

Chapter 12

The Farmer and the Depression

Did you know that in 1933, when millions of Americans could not afford to buy meat the U.S. government bought and turned six million baby pigs into fertilizer? Can you believe that the U.S. government in the twenty-first century spends over 20 billion dollars of the taxpayers money to pay farmers not to plant their fields and to buy up surplus farm products?

Unbelievable as this seems, there are good reasons for reducing the supply of farm products and buying up and storing surpluses. Hopefully, readers will understand the reasons for this policy even though they may not agree with it.

Desperate Conditions on America's Farms



The dust bowl of Oklahoma added to the problems faced by US

The conditions faced by the nation's farmers could be summed up in 1933 in a few words: wheat selling for 38 cents a bushel – the lowest price in 300 years – pork selling at 2.5 cents and cotton at 6 cents pound.

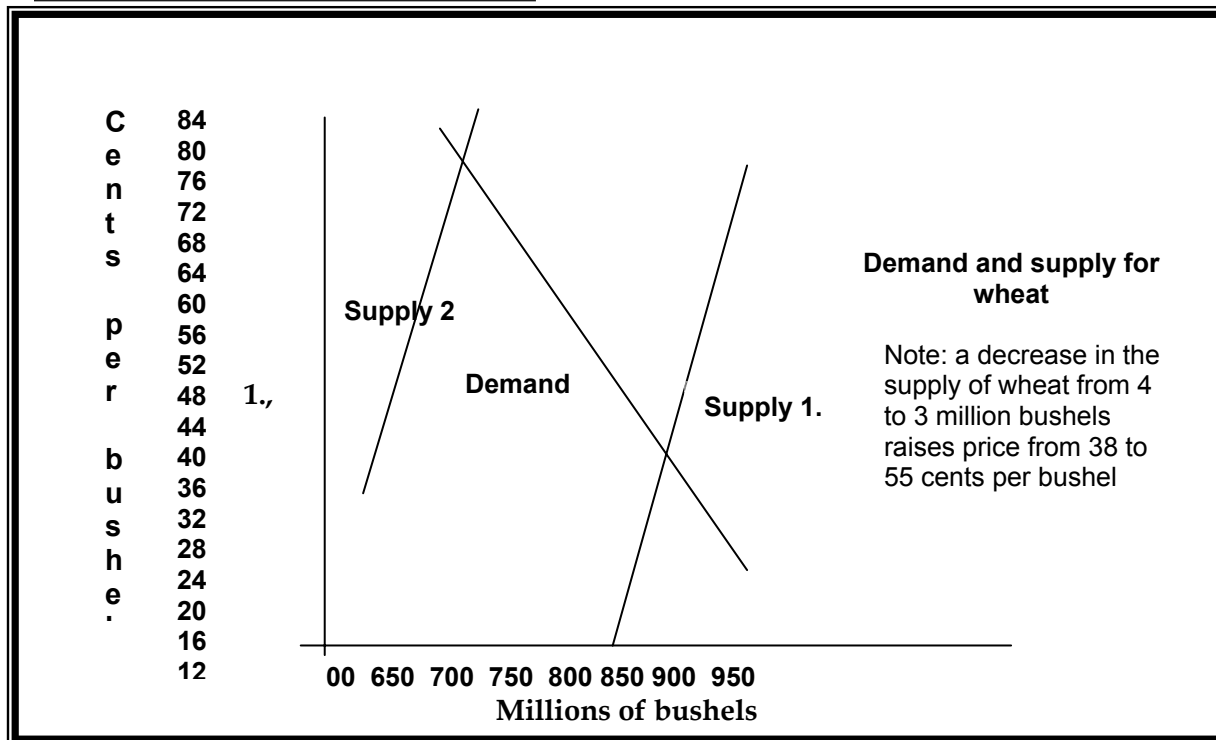
Ask a farmer about wheat at 38 cents a bushel and pork at 2.5 cents a pound. He would tell you there is no way a farmer can make money at those prices. He will tell you 38 cent wheat and 2.5 cent pork means the farmer can't pay neither his taxes or debts, or buy either fuel and clothes. These prices mean that the farmer will become bankrupt - and the businesses depending on him won't do any better.

