to be close. Suggestions have been advanced by Sir John Orr for an
international stockpiling, to level out fluctuations between years of
short supply and years of overproduction.

On the assumption that high level employment and income can be
made possible through international cooperation, it is not anticipated
that many goods will be in chronic surplus. In the case of certain
"inferior" goods, however, if surpluses persist, measures will be taken
to assist in the transfer of resources to other production.

An Experiment in Induced Behavior

In the introduction to the proposals for the expansion of world
trade and employment, the State Department's specialists make this
observation:

The main prize of the victory of the United Nations is a
limited and temporary power to establish the kind of world
we want to live in.

That power is limited by what exists and what can be agreed
on. Human institutions are conservative; only within limits
can they be moved by conscious choice. But after a great
war some power of choice exists; it is important that the
United Nations use it wisely.

\[1\text{An inferior good is defined as one with low income elasticity which, as incomes increase, will be replaced with higher quality, more nutritious or more protective foods. An example of an inferior good is the starchy foods, such as rye, potatoes, etc., consumption of which does not rise proportionally as incomes rise, and which may actually decline if low incomes are raised substantially.}\]
Within the area of choice that is open, the U.S. State department can be said to seek a joint political and economic objective of establishing a new balance of power, a cooperative supra-national authority, and of regularizing commercial and trade behavior in a manner to insure a certain stability of expectation for international economic behavior.

What are the constraints operating both at the international and the national levels, likely to set the limits to the success of this policy?

The first test of U.S. leadership is taking place under conditions of the purest of Machiavellian power struggles. Unless or until that struggle has been resolved, there can be little meaning to a discussion of economic progress and development. Trade will continue to be a means of rewarding friends and withholding goods from adversaries or recalcitrants.

The return of political stability, if and when it comes, is likely to be slow, and will not come all at once. A successful beginning in the rebuilding of trade relations could aid its coming. But policies existing in other areas may be seriously limiting factors even there.

Because of past trade policies, the United States is encountering some difficulty convincing other trading nations that its proposals for freer trade are strictly sincere, and not simply an expression of the needs of the large export industries, whose competitive advantage is well recognized. This country's ability and eagerness to sell, and its

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1 See A Note on the Balance of Power at the end of this chapter.
unwillingness to buy, has been at the heart of certain of the charges of "imperialism" which arose out of the Department of Commerce's vigorous methods for pushing exports. As Hansen asserts:

Far from being unable to compete in the world markets, the fact is that the United States competes altogether too well. We are always selling too much in the world markets. This indeed constitutes one of the great world problems. We are always selling to foreigners more than they are able to pay for. We are unwilling to purchase from foreigners enough to balance our trade.1

In the past the United States has had a tendency to oversell, to encourage borrowing, and then when loans appear to be getting beyond a reasonable prospect for payment, to restrict credits, raise tariffs, and spread depression to other countries. This is the attitude behind the tendency now apparent in other countries to insulate themselves against the United States by tying agreements. Thus far, as part of its strategy in leadership in attempts to restore freer world trade, the State Department has been applying pressure to prevent a resumption of bilateral trading agreements,2 with partial success.

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1 Hansen, op. cit., p. 135.

2 One of the stipulations in the terms of the British Loan was that England should allow her Empire preference system to lapse as the general lowering of tariffs all round approached the existing tariffs on Empire traded goods. The recent intervention, in the case of a tying agreement on wheat between Canada and Great Britain is another example of the attempts to head off bilateral trading. One of the important issues between the United States and Soviet Russia has been her state monopoly trading, and her tying agreements with her satellite countries, and more recently with Sweden.
As was indicated by the attitude of the Latin American delegates at the Chapultepec conference, the slight prospect that the United States would be able to achieve any substantial reduction in its tariffs on agricultural commodities, has raised considerable doubt in the minds of many of the other nations that this country's proposed policy is a sincere statement of the actual prospects. Those countries indicated a singular unwillingness to make concessions on industrial products likely to compete with their own infant industries.

Thus, the existence of a separate agricultural policy, which requires a reserved domestic market for its success, and which has strong political backing, emerges as a constraint upon the announced policy of freer world trade.

The longer the present period of world insecurity persists the more the position of agriculture is strengthened, politically and economically. A war economy, or a potential war economy is heavily dependent upon food sources near at hand. The fact that the United States possesses vast resources both in industry and agriculture is an important element in its strength. Agriculture is provided with powerful arguments for almost any degree of special consideration, so long as uncertainty continues.

1 The authoritarian governments of Germany and Italy provided the peasants with substantial subsidies as a part of their development of war economies, and in turn received loyal support from them. This support was organized, of course, through the dominance of the wealthier, land owning, farmers who perpetuated their positions through the myth of a separate interest of the peasantry. Poorer peasants received little benefit from most of the subsidies. Cf. Gerschenkron, Alexander, Bread and Democracy in Germany. Berkeley, University of California Press. 1943.
A Note on the Balance of Power

Since this study was begun, the outlook for international cooperation, particularly between the Western powers and Soviet Russia has darkened. There is less optimism than there was a year ago when the U.S. State Department was presenting its proposed new policy to the world.

