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Prospects for Agricultural Recovery

I. The Economic Situation in 1933

By Geoffrey Shepherd

AGRICULTURAL EXPERIMENT STATION
IOWA STATE COLLEGE OF AGRICULTURE AND MECHANIC ARTS

R. E. Buchanan, Director

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FOREWORD

The bulletins in this series, entitled "Prospects for Agricultural Recovery," will deal with the marked improvement that has taken place in industry since the low point of the depression early in 1933, and with the relatively small amount of improvement that has taken place in the condition of agriculture. They will deal with the Agricultural Adjustment Act and the other measures passed during the special session of Congress, and with the present and prospective effects of this legislation on agriculture and on the country as a whole.

Last year, Iowa State College published a series of 10 circulars under the general heading, "The Agricultural Emergency in Iowa." These circulars drew attention to the gravity of the agricultural situation, and discussed measures for remedying it. This year the situation has changed. Drastic remedial legislation has been passed, some improvement has taken place, and the outlook is not so dark as it was a year ago. Public interest now is focused upon the recovery measures that have been enacted into law.

These recovery measures are revolutionary in character and complicated in detail. Many people are confused as to their nature and significance. What are these measures? What do they mean? Where will they take us? These questions are uppermost in people's minds. The purpose of the present series of bulletins is to throw some light on these questions.
Prospects for Agricultural Recovery

I. The Economic Situation in 1933

By Geoffrey Shepherd

A year ago, in a bulletin entitled, "The Situation Today," we surveyed the economic condition of agriculture and of the United States as a whole. The picture then was black. Looking about us, we saw the whole country prostrated, as if by some great physical catastrophe. We saw idle factories on every hand, idle locomotives and freight cars on the railroad tracks, millions of idle men in the streets. We saw four out of every five steelmill blast furnaces shut down, and two out of every three automobile factories closed; we saw the manufacturing and mining plant of the country as a whole limping along and producing goods at little more than half its capacity.

When we looked into the records of the market place, we saw more evidence of economic upheaval. We saw that the prices of some products had remained roughly constant for several years, while the prices of others had declined heavily; we observed that agricultural products, especially, were selling at one-half, one-third, or one-quarter of their previous prices. We saw hogs on Iowa livestock markets selling for $3 per hundred pounds, beef cattle for $5, corn for 10 cents a bushel, and oats for 7 cents.

When we looked into the financial records, we were appalled by the economic disorganization that was sweeping over the country. We saw farm mortgage foreclosures proceeding at a rate of nearly 500 a month in Iowa alone. We saw bank failures in the United States mounting rapidly, more than a thousand banks having closed during the first three-quarters of the year 1932; defaulted bonds, lost savings, and vanished equities were apparent on every hand. And when we looked into the minds of the people we found pessimism, bewilderment and revolt.

THE CONDITION OF THE COUNTRY AS A WHOLE

That was the condition of the country a year ago, near the end of 1932—a picture in dark and somber colors. Let us keep that picture fresh in mind. Then let us trace the swiftly moving events that have led from the situation a year ago to the situation now. This will help us to understand conditions as they are today, near the end of 1933.

The beginning of 1933 brought no improvement in economic conditions. Indeed, as the new year began, the depression deepened. Industrial production continued to decline, prices continued to fall, banks continued to fail.

Then, on March 4, financial panic struck the country. Catastrophe piled up on disaster. A banking holiday in Detroit spread...
to the whole state of Michigan, and from there to other states. People lost confidence in their banks and began to draw out their money wholesale; some lost confidence even in their money and began to demand gold.

The drain of currency and gold was terrific. The demand for currency in the New York federal reserve district rose from $5,000,000 in the first week of February to $625,000,000 in the first week of March. From Feb. 1 to March 4, the gold reserves of the Federal Reserve System were drawn down from 65.6 to 45.1 percent. The reserves of the Federal Reserve Bank of New York fell below the legal minimum of 40 percent. The movement engulfed the whole country. The President called a national banking holiday, and for a week every bank in the United States was closed.

