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# The Agricultural Adjustment Act in Operation

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THE AGRICULTURAL ADJUSTMENT ACT IN OPERATION.—While the nine active months that have passed since the enactment of the Agricultural Adjustment Act[1] offer inconclusive evidence for determining the ultimate position of agriculture in the New Deal, sufficient basis has been provided for calculating the course which will be pursued in 1934 by the administration in its efforts to solve the farm problem. Analysis of the law alone, even though read in the light of the accompanying statutes[2] of the present Congress, cannot disclose a clear picture of its probable effect in the future. Results in 1934, however, may be safely predicated upon results obtained in 1933, since no great change in the legislation or its application is contemplated. Because the Act casts a great industry in a new rôle, its final social effect can now be subject only of speculation. Reason and experience show that statutes contemplating fundamental changes in the economic structure or in the habits of a large social group are necessarily tempered and altered in administration.[3] How much more true this will be of the Agricultural Adjustment Act which by its own terms[4] permits wide latitude to its administrators, will readily be recognized. Thus friends and critics alike are yet compelled to assail or defend the principles of the Act in the most general terms. The latter decry the vast expenditures of public money involved;[5] the former point to the intolerable conditions which gave rise to the legislation.

Of these conditions, two, peculiar to agriculture, required prompt consideration; firstly, the mortgage and tax indebtedness of farm lands;[6] and, secondly, the fallen agricultural prices.[7] Local government provided some relief in the form of mortgage moratoria,[8] but the problem of declining land values, which was necessarily adjunct to the failure of commodity prices, was governed by factors beyond the control of state legislatures. Analysis, then, resolved the problem into the particular question of formulating a policy for raising the prices of farm products. The new Administration was thus faced with the necessity of determining what constituted a fair price and what means to adopt to achieve it. Little time was lost in reaching the conclusion that the prices farmers received for their products should be at a parity with prices they had to pay for all other com-

[1] Public Act No. 10, 73rd Cong., 1st Sess., approved May 12, 1933.

[2] NAT'L INDUSTRIAL RECOVERY ACT, Public No. 67; NAT'L EMPLOYMENT SYSTEM ACT, Public No. 30; and others from the 73rd Cong.

[3] *Cf.* the history of the 18th Amendment.

[4] *Supra* note 1, §8, subd. 1.

[5] "Gross Cost of the New Deal," Chart No. 9, issued by the Nat'l Committee for Economy in Gov't (Dec., 1933).

[6] In 1930 the total farm mortgage indebtedness was $9,240,000,000; Yearbook of Agriculture, U. S. Dep't of Agric. (1933) at 735.

[7] *Id.* at 729. Computing the index number for farm prices for the period from August, 1909 to July, 1914, at 100, the index number for the same commodities in March, 1933, was 50.

[8] *Cf.* N. Y. CIVIL PRACTICE ACT (1933) §§1077a to 1077g and §§1083a, 1083b.

modities.[9] The domestic allotment plan coupled with a processing tax were considered the best means of effecting this end and were incorporated in the Act.[10] The ultimate cause of the agricultural depression was assumed to be over-production and the remedy sought, in general, to restrict the farmer's output.

To accomplish this task the Act provides for a reduction of the 1933 supply of cotton on hand by means of the option contract, the leasing of other agricultural lands, and a processing tax.[11] The option contract was an agreement which provided that the government would sell its cotton on option[12] to the farmer at approximately the cost of production, the option to be exercised at harvest time. In consideration, the farmer was to curtail his acreage by 30 per cent, which restriction of production was planned to boost the price at harvest both of the cotton grown and the cotton he bought of the government in the spring. For other agricultural products, provision was made for the leasing of land to the government and by this means to remove them from production.[13] The Act also provided for the levying of taxes on the processing of raw agricultural products to pay for this program. The assessment was fixed at such a rate as to insure the farmer the fair exchange value between what he sells and the commodities he buys.[14]

In the light of the above purposes and policies of the Act consideration of the effect of its operation on farm prices, purchasing power and income in 1933 discloses, *prima facie*, a substantial success. Prices of all farm products, according to the index of the Department of Agriculture,[15] after reaching the low point of 50 in March[16] rapidly moved upward until July, at which time the index stood at 76. From July until December a slow decline set in which, however, failed to entirely extinguish the gain. The December index for the same commodities was 68.[17] Cotton in January sold for 10.3 cents per pound as compared with 5.6 cents for the same period in 1933.[18] A bushel of wheat, which a year before brought 33 cents, now brought 69. Corn, in the same period, climbed from 19 to 44 cents a bushel; and hogs, themselves consumers of 40 per cent of the corn crop, sold in January, 1934, at $3.06 per 100 pounds as compared with $2.68 in January, 1933.

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[9] *Supra* note 6, at 735. In the period from 1909 to 1914 not only did farm prices reach 100 but the index for the commodities the farmer bought stood at the same figure. This parity of prices is the announced object of the Act. *Supra* note 1, §2.