This country's experiment with world leadership and organization for international development is therefore confronted with a wide range of instability and uncertainty. In the wake of a global war, particularly, when old, established power combinations have been disturbed, and opportunities are presented for those combinations still extant to expand by moving into power vacuums, there is all too little basis for prediction.

There is no rigorous system of equilibrium analysis for political forces.¹ Reliance on trial and error, the principle of leadership, coupled with the art of compromise, are still the rough tools of the politician. The political scientist can only describe and analyze those techniques. At its most general level, the principle of political equilibrium is an acceptance of the status quo, the laws and institutions for enforcing it, and the accepted rules for changing it. So long as the

¹For this reason, Von Mises insists that there can be no solution, that man's only hope is for a return to a system of largely unregulated free markets and competition; otherwise, there can be only a cumulative growth of bureaucracy, and an inevitable growth of authoritarian dictatorship. Cf. Mises, op. cit., pp. 20-39.
power relations persist under which the equilibrium was established, so long as no party to the existing arrangement desires to change the rules and submit to a new test of power, it can continue. Once challenged, the increased power leads to a cumulative extension of power, until it can be checked by an outside force. Usually, this check has been in the form of a higher power combination or the prospect of such a combination. In the present world of superpowers, there is little room for combination or maneuver.

It has already been submitted that the cause for much of the present imbalance in the system of power relationships has been brought about by the shifts in wealth and power due to technological changes which have relegated once great powers to subordinate positions, and raised new nations to positions of strength and wealth where they have reasons to believe in their own superiority.

It is generally recognized that the most important, single force in the modern world acting as a deterrent to peace and cooperation, is

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1This use of the concept of the cumulation of the power struggle is based upon a methodological note of Myrdal, op. cit., p. 1065, "In most social research we have restricted our utilization of the equilibrium notion to that simple and static variant of it, the stable equilibrium. It is this equilibrium notion which is implicit in the sociological constructions of 'maladjustment' and 'adjustment' and all their several synonyms or near synonyms, where equilibrium is thought of as having a virtual reality in determining the direction of change. We propose the utilization of other equilibrium notions besides the simplest one. For dynamic analysis of the process of change in social relations, it is highly desirable that we disengage our minds from the stable equilibrium scheme of thinking. The other types of equilibrium notions are often better description of social reality than the stable one ... The most important need is to give place in our hypothetical explanatory scheme to a rational recognition of the cumulation of forces."
the idea of nationalism, a belief in an unlimited use of sovereign
power for the attainment of security and so-called "national honor". Ideologies are mostly the symbols of those conflicting nationalisms.

Unlimited national sovereignty, once a progressive influence in
securing release from the repressions of feudalism and local autonomy
of the landed aristocracy, has become a constraint upon further world
development and trade, where markets have expanded with little reference
to the location of the political boundaries that contain it. It is the
heart of the struggle which has reached its peak during this century
for raw materials, for colonies, for markets and investments, and in
the use of power considerations in the regulation of foreign trade.¹

Nationalism is not an old idea, as Dr. Kohn demonstrates - an
historical phenomenon of a little less than two hundred years. Yet,
its demonstrated archaism in the face of jet propulsion and atomic
fission has not served to moderate its force. One of the more depress­
ing consequences of World War II has been the resurgence of nationalism
in its most extreme form. Even in the Scandinavian and the Low countries,
possibly the most cosmopolitan of all nations, in the colonial areas of
the east and the Southwest Pacific, the upsurge of nationalism is on

of Foreign Relations. 1937.

²Cf. Bryce, R.B. "International Aspects of an Investment Program"
Postwar Economic Problems, edited by Seymour E. Harris. New York,

³Hirschman, op. cit., pp. 15-48. This author has developed a statistical
index of foreign trade as an instrument of national power.
the grand scale. Soviet Russia, once an exponent of internationalism, has become perhaps the most nationalistic of all.

Yet if anything has been demonstrated, it is the fact that national security is unattainable by any one country. It can only be attained in some kind of new power equilibrium, some international authority which can override any lesser force. But in the long run, it must involve the acceptance of that authority as an idea, not as naked force. And no one can forecast the time that would require.

For the present, at least, the establishment of some such equilibrium is still in doubt. Two possible power combinations appear most likely: (1) Two regional blocks, of the east and west; or (2) the establishment of "universal monarchy". The atomic bomb has come very near to conferring upon the United States, should it so desire, the power to establish such a universal monarchy. It is conceivable that through some concert of power with the rest of the essentially western nations, coupled with this country's use of the atomic bomb, an international authority might be established. The advisability of such a use of the atomic bomb has been submitted by Dr. Harold C. Urey, one of the leading contributors to its development.¹

CHAPTER VIII.

REQUIREMENTS FOR COORDINATED AGRICULTURAL AND TRADE POLICIES

If it be assumed that some kind of political stability will eventually emerge at the international level (a necessary, if not an entirely realistic assumption at the moment) it becomes possible to consider the problem of organization for greater political stability at the national level. The problems in the two areas are not unrelated; a politically stable and economically strong United States will be the most important force in world stability.

