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FEDERAL AID TO AGRICULTURE SINCE WORLD WAR I

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Since World War I the relation of the Federal Government to agriculture has altered in the direction of increasing agricultural aid.¹ This expansion in agricultural aid is at times measured by the mere increase in the number and size of special agencies created to administer laws enacted in behalf of agriculture. Another measure often used is the increase in Federal expenditures to carry on agricultural programs. By whatever device Federal aid to agriculture may be measured, it is clear that it has become increasingly important during the last quarter century.

This paper describes and interprets in broad outline some of the main lines of development in the field of Federal aid to agriculture during the last 25 years. At the outset attention is directed to the development of the philosophy of agricultural aid as a means for understanding the continuity which exists in agricultural programs.

THE PHILOSOPHY OF AGRICULTURAL AID

The philosophy of agricultural aid has long had two continuing threads: Emphasis on the national importance of agriculture as an industry and of farming as a way of life and emphasis on the handicaps, both physical and financial, under which agriculture operates. The first, sometimes called "agricultural fundamentalism,"² has been manifested in many forms—emphasis on the basic importance of farm products for our actual existence, emphasis on the stabilizing influence of agriculture and rural life in our political and social structure, and a sentimental attachment to rural

¹ This article is adapted from a paper presented at the joint meeting of the Agricultural History Society and the American Historical Association at Chicago on Dec. 28, 1944. It is an outgrowth of a research project in the Bureau of Agricultural Economics on which the authors are engaged.

² See Joseph S. Davis, *On Agricultural Policy, 1926-1938*, 24-43 (Stanford University, Calif., 1939), where the doctrine of the basic importance of agriculture is explained and appraised for its elements of truth and error. Compare also the chapter by Edwin G. Nourse on "Agriculture" in *Government and Economic Life*, 2:864-947 (Washington, 1940).

life. Farming has long been considered by many as having distinct social values as a way of life. The thread in the philosophy of agricultural aid which stresses agricultural handicaps has also been expressed in a number of ways—farmer support for measures to reduce interest rates and railway rates, criticism of both middleman profits and organized speculation in farm products, and various complaints to the effect that the farmer bears the burden of unfavorable weather conditions and fluctuations in farm prices, both of which are beyond his control. These two doctrines of the national importance of agriculture and the handicaps under which farmers operate have long provided the basis for movements to obtain Federal aid for agriculture.

In the 1930s, agricultural fundamentalism took on new aspects. Much greater emphasis was placed on the point that a "sick" agriculture impairs the health of the entire economy. And conversely, it was maintained that the economy as a whole receives beneficial stimulating effects as a result of placing additional purchasing power in the hands of farmers. A prosperous agriculture came to be of peculiar national importance because of its added ability to buy the products of other sectors of the economy.

Emphasis shifted also with respect to the disadvantaged position of agriculture and rural people. Thinking as to the handicaps under which farmers operate came to be focused more in terms of overall comparisons between the rural and other parts of the economy—"parity" prices and "parity" income—and less in terms of specific prices paid and received by farmers.

Another important and relatively new development during the 1930s was the greatly increased emphasis given to broad social problems of significance both to rural and urban groups. Improving the lot of low-income farm families, for example, came to be one focal point around which developed a body of doctrine and certain elements of a creed. Similarly, conservation of agricultural resources was elevated to a major position in the philosophy of agricultural aid. In the late 1930s, increased emphasis was placed on improved nutrition and

diets for low-income groups in the urban population as part of the philosophy of subsidized demand for agricultural products.

So long as Federal action of the 1920s in behalf of agriculture was directed mainly toward creating a more favorable economic environment in which agriculture could operate, Federal assistance could be rationalized within a traditional body of thought regarding governmental implementation and promotion of economic development. But since 1930 the aids employed were to a considerable extent departures from those of the past, and each had to have its own separate "economic justification." As would be expected under the circumstances, the philosophy of Federal aid to agriculture in the 1930s contained liberal sprinklings of missionary zeal for particular Federal aid programs as well as much real pioneering in economic thought regarding the functions of government in relation to agriculture and rural people.