**THE CRISIS**

The situation was extraordinarily critical. The country was already suffering from reduced purchasing power. The temporary closing of the banks reduced purchasing power still further. It became clear that after the crisis was over, only the stronger banks should be allowed to reopen; and this meant that a good deal of the purchasing power available would be tied up in the unopened banks for some time. It was evident, therefore, that production would be curtailed still further; and that unemployment, already standing at 13 millions or more, would be still further increased.

The situation called for prompt and drastic action. To this call, the country responded. The new congress was convened in special session on March 5. During the short hundred days of its life, it passed in rapid succession measures that will probably be recorded as the most radical and revolutionary peace-time legislation in our history.

The country had been forced off the gold standard. It was kept off. Emergency bank legislation was passed. Veteran’s pensions and federal employee’s salaries were reduced as part of a program for balancing the budget. The President was given broad and startling powers of currency inflation. Provision was made for raising agricultural prices to pre-war parity by reducing agricultural production. Machinery was set up for refinancing mortgages on farms and homes all over the country. A huge program of public works was instituted. And, last and most radical of all, the National Industrial Recovery Act was passed.

**RECOVERY BEGINS**

The dominant spirit running through all these measures was the spirit of action by society as a whole. The United States, rendered desperate by 4 years of depression, turned from its traditional policy of “rugged individualism”—the philosophy of
“hands off,” “let society run itself” and “no government in business.” For the time being, the emphasis was shifted from individualism to a new philosophy of “social control” and “a planned economy.”

There is no need to enter here into the argument as to which of these two opposed policies is the better. The fact is that in the emergency which existed, the new policy brought immediate results. When the grain and stock exchanges opened, after the one-week banking holiday, the prices quoted on those exchanges were sharply higher. Consumers and business men who previously had refrained from buying goods for fear of further deflation, now began to buy in fear of impending inflation. The demand for goods increased, and industrial production responded. Presently, as the outline of the National Recovery Act (the NRA) began to appear, industrial manufacturers stepped up their production hastily in order to have a stock of goods on hand, made before the higher wages of the NRA should go into effect and increase their production costs. All over the land, factory doors began to reopen, factory chimneys started to smoke; the wheels of industry began to turn at an accelerated pace.

The psychological atmosphere of the country changed from pessimism to cautious optimism. Previously, the vicious spiral of depression had worked downward. Men who had had their wages reduced and might have been cut off entirely, had reduced their buying to a minimum. This curtailed buying threw other men out of work and curtailed their buying, and so the depression spread. But now the spiral was reversed; it worked upward. Men who previously had deferred buying because they expected prices to continue falling, now began buying because they expected prices to rise. They started buying before prices should rise, and their very buying caused the rise in prices to occur. Purchasing power is the force that pulls our economic machinery along; and this power, so much a matter of psychology, had now began to spiral upward instead of downward.

WHAT STARTED RECOVERY?

Thus, after agricultural and business conditions in the United States had been going from bad to worse for 4 years, they now seemed to have struck bottom and turned upward. Overpowering forces had borne the country to the ground; now these forces of destruction were themselves overpowered by stronger forces working upward.

What were these strengthening forces? What were these energies that turned the tide of depression back toward recovery? There are two views on this question.

According to the first view, the force that started the upturn in March, 1933, was the emergency legislation passed by the special session of the new congress. This legislation, it is held,
rectified many of the conditions that were accentuating the depression, and set other forces—inflation, for example—actively at work to pull the country out of its trouble. These measures changed the psychology of the situation from one of helplessness to one of aggressive action, and released psychological forces of tremendous power.

According to the second view, the depression had spent its force by March, 1933, and a natural recovery would have set in then of itself, legislation or no legislation. Those who hold this view point out that a natural recovery started in the summer of 1932 in all of the principal foreign countries, and was held in check in the United States only by banking difficulties. With these difficulties removed, they maintain, recovery would have come about of itself in the United States whether any emergency legislation had been passed or not. Those who hold this view buttress their case by referring to the indexes of business activity in foreign countries. These indexes are based upon statistics of physical production and car loadings in the countries concerned. These indexes are shown in fig. 1. Practically all of them show recovery beginning in the middle of 1932.