Both national and international instability are the product of a whole new set of political forces created by the quest for security, particularly economic security, that have developed out of rapid change and the shifting incidence of control. Fainsod and Gordon, in their study of the changing role of government in the American economy have observed:

The organization of economic interests to influence policy has increased in scope and intensity with the expansion of governmental authority in the economic realm. Many have expressed concern lest the tendency of organized groups to put primary emphasis on their own economic interest lead to a dispersive type of group utilitarianism which completely loses sight of the general welfare and transforms the political arena into a "battle royal" of interests. That this danger is real need not be denied.¹

¹Fainsod and Gordon, op. cit., p. 45.
What is new is essentially the broadening of the base and the rise of powerful new political groups, especially among the less privileged elements of the population. This is itself a product of the extension of democracy produced by the rapid growth of technology, the rise of mass production, improvement in scales of living - a change in expectations.

But it is a process with which the institutions of democracy have not kept pace. For the changing technology has increasingly required that men do more things together, a process in which the single individual counts for only a small part. The very complexity and anonymity of the process affords little association with the vital economic organization, except insofar as it is expressed in contact with those having like needs and like problems.

More and more groups, operating through government and by independent action, have developed policies and acted in concert to influence the market, to influence the distribution of incomes which are the product of the whole cooperative process.

Politicians rise to power through representing the interests of these groups and getting their demands translated into legislation. This too is a process of mutual aid, of combination among legislators to secure the benefits of the total authority for those with the power to command it.

An important consequence has been that governments, or government agencies, have been intervening to an ever greater extent in the use of

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various resources in order to increase the welfare or security of special groups.

Agriculture's use of its political strength to achieve "parity" has been discussed at length. That policy, together with its ideological overtones, its value associations, is part and parcel of the whole welfare tendency of the times.

Agriculture stands to lose from the increase in trade only if it is regarded as a unit. Some agricultural products - tobacco, fruits, and perhaps cotton - would gain, at least for a time from expanded trade.

In achieving effective organization, however, in the use of political power to achieve "equality", agriculture has, of necessity, had to be extended to cover a large percentage of those who farm. And the tendency has been to rigidify agriculture in existing patterns, without full regard to the best use of resources.

Thus, in acting to determine what the level of prices of agricultural commodities shall be, and in effect using existing patterns of agricultural production to determine how "income" shall be earned, the separate policy for agriculture has emerged as an important constraint upon the proposed foreign trade policy - not the only constraint, certainly, but given the structure of the American economy, the most important constraint upon the possibilities of gains through a more efficient use of resources for the United States and the world.

This phenomena is not one that is peculiar to the United States. It is given detailed treatment by Ropke\(^1\) in his study of the decline of

international trade. In fact, an important elements in the growth of competitive nationalism has been the intervention of governments in the interest of groups and classes to protect them against adjustments made necessary by the growth of new techniques and the opening of new lands. Thus, industrial countries have been cut off from raw materials, agricultural areas have been cut off from markets, the quest for colonies, the growth of imperialism, and ultimately the drive for Lebensraum have been the result.

Need for a General Policy

Resolution of existing conflicts between agricultural and foreign trade policy becomes possible only within the context of a more general policy. The separate policies of conflicting power groups can result only in compromising the general welfare unless or until they can be resolved at a higher level of authority.

Only the national government with its greater weight, its political and financial strength, can effectively overbalance the increasing power of monopoly on the one hand, the mounting pressures of mass organization on the other. Only by an effective overall policy sufficiently objective to be generally applicable, can the cumulative struggle of opposing groups, destructive alike of economic progress and individual freedom be averted. For that struggle, unless resolved, must lead in the end to the imposition of naked power by an authoritarian government of the right or left.

What would be the essential elements of such a policy, and how would
they differ from present government participation in economic life?

The steady growth in the use of political power to force the intervention of government in the market by a broadening circle of the economic groups is best viewed as a decline of belief in the free market. A belief in that market was a useful fiction so long as men maintained their faith in it. Competition survived as long as it did, and to a certain extent still persists, because there were enough who acted competitively to make it work. It was that behavior, and the belief in a normal price which did, preserve the stability of the market.

If all could agree not to use their political power, and move back into effective competition, it might be possible to recreate the illusion and the reality of a free market. A belief in stability might, in time reestablish something of a long-time normal.

So complete has the practice of seeking government intervention become, however, that it is unlikely that such an agreement could be made and kept by all. Government, in a democracy, is not something apart.

What is required, however, is the establishment of a new procedure which can be made to work and which can be believed. The rules of monopoly behavior, which are to restrict resource use in order to maintain price, will need to be replaced by a public policy drawn in the interest of the efficient functioning of the economy and established at a higher level, which can command a belief in its objectivity and workability.¹

¹Lange, Price Flexibility and Employment, p. 87.
Privat policies have sought stable prices as ends. Public policy would use them as a means to the attainment of a system of general welfare.

The General Policy

These are essentially the proposals of Lerner, for a controlled economy, which could regulate behavior in a manner least destructive of freedom, and yet induce resource owners to behave in a manner to promote the common good. His starting point is the set of circumstances which the classical economists envisioned for a world operating under conditions of perfect competition.