Anyone who reads the literature of the 1930s in this field will be disappointed, therefore, if he expects to find as closely knit a body of thought as had evolved in connection with much of the pre-depression aid to agriculture. In some respects the great depression gave additional unity to the philosophy of the 1930s, but in other respects the philosophy of Federal aid became more segmental. One explanation may be found in the fact that many of the new aid measures were attached to long-established fields of public action. As a result these new Federal activities often were rationalized in terms of concepts better suited to the older types of governmental action than to those of the depression years. Attempts to rationalize new forms of governmental action in terms of the older concepts often produced separate bodies of thought that were less consistent than the aid programs which they purported to rationalize.

WHAT IS INCLUDED IN FEDERAL AID?

Because of the varied interpretations which are often given to the term "Federal aid to agriculture," it may be helpful to indicate the sense in which this term is used in this article. In the broadest possible sense, Federal aid to agriculture might be said to include all activities of the Federal Government that are beneficial in one way or another to agriculture or rural people. Such a concept is too broad for most analytical purposes; it would include most of the regular functions of the Federal Government. A somewhat narrower concept would include all activities that can be

regarded as "special treatment" of agriculture. This, however, would also include many activities that are not usually regarded as Federal aid, as, for example, regulatory action taken to make the railway-rate structure or the marketing system more favorable for particular agricultural groups. At the other extreme is the rather narrow fiscal concept which identifies Federal aid with Federal "subsidy." This narrow subsidy concept appears to be too restricted for the purposes of this article, for it implies a fairly direct transfer of funds from the Treasury to particular individuals or business firms.

The term Federal aid as used here is intended to cover only certain aspects of the broader field of special treatment. The principal element in such a concept is special treatment of agriculture associated with the *spending power* of the Federal Government. Aid is interpreted to mean special *governmental services* and *money grants* provided by the Federal Government through its power to disburse public funds plus any unusually favorable *enterprise services* made available to agriculture under Federal financial sponsorship or directly through Federal agencies operating on capital furnished by the Federal Government.³

FEDERAL AIDS FROM WORLD WAR I TO THE DEPRESSION OF THE 1930S

Prior to the depression of the 1930s, Federal aids to agriculture did not differ greatly from those provided for many other industrial groups. For the most part the Federal Government confined agricultural assistance to activities designed to create an economic environment in which agriculture could better help itself. Research and educational activities and certain special services relating to the physical side of agricultural production were begun before the Civil War. In the 1920s emphasis was given to research and educational work on the economics of agriculture, including the marketing of farm products. The expansion of extension activities and the develop-

³ For convenience the aids that stem from the furnishing of governmental services and direct and indirect grants at public expense can be referred to as *subsidy aids*. Those that stem mainly from Federal activities of a business enterprise nature can be referred to as *enterprise aids*. The benefits received by individuals may be designated as *subsidy benefits* and *enterprise benefits* respectively. A principal distinction lies in the fact that the former kind of aid gives rise to a net cost to the Treasury, whereas the latter does not.

ment of "outlook" work early in the 1920s are examples. All such educational and advisory activities and special services were designed to provide farmers—and others who furnished services to farmers—with better information as to how to conduct their businesses.

In addition to the general educational, advisory, and special services, the Federal Government promoted and gave limited financial support to certain types of business services which were expected to prove advantageous to farmers. Farmer-owned cooperatives were promoted in an attempt to improve the form of business organization serving agriculture, and special credit facilities to finance cooperatives were provided through the federally sponsored intermediate credit banks. The federally sponsored Farm Loan System, designed to provide farmers with better mortgage-credit facilities, was given limited financial support as well as general supervision and over-all managerial services.

It would be inaccurate to omit from this account some of the aids of this period which represented fairly direct participation of the Federal Government in the provision of what may be regarded as favorable quasi-business services for agriculture. Absorption of interest costs and liberal repayment provisions for farmers in connection with irrigation projects date back well before World War I. Also, beginning in 1918, emergency crop and feed loans were made from public funds. These emergency loans often represented a combination of public lending with a measure of direct relief.