[10] Current Legislation (1933) 8 ST. JOHN'S L. REV. 197.

[11] *Supra* note 1, §6.

[12] This proved to be almost 10,000,000 bales; *supra* note 6, at 477.

[13] *Supra* note 1, §8, subd. 1.

[14] *Id.* §9.

[15] 2 CROPS AND MARKETS, U. S. DEP'T OF AGRIC. 30 (Jan., 1934).

[16] As compared with 100 for the period from August, 1909 to July, 1914.

[17] *Ibid.*

[18] All figures from 18 AGRICULTURAL SITUATION, U. S. DEP'T OF AGRIC. 17 (Feb., 1934).

Heartening as these figures appear, the Secretary of Agriculture announced that, "Agricultural purchasing power has not yet been restored to those levels it must reach before the nation can regain economic stability." [19] The significance of his statement is best appreciated by comparing present prices with the goal set by the Act.[20]

| | 1909-1914 *Average* | *January* 1934 |
|---|---|---|
| Cotton, cents per pound | 12.4 | 10.3 |
| Corn, cents per bushel | 64.2 | 43.9 |
| Wheat, cents per bushel | 88.4 | 69.4 |
| Hogs, dollars per 100 pounds | 7.22 | 3.06 |

It can readily be seen from this that the Administration at this date had not yet reached the announced price objective. As for accomplishing a "fair exchange value" between farm prices and other commodities, a disturbing trend toward higher prices in the industrial group has nullified the achievements of the Act. The following table[21] briefly pictures the situation:

| | *Prices Received By Farmers* | *Prices Paid By Farmers* |
|---|---|---|
| March | 50 | 100 |
| May | 62 | 102 |
| July | 76 | 107 |
| September | 70 | 116 |
| December | 66 | 118 |

We find from this that in January, 1934, with the money he received for his products the farmer could buy little more of the products of industry than he could in March, 1933. The Act has thus far, then, flatly failed of its chief purpose. And though tables and charts might be cited to show that the gross income of farmers has materially exceeded the amounts of former depression years, the incontrovertible fact remains that the farmer occupies no better relative position now than he did before the Act was adopted, so far as the prices of his products are concerned. Nor can the increase in prices be ascribed to the operations of the Act with any great degree of certainty. The year 1933 was a poor crop year because of spring drought and bad weather at planting time.[22] Weight must also be given to the Administration's dollar deflation policy which necessarily placed a higher dollar value on farm commodities.

[19] N. Y. Times (March 4, 1934) 8:2.

[20] *Supra* note 18.

[21] *Supra* note 15.

[22] *Supra* note 18, at 1.

The level of farm prices is not, however, an entirely accurate indicator of farm incomes. This is largely true, for one reason, because it is impossible to calculate the final price of the crop before it is completely sold. Benefit payments in the form of leased land, option contracts and farm credits have added greatly to the normal farm income. For the 10,384,000 acres [23] of cotton ploughed under the farmer received $110,000,000; for cotton option profits, $48,000,000; for cotton acreage reduction, $150,000,000; for pig slaughter, $33,000,000; for corn-hog production control, $350,000,000; for corn, wheat, and tobacco acreage reduction, $273,000,000.[24] Farmers are thus richer by $964,000,000, but not by reason of the increased value of their crops in the market.

This huge sum can only be regarded as a subsidy; a gift from the consumers, through their government, to an industry incapable of self-support. While no records are available to show what part of the farm population received this money, it must be borne in mind that on the 6,288,000 [25] farms in the United States a population of 2,664,000 [26] were not owners but tenants, holding in various kinds of subordinate agricultural tenure. These would not be likely to share in the government bounty. Curtailment of acreage would, in fact, cause the surrender of their holdings since the government payments to the owners of the fee would exceed in value the share of the crop usually exacted in rent. This, together with the general restriction in output, would seriously impair their chances of finding employment as farm hands. The records, when collected, of the effect of the Act on these people will make interesting reading.

The reason for the continuing disparity between agricultural and industrial commodity prices may be found in the particular results of the depression on each. An industrialist who fails in business is removed entirely from the field of production; but not so the farmer. The cause of this is not hard to discover. Expenditure of money is an indispensable concomitant of industrial production, whereas most of the farmer's expenditures are not monetary. The result has been that a great share of the industrial output has been forcibly curtailed, and prices, in consequence, were prevented from reaching the level to which they might otherwise have plunged.[27] If agriculture had been subjected to the same weeding-out process which occurred in industry, farm prices might have maintained some measure of parity. It cannot be doubted that the efforts of the government to ease the farm mortgage situation by new financing [28]

[23] 117 ECONOMIST (Dec. 30, 1933) 1280.

[24] *Supra* note 19.

[25] ABSTRACT OF THE 15TH CENSUS, U. S. DEP'T OF COMM. 507 (1933).

[26] *Id.* at 569.

[27] *Cf.* ECONOMICS OF THE RECOVERY PROGRAM, N. Y. (1934).