These conditions are: (1) Prices, determined in a free market, are taken as given, since no single producer could hope to influence them by his small part in the market. (2) The producer would produce to the point where his marginal costs equal his marginal revenue. (3) In the long run, market price would tend to be equal to lowest average cost of production. All prices would equal the necessary cost of production. (4) Resources, or factors of production, would be distributed among all of the many firms and industries in such a way that their price (wage) would exactly equal their marginal productivity; the entire national product would thus be distributed among all cooperating factors according to their contribution to society. The national dividend would be at a maximum with given available resources. These resources would include those obtained by trade from foreign countries, also, since specialization and trade would constitute the most efficient use of any given resource.
If *laissez faire* had produced such results, it would hold rightful title as the True Economic liberalism. But for several reasons it has failed to do so. One reason is the fact that resources and technological processes are highly indivisible. In certain industries requiring economies of scale, with large fixed cost, the tendencies are present for "natural" monopoly.

The fact that government is not something separate and apart, particularly in a democracy is another.

Wealth itself is an important source of power to influence government, and the fact that men combine to protect their rights in property, that where interests conflict there is no objective way of choosing between them, has resulted in the cumulative power struggle to influence government and, in turn, to control the economic processes. These are the principal reasons for the growth of government control of economic life.

"The appropriate remedy is for government to destroy the powers of firms to influence prices."¹ This it can do by attacking directly the problem of establishing an independent system of prices which could be accepted as given because they could not be influenced. Backed by the financial authority of government, these prices would be maintained by a process which Lerner has called counter-speculation. Government agencies would attempt to estimate prices at which the supply and demand for staple

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goods would be approximately equal. This price would then be guaranteed
by government. In this way, consumers would make purchases with the
assurance that prices were not going to change, that they would not lose
by buying now rather than later, or that they should rush to buy in the
present to protect themselves against future price increases. At the
same time, firms could produce at the point where their marginal costs
were equal to the price. If these prices were below average cost of
production, the government would need to make up the losses, and to
insure the goods being produced. In short, government subsidy, by
insuring the full necessary cost of production would remove the desire
to restrict production for reasons of security, to protect the owners'
investment. If necessary, government itself could engage in buying and
selling to insure a competitive price.

In one sense, this would mean taking the control of resources away
from owners, but it would be an indirect way of doing it, through reli-
ance upon the natural inclination of the entrepreneurs to maximize
their profits. It would bring about a separation between the use of
resources and the earning of incomes. The resource owners, assured of
their incomes, expand rather than restrict production. Society would
benefit from the larger volume of goods and services.

The problem of income distribution could then be solved in an
entirely separate way. It could move in the direction of greater
equality, either through raising the scales of living of the lowest income
receivers, or through proceeding directly to equalization. This could be done by means of the income tax. Whatever degree of inequality was found necessary to provide the incentives to produce could be arrived at from experience.

Such prices would not be rigid and unchanging. For changing wants, changes in technology, etc., would decree a shifting of resources from one type of production to another if the economic system were to do its job of getting the things produced that consumers want, and cutting down production of goods they do not want. Consequently, prices would require adjustment from time to time. If shortages or bottlenecks appeared, this would indicate that more resources should be devoted to their production. Prices would need to be raised in order to encourage resource owners to expand output. If, on the other hand, surpluses appeared, a transfer of resources out of their production would be indicated. Prices would need to be lowered. Losses incurred in the case of resources that could not be transferred, or which could be transferred only at a cost, would again need to be made up by subsidies. Thus, no resource owner would feel the need to protect a less efficient process because of the investment he had tied up in it. Society as a whole would help to bear the cost because it would be the gainer.

Only in this way can it be hoped to offset the inclination of resource owners to use the full extent of their private power to resist economic progress.

1Lerner, The Economics of Control, op. cit. pp. 23-40. In a chapter on the optimum distribution of income, Lerner develops on the argument for complete equality of income. However, this would only be approached as an ideal, and could be left to experience to determine how nearly it should be approached.
These proposals, of course, bear close resemblance to many partial schemes for control that have been adopted or proposed — such things as minimum wages, resale price maintenance, guaranteed prices for agriculture. These have not resulted in greater output, but in output restriction. It is to be noted, however, that these measures have all been put forward as the piecemeal controls by competing power groups. They are rigid, inflexible prices which are not changed. There have been attempts to increase the income of one group at the expense of others. These measures could only be successful as part of a coordinated, overall plan to create a pattern of induced behavior favorable to the acceptance of "given prices" based upon a conviction that they are competitive prices. Only the government has the authority necessary to put behind such an experiment.

Such a system has been proposed as an alternative to the socialization of all instruments of production, which has been seen to create a government monopoly, the most powerful of all monopolies, to replace those that now exist.

The Appropriate Agency

What agency of government would perform such a function?

On this point, Lerner and others are somewhat vague. Some have talked of a national planning board. But planning has an unpopular connotation. A Price Control Board would be even less likely to be politically acceptable. Whatever it might be called, it would need to be a separate, administrative agency.
Congress would be totally inadequate to such a task, not so much because of incompetence as because of the way it operates, as the representatives of the competing power groups. These pressure groups are by no means of equal strength and lobbying ability. As has been seen, agriculture is especially favored in that body, as it is in a great many of the state legislatures.

The tendency for "debate and discussion" in Congress to resolve itself into increasingly unbridled power struggles, and a growing limitation on ability to compromise, is perhaps an indication of how violent some of these clashes have become in the confusion of present issues.