More important than previous aids from the standpoint of direct financial participation by the Federal Government were the price-supporting activities carried on by the Federal Farm Board beginning in 1929. Prior to that time the Federal Government had promoted privately owned cooperatives as a form of business organization suited to the more orderly marketing of farm products, but with the Federal Farm Board a revolving fund of \$500,000,000 was established to finance purchases of farm products. The program was designed to perform a distinct kind of marketing function, and extensive purchases from the fund were made in an effort to prevent a precipitous decline of prices in the early years of the depression. The Federal Government engaged directly in a business venture which was essentially a speculation in certain farm products in the interest of producers of those products. The fact that the ultimate cost to the Treasury was high is some-

times taken to indicate that the Farm Board's activities represented an outright public subsidy. But if the 1930 depression had been short-lived, as many thought it would be, the holding operations of the Farm Board might have involved very little cost to the Treasury and thus would have represented a successful governmental enterprise operation.⁴

Federal aids for agriculture in the 1920s, therefore, represented to a limited extent only an avowed policy of subsidizing agriculture. It is true that costs were incurred by the Treasury as a result of the several types of Federal agricultural activities, but most of the services rendered had become so well accepted that their cost was no longer regarded as an agricultural subsidy. However, the relationship between the costs to the Treasury and the benefits received by particular agricultural groups were somewhat more direct than are the relationships of general costs of government to benefits received by the general public, so that the concept of "Federal aid to agriculture" as used in this article seems appropriate for this period.

DEPRESSION AIDS OF THE 1930S

General characteristics: Most of the new Federal measures taken after 1930 to aid agriculture dealt more directly with the heart of the economic processes that affect agricultural welfare than did

⁴ Some students of the operation of the Federal Farm Board maintain that the costs to the Treasury were high and the benefits for farmers small partly because the speculation was not continued over a long enough period. From this viewpoint the cost to the Treasury failed to result in maximum benefits for farmers because the *positive* subsidy contributions were counterbalanced by *negative* enterprise contributions of the aid arrangement as a whole.

From another point of view, benefits to farmers were small because the losses sustained by the Federal Government represented the absorption of losses which would have been suffered by private dealers in farm products. In this sense, the Federal Government bailed out the private dealers. If, however, it is argued that dealers would not have suffered losses but farm product prices would have been still lower, this is tantamount to recognizing a special benefit to farmers in the form of sustained farm prices balanced by losses to the Federal Government. The truth probably lies somewhere between these two views: Farmers probably did enjoy somewhat higher prices than otherwise would have been the case and dealers probably suffered smaller losses.

the aids of the 1920s. In the 1930s aid was associated with direct action to control production, to raise farm prices, to make credit available on favorable terms, and to supplement farmers' cash income and with many other aspects of agriculture and rural life that usually are the byproducts of "automatic economic forces." Whereas earlier aids operated largely at the periphery of a more or less automatic economic system, those of the 1930s often involved the merging of governmental action with the economic forces operating through the market.

It would be far from the truth, however, to say that aids to agriculture in the 1930s *supplanted* the law of supply and demand. Direct action involving public expenditures was employed extensively to *influence* both supply and demand, and direct grants were made to supplement the income derived from the market. It is this more extensive "interference" with the automatic forces of the market, rather than a substitution of governmental fiat for "economic law," that characterized most of the aids of this period.

Major types of aid: Agricultural aids of the 1930s can be classified in many ways. For the purpose of describing the changing relations of government to the rural economy, a classification based primarily on the aspects of the rural economy or of rural life through which aid was introduced is useful. Such a classification permits somewhat the same kind of analysis as that which is frequently followed in the study of taxation. Just as it is helpful to classify taxes according to the particular aspect of the economic process to which they relate, so also an analysis of aids, which are in some respects taxes in reverse, can be made along similar lines. Within the limits of this article, it is necessary to confine attention to a general description of the Federal aid "handles" utilized in the 1930s without going into their analysis and appraisal.

Aids in the form of research and educational activities such as had been prominent in the 1920s continued during the 1930s, although both the scope and character of these activities were influenced by the shifts in emphasis in agricultural policy as a whole. The scope of these activities increased as additional funds were made available to provide employment for research workers in both urban and rural areas. Expansion of some of these general services fitted in well with major agricultural programs, as, for example, the purchase and destruction of diseased cattle when livestock

prices were depressed. In other instances, these aids became somewhat less in the nature of direct educational and advisory services and somewhat more in the nature of adjunct-service activities contributing indirectly to the administration of major agricultural "action" programs of the period. This was a noteworthy development in the extension service activities of the United States Department of Agriculture.