[28] FEDERAL FARM CREDIT LEGISLATION; Public No. 327 and Public No. 430, 73rd Cong., 1st Sess.

have enabled many marginal producers to contribute their share toward over-production.

It remains to be seen whether the Act can ever ameliorate agriculture's unfortunate status in the economic system.[29] By ignoring some essential problems and introducing others no less grave, the Act evidences the haste which characterized its conception and enactment. In its present form it shows no promise of ever being able to re-establish farm purchasing power.[30] Devaluation of the dollar cannot alter the relative parity of farm and industrial prices, since manufactured goods respond with at least equal alacrity to such impulsion. Tariff reciprocity treaties are not easily arranged with countries striving for economic and military self-sufficiency and seeking simultaneously to maintain commercial credit by creating agricultural surpluses for themselves. When it is remembered that besides the 350,000,000 acres of land now under production in the United States an additional 500,000,000 acres are capable of cultivation,[31] the ultimate cost of the curtailment program, if continued, would be prohibitive. The very success of the Act would inevitably lead to the opening of these new lands, since the subsidy would provide a guarantee of success to even the most inefficient of producers. The processing tax, by means of which the costs of the curtailment plan are met, is paid by the consumer, who may justly seek substitutes for the high-priced foodstuffs, causing thereby the very over-production sought to be checked. Enforcement of the National Industrial Recovery Act[32] has resulted in a continuous rise in the price of the articles farmers must buy,[33] aiding in the diminution of their purchasing power. It has been shown that even those industries operating under codes which make no provision for price-fixing had marked up prices to 23.3 per cent over the 1929 level.[34] Records of the effect of restricted agricultural production on employment in the transportation and processing industries are not available, but curtailment must inevitably reduce the amount of labor which would ordinarily be required. In the South it was found that many producers refused to co-operate with the acreage-reduction movement. Congress is now considering a bill which would make acreage-reduction compulsory.[35] These and other problems arising from the Act confront the Administration. The President announced in his message which accompanied the Act[36] that it was frankly experimental and that if it should prove unworkable he

[29] *Vide*, HACKER, THE FARMER IS DOOMED, N. Y. (1933).
[30] *Cf. supra* note 21,
[31] *Supra* note 10, at 199.
[32] *Supra* note 1.
[33] *Supra* note 21.
[34] 78 NEW REPUBLIC (March 21, 1934) 151.
[35] The Bankhead Bill, H. R. 8402, discussed in 78 CONG. RECORD 4277, would limit the cotton producer's maximum to his average production over a period of years to be determined by the administration.
[36] Sen. Rep. No. 16, 73rd Cong., 1st Sess.

would be the first to admit it. Such a policy, enunciative of the Administration's purposiveness, indicates that agriculture is not yet finally entombed. A complete survey, objectively conducted and weighed, of the effect of the Agricultural Adjustment Administration's operations, may yet lead to a solution of what is indisputably one of society's gravest problems.

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THE BANKING ACT OF 1933[1] IN OPERATION AND THE CONTEMPLATED MODIFICATIONS.—Since the beginning of our economic crisis, the banking system has been on no more secure a basis than at present, and as the days go by banks are continually gaining in strength. For the cause of this revitalization we need look no further than to the Banking Act of 1933 and to the wholesome banking practices which it has engendered.

The most publicized feature of the Act was a plan which provided for the insurance of all deposits up to $10,000; seventy-five percent of the deposits above $10,000 and up to $50,000; and fifty percent of the amount above $50,000,[2] all in a permanent system effective July 31, 1934. A temporary system insuring all deposits up to $2,500 went into effect on January 1, 1934 and was to continue until June 30, 1934, when it was to be superseded by the permanent plan.[3]

On July 1, 1934, however, the permanent plan will not go into effect as intended by the Act, nor will the temporary deposit insurance plan expire on its scheduled date, for bills have already been presented to both houses of Congress to extend the temporary fund and to postpone the effectiveness of the permanent plan for another year.[4] That these bills will become law is assured.[5]

Ostensibly the permanent insurance feature has been postponed to permit corrective legislation in such states like Connecticut, whose laws now prevent their own banks from subscribing to the permanent plan.[6] This has been a signal victory for the large banks for they have opposed the permanent plan from the first on the theory that if losses were great (due to the insolvency of other banks) they would be called upon for the heaviest assessments.[7] They have con-

[1] Act of June 16, 1933, c. —, 48 Stat.
[2] *Supra* note 1, §8; Amending the Fed. Res. Act by inserting between §§12-13 (U. S. C., tit. 12, §§261, 262, 342) thereof subd. 12B.
[3] *Id.* 12B (y).
[4] N. Y. Times, Feb. 14, 1934, at 31:1.
[5] *Ibid.*
[6] Rep. Steagall (Chairman of House Banking Com. and co-author with Sen. Glass of the Banking Act) in N. Y. Times, *supra* note 4.
[7] *Supra* note 2, §12B (e).