Thus, a first requirement for the establishment of a public policy is that the agency or agencies that administer it be once removed from the influence of pressure groups by being given a semi-independent status in the administrative branch of government. It would require a fairly definite range for freedom of action, with Congress, perhaps, determining that range, but leaving the administrators free to operate within that range, in order to allow for flexibility in the production process.

In this manner there could be established some authority at a higher level, not for detailed planning but for providing a set of constants to the entrepreneurs making decisions on how much to produce. And, by placing a premium on producing rather than not producing, all would gain through elimination of the struggle for advantage.

The question will inevitably arise whether this does not mean setting up an economic dictatorship to regiment all of economic life for the good
of the state. It is interference with individual freedom, to which can only be replied that there is and will continue to be regulation. The only question to be solved is whether control shall be in the interest of general welfare, or piecemeal regulation which promotes the increasing struggle for power. Over the longer run, the significant gains will need to be mass gains, and not successive advantages of sparring power groups.

There is not a great deal of economic freedom involved when the Secretary of the American Wool Growers' Association tells a congressional committee that if the country wants a domestic woolen industry it will have to pay an even higher tariff than it is now paying, when senators from wool-growing states combine with the representatives of other special interests to vote advantages at the expense of general welfare. The rank and file of purchasers of woolen goods are never given the opportunity to express themselves on whether they would rather have American grown wool at a much higher price or Australian wool, of better quality, at lower prices.

The Trade Policy

Under a general policy of full resource use and expanding production, foreign trade would largely lose its distinctive features. For whenever goods of lower price were available from areas of greater efficiency, regardless of whether they were outside the national boundary, it would be an advantage to import them rather than produce them. The principal
consideration regarding foreign goods would be whether there would be a
domestic demand for them at the price at which they could be offered.
Such a policy could well be considered as the parallel, at the national
level, to the organization for international trade. There, too, the
power conflict appears capable of resolution only by collective action
to establish directly what each country acting alone cannot achieve
because of the constraints imposed by other nations.

The Agricultural Policy

That part of a general policy which undertakes to influence the
most economical use of the country's primary resources would be concerned
with their use to secure the raw materials of food and fibre at their
lowest average cost of production. The prices of agricultural products
would thus be determined by the necessary costs for getting the quan­
tities produced to satisfy consumer demand.

At the given prices, farmers would allocate their resources among
the various commodities so as to maximize their profits. This would
be achieved when the production of each commodity was carried to the
point where marginal costs were equal to the guaranteed price. The
farmer, relieved from the twin problem of attempting to guess what
prices are likely to be, and to compute costs under varying prices,
could concentrate on costs.

The application of the general policy to agriculture would be the
same as in other industries. On the basis of historical information,
the administrative agency would set the price which appeared most likely to satisfy prospective demand with the amounts that would be offered. The guaranteed price would be announced in advance of planning for the next season's production.

If, on the basis of the guaranteed price, shortages developed so that the market price was above the guaranteed price, it would be an indication that the latter had been set too low. Accordingly, the assured price for the next year would be higher. If, on the other hand, surpluses appeared so that the market price was lower, the difference would be made up to the farmers in the form of a subsidy payment. But the guaranteed price for the next production period would be lower, indicating that resources should be transferred to other uses.

Recommendations for such a price policy have been advanced by several students of the agricultural problem under the designation of "forward pricing". The technique was approached by the Department of Agriculture in its wartime price policies to secure expansion and shifts in production.

The administration of such a policy would be confronted with a number of important characteristics of agricultural production as it exists in this country: (1) Adjustments in farming take longer than in industry because of the longer period which must elapse between planning and the completion of plans, and because farmers have traditionally been less

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inclined to change; the industry is also subject to greater uncertainty
because of weather and pests, which can cause a failure of plans to be
realized; (2) because of past failures to adjust to structural changes
in the economy and the higher birth rate, the number of persons in
agriculture is greater than would be required by an efficient industry;
as a consequence, the productivity of labor is lower, especially certain
regions; present incomes tend to be lower, the education inferior;
(3) as income increases for the economy as a whole, demand does not
expand, proportionally, for many farm products; a rich economy in­
creases its consumption of the amenities, better housing, personal
services, quality products - rather than bulk food; accordingly, the
most likely area for expansion in agriculture would be into the produc­
tion of these quality goods, and away from the products with smaller income
elasticity of demand; (4) a number of high cost industries have been perpet­
uated by protection; among them are wool, sugar, certain oil crops;
high cost farms on sub-marginal and high risk lands are to be found in
otherwise low cost farm industries; finally, (5) some resources in
agriculture are so highly specialized that they cannot be easily con­
verted to other uses; therefore, a decision would be required on
whether or not those resources should be kept in production by a
permanent subsidy or be retired from use.

Because of slow adjustment and wide variation in output, it may
be desirable to maintain permanent stockpiles to absorb the shock of
these irregularities and unpredictabilities.
The transfer of human resources out of the areas of low productivity is likely to involve greater subsidies for education and training.

To compensate for the changing character of demand for agricultural products, incentives to farmers to expand into the service areas are likely to be the most useful. Special inducements for the development of a "service agriculture" which would make more extensive use of skills and capital, would bring greater returns to the farmer and a larger national dividend.