We are not here concerned with the argument between these opposing views. At least, the emergency money and banking legislation passed by the new congress was an indispensable prerequisite to recovery, and had immediate effects. Production was speeded up, also, by manufacturers who were rushing to make as many goods as possible before the prospective NRA codes should go into effect. Whether the other measures are beneficial or not cannot as yet be objectively determined. That question the future will decide.
In any case, a strong upturn took place. The extent of the improvement is measured by the changes that have taken place in production, employment and prices.

**PRODUCTION INCREASES**

The Federal Reserve Board's index of the production of manufactures and minerals in the United States (the base for this index is 1923-25=100) jumped from 60 in March to 66 in April, to 77 in May, 90 in June and 100 in July. This is a rise of 67 percent—the most rapid increase in industrial production ever recorded in history. After July, the production index receded to 91 in August and to 84 in September.

The striking recovery in industrial production, and the subsequent recession, is shown in graphic form in fig. 2. The index of the production of manufactures and minerals combined, after touching 100 in July, stands now (September) at 84. This means that industrial production has increased to within 16 percent of normal—a good recovery, when 6 months ago industrial production was only 60 percent of normal.

Employment has not recovered as rapidly as production. The index of factory employment, which fell below 60 in March (1923-25=100) had risen only to 74.3 by September, 1933. It is significant that up to August, when the NRA codes went into effect, employment rose much less than production, and payrolls rose even more slowly than employment. After August, under the influence of the new codes, payrolls and employment rose...
more rapidly than production. This situation was pointed to with pride by the NRA as an evidence that the NRA was increasing the worker's employment and purchasing power, and accelerating recovery; it was viewed with alarm by industrialists as an evidence that the NRA was reducing profits and retarding recovery.

THE BANKING SITUATION IMPROVES

Banking failures ceased almost entirely after the national bank holiday in March. This cessation resulted, not so much from the improvement in general conditions, as from the fact that the only banks that were allowed to reopen were those that could stay open. But at least for the time being, the uncertainty in the minds of depositors was settled, and currency began to flow back to the banks. Between March 13 and August 30, about 2 billion dollars of hoarded currency were returned to the Federal Reserve banks and the Treasury.

When the United States went off the gold standard, the threat of inflation caused a "flight of capital" from the United States to other countries. From March to the end of August, more than a billion dollars fled the country. These dollars were not gold dollars; exports of gold were prohibited. They were not paper dollars. Primarily, they were telegraphic dollars. They moved through the mechanism of the foreign exchanges.

This flow of funds abroad turned the foreign exchanges against us, and the value of the dollar, in terms of other currencies, fell heavily. People were so anxious to get their money out of the country before inflation cheapened its domestic purchasing power that they continued to offer it for other currencies abroad even when their offerings had depreciated the foreign gold value of the dollar to about 65 cents.

PRICES RISE

The value of our dollar fell in terms of foreign currencies, and conversely the value of foreign currencies rose in terms of our dollar. A French franc or a British pound would therefore buy more wheat, cotton and other commodities in the United States than before. Accordingly, the prices of wheat, cotton, etc., in the United States rose step by step with the fall of the foreign exchanges.

This rise helped to stimulate a general rise of prices in the United States. The powers of monetary inflation conferred upon the President did not need to be exercised. The mere threat of inflation sufficed. This threat was reinforced by the departure from the gold standard and the probability of the eventual reduction of the gold content of the dollar. This was sufficient to start consumers and producers on a wave of purchasing. This purchasing, this increased demand for goods, caused prices to rise. The index of the general level of wholesale commodity prices, as fig. 3 shows, rose steadily, month by month, from the
Fig. 3. Index of the general level of wholesale commodity prices.

low point of 87 in February, 1933, to 103 in October, 1933. (The base for this index is 1910-14=100.) The general price level now, therefore, is slightly higher than it was before the war.