Conservation of land resources, an already well-established sphere of Federal action, was a second focal point for agricultural aid in the 1930s. Conservation provided a basis both for expenditures to give rural employment and for grants of money and materials to farmers to promote conservation practices on their own farms. Aside from the important fact that conservation expenditures provided additional rural employment in the depression period, such expenditures may be viewed as the promotion in rural areas of a particular kind of capital formation believed to be in the public interest. From another viewpoint, this capital formation process was the aspect of agriculture and rural life with which special Federal aid for rural people was associated. Opinions differ as to whether the Nation as a whole received enough general benefits in the form of conservation alone to justify the expenditures. This question need not be argued here. The main point is that from the viewpoint of Federal aid to agriculture the Federal Government utilized this long-established field of public policy as one avenue through which special aid was extended to agriculture and rural people.

A third fairly well-established field of agricultural policy with which direct aid to farmers was associated in the 1930s was improvement of rural credit facilities. Special Federal assistance in providing rural credit facilities had already become well established, and the existing institutional arrangements were available for use in the depression years. The Federal land banks were shored up financially and otherwise "retooled" to refinance farmers' mortgage debts and to fund their other obligations; an adjunct Federal mortgage credit institution, the Federal Farm Mortgage Corporation, was established; special credit facilities were provided for operating credit; and other special-purpose credit facilities were provided to make loans to low-income farmers. Aids associated with farm credit were a combination of federally sponsored enterprise services and direct and indirect public subsidies, with the proportions

in which these two elements were combined varying widely among the different agencies. Subsidies were introduced directly in connection with the terms and conditions of loans and indirectly through financial contributions to the lending institutions. Moreover, assistance in the form of advice and supervision was associated with many of the loans to low-income farm families. A substantial part of the aid, however, took the form of emergency business services of a financing nature.⁵

A fourth field of Federal aid introduced in the late thirties was associated with the promotion of crop insurance as a more effective way to deal with physical production risks growing out of variations in crop yields. The Federal Crop Insurance Corporation, a Federal corporation, wrote all-risk yield insurance on wheat and cotton. Federal aid consisted of sponsorship and administration of the insurance program and absorption of losses arising out of the failure of premiums to cover indemnities. In some respects the Federal Government performed the business function of "entrepreneurship." Also it was an experiment to determine whether insurance was feasible as a means for dealing with certain classes of agricultural production risks. In many respects, however, crop insurance represented a new approach to an old problem which had been previously dealt with mainly by means of emergency crop loans and direct grants to farmers and farm families in high-risk production areas.⁶

These four types of agricultural aids dealt

⁵ A tendency in the 1930s to rationalize the new *functions* performed by the Federal Government in terms of concepts better suited to its previous relations to the rural economy is well illustrated in this field of Federal aid. The concept of Federal sponsorship of improved business enterprise services of a financing nature, which applied to most of the activities of the Federal Government in this field in the 1920s, was inadequate to describe the emergency business services, quasi-central banking services, and the indirect subsidies for farmers provided through special credit institutions and agencies in the 1930s. The activities of special agricultural credit agencies took the *form* in the 1930s of loan transactions, but the *substance* often involved much more than business services of a financing nature.

⁶ It was not entirely clear at the time whether costs incurred by the Treasury as a result of this program were to be considered as costs of an alternative method for assisting farmers in dealing with high production risks or as costs arising out of the failure of a federally sponsored insurance arrangement to pay its own way as a business enterprise.

mainly with problems which relate to particular aspects of the agricultural process. None of them dealt so directly with the heart of the economic process as did the aids that took the form of control of production, raising prices through action in connection with the marketing of farm products, and direct cash contributions to farmers' incomes. A major objective of these latter aids was to raise the level of farm income. Measured by cost to the Treasury, aids of this kind have been by far the most important.

The combination of cash grants with production control under the Agricultural Adjustment Administration program represented a new approach to agricultural problems. Previous efforts had been confined mainly to giving advice to farmers regarding production and price prospects in the hope that farmers individually would adjust production to the prospective market situation. The measures taken in the 1930s to control production represented a combination of direct money grants with a degree of federally sponsored over-all management of important segments of the agricultural industry.⁷ After the Hoosac Mills decision by the Supreme Court, the program was modified and associated with a long-established public policy of promoting soil conservation. But, throughout, a central objective was to raise the level of farm income by reducing production and supplementing farmers' incomes with cash grants. These grants increased individual farmers' incomes directly and at the same time provided an incentive for them to cooperate in the program of selective restriction of production.