The high cost industries in agriculture are currently the most important obstacles to expanded imports. They are an important element in the politics of agriculture under existing policy. By insisting that agriculture be treated as a whole and guaranteed "parity" prices, they are acting to restrict the national income as well as world income. An example of what the consumers now pay for the luxury of a wool industry can be illustrated by the following figures. According to estimates presented by J.M. Jones, secretary of the American Wool Growers' Association, before the House Ways and Means Committee, 70 per cent of American wool is produced in Texas and 12 other western states. The investment in the industry there, he estimated roughly at $750,000,000. The annual mill consumption of apparel wool before the war was around 500 million pounds (grease basis) per year. Of this, about 20 per cent was imported. This meant an effective price increase on all wool consumed by the amount of the tariff. With a duty of 34 cents per pound,

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the country as a whole paid an annual subsidy to the wool growers
greater than the farm income derived from wool which averaged approxi-
mately $90 million during the five-year period preceding the war. 
The consumers of wool could support producers at their prewar income,
with a net saving to themselves; or the investment could be bought
cut out and written off in a few years.

One of the arguments most frequently employed by the wool producers
to justify protection is the fact that the grazing areas are so highly
specialized that they could not be used for anything but sheep. Should
these resources be kept in use by an annual subsidy (the difference
between the grower's average cost and the guaranteed price which is cal-
culated to satisfy the demand for wool) or should the resources be bought
cut and retired? The decision could be made on its merits when it arose.
But there is considerable doubt that an advanced economy should support
an essentially pastoral industry on its present scale. The ranges
might well be more useful if stocked with game and used as recreational
and hunting preserves.

The question will be raised as to just how much agriculture would
shrink if such a policy were applied. A positive answer is not possible.
As a service agriculture expanded, the dividing line between that industry
and the rest of the economy would become less distinct. Colin Clark
estimates that about 15 per cent of the population of an industrial
country would be required in agriculture.
Karl Brandt has ventured this opinion:

If the industries expand because of the stimulus in the export end of their business they create more consumer purchasing power and offer new opportunities to quality producing farmers; thus a good deal of the slack in the farm business may be taken up within the field of agriculture itself.¹

This may not be an entirely satisfactory answer to the advocates of farming as a virtue, a way of life. To them it can be pointed out that an efficiently functioning modern agricultural plant, using the best resources and modern techniques, would still leave ample room to those who chose to farm for the good of their souls and were willing to take their income in purity of spirit. Perhaps, more seriously, it should be noted that time spent closer to nature and the out-of-doors need not be spent in farming, which after all has become a highly specialized business in its own right.

Thus, it is submitted that so long as the present power struggle continues, so long as a forthright attack upon the whole problem of political balance and economic progress is not faced, there can be no real solution to the world trade problem in other than a sporadic and unstable sense. So long as it is made an issue of power, agriculture is likely to remain this country's single most important constraint upon a rational approach to world trade.

During the 1930's it became the fashion to believe that "nations can live at home", to assume that the growth of science and the control

¹Brandt, op. cit., p. 248.
of the physical environment have obviated the need for trade. If this were true at all, which it obviously is not, it could only hold for the richest nations. The vast majority of men face no such prospect, except at a very low level.

Even if the world were ultimately to see the processes of advanced technology so evenly spread, the control of the material aspects of life so complete, that the differences imposed by nature through the unequal distribution of resources and skills could be written off, that time is obviously not yet. Nor is it likely to be the case in any finite future. Resolution of the real poverty of the world will require the efforts of many generations, even if complete agreement as to procedures and methods were attainable. The task of education alone is enormous.

Only when that process is complete should it be possible to say with Keynes:

Ideas, knowledge, hospitality, travel - these are the things which should of their nature be international. But let goods be homespun, whenever it is reasonably possible, and above all else let finance be primarily national.¹

Prospects for Achieving a Unified Policy

What are the prospects for attaining the agreement necessary to the achievement of a general policy for stability and economic progress

within which agricultural and trade policy might cease to be constraints upon each other?

The final determination of that agreement will be made in action, not in thought. Conflicting valuations which are the product of the power struggle, still must find their common level as the result of leadership and the will to pass the issue on to some higher level for final resolution. There can be no common denominator of agreement in a democratic society other than the will to agree — until men can be inspired to think in terms of an idea that is greater than themselves, and therefore think alike.

All will hinge upon agreements or compromise that can be achieved at the highest level. If agreement can be arrived at there, it will be easier to attain at the lower or national level. Yet the two are interdependent, and a solution of the problem of national stability and economic progress could strengthen the leadership of the United States as the largest industrial nation.

The power struggle, the valuations of the conflicting interest groups, presents the greatest difficulty. When leaders must vie with each other for the support of these special interests, their very pronouncements on general policy must be couched in terms so vague as to have little meaning, in order that they mean all things to all men.

Yet, events do have a force of their own. All policies are experiments, subject to empirical test in reality, and in the end must abide by the results. They set the limits, even to the extent to which any
part can impose its will, its interests, upon the whole.

The recent revolution in economic thought is such an adjustment to events, a recognition of the increasing role of government, of collective action, of the extent to which men have been forced to do more things together.