This does not mean, of course, that all the groups of prices making up this general index have recovered equally. The prices of farm products are still much lower than they were before the war, while the prices of some other groups of commodities—textile products, building materials, and metals and metal products, for instance—are higher.

THE CONDITION OF AGRICULTURE

Agriculture has participated to some extent in the general recovery. The improvement cannot be measured by an index of production like that of industry. Agricultural production did not decline during depression, and it probably will not increase markedly during recovery. The chief indexes of improvement in agriculture are to be found in the record of agricultural prices and agricultural purchasing power.

AGRICULTURAL PRICES

During the depression, the prices of farm products and other raw materials fell much more than the prices of other goods. This was partly because the costs of distribution from producer to consumer remained practically fixed, and partly because agricultural production continued at full capacity in spite of the gen-
eral reduction in demand. The decline in agricultural prices is shown by the lower line in fig. 4.

It was expected that when conditions improved, the prices of farm products would rise more than other prices, just as they had previously fallen more than other prices.

This expectation was realized, but only to a small extent. Figure 4 shows that the index of agricultural prices rose from 49 in February, 1933, to 70 in October. This is a rise of 21 points. The general price level (shown in fig. 3) over the same period, rose from 87 to 103. This is a rise of 16 points. This is almost as great as the rise in agricultural prices.

Within the group of farm products, some prices have risen less than others. The price of hogs, for example, rose very little. Beef cattle prices rose even less. The prices of the speculative commodities rose strongly early in the summer, in anticipation of inflation. Wheat and corn prices rose, slowly at first, and then more and more rapidly. By July a runaway bull market developed in both wheat and corn, and in the stock market too. Corn rose from 23 cents a bushel at Chicago early in March to 40 cents early in May and 65 cents by the middle of July. Wheat rose from 47 cents to $1.17. Then came a violent reaction; prices crashed 20 to 25 cents a bushel in 2 days, and the market closed entirely for 5 days after that. Thereafter, grain and stock prices declined somewhat. During the past month they have held fairly constant.
AGRICULTURAL PURCHASING POWER

Agricultural prices had fallen so low during the depression that the rise of 21 points from 49 in February to 70 in October, mentioned above, still represents less than a 50 percent recovery toward pre-war levels. And the prices of the goods that farmers buy, which never fell as low as pre-war, have risen appreciably since February. They are represented by the upper line in fig. 4. The purchasing power of farm products (the ratio between the two indexes shown in fig. 4) is only 60. This is an improvement of only 11 points over the situation in February, when the purchasing power of farm products stood at the extremely low figure of 49.

These price and purchasing power indexes do not tell quite the whole story. The producers of some commodities, who entered into agreements with the Federal Government to reduce their production, have benefited by the receipt of adjustment payments. Up to Nov. 6, 1933, the Federal Government paid 103 million dollars to cotton farmers who reduced their acreage in 1933. This represents a substantial percentage addition to the cotton farmer's income. Hog producers also received 30 million dollars in premium payments for light weight hogs. This, however, is a relatively small percentage amount.

For agriculture in the United States as a whole, the present picture can be summed up in a few sentences. The condition of agriculture has improved somewhat, but much less than the improvement in the condition of the country as a whole. Agricultural purchasing power has increased from the low point of 49 percent of pre-war, in February, 1933, to 60 percent of pre-war now. This is an improvement of 11 percent. The condition of the cotton growers has improved more than these figures show, because they have received substantial acreage reduction payments from the Federal Government.

THE CONDITION OF IOWA AGRICULTURE

On Iowa farms, improvement has been uneven. The prices of some Iowa farm products have recovered strongly; the prices of others have not.

The extent of the improvement is shown in table I, which shows the state average prices of the 10 principal products at the farm. The index number representing the weighted average price of all 10 products, expressed as a percentage of the 1910-14 average, is shown at the foot of the table.