A revolution began as a result of the desperate conditions of the nation's farmers,. To prevent foreclosures farmers in the Dakotas and Nebraska were closing courts and the practice was spreading. In Kansas farmers were stopping trucks, dumping milk over the roads, and ripping the badges off sheriffs who came to restore order. In Iowa Governor Dan Turner sat helplessly in the state capital. He did not dare to call out state troopers to clear state highways, because he faced re-election that year.

Much of the farm problem of the 1930's could be attributed to the law of supply and demand. This law will be explained in this chapter to help students understand the cause of the farm problem and the actions taken by the Federal government to help the farmer.

The Law of Supply and Demand

Supply, refers to how much of a product will be produced and/or sold at any given price. **Demand** for this product refers to how much people will buy at different prices. The price is set at the spot the two curves intercept. (see next page)



How the Government Can Help the Farmer

During the Depression, President Roosevelt had to figure out a way to help farmers who were going broke, without angering too many folks who bought bread and paid the taxes for his farm program. Since he could not simply mandate higher prices, Roosevelt had to rely on the law of supply and demand. To increase the price of wheat, Roosevelt could increase the demand for wheat (through foreign sales or food distribution programs), reduce the supply, and/or buy up the surplus.

Demand for wheat would increase as people got back to work and could afford to buy more bread. But that was a long-term solution which would not help much immediately.

To reduce the supply of certain farm products Roosevelt had Congress pass a law allowing him to pay farmers for planting less. This way the supply of many items such as oats, cotton, corn, etc. could be reduced. (Note a reduction in supply is shown by moving the entire supply curve to the left.)

Because of a reduction in the amount of wheat grown from 756 million bushels in 1932 to 526 million bushels in 1934 the price of wheat climbed from 38 cents a bushel toward 84 cents. **

* The reason for the reduced supply of wheat was the severe drought creating the famous dust bowl of the 1930's. This disaster, which blew Kansas and Oklahoma topsoil over 200 miles out to sea, forced thousands of 'Okies' to leave their homes in middle America and seek work elsewhere. Their difficulty in finding work was heart rendering, and the subject of a fine novel, *The Grapes of Wrath*.

What was the other Way to Increase the Price of Farm Products?

Another way of increasing the price of wheat and other farm products is called “pegging”. Roosevelt could get Congress to pass a law giving him the power to buy wheat from the farmers at 84 cents a bushel. Knowing that the Federal government would buy his wheat at 84 cents, would persuade the farmer not to sell it for anything less. The problem with this method of keeping prices high, however, is that the government would end up with tons of unwanted farm products in its possession which would cost taxpayers tons of money to store.

Thus Roosevelt could raise the price of wheat. Congress could also allow him to use the same method to raise the price of corn, rye, barely, hogs, and other farm products.

But, this still presents a question – how high should the price of wheat be. After all, higher prices for farmers increases food prices for consumers. This arrangement costs the average American whose taxes buy, store, and pay farmers not to plant wheat.

Parity

The US government used the term “parity,” to stand for the concept of a fair price for farm products. The way the government decided a particular price was ‘fair’ was to compare its price to the general price level between 1910–1914, a relatively prosperous period for farmers. For example, if it cost \$1.00 to buy a pair of blue jeans in 1910–1914 when wheat was selling for 50 cents per bushel and blue jeans cost \$1.50 in 1933, wheat should sell for 75 cents a bushel. [By the same logic, with jeans selling in the neighborhood of \$20.00 today, a bushel of wheat should sell for \$10.00]

The Agricultural Adjustment Act

On May 12, 1933, President Roosevelt signed the Agricultural Adjustment Act. It gave the national government the power to make agreements with farmers raising wheat, cotton, corn, hogs, rice, and tobacco. [Later other crops were included under revisions of the AAA law]. If the farmer wanted to enroll in this program, he had to agree to reduce the number of acres in these crops he’d plant, by not more than 20%. In exchange, the government would pay the farmer a specific sum of money – roughly equal to the value of the crops he did not plant. If the farmer could not sell all his crops on the open market, the national government would buy the unsold portion from him and keep it in storage in case of a bad harvest. Two-thirds of the farmers raising the crop would have to agree to the program, and a county agent would check that each farmer complied. The farmers who refused to be involved in this program would be denied all benefit payments and other forms of federal assistance.