The proposals of Lerner and others, to let the results of efficiency, of the facts of economic experience be the test for staking out the areas of collective enterprise and of private enterprise, is itself a reflection of events.

However, in the confusion that is the present, the prospective area of agreement does not appear to be large. As Schultz states in his review of the Land Grant College Association recommendations on postwar policy:

This country is basically unprepared for the postwar. There is plenty of dogma: 60,000,000 jobs, free enterprise, and parity prices are some of them. But there are as yet no basic policies and no agreed upon principles with regard to public and private action.¹

He cites a report by Gunnar Myrdal to the National Economic Society of Sweden, in which he reported the results of his observations of the American scene during the war period. He was led to the conclusion that the prospects for this country's maintaining a high level of economic activity after the war were not particularly bright. He ascribes its unpreparedness to a growing optimism and a belief in automatic

¹Schultz, "Postwar Agricultural Policy", op. cit., p.95.
business expansion, especially in business circles. This, again, is an indication of the extent to which the policies of the separate economic groups may act as a constraint upon the attainment of a more general policy.

More recent events in the conflicting power struggles may have served as a brake on that set of valuations and may be shaping the next phase of the experiments in induced behavior.

Developments in Agriculture

Changes imposed by the war experience have speeded certain developments in agriculture which may make an acceptance of a general policy by farmers easier. Production has expanded between one-fourth and one-third. The greatest increase has been in meat, dairy products, vegetables and the oil crops. This has been in part to satisfy the demand of a full employment, high income economy. It was partly a stimulated expansion through price inducements and assurances of price maintenance during reconversion. Thus, resources have been transferred to the quality products which a country consumes as it becomes richer. Some of these resources have been made available through the increased mechanization of agriculture, and the release of land from feed production. These increases are likely to be sustained. The war has also been an important influence in shifting farm people out of agriculture. Many are likely not to return to farms, if a high level of industrial activity can be maintained.
The use of subsidies for purposes of stimulating production in areas of greatest need during the war has established a basis in experience for inducing the transfer of resources according to pre-determined goals. But subsidies are not popular with farmers, or with Congress. Yet should the failure to maintain prices in the face of mounting surpluses force the abandonment of other measures, their continued use is a possibility.

The joining together of farmers for economic and political purposes has had some effects favorable to the development of the "service" type of agriculture characteristic of farming in a high income economy. The slow growth of farm cooperatives can be regarded as part of the process whereby farmers are maintaining control over their products through more advanced stages of processing and marketing, providing the avenues of easier transition into secondary and tertiary industries, and away from the concentration on raw material production.¹ This in itself, would not necessarily create an attitude among farmers favorable to the

¹D.H. Doane, head of a large farm management service, who has had wide experience in different types of farming in this country, outlined to an Iowa State College seminar late in 1945, proposals for what he called the "vertical integration" of farming. He proposes that farmers expand their enterprises upward by maintaining control of their products through more advanced stages of processing. What he is recommending, of course, is that farm peoples perform more of the services associated with food and fibre production, securing the returns for parts of the production processes formerly done by others. Thus, the heightening consciousness among some farmers that their greatest economic advantage, and societies must eventually lie in the direction of the "service" agriculture. Another development in the direction of tying food production more closely to purely domestic consumption has been the growth of a practice among large restaurants, canning companies, and food processors to have their own farms to assure quality products.
imports of raw materials, since, as has been seen, the dairy cooperatives have been the most bitterly opposed to tariff reductions. However, the need for cheaper feeds might eventually modify that attitude, particularly among the dairy producing areas nearest to cheap water transportation.

Present Impasse of the Power Groups

Results of the heightened power conflicts have been a sharpening of the issues between the general welfare and the special interests of the pressure groups. The greater inclusiveness of labor organizations, particularly in transport and communications, has, during the reconversion period, repeatedly prolonged periods of shortages and added to the inconvenience and suffering of whole cities. This has resulted in a growing demand for government intervention, the use of the powers of government to offset the powers of special groups, although this demand has been mostly one sided.

There are indications also, that despite the favored political position in which agriculture now finds itself, the public will not continue to accept the unbridled extension of a pricing policy which forces increased exactions from the domestic market. Activities of the Farm Bloc and its repeated attempts to exempt agricultural products from price ceilings, even during the war, have done much to discredit parity as a sacred symbol. The large scale income shift in favor of agriculture since 1941 has gone far to undermine whatever
claim to special treatment agriculture may have had during the 1920's and the dark days of the depression. So acute had feelings become during the wartime struggles over price control that John D. Black, long in the forefront of the struggle for agricultural "justice", felt impelled to prepare a semi-popular treatise in which an extension of parity to other groups - business and labor - was advocated. To call for parity all round, however, is analogous to Calvin Coolidge's famous statement that he favored a tariff "that would benefit everyone". Parity, like the tariff, is an instrument of special benefit, not adapted to general welfare purposes as a basis for long-run policy. It serves its purpose as a device for raising farm prices. Its usefulness is chiefly for that end.