The table shows the prices at three different dates—first, the average from 1927 to 1929, inclusive; second, January, 1933, the low point of the depression; and third, October, 1933, the most recent date available. Of the different commodities, it is evident
TABLE I. AVERAGE IOWA PRICES OF AGRICULTURAL PRODUCTS*1

<table>
<thead>
<tr>
<th>Product</th>
<th>Av. 1927 to 1929</th>
<th>January, 1933</th>
<th>October, 1933</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hog</td>
<td>9.50</td>
<td>2.40</td>
<td>4.10</td>
</tr>
<tr>
<td>Cattle</td>
<td>9.87</td>
<td>3.90</td>
<td>4.55</td>
</tr>
<tr>
<td>Sheep</td>
<td>6.65</td>
<td>1.75</td>
<td>2.40</td>
</tr>
<tr>
<td>Corn</td>
<td>.76</td>
<td>.12</td>
<td>.24</td>
</tr>
<tr>
<td>Oats</td>
<td>.40</td>
<td>.10</td>
<td>.21</td>
</tr>
<tr>
<td>Wheat</td>
<td>1.13</td>
<td>.34</td>
<td>.64</td>
</tr>
<tr>
<td>Hay</td>
<td>12.66</td>
<td>5.30</td>
<td>5.80</td>
</tr>
<tr>
<td>Butter</td>
<td>.45</td>
<td>.21</td>
<td>.22</td>
</tr>
<tr>
<td>Eggs</td>
<td>.27</td>
<td>.18</td>
<td>.168</td>
</tr>
<tr>
<td>Poultry</td>
<td>.19</td>
<td>.07</td>
<td>.075</td>
</tr>
<tr>
<td>Index number</td>
<td>144</td>
<td>41</td>
<td>63</td>
</tr>
</tbody>
</table>

that eggs, butter, hay and beef cattle have improved least. The grains have improved most. The weighted index stands now (October) at 63, which is 22 points above 41, the low figure touched in January.

These indexes of prices and purchasing power show that the condition of Iowa agriculture has improved much less than the condition of the country as a whole. Because of the extremely low point to which agricultural prices fell early in 1933, the rise in prices since then appears substantial. But agricultural prices are still far below normal. And since the rise in the prices of the goods farmers sell has been accompanied by an almost equal rise in the prices of the goods they buy,* Iowa agriculture now is only slightly better off than at the lowest point of the depression.

THE IOWA FARM MORTGAGE SITUATION

The Iowa farm mortgage situation has been somewhat eased. At the end of 1932 there were 1 billion dollars of farm mortgages outstanding in Iowa. The burden of carrying many of these mortgages was becoming unbearable; foreclosures were proceeding at a terrific rate. Then, in January, 1933, the governor of Iowa proclaimed a farm mortgage moratorium. This was followed a month later by the Mortgage Moratorium Act of 1933, passed by the Iowa legislature early in February. This Act provided that any farmer who was faced by foreclosure proceedings could file a plea with the court to have the foreclosure stayed until March, 1935. During the 2 years while the moratorium was to remain in force, the farmer should pay rent to the court, in an amount to be determined by the court. The court then disburses the money for taxes, insurance, upkeep of the land, etc.

This moratorium temporarily protected the farmer from mortgage foreclosure proceedings, but it did not lighten the burden

*Prices, interest changes, and taxes have not risen along with the price of the goods that farmers buy. To that extent the load of the heavily indebted land owner has been lightened somewhat more than the load of other farmers.
of carrying the mortgage. Relief on that score was offered from another direction, by the Federal Government. The Federal Farm Loan Act was amended in several important respects. In addition to first mortgage credit through the Federal Land Bank of Omaha, the Iowa farm owner may now apply for second mortgage credit from a 200-million-dollar fund made available by the Reconstruction Finance Corporation to the farm loan commissioner for the purpose of refinancing farm mortgages at lower rates. In addition, the Farm Credit Act consolidated the eight different governmental farm credit agencies into one administration operating through four types of credit institutions. These acts and amendments (which will be discussed fully in the next bulletin of this series) opened the way to some lightening of the farmer's mortgage load. Up to the present time, however, progress in carrying this program into effect has been slow.