Complications

It was not enough for Roosevelt to come up with this new way of helping farmers. He also had to put it into action before cotton farmers planted their crops. By the time Congress passed the Agricultural Adjustment Act in May, 1933, cotton plants had already sprouted in the South and millions of little pigs had been born. Thirteen million bales of the previous year’s cotton had not been sold, and the price of pork was hovering around 2 1/2 cents per pound. With farmers facing financial disaster the government courted political humiliation by paying the farmers to destroy their young cotton plants, and slaughtering the 6,000,000 little pigs before they could grow into price-busting hogs. Approximately 100,00 pounds of pork was saved to be distributed to needy Americans, the remainder was used as fertilizer. Though these measures may be viewed as necessary to save American farmers, critics accused Roosevelt for destroying food at a time that many Americans could not afford to buy meat.

A lot of people in 1933 were angry with the government for killing baby pigs and plowing up cotton. They also opposed the idea of paying farmers not to plant and buying surplus food to raise its price. These agricultural policies were very unpopular among the millions of Americans who could not afford good food for their families. Roosevelt and his followers, however, claimed that his program saved millions who otherwise would have lost their farms and allowed Americans to store a large reserve as insurance against a series of bad harvests. Furthermore, the President's friends argued, it was cheaper to keep a family on the farm than to provide jobs for unemployed workers.

The Farm Program 60 + Years Later

The Federal farm program in the twenty-first century is similar to the one enacted in 1933. Millions of people throughout the world die every year for lack of good food. Thousands in the U.S.A. go to bed hungry every night and can not afford a healthy diet. Nevertheless their government spends billions of dollars every year, to pay farmers not to plant, to buy up crops at 'pegged' prices, and to store what the government bought.

The billions spent by the U.S. government helped less than 3% of the total population in the year 2001 (In 1933, 25% of the population were farmers.) Much of the money pays prosperous farmers \$50,000 a year and more not to grow wheat, cotton, corn, and other protected crops. These very large sums should be compared to the payments of a few thousand dollars to small farmers. Despite recent efforts to wean farmers from price support payments, farmers were paid over \$25 billion in 2001 to cut back on production, part of a \$74 billion program going primarily to the 8% of the farmers who harvest 72% of the crop.

Despite these contradictions in the farm program, it has not been a complete failure. Americans pay a smaller percent of their income on food and eat more of it, than any other nation, and American farmers are the most efficient in the world. More food today is grown on less land, partially because of conservation methods encouraged by the AAA, and far fewer farmers are needed to feed a population more than twice that of the 1930's. Much of the farmers' surpluses are either bought up by the U.S. government and stored in case of a series of bad harvests, or distributed to needy people at home and abroad. But the contradiction still exists – paying wealthy farmers to grow less food in a world plagued by massive hunger and extreme poverty. •

Suggested student exercises:

1. How serious was the farm problem and what caused it?
2. Explain the concept of parity and the method proposed by the AAA to achieve parity.
3. What are arguments for and against supporting the nation's farmers in the 1930's and in the 21st century by guaranteeing them a "fair" price, and forcing taxpayers and consumers to pay the bill?

• In June of 2002 President Bush signed a new farm bill that would raise expenditure for agriculture by 82 billion dollars to over 40 billion dollars a year for six years. The program, established primarily to save the family farm provides about 10% of the aid recipients with 60% of the money, and only 40% of the money to the other 90% of all farmers. No farm is allowed to receive over \$360,000 – many of the larger farmers receive over \$50,000 a year in farm aid, and most of the smaller farmers are fortunate to receive a few thousand a year.