Another major group of programs also designed to increase farmers' incomes consisted of the several price-raising aids operating through the marketing process. These aids have taken two principal forms: Withholding farm products from the market through commodity loans and direct governmental purchases; and increasing consumption of farm products through various purchaser subsidies.

The immediate effect of withholding farm products from the market is to raise the prices received by farmers. Whether prices are maintained at a higher level than otherwise would prevail depends mainly on supplemental action taken to control production or to increase demand. The price-

⁷ F. B. Garver, "Cartels, Combinations and the Public Interest," *Journal of Farm Economics*, 26:617 (November 1944), refers to the AAA as a type of domestic cartel in which the Government becomes the administrator.

raising activities of the Commodity Credit Corporation resulted in the accumulation of stocks during the latter part of the 1930s, but any subsequent depressing effect of these stocks on prices has been largely obscured in the developments of the war period.

Increasing demand through purchaser subsidies has taken several forms. In the early and middle thirties, "surplus" farm products were distributed in the form of direct relief. Later, low-income families were given food subsidies under the Food Stamp Plan whereby the grant of free food stamps was tied with the purchase of other food stamps. Other arrangements were made to distribute food to needy school children. Of a different nature were subsidies paid to exporters to enable them to pay domestic producers prices higher than competitive world prices for farm products and still sell them in export markets. One purpose of all such arrangements is to increase the total demand for farm products.

Although arrangements to increase the total demand for farm products influence their prices directly, benefits for agriculture and rural people arising from the public expenditures involved are not so direct as are those derived from money grants. Costs incurred by the Treasury under such programs should not be interpreted narrowly as *agricultural* subsidies in the sense that money grants paid to farmers are agricultural subsidies because benefits from programs that increase market demand are distributed among subsidized purchasers and handlers of food products as well as among farmers.

The final major type of Federal aid to agriculture in the 1930s consisted of various kinds of assistance for low-income rural people, provided principally under the Farm Security Administration and its predecessors. One distinguishing characteristic of these aids is the fact that economic status is a principal criterion for public assistance. The farm family itself rather than some impersonal aspect of the economic process as it relates to agriculture is the focal point for the aid. A combination of devices is used—advice, money grants, special services, loans on favorable terms, and a measure of public supervision. In the rural rehabilitation program, both aid and a measure of public control are combined in one administrative process. The willingness of the Federal Government to extend aid makes possible the exercise of a substantial degree of public control over farm and home management practices.

AGRICULTURAL AIDS IN THE WAR PERIOD

The preceding characterization of Federal agricultural aids remains applicable at least until the entry of the United States into World War II, and many of these activities continued in effect during the war period. This is particularly true of the basic research and educational services, conservation services, and agricultural credit aids. There was, however, a change in emphasis both in the payment of direct subsidies to farmers and in connection with the market-price support and production-control activities of the Federal Government. While the concepts of parity price and parity income remained in the foreground of agricultural policy, increased emphasis was placed on support prices and direct subsidies as incentives for increased production of agricultural commodities.

In some respects the attempt to expand agricultural production represented a reversal of the previous policy of limiting production as a means of increasing farm income. Still the war period cannot be characterized as a blanket expansion of farm production, for the acreage of some commodities continued to be reduced. In the main, an effort was made to expand the acreage of selected products which were particularly scarce in the war years and to achieve a better over-all balance in agricultural production in relation to the rest of the wartime economy. By means of commodity loans and direct governmental purchases, it was hoped to maintain the prices of basic commodities at or above 90 percent of parity and of other selected commodities, where greater expansion was required, at prices considerably above parity.

The general provisions for price supports under the Stabilization Act of 1942 are to remain in effect from 2 to 3 years after the end of the war. At the same time, the law appears to regard price supports at 90 percent of parity merely as the minimum of governmental activity, for it is still permissible under the Agricultural Adjustment Act of 1938 to adopt acreage allotments or marketing quotas as a further means of enhancing farm prices. Thus, it is possible to regard agricultural policy in the war period as partially an outgrowth of the policies developed during the 1930s. The main difference is that provisions for production restrictions remain in abeyance since at support prices the wartime demand for most commodities tends to exceed the supply.