THE FUTURE

At the present time, the initial spurt of improvement which the country as a whole has made since March seems to have run its course. The rise in production, employment and prices, which proceeded rapidly at first, has now slackened or ceased entirely; in some cases, some recession has taken place. The present is an auspicious time, therefore, to take stock of the extent of the recovery that has been made, and to look forward over the ground ahead.

It is clear that the condition of industry is now materially better than it was a year ago. It is clear that the psychological atmosphere of industry and commerce has improved. It is equally evident, however, that the condition of agriculture has not improved very much.

In other words, the country has climbed part way up the slope of recovery to a sort of resting place; industry is in the lead, and agriculture, struggling with heavy burdens, is some distance behind.

What is the lay of the land ahead? Have we reached a ledge, beyond which the ground rises steadily? Or are we merely on a plateau, beyond which the ground may decline again? And is agriculture likely to catch up with industry, or is it going to continue to lag behind?

The answers to these questions depend partly upon the working out of the recovery legislation passed by the special session of Congress. This legislation embodies the sincere efforts of many earnest and thoughtful men to overcome the depression. It represents a definite attempt to take hold of our economic system and make it work better. For generations in the past, we have said "hands off our economic machinery; let it run itself."
Now we are changing our thought. We are saying, "this economic machinery is made by man; it can be controlled by man; we are going to try to control it."

Can we succeed? The machinery is complex, and we do not know all that we should about it. We have much to learn. It is the purpose of this series of bulletins to point out some of the problems, some of the opportunities, some of the dangers that are involved, so that we may meet these problems, these opportunities, and these dangers, with the best information and the best intelligence that we possess.

REFERENCES AND LITERATURE CITED

1Some of these circulars are now out of print. The whole series has been reprinted in book form, however, and can be secured by writing to the Collegiate Press, Iowa State College. The book is entitled "The Agricultural Emergency in Iowa." Its price is 75 cents per copy.
2Murray, W. G., and Bentley, R. C. "Farm Mortgage Foreclosures," Iowa Agricultural Experiment Station, Cir. 147, p. 175. 1933.
3Federal Reserve Bulletin, April, 1933, pp. 210-211.
4Cleveland Trust Company Business Bulletin, The. Vol. 14, No. 6, June 15, 1933. "The indexes have all been constructed in the same way by combining the figures showing the changes in pig iron output, steel production, coal production, and ton-miles of freight moved on the railroads. The series have been seasonally corrected, and given equal weights, and the average equal to 100. All the horizontal lines are 10 points apart." The basic data come from the League of Nations.
5This index is compiled by the Federal Reserve Board and published in the monthly Federal Reserve Bulletin. The index is adjusted for seasonal variation. The base period is the average production from 1923 to 1925, inclusive.
6An occasional bank which was allowed to open has since, after more thorough examination, been closed.
7Federal Reserve Bulletin, September, 1933, p. 532.
10Davis, Chester, director of production control, A.A.A., Radio talk Nov. 6, 1933.
11In 1931, the cotton crop brought in a total income of 529 million dollars. U.S.D.A. Year Book, 1933, p. 701.
13The total income from hogs in 1931 was 897 million dollars.
14Compiled by the Agricultural Economics Section, Iowa Agricultural Experiment Station.

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The refinancing of farm mortgages—one of the most pressing problems facing agriculture today—is the subject of the next bulletin in the series, "Prospects for Agricultural Recovery." It will deal in the most part with problems involved in the refinancing of farm mortgages in Iowa by the Farm Credit Administration. The discussion is not limited to the federal plan, however.

Dr. William G. Murray, the author, has made a number of farm mortgage studies in the state. In this bulletin he gives major attention to the problems of land appraisal and the scaling of debts: What is land worth? What price level should be assumed in lending? How can debtors and creditors get together on settlements? How is land appraised? How should it be appraised?