Mounting general resentment may become a factor in the final resolution of the cumulative power struggle of the separate groups, and their sublimation to the general welfare. But it could result only in curbing one or two groups while leaving others unrestrained. Should present resentment take the form of a naive return to faith in some kind of laissez-faire, the inclination to "let business do it," the essential issues of this study may be postponed but left unsettled. The prospects of getting either freer trade or a more general economic policy would be slight. The party most likely to present such a program is one with strong agricultural backing. It is likewise the long-time party of protection.
CHAPTER IX.

SUMMARY

PART I.

In this study, certain of the conflicts between this country's agricultural and foreign trade policies have been presented.

The proposed program of the U.S. State Department seeks an expansion of foreign trade. Existing agricultural policy requires a reserved domestic market.

Expanded world trade could serve a useful purpose for this country in the full utilization of its most important resources—its advanced industrial plant and its large capital and credit resources. Capital invested abroad by this country could help to raise the standards of living of devastated and backward areas. But it will require imports, mostly of agricultural and raw materials.

The issue, however, is complex and is more clearly seen as a conflict between economic forces or principles and political forces.

The present period is characterized by an increasing use of political power as a determining factor in the economic sphere. The development of a separate agricultural policy is one phase of the power conflict.

Policy can be defined as an experiment in induced behavior which individuals and groups adopt or have imposed upon them to make social action more predictable. The growing number of pressure groups, each
attempting to impose its own economic policy on the whole, has resulted in increasing power conflicts; the cumulative struggle for power increases instability and makes the future even less stable. Periods of great political struggle are times of retarded economic progress.

Wherever the separate policies of competing power groups can be brought into equilibrium, through agreement on common ends or values, or by being imposed, economic progress has become possible. Behavior is institutionalized and men’s efforts are directed toward economic pursuits.

It is a characteristic of power struggles that they have had to be resolved at higher and higher levels of authority. During the eighteenth and nineteenth centuries the rise of national states contributed to a resolution of the power struggles and a process of unification.

A balance of world political forces existed during the latter part of the nineteenth century, largely as a result of British Dominance on the seas. Expansion into undeveloped areas was also a stabilizing influence.

Through the process of rapid technological development and change, however, there has occurred a vast shift in wealth and influence both at the national and international levels. The modern markets have transcended national boundaries, reduced distances, and given rise to an unstable world political situation in which unlimited national sovereignty meant increasing conflicts.

Inside the state, the increasingly complex technological processes require that men do more things collectively. The area of complete free-
dom of individual action has been reduced. An increasing sphere of
Public Policy is the result. The separate policies of pressure groups
as they find expression in public policy, however, have become in-
creasingly contradictory.

Until these political conflicts can be resolved at both levels,
economic progress will be more difficult.

PART II

The changing role of agriculture as a factor in this country's for-
ign trade policy was traced as a background to the development of a
separate policy for agriculture.

The protectionist foreign trade policy developed during the Nine-
teenth century was presented as the policy of industry. Farmers frequent-
ly opposed it. Some of them occasionally supported it. But the farmers
were widely scattered, with divergent interests of their own, and as a
consequence their voice in that policy was small.

Foreign markets were important to them. Whenever those markets
were good, the farmer was in favor of lower tariffs. When depression
was the rule, he usually acquiesced, and sometimes supported tariff in-
creases. Because the demand for agricultural exports was inelastic, the
high tariff policy did not affect the agricultural exports as much as
might have been expected, until newer areas began to be opened up.

During the attack on the trusts by western farm organizations, the
tariff was also attacked as a breeder of monopoly. However, when the
free silver issue was at its peak, the tariff issue was neglected.

Just prior to World War I, sentiment for lower tariffs was fairly strong among the farm groups, and their support was an important factor in the election of Woodrow Wilson on a platform pledged to lower tariffs.

After the war, however, which had promoted great expansion in agriculture, farmers became highly protectionist. This was partly due to the fact that the foreign outlets had been dwarfed by the large domestic markets, partly because of depressed conditions in the industry itself. Attention during the 1920’s was directed to making the tariff effective for agriculture. The "farm bloc" was an important factor in the passage of the Smoot-Hawley tariff of 1930.

But the development of a separate policy for agriculture was more the result of agriculture’s increasing political influence. Parity for agriculture, conceived as a depression measure, has become increasingly a factor in the farmer’s insistence upon a reserved market.

An examination of the attitudes of most important agricultural organizations shows them to be, with few exceptions, unalterably opposed to concessions on the import of agricultural commodities. A major part of the opposition to the 1945 extension of the Reciprocal Trade Agreements act came from representatives from agricultural districts.

The separate development of this country’s foreign trade policy after 1923 and particularly after 1934 show it to be a reflection of the needs of an advanced industrial economy.
PART III

Trade has become a function of the State Department, and an instrument of foreign policy.

Commitments to trade expansion are substantial. The proposals for a world trade authority which will effectively remove the incentive and the ability of individual countries to restrict trade, was examined as part of this country's program for world stability and trade.

However, it is submitted that unless and until a more general economic policy for settling the problems of the cumulative power struggle, domestically, have been adopted, agricultural policy will continue as a constraint upon this country's trade policy and its leadership. This can be accomplished best by a general policy which can restore confidence in a stable and progressive economic development.

Proposals were examined for the use by the national government of its greater financial and economic power to stimulate production by a system of sustained prices and subsidies for staple products.
CHAPTER X.

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